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TABLE OF CONTENTS

**BEFORE THE KANSAS CORPORATION COMMISSION
OF THE STATE OF KANSAS**

TESTIMONY OF ROBERT V. MUSTICH

I. INTRODUCTION 1
II. PURPOSE OF TESTIMONY 2
III. OVERVIEW OF TOTAL COMPENSATION PHILOSOPHY 3
IV. SUMMARY OF WILLIS TOWERS WATSON’S TOTAL COMPENSATION
STUDY 4
V. SUMMARY OF WILLIS TOWERS WATSON’S SHORT-TERM AND LONG-
TERM AT-RISK PROGRAM ASSESSMENT 6
VI. OVERALL FINDINGS 8

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
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**BEFORE THE KANSAS CORPORATION COMMISSION
OF THE STATE OF KANSAS**

TESTIMONY OF ROBERT V. MUSTICH

I. INTRODUCTION

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

A1. My name is Robert V. Mustich. I am Managing Director and the U.S. Northeast and Atlantic/South Region Leader, Executive Compensation for Willis Towers Watson. Willis Towers Watson is a leading global advisory, broking and solutions company, which has 39,000 associates throughout the world. We design and deliver solutions that manage risk, optimize benefits, cultivate talent and expand the power of capital to protect and strengthen institutions and individuals. My business address is 901 North Glebe Road, Arlington, VA 22203.

Q2. Please explain Willis Towers Watson’s experience in providing compensation and benefits consulting services to organizations like ONE Gas, Inc. (“ONE Gas”)?

A2. Willis Towers Watson has extensive experience serving clients in the utility industry, having served approximately 100 utilities in the U.S. within the last year. Because we invest heavily in our utility industry capabilities, we have rich competitive industry compensation and benefits information that enables ONE Gas to benchmark against similar companies in the U.S. Given Willis Towers Watson’s breadth and depth of resources, we are frequently engaged by companies to evaluate the competitiveness of their compensation philosophy, compensation and benefit levels, at-risk compensation design and pay structures and other consulting services.

1 Q3. Please state your educational and professional background and experience.

2 A3. I graduated from American University with a BS/BA in Human Resources Management.
3 I have over 25 years of industry and compensation consulting services experience, have
4 been with Willis Towers Watson for over 19 years, and have assisted management and
5 Boards of Directors at numerous companies in designing and assessing total compensation
6 programs. Since joining the firm in 1997, I have consulted with numerous utilities and
7 currently serve as U.S. Northeast and Atlantic/South Region Executive Compensation
8 Practice Leader in addition to being a senior member of our utilities industry practice. I
9 have conducted competitive assessments of total compensation for numerous public
10 utilities throughout the U.S. Prior to joining Willis Towers Watson, I was a senior
11 compensation consultant for PricewaterhouseCoopers (formally Coopers and Lybrand,
12 LLP) performing similar compensation consulting services for clients. Prior to that, I held
13 corporate senior staff compensation and benefits positions.
14

15 **II. PURPOSE OF TESTIMONY**

16 Q4. What is the purpose of your testimony?

17 A4. The purpose of my testimony is to demonstrate that the target total direct compensation
18 provided to ONE Gas' Kansas Gas Service's (ONE Gas/Kansas Gas) at-risk compensation
19 eligible employees, when viewed against the market for talent for employees in similar
20 positions, is within the median market competitive range and aligns with the company's
21 stated compensation philosophy. Willis Towers Watson specifically focused on the
22 following aspects of ONE Gas/Kansas Gas' program:

- 23
- 24 • Total compensation philosophy;
 - 25 • Competitive market positioning of target total direct compensation (base salary plus
26 short-term at-risk compensation plus long-term at-risk compensation); and
 - 27 • Design of short-term at-risk and long-term at-risk compensation programs.

1 Q5. Have Willis Towers Watson and you performed similar analyses in the past?

2 A5. Yes. Willis Towers Watson and I have conducted similar competitive compensation
3 studies for other utility clients.
4

5 **III. OVERVIEW OF TOTAL COMPENSATION PHILOSOPHY**

6 Q6. Does ONE Gas have a defined compensation philosophy?

7 A6. Yes, ONE Gas has a defined compensation philosophy.
8

9 Q7. How would you define ONE Gas' compensation philosophy?

10 A7. ONE Gas' compensation philosophy is to provide competitive compensation packages to
11 attract, motivate, and retain qualified employees. The overall objective of the program is
12 to reward the achievement of short- and long-term business goals. Elements of the
13 compensation program include: base salary, short-term at-risk compensation, and long-
14 term at-risk compensation. ONE Gas/Kansas Gas targets total direct compensation (base,
15 short-term at-risk compensation and long-term at-risk compensation) in the competitive
16 range of the market median (50th percentile), compared to an industry peer group and
17 other relevant data sources.
18

