Before the

TENNESSEE REGULATORY AUTHORITY

IN RE:

PETITION OF TENNESSEE AMERICAN WATER COMPANY TO CHANGE AND INCREASE CERTAIN RATES AND CHARGES SO AS TO PERMIT IT TO EARN A FAIR AND ADEQUATE RATE OF RETURN ON ITS PROPERTY USED AND USEFUL IN FURNISHING WATER SERVICE TO ITS CUSTOMERS

DOCKET NO. 06-00290

****

SUPPLEMENTAL DIRECT TESTIMONY OF STEVE BROWN

****

April 9, 2007

Q_1. **Please state your name.**

A_1. Steve Brown.

Q_2. **Where do you work?**

A_2. I work in the Office of the Attorney General, Consumer Advocate and Protection Division.

Q_3. **Have you provided direct testimony in this docket?**

A_3. Yes.

Q_4. **What is the purpose of your supplemental testimony in this docket?**

A_4. The purpose of my supplemental testimony is to update and correct Schedule 3 filed with the direct testimony. That particular schedule displays the capital structure of each comparable water company. The data sources for that schedule are the annual form 10-Ks for the fiscal years 2001-2005 which each comparable company filed with the Securities and Exchange Commission. My direct testimony in this docket was filed with the Tennessee Regulatory Authority on Thursday, March 1, 2007.

Since that time all the comparable water companies have filed their SEC form 10-K for the fiscal year 2006. Those files are being provided to the Authority and the parties in this docket.

The Schedule 3 attached to this supplemental testimony includes the capital structure data for the fiscal years 2001-2006. Also, Page 1 of the Schedule 3 attached to this supplemental testimony corrects a mistake. In Page 1 of Schedule 3 filed with direct testimony, the long-term debt ratio and the equity ratio displayed in the "RATIOS" section are overstated for the years 2004 and 2005 for American States Water. Nothing in the updated capital structure changes my opinions stated in my direct testimony. This concludes my supplemental testimony.

Before the

TENNESSEE REGULATORY AUTHORITY

IN RE:

PETITION OF TENNESSEE AMERICAN WATER COMPANY TO CHANGE AND INCREASE CERTAIN RATES AND CHARGES SO AS TO PERMIT IT TO EARN A FAIR AND ADEQUATE RATE OF RETURN ON ITS PROPERTY USED AND USEFUL IN FURNISHING WATER SERVICE TO ITS CUSTOMERS

DOCKET NO. 06-00290

AFFIDAVIT

I, Steve Brown, Economist, for the Consumer Advocate Division of the Attorney General's Office, hereby certify that the attached Supplemental Direct Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate Division.

Steve Brown

STEVE BROWN

Sworn to and subscribed before me
this 9th **day of** April**, 2007.**

Emily Knight

NOTARY PUBLIC

My commission expires: Sept. 22, 2007

EMILY KNIGHT
NOTARY PUBLIC
COUNTY, TENN.
SEPT. 22, 2007

100573

Before the

<u>TENNESSEE REGULATORY AUTHORITY</u>

IN RE:

PETITION OF TENNESSEE AMERICAN WATER COMPANY TO CHANGE AND INCREASE CERTAIN RATES AND CHARGES SO AS TO PERMIT IT TO EARN A FAIR AND ADEQUATE RATE OF RETURN ON ITS PROPERTY USED AND USEFUL IN FURNISHING WATER SERVICE TO ITS CUSTOMERS

DOCKET NO. 06-00290

****

EXHIBITS TO SUPPLEMENTAL
DIRECT TESTIMONY
OF
STEVE BROWN

****

April 9, 2007

Comparable Companies' Capital Structure: As Stated In Audited SEC 10-K Reports - Now Includes 2006

American States Water: Consolidated Capitalization

(In Thousands of $)

Capital Structure Components As Of:	*2006: Dec 31*	*2005: Dec 31*	*2004: Dec 31*	*2003: Dec 31*	*2002: Dec 31*	*2001: Dec 31*
Short-Term Debt: Notes Due	*$32,000*	*$27,000*	*$45,000*	*$56,000*	*$35,000*	*$20,000*
Short-Term Debt: Current Portion of Long-Term Debt	*$603*	*$635*	*$880*	*$820*	*$13,305*	*$800*
Long-Term Debt	*$267,833*	*$268,405*	*$228,902*	*$229,799*	*$231,089*	*$245,692*
Trust Preferred Securities	*$0*	*$0*	*$0*	*$0*	*$0*	*$280*
Common Equity	*$283,734*	*$264,094*	*$251,465*	*$212,487*	*$213,279*	*$204,654*
Total	*$584,170*	*$560,134*	*$526,247*	*$499,106*	*$492,673*	*$471,426*

