

TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. 24-00032

DIRECT TESTIMONY

OF

ROBERT V. MUSTICH

ON

COMPETITIVE REASONABLENESS OF TOTAL DIRECT COMPENSATION

SPONSORING PETITIONER'S EXHIBITS:

Confidential Schedule RVM-1

**DIRECT TESTIMONY
ROBERT V. MUSTICH
TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 24-XXXXX**

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3 **TESTIMONY OF ROBERT V. MUSTICH**
4

5 **I. INTRODUCTION**
6

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

8 **A1.** My name is Robert V. Mustich. I am Managing Director and East Region Rewards Business
9 Leader for Willis Towers Watson. Willis Towers Watson is a leading global professional
10 services company which has 45,000 associates throughout the world, and offers solutions
11 in the areas of corporate risk and broking; human capital and benefits; health care exchange
12 solutions; and investment, risk, and reinsurance. My business address is 800 North Glebe
13 Road, Arlington, VA 22203.
14

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

16 **A2.** I graduated from American University with a BS/BA in Human Resources Management. I
17 have over 30 years of industry and compensation consulting services experience, have been
18 with Willis Towers Watson for over 26 years, and have assisted management and Boards
19 of Directors at numerous companies in designing and assessing total compensation
20 programs. Since joining the firm in 1997, I have consulted with numerous utilities and
21 serve as a senior member of our utilities industry practice. I have conducted competitive
22 assessments of total compensation for numerous public utilities throughout the U.S. Prior
23 to joining Willis Towers Watson, I was a senior compensation consultant for
24 PricewaterhouseCoopers (formally Coopers and Lybrand, LLP) performing similar
25 compensation consulting services for clients. Prior to that, I held corporate senior staff
26 compensation and benefits positions.
27
28

1 Q3. Please explain Willis Towers Watson's experience in providing compensation and
2 benefits consulting services to organizations such as Tennessee-American Water
3 Company, ("Tennessee-American Water").

4 A3. 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 of
7 information regarding industry compensation and benefits that enables us to benchmark
8 Tennessee-American Water against similar companies in the U.S. Given Willis Towers
9 Watson's breadth and depth of resources, we are frequently engaged by companies to
10 evaluate the competitiveness of their compensation philosophy, compensation and benefit
11 levels, performance pay design and pay structures, and other consulting services. Willis
12 Towers Watson and I have conducted similar competitive compensation studies for other
13 utility clients.

14
15 Q4. Have you previously submitted testimony before the Tennessee Public Utility
16 Commission?

17 A4. No, I have not.

18
19 Q5. Have you previously submitted testimony before other state regulatory commissions?

20 A5. Yes, I have.

21
22 **II. DEFINITIONS**

23 Q6. Are there some key definitions that you will need to reference as part of your
24 testimony?

25 A6. Yes. "Target Total Cash Compensation" represents the sum of base salary plus target
26 annual performance compensation. "Target Total Direct Compensation" represents the
27 sum of base salary, plus target annual performance compensation, plus long-term
28 performance compensation.

III. PURPOSE OF AND OVERVIEW 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 is reasonably consistent with the compensation philosophies of other utility companies and of industry generally. I also reviewed whether the Target Total Direct Compensation provided to Tennessee-American Water employees, when viewed against the markets for talent for employees in similar positions, is within the range of market-based total compensation. Willis Towers Watson specifically focused on the following aspects of Tennessee-American Water's program:

- Market-based total compensation philosophy;
- Competitive market positioning of Target Total Direct Compensation (base salary plus annual performance compensation plus long-term performance compensation)
- Design of annual performance compensation program (the Company's Annual Performance Plan ("APP")); and
- Design of long-term performance compensation program (the Company's Long Term Performance Plan ("LTPP")).

Q8. Are you sponsoring any schedules in support of your direct testimony?

A8. Yes. My analyses and recommendations are supported by the data presented in **Confidential Schedule RVM-1** entitled Tennessee-American Water Company – 2024 General Rate Case Target Total Direct Compensation Study" which was prepared by me or under my direction.

Q9. What were the results of your study?

A9. Based on a review of the robust compensation data available, I concluded that Tennessee-American Water's compensation philosophy and performance compensation plan design

were in accord with utilities specifically, and industry generally and that the levels of total direct compensation were reasonable and consistent with market-based total compensation levels, both on a regional and national level.

IV. MARKET-BASED TOTAL COMPENSATION PHILOSOPHY

Q10. Does Tennessee-American Water have a defined compensation philosophy?