19 Q8. How does this compensation philosophy compare with other utilities?

20 A8. Willis Towers Watson examined the proxy disclosures for companies that fall within the
21 following two market perspectives: (1) Large Utility Peer Group; comprised of 12
22 publicly-traded, comparably-sized gas utilities with revenues in a range of ½ to 2 times
23 ONE Gas; and (2) Small Utility Peer Group; comprised of 9 publicly-traded gas utilities
24 with revenues closer to the size of Kansas Gas. Based on our review, we believe ONE
25 Gas/Kansas Gas' compensation philosophy is well-aligned with utility peers as all of the
26 peers with an at-risk compensation plan and a disclosed target pay positioning target all or
27 a portion of their compensation at the 50th percentile. Our consulting experience also
28

1 suggests that ONE Gas/Kansas Gas' (50th percentile) pay philosophy is majority market
2 practice across industries.

3
4 **IV. SUMMARY OF WILLIS TOWERS WATSON'S TOTAL COMPENSATION**
5 **STUDY**

6 Q9. Did you conduct a compensation study of ONE Gas/Kanas Gas' total direct compensation
7 program?

8 A9. Yes, and a copy of the Study is included as Exhibit RVM-1 ("**Attachment 1**") to my
9 testimony.

10
11 Q10. Please describe how the study was conducted?

12 A10. We reviewed a representative sample of positions comprised of: non-bargaining unit
13 Kansas Gas employees, ONE Gas Corporate staff employees, and ONE Gas executives.
14 Our review included two data sources to assess ONE Gas/Kansas Gas' compensation
15 program: (1) as we did in assessing ONE Gas/Kansas Gas' total compensation philosophy,
16 we assessed the following ONE Gas (OGS) executive positions that support Kansas Gas
17 using proxy disclosures of the Large Utility Peer Group: President and CEO (OGS), SVP
18 CFO and Treasurer (OGS), SVP Commercial (OGS), SVP General Counsel (OGS), and
19 SVP Operations (OGS) and (2) ONE Gas/Kansas Gas' competitive market positioning of
20 target total direct compensation levels of all other employees covered in this study was
21 compared to eight published survey sources produced by Willis Towers Watson, Mercer,
22 Southern Gas Association, Aon Hewitt and Compdata.

23
24 Q11. Please describe how you assessed the competitiveness of ONE Gas/Kansas Gas' target
25 total direct compensation levels.

26 A11. Willis Towers Watson assessed the competitiveness of target total direct compensation
27 provided by ONE Gas/Kanas Gas to its short-term at-risk eligible population based on a
28 selection of Kansas Gas jobs ("benchmark jobs"). Benchmark jobs are those positions

1 that are common across comparable organizations and for which compensation data are
2 available from published surveys and peer company proxy disclosures.

3 To conduct this analysis, we reviewed compensation benchmarking data provided to us by
4 ONE Gas/Kansas Gas from the peer proxy disclosures and the survey sources listed in
5 A10 above. For Director and above positions, national market data were used. For
6 positions below the director level (i.e., managers, supervisors, and non-exempt
7 employees), ONE Gas/Kansas Gas applies cost of labor differentials to reflect the
8 prevailing cost of labor rates in each of the locations it operates. This is a prevalent
9 approach since most organizations recognize the talent pool for director and above is
10 national and that the talent pool for below director level is more sensitive to employee
11 location. The geographic differentials applied to the national data for the below director
12 level benchmark positions ranged from 86% to 97%.

13
14 ONE Gas/Kansas Gas' current compensation levels were compared to the market 50th
15 percentile (market median) to determine the competitiveness of pay and to validate the
16 alignment with ONE Gas/Kansas Gas' compensation philosophy (targeting compensation
17 at the 50th percentile of market).

18
19 Willis Towers Watson's assessment represents over 70% of the relevant incumbent (i.e.,
20 non-bargaining unit) population of ONE Gas/Kansas Gas employees as of January 1,
21 2016, who are eligible for at-risk compensation. Specific details regarding our study,
22 which includes a detailed description of the study methodology, are included in

23 **Attachment 1.**

24
25 Q12. Please define Target Total Cash Compensation.

26 A12. Target Total Cash Compensation represents the sum of base salary plus target short-term
27 at-risk compensation.
28

1 Q13. Please define Target Total Direct Compensation.

2 A13. Target Total Direct Compensation represents the sum of base salary, plus target short-term
3 at-risk compensation, plus long-term at-risk compensation.

4
5 Q14. What were the results of the study?

6 A14. ONE Gas/Kansas Gas' target total direct compensation as reported in Table 1 (below) is
7 within the range of competitive market median by being 3.3% below the market median.
8 Willis Towers Watson and typical market practice define an element of compensation as
9 being competitive if it falls in a range that extends between 10% below to 10% above the
10 market median level of compensation.

