

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. WR2201_____

Direct Testimony of
ROBERT V. MUSTICH
On Behalf of
New Jersey-American Water Company, Inc.

January 14, 2022

Exhibit P-11

NEW JERSEY-AMERICAN WATER COMPANY, INC.

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NEW JERSEY-AMERICAN WATER COMPANY, INC.

1 **I. INTRODUCTION**

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

3 A1. My name is Robert V. Mustich. I am Managing Director and East Region Rewards
4 Business Leader for Willis Towers Watson. Willis Towers Watson is a leading
5 global professional services company which has 45,000 associates throughout the
6 world, and offers solutions in the areas of corporate risk and broking; human capital
7 and benefits; health care exchange solutions; and investment, risk, and reinsurance.
8 My business address is 800 North Glebe Road, Arlington, VA 22203.

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

10 A2. I graduated from American University with a BS/BA in Human Resources
11 Management. I have over 30 years of industry and compensation consulting
12 services experience, have been with Willis Towers Watson for over 24 years, and
13 have assisted management and Boards of Directors at numerous companies in
14 designing and assessing total compensation programs. Since joining the firm in
15 1997, I have consulted with numerous utilities and serve as a senior member of our
16 utilities industry practice. I have conducted competitive assessments of total
17 compensation for numerous public utilities throughout the U.S. Prior to joining
18 Willis Towers Watson, I was a senior compensation consultant for
19 PricewaterhouseCoopers (formally Coopers and Lybrand, LLP) performing similar
20 compensation consulting services for clients. Prior to that, I held corporate senior
21 staff compensation and benefits positions.

22 **Q3. Please explain Willis Towers Watson's experience in providing compensation**
23 **and benefits consulting services to organizations such as New Jersey-American**
24 **Water Company, Inc, ("New Jersey American Water" or the "Company").**

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

11 **II. DEFINITIONS**

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

14 A4. Yes.

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

16 A5. Target Total Cash Compensation represents the sum of base salary plus target short-
17 term performance pay.

18 **Q6. Please define Target Total Direct Compensation.**

19 A6. Target Total Direct Compensation represents the sum of base salary, plus target
20 short-term performance pay, plus long-term performance pay.

21 **III. PURPOSE OF TESTIMONY**

22 **Q7. What is the purpose of your testimony?**

23 A7. The purpose of my testimony is to review the Company's stated compensation
24 philosophy to determine if it is reasonably consistent with the compensation

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1 philosophies of other utility companies and of industry generally. I also reviewed
2 whether the target total direct compensation provided to New Jersey American
3 Water performance pay-eligible employees, when viewed against the markets for
4 talent for employees in similar positions, is within the range of market-based total
5 compensation. Willis Towers Watson specifically focused on the following aspects
6 of New Jersey American Water's program:

- 7 • Market-based total compensation philosophy;
- 8 • Competitive market positioning of target total direct compensation (base salary
9 plus short-term performance pay plus long-term performance pay)
- 10 • Design of short-term performance pay program (the Company's Annual
11 Performance Plan ("APP")); and
- 12 • Design of long-term performance pay program (the Company's Long Term
13 Performance Plan ("LTPP")).

14 **Q8. What were the results of your study?**

15 A8. Based on a review of the robust compensation data available, I concluded that New
16 Jersey American Water's compensation philosophy and performance pay plan
17 design were in accord with utilities specifically, and industry generally and that the
18 levels of total direct compensation were reasonable and consistent with market-
19 based total compensation levels, both on a regional and national level.

20 **IV. OVERVIEW OF MARKET-BASED TOTAL COMPENSATION**
21 **PHILOSOPHY**

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

23 A9. Yes, American Water Works Company, Inc. ("American Water") has a defined
24 compensation philosophy, which is applicable to New Jersey American Water.

