Table 1: Dept. of Energy Power Plant Comparison Study, updated August 2007

**Study was based on the following assumptions: Startup in 2010, 20yr plant life, 17.5% capital charge factor for IGCC and all carbon capture scenarios, 16.4% for PC/CCGT plants*

Economic Results

Type of Plant	Fuel Cost	Construction Costs current	Construction Costs w/CC*	Cost to Produce Electricity (cents/kWh) current	Cost to Produce Electricity (cents/kWh) w/CC
Integrated Combined Cycle Coal Gasification (IGCC)	$1.80	$1,800/ kW	$2,500/ kW	7.79	10.63
Super Critical Pulverized Coal (PC Coal)	$1.80	$1,575/ kW	$2,875/ kW	6.33	11.48
IGCC Compared to PC	*$0.00*	*14%*	*-13%*	*23%*	*-7%*
Combined Cycle Gas (CCGT)	$6.75	$550/ kW	$1,175/ kW	6.84	9.74
IGCC Compared to CCGT	*-$4.95*	*227%*	*113%*	*14%*	*9%*

Operational Results

Type of Plant	Fuel Source	Capacity Factor	Heat Rate current	Heat Rate w/CC	Plant Efficiency current	Plant Efficiency w/CC	CO2 emissions (lb/MMBtu) current	CO2 emissions (lb/MMBtu) w/CC
IGCC	Coal, Pet Coke, Biomass	80%	8,900	10,500	40%	33%	197	19.6
PC Coal	Coal	85%	8,700	12,500	40%	27%	203	20.3
IGCC Compared to PC		*-5%*	*2%*	*-16%*	*0%*	*22%*	*-3%*	*-3%*
CCGT	Natural Gas	85%	6,700	7,800	51%	44%	119	11.9
IGCC Compared to CCGT		*-5%*	*33%*	*35%*	*-22%*	*-25%*	*66%*	*65%*

**CC= Carbon Capture*

Source: RBC Capital Markets and National Energy Technology Laboratory.

Valuation

Our target price of $18 is set at a 17% discount to our calculated net-asset-value (CNAV) of $21. We determine our CNAV based on a full discounted cash flow model using an average of Free Cash Flow to the Firm and Free Cash Flow to Equity after the sale of Transport. We apply a multistage growth rate with a terminal multiple of about 12.3x based on a dynamic WACC with an initial rate of 6.78%. The terminal value is calculated approximately 25 years forward. The discount is applied due to the uncertainty of how the company will fill the growing power gap in light of the canceled IGCC project.

As a regulated electric utility operating in a region of above-average growth, TE should produce consistent earnings and steady dividends for years to come. Although the coal business and Guatemala investment steals managerial attention from the growing utility, the company's announced intention to sell its transport business reduces the risk profile for the company, in our view. We believe this sale combined with the company's accelerated debt repayment plan strengthens the balance sheet and positions the company for credit agency upgrades.

Price Target Impediment

Commodity prices, weather, regulatory risk, access to capital markets, construction cost overruns, and potential environmental legislation.

Company Description

TECO Energy, Inc. is a holding company operating through its subsidiaries, Tampa Electric, Peoples Gas, TECO Coal, TECO Transport and TECO Guatemala. Tampa Electric provides electric utility service to 661,000 customers in West Central Florida and distributes natural gas to 332,000 customers via the Peoples Gas System. TECO Coal produces 9-10 million tons of metallurgic and steam coal annually through its 41 Central Appalachian mines. TECO Guatemala owns an interest in an electric utility and operates two power plants that are contracted long-term. The sale of TECO Transport is currently pending with an expected closure by year-end 2007.

October 8, 2007

TECO Energy, Inc.

Ticker Symbol	TE
Assumptions	**Rate**
DCF Start Year	2008
DCF Start Month	4
Current Beta of Company	0.90
Static or Variable Beta (S/V)	V
Normalized Long-Term Risk-free Rate	5.00%
Market Return	12.00%
Current Equity Discount Rate	11.30%
Current Cost of Preferred Stock	0.00%
Current Cost of Debt Capital	6.86%
Current WACC	6.78%
Basic Shares Outstanding (MM)	208.9
Diluted Shares Outstanding (MM)	210.0
Assumed Tax Rate	39%
Assumed Inflation Rate	3.50%
Minimum Cash Balance Required	$100
Revolver Overflow Alert	
Current Stock Price of TE ($/Sh.)	$16.09
Current Book Value per Share	$8.97
Current Price-to-Book Ratio	1.8 x
Current Market Cap ($MM)	$3,361.2
Current Market Ent. Value ($MM)	$6,640.6
Current Market Ent. Value Per Sh.	$31.79
Current Book Ent. Value ($MM)	$5,163.3
Current Book Ent. Value Per Sh.	$24.72

Names of Regions	Name
Region 1	Tampa Electric
Region 2	Peoples Gas (PGS)
Region 3	Coal
Region 4	Transport
Region 5	Guatemala
Region 6	Corporate/Other/Eliminations (COE)

Per Share Estimates

Year	Quarter	EPS	Oper. CF	EBITDA	FCF	EFCF
2006	1	$0.23	$0.81	$0.75	$0.89	$0.56
2006	2	$0.26	$0.34	$0.91	$0.23	$1.83
2006	3	$0.40	$1.15	$1.04	$0.88	($0.44)
2006	4	$0.24	$0.40	$0.76	$0.07	$0.28
	Total	$1.13	$2.70	$3.46	$2.08	$2.23
2007	1	$0.20	$0.60	$0.72	$0.38	($0.02)
2007	2	$0.25	$0.54	$0.74	$0.20	($0.34)
2007	3	$0.36	$0.75	$0.87	$0.40	($0.30)
2007	4	$0.20	$0.61	$0.62	$0.26	($0.14)
	Total	$1.01	$2.49	$2.95	$1.25	($0.80)
2008						
	Total	$1.11	$2.74	$3.45	$2.79	$2.06

Estimated Ratios

Year	P/E	P/Oper. CF	EV/EBITDA	EV/FCF	P/EFCF
2006	14.3 x	6.0 x	9.2 x	15.3 x	7.2 x
2007	15.9 x	6.5 x	10.8 x	25.5 x	N/M
2008	14.5 x	5.9 x	9.2 x	11.4 x	7.8 x

Capital Structure

Capital Type	Amount ($MM)	%
03/2008		
Equity Capital	$1,883.9	36%
Preferred Stock	$0.0	0%
Total Debt	$3,279.4	64%
Total	$5,163.3	100%

Net Asset Value Cash Flow Valuation

Terminal Value	Multiple
Multiple of FCF	12.5 x
Term. Val. in Months	297

Category	Valuation
03/2008	
Calc. Ent. Value	$7,599.9
Preferred Stock	$0.0
Total Debt	($3,279.4)
Equity Value	$4,320.6

Shares	NAV	Average
Basic	$20.68	$20.68
Diluted	$20.57	$20.57

Ratios	P/NAV	P/NAV
Basic	0.8 x	0.8 x
Diluted	0.8 x	0.8 x

Ratios	P/Book
Basic	1.8 x

Criteria	Multiple	2008E	Multiple Analysis
Net Debt per Share	N/A	$19.69	N/A
Basic Shares Out	N/A	208.9	N/A
P/E	18.9 x	$1.11	$21.00
P/CF	7.7 x	$2.74	$21.00
EV/EBITDA	11.8 x	$3.45	$21.00
Average			$21.00

Cost of Capital

Type	% of Total
Equity	4.12%
Preferred	0.00%
Debt	2.66%
WACC	6.78%
	174.07%

Net Asset Value Cash Flow Valuation

Terminal Value	Multiple
Multiple of EFCF	12.3 x
Term. Val. in Months	297

Category	Valuation
Equity FCF Value	$3,814.6
Cash Balance @ Start of Valuation	$503.4
Equity Value	$4,318.0

Shares	NAV
Basic	$20.67
Diluted	$20.56

Ratios	P/NAV
Basic	0.8 x
Diluted	0.8 x

Sources: Company reports; RBC Capital Markets estimates; Lasan Johong (212) 428-6462 lasan.johong@rbccm.com; Emily Christy (212) 428-6970.

TE				2006					2007			
SUMMARY FINANCIALS ($ Millions)	2005	Q1A	Q2A	Q3A	Q4A	2006	Q1A	Q2A	Q3E	Q4E	2007	2008
GENERATION (MWh)	19,567.2	4,437.1	4,798.1	5,481.2	4,850.9	19,567.2	4,437.1	4,907.3	5,895.2	5,182.1	20,421.6	20,420.1
INCOME STATEMENT												
TOTAL NET REVENUE	$3,010.1	$836.4	$862.6	$934.8	$835.5	$3,469.3	$821.3	$866.5	$782.2	$674.4	$3,144.4	$2,853.0
DOC (Incl. Cost of Fuel and Plant O&M)	$1,619.5	$393.9	$506.6	$533.3	$581.1	$2,014.8	$511.4	$539.1	$429.0	$361.7	$1,841.2	$1,676.8
Other Direct Operating Costs	$748.5	$286.0	$167.1	$184.2	$95.5	$732.9	$159.9	$172.9	$170.0	$182.0	$684.7	$451.3
General & Administrative Expenses	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
DIRECT OPERATING COSTS	$2,368.0	$679.9	$673.7	$717.5	$676.6	$2,747.7	$671.3	$712.0	$599.0	$543.6	$2,525.9	$2,128.1
GROSS PROFIT	$642.1	$156.5	$188.9	$217.3	$158.9	$721.6	$150.0	$154.5	$183.2	$130.8	$618.5	$724.9
Depreciation, Amortization and Expl. Exp.	$282.2	$70.3	$70.6	$70.1	$71.2	$282.2	$71.6	$66.8	$71.6	$74.7	$284.8	$263.0
Other Operating Costs	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
TOTAL OPERATING COSTS	$2,650.2	$750.2	$744.3	$787.6	$747.8	$3,029.9	$742.9	$778.8	$670.6	$618.4	$2,810.6	$2,391.1
OPERATING INCOME	$359.9	$86.2	$118.3	$147.2	$87.7	$439.4	$78.4	$87.7	$111.6	$56.0	$333.8	$461.9
Non-Operating Expenses	($154.6)	($38.8)	($21.1)	($51.2)	($42.5)	($153.6)	($69.8)	($42.4)	($52.0)	($54.5)	($218.7)	($127.2)
EARNINGS BEFORE INTEREST & TAXES	$514.5	$125.0	$139.4	$198.4	$130.2	$593.0	$148.2	$130.1	$163.6	$110.5	$552.5	$589.1
Net Interest Expense, Incl. TCP Dividend	$288.7	$69.0	$70.0	$70.1	$69.2	$278.3	$67.1	$65.7	$55.3	$55.1	$243.2	$206.3
PRE-TAX INCOME	$225.8	$56.0	$69.4	$128.3	$61.0	$314.7	$81.1	$64.4	$108.3	$55.4	$309.2	$382.8
Income Tax Expense	$101.9	$22.7	$27.3	$42.7	$26.0	$118.7	$31.8	$25.3	$42.2	$21.6	$121.0	$149.3
Minority Interest, Pref. Dividend & Other	($87.1)	($21.9)	($19.0)	($6.0)	($22.7)	($69.6)	($23.5)	($20.3)	($20.3)	($20.3)	($84.4)	$0.0
NET INCOME PRE-X-ITEMS	$130.6	$47.2	$54.5	$83.6	$49.7	$234.9	$42.1	$53.1	$74.7	$42.5	$212.4	$233.5
Extraordinary Items & Other	($80.4)	($8.0)	($8.0)	($8.0)	($8.0)	($32.1)	($30.7)	($11.0)	($11.7)	($11.7)	($65.0)	$0.0
NET INCOME	$274.5	$55.2	$61.1	$91.6	$59.6	$267.5	$72.8	$73.7	$86.3	$54.1	$287.0	$233.5
NET INCOME PRE-X-ITEMS PER SHARE	$0.63	$0.23	$0.26	$0.40	$0.24	$1.13	$0.20	$0.25	$0.36	$0.20	$1.01	$1.11
Extraordinary Items & Other	($0.39)	($0.04)	($0.04)	($0.04)	($0.04)	($0.15)	($0.15)	($0.05)	($0.06)	($0.06)	($0.31)	$0.00
NET INCOME PER SHARE	$1.32	$0.26	$0.29	$0.44	$0.29	$1.28	$0.35	$0.35	$0.41	$0.26	$1.37	$1.11
CASH FLOW STATEMENT												
Adjustments to Revenue and Income	$0.0	$0.0	($3.6)	$11.7	($11.5)	($3.4)	$4.8	($18.7)	($0.9)	($0.9)	($15.6)	($3.6)
Depreciation, Amortization and Expl. Exp.	$286.3	$70.3	$70.6	$70.1	$82.7	$293.7	$71.6	$66.8	$71.6	$74.7	$284.8	$263.0
Deferred Income Taxes	$110.8	$21.7	$22.0	$45.9	$22.9	$112.5	$29.3	$8.3	$20.0	$20.0	$77.6	$82.8
Other Operating Cash Flow Items	($517.2)	$21.9	($78.9)	$31.0	($60.0)	($86.0)	($53.6)	($17.0)	($20.3)	($20.3)	($111.2)	$0.0
Changes in Working Capital	$19.5	$20.2	$18.3	($0.1)	($34.6)	$3.8	$34.0	($38.3)	$0.0	$0.0	($4.3)	$0.0
OPERATING CASH FLOW	$173.9	$189.3	$89.5	$250.2	$59.1	$588.1	$158.9	$74.8	$156.8	$127.7	$518.2	$575.7
Cap. Ex., Acquisitions, Investments	($240.8)	($77.5)	($100.5)	($120.3)	($153.8)	($452.1)	($154.7)	($146.8)	($122.3)	($122.3)	($546.0)	($526.0)
Proceeds from Sales	$278.3	$17.9	$10.1	$13.7	$58.7	$100.4	$0.0	$45.5	$0.0	$0.0	$45.5	$400.0
Other Investing Cash Flow Items	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
INVESTING CASH FLOW	$37.5	($59.6)	($90.4)	($106.6)	($95.1)	($351.7)	($154.7)	($101.3)	($122.3)	($122.3)	($500.5)	($126.0)
Net Equity Financing	$16.2	$1.6	$2.2	$2.5	$6.2	$12.5	$3.6	$4.8	$0.0	$0.0	$8.4	$0.0
Net Debt Capital & Other Financing	($82.2)	($68.8)	$340.2	($252.0)	$52.4	$71.8	($69.8)	($105.0)	($110.6)	($49.3)	($334.7)	($6.1)
Financing Costs	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Common and Preferred Dividends	($157.7)	($39.6)	($39.7)	($39.7)	($39.7)	($158.7)	($39.8)	($41.0)	$0.0	$0.0	($80.8)	$0.0
Other Financing Cash Flow Items	$261.3	$24.9	$18.1	$4.5	$18.2	$65.7	$21.8	$26.0	$0.0	$0.0	$47.8	$0.0
FINANCING CASH FLOW	$37.6	($81.9)	$320.8	($284.7)	$37.1	($8.7)	($84.2)	($115.2)	($110.6)	($49.3)	($359.3)	($6.1)
CHANGE IN CASH	$249.0	$47.8	$319.9	($151.6)	($9.6)	$206.5	($80.0)	($141.7)	($76.0)	($43.9)	($341.6)	$443.6
OP. CF BEFORE W/C PER SHARE	$0.74	$0.81	$0.34	$1.15	$0.40	$2.70	$0.60	$0.54	$0.75	$0.61	$2.49	$2.74
BALANCE SHEET												
Cash and Equivalents	$383.3	$430.7	$504.6	$599.1	$478.9	$478.9	$398.9	$257.3	$181.3	$137.4	$137.4	$581.0
Accounts Receivables	$323.3	$323.4	$333.5	$363.6	$338.3	$338.3	$310.2	$297.2	$297.2	$297.2	$297.2	$297.2
Inventory, Fuels and Materials	$450.1	$149.3	$164.2	$162.3	$159.6	$159.6	$189.7	$212.5	$212.5	$212.5	$212.5	$212.5
Other Current Assets	$115.5	$287.8	$319.3	$327.4	$308.9	$308.9	$309.8	$317.5	$317.5	$317.5	$317.5	$317.5
TOTAL CURRENT ASSETS	$1,272.2	$1,191.2	$1,321.6	$1,452.4	$1,285.7	$1,285.7	$1,208.6	$1,084.5	$1,008.5	$964.6	$964.6	$1,408.2
TOTAL PP&E	$4,566.9	$4,584.3	$4,620.2	$4,679.4	$4,766.9	$4,766.9	$4,694.5	$4,755.8	$4,806.4	$4,853.9	$4,853.9	$4,716.9
Other Long-term Assets	$1,331.0	$1,324.3	$1,304.6	$1,266.6	$1,309.2	$1,309.2	$1,395.8	$1,418.4	$1,419.3	$1,420.1	$1,420.1	$1,423.7
TOTAL ASSETS	$7,170.1	$7,099.8	$7,246.4	$7,398.4	$7,361.8	$7,361.8	$7,298.9	$7,258.7	$7,234.1	$7,238.6	$7,238.6	$7,548.9
Accounts Payables	$838.9	$412.7	$414.4	$299.0	$374.5	$374.5	$318.6	$259.9	$259.9	$259.9	$259.9	$259.9
Short-term Debt & Current Portions	$0.0	$7.2	$7.2	$639.4	$639.4	$639.4	$457.4	$157.5	$84.6	$6.1	$6.1	$5.1
Other Current Liabilities	$87.0	$405.0	$278.5	$484.1	$336.5	$336.5	$445.9	$460.3	$460.3	$460.3	$460.3	$460.3
TOTAL CURRENT LIABILITIES	$925.9	$824.9	$700.1	$1,422.5	$1,350.4	$1,350.4	$1,221.9	$877.7	$804.8	$726.3	$726.3	$725.3
Long-term Debt and Other Obligations	$3,709.2	$3,708.0	$3,956.6	$3,318.7	$3,212.6	$3,212.6	$3,211.3	$3,460.1	$3,244.1	$3,273.3	$3,273.3	$3,268.2
Deferred Income Taxes	$382.9	$385.4	$372.3	$0.0	$0.0	$0.0	$0.0	$0.0	$20.0	$40.0	$40.0	$122.8
Other Long-term Liabilities	$560.4	$564.3	$570.9	$967.1	$1,069.8	$1,069.8	$1,096.5	$1,104.4	$1,323.4	$1,364.2	$1,364.2	$1,527.1
TOTAL LONG-TERM LIABILITIES	$4,652.5	$4,657.7	$4,899.8	$4,285.8	$4,282.4	$4,282.4	$4,307.8	$4,564.5	$4,587.5	$4,677.4	$4,677.4	$4,918.1
Long-term Financings	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	($20.3)	($40.6)	($40.6)	($40.6)
TOTAL LIABILITIES	$5,578.4	$5,482.6	$5,599.9	$5,708.3	$5,632.8	$5,632.8	$5,529.7	$5,442.2	$5,372.0	$5,363.1	$5,363.1	$5,602.8
Equity and Additional Paid-In Capital	$1,735.2	$1,695.8	$1,662.0	$1,666.9	$1,675.8	$1,675.8	$1,680.5	$1,691.0	$1,691.0	$1,691.0	$1,691.0	$1,691.0
Retained Earnings	($83.1)	($27.9)	$34.5	$74.6	$83.7	$83.7	$116.9	$149.6	$195.2	$208.6	$208.6	$279.2
Other Stockholders' Equity	($60.4)	($50.7)	($50.0)	($51.4)	($30.5)	($30.5)	($28.2)	($24.1)	($24.1)	($24.1)	($24.1)	($24.1)
TOTAL STOCKHOLDERS' EQUITY	$1,591.7	$1,617.2	$1,646.5	$1,690.1	$1,729.0	$1,729.0	$1,769.2	$1,816.5	$1,862.1	$1,875.5	$1,875.5	$1,946.1
TOTAL LIABILITIES & EQUITY	$7,170.1	$7,099.8	$7,246.4	$7,398.4	$7,361.8	$7,361.8	$7,298.9	$7,258.7	$7,234.1	$7,238.6	$7,238.6	$7,548.9

Sources: Company reports; RBC Capital Markets estimates. Lasan Johong - (212) 428-6462; lasan.johong@rbccm.com

Required Disclosures

Explanation of RBC Capital Markets Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector.

Ratings

Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

Risk Qualifiers (any of the following criteria may be present):

Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

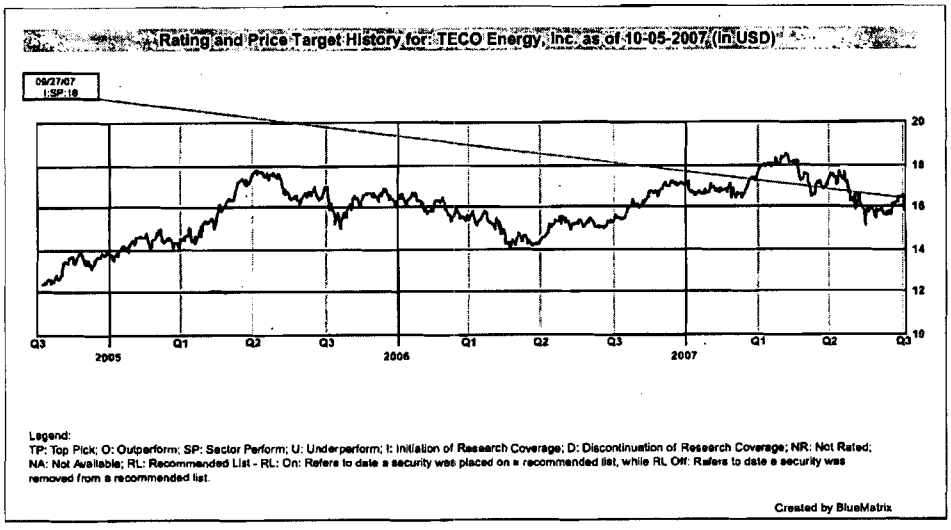
Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

Distribution of Ratings, Firmwide

For purposes of disclosing ratings distributions, regulatory rules require member firms to assign all rated stocks to one of three rating categories--Buy, Hold/Neutral, or Sell--regardless of a firm's own rating categories. Although RBC Capital Markets' stock ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings/IB Services
RBC Capital Markets

			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY[TP/O]	462	44.17	187	40.48
HOLD[SP]	501	47.90	157	31.34
SELL[U]	83	7.93	19	22.89



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Regulatory Research Associates An SNLEnergy Company

UTILITY FOCUS

July 27, 2007

TECO ENERGY (TE)

7/27/07	Earnings Per Share (12 mos.) *				Price/Earnings Multiples					Dividend		
Price	2006	3/31/07	2007E	2008E	Curr.	2007E	2008E	Mkt./Bk.	Ret./Eq.	Rate	Yield	Payout
$16.26	$1.11	$1.20	$1.15	$1.10	13.6x	14.1x	14.8x	197%	15.1	$0.78	4.80%	65%

* Before: 1¢ of hurricane costs, 1¢ of income from discontinued operations, 4¢ gain from Dell and McAdams plant sales, and 2¢ gain from sale of unused steam turbines (2006); and, 1¢ of TECO-T transaction related costs (1Q07).

Overview

After essentially completing withdrawal from its substantial merchant power investments two years ago, TE's businesses consist of Florida electric and gas utilities, coal and synthetic fuel production in Kentucky and Virginia, river and ocean transportation businesses in the U.S. and worldwide, and power generation and distribution in Guatemala. Florida utilities Tampa Electric Company (TEC) and Peoples Gas System (PGS) represent the majority of TE's operations, accounting in total for 77%, 68%, and 76% of consolidated revenues, net income from continuing operations, and assets, respectively, during 2006. TE's strategy continues to focus on improving its financial position and outlook through further asset dispositions and on the significant rate base growth opportunities at TEC. As part of this strategy, the company has requested authorization to build a 632-MW integrated coal gasification combined-cycle (IGCC) plant. In addition, earlier this year TE announced that it is pursuing the sale of TECO Transport (TECO-T), the company's marine transportation business. The sale of this business would reduce TE's overall business risk and enable it to accelerate its debt reduction program. Given our expectations for rate base expansion at TE's utilities and growth at its coal business, as well as lower interest expense from debt reduction, we expect the company to post average annual EPS growth of 4% over the next several years. We note that in 2008 TE's earnings will be negatively impacted by the expiration of the federal synfuel tax credit. The company plans to replace the synfuel earnings with continued accelerated debt reduction, and possible increases in conventional coal production.

Utility Businesses

TEC is TE's largest subsidiary, representing 60% of 2006 consolidated revenues and 65% of assets. TEC owns more than 4,400 MW of generating capacity, of which roughly 40% is coal-fired, with the remainder being natural gas and/or oil-fired. The utility's retail service territory is one of the faster growing in the U.S., with annual customer and weather-normalized sales growth expected to be above 2.5% over the next several years. This growth rate is slightly lower than the expansion of the last several years, largely due to a softening of the housing market in Florida. The company's customer mix produces relatively stable usage, as 44% and 32% of 2006 kWh sales were derived from residential and commercial customers, respectively; a comparatively modest 11% was derived from industrial customers. Like most states in the Southeast, Florida has not restructured its electric industry, given the state's competitive rates, low percentage of industrial customers, and peninsula geography with limited transmission interconnections to the north.

Historically, Florida has been a constructive regulatory environment, and despite the election of a new governor in 2006 and the recent appointment of two new PSC commissioners, we see no indication

that this situation will significantly change in the foreseeable future. There has been little major regulatory activity involving TEC over the past few years. Upon the expiration of various non-traditional regulatory mechanisms that were in effect during the 1990's, TEC has been subject to traditional ROE-based regulation in recent years. The company is currently authorized an 11.75% ROE, the mid-point of an allowed range of 10.75% to 12.75% that was established in 2000. Earnings above the 12.75% equity return could trigger a PSC earnings review, but over the last few years the utility's earnings have fallen within the allowed range. TEC utilizes adjustment clauses that permit timely recovery of prudently incurred expenses for fuel and purchased power, capacity costs, conservation costs, and environmental costs.

TEC's non-base-load capital expenditures are projected to total almost $1.9 billion over the 2007-2011 time frame. Earlier this year, two 180-MW gas-fired peaking units, Polk Units 4 and 5, were placed into service at a total cost of $65 million; this investment is being offset through customer and sales growth. Customer growth drives a need for 130-150 MW of additional capacity per year, and TEC anticipates the need for several hundred MWs of peaking capacity over the 2009-2012 time frame. However, current plans are for the company to purchase, as opposed to build, this capacity; the company believes that sufficient, reasonably-priced gas fired capacity will be available in this time frame. Other factors driving TEC's cap ex over this time frame include environmental compliance (selective catalytic reduction) at certain coal-fired generating plants, transmission and distribution (T&D) system storm hardening, T&D system expansion and reliability upgrades to support customer growth, transmission system upgrades in Central Florida, and combustion turbine replacement and refurbishment.

Beginning in 2013, TEC anticipates that it will need additional baseload capacity, and in July 2007 the company filed a petition with the PSC for approval to construct Polk Unit 6, a 632-MW IGCC base load facility. If approved, the company anticipates that the unit would begin commercial operation in 2013. TEC currently estimates the cost for Polk 6 to be approximately $2 billion (not included in above estimate), which includes an estimated $1.6 billion for engineering, procurement, and construction, and approximately $400 million in additional related costs, such as transmission infrastructure, environmental permitting, project management, staffing and training, and contingency costs. The company believes that the currently estimated cost for Polk 6 ($3.2 mil/MWH) is comparable to other similar-sized IGCC facilities that have been proposed by American Electric Power and Duke Energy. In November 2006, TEC was awarded $133.5 million in Internal Revenue Service clean coal tax credits for Polk Unit 6. TEC expects that the PSC will hold a hearing on its petition in October 2007 and issue a decision shortly thereafter. Other state regulatory approvals would be needed before plant construction could commence. We note that TEC has operational experience with IGCC technology. TEC's 260-MW Polk Unit 1 IGCC facility has been in operation since 1996 and over the past five-years has achieved an 80% capacity factor.

On the legislative front, new laws were enacted in June 2007 pertaining to IGCC plants. House Bill (H.B.) 549 authorizes deferred accounting for the preconstruction costs of IGCC plants, and these costs are to accrue a carrying charge equal to the utility's allowance for fund used during construction (AFUDC). All prudently incurred preconstruction costs are recoverable through the utility's capacity cost recovery clause. Also recoverable through the capacity cost recovery clause is a current return on construction work in progress (CWIP). For a plant for which a certificate-of-need request is submitted by year-end 2010, the recoverable financing costs are to be computed utilizing the pretax AFUDC rate in effect as of June 12, 2007, the date the legislation became law. If a utility does not complete the construction of the IGCC plant, it would be permitted to recover all prudent preconstruction and construction costs. The unrecovered balance would earn a return equal to the utility's overall rate of return.

PGS is Florida's largest natural gas utility, serving 335,000 customers and most of the state's major metropolitan areas. During 2006, the company accounted for 17% of consolidated revenue and

10% of assets. Natural gas has not made significant inroads in Florida; the penetration rate for the state's households is less than 10%. Given the slower housing market in the state, customer and sales growth are forecasted at a 2.5% annual rate, modestly below the growth rate of recent years. System expansion required to meet this growth and the rate base recognition of such expansion should result in average earnings growth at PGS of roughly 3% annually. The company is authorized an 11.25% equity return, the mid-point of a 10.25% to 12.25% authorized range that was established by the PSC in 2003.

Non-Utility Businesses

TECO Coal (TECO-C) owns or operates low-sulfur coal mines, synthetic fuel production facilities, and coal preparation facilities in Kentucky and Virginia, and accounted for 17% of 2006 consolidated revenues and 5% of assets. Major customers of TECO-C include domestic utilities and the U.S. and European steel industries. Synfuels accounted for 6.4 million tons of the total 9.7 million ton output in 2005, 5.3 million of the 9.8 million ton output in 2006, and are expected to total 5.7 million tons of a projected 9-9.5 million ton output in 2007. Close to 90% of 2007 total output is under contract and priced. Synfuel production is profitable due to a federal tax credit, and this tax credit phases out at higher oil prices. During this year, the tax credit reduction is expected to begin at a 2007 average NYMEX oil price of $63 per barrel and phase out completely at $79 per barrel. However, TECO-C is hedged against any tax credit phase out in 2007, and synfuel net income should total approximately $65 million. Effective in 2008, the federal tax credit associated with synfuel production will expire.

TECO-T transports coal, phosphate, grain, and other bulk commodities domestically and internationally. During 2006, this business segment accounted for 9% of consolidated revenues and 5% of total assets. TECO-T consists of three major subsidiaries that operate an ocean-going fleet, a river barge fleet on the U.S. inland waterways, and a dry-bulk commodity deep-water transfer and storage terminal. TECO-T has been profitable for many years, with significant multi-year contracts serving as the basis for stable earnings. For 2007, TECO-T expects continued strong river market conditions, strong demand for dry-bulk oceangoing shipments, and improved operational performance with higher terminal volumes and vessel utilization levels. As noted earlier, in February 2007 TE indicated its intention to sell TECO-T. The sale would improve TE's credit profile by lowering business risk, enabling the company to accelerate the retirement of a projected $500 million in parent company debt in 2007-2008, and better enable TE to use its internal cash generation in the 2008-2012 time frame to fund capital expenditures at TEC. The company may close on the sale by the end of the third quarter of 2007.

TECO Guatemala (TECO-G), which generates and distributes electricity, represented 15% of 2006 consolidated net income and 6% of assets. The company owns two power plants with long-term power purchase agreements: the 120-MW, coal-fired San José Power Station, and the 78 MW, oil-fired Alborada Power Station, is a peaking facility. TECO-G's operations also include a 24% interest in EEGSA, Guatemala's largest electric distribution utility. Profit contribution this year from TECO-G is forecast to be in-line with that of 2006.

Earnings and Finances

Operating EPS for 2006 totaled $1.11, a nearly 10% decline from $1.23 in 2005. The major factor driving the lower 2006 EPS was a decline in synthetic fuel earnings resulting from a partial phase-out of the federal income tax credit due to high oil prices. Also negatively impacting results was an expected increase in operating and maintenance (O&M) expenses at TEC. For the first quarter of 2007, operating EPS totaled $0.36, a 33% increase from $0.27 last year. This increase was largely due to a rise in the value of the oil price hedges the company has in place to protect its projected synthetic fuel benefits. Full year 2007 EPS are expected to total $1.15, driven by customer and energy sales growth at the utilities and earnings from an $80 million NO_x control project at TEC (the cost of which is flowed through the

environmental cost recovery clause, including a return), partially offset by higher O&M expenses and AFUDC. TECO-C expects lower total sales volumes due to soft market conditions and per-ton average margins similar to those in 2006. TECO-T expects higher rates and improved operating efficiencies, and TECO-G expects 2007 results consistent with 2006 levels. Costs at the parent company level are expected to decline due to debt retirement, partially offset by lower investment income due to smaller cash balances.

Over the 2007-2011 time frame, TE's consolidated capital expenditures are projected to total $2.4 billion. We note that if approved by the regulatory authorities, the company's proposed IGCC plant would add an additional $2 billion to this total through 2012. As mentioned previously, almost $1.9 billion of this amount is targeted for TEC, while $250 million and $185 million are targeted for PGS and TECO-C, respectively. The $2.4 billion total also includes $125 million allocated for TECO-T. TE forecasts capital expenditures of $525 million in 2007, $510 million in 2008, and $1,365 million from 2009 through 2011. A major component of TE's strategic plan has been to reduce its significant debt load. The company has made significant progress in this area, reducing total debt from $5,160 million (a 25% equity ratio) at year-end 2003 to $3,719 million (a 32% equity ratio) as of March 31, 2007. As part of its accelerated debt reduction program, TE plans to reduce debt by an additional $500 million during 2007 and 2008. Due to the financial difficulties resulting from its merchant generation operations, TE cut its dividend by almost 50% in 2003 to $0.76. In May 2007, reflecting strengthening company finances, in particular significant debt retirement, TE increased its annual dividend by 2.6% to $0.78. We expect another 2¢ annual increase in the second quarter of 2008.