11
12
13 **Table 1**

Summary of ONE Gas/Kansas Gas Target Total Direct Compensation vs. Market Median		
Base Pay	Target Total Cash Compensation	Target Total Direct Compensation
-3.9%	-3.6%	-3.3%

14
15
16
17
18 Q15. In your opinion and based on the results of the study, are ONE Gas/Kansas Gas'
19 employees overcompensated?

20 A15. No. The compensation paid to ONE Gas/Kansas Gas' employees is competitive with the
21 market median for each element of compensation and in terms of total compensation (base
22 pay plus at-risk pay).
23

24
25
26 **V. SUMMARY OF WILLIS TOWERS WATSON'S SHORT-TERM AT-RISK AND
LONG-TERM AT-RISK PROGRAM ASSESSMENT**

27 Q16. Did you conduct an assessment of ONE Gas/Kansas Gas' short-term at-risk program?
28

1 A16. Yes.

2

3 Q17. What was the purpose of this assessment?

4 A17. This assessment was completed to compare the design of ONE Gas/Kansas Gas' short-
5 term at-risk program and its various elements to market practice.

6

7 Q18. What were the findings of the assessment?

8 A18. Overall our review indicates that ONE Gas/Kansas Gas' short-term at-risk program is
9 comparable to and competitive with designs of utility peers. Like ONE Gas/Kansas Gas,
10 every company in the Large Utility peer group and 8 of 9 companies in the Small Utility
11 peer group has a short-term at-risk compensation program which is used to help attract,
12 motivate and retain critically skilled employees needed to successfully run the business.
13 Companies design their short-term at-risk compensation programs to align with their
14 business strategies and circumstances, so there tends to be a range of practices regarding
15 how the programs are designed. ONE Gas/Kansas Gas' short-term at-risk program design
16 is within the range of market practice for utilities. Specific details regarding our
17 assessment are included in **Attachment 1**.

18

19 Q19. Did you conduct an assessment of the design of ONE Gas/Kansas Gas' long-term at-risk
20 program?

21 A19. Yes.

22

23 Q20. What was the purpose of this assessment?

24 A20. This assessment was completed to compare the design of ONE Gas/Kansas Gas' long-term
25 at-risk program and its various elements to market practice.

26

27 Q21. What were the findings of the assessment?

28

1 A21. Overall our review indicates that ONE Gas/Kansas Gas' long-term at-risk program is
2 comparable to and competitive with designs of utility peers. Like ONE Gas/Kansas Gas,
3 every company in the Large Utility peer group and 8 of 9 companies in the Small Utility
4 peer group has a long-term at-risk compensation program which is used to help attract,
5 motivate and retain critically skilled employees needed to successfully run the business.
6 Companies design their long-term at-risk compensation programs to align with their
7 business strategies and focus on the achievement of long-term goals and sustained
8 performance. ONE Gas/Kansas Gas' long-term at-risk compensation program design is
9 well within the range of market practice for utilities. Specific details regarding our
10 assessment are included in **Attachment 1**.

11
12 **OVERALL FINDINGS**

13
14 Q22. What are the conclusions of your analysis?

15 A22. Overall, our analysis indicates that ONE Gas/Kansas Gas' total direct compensation
16 programs are comparable to and competitive with market practices of other similarly-sized
17 utilities. ONE Gas/Kansas Gas, like the companies it competes with for talent, has to
18 provide a competitive total direct compensation opportunity delivered via programs that
19 benefit employees, customers and shareholders. ONE Gas/Kansas Gas achieves this goal
20 with its balanced and competitive base salary and at-risk compensation programs. My
21 experience working with both utilities and general industry companies and the results of
22 the study included as **Attachment 1** indicate the programs at ONE Gas/Kansas Gas fall
23 well within market norms and are not excessive in design or level of pay.

24
25 Q23. Does this conclude your testimony?

26 A23. Yes.
27
28

VERIFICATION

COMMONWEALTH OF VIRGINIA)

COUNTY OF Arlington) ss:

Robert V. Mustich, being duly sworn upon his oath, deposes and states that he is an Independent Consultant for Kansas Gas Service, a Division of ONE Gas, Inc.; that he has read and is familiar with the foregoing Testimony filed herewith; and that the statements made therein are true to the best of his knowledge, information, and belief.

Robert V. Mustich
Robert V. Mustich

SUBSCRIBED AND SWORN to before me this 21st day of April ~~May~~ 2016.

Abigail Marie Templeton
Notary Public

Commission/Appointment Expires: July 31, 2019

**ABIGAIL MARIE TEMPLETON
NOTARY PUBLIC
REG. #7508141
COMMONWEALTH OF VIRGINIA
MY COMMISSION EXPIRES JULY 31, 2019**

CONFIDENTIAL



2016 General Rate Case Total Compensation Study

Kansas Gas Service (KGS)

A Division of ONE Gas, Inc.

Exhibit RVM-1 Appendix 1

April 28, 2016