RATIOS:

Short-Term Debt: Notes Due	*5.5%*	*4.8%*	*8.6%*	*11.2%*	*7.1%*	*4.2%*
Short-Term Debt: Current Portion of Long-Term Debt	*0.1%*	*0.1%*	*0.2%*	*0.2%*	*2.7%*	*0.2%*
Long-Term Debt	*45.8%*	*47.9%*	*43.5%*	*46.0%*	*46.9%*	*52.1%*
Trust Preferred Securities	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.1%*
Common Equity	*48.6%*	*47.1%*	*47.8%*	*42.6%*	*43.3%*	*43.4%*
Total	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*

Comparable Companies' Capital Structure: As Stated In Audited SEC 10-K Reports - Now Includes 2006

California Water Svc Group:Consolidated Capitalization

(In Thousands of $)

Capital Structure Components As Of:	*2006: Dec 31*	*2005: Dec 31*	*2004: Dec 31*	*2003: Dec 31*	*2002: Dec 31*	*2001: Dec 31*
Short-Term Debt: Notes Due	*$0*	*$0*	*$0*	*$6,454*	*$36,379*	*$22,000*
Short-Term Debt: Current Portion of Long-Term Debt	*$1,778*	*$1,133*	*$1,100*	*$904*	*$1,000*	*$5,381*
Long-Term Debt	*$267,833*	*$274,142*	*$274,821*	*$272,226*	*$250,365*	*$202,600*
Common Equity	*$378,302*	*$293,941*	*$287,605*	*$244,524*	*$199,217*	*$196,619*
Preferred	*$3,475*	*$3,475*	*$3,475*	*$3,475*	*$3,475*	*$3,475*
Total	*$651,388*	*$572,691*	*$567,001*	*$527,583*	*$490,436*	*$430,075*

RATIOS:

Short-Term Debt: Notes Due	*0.0%*	*0.0%*	*0.0%*	*1.2%*	*7.4%*	*5.1%*
Short-Term Debt: Current Portion of Long-Term Debt	*0.3%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*1.3%*
Long-Term Debt	*41.1%*	*47.9%*	*48.5%*	*51.6%*	*51.0%*	*47.1%*
Common Equity	*58.1%*	*51.3%*	*50.7%*	*46.3%*	*40.6%*	*45.7%*
Preferred	*0.5%*	*0.6%*	*0.6%*	*0.7%*	*0.7%*	*0.8%*
Total	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*

Comparable Companies' Capital Structure: As Stated In Audited SEC 10-K Reports - Now Includes 2006

Connecticut Water Service: Consolidated Capitalization

(In Millions of $)

Capital Structure Components As Of:	*2006: Dec 31*	*2005: Dec 30*	*2004: Dec 30*	*2003: Dec 30*	*2002: Dec 30*	*2001: Dec 30*
Short-Term Debt: Notes Due	*$5,250*	*$4,750*	*$5,650*	*$9,700*	*$6,950*	*$1,825*
Short-Term Debt: Current Portion of Long-Term Debt	*$7*	*$2,331*	*$326*	*$254*	*$242*	*$2,205*
Long-Term Debt	*$77,347*	*$77,404*	*$66,399*	*$64,754*	*$64,734*	*$63,953*
Common Equity	*$95,938*	*$94,076*	*$87,865*	*$83,315*	*$79,975*	*$70,783*
Preferred	*$772*	*$847*	*$847*	*$847*	*$847*	*$847*
Total	*$179,314*	*$179,408*	*$161,087*	*$158,870*	*$152,748*	*$139,613*

RATIOS:

Short-Term Debt: Notes Due	*2.9%*	*2.6%*	*3.5%*	*6.1%*	*4.5%*	*1.3%*
Short-Term Debt: Current Portion of Long-Term Debt	*0.0%*	*1.3%*	*0.2%*	*0.2%*	*0.2%*	*1.6%*
Long-Term Debt	*43.1%*	*43.1%*	*41.2%*	*40.8%*	*42.4%*	*45.8%*
Common Equity	*53.5%*	*52.4%*	*54.5%*	*52.4%*	*52.4%*	*50.7%*
Preferred	*0.4%*	*0.5%*	*0.5%*	*0.5%*	*0.6%*	*0.6%*
Total	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*