RRA Evaluation: After underperforming the RRA Electric Utility Index from 2002-2004, primarily due to problems associated with its ill-fated expansion into merchant generation, in 2005 the TE shares slightly outperformed the group, rising 12% versus 9% for the industry average. The negative relative trend resurfaced in 2006, largely due to the diminution of synfuel-related earnings--the TE shares were flat versus an 18% gain for the group. So far in 2007, the TE shares are again underperforming the group--a 6% decline versus a 3% decline. While the company has made major strides over the past several years in improving its finances and earnings, the loss of synfuel related net income in 2008 will likely lead to modestly lower EPS relative to 2007. We believe the company's emphasis on growth opportunities at its utilities, especially TEC, and on debt reduction are a solid strategy for achieving long-term growth. After an anticipated slight earnings decline in 2008, we project that TE will post average annual EPS growth of 4%. Our growth estimate assumes that the company places into service the 632-MW IGCC Polk Unit 6 power plant in early 2013. Based on our 2008 EPS estimate of $1.10, the TE shares are trading at a P/E of 14.8x, in line with the RRA Index. Given the uncertainty associated with replacing the synfuel earnings and our expectation for a modest 4% longer-term growth rate, we believe this valuation is reasonable and, therefore, are maintaining a "Hold" recommendation on the TE shares. (Previous Report: 11/10/06)

Dennis Sperduto

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RRA ELECTRIC UTILITY MARKET DATA

Company	Jul 27 2007 Price	Percent Change: Week	Percent Change: YTD	Earnings Per Share 2006	Earnings Per Share Curr. (Mo)	Earnings Per Share 2007E	Earnings Per Share 2008E	Price/Earnings 2007E	Price/Earnings 2008E	Price/Earnings Curr.	Market/ Book	ROE (Avg)	Dividend * Rate	Dividend * Yield	Dividend * Payout	Bk Val 12/06	Moody's/S&P Ratings	Tkr. Sym.
	$	%	%	$	$	$	$	X	X	X	%	%	$	%	%	$		
ALLEG ENERGY	52.17	-6	14	1.83	2.03 (6)	2.25	2.60	23.2	20.1	25.7	415	17.7	0	0	n.a.	12.58	B1 / BB-	AYE
ALLIANT ENERGY	37.37	-8	-1	2.03	2.06 (3)	2.50	2.65	14.9	14.1	18.1	164	9.4	1.27	3.40	62	22.83	Baa1 / BBB+	LNT
AMEREN CORP	48.76	-5	-9	2.92	3.21 (3)	3.50	3.70	13.9	13.2	15.2	153	10.2	2.54	5.21	79	31.85	A3 / A-	AEE
AMER EL PWR	43.19	-7	1	2.76	2.76 (12)	2.90	3.15	14.9	13.7	15.6	182	11.8	1.56	3.61	57	23.73	Baa3 / BBB	AEP
CENTERPOINT	16.46	-4	-1	1.01	1.09 (3)	1.10	1.20	15.0	13.7	15.1	332	23.9	0.68	4.13	62	4.96	Ba2 / BBB	CNP
CMS ENERGY	16.00	-9	-4	1.13	1.33 (3)	0.80	1.25	20.0	12.8	12.0	160	12.9	0.20	1.25	15	10.03	B1 / BB	CMS
CON EDISON	43.65	-4	-9	3.04	3.22 (3)	3.10	3.20	14.1	13.6	13.6	140	10.6	2.32	5.32	72	31.09	A2 / A	ED
CONSTELLATION	84.91	-12	23	3.77	4.46 (6)	4.60	5.50	18.5	15.4	19.0	333	16.8	1.74	2.05	39	25.53	Baa1 / BBB+	CEG
DOMIN RESOU	82.19	-6	-2	5.16	4.99 (3)	5.45	6.30	15.1	13.0	16.5	222	14.9	2.84	3.46	57	37.00	Baa1 / BBB+	D
DPL INC	26.96	-6	-3	1.38	1.40 (3)	1.55	1.70	17.4	15.9	19.3	428	18.9	1.04	3.86	74	6.30	Ba2 / BB	DPL
DTE ENERGY	46.35	-9	-4	3.32	3.21 (3)	2.75	3.05	16.9	15.2	14.4	140	9.8	2.12	4.57	66	33.02	Baa2 / BBB	DTE
DUKE ENERGY	17.21	-4	nm	1.83	1.83 (12)	1.15	1.20	15.0	14.3	9.4	83	9.5	0.88	5.11	48	20.77	Baa1 / BBB	DUK
EDISON INTL	52.70	-9	16	3.08	3.42 (3)	3.40	3.60	15.5	14.6	15.4	223	15.6	1.16	2.20	34	23.66	Ba2 / BBB	EIX
ENERGY EAST	25.34	-2	2	1.76	1.76 (3)	1.50	1.55	16.9	16.3	14.4	131	9.1	1.20	4.74	68	19.37	Baa2 / BBB+	EAS
ENTERGY	97.84	-8	6	4.72	4.72 (12)	5.50	6.80	17.8	14.4	20.7	242	12.1	2.16	2.21	46	40.45	Baa3 / BBB	ETR
EXELON	69.62	-12	12	3.22	3.85 (6)	4.20	4.55	16.6	15.3	18.1	468	26.9	1.76	2.53	46	14.89	Baa2 / A-	EXC
FIRSTENERGY	60.44	-9	0	3.67	3.67 (12)	4.10	4.15	14.7	14.6	16.5	214	13.0	2.00	3.31	54	28.30	Baa3 / BBB-	FE
FPL GROUP	54.92	-6	1	3.00	3.12 (3)	3.40	3.70	16.2	14.8	17.6	224	13.4	1.64	2.99	53	24.49	A2 / A	FPL
KEYSPAN	41.62	-0	1	2.48	2.51 (3)	2.45	2.55	17.0	16.3	16.6	162	9.8	1.90	4.57	76	25.76	A3 / A	KSE
NISOURCE	19.23	-9	-20	1.40	1.42 (3)	1.40	1.40	13.7	13.7	13.5	105	7.8	0.92	4.78	65	18.32	Baa3 / BBB	NI
NO'EAST UT	26.93	-6	-4	1.12	1.29 (3)	1.40	1.75	19.2	15.4	20.9	148	7.6	0.80	2.97	62	18.14	Baa2 / BBB	NU
NSTAR	31.02	-4	-10	1.93	2.02 (6)	2.05	2.20	15.1	14.1	15.4	209	13.8	1.30	4.19	64	14.82	A2 / A	NST
OGE ENERGY	33.47	-7	-16	2.45	2.38 (3)	2.35	2.30	14.2	14.6	14.1	190	14.5	1.36	4.06	57	17.59	Baa1 / BBB+	OGE
PEPCO HOLDINGS	27.24	-4	5	1.33	1.32 (3)	1.65	2.00	16.5	13.6	20.6	145	7.0	1.04	3.82	79	18.82	Baa2 / BBB+	POM
PG&E CORP	43.77	-5	-8	2.58	2.69 (3)	2.75	2.90	15.9	15.1	16.3	210	13.2	1.44	3.29	54	20.87	Baa1 / BBB	PCG
PINNACLE WST	38.27	-4	-25	3.07	3.10 (3)	2.90	3.15	13.2	12.1	12.3	111	9.0	2.10	5.49	68	34.48	Baa2 / BBB	PNW
PPL CORP	45.84	-6	28	2.22	2.18 (3)	2.35	2.40	19.5	19.1	21.0	345	17.5	1.22	2.66	56	13.30	Baa3 / BBB	PPL
PROG ENERGY	44.24	-2	-10	2.41	2.70 (3)	2.80	3.00	15.8	14.7	16.4	137	8.3	2.44	5.52	90	32.37	Baa2 / BBB	PGN
PS ENT GROUP	81.42	-10	23	3.71	4.15 (3)	5.10	5.85	16.0	13.9	19.6	305	16.2	2.34	2.87	56	26.71	Baa1 / BBB	PEG
PUGET ENERGY	23.41	-4	-8	1.44	1.49 (3)	1.60	1.70	14.6	13.8	15.7	128	8.3	1.00	4.27	67	18.29	Ba1 / BBB-	PSD
SCANA CORP	37.68	-2	-7	2.59	2.61 (6)	2.75	2.85	13.7	13.2	14.4	154	10.9	1.76	4.67	67	24.39	A3 / A-	SCG
SEMPRA ENERGY	53.10	-10	-5	4.08	4.02 (3)	3.95	4.15	13.4	12.8	13.2	185	15.3	1.24	2.34	31	28.67	Baa1 / BBB+	SRE
SOUTHERN CO	33.79	-1	-8	2.13	2.21 (3)	2.20	2.30	15.4	14.7	15.3	222	14.9	1.61	4.76	73	15.23	A2 / A	SO
TECO ENERGY	16.26	-5	-6	1.11	1.20 (3)	1.15	1.10	14.1	14.8	13.6	197	15.1	0.78	4.80	65	8.25	Ba2 / BB	TE
TXU	65.79	-3	21	5.55	5.55 (12)	5.30	5.25	12.4	12.5	11.9	n.m.	n.m.	1.73	2.63	31	4.66	Ba1 / BBB	TXU
WESTAR ENERGY	23.40	-7	-10	1.88	1.88 (12)	1.70	1.60	13.8	14.6	12.4	133	11.1	1.08	4.62	57	17.61	Ba1 / BB+	WR
WISC ENERGY	42.92	-5	-10	2.57	2.54 (3)	2.65	2.80	16.2	15.3	16.9	174	10.7	1.00	2.33	39	24.70	A3 / BBB+	WEC
XCEL ENERGY	20.31	-3	-12	1.36	1.33 (6)	1.40	1.50	14.5	13.5	15.3	142	9.6	0.92	4.53	69	14.28	Baa1 / BBB	XEL
38-Co. Avg.	**42.784**	**-7**	**-3**			**2.73**	**2.96**	**15.8**	**14.6**	**16.1**	**201**	**12.9**		**3.76**	**58**			

Table I (cont'd)

RRA ELECTRIC UTILITY MARKET DATA - Additional Companies

Company	Jul 27 2007 Price	Percent Change: Week	YTD	Earnings Per Share 2004	2005	2006	Curr.(Mo)		Curr. P/E	Market/ Book	ROE (Avg)	Dividend * Rate	Yield	Payout	Bk Val 12/06	Moody's/S&P Ratings	Tkr. Sym.
	$	%	%	$	$	$	$		X	%	%	$	%	%	$		
ALLETE	44.28	-11	-5	1.35	0.64	2.76	2.76	(12)	n.m.	202	n.m.	1.64	3.70	n.m.	21.90	Baa2 / BBB+	ALE
AVISTA	20.00	-6	-21	0.67	0.92	1.47	1.47	(12)	13.6	115	5.5	0.60	3.00	41	17.46	Ba1 / BB+	AVA
CH ENERGY GP	43.35	-9	-18	2.69	2.81	2.46	2.46	(12)	17.6	133	8.7	2.16	4.98	88	32.54	A2 / A	CHG
CLECO CORP	22.48	-8	-11	1.32	1.42	1.66	1.66	(12)	13.5	148	9.8	0.90	4.00	54	15.24	Baa3 / BBB	CNL
GREAT PLAINS	27.53	-3	-13	2.44	2.16	1.93	1.93	(12)	14.3	165	13.1	1.66	6.03	86	16.70	A3 / BBB	GXP
HAWAII ELEC	22.88	-2	-16	1.36	1.58	1.34	1.34	(12)	17.1	170	11.1	1.24	5.42	93	13.44	Baa2 / BBB	HE
IDACORP	30.49	-4	-21	1.90	1.50	2.04	2.04	(12)	14.9	119	6.0	1.20	3.94	59	25.65	Baa2 / BBB+	IDA
INTEGRYS	49.06	-5	-9	4.07	4.07	2.80	2.80	(12)	17.5	138	11.9	2.64	5.38	94	35.61	A1 / A	TEG
PNM RESOURCES	25.30	-6	-19	1.43	1.56	1.80	1.80	(12)	14.1	116	n.m.	0.92	3.64	n.m.	21.86	Baa2 / BBB	PNM
SIERRA PAC R	16.19	-9	-4	0.33	0.63	0.58	0.58	(12)	27.9	137	n.m.	0	0	0	11.86	B2 / B+	SRP
UNISOURCE	30.61	-5	-16	1.27	1.30	1.85	1.85	(12)	16.5	165	n.m.	0.90	2.94	n.m.	18.59	Ba3 / BB	UNS
UIL HOLDINGS	29.68	-6	-30	1.35	1.28	1.97	1.97	(12)	15.1	160	6.3	1.73	5.82	88	18.53	Baa3 / --	UIL
VECTREN	25.30	-7	-11	1.42	1.80	1.58	1.58	(12)	16.0	164	11.8	1.26	4.98	80	15.43	Baa1 / A-	VVC
52-Co. Avg.	**39.469**	**-5**	**-4**						**16.2**	**192**	**12.2**		**3.94**	**62**			

* 38 & 52-Co. averages exclude Yield and Payout of AYE and SRP.

TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
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SOLEIL

Power Insights

Equity Research
Initiation of Coverage

TECO Energy
TE, $16.87, Buy
TECO Growth Story Emerging; Initiating Coverage with Buy Rating

June 13, 2007

Maurice E. May
508-636-9934
maurymay@power-insights.com

Sales and Research
1-800-447-4318

Trading
1-800-569-2407
www.solcilgroup.com

Ticker	TE
Market Cap (M)	$3,536.0
Price	$16.87
52-Wk. Range	$19–$14
Rating	Buy
Price Target	$18.25
Shares Out (M)	209.6
Dividend	$0.78
Yield	4.6%
Trading Volume(M)	1.017
Market	NYSE

Sector Opinion:
The electric utility industry continues its fundamental improvement and expansion, largely by pursuing "back to basics" investment strategies in its core regulated businesses of distribution, transmission, and in some cases generation. We see this growth, which is largely recession-proof, leading to higher earnings and higher share prices. However, interest rates have a legacy impact on utility shares, and higher rates can dampen their trading. We saw rate spikes in the summer of '03, spring of '04, and spring '06 temporarily depress utility prices. This appears to have happened again, with the recent 70 bps rise in the yield of the 10-year Treasury to the 5.21% level pressuring the group. Over the longer term, however, utilities trade on P/E, and utilities with the strongest projected rate base growth and relatively modest valuations are most attractive to us. Accordingly, at this time we would focus purchases on **Integrys Energy** (TEG-$52.93-Buy), **PNM Resources** (PNM-$27.95-Buy), **Pepco Holdings** (POM-$27.70-Buy), and now **TECO Energy** (TE-$16.70-Buy).

Action

Buy. The cleanup at TECO Energy is nearing an end, and the company is emerging as an excellent rate base growth story. Although the biggest driver of that story—the $1.5 billion IGCC power plant—still faces 15-18 months of approval process, ***we believe odds favor its construction***. Thus we initiate coverage of TE with a Buy rating, based upon our $18.25/shr price target arrived at by capitalizing our 2010E of $1.41/shr at 15.0x and discounted back two years at 8%.

Fiscal Year Dec		Fiscal Year			Calendar Year			Curr. Qtr.	Next Qtr.	Yr. Ago Qtr.
	$	F06A	F07E	F08E	C06A	C07E	C08E	2Q07E	3Q07E	2Q06A
Revenue	Current	—	—	—	—	—	—	—	—	—
	Previous	—	—	—	—	—	—	—	—	—
EPS	Current	1.17	1.04	1.14	1.17	1.04	1.14	0.26	0.35	—
	Previous	—	—	—	—	—	—	—	—	—
Dividend	Current	—	—	—	—	—	—	—	—	—
P/E	Current	14.4	16.2	14.8	14.4	16.2	14.8	—	—	—

Revenues in millions, except when noted.

- **TECO Energy – initiating coverage.** We initiate coverage of TECO Energy, parent of core-utility Tampa Electric with both electric and gas (Peoples Gas) divisions. In addition, it owns TECO Coal, Guatemalan power assets, & TECO Transport, which is for sale.
- **TECO – turnaround continues.** TECO's 2000-04 efforts to expand merchant generation ended in disaster, like those of so many others. New management joined TECO in 2004 to re-focus on core Florida utilities, pay down debt, and restore company to financial health.
- **2007 – last of the cleanup/recovery years.** With cash on hand, TECO has retired $371 million of debt so far this year. In addition, cash from proposed Transport sale could support additional $500 million payoff later this year, which should allow parent debt to fall to $1.1 billion—still significant, but well below $2.4 billion peak.
- **2008 – growth story emerges.** Tampa's ongoing & environmental CAPEX is projected well ahead of depreciation, so rate base grows. In addition, proposed $1.5 billion IGCC plant could begin construction in late '08 with cash AFUDC, further growing rate base.
- **2009 – good year shaping up.** If IGCC project proceeds, as we see happening, earning growth should begin in earnest. Management sees project ***financed internally***, using $1 billion in tax credits, which could drive EPS growth for years. On a lesser item, the $(0.04)/shr Transport penalty goes away.
- **Dividend boost – 2.6%.** TECO's board boosted the annual dividend rate in early May from $0.76 per share to $0.78. The new rate provides an above-average 4.7% yield.
- **Valuation & recommendation – initiate coverage with Buy rating.** TECO Energy is emerging as an excellent rate base growth story. Although the biggest driver of that story—the $1.5 billion CCGT—still faces 15-18 months of approval process, ***we believe odds favor its construction***. Thus we initiate coverage of TE with a Buy rating, based upon our $18.25/shr price target arrived at by capitalizing our 2010E of $1.41/shr at 15.0x and discounted back two years at 8%.

Important disclosure information is contained on pages 19 - 24 of this report. The recipient of this report is directed to read these disclosures.

INVESTMENT THESIS

Following rapid expansion in the unregulated merchant power business in 2000-2004 that ended in severe financial pressure, new management arrived in 2004 to re-focus TECO Energy on its stable and growing Florida utilities, Tampa Electric and Peoples Gas, and to improve finances. Thus, TECO has exited the domestic merchant business and undertaken a debt reduction program that should reduce parent-level debt to a more manageable size.

As we see it, 2007 is shaping up as the last of TECO's cleanup/recovery years. Management is using available cash to reduce parent-level debt by $371 million in the year's first half, and has placed TECO Transport on the block (during peak performance, we might add) in hopes of raising additional cash to meet its 2010 goal of an additional $500 million debt reduction by 2008. We anticipate a successful sale of TECO Transport at around the $500 million level, enabling TECO to drop parent-level debt to $1.1 billion—still significant, but considerably below its relatively recent $2.4 billion peak.

In addition to advancing debt reduction, management is looking to dramatically expand Tampa Electric's rate base by pursuing the feasibility of constructing a new $1.5 billion power plant at its Polk site east of Tampa. The new Polk 6 would be sized at 630 MW, would employ integrated gas combined cycle (IGCC) technology, and use coal and petcoke as primary fuels. While capital costs would be high ($2,381/KW), it carries substantial environmental benefits: it would be benign from a multi-pollutant emissions standpoint, and plans are being formulated to deal with CO2 emissions. ***From a stock standpoint this is very important, because the $1.5 billion of rate base growth it represents can be financed internally using NOLs and AMT credits, plus other cash flow (including IGCC tax credits under the Energy Policy Act of 2005.)*** The new plant is subject to the five-step approval process outlined below, and while it is far from a "done deal," we think the arguments in its favor will prevail.

Next year—2008—looks like the one in which TECO builds a base from which to move forward. For 2008, we see parent level debt hitting a manageable level and the first few dollars invested in the IGCC. We also see the possibility of an electric rate case shoring up Tampa Electric's earnings, as well as the possibility of another small dividend boost.

2009/10 – earnings move ahead. If IGCC investment proceeds as expected, earning growth should begin in earnest. In addition, ongoing CAPEX at Tampa Electric should also contribute to rate base growth. One lesser item, the $(0.04)/shr Transport penalty, goes away in 2009. Our 2009 and 2010 EPS estimates are $1.29 and $1.41, respectively.

VALUATION & RECOMMENDATION

As of today, in 2Q 2007, we would normally value a stock on a 2008 estimate. Thus, our 2008E of $1.14 per share, when capitalized at our average valuation of 15.0x, would produce a price target of $17.10 per share. The 2% capital appreciation potential, coupled with a 4% yield, would produce total return potential of just 6%---well below our hurdle rate of 12% for a Buy recommendation.

However, we are well aware that the market is currently valuing utilities on discounted long-term earnings. Given TECO's growth prospects if the IGCC plant goes ahead as planned—and we assume odds favor that—we value TECO at 15.0x our 2010E of $1.41 per

share, or $21.25 per share, which when discounted back two years at 8%, produces a price target of $18.25 per share. The resulting 8% capital gain potential, coupled with the 4.6% current yield, produces 12% total return potential over the next 12 months—meeting our 12% hurdle rate. Thus, we initiate coverage of TECO with a Buy rating.

COMPANY PROFILE

Overview – how it got to where it is today. TECO Energy is a holding company formed in the early 1980's to own the stock of Tampa Electric and two unregulated but related subsidiaries, TECO Coal and TECO Transport. The latter two operations were founded by Tampa in the 1950's and 1970's, respectively, to vertically integrate its Tampa bayside coal-fired plants backward, across the Gulf of Mexico, up the Mississippi River and its tributaries, to company-owned coal mines in Kentucky. In the 1990's the Guatemalan assets were purchase as part of its IPP diversification, and in June 1997 the Peoples Gas division was formed in two pooling transactions, the larger one involving Tampa-based Lykes Energy. That, plus the construction of the Hardee plant under a Tampa Electric PPA, was pretty much where the company stood on the eve of its merchant power announcements beginning in 2000. And there, minus Hardee, is pretty much where the company stands today, with substantial merchant power assets—with names like Frontera, Hamakua, Chesapeake, Gila River, Union, Dell and McAdams—having come and gone in full circle.

Tampa Electric – core utility. Tampa Electric is a century-old electric utility that serves a relatively compact area of the City of Tampa, Florida, and environs, including Hillsborough County and parts of Pasco, Pinellas and Polk counties.

- **Customer growth – 2.5%.** Tampa Electric currently has about 660,000 customers. Traditionally, the annual rate of customer growth has been about 2.5%, indicating 16,000-17,000 new meters per year. Management projects volume sales at 2.8% going forward, slightly higher than customer growth.
- **Customer rates – somewhat in line.** In 2005, Tampa Electric's residential retail rate was 10.96¢/kwh, similar to Florida's two largest IOU's (FP&L & Florida Progress) but somewhat above the smallest (Gulf Power) at 9.23¢, according to a Florida PSC staff report. Tampa Electric was also modestly above the 9.64¢ national average residential rate, as reported by Edison Electric Institute. In 2006, the Tampa residential rate held virtually steady at 10.97¢/kwh, while the EEI residential rate soared to 10.49¢, placing the national average much closer to it.
- **Rate cases – none pending.** Tampa Electric has been able to earn within its authorized ROE for over a decade, for a couple of reasons. First, much growth is economic growth, with developers paying for under-grounding wires. Second, certain costs, such as environmental expenditures (including the Gannon/Bayside re-powering) are being recovered through the fuel clause. Nevertheless, management says it is watching electric returns closely these days, and if they dip below authorized levels the company may have to file a general rate case.
- **Florida – unrestructured.** All Florida electric utilities remain vertically integrated and unrestructured, as generation remains regulated and in the rate base. Florida had barely begun the restructuring debate in 2000 when the California power crisis erupted and Florida politicians quickly pulled back on the process. .
- **Rate base – about $3.0 billion and growing.** Tampa Electric's rate base is currently about $3.0 billion. Ongoing CAPEX projections of about $300 million, versus annual depreciation of about $180 million currently, indicates rate base growth at 4% per year ***before*** potential growth benefits of the IGCC investment (see below).

- **Power generation – largely internal.** In 2006, Tampa Electric generated about 86.7% of its 21.0 million MWH annual requirement itself. Of its 2.7 million MWHs of purchased power, the largest suppliers were Florida Progress and Florida P&L, at 0.5 and 0.4 million MWHs, respectively. Other suppliers included high-cost Hardee Power Partners, which supplied 389,597 MWhs at 13.0¢/kwh. (The Hardee contract expires in 2012).
- **Tampa fleet – coal and gas fired.** The company's two base load work horses are coal-fired Big Bend (9.4 million MWHs in 2006) and gas-fired Bayside (7.0 million MWHs). Polk 1, the existing IGCC plant, produced 1.6 million MWhs, while a variety of peaking units produced the balance.
- **Tampa metro area – economic base growing.** Tampa is a regional banking and financial services center that is also home to the University of South Florida (40,000 students) and McGill AFB. As with most Florida cities, Tampa also gets its share of retiree in-migration. Though single-family housing is slowing, condo construction is picking up the slack. As a result, management projects 2.5% customer growth going forward, and so far 2007 is unfolding as forecast.
- **Environmental issues – pro-active company.** Rather than fight the EPA on New Source Review, in 1999 Tampa Electric agreed to re-power its older Gannon coal-fired plant into the modern Bayside CCGT. Thus were emissions of both multi-pollutants and greenhouse gasses reduced substantially (the latter below 1990 levels, making it a "Kyoto-compliant" company). Its remaining coal-fired plant, the 1980's vintage Big Ben, is fully scrubbed for SOx, and Tampa is adding one SCR per year for four years to reduce NOx in a $330 million program.
- **New capacity – both base load & peakers needed.** Customer growth drives load growth in Tampa's service territory. Management's hopes to self-build the company's next base load plant, the IGCC described below, but contract out for peaking capacity, of which it needs about 150 MW per year.

IGCC – the plans. Management has a major new power plant on the drawing boards. It is a 630 MW facility that employs integrated gas, combined cycle (IGCC) technology, which is one of the major "clean coal" technologies supported by the Energy Policy Act of 2005. The IGCC process gasifies coal, taking out SOx, NOx, mercury, and particulates; also, a solvent can be injected into the gas that removes CO2, which can be sequestered. The resulting gas is then injected into a normal CCGT plant, with CO2 emissions roughly half that of a traditional coal-fired plant. The plan envisions two gasifiers, two combustion turbines, two heat recovery steam generators, and one steam generator. The cost is estimated at $1.5 billion ($2,381/KW), which does not include either AFUDC or tax benefits (see below).

IGCC – reasons to build it.

- **Need for baseload.** First, Tampa projects 2.8% load growth annually for the next five years. Second, high-priced supply contract with formerly owned, 370-MW Hardee Power Station rolls off in 2012. Together these produce the need for new capacity. We estimate all-in cost of Polk 6 power at 11.5¢/KWH (at 50% capacity utilization).
- **Tax incentives.** IGCC plants employ a clean-coal technology that is eligible for $133 million in tax benefits under the Clean Coal section of the Energy Policy Act of 2005.
- **Existing site.** The plant would be built on the existing Polk County site, which is already home to the company's Polk 1 IGCC, as well as four combustion turbines (CT's). Polk is a 4,000 acre parcel 40 miles east of Tampa that was formerly strip-mined for phosphate. Transmission connections are good.
- **Technological expertise.** Tampa Electric has been operating Polk 1 with IGCC technology for more than 10 years. The company built it jointly with the federal EPA, is a pioneer in the

technology, and claims more experience with it than any other domestic utility.

- **Political support.** The State of Florida declared in 2006 that it wanted to diversify future electric fuel mix away from natural gas due to price volatility.

IGCC – five steps to begin construction. While we believe odds favor its construction, Tampa's plan to build its second Polk IGCC is not a foregone conclusion. We see five steps in the permitting process that need to be taken before the company can proceed with the plant.

- 1. **Law permitting cash AFUDC – May 2007.** Last year, the Florida legislature authorized cash AFUDC for nuclear construction work as investment goes in, subject to annual prudency. This year in early May, legislators passed the same authorization for IGCC plants, such as Polk 6. The legislation was signed into law by Florida Gov. Charlie Crist (R) on June 12, 2007.
- 2. **RFP for baseload – becoming irrelevant.** Tampa currently has an RFP outstanding for baseload capacity. While management believes its self-build IGCC proposal is the best, it must be demonstrated in a RFP process. However, the pending IGCC law referred to above permits utilities to bypass the RFP process. Once this legislation becomes law, the RFP process ends.
- 3. **Florida PSC approval – 3Q/4Q 2007.** Once the IGCC legislation becomes law, Tampa will file for a Certificate of Need with the Florida PSC. The process can take no longer than 135 days.
- 4. **Florida DEP approval – 3Q/4Q 2008.** Management also plans a filing about mid-year with the Florida Department of Environmental Protection (DEP) for air, water, and land permits. This process is likely to take 12-14 month. Final permits will be issued ***after*** the approval of the Siting Council (below).
- 5. **Florida Siting Council approval – 3Q/4Q 2008.** Once the DEP is on the verge of issuing its three permits, siting approval must be received from Gov. Crist and his cabinet sitting as the Siting Council. Once given, the DEP issues the final air, water, and land permits. We note that Tampa management does not intend to invest much in the IGCC until receiving this final approval.

IGCC financing – no new equity. One of the most attractive aspects of this project, and somewhat unique to TECO, is that the company can finance this project with internal cash flow. Most visibly, TECO has $763 million of NOLs, plus $197 million of AMT carry forward – a total of $962 million available, representing nearly two-thirds of the entire $1.5 billion cost of the plant. An additional $133 million of tax credits is available for IGCC plants as part of the federal government's Clean Coal Initiative under the Energy Policy Act of 2005.

Greenhouse gas legislation & environmental opposition – problems? While an IGCC plant is environmentally benign from a multi-pollutant (SOx, NOx, Hg, and particulate) standpoint, it is still a coal-fired plant that emits substantial CO2. However, much of the CO2 can be relatively easily removed in the gasification process. In the event of a federal or state mandate to restrict greenhouse gas emissions, or environmental compliance necessary to obtain PSC and DEP approval, Tampa management believes CO2 produced during gasification can be sequestered right at the Polk site. More specifically, 700' underground is a layer of rock, below which is a saline aquifer. Management believes CO2 can be injected into this aquifer for up to 100 years, though no cost estimates have been provided.

As we understand it, with IGCC technology, once the coal is gasified, the resulting fossil fuel is largely methane (H4C), which is mostly clean-burning hydrogen. Thus, an IGCC plant is a

coal-fired plant with the CO2 emissions of a gas-fired plant, assuming the CO2 produced in the gasification process is sequestered.

In early June, the Florida PSC rejected plans by Florida P&L to build the 1,960 MW Glades Power Park as an ultra-supercritical, coal-fired plant. Is there a negative implication for Tampa Electric IGCC here? We think not. First, an IGCC plant is essentially a gas plant once CO2 produced in the gasification process is sequestered. Second, the State of Florida is on record as supporting fuel diversification away from gas, and the recent legislative support for IGCC technology is an indication of this. Third, Glades Power Park was to be located near the Everglades National Park, while the Polk site in Central Florida is a former phosphate mine that looks much like a barren wasteland.

Bottom line on Tampa Electric – excellent utility. We view Tampa Electric as one of the best growth utilities in the country, given its long-term customer growth and generally balanced regulatory climate (see below). Now, with its IGCC plans, we see relatively buoyant ongoing rate base growth having the opportunity to accelerate significantly.

Florida regulation – traditionally above average. About 95% of Tampa Electric's revenues are regulated by the Florida Public Service Commission (FPSC), a five-member body appointed by the state governor.

There has been considerable turnover in the commission in recent years. As a result, the FPSC is currently comprised of relatively new commissioners:

- **Chairman Lisa Polak Edgar.** Appointed in November 2005 by former Gov. Jeb Bush (R) to a three-year term. Chairman Edgar is a lawyer by training who worked in Florida state government, including more than five years in the Florida Department of Environmental Protection.
- **Commissioner Katrina J. McMurrian.** Appointed in January 2006 by former Gov. Bush to a four-year term. Commissioner McMurrian was a member of the FPSC Staff for 11 years, serving in several capacities. She has a Bachelor's degree in finance and a Masters in Business Administration.
- **Commissioner Matthew M. Carter II.** Appointed in January 2006 by former Gov. Bush to a four-year term. Commissioner Carter has a law degree, worked as a financial consultant, and is pastor of a Baptist church.
- **Commissioner Nathan A. Skop.** Appointed on May 2, 2007 by Gov. Crist to a four-year term. Commissioner Skop has degrees in engineering, finance, and law. He has worked for Boeing Company and General Dynamics, and managed wind power projects at Altamont Pass, California.
- **Commissioner Nancy Argenziano.** Appointed on May 2, 2007 by Gov. Crist to a four-year term. Commissioner Argenziano has a background in real estate, and served in both the Florida House and Senate from 1996 to 2007, where she focused on the protection of vulnerable citizens, resource protection, and the participation of citizens in government.

Florida regulation – balanced. Although the current commission is relatively inexperienced, the Florida regulatory climate has traditionally been one of the more balanced in the nation, and we see no reason why the new commission should not continue along the tradition. Thus, we rate the Florida PSC as above-average on a national level. The main reasons are: (1) the above-average authorized ROE's of 11.75% versus the national average of 10.25%-10.5%, and the use of forecast test years that enable Florida utilities to earn their allowed ROE's.

- **ROE – historical trends.** For electric utilities, the last fully litigated ROE determination in Florida was in 2002 for Gulf Power, which received 11.75% (+25 bps reward) as midpoint in 200 bps range. Rate cases in both 2002 and 2005 for Florida P&L and Florida Progress, respectively, were settled by "stipulation" without articulated ROE. Tampa Electric continues to be authorized 11.75% as the midpoint in 200 bps range. In 2002 Peoples Gas was awarded 11.25%, also as the midpoint in a 200 bps range.
- **Test years – forecast.** Tampa Electric last rate case in 1992 used a two-year forecast test year. All utilities now use projected data.
- **Cash AFUDC.** This has not been traditionally authorized in Florida, but the new movement toward legislating its use for nuclear and IGCC plants is very positive.
- **Decoupling – no Florida debate yet.** As we understand it, Florida Progress proposed decoupling in the early 1990's, but it was not adopted. Since Florida did not restructure its electric industry, retail electric rates have not soared like the standard offer rates in restructured states. Thus, there has not been the high price-induced conservation, and the decoupling/conservation debate has not begun here in earnest as in other states. Ditto for any "smart grid" discussion.

Bottom line on Florida regulation – constructive. We see the Florida regulatory climate remaining constructive for the utilities operating in the state, and rate it above-average on a national basis.

Peoples Gas – high customer growth. As noted, TECO entered the gas utility business in 1997 with the purchase of two gas distribution companies that formed Peoples Gas, which is a division of Tampa Electric. The operation serves over 330,000 customers, and customer growth has averaged about 4.0% over the past five years. Looking ahead, management estimates 3.0% customer growth over the next five years, though 2007 is projected at 2.5%, reflecting a slowdown in new home construction.

Peoples Gas is the largest gas distributor in Florida, with over 100 municipal franchises, including the cities of Miami, Orlando, Jacksonville, Ft. Myers, Naples, St. Petersburg, and Tampa. Historically, customer penetration has been an extremely low 9%. Volume throughput in 2006 was about 130 bcf, with 65% of that going to industrial and power generation customers and 29% to commercial customers. Though residences took just 6% of volumes, they contributed 29% to total revenues. Gas supply is adequate, as three interstate pipelines, including Florida Gas Transmission and Gulfstream Natural Gas, carry gas to Peoples.

The Peoples rate base is about $500 million, with CAPEX about $50 million per year. In 2003, regulators authorized an 11.25% ROE as the midpoint in a 200 bps earnings band, based upon equity of 57.43%.

TECO Coal – about 10 million tons/yr. TECO Coal has proved and probable reserves of 273.9 million tons as of December 31, 2006. They are classified as bituminous; are all located in Southeast Kentucky and Northwestern Virginia, and have high energy (25.8 mmBtus/ton) and low sulfur (1.2lb/mmBtus) contents. Recent annual production has been in the 9-10 million-ton range, though management hopes to grow that beyond 10 million in future years. About 40% of production is classified as metallurgical coal, which attracts a premium price, with the balance being steam coal. Between 5-6 million tons have been processed each year as synthetic coal ("synfuel") for Section 29 tax purposes, but that program terminates at year-end 2007.

This year, though, TECO Coal makes money in two ways for the last time, through both Section 29 synfuel tax credits and conventional coal sales. In 2006, the latter earned $46.7 million, plus $32.1 million for the former, for a total of $78.8 million. Management expects the combined operation to contribute $70 million to income and $100 million in cash in 2007. These numbers are hedged 100%, and are net the $37 million cost of hedging. We eliminate synfuel earnings from our 2007 estimate to focus on continuing results from conventional production, which we estimate at a somewhat depressed level of $33 million, due to softer spot market prices. The holding company assumes a 50/50 capital structure at TECO Coal, and pushes down about $10-11 million per year of interest expense.

TECO Transport – on the block. This business consists of three parts: river barging, transloading, and ocean shipping. Barging consists of 627 barges, 14 line vessels and six harbor vessels that operate on the Mississippi, Ohio and Illinois rivers and tributaries. Transloading takes place at a 1,070-acre bulk terminal site on the Mississippi River about 40 miles south of New Orleans. Ocean shipping consists of three ocean-going vessels as well as tug boats.

Transport is part of Tampa Electric's earlier efforts to reduce reliance on oil generation by vertically integrating its coal-fired generation backward into Kentucky for sources of coal. For decades the arrangement worked well. However, the Gannon/Bayside, coal-to-gas re-powering in 2000-01, coupled with adverse regulatory action, have reduced the strategic value of the asset to TECO. To be more specific on the latter, the Florida PSC found Tampa Electric's coal transportation contract with TECO Transport imprudent. As a result, it penalized the utility $75 million, which is being assessed over five years (2004-2008) at $15 million per year pre-tax. As a result, management sees Transport as a unit that has served its purpose within the TECO group of companies, and in February 2007 announced its intention to sell it.

Management considered selling Transport several years back, but its profitability was depressed at the time, and we assume it did not look like it would attract a fair price. Presently, however, profitability has rebounded (it earned $25.8 million last year before $(3) million of hurricane impact), the M&A market is strong, and management has put it back on the block.

TECO Transport – valuation. We believe the unit would sell at 7-9x EBITDA, which we estimate at about $64 million per year (comprising $26 million in earnings power, $22 million of depreciation, $11 million in taxes, and $5 million in interest). Thus, the mid-point of 8x in the 7-9x valuation range produces a potential sale price of $512 million. Net cash, however, would be reduced by $110.6 million in tax-free, dock and wharf bonds, due 2007, bringing proceeds to around the $400 million level. Transport is carried on the 1Q 2007 balance sheet as "assets held for sale": $153.3 million long term and $45.4 million current. Cash capital gains taxes need not be paid despite the low cost basis because TECO can apply NOLs against them.

Guatemalan operations – successful diversification. As we see it, TECO underwent two phases of non-traditional power plant expansion in the 1993-2003 period. The second phase began in 2000, sought scale fast, and nearly bankrupted the whole company. But an earlier phase—the first phase—was pursued cautiously and was largely successful. We trace TECO's Guatemalan investments to this first phase.

TECO Guatemala has three assets:

- **EEGSA gas distributor.** EEGSA is an electric generator and distributor serving more than 800,000 customers in metropolitan Guatemala City, and is the largest private electric utility in Central America. TECO is part of a consortium including Iberdrola (the operator) and

Electricidade de Portugal that owns 80.9% of EEGSA. TECO's net ownership is 24%, the benefits of which are included in equity income. A major rate case is coming in 2008.

- **San Jose power plant.** TECO owns 100% of San Jose, a 120 MW coal-fired power plant with a long-term PPA with EEGSA.
- **Alborado power plant.** TECO owns 96% of Alborado, a 78 MW oil-fired power plant with a long-term PPA with EEGSA.

Guatemalan profitability – stable. Over the years, TECO's Guatemalan assets have assembled a track record of profitability. For example, during 2004-2006 TECO Guatemala earned $42.6 million (before one-timers), $40.4 million, and $37.6 million, respectively. Management has stated it expects 2007 results to be stable with last year.

MANAGEMENT

The top management team of TECO Energy has been in place since 2004, when former CEO Robert Fegan retired, and consists of the following:

- **Sherrill W. Hudson (64) – Chairman & CEO.** Mr. Hudson has been Chairman and CEO of both TECO Energy and Tampa Electric since July 2004. Mr. Hudson spent a career in utility accounting, and was managing partner of the South Florida office of accounting firm Deloitte & Touche before joining the TECO board in 2003. TECO has retirement policies of age 72 for board members and none for CEOs.
- **John B. Ramil (51) – President & COO.** Mr. Ramil has been President and Chief Operating Officer of TECO Energy since July 2004. Before assuming parent-level duties in 2003, he was President of Tampa Electric (1998-2003).
- **Charles R. "Chuck" Black (55) – President, Tampa Electric.** Mr. Black has been President of Tampa Electric Company since October 2004. Prior to that he was SVP-Generation at both TECO Energy and Tampa Electric. Mr. Black is the project manager for the planned Polk 6 IGCC project.
- **Gordon L. Gillette (47) – EVP & CFO.** Mr. Gillette has been Executive Vice President and Chief Financial Officer of TECO Energy since July 2004. Prior to that he was SVP and CFO at TECO.

FINANCES

- **Profitability – mixed.** TECO Energy earned 14.8% on average equity last year, while Tampa Electric earned just 9.8%. The return for the consolidated entity was driven by successfully leveraging the utility equity, while the utility return was reduced about 53 bps by the TECO Transport penalty, which goes away after 2008. Management is watching Tampa Electric returns with an eye toward filing a rate case.
- **Prospective cash flow – huge.** TECO ended 2006 with $763 million in NOL tax benefits; as a result, it expects to pay minimal (about $10 million per year) cash taxes through 2011. TECO will also have $197 million of AMT carry forward available at year-end 2007 that can be used after NOLs are exhausted. TECO Coal will throw off $100 million in cash in 2007.
- **Balance sheet – improving.** The huge cash flow, coupled with recent profitability, is permitting massive debt retirement. As a result, the over-leveraged balance sheet is improving. From year-end 2004 to March 31, 2007, common equity has grown from 24.3%

of all-in capital to 32.2%, while debt declined from 75.7% to 67.8%. The improvement is continuing: management paid off an additional $300 million on May 1, 2007 with available cash, and plans an additional $500 million paydown largely with TECO Transport proceeds.

- **Equity – per share.** As of December 31, 2006, TECO Energy had a book value of $8.44 per share. Core utility Tampa Electric held $8.16 per share—virtually all of the consolidated company's equity. Sadly, the parent-level equity raised from the sale of roughly 85 million shares to finance merchant power expansion was lost. On a happier note, a successful sale of TECO Transport could boost non-utility equity by $1.50 per share, or more.
- **Tax credits – huge.** For use in 2007 and beyond, TECO has NOL's of $763 million and AMT carryforwards of $197 million. In addition, the DOE has authorized $133 million in tax credits under the Energy Policy Act of 2005 if Tampa were to proceed with its IGCC project.
- **Bond ratings – Moody's upgrade.** On April 19th, Moody's raised the senior unsecured debt rating for TECO Energy from Ba2 to Ba1, citing plans to accelerate debt reduction with TECO Transport sale. Though the new rating is still non-investment grade, TECO remains on review for a further upgrade, which the sale results from Transport could prompt. Core utility Tampa Electric remains investment grade at Baa2.

CAPEX

Rate base growth – internally financed. The major driver of a good rate base growth story is, of course, capital expenditures well above depreciation. We estimate that TECO Energy will spend $3.7 billion on capital expenditures over the five-year period 2007-2011, versus about $1.3 billion in depreciation and amortization. This CAPEX number is mostly for Tampa Electric (including Peoples Gas), but includes $183 million for TECO Coal. Notably, it includes about $1.4 billion of the $1.5 billion estimated total costs for the proposed IGCC baseload plant, but nothing for peakers, as management hopes to buy that capacity from generators.

From the standpoint of equity investors, it is important for rate base growth to translate into EPS growth. That should happen with TECO, because one very important aspect of the company's plan is to internally finance CAPEX, without the need to resort to the equity markets. We base this on management comment that it is "the current thought." Moreover, management presentations and our own analysis indicate that is very doable, largely with the help of $763 million in NOLs and $197 million of AMT carryforwards.