A10. Yes, American Water Works Company, Inc. (“American Water”) has a defined philosophy, which is applicable to Tennessee-American Water.

Q11. How would you describe American Water’s compensation philosophy?

A11. American Water’s market-based total 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, annual-term performance compensation, and long-term performance compensation) at the median (50th percentile) of the market, with greater earning opportunity for exceptional performance for fully qualified individuals.

Q12. How does this compensation philosophy compare with other utilities?

A12. 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 15 publicly-traded utilities comparable in size to American Water (revenues range from ½ to 3 times American Water’s 2022 revenues of \$4.23 billion), and (2) Small Utility Peer Group, which consists of 10 smaller sized publicly-traded utilities (\$45 million to \$846 million) for comparisons to Tennessee-American Water. Based on our review, we believe American Water’s market-based total compensation philosophy is well-aligned with utility peers, as a majority of both Large Utility Peer Group companies (13 of 15, 87%) and Small Utility Peer Group companies (6 of 10, 60%) target the market median (50th percentile) for some or all pay elements. Our consulting experience, working with over a

thousand companies annually, 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

Q13. Did you conduct a study of Tennessee-American Water's compensation program?

A13. Yes, and a copy of the Study is included as the aforementioned **Confidential Schedule RVM-1** to my testimony.

Q14. Please describe how the study was conducted.

A14. Willis Towers Watson utilized three data sources to assess Tennessee-American Water's compensation program: As we did in assessing American Water's market-based total compensation philosophy, we assessed the design of its annual performance compensation and long-term performance compensation 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 Tennessee-American Water's Target Total Direct Compensation levels was compared to (3) Willis Towers Watson published compensation surveys.

Q15. How did you define "competitive" for the purposes of your compensation study?

A15. Willis Towers Watson and typical market practice define total compensation as being competitive with the market if it falls in a range that extends between 10% below to 10% above the market median level of total compensation.

Q16. Please describe how you assessed the competitiveness of Tennessee-American Water's Target Total Direct Compensation levels.

1 A16. Willis Towers Watson assessed the competitiveness of Target Total Direct Compensation
2 provided by Tennessee-American Water to its employees based on a selection of Tennessee-
3 American Water jobs (“benchmark jobs”). Benchmark jobs are those positions that are
4 common across comparable organizations and for which compensation data are available
5 from published surveys. To conduct this analysis, we reviewed compensation data provided
6 to us by Tennessee-American Water and examined Willis Towers Watson’s compensation
7 surveys in our Compensation Databank (CDB). These surveys are composed of
8 compensation data from over 1,000 U.S. based companies, and Willis Towers Watson has
9 been conducting these surveys for over 30 years. Tennessee-American Water’s current
10 compensation levels were compared to the market 50th percentile (market median) for two
11 different market perspectives to determine the competitiveness of pay and to validate the
12 alignment with American Water’s current market-based total compensation philosophy
13 (targeting compensation at the 50th percentile of market). Willis Towers Watson’s
14 assessment of benchmark jobs represents approximately 68% of the population of
15 Tennessee-American Water employees as of January 25, 2024. Specific details regarding
16 our study, which includes a detailed description of the study methodology, are included in
17 **Confidential Schedule RVM-1.**

18 Q17. **How did you derive 50th percentile (median) market values?**

19 A17. To derive 50th percentile (median) market values, Willis Towers Watson benchmarked non-
20 industry specific positions (e.g., accounting, human resources, legal) against both energy
21 services (primarily utilities) and general industry survey data, weighted 60% and 40%
22 respectively. This places a greater weight on utilities market data and includes a broad
23 spectrum of regulated entities most similar to Tennessee-American Water and the market it
24 competes for talent. This ensures that non-industry specific positions are being compensated
25 competitively given that these “positions can be recruited or lost to companies in any
26 industry. For positions requiring industry experience and not found outside the utilities
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28

industry, only industry data were used since these positions are generally not present in the non-industry surveys.

Q18. Please describe how you determined the competitiveness of Tennessee-American Water's Target Total Direct Compensation?

A18. Two different market perspectives were examined to validate the competitiveness of Tennessee-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 Southeast regional perspective including Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Virginia and West Virginia markets were 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 Southeast specific geographic dataset. This dataset identified employees that work in the twelve states listed above for companies headquartered anywhere in the United States.

Q19. What were the compensation study results from the national perspective?

A19. Using a weighted average of all positions reviewed, Tennessee-American Water's Target Total Direct Compensation, as shown in table 1 below, is within the range of the competitive market median on a national basis by being 3% below market median. As discussed above, we consider market competitiveness to fall within a range that is plus or minus 10% of the market median.

