

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,
CHANGE IN DEPRECIATION RATES, AND
OTHER TARIFF MODIFICATIONS

BPU Docket No. WR2401_____

Direct Testimony of

Robert V. Mustich

January 19, 2024

Exhibit P-12

DIRECT TESTIMONY OF ROBERT V. MUSTICH

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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 East Region Rewards
4 Business Leader for Willis Towers Watson. Willis Towers Watson is a leading global
5 professional services company which has 45,000 associates throughout the world, and
6 offers solutions in the areas of corporate risk and broking; human capital and benefits;
7 health care exchange solutions; and investment, risk, and reinsurance. My business
8 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 30 years of industry and compensation consulting services
12 experience, have been with Willis Towers Watson for over 26 years, and have assisted
13 management and Boards of Directors at numerous companies in designing and
14 assessing total compensation programs. Since joining the firm in 1997, I have consulted
12 with numerous utilities and serve as a senior member of our utilities industry practice.
16 I have conducted competitive assessments of total compensation for numerous public
17 utilities throughout the U.S. Prior to joining Willis Towers Watson, I was a senior
18 compensation consultant for PricewaterhouseCoopers (formerly Coopers and Lybrand,
19 LLP) performing similar compensation consulting services for clients. Prior to that, I
20 held corporate senior staff compensation and benefits positions.

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

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

14 **II. DEFINITIONS**

15 **4. Q. Are there some key definitions that you will need to reference as part of your**
16 **testimony?**

17 A. Yes. “Target Total Cash Compensation” represents the sum of base salary plus target
18 annual performance compensation. “Target Total Direct Compensation” represents the
19 sum of base salary, plus target annual performance compensation, plus long-term
20 performance compensation.

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

2 **5. Q. What is the purpose of your testimony?**

3 A. The purpose of my testimony is to review the Company's stated compensation
4 philosophy to determine if it is reasonably consistent with the compensation
5 philosophies of other utility companies and of industry, generally. I also reviewed
6 whether the target total direct compensation provided to New Jersey-American Water
7 employees, when viewed against the markets for talent for employees in similar
8 positions, is within the range of market-based total compensation. Willis Towers
9 Watson specifically focused on the following aspects of New Jersey-American Water's
10 program:

- 11 • Market-based total compensation philosophy;
- 12 • Competitive market positioning of target total direct compensation (base salary
13 plus annual performance compensation plus long-term performance
14 compensation);
- 15 • Design of annual performance compensation program (the Company's Annual
16 Performance Plan ("APP")); and
- 17 • Design of long-term performance compensation program (the Company's Long
18 Term Performance Plan ("LTPP")).

19 **6. Q. Are you sponsoring any schedules in support of your Direct Testimony?**

20 A. Yes. My analyses and recommendations are supported by the data presented in
21 **Confidential Schedule RVM-1** entitled "New Jersey-American Water Company –
22 2023 General Rate Case Total Compensation Study" which was prepared by me or
23 under my direction.

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1 **7. Q. What were the results of your study?**

2 A. Based on a review of the robust compensation data available, I concluded that New
3 Jersey-American Water's compensation philosophy and performance compensation
4 plan design were in accord with utilities specifically, and industry generally and that
5 the levels of total direct compensation are reasonable and consistent with market-based
6 total compensation levels, both on a regional and national level.

7 **IV. MARKET-BASED TOTAL COMPENSATION PHILOSOPHY**

8 **8. Q. Does New Jersey-American Water have a defined compensation philosophy?**

9 A. Yes, American Water Works Company, Inc. ("American Water") has a defined
10 philosophy, which is applicable to New Jersey-American Water.

11 **9. Q. How would you describe American Water's compensation philosophy?**

12 A. American Water's market-based total compensation philosophy is generally to pay
13 salaries that are competitive with those of comparable organizations for jobs of similar
14 responsibility. To carry out this philosophy, American Water's objective is to target
15 total direct compensation (base, annual-term performance compensation, and long-
16 term performance compensation) at the median (50th percentile) of the market.

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

18 A. It is consistent both with utilities and with other employers. Willis Towers Watson
19 examined the proxy statements for two peer groups: (1) Large Utility Peer Group,
20 which consists of 15 publicly-traded utilities comparable in size to American Water
21 (revenues range from ½ to 3 times American Water's 2022 revenues of \$3.79 billion),

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1 and (2) Small Utility Peer Group, which consists of 11 publicly-traded utilities
2 comparable in size to New Jersey-American Water (revenues range from \$563-\$2,250
3 million, compared to New Jersey-American Water's 2022 revenues of \$908 million).
4 Based on our review, we believe American Water's market-based total compensation
5 philosophy is well-aligned with utility peers, as a majority of both Large Utility Peer
6 Group companies (13 of 15, 87%) and Small Utility Peer Group companies (9 of 11,
7 82%) target the market median (50th percentile) for some or all pay elements. Our
8 consulting experience also suggests that American Water's median (50th percentile)
9 pay philosophy is comparable to typical market practice found in general industry.

10 **V. SUMMARY OF WILLIS TOWERS WATSON'S TOTAL COMPENSATION**
11 **STUDY**

12 **11. Q. Did you conduct a study of New Jersey-American Water's compensation**
13 **program?**

14 A. Yes, and a copy of the Study is included as the aforementioned **Confidential Schedule**
15 **RVM-1** to my testimony.

16 **12. Q. Please describe how the study was conducted.**

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

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1 American Water's target total direct compensation levels was compared to (3) Willis
2 Towers Watson published compensation surveys.

3 **13. 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
6 10% above the market median level of total compensation.