In sum, for the five-year period encompassing 2007-2011, we believe internal cash flow will be about $4.5 billion, which is enough to finance CAPEX at $3.4 billion and dividends of $900 million with a little room to spare. Management sees only one "pinch" year—2010—when cash flow is negative, but it believes it can finesse that with ST debt, because the years afterward show positive cash flow.

EARNINGS ESTIMATES

We provide earnings estimates for the next five years, 2007 to 2011. These estimates, along with our valuations, are modeled in Appendix I at the end of this report.

2007E - $1.04/shr. Our 2007 estimate of $1.04 per share reflects a down year, as we eliminate TECO Coal's anticipated $70 million ($0.33 per share) contribution from the Section 29 tax credit program that ended at the end of the year, and which the market is not capitalizing. Our

2007E also reflects the use of available cash to retire $377 million in debt during the first half.

2008E - $1.14/shr. Our 2008 estimate indicates a rebound to $1.14 per share, which reflect a combination of rate base growth at Tampa Electric, a rebound at TECO Coal, the first IGCC investment that assumes CWIP in rate base, and the dilutive TECO Transport sale and simultaneous $500 million debt down.

2009E – 2011E – rising nicely. The real rate base growth story at TECO Energy emerges in the 2009-2011 period, assuming the IGCC goes ahead as planned. We project 2009 EPS at $1.29, a 13% year over year increase. Our estimates for 2010 and 2011 show EPS continuing to move ahead nicely, to $1.41 and $1.59, respectively. These numbers largely reflect rate base growth at Tampa Electric, including IGCC investment. We assume no further debt paydown beyond the $500 million supported by the anticipated Transport sale, and only modest growth at TECO Coal.

DIVIDEND HISTORY

Dividend – just boosted to $0.78/shr. Current management is well aware of TECO/Tampa's former excellent dividend growth record. Indeed, by our records the company boosted the dividend in 34 consecutive years before the painful cut of 2Q 2004, when the annual rate fell from $1.42 per share to $0.76.

At TECO's recent NYC presentation on March 28th, Chairman Sherrill Hudson acknowledged all of the above and indicated the company's desire to return to a growing dividend. It happened quickly. On May 2nd, TECO's board boosted the annual dividend rate 2.6% from $0.76 per share to $0.78. This represents the first positive move in the dividend since 2003, and in our opinion puts the company back on track for annual boosts. TECO's common dividends are payable on the 28th day of February, May, August, and November (this is a change from the 2006 and earlier schedule).

RECENT DEVELOPMENTS

- **SCR project – phase one completed.** On June 5th, Tampa Electric announced that the installation of Selective Catalytic Reduction equipment had been completed on Unit 4 of its Big Ben coal-fired power station. As part of the 2000 agreement with the EPA and Florida DEP, Tampa is undertaking a $330 million project install SCRs on all four Big Ben units, with one unit per year completed in 2007-2010.
- **Dividend – boosted.** On May 2nd, TECO's board boosted the annual dividend rate 2.6% from $0.76 per share to $0.78. This represents the first positive move in the dividend since 2003, and in our opinion puts the company on track for modest annual boosts.
- **1Q results – soft.** On May 1st, TECO Energy reported 1Q results from continuing operations of $0.35 per share vs. $0.27; these numbers include positive results of synfuel operations of $0.15 per share vs. $0.05 last year. Non-GAAP results excluding synfuel and other items were $0.21 per share vs. $0.23. Mild Florida weather and weaker coal sales held earnings down.
- **Bond ratings – TECO closer to investment grade.** On April 19th, Moody's raised TECO's unsecured debt rating from Ba2 to Ba1, citing plans for accelerated debt reduction from the

Transport sale. Though the new rating is still non-investment grade, TECO remains on review for possible upgrade, which actual sale results may prompt. Fitch maintains a BB+ rating, but raised its outlook rating from stable to positive in April.

- **New peakers – 320 MW in service.** On April 9th, Tampa Electric announced new peaking capacity. Specifically, two 160 MW gas-fired peakers came on line, designated as Polk 5 and Polk 6 at the company's Polk station east of Tampa. Management says it needs about 150 MW of peaking capacity each year to meet load requirements. Tampa Electric has actually become a winter-peaking utility.
- **Annual presentation – to Wall Street.** On March 28th, management made its annual New York City presentation to about 40 analysts and investors. Among salient issues discussed were its intention to sell TECO Transport, plans for building the new IGCC plant with internal cash, and advanced debt reduction forecasts.

SUMMARY & RECOMMENDATION

Recommendation – Buy. TECO Energy's core utility Tampa Electric benefits from good "Sunbelt" customer growth, traditionally balanced Florida regulation, and now an excellent rate base growth story. Given TECO's growth prospects assuming the IGCC plant goes ahead as planned, we see the company earning $1.41 per share in 2010, which when capitalized at the current industry multiple of 15.0x and discounted back two years at 8%, produces a price target of $18.25 per share. The resulting 8% capital gain potential, coupled with the 4.6% current yield, produces 12.6% total return potential over the next 12 months, meeting our 12% hurdle rate. Thus, we initiate coverage of TECO with a **Buy** rating.

RISKS

- **Valuation risk.** Price targets are based upon earnings projections and the capitalization of those projections by the stock market. If we are wrong on either our estimates or valuation there may be price risk in the stock.
- **Interest rate risk.** Utility stocks are often viewed as yield vehicles. As such, they are susceptible to changes in interest rates, and a rising interest rate environment will put downward pressure on utility shares, including TECO Energy.
- **Regulatory risk.** Regulators at the Florida PSC have traditionally been fair with utilities operating in the state, including core-utility Tampa Electric. However, there are aberrations, such as the TECO Transport penalty; moreover, the current commission is inexperienced and understaffed by two members. With virtually all of TECO's utility revenues regulated by the FPSC, any changes from the historic regulatory climate in the state would be a major negative for the stock.
- **CAPEX risk.** A large part of the capital expenditures driving forecasted earnings growth is for an IGCC power plant. While such a plant is relatively environmentally benign from a multi-pollutant standpoint, it is nevertheless a fossil-fuel plant that produces CO2. Tampa Electric faces possible federal CO2 restrictions, carbon sequestration expenses, and political opposition with this plant.
- **Restructuring risk.** TECO Energy continues to undergo restructuring to reduce the financial stress that followed in the wake of its largely botched venture into unregulated independent power production. Still to go are sale of TECO Transport and further debt reduction. If these measures fail to go as planned, future EPS growth may not materialize as projected.

- **Unregulated risk.** TECO Energy has a material unregulated coal mining business with a higher risk profile that its utility operations. Thus, this business can experience greater earnings volatility and potential damage the price of the stock.

Appendix I
TECO Energy - Earnings Estimates and Valuations
(in $ millions, except per share figures and percentages)

2006A

Utility businesses	Rate Base	% Equity	$ Equity	ROE	Income
Tampa Electric	$ 3,000	48.7%	$ 1,461	10.75%	$ 157.1
- Transport disallowance (tax)	$ -		$ (15.0)	40.0%	$ (9.0)
Peoples Gas	$ 515	48.7%	$ 251	10.75%	$ 27.0
Total Utility Income	$ 3,515		$ 1,712		$ 175.0
+ TECO Transport					$ 22.8
+ TECO Coal - synfuel					$ 32.1
+ TECO Coal - conventional					$ 46.7
+ Guatemala operations					$ 37.6
Total Unregulated Income					$ 139.2
Total Operating Cos					$ 314.2
- Holdco - interest expense	$ 1,971	7.13%	$ (140.5)	40.0%	$ (84.3)
- Holdco - internally allocated interest			$ 10.0	40.0%	$ 6.0
- Holdco - other parent expenses			$ (5.0)	40.0%	$ (3.0)
- Holdco - cash	$ 400	5.00%	$ 20.0	40.0%	$ 12.0
Holding company impact					$ (69.3)
Net income					$ 244.9
Earnings per Share					$ 1.17
Avg. Diluted Shares Outstanding					*208.7*

Valuation	
Utility earnings ($ mils)	$ 175.0
less share of holdco interest	$ -
Net utility earnings	$ 175.0
Utility EPS	$ 0.84
Assigned multiple	15.0x
Utility value per share	**$ 12.58**
Unregulated earnings ($ mils)	$ 139.2
less share of holdco interest	$ (69.3)
Net unregulated earnings ($ mils)	$ 69.9
Unregulated EPS	$ 0.33
Assigned multiple	15.0x
Unregulated value per share	**$ 5.02**
Sum-of-the-Parts Valuation	**$ 17.60**

2007E

Utility businesses	Rate Base	% Equity	$ Equity	ROE	Income
Tampa Electric	$ 3,100	50%	$ 1,550	10.75%	$ 166.6
- Transport disallowance (tax)	$ -		$ (15.0)	40.0%	$ (9.0)
Peoples Gas	$ 535	50%	$ 268	10.75%	$ 28.8
Total Utility Income	$ 3,635		$ 1,818		$ 186.4
+ TECO Transport					$ 26.0
+ TECO Coal - synfuel *					$ -
+ TECO Coal - conventional					$ 33.3
+ Guatemala operations					$ 38.5
Total Unregulated Income					$ 97.8
Total Operating Cos					$ 284.2
- Holdco - interest expense	$ 1,750	7.26%	$ (127.1)	40.0%	$ (76.2)
- Holdco - internally allocated interest			$ 10.0	40.0%	$ 6.0
- Holdco - other parent expenses			$ (5.0)	40.0%	$ (3.0)
- Holdco - cash	$ 300	5.00%	$ 15.0	40.0%	$ 9.0
Holding company impact					$ (64.2)
Net income					$ 220.0
Earnings per Share					$ 1.04
Avg. Diluted Shares Outstanding					*210.5*

** TECO Coal synfuel - estimated $70 million of earnings excluded from model and valuation.*

Valuation	
Utility earnings ($ mils)	$ 186.4
less share of holdco interest	$ -
Net utility earnings	$ 186.4
Utility EPS	$ 0.89
Assigned multiple	15.5x
Utility value per share	**$ 13.72**
Unregulated earnings ($ mils)	$ 97.8
less share of holdco interest	$ (64.2)
Net unregulated earnings ($ mils)	$ 33.6
Unregulated EPS	$ 0.16
Assigned multiple	15.0x
Unregulated value per share	**$ 2.39**
Sum-of-the-Parts Valuation	**$ 16.12**

2008E

Utility businesses	Rate Base	% Equity	$ Equity	ROE	Income
Tampa Electric - ongoing	$ 3,200	50%	$ 1,600	11.0%	$ 176.0
Tampa Electric - Polk 6	$ 50	50%	$ 25	11.0%	$ 2.8
- Transport disallowance (tax)	$ -		$ (15.0)	40.0%	$ (9.0)
Peoples Gas	$ 555	50%	$ 278	11.0%	$ 30.5
Total Utility Income	$ 3,755		$ 1,878		$ 200.3
+ TECO Transport - sold					$ -
+ TECO Coal - synfuel - ended					$ -
+ TECO Coal - conventional					$ 44.4
+ Guatemala operations					$ 39.0
Total Unregulated Income					$ 83.4
Total Operating Cos					$ 283.7
- Holdco - interest expense	$ 1,100	7.28%	$ (80.1)	40.0%	$ (48.0)
- Holdco - internally allocated interest			$ 10.0	40.0%	$ 6.0
- Holdco - other parent expenses			$ (5.0)	40.0%	$ (3.0)
- Holdco - cash	$ 100	5.00%	$ 5.0	40.0%	$ 3.0
Holding company impact					$ (42.0)
Net income					$ 241.6
Earnings per Share					$ 1.14
Avg. Diluted Shares Outstanding					*212.0*

Valuation	
Utility earnings ($ mils)	$ 200.3
less share of holdco interest	$ -
Net utility earnings	$ 200.3
Utility EPS	$ 0.94
Assigned multiple	15.0x
Utility value per share	**$ 14.17**
Unregulated earnings ($ mils)	$ 83.4
less share of holdco interest	$ (42.0)
Net unregulated earnings ($ mils)	$ 41.4
Unregulated EPS	$ 0.20
Assigned multiple	15.0x
Unregulated value per share	**$ 2.93**
Sum-of-the-Parts Valuation	**$ 17.10**

Sources: company documents, management comments, and analyst calculations.
Maurice E. May - Power Insights/Soleil - 508-636-9934
June 12, 2007.

Appendix I (continued)
TECO Energy - Earnings Estimates and Valuations
(In $ millions, except per share figures and percentages)

2009E - Preliminary

Utility businesses	Rate Base	% Equity	$ Equity	ROE	Inc
Tampa Electric - ongoing	$ 3,350	50%	$ 1,675	11.0%	$ 184.3
Tampa Electric - Polk 6	$ 238	50%	$ 119	11.0%	$ 13.1
Peoples Gas	$ 575	50%	$ 288	11.0%	$ 31.6
Total Utility Income	$ 3,925		$ 1,963		$ 229.0
+ TECO Coal - conventional					$ 47.2
+ Guatemala operations					$ 40.0
Total Unregulated Income					$ 87.2
Total Operating Cos					$ 316.2
- Holdco - interest expense	$ 1,100	7.28%	$ (80.1)	40.0%	$ (48.0)
- Holdco - internally allocated interest			$ 10.0	40.0%	$ 6.0
- Holdco - other parent expenses			$ (5.0)	40.0%	$ (3.0)
- Holdco - cash	$ 200	5.00%	$ 10.0	40.0%	$ 6.0
Holding company impact					$ (39.0)
Net Income					$ 277.1
Earnings per Share					$ 1.29
Avg. Diluted Shares Outstanding					*214.0*

Valuation	
Utility earnings ($ mils)	$ 229.0
less share of holdco interest	$ -
Net utility earnings	$ 229.0
Utility EPS	$ 1.07
Assigned multiple	15.0x
Utility value per share	**$ 16.05**
Unregulated earnings ($ mils)	$ 87.2
less share of holdco interest	$ (39.0)
Net unregulated earnings ($ mils)	$ 48.2
Unregulated EPS	$ 0.23
Assigned multiple	15.0x
Unregulated value per share	**$ 3.38**
Sum-of-the-Parts Valuation	**$ 19.42**
Disc. Target (8% x 1 yr)	**$ 17.99**

2010E - Preliminary

Utility businesses	Rate Base	% Equity	$ Equity	ROE	Inc
Tampa Electric - ongoing	$ 3,500	50%	$ 1,750	11.0%	$ 192.5
Tampa Electric - Polk 6	$ 713	50%	$ 357	11.0%	$ 39.2
Peoples Gas	$ 595	50%	$ 298	11.0%	$ 32.7
Total Utility Income	$ 4,095		$ 2,048		$ 264.4
+ TECO Coal - conventional					$ 48.3
+ Guatemala operations					$ 40.0
Total Unregulated Income					$ 88.3
Total Operating Cos					$ 352.7
- Holdco - interest expense	$ 1,100	7.28%	$ (80.1)	40.0%	$ (48.0)
- Holdco - internally allocated interest			$ 10.0	40.0%	$ 6.0
- Holdco - other parent expenses			$ (5.0)	40.0%	$ (3.0)
- Holdco - cash	$ (100)	5.00%	$ (5.0)	40.0%	$ (3.0)
Holding company impact					$ (48.0)
Net Income					$ 304.7
Earnings per Share					$ 1.41
Avg. Diluted Shares Outstanding					*216.0*

Valuation	
Utility earnings ($ mils)	$ 264.4
less share of holdco interest	$ -
Net utility earnings	$ 264.4
Utility EPS	$ 1.22
Assigned multiple	15.0x
Utility value per share	**$ 18.36**
Unregulated earnings ($ mils)	$ 88.3
less share of holdco interest	$ (48.0)
Net unregulated earnings ($ mils)	$ 40.3
Unregulated EPS	$ 0.19
Assigned multiple	15.0x
Unregulated value per share	**$ 2.80**
Sum-of-the-Parts Valuation	**$ 21.16**
Disc. Target (8% x 2 yrs)	**$ 18.24**

2011E - Preliminary

Utility businesses	Rate Base	% Equity	$ Equity	ROE	Inc
Tampa Electric - ongoing	$ 3,650	50%	$ 1,825	11.0%	$ 200.8
Tampa Electric - Polk 6	$ 1,213	50%	$ 607	11.0%	$ 66.7
Peoples Gas	$ 615	50%	$ 308	11.0%	$ 33.8
Total Utility Income	$ 4,265		$ 2,133		$ 301.3
+ TECO Coal - conventional					$ 48.0
+ Guatemala operations					$ 40.0
Total Unregulated Income					$ 88.0
Total Operating Cos					$ 389.3
- Holdco - interest expense	$ 1,100	7.28%	$ (80.1)	40.0%	$ (48.0)
- Holdco - internally allocated interest			$ 10.0	40.0%	$ 6.0
- Holdco - other parent expenses			$ (5.0)	40.0%	$ (3.0)
- Holdco - cash	$ 50	5.00%	$ 2.5	40.0%	$ 1.5
Holding company impact					$ (43.5)
Net Income					$ 345.7
Earnings per Share					$ 1.59
Avg. Diluted Shares Outstanding					*218.0*

Valuation	
Utility earnings ($ mils)	$ 301.3
less share of holdco interest	$ -
Net utility earnings	$ 301.3
Utility EPS	$ 1.38
Assigned multiple	15.0x
Utility value per share	**$ 20.73**
Unregulated earnings ($ mils)	$ 88.0
less share of holdco interest	$ (43.5)
Net unregulated earnings ($ mils)	$ 44.5
Unregulated EPS	$ 0.20
Assigned multiple	15.0x
Unregulated value per share	**$ 3.06**
Sum-of-the-Parts Valuation	**$ 23.79**
Disc. Target (8% x 3 yrs)	**$ 19.19**

Sources: company documents, management comments, and analyst calculations.
Maurice E. May - Power Insights/Soleil - 508-636-9934
June 1 2, 2007.

Appendix II
TECO Energy - Income Statement

FY December	2001	2002	2003	2004	2005	2006
Revenues						
Regulated electric & gas	$ 1,733.0	$ 1,867.0	$ 1,991.1	$ 2,101.0	$ 2,293.8	$ 2,660.3
Unregulated	$ 750.3	$ 643.5	$ 571.8	$ 538.4	$ 716.3	$ 787.8
Total revenues	$ 2,483.3	$ 2,510.5	$ 2,562.9	$ 2,639.4	$ 3,010.1	$ 3,448.1
Expenses						
Regulated operations						
Fuel	$ 218.2	$ 312.7	$ 344.9	$ 536.7	$ 461.1	$ 803.4
Purchased power	$ 144.7	$ 202.3	$ 184.7	$ 172.3	$ 269.7	$ 221.3
Cost of natural gas	$ 186.4	$ 148.9	$ 224.0	$ 226.2	$ 350.2	$ 365.3
Other	$ 250.0	$ 257.2	$ 258.4	$ 258.2	$ 270.3	$ 294.0
Operation - other expense						
Mining related costs	n/a	n/a	n/a	$ 333.9	$ 412.5	$ 450.2
Waterborne transportation costs	n/a	n/a	n/a	$ 182.0	$ 191.8	$ 217.8
Other	$ 688.8	$ 579.8	$ 595.7	$ 74.6	$ 49.3	$ 15.6
Maintenance	$ 151.4	$ 160.5	$ 144.8	$ 137.4	$ 168.4	$ 183.3
Depreciation & amnortization	$ 284.6	$ 296.1	$ 313.4	$ 275.9	$ 282.2	$ 282.2
Other	$ -	$ 17.8	$ 164.2	$ 6.0	$ -	$ -
Taxes, other than income	$ 161.3	$ 169.9	$ 171.6	$ 184.3	$ 194.7	$ 217.5
Sale of impaired assets	$ -	$ -	$ -	$ 632.2	$ 3.2	$ (20.7)
Operating expenses	$ 2,085.4	$ 2,145.2	$ 2,401.7	$ 3,019.7	$ 2,653.4	$ 3,029.9
Operating income	$ 397.9	$ 365.3	$ 161.2	$ (380.3)	$ 356.7	$ 418.2
Other income (expense)						
AFUDC - other funds	$ 6.6	$ 24.9	$ 19.8	$ 0.7	$ -	$ 2.7
Gain on sale of assets & other income	$ 23.1	$ 19.3	$ 119.9	$ 143.0	$ 171.6	$ 94.5
Loss on extinguishment of debt	$ -	$ (34.1)	$ -	$ (4.4)	$ (74.2)	$ (2.5)
Impairment of TIE investment	$ -	$ -	$ -	$ (152.3)	$ -	$ -
Income from equity investments	$ 9.1	$ 5.5	$ (0.4)	$ 36.1	$ 60.4	$ 58.9
Total other income	$ 38.8	$ 15.6	$ 139.3	$ 23.1	$ 157.8	$ 153.6
Interest charges						
Interest expense	$ 164.1	$ 140.0	$ 284.1	$ 323.2	$ 288.7	$ 279.4
Distribution on preferred stock of subsidiary	$ 17.0	$ 38.9	$ 40.0			
AFUDC - borrowed funds	$ (2.6)	$ (9.6)	$ (7.6)	$ (0.3)	$ -	$ (1.1)
Total interest charges	$ 178.5	$ 169.3	$ 316.5	$ 322.9	$ 288.7	$ 278.3
Income (loss) before provision for income taxes	$ 258.2	$ 211.6	$ (16.0)	$ (680.1)	$ 225.8	$ 293.5
Income taxes (benefit)	$ (7.3)	$ (56.9)	$ (67.9)	$ (245.1)	$ 101.9	$ 118.7
Income (loss) from cont. oper. before minority int.	$ 265.5	$ 268.5	$ 51.9	$ (435.0)	$ 123.9	$ 174.8
+ Minority interest	$ -	$ -	$ 49	$ 79.5	$ 87.1	$ 69.6
Income (loss) from continuing operations	$ 265.5	$ 268.5	$ 100.7	$ (355.5)	$ 211.0	$ 244.4
Earnings per share - diluted	$ 1.96	$ 1.75	$ 0.56	$ (1.85)	$ 1.01	$ 1.17
Average shares outstanding - diluted	*135.4*	*153.3*	*180.2*	*192.6*	*208.2*	*208.7*

Sources: TECO company documents
Maurice E. May - Power Insights/Soleil - June 12, 2007.

Appendix III
TECO Energy - Consolidated Balance Sheet

FY December ASSETS	2002	2003	2004	2005	2006	3/07
Cash, equivalents, & ST investments	$ 411.1	$ 108.2	$ 96.7	$ 345.7	$ 441.6	$ 379.8
Restricted cash	$ 1.6	$ 51.4	$ 57.1	$ 37.6	$ 37.3	$ 37.3
Receivables, less allowances	$ 422.7	$ 280.4	$ 286.8	$ 323.3	$ 338.3	$ 310.2
Inventories	$ 209.8	$ 170.8	$ 120.8	$ 153.8	$ 159.6	$ 189.7
Current regulatory assets	$ -	$ -	$ -	$ 273.3	$ 255.7	$ 151.8
Current derivative assets	$ 12.5	$ 21.1	$ 3.8	$ 64.0	$ 7.1	$ 66.2
Prepayments and other current assets	$ 265.5	$ 238.0	$ 172.4	$ 51.5	$ 46.1	$ 73.6
Total current assets	$ 1,323.2	$ 869.9	$ 737.6	$ 1,249.2	$ 1,285.7	$ 1,208.6
Utility plant						
Electric	$ 5,054.4	$ 5,245.6	$ 4,857.9	$ 4,892.3	$ 5,030.4	$ 5,038.1
Gas	$ 746.7	$ 778.1	$ 810.8	$ 839.5	$ 877.7	$ 884.1
Construction work in progress	$ 1,556.8	$ 1,151.1	$ 207.1	$ 200.0	$ 334.1	$ 368.9
Other property	$ 857.4	$ 865.4	$ 847.6	$ 822.7	$ 841.9	$ 337.9
Total property, plant & equipment	$ 8,215.3	$ 8,040.2	$ 6,723.4	$ 6,754.5	$ 7,084.1	$ 6,629.0
- less depreciation	$ (2,310.7)	$ (2,361.2)	$ (2,065.5)	$ (2,187.6)	$ (2,317.2)	$ (1,934.5)
Net property, plant & equipment	$ 5,904.6	$ 5,679.0	$ 4,657.9	$ 4,566.9	$ 4,766.9	$ 4,694.5
Other assets						
Deferred income taxes	$ 340.2	$ 1,051.5	$ 1,379.1	$ 759.9	$ 630.2	$ 580.2
Long-term regulatory assets	$ 163.2	$ 188.3	$ 200.9	$ 99.9	$ 231.3	$ 240.8
Investment in unconsolidated affiliates	$ 149.2	$ 343.5	$ 263.0	$ 297.1	$ 292.9	$ 268.8
Goodwill	$ 193.7	$ 71.2	$ 59.4	$ 59.4	$ 59.4	$ 59.4
Other assets	$ 1,004.3	$ 2,259.0	$ 2,178.6	$ 137.7	$ 95.4	$ 248.6
Total other assets	$ 1,850.6	$ 3,913.5	$ 4,081.0	$ 1,354.0	$ 1,309.2	$ 1,395.8
TOTAL ASSETS	$ 9,078.4	$ 10,462.4	$ 9,476.5	$ 7,170.1	$ 7,361.8	$ 7,298.9
LIABILITIES						
Current portion of LT debt	$ 127.1	$ 31.6	$ 13.6	$ 7.2	$ 639.4	$ 457.4
Notes payable	$ 360.5	$ 37.5	$ 115.0	$ 215.0	$ 48.0	$ 51.0
Accounts payable	$ 377.4	$ 313.8	$ 257.8	$ 354.7	$ 326.5	$ 267.6
Customer deposits	$ 94.6	$ 101.4	$ 105.8	$ 115.2	$ 129.5	$ 132.8
Other current liabilities	$ 149.6	$ 1,762.9	$ 1,730.2	$ 233.8	$ 207.0	$ 313.1
Total current liabilities	$ 1,109.2	$ 2,247.2	$ 2,222.4	$ 925.9	$ 1,350.4	$ 1,221.9
Investment tax credits	$ 27.5	$ 22.8	$ 20.0	$ 17.3	$ 14.7	$ 14.0
Long-term regulatory liabilities	$ 538.7	$ 560.2	$ 539.0	$ 543.1	$ 555.3	$ 573.3
Deferred credits and other liabilities	$ 816.7	$ 1,559.9	$ 1,528.4	$ 382.9	$ 499.8	$ 509.2
Long-term debt, less current portion	$ 3,325.5	$ 4,394.5	$ 3,882.9	$ 3,709.2	$ 3,212.6	$ 3,211.3
Total long-term liabilities	$ 4,708.4	$ 6,537.4	$ 5,970.3	$ 4,652.5	$ 4,282.4	$ 4,307.8
Total Liabilities	$ 5,817.6	$ 8,784.6	$ 8,192.7	$ 5,578.4	$ 5,632.8	$ 5,529.7
SHAREHOLDERS EQUITY						
Common equity	$ 2,642.8	$ 1,692.3	$ 1,287.7	$ 1,601.0	$ 1,729.0	$ 1,769.2
Preferred securities	$ 649.1	$ -	$ -	$ -	$ -	$ -
Unearned compensation	$ (31.1)	$ (14.6)	$ (3.8)	$ (9.3)	$ -	$ -
Total shareholders equity	$ 3,260.8	$ 1,677.7	$ 1,283.9	$ 1,591.7	$ 1,729.0	$ 1,769.2
TOTAL LIABILITIES & SHR EQ	$ 9,078.4	$ 10,462.3	$ 9,476.6	$ 7,170.1	$ 7,361.8	$ 7,298.9
Capital structure						
Common equity	*37.4%*	*27.6%*	*24.3%*	*29.0%*	*30.7%*	*32.2%*
Preferred securities	*9.2%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Short-term debt	*6.9%*	*1.1%*	*2.4%*	*4.0%*	*12.2%*	*9.3%*
Long-term debt	*47.0%*	*71.6%*	*73.3%*	*67.2%*	*57.1%*	*58.5%*
Totals	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*

Sources: TECO Energy 10-Ks & 10-Q for 1Q 2007.
June 12, 2007.

Appendix IV
TECO Coal

FY December	2006A*	2007E*	2008E	2009E	2010E	2011E
Revenues						
Total tons produced (mils)	9.81	9.25	9.80	10.00	10.20	10.40
Steam coal - tons (60%)	n/a	6.17	6.08	6.10	6.12	6.24
Steam coal -% of production		*66.7%*	*62%*	*61%*	*60%*	*60%*
Steam coal price per ton	n/a	$ 49.50	$ 50.00	$ 50.00	$ 50.00	$ 50.00
Steam coal revs ($ mils)	n/a	$ 305.2	$ 303.8	$ 305.0	$ 306.0	$ 312.0
Met coal - tons (40%)	n/a	3.08	3.72	3.90	4.08	4.16
Met coal -% of production		*33.3%*	*38%*	*39%*	*40%*	*40%*
Met coal price per ton	n/a	$ 75.00	$ 74.50	$ 74.00	$ 73.50	$ 73.00
Met coal revs ($ mils)	n/a	$ 231.2	$ 277.4	$ 288.6	$ 299.9	$ 303.7
Revenues ($ mils)	$ 574.9	$ 536.5	$ 581.2	$ 593.6	$ 605.9	$ 615.7
Avg. price per ton	*$ 58.60*	*$ 58.00*	*$ 59.31*	*$ 59.36*	*$ 59.40*	*$ 59.20*
Expenses						
Operating expenses - cash costs	$ 451.3	$ 425.5	$ 448.4	$ 455.0	$ 464.1	$ 473.2
Operating income - cash margin	$ 123.6	$ 111.0	$ 132.9	$ 138.6	$ 141.8	$ 142.5
Operating margin	*21.5%*	*20.7%*	*22.9%*	*23.3%*	*23.4%*	*23.1%*
SG&A	$ 9.8	$ 9.3	$ 9.8	$ 10.0	$ 10.2	$ 10.4
Depreciation	$ 39.1	$ 36.3	$ 39.0	$ 40.0	$ 41.0	$ 42.0
Total operating expenses	$ 500.1	$ 471.0	$ 497.2	$ 505.0	$ 515.3	$ 525.6
Operating income	$ 74.8	$ 65.5	$ 84.1	$ 88.6	$ 90.6	$ 90.1
Interest (allocated)	$ 10.0	$ 10.0	$ 10.0	$ 10.0	$ 10.0	$ 10.0
Pre-tax income	$ 64.8	$ 55.5	$ 74.1	$ 78.6	$ 80.6	$ 80.1
Margin per ton	*$ 6.60*	*$ 6.00*	*$ 7.56*	*$ 7.86*	*$ 7.90*	*$ 7.70*
Income taxes - 40%	$ 25.9	$ 22.2	$ 29.6	$ 31.4	$ 32.2	$ 32.0
Net income	$ 38.9	$ 33.3	$ 44.5	$ 47.2	$ 48.3	$ 48.0

** conventional only; no synfuel economics included.*
Sources: company documents, management comments, and analyst calculations.
Maurice E. May - Power Insights/Soleil - 508-636-9934
June 12, 2007.

Regulatory Required Disclosures

The author of this report is the trustee and remainderman of a family trust that is long shares of Integrys Energy Group, Inc. (TEG).

Analyst Certification

I hereby certify that the views expressed in the foregoing research report accurately reflect my personal views about the subject securities and issuer(s) as of the date of this report. I further certify that no part of my compensation was, is, or will be directly, or indirectly, related to the specific recommendations or views contained in this research report.
By: Maurice E. May

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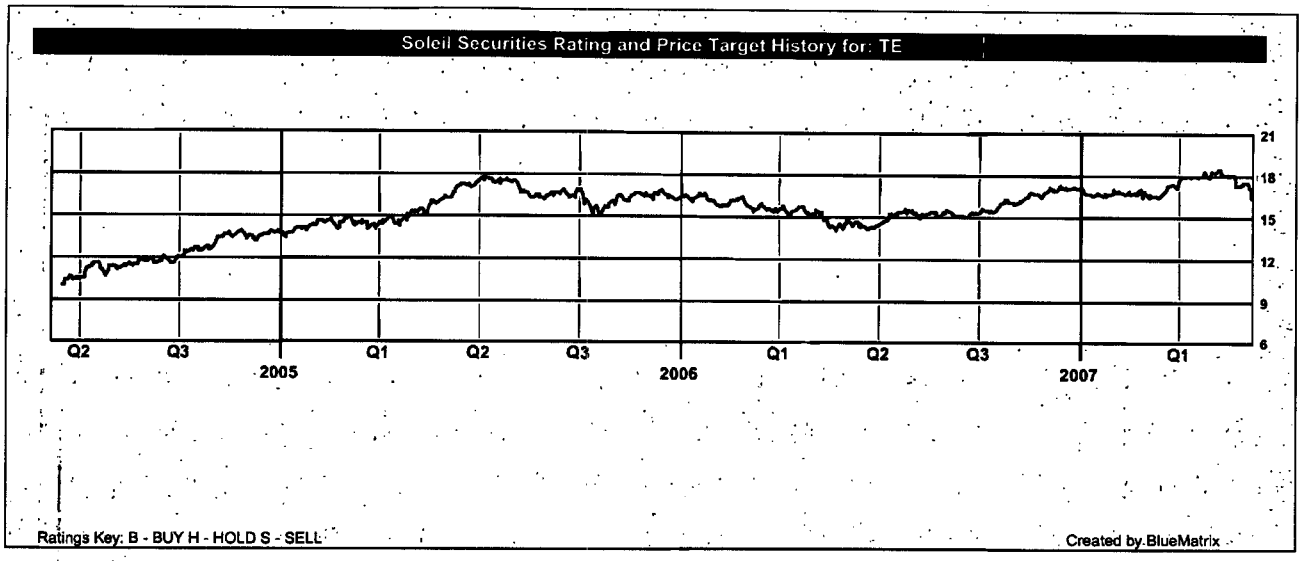
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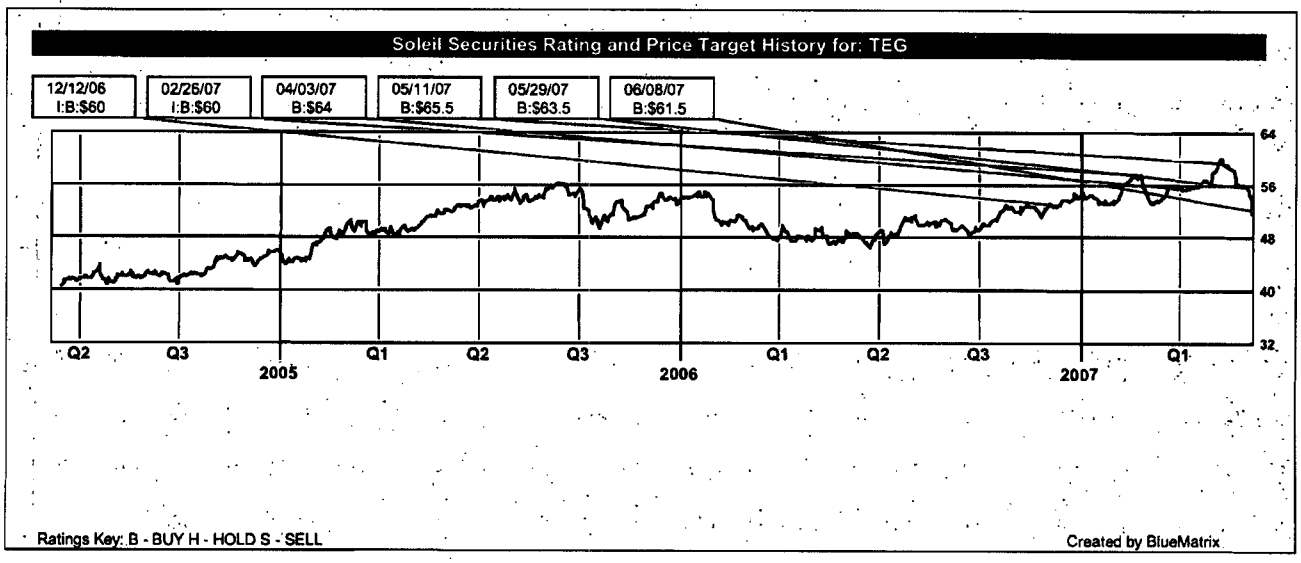
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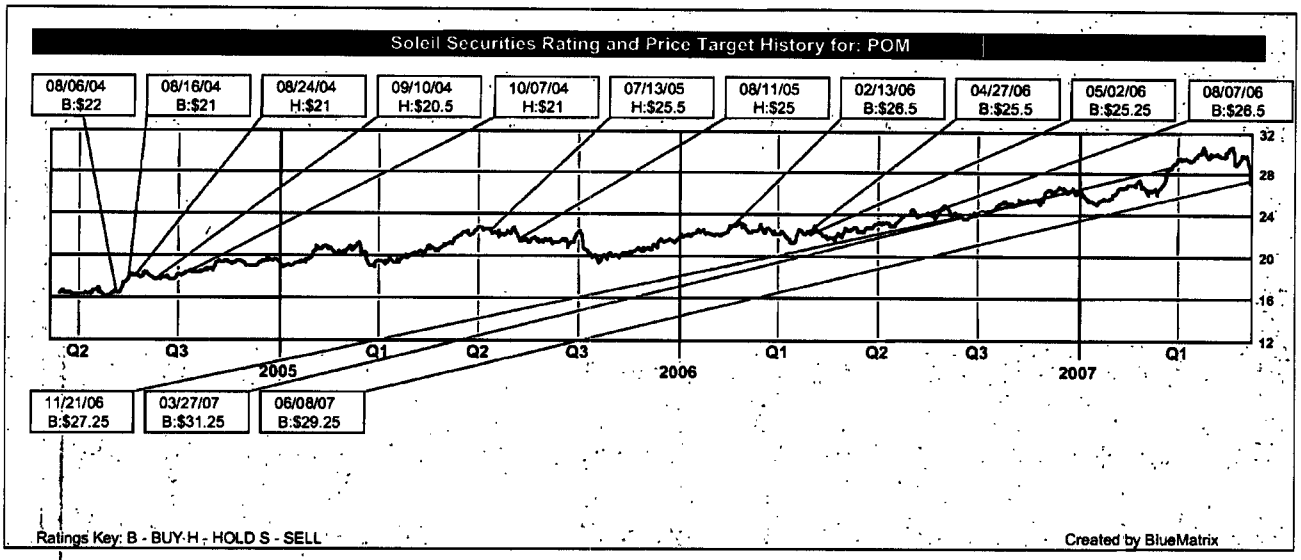
					Utilities				
			IB Serv/Past 12 Mos.					IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
BUY[BUY]	158	48.32	0	0	BUY[BUY]	4	36.36	0	0
HOLD[HOLD]	134	40.98	0	0	HOLD[HOLD]	6	54.55	0	0
SELL[SELL]	35	10.70	0	0	SELL[SELL]	1	9.09	0	0