Comparable Companies' Capital Structure: As Stated In Audited SEC 10-K Reports - Now Includes 2006

Middlesex Water Company: Consolidated Capitalization

(In $)

Capital Structure Components As Of:	*2006: Dec 31*	*2005: DEC 30*	*2004: DEC 30*	*2003: DEC 30*	*2002: DEC 30*	*2001: Sep 30*
Short-Term Debt: Notes Due	*$0*	*$4,000,000*	*$11,000,000*	*$12,500,000*	*$17,650,000*	*$13,225,000*
Short-Term Debt: Current Portion of Long-Term Debt	*$2,500,537*	*$1,930,617*	*$1,091,351*	*$1,067,258*	*$639,427*	*$358,836*
Long-Term Debt	*$130,706,358*	*$128,174,944*	*$115,280,649*	*$97,376,847*	*$87,483,382*	*$88,140,459*
Common Equity	*$129,344,006*	*$99,592,325*	*$95,128,651*	*$79,643,184*	*$76,501,245*	*$72,290,312*
Preferred	*$3,958,062*	*$3,958,062*	*$4,063,062*	*$4,063,062*	*$4,063,062*	*$4,063,062*
Total	*$266,508,963*	*$237,655,948*	*$226,563,713*	*$194,650,351*	*$186,337,116*	*$178,077,669*

RATIOS:

Short-Term Debt: Notes Due	*0.0%*	*1.7%*	*4.9%*	*6.4%*	*9.5%*	*7.4%*
Short-Term Debt: Current Portion of Long-Term Debt	*0.9%*	*0.8%*	*0.5%*	*0.5%*	*0.3%*	*0.2%*
Long-Term Debt	*49.0%*	*53.9%*	*50.9%*	*50.0%*	*46.9%*	*49.5%*
Common Equity	*48.5%*	*41.9%*	*42.0%*	*40.9%*	*41.1%*	*40.6%*
Preferred	*1.5%*	*1.7%*	*1.8%*	*2.1%*	*2.2%*	*2.3%*
Total	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*

Comparable Companies' Capital Structure: As Stated In Audited SEC 10-K Reports - Now Includes 2006

Aqua America: Consolidated Capitalization						
(In Thousands of $)						
Capital Structure Components As Of:	*2006: Dec 31*	*2005: Dec 30*	*2004: Dec 30*	*2003: Dec 30*	*2002: Dec 30*	*2001: Dec 30*
Short-Term Debt: Notes Due	*$119,150*	*$138,505*	*$74,810*	*$96,459*	*$115,113*	*$109,668*
Short-Term Debt: Current Portion of Long-Term Debt	*$31,155*	*$24,645*	*$50,195*	*$39,386*	*$34,265*	*$14,935*
Long-Term Debt	*$951,660*	*$878,438*	*$784,461*	*$696,666*	*$582,910*	*$516,520*
Common Equity	*$921,630*	*$811,923*	*$747,231*	*$659,030*	*$493,097*	*$472,717*
Preferred	*$1,814*	*$1,551*	*$1,237*	*$0*	*$172*	*$1,116*
Total	*$2,025,409*	*$1,855,062*	*$1,657,934*	*$1,491,541*	*$1,225,557*	*$1,114,956*
RATIOS:						
Short-Term Debt: Notes Due	*5.9%*	*7.5%*	*4.5%*	*6.5%*	*9.4%*	*9.8%*
Short-Term Debt: Current Portion of Long-Term Debt	*1.5%*	*1.3%*	*3.0%*	*2.6%*	*2.8%*	*1.3%*
Long-Term Debt	*47.0%*	*47.4%*	*47.3%*	*46.7%*	*47.6%*	*46.3%*
Common Equity	*45.5%*	*43.8%*	*45.1%*	*44.2%*	*40.2%*	*42.4%*
Preferred	*0.1%*	*0.1%*	*0.1%*	*0.0%*	*0.0%*	*0.1%*
Total	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*

Comparable Companies' Capital Structure: As Stated In Audited SEC 10-K Reports - Now Includes 2006

S J W: Consolidated Capitalization

(In Thousands of $)