7 **14. Q. Please describe how you assessed the competitiveness of New Jersey-American**
8 **Water's target total direct compensation levels.**

9 A. Willis Towers Watson assessed the competitiveness of target total direct compensation
10 provided by New Jersey-American Water to its employees based on a selection of New
11 Jersey-American Water jobs ("benchmark jobs"). Benchmark jobs are those positions
12 that are common across comparable organizations and for which compensation data are
13 available from published surveys. To conduct this analysis we reviewed compensation
14 data provided to us by New Jersey-American Water and examined Willis Towers
15 Watson's compensation surveys in our Compensation Databank. These surveys are
16 composed of compensation data from over 1,000 U.S. based companies, and Willis
17 Towers Watson has been conducting these surveys for over 30 years. New Jersey-
18 American Water's current compensation levels were compared to the market 50th
19 percentile (market median) for two different market perspectives to determine the
20 competitiveness of pay and to validate the alignment with American Water's current
21 market-based total compensation philosophy (targeting compensation at the 50th
22 percentile of market). Willis Towers Watson's assessment of benchmark jobs

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1 represents approximately 65% of the population of New Jersey-American Water
2 employees as of June 30, 2023. Specific details regarding our study, which includes a
3 detailed description of the study methodology, are included in **Confidential Schedule**
4 **RVM-1**.

5 **15. 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, weighted 60%
9 and 40% respectively. This places a greater weight on the energy services market data
10 since this includes regulated entities most similar to New Jersey-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, only energy services industry data were used since these
14 positions are generally not found outside of the utility industry.

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

17 A. Two different market perspectives were examined to validate the competitiveness of
18 New Jersey-American Water's target total direct compensation. A national market
19 perspective was examined which consisted of the entire population of survey
20 participants in Willis Towers Watson's Energy Services and General Industry
21 databases. This perspective represents a U.S. national compensation perspective and is
22 aligned with American Water's compensation philosophy. A Mid-Atlantic regional

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

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

8 A. Using a weighted average of all positions reviewed, New Jersey-American Water's
9 target total direct compensation is within the range of the competitive market median
10 on a national basis by being 3% below market median.

11 **18. Q. What were the compensation study results from the Mid-Atlantic Regional
12 perspective?**

13 A. From a Mid-Atlantic Regional Perspective, New Jersey-American Water's target total
14 direct compensation is within the competitive market median range because it is also
15 3% below market median.

16 **19. Q. In your opinion and based on the results of the study, are New Jersey-American
17 Water employees appropriately compensated with market based total
18 compensation?**

19 A. Yes, recognizing that this comparison includes the market-based total compensation
20 New Jersey-American Water's employees receive; meaning that performance
21 compensation is included in the compensation comparison. In that case, New Jersey-

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1 American Water employees are generally within the range of the market median.
2 Removing performance compensation, however, would drop New Jersey-American
3 Water's compensation below the competitive market median on average and outside
4 the median range for positions the competitive market indicates that performance
5 compensation is a meaningful portion of total direct compensation. Therefore,
6 performance compensation is required to ensure compensation remains at reasonable,
7 competitive levels.

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

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

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

14 **21. Q. What was the purpose of your assessment?**

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

18 **22. Q. What were the findings of the assessment?**

19 A. Overall, our review indicates that American Water's performance compensation
20 program is comparable to and competitive with designs of utility peers, based on a
21 review of the Large Utility Peer Group and the Small Utility Peer Group referenced

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1 earlier. Like American Water, every company reviewed has a performance
2 compensation program which is used to help attract, motivate, and retain critically
3 skilled employees needed to successfully run the business. Companies design their
4 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
7 other by assessing performance holistically using a balanced scorecard approach,
8 incorporating growth, customer, safety, environmental leadership, people based
9 metrics, and stock performance. American Water's program designs are consistent with
10 market practices of utilities. Specific details regarding our assessment are included in
11 Confidential Schedule RVM-1.

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

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

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1 **VII. OVERALL FINDINGS REGARDING NEW JERSEY-AMERICAN WATER'S**
2 **COMPENSATION PROGRAMS**

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

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

16 **25. Q. Are there other ways that New Jersey-American Water's compensation programs**
17 **benefit customers?**

18 A. Yes. Customers receive a benefit when a utility retains a talented workforce, because a
19 stable workforce avoids the costs of hiring and training new employees and loss of
20 productivity. Because New Jersey-American Water's performance compensation
21 program makes New Jersey-American Water's employees' total compensation
22 reasonable, the Company's performance compensation helps ensure a stable

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1 workforce. New Jersey-American Water's LTPP program is particularly intended to
2 reduce attrition at the higher ranks of the organization. Senior management turnover
3 and the loss of expertise can degrade the continuity of strategy and execution, which is
4 why these types of compensation programs are well accepted in the industry.
5 Importantly, the LTPP achieves its goals of reducing leadership attrition at a lower cost
6 to customers than simply increasing leadership's base pay, because employees must
7 remain with the organization to realize the full vesting of their stock awards over a
8 three-year period.

9 **26. Q. Describe the benefits of New Jersey-American Water's current compensation**
10 **program compared to a base salary/wage-only approach.**

11 A. A key benefit of New Jersey-American Water's use of performance compensation
12 plans is that they align with competitive market practice and thereby enable New
13 Jersey-American Water to compete in the market for talent. A shift to an all base salary
14 program for New Jersey-American Water could have unintended consequences. If all
15 or part of the annual and/or long-term performance compensation at New Jersey-
16 American Water were eliminated, the Company would likely be forced to increase
17 fixed pay (i.e., base salary) to above market competitive levels of base salary in order
18 to provide total compensation at the market level to attract and retain talent. This would
19 be counter to the pay-for-performance approach New Jersey-American Water currently
20 employs, which is in line with the compensation philosophy that is common to most
21 other utilities and American business generally.

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1 **27. Q. Does this conclude your Direct Testimony?**

2 A. Yes, it does.