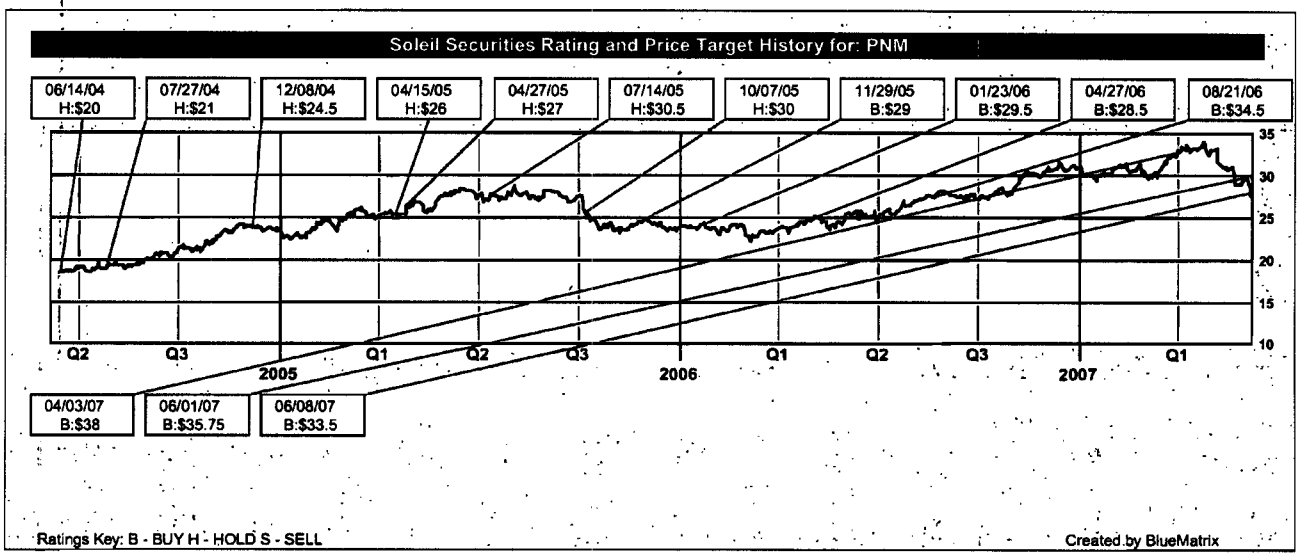
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TECO Energy
TE, $16.87, Buy : TECO Growth Story Emerging; Initiating Coverage with Buy Rating







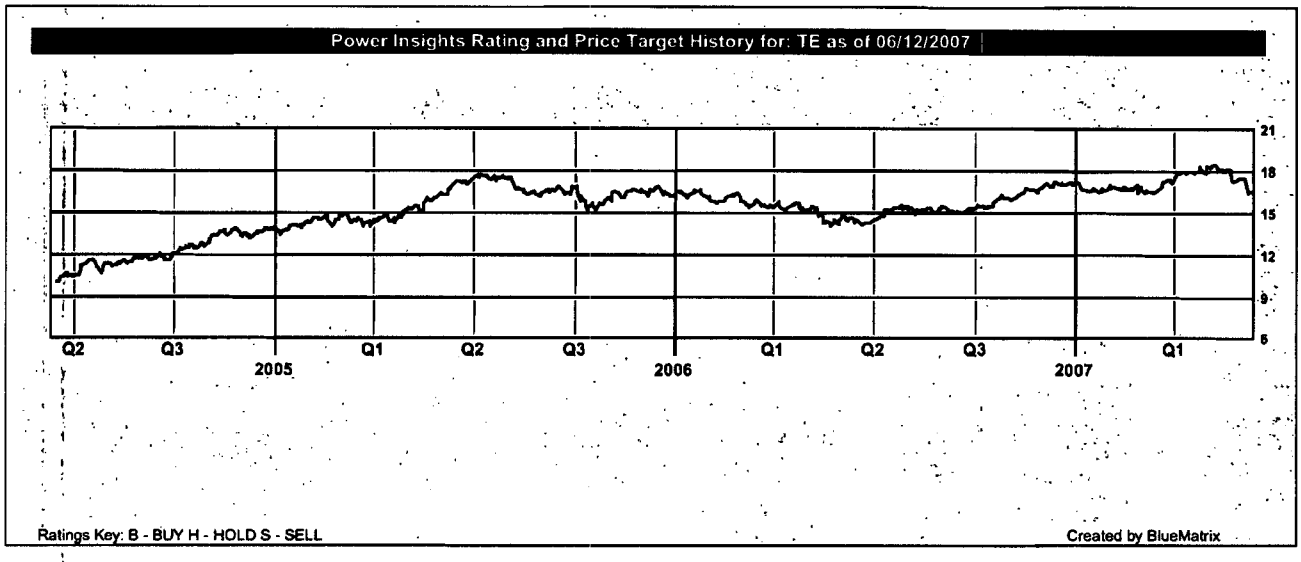


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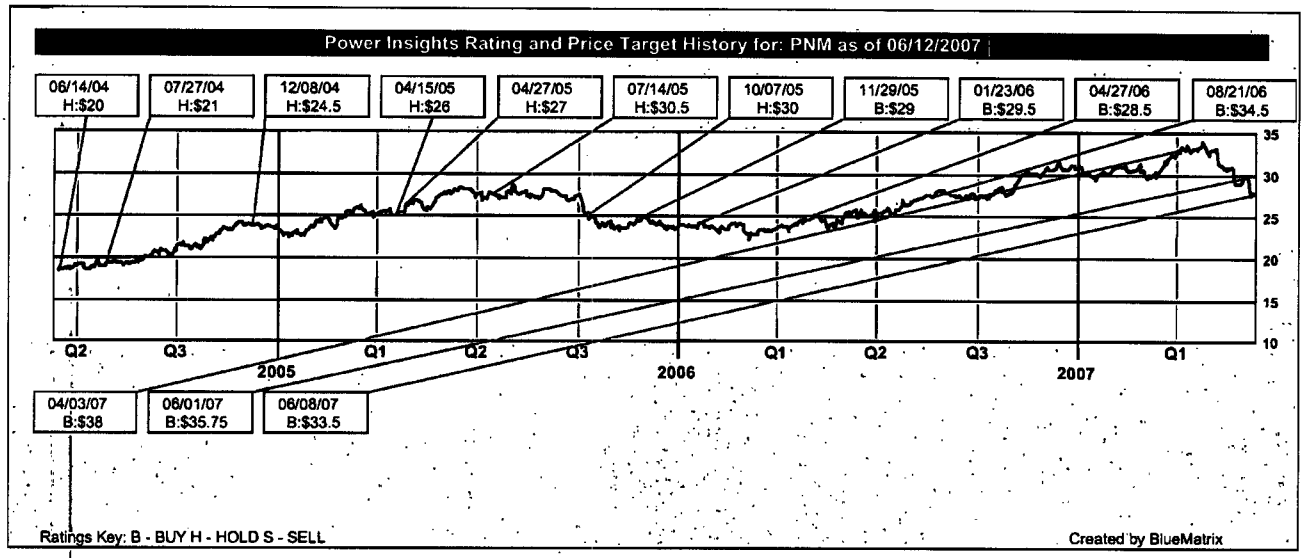
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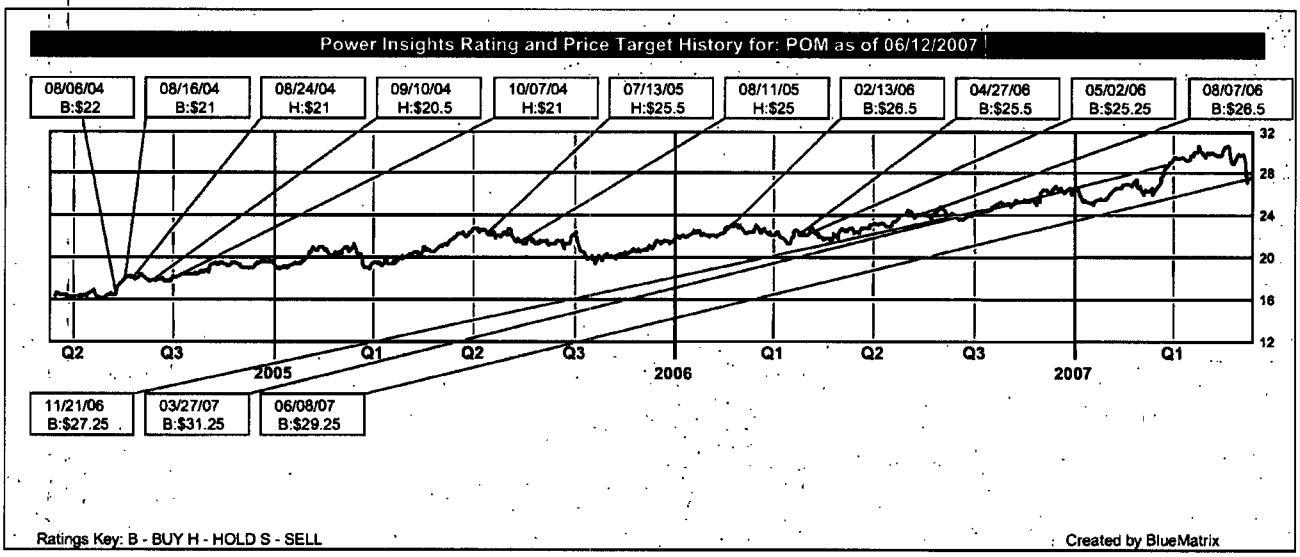
Companies Mentioned
Integrys Energy Group (TEG, $52.64, Buy , NYSE)
Pepco Holdings (POM, $28.08, Buy , NYSE)
PNM Resources (PNM, $28.00, Buy , NYSE)
TECO Energy (TE, $16.87, Buy , NYSE)



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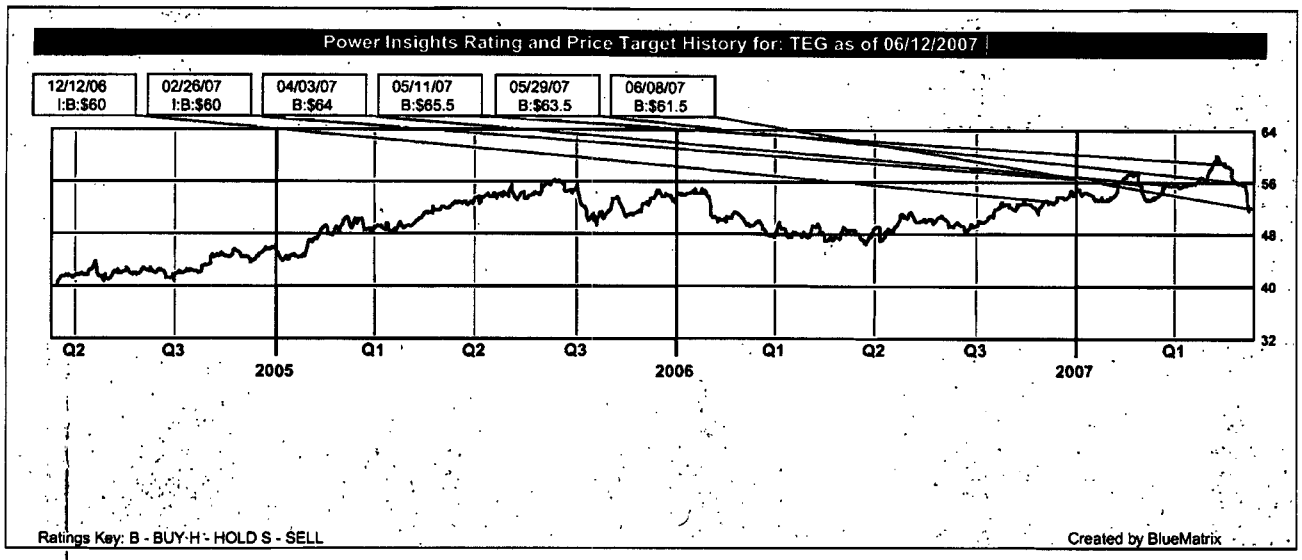
TECO Energy
TE: $16.87, Buy : TECO Growth Story Emerging; Initiating Coverage with Buy Rating





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TECO Energy
TE, $16.87, Buy : TECO Growth Story Emerging; Initiating Coverage with Buy Rating



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Power Insights

Equity Research
Company Update
Estimates Change
Target Price Change

TECO Energy
TE, $15.82, Hold
Tampa Pulls Plug on IGCC Project; Model Updated

October 4, 2007

Maurice E. May
508-636-9934
maurymay@power-insights.com

Sales and Research
1-800-447-4318

Trading
1-800-569-2407
www.soleilgroup.com

Ticker	TE
Market Cap (M)	$3,330.1
Price	$15.82
52-Wk. Range	$19–$15
Rating	Hold
Price Target	$16.75
Shares Out (M)	210.5
Dividend	$0.78
Yield	4.9%
Trading Volume(M)	1.747
Market	NYSE

Sector Opinion:
The electric utility industry continues its fundamental improvement and expansion, largely by pursuing "back to basics" investment strategies in its core regulated businesses of distribution, transmission, and in some cases generation. Environmental compliance and renewable portfolio standards are also driving industry investment. We see this rate base growth, which is largely recession-proof, leading to higher earnings and higher share prices. Current adverse market conditions have negatively impacted utility shares. The weakness began with rising interest rates in May and continues with volatile market conditions despite a recent decline in the 10-year Treasury. During the five-year bull market for utilities there have been periods of underperformance, such as during the rate spikes in summer of '03, spring of '04, and spring of '06, and we have just had another one. However, with industry conditions strong and prospective growth rates at many utilities equal to or greater than market averages, we view the current weakness as a buying opportunity. At this time we would focus purchases on **Integrys Energy** (TEG-$51.74-Buy), **Pepco Holdings** (POM-$27.43-Buy), and **Wisconsin Energy** (WEC-$45.27-Buy).

Action

Hold. Earlier today, we downgraded TE from Buy to Hold due to the decision of core-utiity Tampa Electric to "defer," apparently for long while, the construction of Polk 6, a porposed 600 MW IGCC plant. We saw the project substantially building rate base and earnings over the 2009-13 time period. Without the project, TE becomes a free cash flow company that can build cash to meet parent-level maturities in 2010 and 2011; however, the beneficial earnings impact from debt reduction will be much less than if the plant had been built. While management may yet come up with something, at this point TE's earnings prospects are much less exciting over the next several years without the plant. We lower our price target from $18.25/shr to $16.75, based upon capitalizing our new 2008E of $1.12/shr at 15.0x, and maintain our Hold rating.

Fiscal Year Dec		Fiscal Year			Calendar Year			Curr. Qtr.	Next Qtr.	Yr. Ago Qtr.
	$	F06A	F07E	F08E	C06A	C07E	C08E	3Q07E	4Q07E	3Q06A
Revenue	Current	—	—	—	—	—	—	—	—	—
	Previous	—	—	—	—	—	—	—	—	—
EPS	Current	—	1.01	1.12	—	1.01	1.12	0.34	0.21	—
	Previous	1.17	1.04	1.14	1.17	1.04	1.14	0.35	22.00	—
Dividend	Current	—	—	—	—	—	—	—	—	—
P/E	Current	NM	15.7	14.1	NM	15.7	14.1	—	—	—

Revenues in millions, except when noted.

- **Polk 6 - plug pulled.** TECO's core-utility Tampa Electric has "deferred" the construction of its 600 MW, IGCC Polk 6 plant, citing the cost benefits and rate payer and shareholder risks associated with emerging CO2 policy and carbon capture/sequestration.
- **Polk 6 earnings stream - gone.** With this announcement, a substantial future earnings stream associated with $2 billion of rate base growth is removed from the picture. Management may yet announce something, but for now we see TE as a cash-flow positive company that will build cash for retirement of 2010 and 2011 parent-level debt maturities.
- **Estimates - going down.** We lower our 2008E from $1.14/shr to $1.12, and 2009E from $1.29/shr to $1.25. We also shave our 2007E from $1.04/shr to $1.01 due to recent management guidnace.
- **Valuation - down.** We reduce our valuation and price target from $18.25/shr to $16.75, based upon capitalizing our 2008E of $1.12/shr at 15.0x.
- **Summary and recommendtion - Hold.** This announcement substantially reduces TE's earnings growth propsects over the next several years. Accordingly, this morning we lowered our rating from Buy to Hold.

Important disclosure information is contained on pages 6 - 11 of this report. The recipient of this report is directed to read these disclosures.

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TECO Energy

TE, $15.82, Hold : Tampa Pulls Plug on IGCC Project; Model Updated

This morning, Tampa Electric, the core utility of **TECO Energy** (TE - Hold) announced it no longer plans to build the 600 MW Polk 6, its $2.0 billion, coal-fired, integrated gas, combined cycle (IGCC) plant, citing uncertainty surrounding possible CO2 regulations and carbon capture/sequestration. The $2.0 billion investment in the plant would have been incremental to Tampa's current rate base of $3.0 billion, and would have been the main driver of potential strong earnings growth for TECO Energy in the 2009-2013 time frame. Tampa will now look to other options, such as natural gas, to meet its increasing need for baseload capacity. However, a 600 MW combined cycle gas turbine plant (CCGT) would probably only cost about $600 million and not provide anywhere near the rate base growth of the IGCC. This changes TE's earnings profile going forward. This dramatic announcement has numerous ramifications, in our opinion. Here are some of them:

- **The deferral is timely.** It comes on the eve of hearings scheduled next week at the Florida PSC on Tampa's request for a Determination of Need (Docket No. 070467) for the plant. The hearings are in the process of being cancelled by the PSC.
- **Florida politics are changing.** Former Gov. Jeb Bush, who was sitting during the terrible hurricanes of 2005, experienced disruption of gas supply, wanted to diversify away from gas dependence, and supported nuclear and clean coal technologies. New Gov. Charlie Crist is much "greener" than his predecessor, and even though he supported IGCC technology (he signed legilsation in June supporting it with favorable financial treatment), the national greenhouse gas debate is moving very quickly and has changed on the use of coal --- even clean coal --- going foward, at least in Florida where rising tides related to global warming would be devastating.
- **Tampa will consider other alternatives.** The utility says it still needs 600 MW of baseload capacity in 2013, and will look to other sources. It mentioned natural gas as a possibility. Neighboring **Progress Energy** (PGN-NR) is planning a new nuclear plant north of its existing Crystal River site on the Gulf of Mexico; conceiveably Tampa could take an equity postion in, or get a PPA from, the plant, but it would be on line in 2017 at the earliest.
- **Conservation debate may advance in Florida.** Despite existing conservation measures, we do not see the conservation debate in Florida reaching anywhere near the level as northeastern states, where decoupling measures and smart grid investment are moving ahead quickly. That could change.
- **TECO Energy becomes cash flow positive.** Management thought it could finance the equity portion of the IGCC from internal sources over the 2008-2013 time frame. We see the company having free cash flow primarily from $763 million of NOLs and $197 million of AMTs from its ill-fated merchant plant expansion.
- **Polk 1 to demonstrate again?** In the press release, Tampa said it remained committed to IGCC technology and would like to partner with government agencies and others to demonstrate the viability of carbon capture/sequestration at its existing Polk 1 IGCC. Polk 1 was built in partnership with the EPA in the 1990s as a demonstration of IGCC technology, and would be the logical candidate to play that role again with carbon sequestration.
- **We view this as a serious "wake-up call" for clean coal.** The coal industry has been advancing clean coal technology in recent years as a way of maintaining coal markets. We suggest that this action by Tampa Electric places the future of clean coal in doubt. Perhaps the coal industry would make a good partner (i.e., financial supporter) for a sequestration project at Polk 1.

The "deferral" (Tampa is not calling it an outright cancellation, though it would appear to be a very long-term deferral) of Polk 6 also has ramifications on TECO's earning profile going

forward. As earlier presented by management, the investment in Polk 6 would have increased the Tampa Electric rate base by $2.0 billion on top of $3.0 billion currently, and would have been financed internally without the sale of additional equity. That made the stock attractive to us.

Now, with that primary earnings driver gone, we must adjust our estimates going forward. Thus, we remove the IGCC from our eanrings model, and use the free cash flow to pay off parent-level debt in 2010 and 2011. We also assume that Transport get sold, though with net proceeds of $300 million rather than $400 million. (We note that TECO says it is going ahead with the sale, despite the IGCC deferral.)

- **2007E - down three cents.** We lower our 2007E from $1.04 per share to $1.01 given management's comment discouraging earnings in the upper end of its $0.97-$1.07 per share guidance range (from continuing earnings, ex-synfuel).
- **2008E - down two cents.** We lower our 2008E from $1.14 per share to $1.12, reflecting the removal from rate base of $50 million in average IGCC investment, as well as shaving utility ROEs.
- **2009E - down four cents.** We lower our 2009E from $1.29 per share to $1.25 reflecting the removal of $238 million in average IGCC investment from rate base. EPS for '09 still advances nicely, helped by the end of $(0.04) per share of Transport contract disallowance.

Summary and recommendation - Hold. While management may yet come up with something to replace Polk 6, at this point TE's earnings prospects are much less exciting over the next several years without the plant. We lower our price target from $18.25/shr to $16.75, based upon capitalizing our new 2008E of $1.12/shr at 15.0x, and maintain our Hold rating.

RISKS

- **Valuation risk.** Price targets are based upon earnings projections and the capitalization of those projections by the stock market. If we are wrong on either our estimates or valuation, there may be price risk in the stock.
- **Interest rate risk.** Utility stocks are often viewed as yield vehicles. As such, they are susceptible to changes in interest rates, and a rising interest rate environment will likely put downward pressure on utility shares, including TECO Energy.
- **Regulatory risk.** Regulators at the Florida PSC have traditionally been fair with utilities operating in the state, including core-utility Tampa Electric. However, there are aberrations, such as the TECO Transport penalty; moreover, the current commission is inexperienced and understaffed by two members. With virtually all of TECO's utility revenues regulated by the FPSC, any changes from the historic regulatory climate in the state would be a major negative for the stock.
- **CAPEX risk.** A large part of the capital expenditures driving forecasted earnings growth is for an IGCC power plant. While such a plant is relatively environmentally benign from a multi-pollutant standpoint, it is nevertheless a fossil-fuel plant that produces CO2. Tampa Electric faces possible federal CO2 restrictions, carbon sequestration expenses, and political opposition with this plant.
- **Restructuring risk.** TECO Energy continues to undergo restructuring to reduce the financial stress that followed in the wake of its largely botched venture into unregulated independent power production. Still to go are sale of TECO Transport and further debt reduction. If these measures fail to go as planned, future EPS growth may not materialize as projected.

- **Unregulated risk.** TECO Energy has a material unregulated coal mining business with a higher risk profile that its utility operations. Thus, this business can experience greater earnings volatility and potential damage the price of the stock.

Appendix I
TECO Energy - Earnings Estimates and Valuations
(in $ millions, except per share figures and percentages)

2007E

Utility businesses	Rate Base	% Equity	$ Equity	ROE	Income
Tampa Electric	$ 3,100	50%	$ 1,550	10.50%	$ 162.8
- Transport disallowance (tax)	$ -		$ (15.0)	40.0%	$ (9.0)
Peoples Gas	$ 535	50%	$ 268	10.50%	$ 28.1
Total Utility Income	$ 3,635		$ 1,818		$ 181.8
+ TECO Transport					$ 25.0
+ TECO Coal - synfuel *					$ -
+ TECO Coal - conventional					$ 33.0
+ Guatemala operations					$ 38.5
Total Unregulated Income					$ 96.5
Total Operating Cos					$ 278.3
- Holdco - interest expense	$ 1,750	7.26%	$ (127.1)	40.0%	$ (76.2)
- Holdco - internally allocated interest			$ 10.0	40.0%	$ 6.0
- Holdco - other parent expenses			$ (5.0)	40.0%	$ (3.0)
- Holdco - cash	$ 250	4.75%	$ 11.9	40.0%	$ 7.1
Holding company impact					$ (66.1)
Net Income					$ 212.2
Earnings per Share					$ 1.01
Avg. Diluted Shares Outstanding					*210.5*

** TECO Coal synfuel - estimated $70 million of earnings excluded from model and valuation.*

Valuation	
Utility earnings ($ mils)	$ 181.8
less share of holdco interest	$ -
Net utility earnings	$ 181.8
Utility EPS	$ 0.86
Assigned multiple	15.5x
Utility value per share	**$ 13.39**
Unregulated earnings ($ mils)	$ 96.5
less share of holdco interest	$ (66.1)
Net unregulated earnings ($ mils)	$ 30.4
Unregulated EPS	$ 0.14
Assigned multiple	15.0x
Unregulated value per share	**$ 2.17**
Sum-of-the-Parts Valuation	**$ 15.56**

2008E

Utility businesses	Rate Base	% Equity	$ Equity	ROE	Income
Tampa Electric - ongoing	$ 3,250	50%	$ 1,625	10.75%	$ 174.7
- Transport disallowance (tax)	$ -		$ (15.0)	40.0%	$ (9.0)
Peoples Gas	$ 555	50%	$ 278	10.75%	$ 29.8
Total Utility Income	$ 3,805		$ 1,903		$ 195.5
+ TECO Transport - sold					$ -
+ TECO Coal - synfuel - ended					$ -
+ TECO Coal - conventional					$ 44.4
+ Guatemala operations					$ 39.0
Total Unregulated Income					$ 83.4
Total Operating Cos					$ 278.9
- Holdco - interest expense	$ 1,100	7.28%	$ (80.1)	40.0%	$ (48.0)
- Holdco - internally allocated interest			$ 10.0	40.0%	$ 6.0
- Holdco - other parent expenses			$ (5.0)	40.0%	$ (3.0)
- Holdco - cash	$ 100	4.50%	$ 4.5	40.0%	$ 2.7
Holding company impact					$ (42.3)
Net Income					$ 236.6
Earnings per Share					$ 1.12
Avg. Diluted Shares Outstanding					*212.0*

Valuation	
Utility earnings ($ mils)	$ 195.5
less share of holdco interest	$ -
Net utility earnings	$ 195.5
Utility EPS	$ 0.92
Assigned multiple	15.0x
Utility value per share	**$ 13.83**
Unregulated earnings ($ mils)	$ 83.4
less share of holdco interest	$ (42.3)
Net unregulated earnings ($ mils)	$ 41.1
Unregulated EPS	$ 0.19
Assigned multiple	15.0x
Unregulated value per share	**$ 2.90**
Sum-of-the-Parts Valuation	**$ 16.74**

Regulatory Required Disclosures

The author of this report is the trustee and remainderman of a family trust that is long shares of Integrys Energy Group, Inc. (TEG).

Analyst Certification

I hereby certify that the views expressed in the foregoing research report accurately reflect my personal views about the subject securities and issuer(s) as of the date of this report. I further certify that no part of my compensation was, is, or will be directly, or indirectly, related to the specific recommendations or views contained in this research report. By: Maurice E. May

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ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

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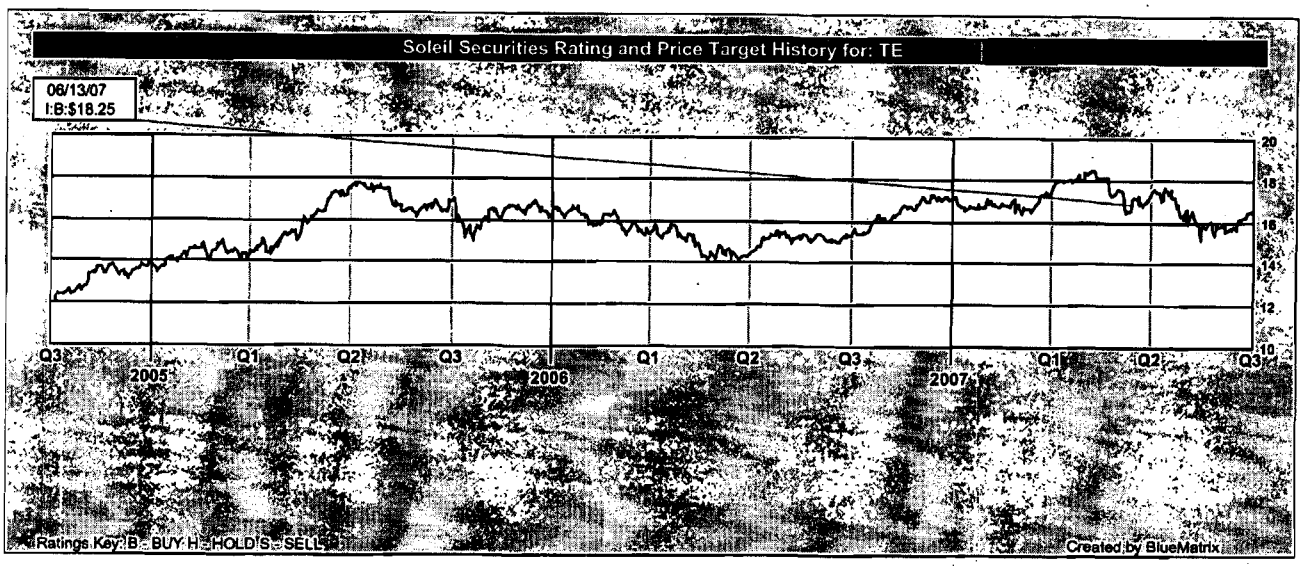
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Hold: In the analyst's opinion, the stock will be inline with the general market over the next 12 months.
Sell: In the analyst's opinion, the stock will underperform the general market over the next 12 months.

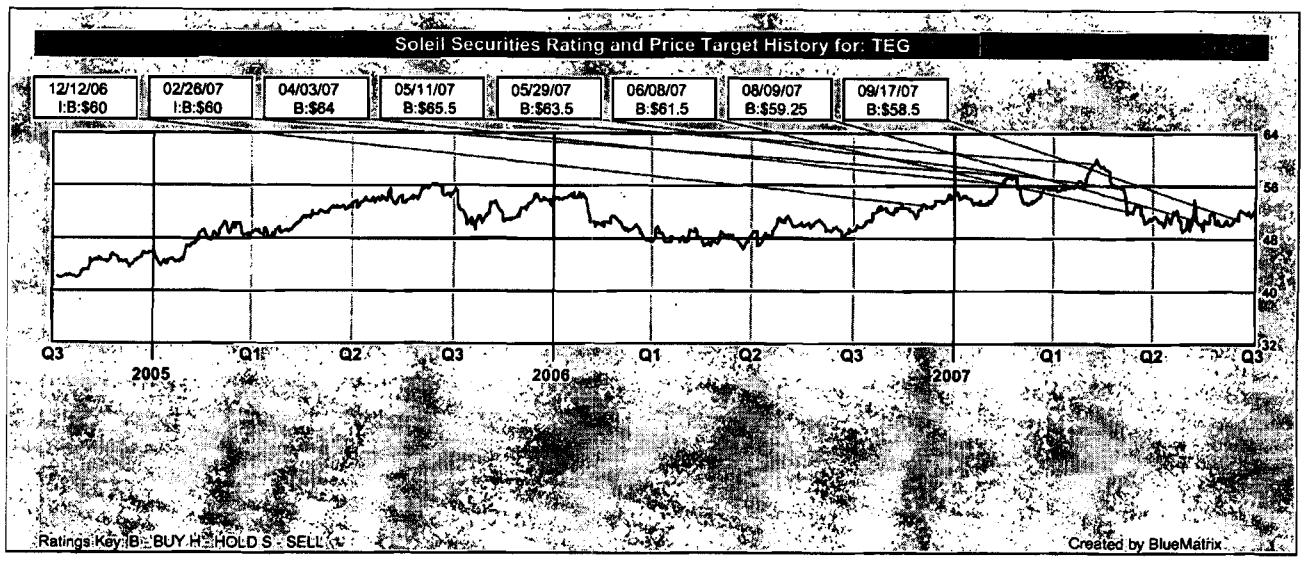
Soleil Securities Distribution of Ratings/IB Services Firmwide and by Sector

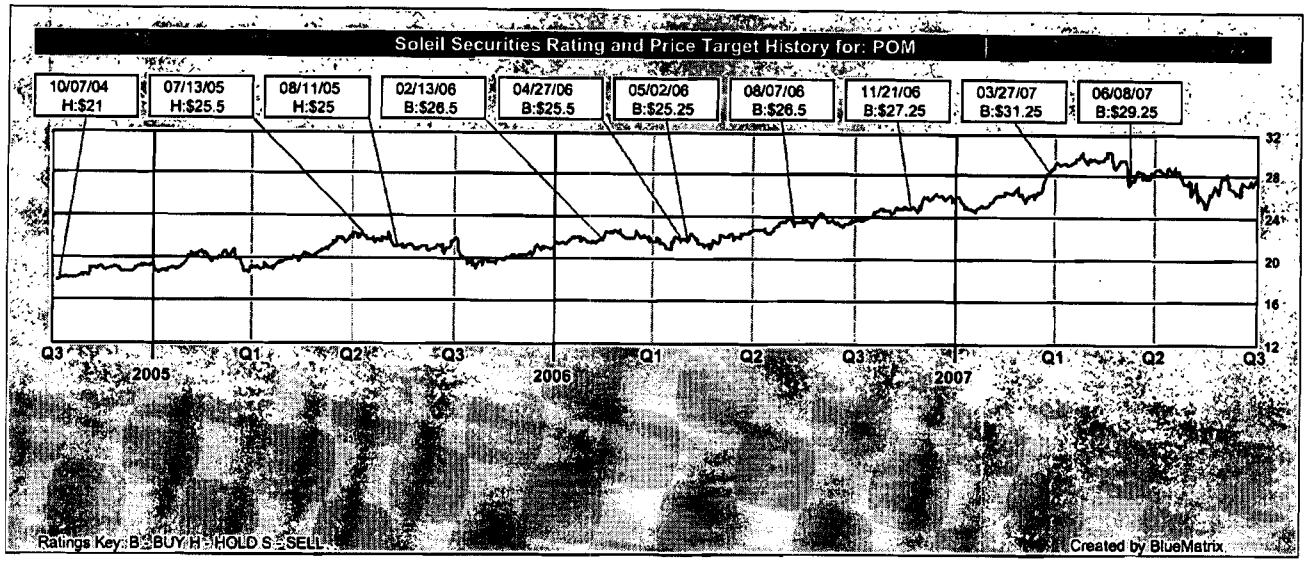
			IB Serv/Past 12 Mos.		Utilities			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
BUY[BUY]	154	50.83	0	0	BUY[BUY]	5	41.67	0	0
HOLD[HOLD]	124	40.92	0	0	HOLD[HOLD]	7	58.33	0	0
SELL[SELL]	25	8.25	0	0	SELL[SELL]	0	0.00	0	0