Table 1

Summary of Tennessee-American Water Target Total Direct Compensation vs. Market Median (National Market Perspective)						
Base Pay	Target Compensation	Total Cash	Target Compensation	Total	Direct	
-3%	-3%		-3%			

Q20. What were the compensation study results from the southeast regional perspective?

A20. From a southeast regional perspective, Tennessee-American Water's Target Total Direct Compensation is within the competitive market median range because it is 3% above market median, as shown in table 2 below. Here, again, the Target Total Direct Compensation falls within the range of market competitiveness.

Table 2

Summary of Tennessee-American Water Target Total Direct Compensation vs. Market Median (Southeast Market Perspective)						
Base Pay	Target Compensation	Total Cash	Target Compensation	Total	Direct	
2%	2%		3%			

Q21. In your opinion and based on the results of the study, are Tennessee-American Water's employees appropriately compensated with market based total compensation?

A21. Yes, recognizing that this comparison includes the market-based total compensation Tennessee-American Water's employees receive; meaning that performance pay is included in the compensation comparison. With this recognition, Tennessee-American Water's employees are generally within the range of the market median. Removing or excluding performance compensation, however, would drop Tennessee-American Water compensation below the competitive market median on average and outside the median

1 range for positions that the competitive market indicates that performance compensation is
2 a meaningful portion of total direct compensation. Therefore, performance compensation
3 is required to ensure compensation remains at reasonable, competitive levels. Below, I will
4 further address the downside or impact of removing or excluding performance
5 compensation.

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

10 **Q22. Did you conduct an assessment of American Water's performance compensation**
11 **programs?**

12 **A22.** Yes, I assessed American Water's annual and long-term performance compensation
13 programs.

14 **Q23. What was the purpose of your assessment?**

15 **A23.** This assessment was performed to compare the design of American Water's performance
16 compensation program (that is applicable to Tennessee-American Water) and its various
17 elements to market practice.

18
19 **Q24. What were the findings of the assessment?**

20 **A24.** Overall, our review indicates that American Water's performance compensation program is
21 comparable to and competitive with designs of utility peers, based on a review of the Large
22 Utility Peer Group and the Small Utility Peer Group referenced earlier. Like American
23 Water, every company reviewed has a performance compensation program which is used
24 to help attract, motivate and retain critically skilled employees needed to successfully run
25 the business. Companies design their performance compensation programs to align with
26 their business strategies and circumstances, so there tends to be a range of practices
27 regarding how the programs are designed. American Water's performance compensation
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1 programs complement each other by assessing performance holistically using a balanced
2 scorecard approach, comprising metrics of growth, customer, safety, environmental
3 leadership, people and stock performance. American Water's program designs are
4 consistent with market practices of utilities. Specific details regarding our assessment are
5 included in **Confidential Schedule RVM-1**.

6
7 **Q25. Why is performance compensation appropriate for a utility?**

8 **A25.** As our competitive assessment shows, the inclusion of performance pay plans, both annual
9 and long-term focused plans, is an essential part of a market competitive pay mix. As noted
10 earlier in my testimony, all of the companies in the Large and Small Utility Peer Groups
11 have short-term and/or long-term performance pay plans in place. In order to attract, retain
12 and motivate the talent needed to successfully run the company, Tennessee-American Water
13 needs to provide a market competitive total compensation program, which includes both
14 short-term and long-term performance compensation plans.

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16 **VII. OVERALL FINDINGS REGARDING TENNESSEE-AMERICAN**
17 **WATER COMPENSATION PROGRAMS**

18 **Q26. What are the overall conclusions of your analysis?**

19 **A26.** Overall, our analysis indicates that Tennessee-American Water's total direct compensation
20 programs are comparable to and competitive with market practices of other similarly-sized
21 utilities and are therefore reasonable. Tennessee-American Water, like the companies it
22 competes with for talent, has to provide a competitive total direct compensation opportunity
23 delivered via programs that benefit employees, customers and investors. Tennessee-
24 American Water attempts to achieve this goal with its balanced and competitive base salary
25 and annual and long-term performance compensation programs. My experience working
26 with both utilities and general industry companies, and the results of the study included as
27 **Confidential Schedule RVM-1**, indicate the programs at Tennessee-American Water are
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1 within a broad range of market norms and design and produce an appropriate and
2 competitive level of compensation.