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1 **Q10. How would you describe American Water's compensation philosophy?**

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

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

9 A11. It is consistent both with utilities and with other employers. Willis Towers Watson
10 examined the proxy statements for two peer groups: (1) Large Utility Peer Group,
11 which consists of 15 publicly-traded utilities comparable in size to American Water
12 (revenues range from ½ to 3 times American Water's 2020 revenues of \$3.78
13 billion), and (2) Small Utility Peer Group, which consists of 12 publicly-traded
14 utilities comparable in size to New Jersey American Water (revenues range from
15 \$419M-\$1,523M, compared to New Jersey American Water's 2020 revenue of
16 \$796M). Based on our review, we believe American Water's market-based total
17 compensation philosophy is well-aligned with utility peers, as a majority of both
18 Large Utility Peer Group companies (12 of 15, 80%) and Small Utility Peer Group
19 companies (8 of 12, 67%) target the market median (50th percentile) for some or
20 all pay elements. Our consulting experience also suggests that American Water's
21 median (50th percentile) pay philosophy is comparable to typical market practice
22 found in general industry.

23

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

3 **Q12. Did you conduct a study of New Jersey American Water's compensation**
4 **program?**

5 A12. Yes, and a copy of the Study is included as **Schedule RVM-1** to my testimony.

6 **Q13. Please describe how the study was conducted.**

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

15 **Q14. How did you define "competitive" for the purposes of your compensation**
16 **study?**

17 A14. Willis Towers Watson and typical market practice define total compensation as
18 being competitive with the market if it falls in a range that extends between 10%
19 below to 10% above the market median level of total compensation.

20 **Q15. Please describe how you assessed the competitiveness of New Jersey American**
21 **Water's target total direct compensation levels.**

22 A15. Willis Towers Watson assessed the competitiveness of target total direct
23 compensation provided by New Jersey American Water to its short-term
24 performance pay eligible population based on a selection of New Jersey American
25 Water jobs ("benchmark jobs"). Benchmark jobs are those positions that are

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

3 To conduct this analysis we reviewed compensation data provided to us by New
4 Jersey American Water and examined Willis Towers Watson's compensation
5 surveys in our Compensation Databank (CDB). These surveys are composed of
6 compensation data from over 1,000 U.S. based companies, and Willis Towers
7 Watson has been conducting these surveys for over 30 years.

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

13 Willis Towers Watson's assessment of benchmark jobs represents approximately
14 60% of the population of New Jersey American Water employees as of October 20,
15 2021, who are eligible for performance pay. Specific details regarding our study,
16 which includes a detailed description of the study methodology, are included in
17 Schedule RVM-1.

18 **Q16. How did you derive 50th percentile (median) market values?**

19 A16. To derive 50th percentile (median) market values, Willis Towers Watson
20 benchmarked non-industry specific positions (e.g., accounting, human resources,
21 legal) against both energy services (primarily utilities) and general industry survey
22 data, weighted 60% and 40% respectively. This places a greater weight on the
23 energy services market data since this includes regulated entities most similar to
24 New Jersey American Water. This ensures that non-industry specific positions are
25 being compensated competitively given that these positions can be recruited or lost

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1 to companies in any industry. For positions requiring industry experience, only
2 energy services industry data were used since these positions are generally not
3 found outside of the utility industry.

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

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

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

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

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

21 A18. Willis Towers Watson and typical market practice considers market
22 competitiveness to be a result that falls within plus or minus 10% of median range.
23 Using a weighted average of all positions reviewed, New Jersey American Water's
24 target total direct compensation is within the range of competitive market median
25 on a national basis by being 2% below market median

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

3 A19. From a Mid-Atlantic Regional Perspective, New Jersey American Water's target
4 total direct compensation is within the market median range because it is 4% below
5 market median

6 **Q20. In your opinion and based on the results of the study, are New Jersey**
7 **American Water employees appropriately compensated with market based**
8 **total compensation?**

9 A20. Yes, recognizing that this comparison includes the market-based total
10 compensation New Jersey American Water's employees receive; meaning that
11 performance pay is included in the compensation comparison. In that case, New
12 Jersey American Water employees are generally within the range of the market
13 median. Removing performance pay, however, would drop New Jersey American
14 Water below median on average and outside the median range for positions that the
15 competitive market indicates that performance pay is a meaningful portion of total
16 direct compensation.