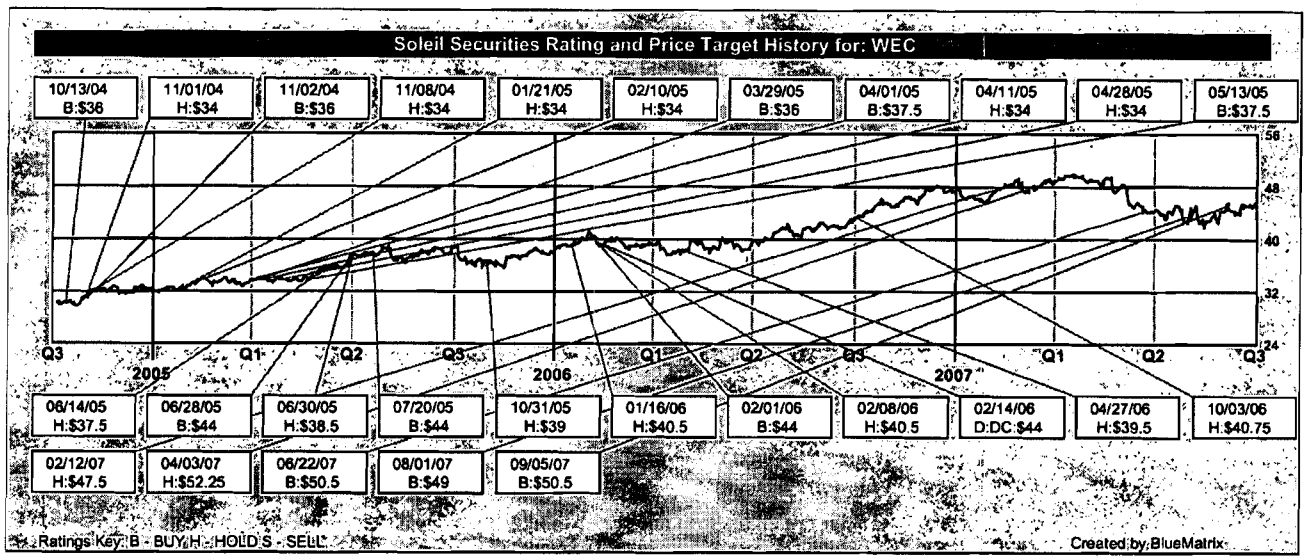
SOLEIL

TECO Energy
TE: $15.82, Hold : Tampa Pulls Plug on IGCC Project; Model Updated







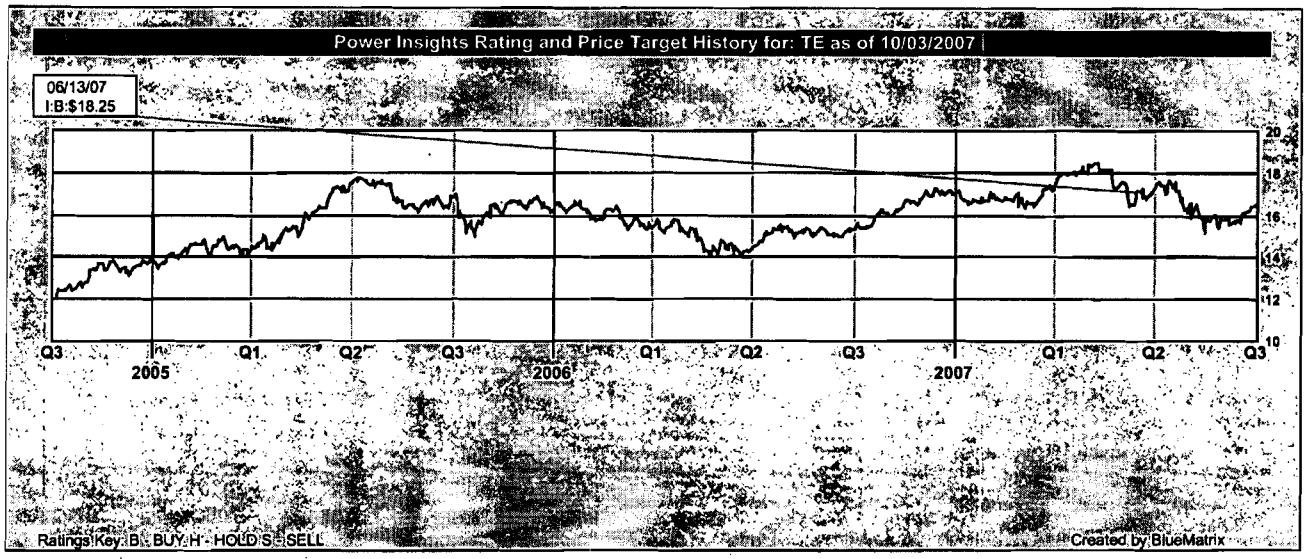


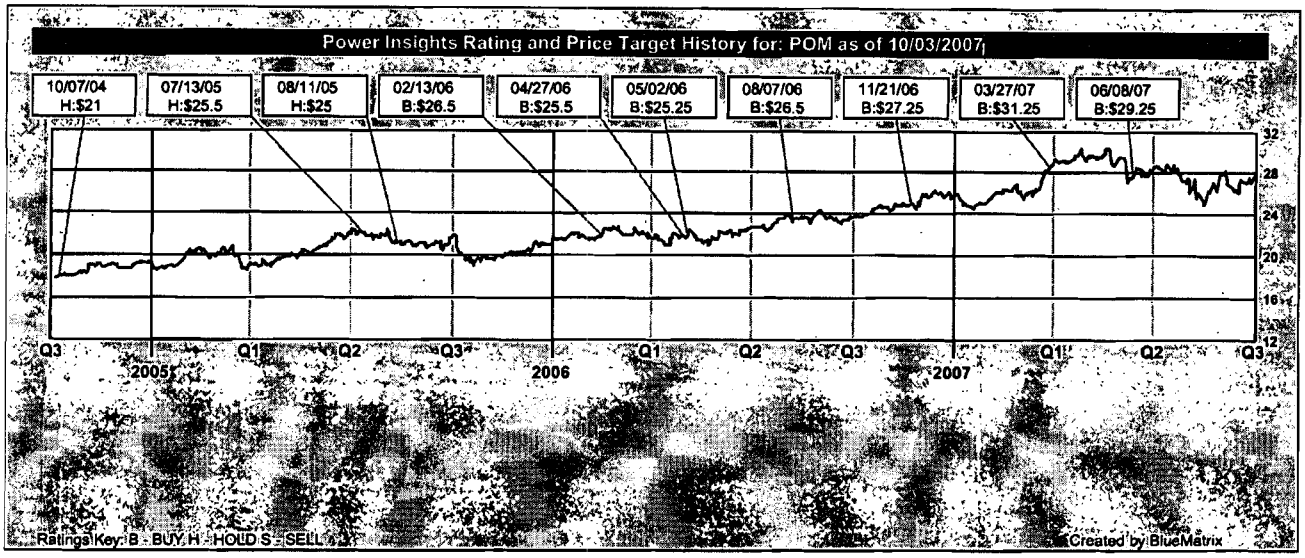
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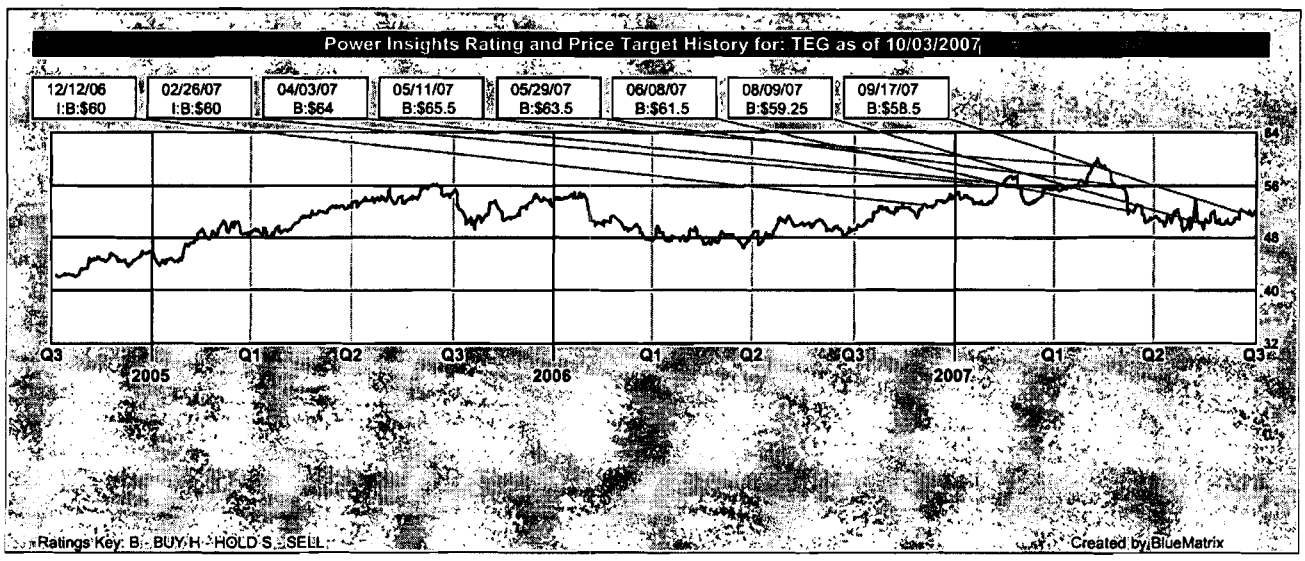
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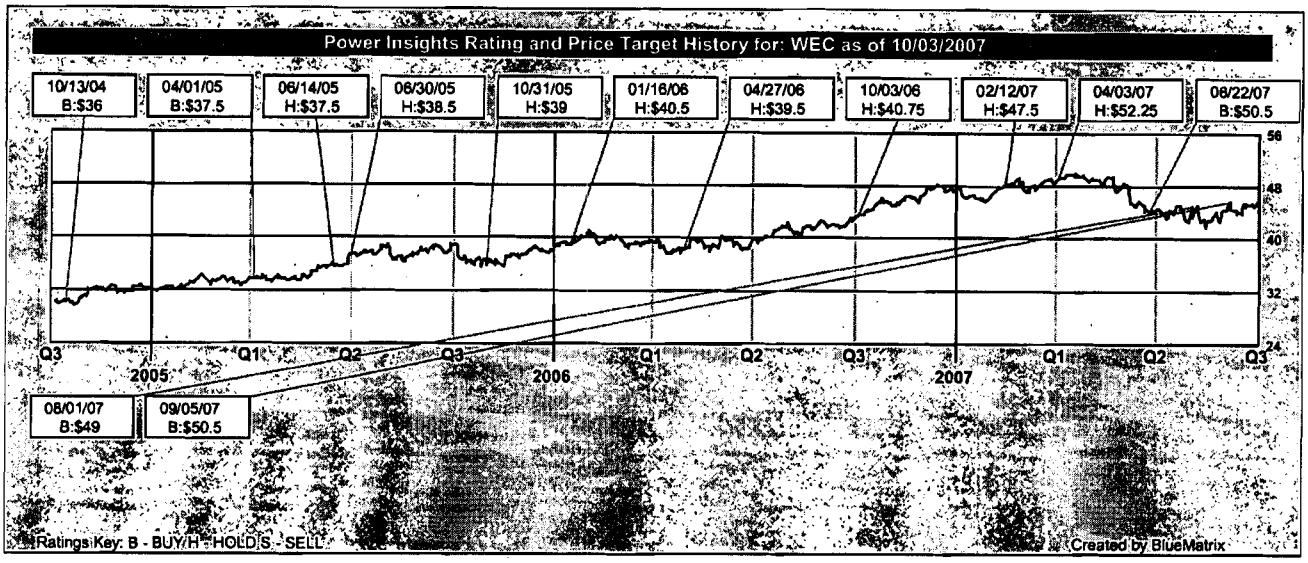
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Companies Mentioned
Integrys Energy Group (TEG, $51.88, Buy , NYSE)
Pepco Holdings (POM, $27.40, Buy , NYSE)
TECO Energy (TE, $15.82, Hold , NYSE)
Wisconsin Energy (WEC, $45.35, Buy , NYSE)




Power Insights Rating and Price Target History for: POM as of 10/03/2007
10/07/04 H:$21
07/13/05 H:$25.5
08/11/05 H:$25
02/13/06 B:$26.5
04/27/06 B:$25.5
05/02/06 B:$25.25
08/07/06 B:$26.5
11/21/06 B:$27.25
03/27/07 B:$31.25
06/08/07 B:$29.25
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2006
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2007
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Q2
Q3
Ratings Key: B - BUY, H - HOLD, S - SELL
Created by BlueMatrix


Power Insights Rating and Price Target History for: TEG as of 10/03/2007
12/12/06 I:B:$60
02/26/07 I:B:$60
04/03/07 B:$64
05/11/07 B:$65.5
05/29/07 B:$63.5
06/08/07 B:$61.5
08/09/07 B:$59.25
09/17/07 B:$58.5
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Q2
Q3
2006
Q1
Q2
Q3
2007
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Q2
Q3
Ratings Key: B - BUY, H - HOLD, S - SELL
Created by BlueMatrix



Additional Disclosures

Power Insights: Rating Key: Buy: total return potential of +12% or more over the next 12 months, Hold: total return potential between +12% and –12% over the next 12 months, Sell: total return potential of -12% or more over the next 12 months.

TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
[redacted]08
GlobalSUPPLEMENTAL: DECEMBER 31, 2008

UBS

UBS Investment Research

TECO Energy Inc.

Lowering Estimates on Coal Uncertainty, Maintaining Price Target

- **Mgmt Withdraws its 2008 EPS target of $1.23**

This is largely driven by the uncertainty around coal pricing and production levels since ~ 55% of expected coal production in '08 is still uncontracted. Mgmt also lowered its margin expectation from TECO Coal for '07. We are lowering our ex-synfuel '07E EPS to $1.00 from $1.07 (vs. mgmt guidance of $0.97 - 1.07). We are also lowering our '08E EPS to $1.12 from $1.24.

- **Exploring the Sale of TECO Transport**

Monetizing TECO Transport in a cyclical upswing to fund higher quality regulated earnings (albeit over the long-term) may not be such a bad idea, in our opinion. Nearer-term, the sale will likely be modestly dilutive to earnings but could be value neutral given the large NOL position at TECO.

- **4Q06 EPS Roughly In-line**

TECO realized 9% lower EPS in 4Q, to $0.22 from $0.24 in 4Q05, missing our $0.23 est. narrowly. YoY decline was driven by lower earnings at Tampa Electric and TECO Coal, partially offset by higher earnings at TECO Transport and TECO Guatemala. For the year, TECO realized a 9% decline in EPS, to $1.12 from $1.23 in '05.

- **Valuation: Maintaining 12-month Price Target of $17/share**

A lower growth outlook is being compensated by higher valuation for TECO Transport in our '08E EV/EBITDA multiple based SOP analysis, which incorporates a $2.50/share NPV for the banked synfuel tax credits and NOLs.

Highlights (US$m)	12/05	12/06	12/07E	12/08E	12/09E
Revenues	3,010	3,448	3,256	3,321	-
EBIT (UBS)	357	398	388	407	-
Net income (UBS)	255	234	209	233	-
EPS (UBS, US$)	1.22	1.12	1.00	1.12	-
Net DPS (UBS, US$)	0.76	0.76	0.76	0.76	-

Profitability & Valuation	5-yr hist. av.	12/06	12/07E	12/08E	12/09E
EBIT margin %	12.5	11.5	11.9	12.3	-
ROIC (EBIT) %	-	10.1	9.8	10.0	-
EV/EBITDA x	10.1	9.7	9.6	9.3	-
PE (UBS) x	13.8	14.3	17.0	15.2	-
Net dividend yield %	5.5	4.7	4.5	4.5	-

Source: Company accounts, Thomson Financial, UBS estimates. UBS adjusted EPS is stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.
Valuations: based on an average share price that year. (E): based on a share price of US$16.98 on 06 Feb 2007 19:36 EST

Ronald J. Barone
Analyst
ronald.barone@ubs.com
+1-212-713 3848

Shalini Mahajan, CFA
Analyst
shalini.mahajan@ubs.com
+1-212-713 2491

Americas	
Electric Utilities	
Rating	Neutral 2 *Unchanged*
Price target	US$17.00 *Unchanged*
Price	US$16.98

RIC: TE.N BBG: TE US

7 February 2007

Trading data	
52-wk. range	US$17.45-14.50
Market cap.	US$3.55bn
Shares o/s	209m
Free float	99%
Avg. daily volume ('000)	450
Avg. daily value (US$m)	7.6

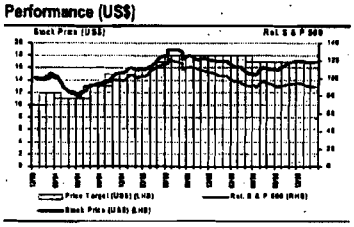
Balance sheet data 12/07E	
Shareholders' equity	US$1.79bn
P/BV (UBS)	2.0x
Net cash (debt)	(US$3.40bn)

Forecast returns	
Forecast price appreciation	+0.1%
Forecast dividend yield	4.5%
Forecast stock return	+4.6%
Market return assumption	9.9%
Forecast excess return	-5.3%

EPS (UBS, US$)

	12/07E From	12/07E To	12/07E Cons.	12/06 Actual
Q1E	-	-	*0.25*	0.27
Q2E	-	-	*0.26*	0.25
Q3E	-	-	*0.38*	0.38
Q4E	-	-	*0.24*	0.22
12/07E	1.07	1.00	*1.08*	
12/08E	1.24	1.12	*1.17*	

Performance (US$)



Source: UBS

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TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
SUPPLEMENTAL: DECEMBER 31, 2008

Valuation

We reiterate our 12-month $17 price target on TECO. In our sum-of-the-parts analysis, we use 2008 EBITDA estimates for the different business segments and apply a EV/EBITDA multiple. We then add the NPV of synfuel tax credits and NOLs to get to our 12-month price target. Our sum-of-the-parts analysis is shown in Table 1.

Table 1: Sum-of-the-Parts Analysis for TECO

($ million except per share value)	2008E EBITDA	EV/EBITDA Multiple	Enterprise Value
Tampa Electric	558	7.0x	3,908
Peoples Gas System	99	7.0x	695
Total Utility Value			**4,603**
TECO Transport	70	7.5x	525
TECO Coal	105	6.5x	683
Other Non-regulated	77	7.0x	539
Total Non-Regulated Value			**1,747**
Total 2008 Enterprise Value			**6,350**
Less: Total Net Debt			3,396
Equity Value			**2,954**
Equity Value per Share			**14.2**
Plus: Present Value of NOLs and Synfuel Tax Credits			2.5
Total Equity Value per Share			**$17**

Source: UBS estimates

Our price target of $17 implies a 15.2x multiple on our recurring 2008 EPS estimate. Price appreciation to $17 - combined with a 4.5% dividend yield - suggests a 4.6% total return potential. We reiterate our Neutral 2 rating on the stock.

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4Q06 Earnings Summary

Table 2 below outlines TECO's 4Q06 results by segment and shows the variance over 4Q05 earnings.

Table 2: TECO's 4Q06 Results by Segment

millions of US$ except per share values	4Q06	4Q05	% change
Total Regulated	**26.4**	**30.3**	**(12.9%)**
Tampa Electric	19.4	23.6	(17.8%)
Peoples Gas	7.0	6.7	4.5%
Total Unregulated	**19.6**	**20.0**	**(2.0%)**
TECO Transport	8.5	5.9	44.1%
TECO Coal	19.3	24.9	(22.5%)
TECO Guatemala	11.0	7.0	57.1%
Parent/Other	(19.2)	(17.8)	
TECO Recurring Net Income	**46.0**	**50.3**	**(8.5%)**
Non-recurring items			
Sale of unused steam turbine	3.1	(9.7)	
TECO Transport hurricane costs	(0.7)	13.7	
TECO Transport hurricane recovery	-	-	
Parent debt extinguishment	-	(1.7)	
Discontinued operations	0.5	(0.6)	
TECO GAAP Net Income	**48.9**	**52.0**	**(6.0%)**
Average Shares Outstanding - diluted	208.3	207.4	0.4%
TECO Recurring EPS	**0.22**	**0.24**	**(8.9%)**
TECO GAAP EPS	**0.23**	**0.25**	**(6.4%)**

Source: Company reports and UBS estimates

2006 Earnings Summary

Table 3 below outlines TECO's 2006 results by segment and shows the variance over 2005 earnings.

Table 3: TECO's 2006 Results by Segment

millions of US$ except per share values	2006	2005	% change
Total Regulated	**165.6**	**176.7**	**(6.3%)**
Tampa Electric	135.9	147.1	(7.6%)
Peoples Gas	29.7	29.6	0.3%
Total Unregulated	**68.0**	**78.0**	**(12.8%)**
TECO Merchant	0.0	(16.5)	
TECO Transport	25.8	19.1	35.1%
TECO Coal	78.8	115.4	(31.7%)
TECO Guatemala	37.6	40.4	(6.9%)
Parent/Other	(74.2)	(80.4)	
TECO Recurring Net Income	**233.6**	**254.7**	**(8.3%)**
Non-recurring Items			
Sale of unused steam turbine	5.7	-	
TECO Transport hurricane costs	(4.5)	(12.6)	
TECO Transport hurricane recovery	1.5	13.7	
Parent debt extinguishment	-	(46.7)	
Discontinued operations	1.9	63.5	
Dell & McAdams valuation adj. and gain on sale	8.1	1.9	
TECO GAAP Net Income	**246.3**	**274.5**	**(10.3%)**
Average Shares Outstanding – diluted	207.9	206.3	0.8%
TECO Recurring EPS	**1.12**	**1.23**	**(9.0%)**
TECO GAAP EPS	**1.18**	**1.33**	**(11.0%)**

Source: Company reports and UBS estimates

TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
SUPPLEMENTAL: DECEMBER 31, 2008

■ TECO Energy Inc.

TECO Energy, headquartered in Tampa, Florida, supplies electricity and natural gas in west-central Florida as part of its regulated businesses; transports, stores, and transfers coal; operates underground and surface coal mines; and produces synthetic fuels.

■ Statement of Risk

The key risks include high debt to capital ratio; higher O&M costs at Tampa Electric to meet reliability requirements, adverse weather conditions; changes in general economic conditions; regulatory environment; commodity prices; environmental matters; and interest rates.

■ Analyst Certification

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UBS rating	Definition	UBS rating	Definition	Rating category	Coverage[1]	IB services[2]
Buy 1	FSR is > 6% above the MRA, higher degree of predictability	Buy 2	FSR is > 6% above the MRA, lower degree of predictability	Buy	44%	36%
Neutral 1	FSR is between -6% and 6% of the MRA, higher degree of predictability	Neutral 2	FSR is between -6% and 6% of the MRA, lower degree of predictability	Hold/Neutral	43%	36%
Reduce 1	FSR is > 6% below the MRA, higher degree of predictability	Reduce 2	FSR is > 6% below the MRA, lower degree of predictability	Sell	13%	26%

1: Percentage of companies under coverage globally within this rating category.
2: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Ratings allocations are as of 31 December 2006.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).
Predictability Level The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.
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Companies mentioned

Company Name	Reuters	Rating	Price	Price date/time
TECO Energy Inc.[2,4,16]	TE.N	Neutral 2	US$16.98	06 Feb 2007 19:36 EST

Source: UBS. EST: Eastern standard time.

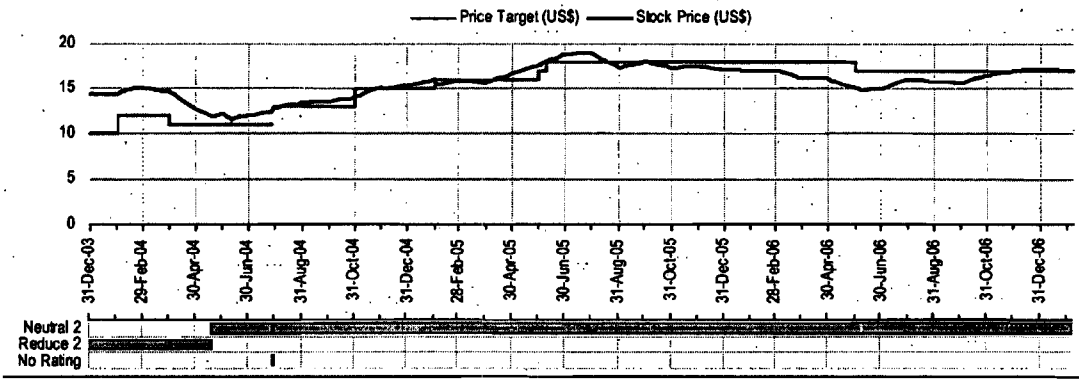
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TECO Energy Inc. (US$)



Source: UBS; as of 6 February 2007.

Note: On September 9, 2006, UBS adopted new percentage band criteria for its rating system. (See 'UBS Investment Research: Global Equity Ratings Definitions and Allocations' table for details). Between October 13, 2003 and September 9, 2006 the percentage band criteria used in the rating system was 10%. Prior to October 13, 2003, the UBS ratings and their definitions were: Buy 1: Excess return potential >15%, smaller range around price target; Buy 2: Excess return potential >15%, larger range around price target; Neutral 1: Excess return potential between -15% and 15%, smaller range around price target; Neutral 2: Excess return potential between -15% and 15%, larger range around price target; Reduce 1: Excess return potential < -15%, smaller range around price target; Reduce 2: Excess return potential < -15%, larger range around price target. Excess return is defined as the difference between the FSR and the one-year local market interest rate.

TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
SUPPLEMENTAL: DECEMBER 31, 2008

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TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
SUPPLEMENTAL: DECEMBER 31, 2008

UBS

Global Equity Research
Americas
Electric Utilities

UBS Investment Research

TECO Energy Inc.

Rating	Neutral 2 *Unchanged*
Price target	US$19.00 *Prior:US$18.00*
Price	US$18.13

RIC: TE.N BBG: TE US

16 May 2007

Updating Outlook

■ Revamping Our Financial Model

We have reworked our financial model on TECO to incorporate the proposed sale of TECO Transport, mgmt's target of accelerating the pay down of parent debt of $500 million (above the $357 million maturing in 2007) and the potential baseload capacity addition at Tampa Electric.

■ We See 6% CAGR in EPS Over 2007-2013 Without IGCC

This reflects steady customer growth at Tampa Electric and Peoples Gas, modest EPS growth at TECO Guatemala and TECO Coal, and benefits of debt reduction at the Parent. If the company proceeds with its proposed IGCC project in Florida, we forecast the earnings growth to be higher at around 8% over 2007-13. We assume a capex spend of $1.5 billion for the proposed 630 MW IGCC plant, expected to be operational in 2013. A bill that favors IGCC construction in Florida via cash recovery of the construction costs is awaiting the approval of the Governor.

■ Lowering 2008 EPS Estimate for Expected Dilution on Transport Sale

We are lowering our 2008E EPS, to $1.00 from $1.12, to reflect the sale of TECO Transport (we assume the sale closes by the end of 2007) and other modelling adjustments. We are maintaining our 2007 EPS estimate at $1.00 that compares with mgmt's EPS guidance of $0.97 – 1.07. TECO reported 1Q07 EPS of $0.21 (excluding synfuel), which was $0.01 higher than our estimate of $0.20.

■ Valuation: Raising12-month Price Target to $19 from $18

We derive our price target from an EV/EBITDA based sum-of-the-parts analysis of the different business segments and a synfuel NPV of $3.70/share.

Trading data	
52-wk range	US$18.50-14.50
Market cap.	US$3.79bn
Shares o/s	209m (COM)
Free float	99%
Avg. daily volume ('000)	579
Avg. daily value (US$m)	10.1

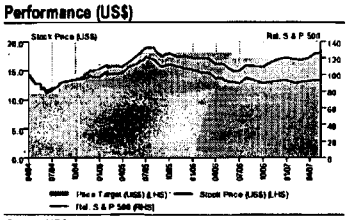
Balance sheet data 12/07E	
Shareholders' equity	US$1.79bn
P/BV (UBS)	2.1x
Net Cash (debt)	(US$3.42bn)

Forecast returns	
Forecast price appreciation	+4.8%
Forecast dividend yield	4.3%
Forecast stock return	+9.1%
Market return assumption	9.7%
Forecast excess return	-0.6%

EPS (UBS, US$)

	12/07E			12/06
	From	To	Cons.	Actual
Q1	0.20	0.21	0.21	0.27
Q2E	-	-	0.26	0.25
Q3E	-	-	0.37	0.38
Q4E	-	-	0.22	0.22
12/07E	1.00	1.00	*1.07*	
12/08E	1.12	1.00	*1.14*	

Performance (US$)



Source: UBS

www.ubs.com/investmentresearch

Highlights (US$m)	12/05	12/06	12/07E	12/08E	12/09E
Revenues	3,010.10	3,448.10	3,595.27	3,690.55	-
EBIT (UBS)	356.70	397.50	360.47	380.77	-
Net Income (UBS)	254.70	233.84	209.23	209.12	-
EPS (UBS, US$)	1.22	1.12	1.00	1.00	-
Net DPS (UBS, US$)	0.76	0.76	0.78	0.79	-

Profitability & Valuation	5-yr hist av.	12/06	12/07E	12/08E	12/09E
EBIT margin %	12.5	11.5	10.0	10.3	-
ROIC (EBIT) %	-	10.1	9.1	9.5	-
EV/EBITDA (core) x	10.1	9.7	10.6	10.0	-
PE (UBS) x	13.8	14.3	18.1	18.1	-
Net dividend yield %	5.5	4.7	4.3	4.4	-

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.
Valuations: based on an average share price that year. (E): based on a share price of US$18.13 on 15 May 2007 19:37 EDT

Ronald J. Barone
Analyst
ronald.barone@ubs.com
+1-212-713 3848

Shalini Mahajan, CFA
Analyst
shalini.mahajan@ubs.com
+1-212-713 2491

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Valuation

Table 1 presents our valuation analysis for TECO.

Table 1: Sum-of-the-Parts Analysis for TECO

($ million except per share value)	2008E EBITDA	EV/EBITDA Multiple	Enterprise Value
Tampa Electric	530	7.5x	3,971
Peoples Gas System	107	7.5x	805
Total Utility Value			**4,777**
TECO Transport	70	7.0x	490
TECO Coal	105	7.0x	735
Other Non-regulated	77	7.0x	539
Total Non-Regulated Value			**1,764**
Total 2008 Enterprise Value			**6,541**
Less: Total Net Debt			3,423
Equity Value			**3,118**
Equity Value per Share			**14.9**
Plus: Present Value of NOLs and Synfuel Tax Credits			3.7
Total Equity Value per Share			**$19**

Source: UBS estimates

■ TECO Energy Inc.

TECO Energy, headquartered in Tampa, Florida, supplies electricity and natural gas in west-central Florida as part of its regulated businesses; transports, stores, and transfers coal; operates underground and surface coal mines; and produces synthetic fuels.

■ Statement of Risk

The key risks include high debt to capital ratio; higher O&M costs at Tampa Electric to meet reliability requirements, adverse weather conditions; changes in general economic conditions; regulatory environment; commodity prices; environmental matters; and interest rates.

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UBS Investment Research: Global Equity Ratings Definitions and Allocations

UBS Rating	Definition	UBS Rating	Definition	Rating Category	Coverage[1]	IB Services[2]
Buy 1	FSR is > 6% above the MRA, higher degree of predictability	Buy 2	FSR is > 6% above the MRA, lower degree of predictability	Buy	47%	37%
Neutral 1	FSR is between -6% and 6% of the MRA, higher degree of predictability	Neutral 2	FSR is between -6% and 6% of the MRA, lower degree of predictability	Neutral	42%	36%
Reduce 1	FSR is > 6% below the MRA, higher degree of predictability	Reduce 2	FSR is > 6% below the MRA, lower degree of predictability	Sell	12%	28%

1:Percentage of companies under coverage globally within this rating category.
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Source: UBS. Ratings allocations are as of 31 March 2007.

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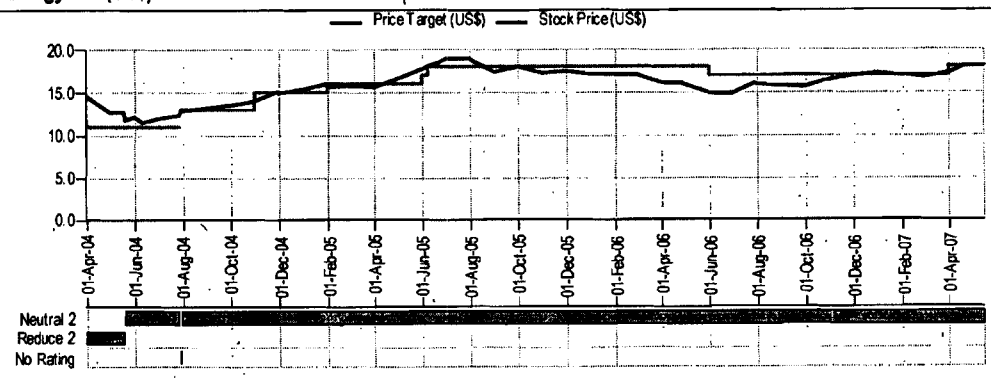
Company Name	Reuters	Rating	Price	Price date
TECO Energy Inc.[2, 4, 6, 7, 16, 22]	TE.N	Neutral 2	US$18.13	15 May 2007

Source: UBS. All prices as of local market close.

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TECO Energy Inc. (US$)



Source: UBS; as of 15 May 2007

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UBS

TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
SUPPLEMENTAL: DECEMBER 31, 2008

UBS

Global Equity Research

Americas

Electric Utilities

UBS Investment Research

TECO Energy Inc.

12-month rating	Neutral *Unchanged*
12m price target	US$17.50 *Unchanged*
Price	US$17.26

RIC: TE.N BBG: TE US

7 November 2007

Uplift from Weather

■ 3Q07 Performance Led By Strong Weather and Transport Results

TECO reported an increase of 16% in recurring 3Q EPS (ex synfuel), to $0.38 from $0.30 in 3Q06, Results were significantly above our estimate of $0.33 and the Street consensus of $0.35. Tampa Electric benefited from favourable weather and lower depreciation and property taxes, partially offset by declining residential customer consumption and FPSC storm hardening requirements. The quarter also benefited from strong results at TECO Transport led by higher ocean-going volumes as well as continued growth at TECO Guatemala.

■ 2007 Outlook Intact

Mgmt reiterated its EPS guidance at $0.97 - $1.07 for 2007 and will issue 2008 guidance concurrent with year-end results. We are maintaining our 2007 EPS and 2008 EPS estimates at $1.00 each. However, we note that the recent strength in the European met coal markets adds positive bias to our 2008 EPS estimate.

■ New Peaking and CC Units to Replace the Scrapped IGCC Project

Mgmt is planning to build peaking units in 2009 and 2010 at Tampa Electric to meet immediate demand growth. It is also looking to construct a new CC facility to meet forecasted baseload need in 2013, originally intended to be met by its IGCC unit. Given the forecasted capex levels and LTM earned ROE toward the lower end of the allowed range, we expect Tampa Electric to seek rate relief in the near-term.

■ Valuation: Maintaining 12-Month Price Target of $17.50

We derive our price target using an EV/EBITDA based sum-of-the-parts analysis. This implies a 17.5x PE on our 2008E EPS.

Trading data	
52-wk range	US$18.50-15.13
Market cap.	US$3.61bn
Shares o/s	209m (COM)
Free float	99%
Avg. daily volume ('000)	841
Avg. daily value (US$m)	13.6

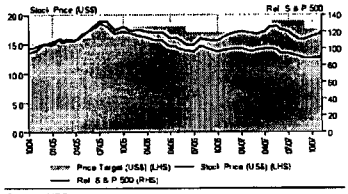
Balance sheet data 12/07E	
Shareholders' equity	US$1.79bn
P/BV (UBS)	2.0x
Net Cash (debt)	(US$3.37bn)

Forecast returns	
Forecast price appreciation	+1.4%
Forecast dividend yield	4.6%
Forecast stock return	+6.0%
Market return assumption	8.7%
Forecast excess return	-2.7%

EPS (UBS, US$)

	12/07E			12/06
	From	To	Cons.	Actual
Q1	0.21	0.21	0.21	0.27
Q2	0.25	0.25	0.25	0.25
Q3	0.33	0.38	0.35	0.38
Q4E	0.21	0.15	0.20	0.22
12/07E	1.00	1.00	*1.01*	
12/08E	1.00	1.00	*1.10*	

Performance (US$)



Source: UBS
www.ubs.com/investmentresearch

Highlights (US$m)	12/05	12/06	12/07E	12/08E	12/09E
Revenues	3,010	3,448	3,596	3,692	-
EBIT (UBS)	357	398	361	381	-
Net Income (UBS)	255	234	209	209	-
EPS (UBS, US$)	1.22	1.12	1.00	1.00	-
Net DPS (UBS, US$)	0.76	0.76	0.78	0.79	-

Profitability & Valuation	5-yr hist av.	12/06	12/07E	12/08E	12/09E
EBIT margin %	12.5	11.5	10.0	10.3	-
ROIC (EBIT) %	-	10.1	9.0	9.4	-
EV/EBITDA (core) x	10.1	9.7	10.3	9.7	-
PE (UBS) x	13.8	14.3	17.2	17.3	-
Net dividend yield %	5.5	4.7	4.5	4.6	-

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.
Valuations: based on an average share price that year. (E): based on a share price of US$17.26 on 06 Nov 2007 19:37 EST

Ronald J. Barone
Analyst
ronald.barone@ubs.com
+1-212-713 3848

Shalini Mahajan, CFA
Analyst
Shalini.Mahajan@ubs.com
+1-212-713 2491

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3Q07 Earnings Summary

Table 1 below outlines TECO's 3Q07 results by segment and shows the variance over 3Q06 earnings.

Table 1: TECO's 3Q07 Results by Segment

millions of US% expect per share values	3Q07	3Q06	Difference	% Diff
Total Regulated	68.6	61.2	7.4	12%
Tampa Electric	64.8	57	7.8	14%
Peoples Gas System	3.8	4.2	(0.4)	-10%
Total Unregulated	10.5	2.3	8.2	357%
TECO Coal	7.4	7.6	(0.2)	-3%
TECO Transport	10.4	3.6	6.8	189%
TECO Guatemala	10.2	6.7	3.5	52%
Parent/Other	(17.5)	(15.6)	(1.9)	12%
TECO Recurring Net Income	79.1	63.5	15.6	25%
Non-Recurring Items				
TECO Transport recorded at TECO Energy	(3.0)	0.0	(3.0)	
TECO Transport Depreciation	3.6	(0.2)	3.8	
Steam turbine gain on sales	0.0	2.6	(2.6)	
Total Charges	0.6	2.4	(1.8)	
Synfuel Benefit	13.1	13.8	(0.7)	-5%
GAAP Net Income	92.8	79.7	13.1	16%
Avg. Shares Outstanding - diluted	210	208.7		
TECO Recurring EPS	0.38	0.30	0.07	24%
TECO GAAP EPS	0.44	0.38	0.06	16%

Source: Company reports and UBS estimates

■ **TECO Energy Inc.**

TECO Energy, headquartered in Tampa, Florida, supplies electricity and natural gas in west-central Florida as part of its regulated businesses; transports, stores, and transfers coal; operates underground and surface coal mines; and produces synthetic fuels.

■ **Statement of Risk**

The key risks include high debt to capital ratio; higher O&M costs at Tampa Electric to meet reliability requirements, adverse weather conditions; changes in general economic conditions; regulatory environment; commodity prices; environmental matters; and interest rates.

■ **Analyst Certification**

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	Buy	55%	40%
Neutral	Hold/Neutral	36%	35%
Sell	Sell	9%	22%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	Buy	0%	29%
Sell	Sell	0%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2007.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).
Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.
Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

EXCEPTIONS AND SPECIAL CASES

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.
UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.
Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned or Company Disclosure table in the relevant research piece.

Company Disclosures

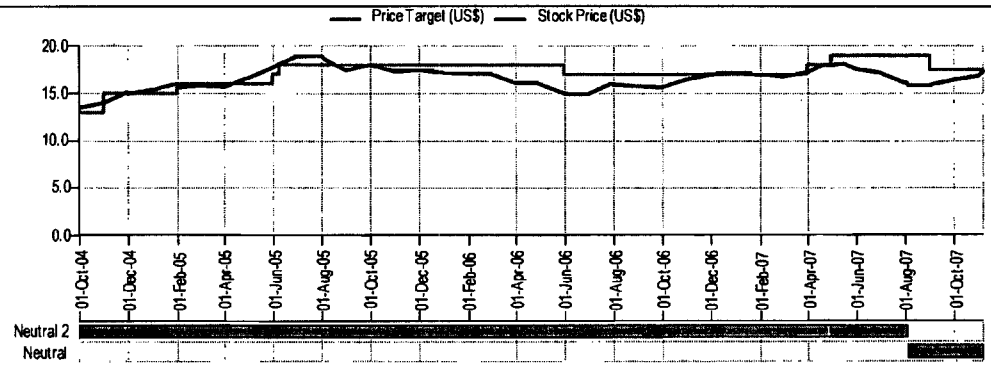
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
TECO Energy Inc.[2, 4, 6, 7, 16]	TE.N	Neutral	N/A	US$17.26	06 Nov 2007

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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16. UBS Securities LLC makes a market in the securities and/or ADRs of this company.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

TECO Energy Inc. (US$)



Source: UBS; as of 06 Nov 2007

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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Global Equity Research

Americas

Electric Utilities

UBS Investment Research

TECO Energy Inc.

12-month rating	Neutral *Unchanged*
12m price target	US$17.50 *Unchanged*
Price	US$15.84

RIC: TE.N BBG: TE US

5 October 2007

Changing Its Mind on IGCC

■ TECO Defers its Planned 632 MW IGCC plant

TECO yesterday announced that it has deferred its plans to build an IGCC plant in Florida. The 632 MW Polk 6 unit was designed to meet the demand needs of Tampa Electric in 2013. The company blamed the uncertainty related to future carbon regulations, both at the state and the national level, and the potential costs associated with these for its decision.

■ Growth Outlook Diminished

At roughly $2 billion of project cost, the IGCC presented a significant rate base growth opportunity for TECO driving an EPS CAGR of 8% over 2007-13. We believe TECO will now pursue the development of a combined cycle gas generation plant. Unlike IGCC, this alternative represents a fraction of the rate base growth, pushes out the earnings growth to beyond 2010 and does not allow TECO to get cash recovery of the financing costs.

■ No Change in Our EPS Estimates

We are maintaining our 2007 and 2008 EPS estimates at $1.00, which did not reflect any contribution from the IGCC project. But these do reflect a sale of TECO Transport by the end of 2007; the proposed sale has been delayed due to the recent credit market crunch.

■ Valuation: Maintaining $17.50 Price Target and Neutral Rating

We derive our price target using an EV/EBITDA based sum-of-the-parts analysis.

Trading data	
52-wk range	US$18.50-15.13
Market cap.	US$3.31bn
Shares o/s	209m (COM)
Free float	99%
Avg. daily volume ('000)	933
Avg. daily value (US$m)	15.2

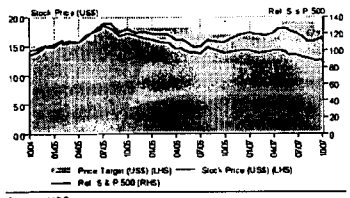
Balance sheet data 12/07E	
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P/BV (UBS)	1.8x
Net Cash (debt)	(US$3.47bn)

Forecast returns	
Forecast price appreciation	+10.5%
Forecast dividend yield	5.0%
Forecast stock return	+15.5%
Market return assumption	9.0%
Forecast excess return	+6.5%

EPS (UBS, US$)

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	UBS	Cons.	Actual
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Performance (US$)



Source: UBS

www.ubs.com/investmentresearch

Highlights (US$m)	12/05	12/06	12/07E	12/08E	12/09E
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Net dividend yield %	5.5	4.7	4.9	5.0	-

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year. (E): based on a share price of US$15.84 on 04 Oct 2007 19:37 EDT

Ronald J. Barone
Analyst
ronald.barone@ubs.com
+1-212-713 3848

Shalini Mahajan, CFA
Analyst
Shalini.Mahajan@ubs.com
+1-212-713 2491

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■ **TECO Energy Inc.**

TECO Energy, headquartered in Tampa, Florida, supplies electricity and natural gas in west-central Florida as part of its regulated businesses; transports, stores, and transfers coal; operates underground and surface coal mines; and produces synthetic fuels.