3
4 **Q27. What other conclusion can you draw from your assessment?**

5 A27. TAWC provides a total direct compensation opportunity delivered through market-based
6 programs that are intended to compete in the market for talent. TAWC attempts to achieve
7 this goal by delivering total compensation through balanced base salary and short-term and
8 long-term performance compensation programs which align employees, customers, and
9 investors' interests. If the Company were to eliminate all or part of its short-term and/or
10 long-term performance compensation, it would likely be forced to increase fixed pay (*i.e.*,
11 base salary) to above market competitive levels of base salary in order to attract and retain
12 talent. It is difficult to imagine how this would benefit the Company's customers,
13 employees, or investors. The Company's compensation plans are important management
14 tools to reinforce performance expectations, which is why they are so universally present in
15 both the utility and general business sectors nationally. Denying TAWC a portion of its
16 employee compensation costs based on how they are delivered would undermine the
17 Company's ability to recover costs that are already very reasonable in relation to the
18 competitive market. Companies design their performance compensation programs to align
19 with their business strategies and circumstances and focus and communicate what is
20 important to employees. The Company's customers also benefit from the Company
21 deploying performance-based employee compensation programs using a balanced
22 scorecard of metrics. Strong financial performance, for example, enables the Company to
23 invest resources in both physical assets and people that helps ensure the efficient operation
24 of the Company, which ultimately benefits customers.

25 **Q28. Are there other ways that Tennessee-American Water's compensation programs**
26 **benefit customers?**

27 A28. Yes. Customers receive a benefit when a utility retains a talented workforce, because a
28 stable workforce avoids the costs of hiring and training new employees. Because

Tennessee-American Water's performance compensation program makes Tennessee-American Water's employees' total compensation reasonable, the Company's performance compensation helps ensure a stable workforce. Tennessee-American Water's LTPP program is particularly intended to reduce attrition at the higher ranks of the organization. Senior management turnover and the loss of expertise can degrade the continuity of strategy and execution, which is why these types of compensation programs are well accepted in the industry. Importantly, the LTPP achieves its goals of reducing leadership attrition at a lower cost to customers than simply increasing leadership's base pay, because employees must remain with the organization to realize the full vesting of their stock awards over a three-year period.

Q29. Describe the benefits of Tennessee-American Water's current compensation program compared to a base salary/wage-only approach.

A29. A key benefit of Tennessee-American Water's use of performance compensation plans is that they align with competitive market practice and thereby enable Tennessee-American Water to compete in the market for talent. A shift to an all base salary program for Tennessee-American Water could have unintended consequences. If all or part of the annual and/or long-term performance compensation at Tennessee-American Water were eliminated, the Company would likely be forced to increase fixed pay (i.e., base salary) to above market competitive levels of base salary in order to provide total compensation at the market level to attract and retain talent. This would be counter to the pay-for-performance approach Tennessee-American Water currently employs, which is to put annual and long-term performance compensation "at risk" meaning pay and market competitiveness are reduced when performance is below expectations and performance pay is not paid. Again, these plans are viewed as important management tools to reinforce performance expectations, which is why they are so universally present in both the utility and general business sectors nationally.

1 **Q30. Does this conclude your testimony?**

2 **A30. Yes, it does.**

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Public Schedule RVM-1

2024 General Rate Case Target Total Direct Compensation Study

Tennessee-American Water Company

April 22, 2024

**BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
NASHVILLE, TENNESSEE**

**PETITION OF TENNESSEE-
AMERICAN WATER COMPANY TO
CHANGE AND INCREASE CERTAIN
RATES AND CHARGES**

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DOCKET NO. 24-_____

VERIFICATION

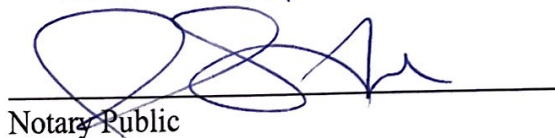
STATE OF New York)
COUNTY OF Westchester)

I, ROBERT V. MUSTICH, being duly sworn, state that I am authorized to testify on behalf of Tennessee-American Water Company in the above-referenced docket, that if present before the Commission and duly sworn, my testimony would be as set forth in my pre-filed testimony in this matter, and that my testimony herein is true and correct to the best of my knowledge, information, and belief.

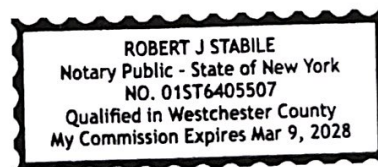


ROBERT V. MUSTICH

Sworn to and subscribed before me
this 26th day of April, 2024.



Notary Public



My Commission Expires: March 9, 2028