Capital Structure Components As Of:	*2006: Dec 31*	*2005: Dec 30*	*2004: Dec 30*	*2003: Dec 30*	*2002: Dec 30*	*2001: Dec 30*
Short-Term Debt: Notes Due	$15,550	$0	$0	$0	$11,450	$11,500
Short-Term Debt: Current Portion of Long-Term Debt	$485	$332	$275	$252	$0	$0
Long-Term Debt	$163,648	$145,281	$143,604	$143,879	$110,000	$110,000
Common Equity	$228,182	$195,908	$184,691	$166,368	$153,499	$149,354
Preferred	$0	$0	$0	$0	$0	$0
Total	$407,865	$341,521	$328,570	$310,499	$274,949	$270,854

RATIOS:

Short-Term Debt: Notes Due	3.8%	0.0%	0.0%	0.0%	4.2%	4.2%
Short-Term Debt: Current Portion of Long-Term Debt	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%
Long-Term Debt	40.1%	42.5%	43.7%	46.3%	40.0%	40.6%
Common Equity	55.9%	57.4%	56.2%	53.6%	55.8%	55.1%
Preferred	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Comparable Companies' Capital Structure: As Stated In Audited SEC 10-K Reports - Now Includes 2006

Southwest Water Company: Consolidated Capitalization

(In Thousands of $)

Capital Structure Components As Of:	*2006: Dec 31*	*2005: Dec 31*	*2004: Dec 31*	*2003: Dec 31*	*2002: Dec 31*	*2001: Dec 31*
Short-Term Debt: Notes Due	*$36,000*	*$30,000*	*$23,035*	*$16,609*	*$20,158*	*$13,863*
Short-Term Debt: Current Portion of Long-Term Debt	*$1,423*	*$9,492*	*$2,733*	*$2,697*	*$1,969*	*$3,344*
Long-Term Debt	*$128,624*	*$117,603*	*$115,827*	*$56,493*	*$60,827*	*$50,967*
Common Equity	*$166,069*	*$144,792*	*$125,737*	*$79,160*	*$61,324*	*$55,205*
Preferred	*$458*	*$461*	*$461*	*$507*	*$513*	*$513*
Total	*$332,574*	*$302,348*	*$267,793*	*$155,466*	*$144,791*	*$123,892*

RATIOS:

Short-Term Debt: Notes Due	*10.8%*	*9.9%*	*8.6%*	*10.7%*	*13.9%*	*11.2%*
Short-Term Debt: Current Portion of Long-Term Debt	*0.4%*	*3.1%*	*1.0%*	*1.7%*	*1.4%*	*2.7%*
Long-Term Debt	*38.7%*	*38.9%*	*43.3%*	*36.3%*	*42.0%*	*41.1%*
Common Equity	*49.9%*	*47.9%*	*47.0%*	*50.9%*	*42.4%*	*44.6%*
Preferred	*0.1%*	*0.2%*	*0.2%*	*0.3%*	*0.4%*	*0.4%*
Total	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*

Comparable Companies' Capital Structure: As Stated In Audited SEC 10-K Reports - Now Includes 2006

York Water Company: Consolidated Capitalization

(In Thousands of $)

Capital Structure Components As Of:	*2006: Dec 31*	*2005: Dec 31*	*2004: Dec 31*	*2003: Dec 31*	*2002: Dec 31*	*2001: Dec 31*
Short-Term Debt: Notes Due	*$0*	*$7,292*	*$0*	*$7,153*	*$2,738*	*$2,000*
Short-Term Debt: Current Portion of Long-Term Debt	*$1,240*	*$12,039*	*$16,339*	*$2,739*	*$38*	*$38*
Long-Term Debt	*$61,095*	*$39,385*	*$35,574*	*$29,913*	*$32,652*	*$32,690*
Common Equity	*$65,361*	*$50,415*	*$48,037*	*$39,057*	*$37,217*	*$35,891*
Preferred	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*
Total	*$127,696*	*$109,131*	*$99,950*	*$78,862*	*$72,645*	*$70,620*

RATIOS:

Short-Term Debt: Notes Due	*0.0%*	*6.7%*	*0.0%*	*9.1%*	*3.8%*	*2.8%*
Short-Term Debt: Current Portion of Long-Term Debt	*1.0%*	*11.0%*	*16.3%*	*3.5%*	*0.1%*	*0.1%*
Long-Term Debt	*47.8%*	*36.1%*	*35.6%*	*37.9%*	*44.9%*	*46.3%*
Common Equity	*51.2%*	*46.2%*	*48.1%*	*49.5%*	*51.2%*	*50.8%*
Preferred	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Total	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*