■ **Statement of Risk**

The key risks include high debt to capital ratio; higher O&M costs at Tampa Electric to meet reliability requirements, adverse weather conditions; changes in general economic conditions; regulatory environment; commodity prices; environmental matters; and interest rates.

■ **Analyst Certification**

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	Buy	55%	40%
Neutral	Hold/Neutral	36%	35%
Sell	Sell	9%	22%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	Buy	0%	29%
Sell	Sell	0%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2007.

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KEY DEFINITIONS

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Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.
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Company Disclosures

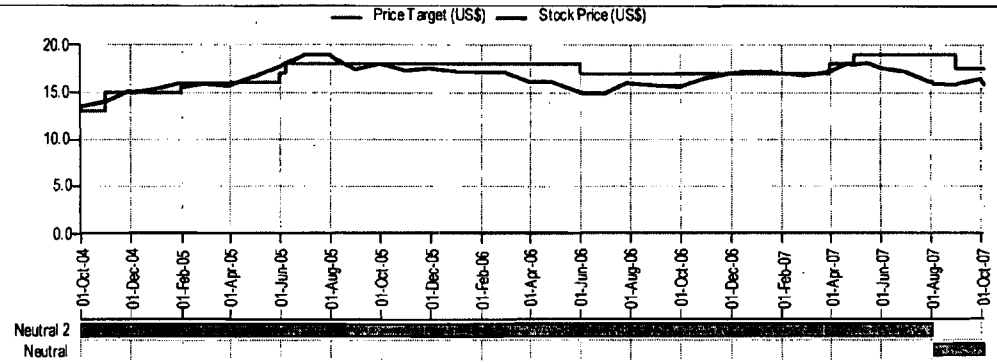
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
TECO Energy Inc.[2, 4, 6, 7, 16, 22]	TE.N	Neutral	N/A	US$15.84	04 Oct 2007

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

TECO Energy Inc. (US$)



Source: UBS; as of 04 Oct 2007

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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TECO Energy: Doing the Right Things to Achieve Investment Grade
Date Published: 28 Mar 2007, 23:49

- TE is in a strong cash position and is on its way to reaching investment grade at the parent level.
- TE is in the process of selling TE Transport and will use proceeds to accelerate parent debt reduction.
- TE's growing regulated segment of 71% in 2010 versus 52% in 2006 will be supported by increased capex.
- The company will need more generation by 2013 and is proposing a 630 MW IGCC.
- TE's cash priorities will remain paying down parent debt and infusing equity into Tampa Electric.

TECO Energy (TE Ba2 watch for upgrade/BB) **held its annual NY analyst meeting yesterday, and it was much quieter than in the past.** TE remains a recovery story and an improving credit. While most companies that started to see their fortune change turned to rewarding shareholders, TE is holding firm to improving credit ratings. TE will commit growing cash flows to its regulated businesses and debt reduction. It will also lower its risk profile by selling its transport business. Meanwhile, the long term view on dividends is keeping them constant. Tampa Electric's rate base will grow from additional investments on its T&D system and new baseload generation expected to come online in 2013. People's Gas and TECO Guatemala will continue to provide stable cash flows while TE Coal may suffer slightly due to weaker spot prices. **Overall, TE is in a strong cash position and is on its way to reaching investment grade at the parent level.**

Management is doing all the right things to please the rating agencies. The company's best bet is at Moody's which currently has TE on watch for upgrade. TE set a new course when it exited out of the merchant generation business and continues to refine its strategy with the intention of selling TE Transport. Given the current robust barge market and strong indications of interest, management is fairly confident that it will sell this business. TE has $763 million of NOLs to offset any gains. Part of the proceeds will be used accelerate $500 million of parent debt retirement from 2008-2010 on top of the $357 million maturing in 2007. The rest of the proceeds will go towards infusing equity into Tampa Electric.

Tampa Electric's contribution will grow over the next couple of years, driven by capital expenditures. Overall cash flows from TE's regulated segment will represent 71%of the total in 2010 versus 52% in 2006. Management raised Tampa Electric's capex forecast by $300 million to $1.9 billion through 2011 because of higher

costs for materials and contractors as well as additional requirements for its T&D system. The budget includes environmental upgrades, for which FL has an environmental cost recovery clause, at Big Bend but excludes costs for peaking and baseload additions.

By 2013, TE will need more generation to meet its growing customer base, and the proposed 630 MW IGCC at its existing Polk site will take center stage. The utility has a 250 MW IGCC that has been operating for 10 years and dispatches first on its system. The estimated cost for peakers and the IGCC is over $1.5 billion. TE is seeking legislative support for the IGCC from FL that will provide cash AFUDC during construction, first-year revenue requirements through a base-rate surcharge, and recovery on the plant even if it is not completed. TE is hopeful to get resolution by the time the FL Legislative session ends in early May.

Despite higher costs for an IGCC versus constructing a traditional pulverized coal plant, TE believes in the long run that the IGCC could be as economical. Management said that the new plant could be designed to remove CO2 if required. There will also be more fuel flexibility and that should reduce fuel costs significantly. At its existing IGCC, TE has successfully burned pet coke and biomass as well as a number of coal blends. The new IGCC will be slightly more efficient, targeting a 9,000 Btu/kWh versus the current 9,750 Btu/KWH. However, the improved heat rate will only be slightly better than the most efficient pulverized coal plants that run under 9,500 Btu/kWh. The DOE and IRS also allow $133 million of tax credits on the IGCC. The key point is that TE will likely not pursue the plant unless it certainty of cost recoveries.

TE Coal could be in a weak spot in the next couple of years as spot coal markets have softened. Mild weather has led to higher steam coal inventories. Management previously stated that the impact on gross margins will drop to $11/ton from $12/ton. TE still expects to produce 9.0 to 9.5 million tons, including 5.7 million tons of synfuel. Approximately 86% of 2007 and 45% of 2008 production is contracted. To manage margins, TE will shift its production mix to a higher level of met/PCI coal and potentially curtail production. Met/PCI coal should make up 40% of the mix by 2008 versus 30% in 2007. Synfuel's 2007phase-out range is $63-79/Bbbl NYMEX. TE hedged about $195 million, or a third, of its third party investor proceeds at a cost of $37 million. The net cash benefit from synfuel should be $100 million and $70 million of net income.

TE financials continue to strengthen. Since June 2005, TE has paid down $637 million of parent debt. Management will have to closely watch Tampa Electric as anticipated increased capex could force it to go in for a rate case. TE raised ongoing capital investments at Tampa Electric by $100 million to $300 million annually, which excludes SCR related costs. Current base rates may not support Tampa Electric earning within its allowed ROE range in the long run. TE will match equity infusion to any new debt issuance at the utility to maintain a 50/50 capital structure. When costs peak for the IGCC in 2010, cash flows will be a bit pinched, but management is reviewing ways to meet the cash needs including short term debt. The

$763 million of NOLs and $197 million of AMT carry forward will reduce cash tax payments through 2011 to under $20 million annually.

TE's cash priorities will remain paying down parent debt and infusing equity into Tampa Electric. Consolidated debt target is 55 to 60%. If TE is successful in selling TE Transport and accelerates debt retirement, debt to cap could reach 59% in 2007. Management did throw one bone to shareholders. It stated that it is unlikely that TE will have to issue equity to support capex and that short term debt may be issued to bridge any gaps. EBITDA coverage was slightly down to 3.2x from 3.3x YoY. Cash flow coverages improved drastically. CFO/interest and FFO/interest rose to 3.0x and 3.2x from 1.6x and 1.6x, respectively. The balance sheet was slightly stronger at the end of the year at 69.3% from 71.2% debt to cap. Management is maintaining its 2007 guidance range of $0.97-1.07.

Dot Matthews
dmatthews@creditsights.com

Catherine Shin
cshin@creditsights.com

Scott Greenstein
sgreenstein@creditsights.com

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TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
SUPPLEMENTAL: DECEMBER 31, 2008

UBS

Global Equity Research

Americas

Electric Utilities

UBS Investment Research

TECO Energy Inc.

12-month rating	Neutral *Unchanged*
12m price target	US$17.50 *Unchanged*
Price	US$16.74

RIC: TE.N BBG: TE US

29 October 2007

Sale of TECO Transport Announced

■ **Sale Proceeds of $405 Mn Roughly In-line With Our Expectations**

TECO announced this morning the long awaited sale of its TECO Transport unit to an investment group led by Greenstreet Equity Partners, LP for $405 Mn in cash. Management expects net proceeds will amount to between $370 – 380 Mn. With projected EBITDA of $70 Mn for 2008, the sale implies a 5.8x EV/EBITDA multiple.

■ **Glad to See the Sale Completed, But Dilutive to 2008 Earnings**

After backing out of its planned Polk IGCC generation facility earlier this month, the completion of the sale of TECO Transport gets management back on track to lower leverage. Assuming the sale is closed by year end and proceeds are used to pay down debt, we expect the sale of TECO Transport to be dilutive to 2008 EPS by $0.05, 5% of our 2008 EPS estimate.

■ **No Change in Our EPS Estimates**

We are maintaining our 2008 EPS estimates at $1.00, which already reflected the sale of TECO Transport.

■ **Valuation: Maintaining $17.50 Price Target and Neutral Rating**

We derive our price target using an EV/EBITDA based sum-of-the-parts analysis. Our price target implies a 17.5x PE multiple on our 2008E EPS.

Trading data	
52-wk range	US$18.50-15.13
Market cap.	US$3.50bn
Shares o/s	209m (COM)
Free float	99%
Avg. daily volume ('000)	885
Avg. daily value (US$m)	14.2

Balance sheet data 12/07E	
Shareholders' equity	US$1.79bn
P/BV (UBS)	1.9x
Net Cash (debt)	(US$3.47bn)

Forecast returns	
Forecast price appreciation	+4.5%
Forecast dividend yield	4.7%
Forecast stock return	+9.2%
Market return assumption	8.8%
Forecast excess return	+0.4%

EPS (UBS, US$)

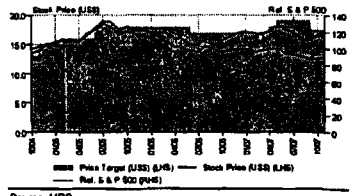
	12/07E		12/06
	UBS	Cons.	Actual
Q1	0.21	0.21	0.27
Q2	0.25	0.25	0.25
Q3E	0.33	0.35	0.38
Q4E	0.21	0.20	0.22
12/07E	1.00	*1.01*	
12/08E	1.00	*1.10*	

Highlights (US$m)	12/05	12/06	12/07E	12/08E	12/09E
Revenues	3,010	3,448	3,596	3,692	-
EBIT (UBS)	357	398	361	381	-
Net Income (UBS)	255	234	209	208	-
EPS (UBS, US$)	1.22	1.12	1.00	1.00	-
Net DPS (UBS, US$)	0.76	0.76	0.78	0.79	-

Profitability & Valuation	5-yr hist av.	12/06	12/07E	12/08E	12/09E
EBIT margin %	12.5	11.5	10.0	10.3	-
ROIC (EBIT) %	-	10.1	9.0	9.4	-
EV/EBITDA (core) x	10.1	9.7	10.2	9.6	-
PE (UBS) x	13.8	14.3	16.7	16.8	-
Net dividend yield %	5.5	4.7	4.6	4.7	-

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.
Valuations: based on an average share price that year. (E): based on a share price of US$16.74 on 26 Oct 2007 19:38 EDT

Performance (US$)



Source: UBS

www.ubs.com/investmentresearch

Ronald J. Barone
Analyst
ronald.barone@ubs.com
+1-212-713 3848

Shalini Mahajan, CFA
Analyst
Shalini.Mahajan@ubs.com
+1-212-713 2491

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US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.
UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.
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Company Disclosures

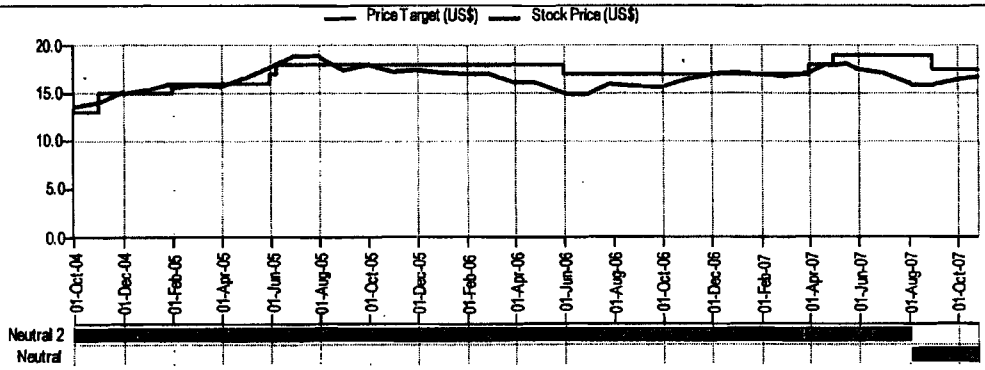
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
TECO Energy Inc.[2, 4, 6, 7, 16, 22]	TE.N	Neutral	N/A	US$16.74	26 Oct 2007

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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TECO Energy Inc. (US$)



Source: UBS; as of 26 Oct 2007

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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UBS

Utilities Research
October 30, 2008

TECO Energy, Inc. (TE)

Mild Weather, Slow Economy, Increased Coal Costs Hurt 3Q EPS; Maintain Rating

Price: (10/29/08)	**12.82**	**Rating:**	**Outperform**	**FY Dec**	**2007A**	**2008E**	**2009E**
52WK H-L:	**22 - 11**			Q1	0.21A	0.15A	
Market Cap (mil):	**2,731.94**	**Suitability:**	**Average Risk**	Q2	0.25A	0.24A	
Shares Out (mil):	212.0			Q3	0.38A	0.27A	
Float (mil):	198.2			Q4	0.23A	0.18E	
Avg. Daily Vol (mil):	2.37			**Total**	**1.07A**	**0.85E**	**1.25E**
		Price Target:	**19**	Previous		0.90E	
Dividend:	0.80			FY P/E	12.0x	15.1x	10.3x
Yield:	6.24						

Please refer to Appendix - Important Disclosures and Analyst Certification.

David E. Parker
dparker@rwbaird.com
813.274.7620

Michael L. Gresens, CFA
mgresens@rwbaird.com
414.765.3849

Weston A. Wicks
wwicks@rwbaird.com
414.298.1412

Action

Maintain Outperform rating and $19 price target. Despite soft 3Q08 EPS, we believe TE remains on track to generate significantly improved EPS in 2009 and 2010 reflecting normalized utility margins with rate relief and improved realized coal margins. Improved EPS performance is expected to fuel above-average total returns including an above-average dividend yield. We maintain our Outperform rating, $19 price target and 2009 and 2010 EPS estimates.

Summary

Mild summer weather, weak economy and increased coal production costs pressures 3Q08 EPS. TECO reported 3Q08 adjusted EPS of $0.27 versus $0.38 last year and our $0.32 estimate. The consensus estimate was $0.29.

- Electric utility net income declined 22% YOY (-$14.2 million) to $50.6 million, reflecting very mild weather, lower sales to other utilities and no customer growth due to a slowed Florida economy.
- Coal operations net income declined 50% YOY to $3.7 million primarily reflecting a 16% increase in production costs. Diesel fuel and steel products have more than doubled YOY. TE mentioned that it appears production cost escalation peaked in 2Q08.

- **2009 EPS should improved dramatically.** We expect rate relief and a resetting of contracted coal prices to current market to boost EPS by over 45% in 2009.
  - TE's 2009 outlook for its coal operations is strong reflecting an increase in expected contracted coal prices. Currently, 88% of expected 2009 production is contracted at an average price of $77/ton (up 20% from 2008). Unpriced tons are 60% met and 40% PCI coal with recent market prices averaging about $200/ton.

- **TE maintains guidance.** TE maintained its 2008 EPS guidance of $0.80-0.90 which assumes slowed Florida economic activity and increasing costs and operational pressures at its coal operations.
- **Fine-tuning 2008 EPS; No change in outlook for 2009 and 2010.** We have lowered our 2008 EPS estimate to $0.85 from $0.90 and have maintained our 2009 and 2010 EPS estimates of $1.25 and $1.55, respectively.

Details

TECO reported 3Q08 adjusted EPS of $0.27 versus $0.38 last year and our $0.32 estimate. The consensus estimate was $0.29.

Figure 1: TE 3Q08 Results Variance

3Q08 Results (mil)	Actual	Year Ago	Change	Estimate	Variance
Revenue	$926	$990	-6.5%	$996	-7.0%
Gross Income	463	555	-16.7%	507	-8.7%
Gross Margin	49.9%	56.1%		50.9%	
Operating Expense	346	414	-16.5%	380	-9.0%
Operating Income	117	141	-17.3%	126	-7.7%
Operating Margin	12.6%	14.2%		12.7%	
Pretax Income	87	119	-26.9%	102	-15.0%
Net Income	$58	$79	-26.4%	$67	-13.0%
Diluted EPS	$0.27	$0.38	-27.3%	$0.32	-13.5%
Diluted Shares	213	210	1.2%	211	0.6%
3Q08 nonrecurring and other items of note:					
None					
3Q07 nonrecurring and other items of note:					
Excludes $3.0M transaction costs ($0.01/share)					
Excludes $13.1M earnings from synfuel ($0.06/share)					
Adds back $3.6M in TECO Transport depreciation excluded for GAAP ($0.02/share).					

Source: Company Reports and Robert W. Baird & Co. estimates

Figure 2: EPS Reconciliation

EPS Reconciliation		
Prior Year EPS		$0.38
Tampa Electric	(0.07)	
Peoples Gas System	(0.01)	
TECO Coal	(0.02)	
TECO Transport	(0.04)	
TECO Guatemala	0.01	
Parent/Other	0.02	
Additional Shares	(0.00)	
Current EPS		$0.27

Source: Company Reports

2008 Earnings Guidance

TE maintained its 2008 EPS guidance of $0.80-0.90, which assumes slowed economic activity in Florida and increasing costs pressures at its coal operations. We have fine-tuned our 2008 EPS estimate to $0.85 from $0.90, and have maintained our 2009 and 2010 EPS estimates of $1.25 and $1.55, respectively. TECO expects the primary earnings drivers to include the following:

- **Tampa Electric** – Experienced total degree days are 3% below 2007, reflecting lower residential per-customer usage due to mild weather, voluntary conservation, and customer growth indicative of a continued weak housing market and economic slowdown. Slower customer growth and increasing costs have caused utility ROEs to fall below Tampa Electric's allowed 10.75-12.75% ROE band, prompting a rate case in 8/2008 with new rates potentially in place by 5/2009.

- **Peoples Gas** - mild winter weather has reduced year-to-date sales, and customer growth has slowed due to the housing market slowdown pushing 2008 earnings below Peoples Gas' allowed 10.5-12.5% ROE band, prompting the petition for a base rate increase in 8/2008 with new rates potentially in place by 6/2009.
- **TECO Coal** - 2008 sales are now expected to be about 9.5 million tons, down from 10 million tons previously forecasted, due to the production issues experienced YTD, a lack of qualified workers and equipment. Selling prices for over 90% of 2008's production reflect contracts signed in 2006 and 2007 or before, which were inked prior to the run-up in coal prices. Production costs have spiked reflecting a doubling of diesel fuel, steel and petroleum-related products, however, it appears cost escalation peaked in 2Q08.
- TE expects 2008 TECO Guatemala earnings at about 2007 levels, given the strong year-to-date performance.
- Costs at the parent company level (primarily interest expense) should continue to decline due to debt retirements.

2009 Outlook

TE's preliminary outlook for 2009 includes:

- Strong outlook for TECO Coal with production expected at 10.5 million tons and 88% of expected 2009 production contracted at an average price of $77/ton, which is a 20% increase over contracted prices in 2008. Uncontracted coal production is 60% met and 40% PCI with recent market prices averaging about $200/ton. TE expects fully loaded production costs to be $65-75/ton. TECO Coal has hedged the diesel fuel that it expects to consume in 2009.
- Strong operational performance at TECO Guatemala is expected to be partially offset by a scheduled major maintenance outage on the San José Power Station. Results for the distribution utility, EEGSA, are expected to be reduced by the significantly lower VAD rates that became effective 8/1/08 if current efforts to achieve a more satisfactory outcome are unsuccessful.
- Appropriate base rate relief at the regulated Florida utilities and a slow economic recovery in Florida. TE now forecasts that the recent turmoil in the financial industry and the tightening of lending standards will delay the housing market recovery, which is now not expected to start until the second half of 2010, compared to the previous estimates for the second half of 2009.

Segment Analysis

Figure 3: Results by Segment

	3 Mos. Ended		%	9 Mos. Ended		%
Segment Revenue	**9/30/2008**	**9/30/2007**	**Change**	**9/30/2008**	**9/30/2007**	**Change**
Tampa Electric	$601.8	$646.9	-7%	$1,609.4	$1,663.5	-3%
Peoples Gas System	180.6	145.5	24%	543.9	457.9	19%
TECO Coal	142.0	142.1	0%	446.3	396.7	13%
TECO Transport	0.0	77.9	NM	0.0	231.1	NM
TECO Guatemala	1.8	1.9	-5%	6.1	5.9	3%
Total Net Revenue	926.2	1,014.3	-9%	2,605.7	2,755.1	-5%
Other/eliminations	(0.1)	(24.3)	NM	(0.7)	(77.3)	NM
Consolidated Revenue	$926.1	$990.0	-6%	$2,605.0	$2,677.8	-3%
Net Income						
Tampa Electric	$50.6	$64.8	-22%	$106.7	$121.3	-12%
Peoples Gas System	2.6	3.8	-32%	17.9	20.2	-11%
TECO Coal	3.7	7.4	-50%	15.4	28.9	-47%
TECO Transport	0.0	7.4	NM	0.0	19.8	NM
TECO Guatemala	11.7	10.2	15%	37.1	33.3	11%
Parent/Other	(10.4)	(14.5)	-28%	(36.7)	(47.4)	-23%
Total Net Income	$58.2	$79.1	-26%	$140.4	$176.1	-20%

Source: Company Reports

Regulated Utility

Tampa Electric

Tampa Electric's 3Q08 net income declined 22% YOY (-$14.2 million) to $50.6 million reflecting very mild weather conditions, lower sales to other utilities, increased depreciation expense reflecting an FPSC-approved depreciation schedule (-$4.4 million), and no customer growth due to a slowed Florida economy. Increased AFUDC (+$1.3 million) associated with the addition of environmental controls equipment partially offset these negatives. Tampa Electric provides retail electric service to over 660,000 customers in West Central Florida.

3Q08 results reflect lower retail energy sales and flat customers growth (from 2.5-3% average historically) and decreased sales to commercial and industrial customers. Tampa Electric's 3Q08 retail energy sales declined 6.7% YOY due to mild weather, lower sales to industrial customers due to phosphate production facility outages and continued weak economic conditions. Cooling degree-days were 7% below normal and 11% below 3Q07 levels. New customer additions were flat as customer adds were essentially offset by meter disconnects associated with housing foreclosures and vacant homes reflecting the current weak economic conditions in the Tampa area and continued weakness in the local housing market.

O&M (excluding FPSC rider-recovered expenses) increased slightly ($0.6 million) in 3Q08 primarily due to increased power plant maintenance costs ($1.1 million), slightly higher bad debt expense and $0.5 million of higher employee-related and vehicle diesel fuel costs. Lower overhead and self insurance reserve expenses ($1.8 million) compared to 3Q07 partially offset other increased O&M costs. Depreciation and amortization expenses increased to $46.6 million from $39.5 million last year primarily related to the results of a depreciation study completed during 3Q07 that reduced 2007 depreciation rates. Net income included $1.3 million of Allowance for Funds Used During Construction (AFUDC) reflecting construction cost capitalized related to the installation of nitrogen oxide (NOx) pollution control equipment, compared to $0.7 million in the 3Q07.

On 10/13/2008, Tampa Electric revised its fuel forecast with the Florida PSC for 2008 and 2009 based primarily on lower natural gas prices. Tampa Electric now expects to be $133

million underrecovered by 12/31/2008, down from its previous projection of $209 million, which it expects to recover in its 2009 fuel charge. Fuel and purchased power costs are pass-through items on customer bills for Tampa Electric.

2008 Rate Case
On 8/11/2008, Tampa Electric Co. filed an application with the Florida PSC for a base rate increase of $228.2 million (+12%). Utilizing a 2009 test year, the electric rate increase is based off a $3.657 billion average rate base, 55.3% equity capitalization and 12.0% ROE (11-13% monitoring range). Tampa Electric was previously authorized an 11.75% ROE (10.75-12.75% range). Tampa Electric' last rate base increase was approved in 12/1992. Management expects a final decision by 5/2009.

Figure 4: Electric Utility Statistics

	3 Mos. Ended		%	9 Mos. Ended		%
Tampa Electric	9/30/2008	9/30/2007	Change	9/30/2008	9/30/2007	Change
Operating Revenue ($mil)						
Residential	299.3	327.0	-8%	753.5	781.7	-4%
Commercial	176.3	184.8	-5%	485.6	491.6	-1%
Industrial - Phosphate	14.3	18.3	-22%	47.4	54.4	-13%
Industrial - Other	28.2	30.7	-8%	85.8	89.4	-4%
Other Sales of Electricity	49.4	47.9	3%	138.8	131.8	5%
Deferred and Other Revenue	(0.3)	(30.1)		(20.6)	(44.6)	
Retail Revenue	567.2	578.5	-2%	1,490.7	1,504.4	-1%
Sales for resale	18.3	18.7	-2%	53.5	51.9	3%
Other Operating Revenue	16.4	49.6	-67%	39.3	85.4	-54%
Total Operating Revenue	$601.9	$646.8	-7%	$1,583.4	$1,641.6	-4%
Electric Sales (MWh)						
Residential	2,638.8	2,892.3	-9%	6,570.3	6,823.2	-4%
Commercial	1,784.1	1,869.5	-5%	4,873.6	4,926.5	-1%
Industrial - Phosphate	208.3	262.0	-20%	693.1	782.5	-11%
Industrial - Other	327.0	343.1	-5%	957.1	997.7	-4%
Other Sales of Electricity	494.5	478.5	3%	1,377.1	1,295.7	6%
Deferred and Other Revenue	-	-		-	-	
Retail Sales	5,452.7	5,845.4	-7%	14,471.2	14,825.6	-2%
Sales for resale	241.4	249.4	-3%	661.2	670.6	-1%
Other Operating Revenue	-	-		-	-	
Total Electric Sales	$5,694.1	$6,094.8	-7%	$15,132.4	$15,496.2	-2%
Electric Retail Rev. cents/kWh						
Residential	11.34	11.31	0%	11.47	11.46	0%
Commercial	9.88	9.88	0%	9.96	9.98	0%
Industrial - Phosphate	6.88	6.97	-1%	6.84	6.95	-2%
Industrial - Other	8.61	8.94	-4%	8.97	8.96	0%
Other Sales of Electricity	9.99	10.00	0%	10.08	10.17	-1%
Deferred and Other Revenue						
Total Retail Rev. cents/kWh	10.40	9.90	5%	10.30	10.15	2%
Sales for resale	7.60	7.51	1%	8.09	7.73	5%
Other Operating Revenue						
Total Rev. cents/kWh	10.57	10.61	0%	10.46	10.59	-1%
Avg. Customers (000)	666.2	666.6	0%	667.6	665.8	0%
Retail Output to Line (MWh)	5,729.1	6,113.8	-6%	15,364.7	15,694.7	-2%

Source: Company Reports

Capital Expenditure Needs
Tampa Electric is currently installing environmental upgrades at its Big Bend Station. It will invest approximately $330 million to install selective catalytic reduction (SCR) systems at each of the four units at the station. The SCRs for Unit 4 and 3 were completed in 6/2007 and 5/2008, while Units 2 and 1 are targeted for completion by 5/2009 and 5/2010, respectively.

TE is still evaluating its options as to how to meet its 2013 baseload needs following the 2007 rejection of an IGCC plant. The need in part arises as its long-term PPA for output from the Hardee Power Station that expires after 2012, with Seminole Electric having the first option to take the entire plant's output after the date. The most likely option would be construction of a combined-cycle natural gas-fired facility, which TE estimates would cost $500-600 million for an approximate 555-MW facility. To meet the 2013 need, engineering for the project would need to begin by 2008 with peak spending occurring in 2010. We estimate the total earnings contribution could be approximately $0.15/share.

In addition to its baseload needs, TE also requires additional peaking capacity, which it believes could better suit its system needs than continuing with purchased power contracts. In particular, enhanced reliability rules is requiring more generating plants in Florida to have "Black Start" capabilities, or the ability to start generation without requiring an external power source. As such, TE plans to install five combustion turbines with 300 MWs of capacity at its existing generation stations by 2010. TE expects the additions will cost $237 million, with the bulk of the spending ($108 million) occurring in 2008. TE had completed the addition of two 150-MW simple cycle natural gas turbines at its Polk Station in 2006. Management announced that it may moderately delay some of its planned capacity additions due to weaker demand trends.

Peoples Gas System

Peoples Gas 3Q08 net income declined 32% to $2.6 million from $3.8 million in 3Q07 primarily reflecting increased O&M, higher depreciation reflecting asset additions, higher interest expense due to increased debt balances outstanding and slowed customer growth. These negatives were partially offset by increased lower margin services associated with volumes transported to two new industrial customers with substantial load. Peoples Gas System is engaged in natural gas distribution to more than 300,000 customers in Florida's major metropolitan areas.

Total gas throughput declined 8% primarily reflecting lower sales to power generation customers due to very mild weather conditions in the 3Q08. Cooling degree days were down YOY over 11%. 3Q08 customer growth of 0.2% was well below the historical 3%-plus averages, again reflecting the slowdown in the housing market, with average customer usage patterns continuing to decline.

2008 Rate Case
On 8/11/2008, Peoples Gas filed an application with the Florida PSC requesting a base rate increase of $26.5 million (+5%). Utilizing a 2009 test year, the rate increase is based off a $564 million average rate base, 54.7% equity capitalization and 11.5% ROE (10.5-12.5% monitoring range). Peoples Gas also requested that a $3.7 million interim rate increase be approved by 10/10/2008. Peoples Gas was previously authorized an 11.25% ROE (10.25-12.25% range). Peoples Gas last rate base increase was approved in 1/2003. Management expects a final decision by 5/2009.

On 9/29/2008, the Florida PSC granted Peoples Gas a $2.4 million interim rate increase based on a 10.25% ROE, 50.18% equity ratio and $515.2 rate base for a test year ended 4/30/2008. The rate increase became effective on 10/29/2008.

Figure 5: Gas Utility Statistics

	3 Mos. Ended		%	9 Mos. Ended		%
Gas Stats	9/30/2008	9/30/2007	Change	9/30/2008	9/30/2007	Change
Gas Revenue ($mil)						
Residential	26.6	23.2	15%	107.5	108.6	-1%
Commercial	34.1	31.4	9%	116.5	123.1	-5%
Industrial	1.9	2.4	-23%	6.3	7.3	-14%
Off System Sales	105.4	73.8	43%	271.8	174.2	56%
Power Generation	2.9	4.9	-41%	10.0	11.2	-11%
Other	7.8	8.4	-7%	26.2	28.7	-8%
Total Gas Revenue	$178.7	$144.0	24%	$538.5	$453.0	19%
Gas Throughput (mil. th)						
Residential	10.7	10.0	8%	53.3	53.6	0%
Commercial	82.1	79.8	3%	279.9	279.4	0%
Industrial	44.4	42.2	5%	144.5	142.0	2%
Off System Sales	99.0	97.7	1%	259.7	226.4	15%
Power Generation	134.3	172.4	-22%	374.0	355.0	5%
Other	-	-		-	-	
Total Gas Throughput	370.5	402.1	-8%	1,111.3	1,056.3	5%
Gas Rev. $/th						
Residential	2.48	2.33	7%	2.02	2.03	-1%
Commercial	0.42	0.39	6%	0.42	0.44	-5%
Industrial	0.04	0.06	-27%	0.04	0.05	-15%
Off System Sales	1.06	0.75	41%	1.05	0.77	36%
Power Generation	0.02	0.03	-25%	0.03	0.03	-15%
Other						
Total Gas $/th	0.48	0.36	35%	0.48	0.43	13%
Avg. Customers (000)	334.1	333.5	0%	335.5	334.6	0%

Source: Company Reports

Non-Regulated Operations

TECO Coal

TECO Coal's reported net income declined 50% to $3.7 million in 3Q08 from $7.4 million of net income in 3Q07 (excluding $13.1 million in synfuel earnings, which ceased at the end of 2007). 3Q08 earnings include a benefit of $2.6 million from a contract settlement related to future coal sales. Revenue was flat YOY at $142 million reflecting an almost 10% increase in the average price/ton sold across TE's product lines offset by a decrease of 0.2 million in tons sold. Lower earnings primarily reflect a 16% increase in production costs. Increased costs were driven by a more than doubling of diesel fuel prices and steel products, and higher contract mining costs and costs for explosives used in surface mining operations. TECO's coal sales in 2008 primarily reflect contracts signed prior to the run-up in commodity prices earlier this year; however, production costs were not hedged as TE believed costs pressures were already at heightened levels. TE noted that these costs have declined from peak levels experienced in 2Q08 as commodity costs have declined roughly 50% from peak levels in 6/2008.

Outlook for 2009

- Management's guidance assumes output will decline by 0.5 million tons to 9.5 million tons from previous estimates reflecting more difficult geological conditions and a shortage of labor.
- For 2009, TE has signed contracts for 88% of its expected 10.5 million tons production at at an average price of $77/ton and TE expects fully loaded production costs to be

$65-75/ton. Of the 12% expected coal sales unsold, TE expects 60% to be metallurgical coal and 40% to be PCI coal. Recent market prices for similar quality metallurgical and PCI coals have averaged about $200/ton. TECO Coal has hedged the diesel fuel that it expects to consume in 2009 for contracted tons through oil swap contracts or through contract terms. (Diesel accounts for about 10-15% of total production costs.)

- We expect a significant earnings increase in 2009 and 2010 as production levels increase and realized prices reset closer to current market levels as coal sales contracts roll over and are re-signed at market prices.

TECO Coal mines its coal from 37 underground and surface mines in the Central Appalachia region, primarily in eastern Kentucky and partially into western Virginia, with 277.1 million tons of proven and probable recoverable reserves as of 12/31/2007. TECO Coal produced 9.2 million tons of coal in 2007 and expects to produce 9.5 million tons in 2008 and 10.5 million tons in 2009, with approximately 35% of coal production being of specialty coals, including metallurgical (met) and PCI (pulverized coal injection) coal used in steel production and specialty stoker products used in ferro-silicon and industrial applications.

TECO Guatemala

TECO Guatemala 3Q08 net income increased 15% to $11.7 million from $10.2 million in 3Q07. The earnings improvement primarily reflects better power generation market pricing, utility customer growth, increased wholesale sales and lower interest costs due to lower rates and reduced debt balances, partially offset by a lower VAD tariff (see explanation below). Diesel is the primary fuel on the margin for power in Guatemala, which advantages TECO's coal-based generation.

On 8/15/2008, TECO announced that EEGSA could experience a material decrease in earnings following events impacting its Value Added Distribution charges, whose 5-year term was scheduled to reset after 7/31/2008. Instead of experiencing a tariff increase as expected, EEGSA experienced a material tariff decrease following a decision by the National Electric Energy Commission (CNEE) on 7/31/2008. On 7/25/2008, CNEE disbanded a group of experts that were appointed according to existing regulations to review and approve new tariffs, and ultimately set the tariff itself instead. Iberdrola, the managing partner for EEGSA, is leading legal and other efforts to challenging the CNEE's decision. We believe the investment in EEGSA represents approximately one-quarter of TECO Guatemala's earnings, or $0.05-0.07/share.

TECO owns two power stations in Guatemala, one a coal-fired plant (San Jose) and the other a peaking facility (Alborada), both of which drive utility-like earnings due to longer-term contracts. TECO also owns a 24% stake in EEGSA, the largest distribution utility in Guatemala, which benefits from solid core growth plus the electrification of rural areas.

Parent & Other

3Q08 Parent & Other costs declined to a $10.4 million drag from a $17.5 million drag in 3Q07, primarily reflecting lower interest costs associated with debt reduction partially offset by lower investment income due to lower cash balances.

Cash & Liquidity

TECO has credit facilities totaling $675 million with about $20 million of available credit lines utilized. Cash at 9/30/2008 was $95 million resulting in total available short-term liquidity of $750 million.

Investment Thesis

We rate TE Outperform with a 12-month price target of $19. Upside to our target exists once additional progress is made toward finalizing rate relief and/or details of new coal sales contracts are publicized providing improved predictability of future margins. These risks we believe are somewhat mitigated by the constructive regulatory environment in Florida and current favorable forward coal spot prices.

- **Well-positioned utility operations.** TE has benefited from solid 2-3% customer growth and supportive regulation, although current market conditions have caused a slowdown in growth. TE expects to spend $400 million in annual base capital expenditures on average over the next five years, nearly two times depreciation levels, with potential generation additions providing upside.
- **Rate relief expected to boost utility margins.** Slowed customer growth and escalating cost pressures have prompted rate filings for TE's electric and gas utility operations. 2009 and 2010 EPS are expected to benefit from depressed 2008 levels reflecting normalized utility margins as well as accelerated electric utility infrastructure investment.
- **Coal benefiting from global commodity inflation.** We expect earnings from TECO Coal in 2009 and 2010 to benefit from a significant spike in global coal prices due to a number of supply and demand issues.
- **Attractive and sustainable dividend yield.** We expect a resumption of dividend growth by 2009 given improving cash flow and EPS growth.
- **Valuation.** Our 12-month price target of $19 is 11x our 2010 EPS estimate, adjusted for $1.50/share in incremental NOLs.

Risks & Caveats

We maintain a suitability rating of Average Risk on TE due to the additional risk associated with TE's non-regulated business, which are more susceptible to earnings fluctuations from varying market conditions. Risks include, but are not limited to, the following:

- Profitability of TE's unregulated segments can fluctuate with swings in the economy and commodity prices. The company's business is sensitive to fluctuations in the weather. A particularly warm winter or cool summer could adversely affect TE's financial results.
- The company has no control of the wholesale prices of natural gas, oil or coal. A spike in the price of these fuels could impact TE's financial results.
- TE's utility operations are subject to federal, state and local legislative requirements. Changes in regulations or in the regulatory environment in general could impact TE's earnings.
- TECO Coal's financial results fluctuates with the market price of coal which could increase the volatility of TE's stock price.