17 **VI. SUMMARY OF WILLIS TOWERS WATSON'S SHORT-TERM**
18 **PERFORMANCE PAY PROGRAM ASSESSMENT**

19 **Q21. Did you conduct an assessment of American Water's short-term performance**
20 **pay program?**

21 A21. Yes.

22 **Q22. What was the purpose of your assessment?**

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

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1 **Q23. What were the findings of the assessment?**

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

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

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

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

23 A24. The approach that New Jersey American Water uses reflects a balanced approach
24 between financial (50%) and operational metrics (50%). While operational metrics
25 may appear to reflect a more direct benefit to customers, the financial measures

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1 used in the short-term and long-term performance pay programs send a message to
2 employees that responsible financial stewardship is also important to the Company
3 and its stakeholders, including customers. Strong financial performance enables the
4 Company to invest in resources – both physical and people – that ensure the
5 efficient operation of the Company, which benefits customers.

6 **VII. SUMMARY OF WILLIS TOWERS WATSON'S LONG-TERM**
7 **PERFORMANCE PAY PROGRAM ASSESSMENT**

8 **Q25. Did you conduct an assessment of American Water's long-term performance**
9 **pay program?**

10 A25. Yes.

11 **Q26. What was the purpose of your assessment?**

12 A26. This assessment was completed to compare the design of American Water's long-
13 term performance pay program (that is applicable to New Jersey American Water)
14 and its various elements to market practice.

15 **Q27. What were the findings of your assessment?**

16 A27. Overall, our review indicates that American Water's long-term performance pay
17 program is comparable to and competitive with designs of utility peers, based on a
18 review of the Large Utility Peer Group and the Small Utility Peer Group referenced
19 earlier. Like American Water, every company in the Large Utility Peer Group and
20 the Small Utility Peer Group has a long-term performance pay program which is
21 used to help attract, motivate and retain key senior level employees needed to
22 successfully run the business. Companies design their long-term performance pay
23 programs to align with their business strategies and circumstances, so there tends
24 to be a range of practices regarding how the programs are designed. American
25 Water's long-term performance pay program design is within the range of market

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1 practice for utilities and its three-year vesting period aids in retaining experienced
2 and qualified employees because it is designed to have the compensation it provides
3 forfeited if the employee leaves before the plan vests the potential pay. Specific
4 details regarding our assessment are included in Schedule RVM-1.

5 **VIII. OVERALL FINDINGS REGARDING NEW JERSEY AMERICAN**
6 **WATER'S COMPENSATION PROGRAMS**

7 **Q28. What are the overall findings and conclusions of your analysis of the**
8 **compensation of New Jersey American Water?**

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

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

22 A29. First, as our competitive assessment shows, the inclusion of performance pay plans,
23 both short-term and long-term focused plans, is an essential part of a market
24 competitive pay mix. As noted earlier in my testimony, all of the companies in the
25 Large and Small Utility Peer Groups have short-term and long-term performance
26 pay plans in place. In order to attract, retain and motivate the talent needed to

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1 successfully run the company, New Jersey American Water needs to provide a
2 market competitive total compensation program, which includes both short-term
3 and long-term performance pay compensation plans. Equally important,
4 performance pay plans allow New Jersey American Water to differentiate pay
5 based on performance and allocate appropriate compensation to the highest
6 performing and most deserving employees.

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

9 A30. A key benefit of New Jersey American Water’s use of short-term and long-term
10 performance pay plans is that they align with competitive market practice and
11 thereby enable New Jersey American Water to compete in the market for talent. A
12 shift to an all base salary program for New Jersey American Water could have
13 unintended consequences. If all or part of the short-term and/or long-term
14 performance pay at New Jersey American Water were eliminated, the Company
15 would likely be forced to increase fixed pay (i.e., base salary) to above market
16 competitive levels of base salary in order to provide total compensation at the
17 market level to attract and retain talent. This would be counter to the pay-for-
18 performance approach New Jersey American Water currently employs, which is to
19 put short-term and long-term performance pay “at risk” meaning pay and market
20 competitiveness is reduced when performance is below expectations and
21 performance pay is not paid. These plans are viewed as important management
22 tools to reinforce performance expectations, which is why they are so universally
23 present in both the utility and general business sectors nationally.

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

25 A31. Yes.

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2021 General Rate Case Target Total Direct Compensation Study

New Jersey American Water Company

January 3, 2022