Company Description

TECO Energy is a diversified energy company headquartered in Tampa, Florida. Its primary businesses are Tampa Electric, Peoples Gas, TECO Coal and TECO Guatemala. Tampa Electric Company provides retail electric service to more than 660,000 customers in West Central Florida. Peoples Gas System provides retail natural gas service to over 330,000 customers in Florida. TECO Coal operates coal mines and handling facilities in Kentucky and Tennessee, and through 2007, had interests in several synfuel production facilities. TECO Guatemala is engaged in the distribution and generation of electricity in Guatemala.



Dave Parker (813) 274-7620
Michael Gresens, CFA (414) 765-3849

TECO Energy - Quarterly Earnings Model

	2006				2007				2008			
	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08E
Net Sales	$836	$863	$923	$826	$821	$867	$990	$858	$792	$887	$926	$883
Cost of Goods Sold	340	344	390	315	350	369	435	362	365	426	464	438
Gross Income	496	518	533	511	471	497	555	496	427	461	463	445
Operating Expense	405	412	402	436	390	402	414	414	349	359	346	380
Operating Income	92	106	131	75	81	95	141	82	79	102	117	65
Pretax Income	83	77	118	73	64	74	119	73	45	74	87	54
Net Income	$58	$52	$77	$51	$44	$53	$79	$48	$31	$51	$58	$39
EPS	$0.28	$0.25	$0.37	$0.25	$0.21	$0.25	$0.38	$0.23	$0.15	$0.24	$0.27	$0.18
Dividends	$0.19	$0.19	$0.19	$0.19	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20
Average Shares	209	209	209	209	209	210	210	210	211	212	213	213
Margin Analysis												
Gross Margin	59.3%	60.1%	57.7%	61.8%	57.3%	57.4%	56.1%	57.8%	54.0%	52.0%	49.9%	50.4%
Operating Expense	48.4%	47.7%	43.6%	52.8%	47.4%	46.4%	41.8%	48.2%	44.0%	40.5%	37.4%	43.0%
Operating Margin	11.0%	12.3%	14.2%	9.0%	9.9%	11.0%	14.2%	9.6%	9.9%	11.5%	12.6%	7.4%
Pretax Margin	10.0%	8.9%	12.8%	8.8%	7.7%	8.6%	12.0%	8.5%	5.7%	8.3%	9.4%	6.1%
Net Margin	6.9%	6.1%	8.4%	6.2%	5.3%	6.1%	8.0%	5.6%	4.0%	5.8%	6.3%	4.4%

TECO Energy - Annual Earnings Model

	2004	2005	2006	% chg	2007	% chg	2008E	% chg	2009E	% chg	2010E	% chg
Net Sales	$2,669	$3,010	$3,448	15%	$3,536	3%	$3,488	(1%)	$3,917	12%	$4,255	9%
Cost of Goods Sold	935	1,081	1,390	29%	1,517	9%	1,692	12%	1,731	2%	1,783	3%
Gross Income	1,734	1,929	2,058	7%	2,020	(2%)	1,796	(11%)	2,187	22%	2,473	13%
Operating Expense	1,472	1,574	1,655	5%	1,620	(2%)	1,433	(12%)	1,706	19%	1,901	11%
Operating Income	262	355	403	14%	400	(1%)	363	(9%)	481	33%	572	19%
Pretax Income	238	382	351	(8%)	330	(6%)	260	(21%)	376	45%	466	24%
Net Income	$151	$255	$239	(6%)	$224	(6%)	$180	(20%)	$267	49%	$334	25%
EPS	$0.78	$1.22	$1.14	(6%)	$1.07	(7%)	$0.85	(21%)	$1.25	48%	$1.55	24%
Dividends	$0.76	$0.76	$0.76	0%	$0.78	3%	$0.80	3%	$0.82	3%	$0.84	2%
Average Shares	193	208	209	0%	210	1%	212	1%	214	1%	215	0%
Margin Analysis												
Gross Margin	65.0%	64.1%	59.7%		57.1%		51.5%		55.8%		58.1%	
Operating Expense	55.1%	52.3%	48.0%		45.8%		41.1%		43.5%		44.7%	
Operating Margin	9.8%	11.8%	11.7%		11.3%		10.4%		12.3%		13.4%	
Pretax Margin	8.9%	12.7%	10.2%		9.3%		7.4%		9.6%		11.0%	
Net Margin	5.7%	8.5%	6.9%		6.3%		5.1%		6.8%		7.8%	

Balance Sheet Data

	2004	2005	2006	2007	3Q08
Cash & Equivalents	$154	$383	$479	$170	$182
Receivables	287	323	338	296	331
Inventory	121	154	160	154	69
Current Assets	738	1,272	1,286	790	981
Fixed Assets	4,658	4,567	4,767	4,888	5,009
Total Assets	9,476	7,170	7,362	6,765	7,054
Current Debt	129	222	687	32	7
Payables	258	355	327	302	357
Current Liabilities	2,222	926	1,350	618	793
Other Liabilities	2,087	943	1,070	972	1,021
L.T. Debt and Lease	3,880	3,709	3,213	3,158	3,212
Common Equity	1,284	1,592	1,729	2,017	2,028

Ratio Analysis

	2005	2006	2007	3Q08
Debt/Total Cap	71%	69%	61%	61%
Current Ratio	1.4	1.0	1.3	1.2
Days Sales Outst.	37	35	33	33
EBIT/Interest	2.3x	2.3x	2.3x	2.3x
Inventory Turn	7.9x	8.9x	9.7x	11.6x
Return on Equity	17.7%	14.4%	11.9%	10.8%
High P/E Ratio	15.8x	15.5x	17.4x	22.2x
Low P/E Ratio	12.2x	12.6x	13.9x	16.1x
Book Value	$7.64	$8.25	$9.56	$9.53
Price/Book	2.2x	2.1x	1.8x	2.3x
Cash Flow/Share	$2.58	$2.50	$2.32	$2.19
Price/Cash Flow	6.7x	6.9x	7.4x	9.8x

Please refer to "Appendix - Important Disclosures" and Analyst Certification.

TECO Energy, Inc.

($ in Millions Except As Noted)

	2003	2004	2005	2006	2007	2008E	2009E	2010E	3 Yr Growth
Net Revenue	$2,718	$2,669	$3,010	$3,448	$3,536	$3,488	$3,917	$4,255	6.4%
EBIT by Segment									
Utilities	$359.9	$386.6	$399.1	$387.8	$407.7	$390.5	$441.4	$479.9	5.6%
Wholesale Generation/Guatemala	(19.2)	13.7	36.4	61.3	67.7	70.9	74.0	77.6	4.7%
Transport	29.4	22.4	31.6	44.1	36.7	0.0	0.0	0.0	
Coal	100.8	95.3	193.7	125.0	70.7	33.6	103.4	155.0	29.9%
Eliminations/Other Income	23.0	42.0	10.3	10.9	5.1	(6.3)	(7.3)	(7.3)	
Earnings Before Interest & Taxes	$493.9	$560.0	$671.1	$629.1	$587.9	$488.7	$611.5	$705.2	6.3%
Other Income	83.6	180.8	229.1	156.1	188.2	126.2	130.5	133.1	(10.9%)
Minority Interest	48.8	79.5	87.1	69.6	0.0	0.0	0.0	0.0	
Operating Income	$361.5	$299.7	$354.9	$403.4	$399.7	$362.6	$481.0	$572.1	12.7%
Interest Expense	313.8	321.6	288.7	278.3	257.8	229.2	235.4	238.8	(2.5%)
Pretax Income	$180.1	$238.3	$382.4	$350.8	$330.1	$259.5	$376.1	$466.4	12.2%
Net Income	$164.8	$151.2	$254.7	$238.8	$223.7	$179.6	$267.2	$333.6	14.2%
Earnings Per Share	**$0.92**	**$0.78**	**$1.22**	**$1.14**	**$1.07**	**$0.85**	**$1.25**	**$1.55**	13.4%
Diluted Shares	179.9	192.6	208.2	208.7	209.9	212.3	213.9	214.9	0.8%
Annualized Dividend Per Share	$0.93	$0.76	$0.76	$0.76	$0.78	$0.80	$0.82	$0.84	2.5%
Payout Ratio (%)	101	97	62	66	73	95	66	54	
Returns									
Return on Common Equity	7.7	10.2	17.7	14.4	11.9	8.9	12.9	15.2	
Internal Cash % of Total Capital	19	(3)	(0)	7	9	6	8	10	
Coverage Ratios									
Interest Coverage Ex. Non-Cash	1.5	1.7	2.3	2.3	2.3	2.1	2.6	2.9	
Internal Cash % Of Construction	183	(53)	(1)	89	98	76	105	128	
Internal Cash % of Total Cap. Req.	174	(50)	(1)	37	96	62	100	122	
% of Total Capital									
Short-term Debt	0.6	2.2	3.9	0.9	0.5	0.5	0.5	0.4	
Total Debt	67.4	75.7	71.2	69.3	61.3	62.5	61.8	61.1	
Preferred Stock	10.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Common Equity	27.3	24.2	28.8	30.7	38.7	37.5	38.2	38.9	
% Growth in Invested Capital	-13.2	-13.8	4.3	1.9	-7.5	3.9	2.6	5.1	
Total Invested Capital	$6,141	$5,295	$5,523	$5,629	$5,208	$5,410	$5,552	$5,835	3.9%
Total Debt	3,813	4,009	3,931	3,900	3,191	3,383	3,433	3,563	
Total Preferred	649	0	0	0	0	0	0	0	
Total Common Equity	1,678	1,284	1,592	1,729	2,017	2,027	2,119	2,272	
Cash Flow									
Cash Flow From Operations	$632	$151	($75)	$471	$833	$720	$725	$731	
Dividends (Pref. & Common)	165	145	158	159	163	170	175	181	
Internal Cash	466	6	(233)	312	670	550	550	550	
Construction Excluding AFC	591	273	295	456	494	450	450	450	
Other Investments	63	0	0	0	0	0	0	0	
Redemptions	850	225	494	366	1,182	100	100	100	
Total Capital Requirements	1,503	498	789	822	1,676	550	550	550	
Total Financing	792	88	608	340	458	0	0	0	

BAIRD

Date Printed:	10/30/08			TECO Energy, Inc.			Dave Parker (813) 274-7620
Fiscal Year:	DEC			TE			Michael Gresens, CFA (414) 765-3849
(in millions)							
Balance Sheet	**2003**	**2004**	**2005**	**2006**	**2007**	**3Q08**
ASSETS						
Cash & Equivalents	$108	$97	$346	$442	$163	$172
Receivables	280	287	323	338	296	331
Inventory	171	121	154	160	154	69
Other	259	176	412	309	170	399
Total Current	818	680	1,235	1,248	782	971
Fixed Assets	5,679	4,658	4,567	4,767	4,888	5,009
Goodwill & Intangible Assets	344	271	305	301	298	291
Other Assets	3,570	3,810	1,026	1,008	789	772
Total Assets	$10,411	$9,419	$7,133	$7,325	$6,758	$7,044
LIAB. & EQUITY						
Current Debt	$69	$129	$222	$687	$32	$7
Payables	314	258	355	327	302	357
Other	1,864	1,836	349	337	283	429
Total Current	2,247	2,222	926	1,350	618	793
L/T Debt & Lease	3,745	3,883	3,709	3,213	3,158	3,212
Deferred Taxes	2,143	2,087	943	1,070	972	1,021
Other Liabilities	0	0	0	0	0	0
Preferred Stock	649	0	0	0	0	0
Common Equity	1,678	1,284	1,592	1,729	2,017	2,028
Total	$10,462	$9,477	$7,170	$7,362	$6,765	$7,054
Ratio Analysis:						
Current Ratio	0.4	0.3	1.4	1.0	1.3	1.2
Working Capital	(1,468)	(1,510)	185	144	34	14
Working Cap/Assets	(14%)	(16%)	3%	2%	1%	0%
Inventory Turns	4	6	8	9	10	12
Total Debt/Capital	62%	76%	71%	69%	61%	61%
LT Debt/Equity	223%	302%	233%	186%	157%	159%
EBIT/Interest Expense	1.6x	1.7x	2.3x	2.3x	2.3x	2.3x
Total Debt/EBIT	7.7x	7.2x	5.9x	6.2x	5.4x	5.9x

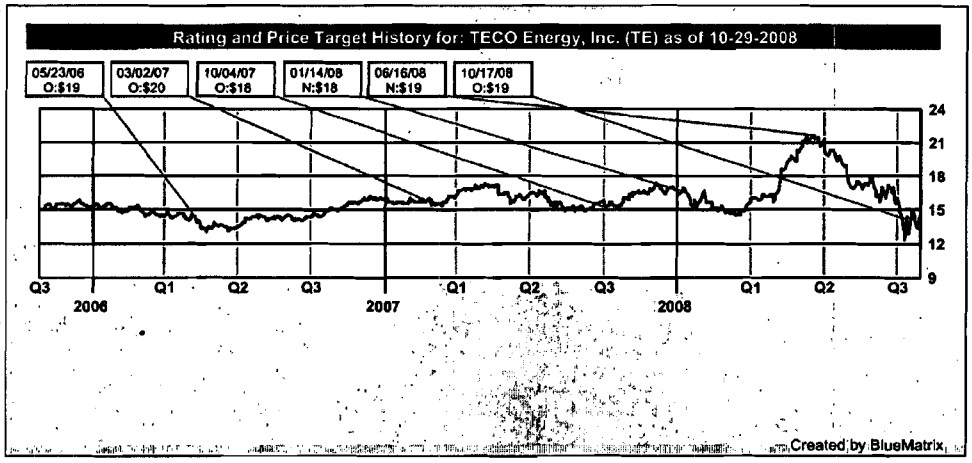
Cash Flow Statement	**2003**	**2004**	**2005**	**2006**	**2007**	**2008E**	**2009E**
Net Income	$165	$151	$255	$239	$224	$180	$267
Depreciation & Amort	382	290	282	282	264	264	281
Net changes in (CA) & CL	143	42	23	4	(10)	0	0
Deferred taxes/Non-Cash	(361)	(343)	(383)	42	76	0	0
Cash Flow from Operations	329	140	177	567	554	443	548
Dividend Payments	(165)	(145)	(158)	(159)	(163)	(170)	(175)
Net Capital Expenditures	(591)	(273)	(295)	(456)	(494)	(450)	(450)
Free Cash Flow	($427)	($279)	($276)	($48)	($103)	($177)	($78)
Operating Cash Flow Per Share	$1.83	$0.72	$0.85	$2.72	$2.64	$2.09	$2.56
Free Cash Flow Per Share	($2.38)	($1.45)	($1.32)	($0.23)	($0.49)	($0.83)	($0.36)

Du Pont Formula	**2003**	**2004**	**2005**	**2006**	**2007**	**2008E**	**2009E**
Net Margins (N/S)	6.1%	5.7%	8.5%	6.9%	6.3%	5.1%	6.8%
Assets Turnover (S/A)	0.3	0.3	0.4	0.5	0.5	0.5	0.6
Leverage (A/E)	4.5	6.7	5.8	4.4	3.8	3.4	3.3
Return on Equity	7.7%	10.2%	17.7%	14.4%	11.9%	8.9%	12.9%

Valuation Parameters		**2003**	**2004**	**2005**	**2006**	**2007**	**2008E**	**Recent**
Price (Common) - TE	High	17.00	15.49	19.30	17.73	18.58	21.99	17.21
	Low	9.47	11.30	14.87	14.40	14.84	11.30	
Forward P/E Ratio	High	17.9x	18.2x	16.7x	16.0x	17.1x	18.1x	18.1x
	Low	6.5x	12.7x	13.2x	11.8x	13.8x	8.4x	8.4x
	Close	17.8x	15.7x	14.0x	16.0x	15.5x	9.5x	9.5x
Book Value		$8.92	$6.21	$7.64	$8.25	$9.56	$9.51	$9.90
Price/Book Ratio	High	1.9x	2.5x	2.5x	2.1x	1.9x	2.3x	2.3x
	Low	1.1x	1.8x	1.9x	1.7x	1.6x	1.2x	1.2x
	Close	1.6x	2.5x	2.2x	2.1x	1.8x	1.4x	1.4x
EBITDA		$876	$850	$953	$911	$852	$752	$892
Enterprise Value	High	$6,711	$6,839	$7,566	$7,121	$6,920	$7,881	$8,155
	Low	5,356	6,032	6,644	6,426	6,135	5,612	5,777
EV / EBITDA	High	7.7x	8.0x	7.9x	7.8x	8.1x	10.5x	9.1x
	Low	6.1x	7.1x	7.0x	7.1x	7.2x	7.5x	6.5x
	Close	7.1x	8.0x	7.5x	7.7x	7.8x	8.1x	7.0x

TECO Energy, Inc.
October 30, 2008

Appendix - Important Disclosures and Analyst Certification



1 Baird maintains a trading market in the securities of TE.

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TECO Energy, Inc.
October 30, 2008

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Utilities Research
October 17, 2008

TECO Energy, Inc. (TE)

Upgrading to Outperform

Price: (10/16/08)	**13.59**	**Rating:**	**Outperform**	**FY Dec**	**2007A**	**2008E**	**2009E**
52WK H-L:	**22 - 11**	Previous:	Neutral	Q1	0.21A	0.15A	
Market Cap (mil):	**2,882.44**	**Suitability:**	**Average Risk**	Q2	0.25A	0.24A	
Shares Out (mil):	210.4			Q3	0.38A	0.32E	
Float (mil):	198.2			Q4	0.23A	0.19E	
Avg. Daily Vol (mil):	2.46			**Total**	**1.07A**	**0.90E**	**1.25E**
		Price Target:	**19**	FY P/E	12.7x	15.1x	10.9x
Dividend:	0.80						
Yield:	5.89						

Please refer to Appendix - Important Disclosures and Analyst Certification.

David E. Parker
dparker@rwbaird.com
813.274.7620

Michael L. Gresens, CFA
mgresens@rwbaird.com
414.765.3849

Weston A. Wicks
wwicks@rwbaird.com
414.298.1412

Action

Upgrading to Outperform. We are raising our rating on TECO Energy from Neutral to Outperform reflecting the significant valuation compression over the last three months. Florida remains a constructive state for the regulated utility with opportunities for investment growth, and we believe coal-related fears, like coal-related hype earlier in 2008, have been overdone. We maintain our 12-month price target of $19.

Summary

- **Raising rating to Outperform.** We are raising our rating from Neutral to Outperform as we believe investor fears have been overdone in this stock, which has underperformed its peers since late June.
- **Significant EPS growth expected.** Assuming utility rate relief and a resetting of coal sales contracts to current market prices, we expect TE will post significant YOY EPS growth of 40% in 2009 and 25% in 2010. When combined with a 5.9% dividend yield, we expect TE will provide attractive total returns at the current stock price.
- **Coal mining assumptions.** Our estimates assume that coal mining net income rises to approximately $6.50/ton in 2009 ($0.33/share) and $9.50/ton in 2010 ($0.52/share) from the $4-5/ton experienced in 2006 and 2007. Our estimates assume coal mining revenue in 2009 of $75/ton and $85/ton in 2010.
- **Regulated utility earnings growth.** We expect significant rate relief from both the regulated utilities in 2009 and infrastructure investment opportunities to result in strong earnings growth as earned ROEs return to allowed levels. Major investments in the near term include emissions controls and combustion turbines to meet peaking and "black start" needs.
- **Maintain price target of $19.** Our 12-month price target of $19, 11x our 2010 EPS estimate (adjusted for $1.50/share in incremental NOLs), or a 15-25% discount to its peers when fully valued, reflecting uncertainty surrounding pending rate relief in Florida and potential realized coal margins in 2009 and beyond. There is upside to our target price as these uncertainties are resolved.

Details

Regulated Utility Earnings Growth
We expect 6-8% regulated earnings growth over the next several years driven by rate relief and capital investments. Key infrastructure investments include a $330 million environmental controls projects to install selective catalytic reduction (SCR) equipment at each of the four Big Bend Station units between 2007 and 2010, and a $119 million project to install combustion turbines at five units to provide "black-start" capability to meet NERC reliability requirements and meet peaking capacity needs. Longer term, TECO expects to add a combined-cycle plant by 2013 to meet baseload needs following the expiration of a long-term PPA, which it projects could provide a $555 million investment opportunity. In addition, we believe TECO could be evaluating taking a small stake in one of the two nuclear projects currently under development in Florida by FPL and PGN. In total, Tampa Electric projects an average 2009 retail electric rate base of $3.96 billion (including environmental projects recovered using an enhanced recovery mechanism), 22% above 2007 levels, which we believe provide the underlying support for strong earnings growth assuming adequate rate relief. Peoples Gas projects an average 2009 gas rate base of $564 million, 10% above 2007 levels.

TECO's regulated ROE fell below the prescribed monitoring bands for the electric (10.75-12.75% ROE band) and gas (10.25-12.25% ROE band) utilities in late 2007 and early 2008, allowing TECO to request rate relief. In 8/2008, Tampa Electric requested a $228.2 million rate increase based on a $3.66 billion retail rate base, 55.3% financial equity capitalization and 12.0% ROE. The rate request does not include recovery of the current environmental controls investments, which are separately recovered under an environmental cost recovery rider. In 8/2008, Peoples Gas requested a $26.5 million rate increase based on a $564 million rate base, 54.7% equity capitalization and 11.5% ROE. Peoples Gas has requested an interim rate increase of $3.7 million, which is waiting approval.

TECO Coal
The coal mining business has been impacted by rising operating costs, including steel, petroleum, labor and mine safety-related costs, which has not yet been offset by a corresponding revenue increase due to TECO's long-term coal contracts. TECO's contracts build in price expansion for 2009 and 2010 reflecting contracting that took place as coal prices began spiking in late 2007 and early 2008. For 2009, TECO has contracted and priced 80% of its expected coal production (two-thirds steam coal, one-third met/PCI coal), including 100% of steam coal production, at an average price of $66/ton. Of the remaining unpriced portion, 35% is for met coal and 65% is for PCI coal. TECO expects an approximate 20% increase in production costs in 2009 driven by higher contract and company miner costs and higher commodity costs. Substantially all of 2009's diesel costs have been hedged below $4/gallon. TECO has also contracted 60-65% of expected 2010 coal production, including 35-40% that has also been priced.

Our estimates assume that coal mining net income rises to approximately $6.50/ton in 2009 ($0.33/share) and $9.50/ton in 2010 ($0.52/share) from the $4-5/ton experienced in 2006 and 2007. Our estimates assume revenue of approximately $75/ton in 2009 and $85/ton in 2010.

TECO Guatemala

TECO Guatemala has been a strong performer for TECO the last several years, providing mid-teens return on investment. TECO has ownership interests in several power plants, including the only coal-fired plant in the nation, and an electric utility (EEGSA). The segment was dealt a temporary setback in 8/2008 when EEGSA's normal five-year rate process was usurped by a political authority to deliver lower rates to customers. We estimate the potential EPS impact is $0.05-0.07 if the rates are maintained at lowered

levels, or down to approximately $0.15/share. TECO and its investment partner in EEGSA are working to have the lower VAD rate reconsidered.

Parent-Level Debt/NOLs
As of 12/31/2007, TECO had AMT tax credit carryforwards of $196.6 million and NOL carryforwards of $506.2 million, which we believe it will be able to fully recoup by 2013 as TECO pays minimal cash taxes. We believe the incremental value of these tax carryforwards in our price target is approximately $1.50/share.

As of 6/30/2008, parent-level debt stood at $1.31 billion, approximately 55-60% of which is allocated to the TECO Coal and TECO Guatemala segments which carry no or minimal direct debt. The earliest any of this debt matures is in 2010 with a $100 million maturity, which we believe can be retired using free cash flow particularly from monetizing the NOLs.

Investment Thesis

We now have an Outperform rating on the shares of TECO Energy with a 12-month price target of $19. Upside to our target exists once additional progress is made toward finalizing rate relief and/or details of new coal sales contracts are publicized providing improved predictability of future margins. These risks we believe are somewhat mitigated by the constructive regulatory environment in Florida and current favorable forward coal spot prices.

- **Well-Positioned Utility Operations.** TE has benefited from solid 2-3% customer growth and supportive regulation, although current market conditions have caused a slowdown in growth. TE expects to spend $400 million in annual base capital expenditures on average over the next five years, nearly two times depreciation levels, with potential generation additions providing upside.
- **Improved Financial Health.** Following significant losses in 2003 and 2004 from TECO's merchant operations, TECO's balance sheet has strengthened reflecting improved operating performance, the disposition of the merchant power and transportation operations, and significant debt reduction. We expect these positive trends to continue as TE monetizes its merchant-related NOLs.
- **TECO Transport Sale.** In early 12/2007, TECO sold its Transport business for $405 million, which raised $370-380 million in net proceeds. The sale allowed TECO to accelerate its NOL monetization and corporate-level debt repayment, thus creating more balance sheet capacity to fund regulated utility investment opportunities.
- **Coal Benefiting From Global Commodity Inflation.** We expect earnings from TECO Coal in 2009 and 2010 to benefit from a significant spike in global coal prices due to a number of supply and demand issues.
- **Attractive and Sustainable Dividend Yield.** We expect a resumption of dividend growth by 2009 given improving cash flow and EPS growth.
- **Valuation.** Our 12-month price target of $19 is 11x our 2010 EPS estimate, adjusted for $1.50/share in incremental NOLs.

Risks & Caveats

We maintain a suitability rating of Average Risk on TE due to the additional risk associated with TE's non-regulated business, which are more susceptible to earnings fluctuations from varying market conditions. Risks include, but are not limited to, the following:

- Profitability of TE's unregulated segments can fluctuate with swings in the economy and commodity prices. The company's business is sensitive to fluctuations in the weather. A particularly warm winter or cool summer could adversely affect TE's

financial results.
- The company has no control of the wholesale prices of natural gas, oil or coal. A spike in the price of these fuels could impact TE's financial results.
- TE's utility operations are subject to federal, state and local legislative requirements. Changes in regulations or in the regulatory environment in general could impact TE's earnings.
- TECO Coal's financial results fluctuates with the market price of coal which could increase the volatility of TE's stock price.

Company Description

TECO Energy is a diversified energy company headquartered in Tampa, Florida. Its primary businesses are Tampa Electric, Peoples Gas, TECO Coal and TECO Guatemala. Tampa Electric Company provides retail electric service to more than 660,000 customers in West Central Florida. Peoples Gas System provides retail natural gas service to over 330,000 customers in Florida. TECO Coal operates coal mines and handling facilities in Kentucky and Tennessee, and through 2007, had interests in several synfuel production facilities. TECO Guatemala is engaged in the distribution and generation of electricity in Guatemala.



Dave Parker (813) 274-7620
Michael Gresens, CFA (414) 765-3849

TECO Energy - Quarterly Earnings Model

	2006				2007				2008			
	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q06E	4Q08E
Net Sales	$836	$863	$923	$826	$821	$867	$990	$858	$792	$887	$996	$922
Cost of Goods Sold	340	344	390	315	350	369	435	362	365	426	489	447
Gross Income	496	518	533	511	471	497	555	496	427	461	507	476
Operating Expense	405	412	402	436	390	402	414	414	349	359	378	400
Operating Income	92	106	131	75	81	95	141	82	79	102	129	75
Pretax Income	83	77	118	73	64	74	119	73	45	74	104	59
Net Income	$58	$52	$77	$51	$44	$53	$79	$48	$31	$51	$68	$40
EPS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dividends	$0.19	$0.19	$0.19	$0.19	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20
Average Shares	209	209	209	209	209	210	210	210	211	212	213	213
Margin Analysis												
Gross Margin	59.3%	60.1%	57.7%	61.8%	57.3%	57.4%	56.1%	57.8%	54.0%	52.0%	50.9%	51.6%
Operating Expense	48.4%	47.7%	43.6%	52.8%	47.4%	46.4%	41.8%	48.2%	44.0%	40.5%	38.0%	43.4%
Operating Margin	11.0%	12.3%	14.2%	9.0%	9.9%	11.0%	14.2%	9.6%	9.9%	11.5%	12.9%	8.2%
Pretax Margin	10.0%	8.9%	12.8%	8.8%	7.7%	8.6%	12.0%	8.5%	5.7%	8.3%	10.5%	6.3%
Net Margin	6.9%	6.1%	8.4%	6.2%	5.3%	6.1%	8.0%	5.6%	4.0%	5.8%	6.9%	4.3%

TECO Energy - Annual Earnings Model

	2004	2005	2006	% chg	2007	% chg	2008E	% chg	2009E	% chg	2010E	% chg
Net Sales	$2,669	$3,010	$3,448	15%	$3,536	3%	$3,597	2%	$3,895	8%	$4,188	8%
Cost of Goods Sold	935	1,081	1,390	29%	1,517	9%	1,726	14%	1,765	2%	1,819	3%
Gross Income	1,734	1,929	2,058	7%	2,020	(2%)	1,871	(7%)	2,129	14%	2,369	11%
Operating Expense	1,472	1,574	1,655	5%	1,620	(2%)	1,488	(8%)	1,843	11%	1,791	9%
Operating Income	262	355	403	14%	400	(1%)	385	(4%)	486	26%	578	19%
Pretax Income	238	382	351	(8%)	330	(6%)	282	(15%)	384	36%	473	23%
Net Income	$151	$255	$239	(6%)	$224	(6%)	$191	(15%)	$268	40%	$333	24%
EPS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dividends	$0.76	$0.76	$0.76	0%	$0.78	3%	$0.80	3%	$0.82	3%	$0.84	2%
Average Shares	193	208	209	0%	210	1%	212	1%	214	1%	215	0%
Margin Analysis												
Gross Margin	65.0%	64.1%	59.7%		57.1%		52.0%		54.7%		56.6%	
Operating Expense	55.1%	52.3%	48.0%		45.8%		41.3%		42.2%		42.8%	
Operating Margin	9.8%	11.8%	11.7%		11.3%		10.7%		12.5%		13.8%	
Pretax Margin	8.9%	12.7%	10.2%		9.3%		7.8%		9.9%		11.3%	
Net Margin	5.7%	8.5%	6.9%		6.3%		5.3%		6.9%		8.0%	

Balance Sheet Data

	2004	2005	2006	2007	2Q08
Cash & Equivalents	$154	$383	$479	$170	$182
Receivables	287	323	338	296	331
Inventory	121	154	160	154	69
Current Assets	738	1,272	1,286	790	981
Fixed Assets	4,658	4,567	4,767	4,888	5,009
Total Assets	9,476	7,170	7,362	6,765	7,054
Current Debt	129	222	687	32	7
Payables	258	355	327	302	357
Current Liabilities	2,222	926	1,350	618	793
Other Liabilities	2,087	943	1,070	972	1,021
L.T. Debt and Lease	3,880	3,709	3,213	3,158	3,212
Common Equity	1,284	1,592	1,729	2,017	2,028

Ratio Analysis

	2005	2006	2007	2Q08
Debt/Total Cap	71%	69%	61%	61%
Current Ratio	1.4	1.0	1.3	1.2
Days Sales Outst.	37	35	33	33
EBIT/Interest	2.3x	2.3x	2.3x	2.3x
Inventory Turn	7.9x	8.9x	9.7x	11.6x
Return on Equity	17.7%	14.4%	11.9%	10.8%
High P/E Ratio	15.8x	15.5x	17.4x	22.2x
Low P/E Ratio	12.2x	12.6x	13.9x	16.1x
Book Value	$7.64	$8.25	$9.56	$9.53
Price/Book	2.2x	2.1x	1.8x	2.3x
Cash Flow/Share	$2.58	$2.50	$2.32	$2.19
Price/Cash Flow	6.7x	6.9x	7.4x	9.8x

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Revised 10/16/2008

TECO Energy, Inc.

($ in Millions Except As Noted)

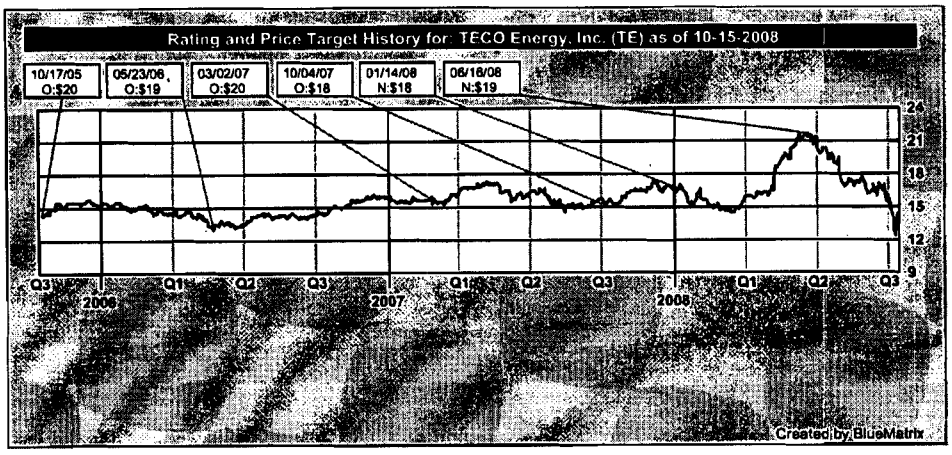
	2003	2004	2005	2006	2007	2008E	2009E	2010E	3 Yr Growth
Net Revenue	$2,718	$2,669	$3,010	$3,448	$3,536	$3,597	$3,895	$4,188	5.8%
EBIT by Segment									
Utilities	$359.9	$386.6	$399.1	$387.8	$407.7	$398.6	$454.0	$493.5	6.6%
Wholesale Generation/Guatemala	(19.2)	13.7	36.4	61.3	67.7	69.9	73.0	76.5	4.2%
Transport	29.4	22.4	31.6	44.1	36.7	0.0	0.0	0.0	
Coal	100.8	95.3	193.7	125.0	70.7	49.0	96.1	147.5	27.8%
Eliminations/Other Income	23.0	42.0	10.3	10.9	5.1	(6.5)	(6.5)	(6.5)	
Earnings Before Interest & Taxes	$493.9	$560.0	$671.1	$629.1	$587.9	$511.0	$616.7	$711.1	6.5%
Other Income	83.6	180.8	229.1	156.1	188.2	126.2	130.5	133.1	(10.9%)
Minority Interest	48.8	79.5	87.1	69.6	0.0	0.0	0.0	0.0	
Operating Income	$361.5	$299.7	$354.9	$403.4	$399.7	$384.9	$486.2	$578.0	13.1%
Interest Expense	313.8	321.6	288.7	278.3	257.8	229.4	232.6	238.0	(2.6%)
Pretax Income	$180.1	$238.3	$382.4	$350.8	$330.1	$281.6	$384.1	$473.1	12.7%
Net Income	$164.8	$151.2	$254.7	$238.8	$223.7	$191.1	$267.8	$333.2	14.2%
Earnings Per Share	**$0.92**	**$0.78**	**$1.22**	**$1.14**	**$1.07**	**$0.90**	**$1.25**	**$1.55**	13.3%
Diluted Shares	179.9	192.6	208.2	208.7	209.9	212.3	213.9	214.9	0.8%
Annualized Dividend Per Share	$0.93	$0.76	$0.76	$0.76	$0.78	$0.80	$0.82	$0.84	2.5%
Payout Ratio (%)	101	97	62	66	73	89	66	54	
Returns									
Return on Common Equity	7.7	10.2	17.7	14.4	11.9	9.4	12.8	15.1	
Internal Cash % of Total Capital	19	(3)	(0)	7	9	7	9	10	
Coverage Ratios									
Interest Coverage Ex. Non-Cash	1.5	1.7	2.3	2.3	2.3	2.2	2.6	3.0	
Internal Cash % Of Construction	183	(53)	(1)	89	98	82	106	129	
Internal Cash % of Total Cap. Req.	174	(50)	(1)	37	96	67	102	123	
% of Total Capital									
Short-term Debt	0.6	2.2	3.9	0.9	0.5	0.5	0.4	0.4	
Total Debt	67.4	75.7	71.2	69.3	61.3	62.4	61.7	60.9	
Preferred Stock	10.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Common Equity	27.3	24.2	28.8	30.7	38.7	37.6	38.3	39.1	
% Growth in Invested Capital	-13.2	-13.8	4.3	1.9	-7.5	4.1	2.6	5.1	
Total Invested Capital	$6,141	$5,295	$5,523	$5,629	$5,208	$5,422	$5,564	$5,847	3.9%
Total Debt	3,813	4,009	3,931	3,900	3,191	3,383	3,433	3,563	
Total Preferred	649	0	0	0	0	0	0	0	
Total Common Equity	1,678	1,284	1,592	1,729	2,017	2,038	2,131	2,283	
Cash Flow									
Cash Flow From Operations	$632	$151	($75)	$471	$833	$720	$725	$731	
Dividends (Pref. & Common)	165	145	158	159	163	170	175	181	
Internal Cash	466	6	(233)	312	670	550	550	550	
Construction Excluding AFC	591	273	295	456	494	450	450	450	
Other Investments	63	0	0	0	0	0	0	0	
Redemptions	850	225	494	366	1,182	100	100	100	
Total Capital Requirements	1,503	498	789	822	1,676	550	550	550	
Total Financing	792	88	608	340	458	0	0	0	

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Date Printed:	10/16/08				TECO Energy, Inc.						Dave Parker (813) 274-7620
Fiscal Year:	DEC				TE						Michael Gresens, CFA (414) 765-3849
(in millions)											
Balance Sheet	**2003**	**2004**	**2005**	**2006**	**2007**	**2Q08**	**Cash Flow Statement**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008E**	**2009E**
ASSETS							**Net Income**	$165	$151	$255	$239	$224	$191	$268
Cash & Equivalents	$108	$97	$346	$442	$163	$172	Depreciation & Amort	382	290	282	282	264	266	279
Receivables	280	287	323	338	296	331	Net changes in (CA) & CL	143	42	23	4	(10)	0	0
Inventory	171	121	154	160	154	69	Deferred taxes/Non-Cash	(361)	(343)	(383)	42	76	0	0
Other	259	176	412	309	170	399	**Cash Flow from Operations**	329	140	177	567	554	457	547
Total Current	818	680	1,235	1,248	782	971	Dividend Payments	(165)	(145)	(158)	(159)	(163)	(170)	(175)
Fixed Assets	5,679	4,658	4,567	4,767	4,888	5,009	Net Capital Expenditures	(591)	(273)	(295)	(456)	(494)	(450)	(450)
Goodwill & Intangible Assets	344	271	305	301	298	291	**Free Cash Flow**	($427)	($279)	($276)	($48)	($103)	($163)	($79)
Other Assets	3,570	3,810	1,026	1,008	789	772								
Total Assets	$10,411	$9,419	$7,133	$7,325	$6,758	$7,044	Operating Cash Flow Per Share	$1.83	$0.72	$0.85	$2.72	$2.64	$2.15	$2.56
							Free Cash Flow Per Share	($2.38)	($1.45)	($1.32)	($0.23)	($0.49)	($0.77)	($0.37)
LIAB. & EQUITY														
Current Debt	$69	$129	$222	$687	$32	$7	**Du Pont Formula**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008E**	**2009E**
Payables	314	258	355	327	302	357	Net Margins (N/S)	6.1%	5.7%	8.5%	6.9%	6.3%	5.3%	6.9%
Other	1,864	1,836	349	337	283	429	Assets Turnover (S/A)	0.3	0.3	0.4	0.5	0.5	0.5	0.6
Total Current	2,247	2,222	926	1,350	618	793	Leverage (A/E)	4.5	6.7	5.8	4.4	3.8	3.3	3.3
							Return on Equity	7.7%	10.2%	17.7%	14.4%	11.9%	9.4%	12.8%
L/T Debt & Lease	3,745	3,883	3,709	3,213	3,158	3,212								
Deferred Taxes	2,143	2,087	943	1,070	972	1,021	**Valuation Parameters**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008E**	**Recent**
Other Liabilities	0	0	0	0	0	0	Price (Common) - TE High	17.00	15.49	19.30	17.73	18.58	21.99	17.21
							Low	9.47	11.30	14.87	14.40	14.84	11.30	
Preferred Stock	649	0	0	0	0	0								
Common Equity	1,678	1,284	1,592	1,729	2,017	2,028	**Forward P/E Ratio** High	17.9x	18.2x	16.7x	16.0x	17.1x	18.1x	18.1x
Total	$10,462	$9,477	$7,170	$7,362	$6,765	$7,054	Low	6.5x	12.7x	13.2x	11.8x	13.8x	8.4x	8.4x
							Close	17.8x	15.7x	14.0x	16.0x	15.5x	9.5x	9.5x
Ratio Analysis:														
Current Ratio	0.4	0.3	1.4	1.0	1.3	1.2	**Book Value**	$8.92	$6.21	$7.64	$8.25	$9.56	$9.56	$9.95
Working Capital	(1,468)	(1,510)	185	144	34	14	**Price/Book Ratio** High	1.9x	2.5x	2.5x	2.1x	1.9x	2.3x	2.3x
Working Cap/Assets	(14%)	(16%)	3%	2%	1%	0%	Low	1.1x	1.8x	1.9x	1.7x	1.6x	1.2x	1.2x
Inventory Turns	4	6	8	9	10	12	Close	1.6x	2.5x	2.2x	2.1x	1.8x	1.4x	1.4x
Total Debt/Capital	62%	76%	71%	69%	61%	61%	**EBITDA**	$876	$850	$953	$911	$852	$777	$896
LT Debt/Equity	223%	302%	233%	186%	157%	159%	**Enterprise Value** High	$6,711	$6,839	$7,566	$7,121	$6,920	$7,881	$8,155
EBIT/Interest Expense	1.6x	1.7x	2.3x	2.3x	2.3x	2.3x	Low	5,356	6,032	6,644	6,426	6,135	5,612	5,777
Total Debt/EBIT	7.7x	7.2x	5.9x	6.2x	5.4x	5.9x	**EV / EBITDA** High	7.7x	8.0x	7.9x	7.8x	8.1x	10.1x	9.1x
							Low	6.1x	7.1x	7.0x	7.1x	7.2x	7.2x	6.5x
							Close	7.1x	8.0x	7.5x	7.7x	7.8x	7.9x	7.0x

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TECO Energy, Inc.
October 17, 2008

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Utilities Research
August 1, 2008

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TECO Energy, Inc. (TE)

2Q08 EPS on Target; Company Lowers Near-Term EPS Outlook; Maintain Rating

Price: (07/31/08)	**18.55**	**Rating:**	**Neutral**	**FY Dec**	**2007A**	**2008E**	**2009E**
52WK H-L:	**22 - 14**			Q1	0.21A	0.15A	
Market Cap (mil):	**3,934.45**	**Suitability:**	**Average Risk**	Q2	0.25A	0.24A	
Shares Out (mil):	210.4			Q3	0.38A	0.32E	
Float (mil):	198.2			Q4	0.23A	0.19E	
Avg. Daily Vol (mil):	3.19			**Total**	**1.07A**	**0.90E**	**1.25E**
		Price Target:	**19**	Previous		1.00E	1.30E
Dividend:	0.80			FY P/E	17.3x	20.6x	14.8x
Yield:	4.31						

Please refer to Appendix - Important Disclosures and Analyst Certification.

David E. Parker
dparker@rwbaird.com
813.274.7620

Michael L. Gresens, CFA
mgresens@rwbaird.com
414.765.3849

Weston A. Wicks
wwicks@rwbaird.com
414.298.1412

Action

Despite solid 2Q08 EPS, sluggish economic activity in Florida and cost and operational pressures at TECO's coal mining business should reduce 2H08 EPS from previous expectations. We expect utility rate relief and robust coal prices to offset these near-term EPS drags; however, we expect heightened regulatory risk related to those rate cases to limit stock upside. We maintain our Neutral rating and $19 price target.

Summary

- TECO reported 2Q08 adjusted EPS of $0.24 versus $0.25 last year and our consensus-matching estimate of $0.23.
- TE lowered its 2008 EPS guidance from $0.95-1.10 to $0.80-0.90 reflecting slowed Florida economic activity and increasing costs and operational pressures at its coal operations.
- We have lowered our 2008 EPS estimate from $1.00 to $0.90, and fine-tuned our 2009 and 2010 EPS estimates to $1.25 and $1.55, respectively.
- TE expects slowed customer growth and increased O&M to cause regulated ROEs to fall below allowed ranges, prompting the filing of gas and electric rate cases in 8/2008, introducing some element of regulatory risk.
- Electric utility net income improved 16% YOY (+$7.5 million) to $40.2 million reflecting more normal weather conditions and increased sales to other utilities partially offset by sluggish customer growth due to a slowed Florida economy and increased O&M expenses.
- TECO Coal's net income declined 57% YOY to $4.2 million. Revenue increased 22% YOY to $155.2 million reflecting an almost 10% increase in the average price/ton sold and a 0.2 million increase in tons sold. That positive was more than offset by a 20% increase in production costs. 2008 coal earnings are likely to be weak reflecting rising production costs while contracted coal prices are well below current market levels.
- Our 12-month price target of $19 is 12x our 2010 EPS estimate, we believe a moderate discount to its peers due to the uncertainty of utility rate relief and sustainability of spiking coal prices.

Details

TECO reported 2Q08 adjusted EPS of $0.24 versus $0.25 last year and our consensus-matching estimate of $0.23.

2Q08 Results (mil)	Actual	Year Ago	Change	Estimate	Variance
Revenue	$887	$867	2.4%	$846	4.8%
Gross Income	461	522	-11.6%	449	2.7%
Gross Margin	52.0%	60.3%		53.1%	
Operating Expense	359	427	-15.9%	351	2.3%
Operating Income	102	95	7.2%	98	4.0%
Operating Margin	11.5%	11.0%		11.6%	
Pretax Income	74	75	-1.4%	74	-0.9%
Net Income	$51	$53	-3.2%	$49	5.4%
Diluted EPS	$0.24	$0.25	-4.2%	$0.23	4.9%
Diluted Shares	212	210	1.0%	211	0.5%
2Q08 nonrecurring and other items of note:					
None					
2Q07 nonrecurring and other items of note:					
Excludes $8.3M transaction costs ($0.04/share)					
Excludes $11.0M earnings from synfuel ($0.05/share)					
Adds back $3.6M in TECO Transport depreciation excluded for GAAP ($0.02/share).					
Excludes $14.3M earnings from discontinued operations.					

EPS Reconciliation		
Prior Year EPS		$0.25
Tampa Electric	0.03	
Peoples Gas System	(0.00)	
TECO Coal	(0.03)	
TECO Transport	(0.03)	
TECO Guatemala	0.01	
Parent/Other	0.01	
Additional Shares	(0.00)	
Current EPS		$0.24

2008 Earnings Guidance

TE lowered its 2008 EPS guidance from $0.95-1.10 to $0.80-0.90 reflecting slowed economic activity in Florida and increasing costs pressures at its coal operations. We have lowered our 2008 EPS estimate from $1.00 to $0.90, and fine tuned our 2009 and 2010 EPS estimates to $1.25 and $1.55, respectively. TECO expects the primary earnings drivers to include the following:

- Tampa Electric – Experienced total degree days 1% below normal, lower residential per-customer usage due to mild weather, voluntary conservation, and customer growth indicative of a continued weak housing market and economic slowdown. Slower customer growth and increasing costs are expected to lower utility ROEs below Tampa Electric's allowed 10.75-12.75% ROE band, which is likely to cause a rate case for 2008. A rate filing is expected in 8/2008 with new rates potentially in place by 5/2009.
- Peoples Gas - mild winter weather has reduced year-to-date sales, and customer growth has slowed due to the housing market slowdown most likely resulting in 2008 earnings

below Peoples Gas' allowed 10.5-12.5% ROE band, which should lead it to file for a base rate increase in 2008. A rate filing is expected in 8/2008 with new rates potentially in place by 5/2009.

- TECO Coal - 2008 sales are now expected to be about 10 million tons, down from 10.5 million tons previously forecast, due to the 2Q08 production issues. Selling prices for over 90% of 2008's production reflect contracts signed in 2006 and 2007 or before, which were inked prior to the run-up in coal prices. At the same time, production costs have spiked reflecting a doubling of diesel oil, steel and petroleum-related products, all of which are substantially higher than TE's original.
- TECO had previously expected that 2008 TECO Guatemala earnings would be lower than 2007 levels; however, 2008 net income is now expected to be at about 2007 levels, given the strong year-to-date performance.
- Costs at the parent company level (primarily interest expense) should continue to decline due to debt retirements.

2009 Outlook

TE's preliminary outlook for 2009 includes:

- a strong outlook for TECO Coal with production in a range between 10.5 and 11.0 million tons at much improved prices partially offset by continued upward production cost pressures (20%);
- strong operational performance at TECO Guatemala partially offset by a scheduled major maintenance outage on the San José Power Station;
- appropriate base rate relief at the regulated Florida utilities; and a slow economic recovery in Florida.

Segment Analysis

	3 Mos. Ended		%	6 Mos. Ended		%
Segment Revenue	**6/30/2008**	**6/30/2007**	**Change**	**6/30/2008**	**6/30/2007**	**Change**
Tampa Electric	$546.1	$544.7	0%	$1,007.6	$1,016.6	-1%
Peoples Gas System	184.3	143.2	29%	363.3	312.4	16%
TECO Coal	155.2	127.1	22%	304.3	254.6	20%
TECO Transport	0.0	77.9	NM	0.0	153.2	NM
TECO Guatemala	2.0	2.1	-5%	4.3	4.0	8%
Total Net Revenue	887.6	895.0	-1%	1,679.5	1,740.8	-4%
Other/eliminations	(0.4)	(28.5)	-99%	(0.6)	(53.0)	-99%
Consolidated Revenue	$887.2	$866.5	2%	$1,678.9	$1,687.8	-1%
Net Income						
Tampa Electric	$40.2	$34.7	16%	$56.1	$56.5	-1%
Peoples Gas System	5.3	5.4	-2%	15.3	16.4	-7%
TECO Coal	4.2	9.8	-57%	11.7	21.5	-46%
TECO Transport	0.0	6.0	NM	0.0	12.4	NM
TECO Guatemala	14.9	12.8	16%	25.4	23.1	10%
Parent/Other	(13.2)	(15.6)	-15%	(26.3)	(32.9)	-20%
Total Net Income	$51.4	$53.1	-3%	$82.2	$97.0	-15%

Regulated Utility

Tampa Electric

Tampa Electric's 2Q08 net income improved 16% YOY ($7.5 million) to $40.2 million from $34.7 million last year, reflecting more normal weather conditions and increased sales to other utilities partially offset by sluggish customer growth do to a slowed Florida economy and increased O&M expenses. Tampa Electric provides retail electric service to over 660,000 customers in West Central Florida.

Tampa Electric's retail energy sales increased 2.7% YOY due to hotter weather and sales to a large water desalinization facility that was idle in 2007, partially offset by reduced sales to phosphate customers reflecting production facility outages and slowed sales economic conditions. Combined heating and cooling degree days in the Tampa area were 3% above normal and 8% above 2Q07.

Customer growth YOY dipped to 0.2% in 2Q08 and 0.4% YTD from 2.5-3.0% in 2006, reflecting the slowdown in the housing market. In a similar theme to the other Florida utilities, Tampa Electric's customer growth has dipped following significant condo construction over the past several years, with population growth in the region moving to file vacant housing which have already been captured in past customer growth statistics. In addition, the general mix shift towards condos that experience lower average customer usage continues to place pressure on overall customer usage excluding weather impacts.

Base revenue (excluding clause-related revenue) improved $7.6 million YOY primarily reflecting favorable weather. Depreciation and amortization expenses declined to $45 million from $47.3 million last year primarily related to the results of a depreciation study completed during 3Q07 that reduced depreciation rates, offset partially by higher plant balances. Base O&M expenses (excluding clause-recovered expenses) increased $1.9 million due primarily to planned plant outage requirements $1.2 million), higher bad debts expense ($0.4 million). Net income also benefited YOY by $0.6 million reflecting AFUDC recorded associated with the installation of nitrogen oxide (NOx) pollution control equipment.

	3 Mos. Ended		%	6 Mos. Ended		%
Tampa Electric	6/30/2008	6/30/2007	Change	6/30/2008	6/30/2007	Change
Operating Revenue ($mil)						
Residential	247.3	238.4	4%	454.3	454.7	0%
Commercial	161.9	160.3	1%	309.3	306.9	1%
Industrial - Phosphate	16.5	17.4	-5%	33.1	36.2	-8%
Industrial - Other	30.4	30.1	1%	57.7	58.8	-2%
Other Sales of Electricity	46.8	43.4	8%	89.4	83.9	7%
Deferred and Other Revenue	(13.0)	(10.9)		(20.3)	(14.5)	
Retail Revenue	489.7	478.7	2%	923.5	925.9	0%
Sales for resale	19.1	17.6	9%	35.2	33.1	6%
Other Operating Revenue	11.1	26.7	-58%	22.9	35.8	-36%
Total Operating Revenue	$520.0	$522.9	-1%	$981.5	$994.8	-1%
Electric Sales (MWh)						
Residential	2,153.4	2,068.3	4%	3,931.5	3,930.9	0%
Commercial	1,621.5	1,598.2	1%	3,089.5	3,057.0	1%
Industrial - Phosphate	240.2	249.1	-4%	484.8	520.5	-7%
Industrial - Other	324.2	334.9	-3%	630.1	654.6	-4%
Other Sales of Electricity	464.0	425.2	9%	882.6	817.2	8%
Deferred and Other Revenue	-	-		-	-	
Retail Sales	4,803.4	4,675.6	2.7%	9,018.5	8,980.2	0%
Sales for resale	230.7	223.1	3%	419.8	421.2	0%
Other Operating Revenue	-	-		-	-	
Total Electric Sales	$5,034.0	$4,898.8	3%	$9,438.3	$9,401.3	0%
Electric Retail Rev. cents/kWh						
Residential	11.48	11.53	0%	11.55	11.57	0%
Commercial	9.98	10.03	0%	10.01	10.04	0%
Industrial - Phosphate	6.86	6.98	-2%	6.83	6.95	-2%
Industrial - Other	9.36	8.99	4%	9.15	8.98	2%
Other Sales of Electricity	10.09	10.22	-1%	10.13	10.27	-1%
Deferred and Other Revenue						
Total Retail Rev. cents/kWh	10.20	10.24	0%	10.24	10.31	-1%
Sales for resale	8.30	7.88	5%	8.38	7.87	7%
Other Operating Revenue						
Total Rev. cents/kWh	10.33	10.67	-3%	10.40	10.58	-2%
Avg. Customers (000)	667.6	666.0	0%	668.3	665.4	0%
Retail Output to Line (MWh)	5,278.0	5,168.6	2%	9,635.7	9,580.9	1%

Capital Expenditure Needs

Tampa Electric is currently installing environmental upgrades at its Big Bend Station. It will invest approximately $330 million to install selective catalytic reduction (SCR) systems at each of the four units at the station. The SCRs for Unit 4 and 3 were completed in 6/2007 and 5/2008, while Units 2 and 1 are targeted for completion by 5/2009 and 5/2010, respectively.

TE is still evaluating its options as to how to meet its 2013 baseload needs following the 2007 rejection of an IGCC plant. The need in part arises as its long-term PPA for output from the Hardee Power Station expires after 2012, with Seminole Electric have the first option to take the entire plant's output after the date. The most likely option would be construction of a combined-cycle natural gas-fired facility, which TE estimates would cost $500-600 million for an approximate 555-MW facility. To meet the 2013 need, engineering for the project would need to begin by 2008 with peak spending occurring in 2010. We estimate the total EPS contribution could be approximately $0.15/share.

In addition to its baseload needs, TE also requires additional peaking capacity, which it believes could better suit its system needs than continuing with purchased power contracts. In particular, enhanced reliability rules is requiring more generating plants in

Florida to have "Black Start" capabilities, or the ability to start generation without requiring an external power source. As such, TE plans to install five combustion turbines with 300 MWs of capacity at its existing generation stations by 2010. TE expects the additions will cost $237 million, with the bulk of the spending ($108 million) occurring in 2008. TE had completed the addition of two 150-MW simple cycle natural gas turbines at its Polk Station in 2006. Management announced that it may moderately delay some of its planned capacity additions due to weaker demand trends.

Peoples Gas System

Peoples Gas 2Q08 net income declined slightly to $5.3 million from $5.4 million in 2Q07 primarily reflecting increased O&M and slowed customer growth mostly offset by increased sales due to more favorable weather conditions and increased sales to industrial and power customers. Peoples Gas System is engaged in natural gas distribution to more than 300,000 customers in Florida's major metropolitan areas.

Total gas throughput jumped 11% reflecting the addition of a new industrial customer with significant usage, cooler weather that boost residential sales by 3% and a 13% increase in volumes sold to power generation customers. Industrial and power customers are unfortunately lower margin customers. Volumes for commercial customers in the 2Q08, particularly in the restaurant sector, were lower, reflecting the slowdown in the Florida economy. 2Q08 customer growth of 0.3% was well below the historical 3%-plus averages, again reflecting the slowdown in the housing market, with average customer usage patterns continuing to decline.

Depreciation expense increased $0.3 million YOY to $10.3 million reflecting a depreciation study approved by the FPSC in 1/2007.

	3 Mos. Ended		%	6 Mos. Ended		%
Gas Stats	6/30/2008	6/30/2007	Change	6/30/2008	6/30/2007	Change
Gas Revenue ($mil)						
Residential	32.2	31.0	4%	81.0	85.4	-5%
Commercial	38.1	41.4	-8%	82.4	91.7	-10%
Industrial	2.3	2.4	-6%	4.5	4.9	-9%
Off System Sales	97.8	53.6	82%	166.4	100.4	66%
Power Generation	3.8	3.5	7%	7.2	6.3	13%
Other	8.6	9.4	-9%	18.4	20.3	-9%
Total Gas Revenue	$182.7	$141.5	29%	$359.8	$309.0	16%
Gas Throughput (mil. th)						
Residential	14.8	14.4	3%	42.6	43.6	-2%
Commercial	90.8	92.1	-1%	197.8	199.6	-1%
Industrial	53.4	48.4	10%	100.2	99.8	0%
Off System Sales	82.1	65.9	25%	160.7	128.6	25%
Power Generation	132.9	117.1	13%	239.6	182.6	31%
Other	-	-		-	-	
Total Gas Throughput	374.1	338.0	11%	740.8	654.3	13%
Gas Rev. $/th						
Residential	2.17	2.15	1%	1.90	1.96	-3%
Commercial	0.42	0.45	-7%	0.42	0.46	-9%
Industrial	0.04	0.05	-15%	0.04	0.05	-9%
Off System Sales	1.19	0.81	46%	1.04	0.78	33%
Power Generation	0.03	0.03	-6%	0.03	0.03	-14%
Other						
Total Gas $/th	0.49	0.42	17%	0.49	0.47	3%
Avg. Customers (000)	336.3	335.2	0%	336.2	335.1	0%

Non-Regulated Operations

TECO Coal

TECO Coal's reported net income declined 57% to $4.2 million in 2Q08 from $9.8 million of net income in 2Q07 (excluding $11 million in synfuel earnings, which ceased at the end of 2007). Revenue increased 22% YOY to $155.2 million reflecting an almost 10% increase in the average price/ton sold and a 0.2 million increase in tons sold. These benefits were more than offset by roughly a 20% increase in production costs. Increased costs were driven by a more than doubling of diesel oil prices and steel products and costs for explosives used in surface mining operations that were 42% higher than in 2007. TECO's coal sales in 2008 primarily reflect contracts signed prior to the run-up in commodity prices earlier this year; however, production costs were not hedged as TE believed costs pressures we all ready at heightened levels.

Revised 2008 guidance assumes TECO Coal's output will be reduced by 0.5 million tons to 10 million tons reflecting more difficult geological conditions and a shortage of labor. Additionally, TECO expects O&M costs to be higher than original estimates by $3/ton due to the aforementioned factors, lowering expected earnings to $3/ton versus TE's original guidance of $5/ton.

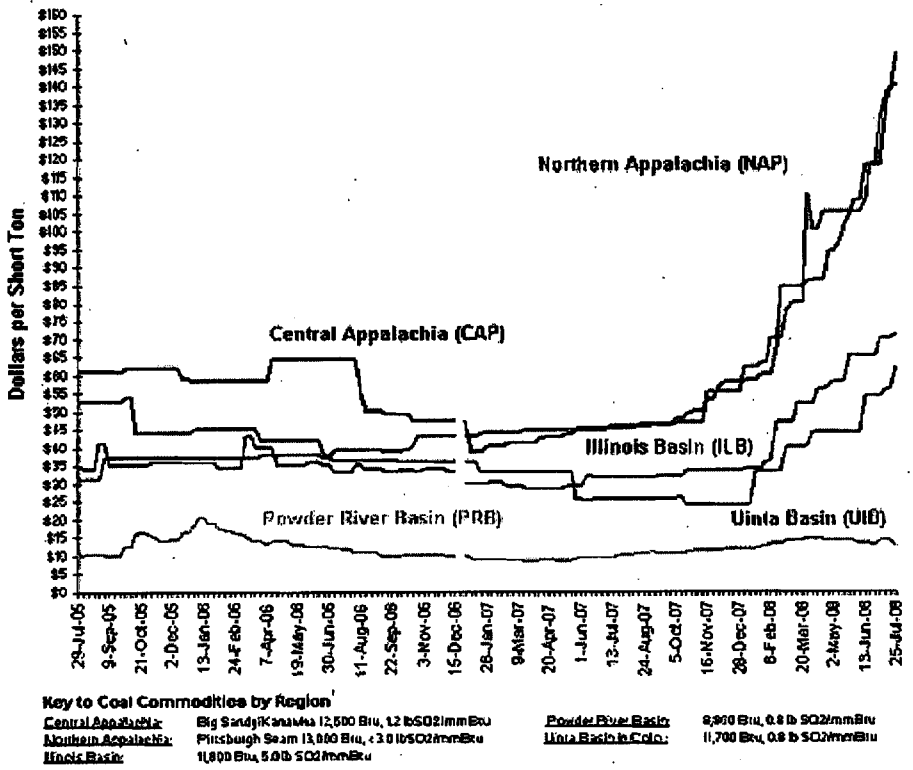
For 2009, TE has signed contracts for 80% of its expected 10.5 million tons production at at an average price of $66/ton and TE expects production costs to increase 20% over 2008 levels. Of the 20% sales unsold, TE expects 35% to be metallurgical coal and 65% to be PCI coal.

We expect a significant earnings increase in 2009 and 2010 as production levels increase and realized prices reset closer to current market levels as coal sales contracts roll over and are resigned at market prices. TE also mentioned that it potentially could be more aggressive in hedging diesel fuel with the recent pullback in oil prices. (Diesel accounts for about 10-15% of total production costs.)

TECO Coal mines its coal from 37 underground and surface mines in the Central Appalachia region, primarily in eastern Kentucky and partially into western Virginia, with 277.1 million tons of proven and probable recoverable reserves as of 12/31/2007. TECO Coal produced 9.2 million tons of coal in 2007 and expects to produce 10 million tons in 2008 and 10.5-11.0 million tons in 2009, with approximately 35% of coal production being of specialty coals, including metallurgical (met) and PCI (pulverized coal injection) coal used in steel production and specialty stoker products used in ferro-silicon and industrial applications.

Approximately 60-70% of TECO Coal's coal production is of Central Appalachian steam coal used for power generation. Following a material decline in prices in 2006 through early 2007, market prices for Central Appalachian coal rose significantly to approximately $140/ton, up from a low of $40/ton in early 2007 and nearly $60/ton at the beginning of 2008. Figure 1 shows a chart from the EIA regarding coal prices across regions and with different base composition metrics, with declining utility coal inventories, rising transportation costs, increased scrubber installations in the eastern U.S. to handle higher-sulfur coal, a boom in global coal demand and supply disruptions all playing a part in the rapid price increase. However, Central App coal prices on the NYMEX OTC market have declined 20-25% in the past month, which has led many coal-related stocks to decline considerably.

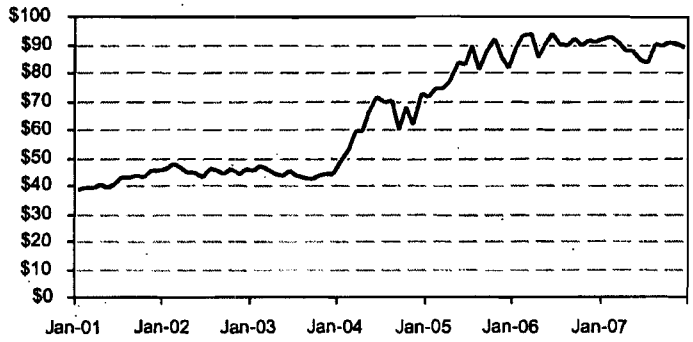
Figure 1: Coal Prices by Basin



Source: EIA

Approximately 30-40% of TECO's expected 2009 coal production is of specialty coals, including metallurgical coal. Metallurgical coal, which is a key component in making steel, has seen dramatic price increases so far in 2008. Figure 2 highlights met coal prices from 2001 through the end of 2007, with major price increases clearly visible in 2004 and 2005 with prices in 2006 and 2007 stagnating at approximately $90/ton. Since that time, however, there have been price reports for met coal up to nearly $300/ton for 2009-2011 production, driven in part by extreme global demand for steel and global coal production disruptions, including in Australia, South Africa and the U.S., which has experienced increased regulatory scrutiny on mining operations following some higher-profile mining accidents. In its comments, TECO stated that it does not see market pricing for its coal anywhere near the extreme highs that have been reported.

Figure 2: Met Coal Prices (Declared Export Values/Ton



Source: EIA

TECO Guatemala

TECO Guatemala 2Q08 net income increased 16% to $14.9 million from $12.8 million in 2Q07. The earnings improvement primarily reflects better power generation market pricing and utility customer growth partially offset by increased O&M reflecting the timing of scheduled maintenance. Diesel is the primary fuel on the margin for power in Guatemala, which advantages TECO's coal-based generation.

TECO owns two power stations in Guatemala, one a coal-fired plant (San Jose) and the other a peaking facility (Alborada), both of which drive utility-like earnings due to longer-term contracts. TECO also owns a 24% stake in EEGSA, the largest distribution utility in Guatemala, which benefits from solid core growth plus the electrification of rural areas.

We now expect 2008 segment earnings to be basically unchanged from strong 2007 levels as strong power market conditions and improved core earnings results from EEGSA should offset reduced availability and earnings from the San Jose Power Station due to increased maintenance activities, as well as the absence of a $1.9 million net benefit related to the 2007 reversal of certain estimated expenses.

Parent & Other

2Q08 Parent & Other costs declined to a $13.2 million drag from a $15.6 million in 2Q07, reflecting lower interest costs associated with debt reduction.

Investment Thesis

We maintain a Neutral rating on the shares of TECO Energy with a 12-month price target of $19. Upside to our EPS estimates and target price exists if current robust coal margins are maintainable longer term and/or TE formalizes plans to further enhance its utility growth potential most likely through additional utility infrastructure and generation expansion. Key investment considerations include the following:

- **Well-Positioned Utility Operations.** TE has benefited from solid 2-3% customer growth and supportive regulation, although current market conditions have caused a slowdown in growth. TE expects to spend $400 million in annual base capital expenditures on average over the next five years, nearly two times depreciation levels, with potential generation additions being additive.
- **Improved Financial Health.** Following significant losses in 2003 and 2004 from

TECO's merchant operations, TECO's balance sheet has strengthened reflecting improved operating performance, the disposition of the merchant power and transportation operations, and significant debt reduction. We expect these positive trends to continue as TE monetizes its merchant-related NOLs and continues its solid operating performance.

- **TECO Transport Sale.** In early 12/2007, TECO sold its Transport business for $405 million, which raised $370-380 million in net proceeds. The sale allowed TECO to accelerate its NOL monetization and corporate-level debt repayment, thus creating more balance sheet capacity to fund regulated utility investment opportunities.
- **Coal Benefiting From Global Commodity Inflation.** We expect earnings from TECO Coal in 2009 and 2010 to benefit from a significant spike in global coal prices due to a number of supply and demand issues.
- **Attractive and Sustainable Dividend Yield.** We expect a resumption of dividend growth in 2008 given improving cash flow and EPS growth.
- **Valuation.** Our 12-month price target of $19 is 12x our 2010 EPS estimate, which includes substantial earnings upside from significant coal price inflation, we believe a slight discount to its peers based on a sum-of-the-parts valuation due to the uncertainty of utility rate relief and sustainability of spiking coal prices.

Risks & Caveats

We maintain a suitability rating of Average Risk on TE due to the additional risk associated with TE's non-regulated business, which are more susceptible to earnings fluctuations from varying market conditions. Risks include, but are not limited to, the following:

- Profitability of TE's unregulated segments can fluctuate with swings in the economy and commodity prices. The company's business is sensitive to fluctuations in the weather. A particularly warm winter or cool summer could adversely affect TE's financial results.
- The company has no control of the wholesale prices of natural gas, oil or coal. A spike in the price of these fuels could impact TE's financial results.
- TE's utility operations are subject to federal, state and local legislative requirements. Changes in regulations or in the regulatory environment in general could impact TE's earnings.
- TECO Coal's financial results fluctuates with the market price of coal which could increase the volatility of TE's stock price.

Company Description

TECO Energy is a diversified energy company headquartered in Tampa, Florida. Its primary businesses are Tampa Electric, Peoples Gas, TECO Coal and TECO Guatemala. Tampa Electric Company provides retail electric service to more than 660,000 customers in West Central Florida. Peoples Gas System provides retail natural gas service to over 330,000 customers in Florida. TECO Coal operates coal mines and handling facilities in Kentucky and Tennessee, and through 2007, had interests in several synfuel production facilities. TECO Guatemala is engaged in the distribution and generation of electricity in Guatemala.

2202UZ



Dave Parker (813) 274-7620
Michael Gresens, CFA (414) 765-3849

TECO Energy - Quarterly Earnings Model

	2006				2007				2008			
	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08E	4Q08E
Net Sales	$836	$863	$923	$826	$821	$867	$990	$858	$792	$887	$996	$922
Cost of Goods Sold	340	344	390	315	350	369	435	362	365	426	489	447
Gross Income	496	518	533	511	471	497	555	496	427	461	507	476
Operating Expense	405	412	402	436	390	402	414	414	349	359	380	400
Operating Income	92	106	131	75	81	95	141	82	79	102	126	76
Pretax Income	83	77	118	73	64	74	119	73	45	74	102	59
Net Income	$58	$52	$77	$51	$44	$53	$79	$48	$31	$51	$67	$40
EPS	$0.28	$0.25	$0.37	$0.25	$0.21	$0.26	$0.38	$0.23	$0.15	$0.24	$0.32	$0.19
Dividends	$0.19	$0.19	$0.19	$0.19	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20
Average Shares	209	209	209	209	209	210	210	210	211	212	211	212
Margin Analysis												
Gross Margin	59.3%	60.1%	57.7%	61.8%	57.3%	57.4%	56.1%	57.8%	54.0%	52.0%	50.9%	51.6%
Operating Expense	48.4%	47.7%	43.6%	52.8%	47.4%	46.4%	41.8%	48.2%	44.0%	40.5%	38.2%	43.3%
Operating Margin	11.0%	12.3%	14.2%	9.0%	9.9%	11.0%	14.2%	9.6%	9.9%	11.5%	12.7%	8.2%
Pretax Margin	10.0%	8.9%	12.8%	8.8%	7.7%	8.6%	12.0%	8.5%	5.7%	8.3%	10.3%	6.4%
Net Margin	6.9%	6.1%	8.4%	6.2%	5.3%	6.1%	8.0%	5.6%	4.0%	5.8%	6.7%	4.3%

TECO Energy - Annual Earnings Model

	2004	2005	2006	% chg	2007	% chg	2008E	% chg	2009E	% chg	2010E	% chg
Net Sales	$2,669	$3,010	$3,448	15%	$3,536	3%	$3,597	2%	$3,895	8%	$4,188	8%
Cost of Goods Sold	935	1,081	1,390	29%	1,517	9%	1,726	14%	1,765	2%	1,819	3%
Gross Income	1,734	1,929	2,058	7%	2,020	(2%)	1,871	(7%)	2,129	14%	2,369	11%
Operating Expense	1,472	1,574	1,655	5%	1,620	(2%)	1,488	(8%)	1,647	11%	1,795	9%
Operating Income	262	355	403	14%	400	(1%)	383	(4%)	483	26%	574	19%
Pretax Income	238	382	351	(8%)	330	(6%)	280	(15%)	380	36%	469	23%
Net Income	$151	$255	$239	(6%)	$224	(6%)	$190	(15%)	$265	40%	$330	25%
EPS	$0.78	$1.22	$1.14	(6%)	$1.07	(7%)	$0.90	(16%)	$1.25	39%	$1.56	24%
Dividends	$0.76	$0.76	$0.76	0%	$0.78	3%	$0.80	3%	$0.82	3%	$0.84	2%
Average Shares	193	208	209	0%	210	1%	211	1%	212	0%	213	0%
Margin Analysis												
Gross Margin	65.0%	64.1%	59.7%		57.1%		52.0%		54.7%		56.6%	
Operating Expense	55.1%	52.3%	48.0%		45.8%		41.4%		42.3%		42.9%	
Operating Margin	9.8%	11.8%	11.7%		11.3%		10.6%		12.4%		13.7%	
Pretax Margin	8.9%	12.7%	10.2%		9.3%		7.8%		9.8%		11.2%	
Net Margin	5.7%	8.5%	6.9%		6.3%		5.3%		6.8%		7.9%	

Balance Sheet Data

	2004	2005	2006	2007	2Q08
Cash & Equivalents	$154	$383	$479	$170	$182
Receivables	287	323	338	296	331
Inventory	121	154	160	154	69
Current Assets	738	1,272	1,286	790	981
Fixed Assets	4,658	4,567	4,767	4,888	5,009
Total Assets	9,476	7,170	7,362	6,765	7,054
Current Debt	129	222	687	32	7
Payables	258	355	327	302	357
Current Liabilities	2,222	926	1,350	618	793
Other Liabilities	2,087	943	1,070	972	1,021
L.T. Debt and Lease	3,880	3,709	3,213	3,158	3,212
Common Equity	1,284	1,592	1,729	2,017	2,028

Ratio Analysis

	2005	2006	2007	2Q08
Debt/Total Cap	71%	69%	61%	61%
Current Ratio	1.4	1.0	1.3	1.2
Days Sales Outst.	37	35	33	33
EBIT/Interest	2.3x	2.3x	2.3x	2.3x
Inventory Turn	7.9x	8.9x	9.7x	11.6x
Return on Equity	17.7%	14.4%	11.9%	10.8%
High P/E Ratio	15.8x	15.5x	17.4x	17.9x
Low P/E Ratio	12.2x	12.8x	13.9x	16.1x
Book Value	$7.64	$8.25	$9.56	$9.61
Price/Book	2.2x	2.1x	1.8x	1.8x
Cash Flow/Share	$2.58	$2.50	$2.32	$2.19
Price/Cash Flow	6.7x	6.9x	7.4x	8.1x

Please refer to "Appendix - Important Disclosures" and Analyst Certification.

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TECO Energy, Inc.

($ in Millions Except As Noted)

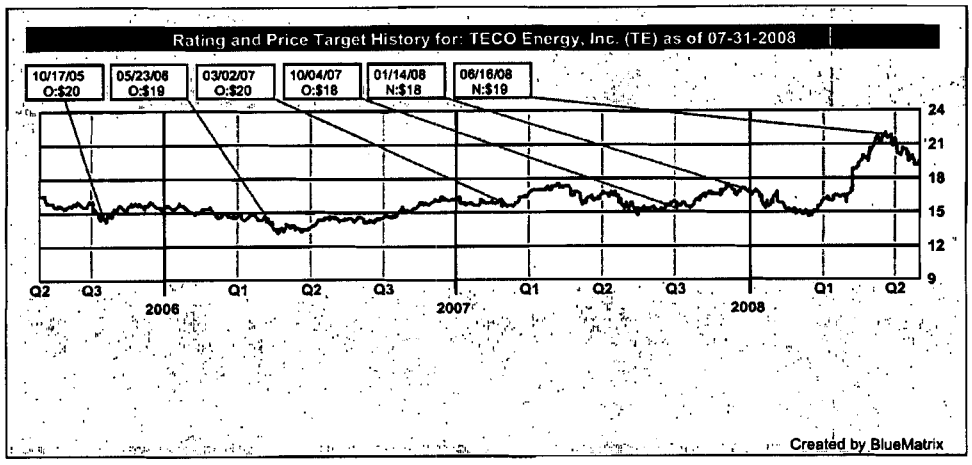
	2003	2004	2005	2006	2007	2008E	2009E	2010E	3 Yr Growth
Net Revenue	$2,718	$2,669	$3,010	$3,448	$3,536	$3,597	$3,895	$4,188	5.8%
EBIT by Segment									
Utilities	$359.9	$386.6	$399.1	$387.8	$407.7	$398.6	$454.0	$493.5	6.6%
Wholesale Generation/Guatemala	(19.2)	13.7	36.4	61.3	67.7	69.9	73.0	76.5	4.2%
Transport	29.4	22.4	31.6	44.1	36.7	0.0	0.0	0.0	
Coal	100.8	95.3	193.7	125.0	70.7	47.0	92.5	143.3	26.5%
Eliminations/Other Income	23.0	42.0	10.3	10.9	5.1	(6.5)	(6.5)	(6.5)	
Earnings Before Interest & Taxes	$493.9	$560.0	$671.1	$629.1	$587.9	$509.0	$613.0	$706.8	6.3%
Other Income	83.6	180.8	229.1	156.1	188.2	126.2	130.5	133.1	(10.9%)
Minority Interest	48.8	79.5	87.1	69.6	0.0	0.0	0.0	0.0	
Operating Income	$361.5	$299.7	$354.9	$403.4	$399.7	$382.9	$482.5	$573.7	12.8%
Interest Expense	313.8	321.6	288.7	278.3	257.8	229.4	232.6	238.0	(2.6%)
Pretax Income	$180.1	$238.3	$382.4	$350.8	$330.1	$279.6	$380.4	$468.8	12.4%
Net Income	$164.8	$151.2	$254.7	$238.8	$223.7	$189.5	$264.9	$329.8	13.8%
Earnings Per Share	**$0.92**	**$0.78**	**$1.22**	**$1.14**	**$1.07**	**$0.90**	**$1.25**	**$1.55**	13.2%
Diluted Shares	179.9	192.6	208.2	208.7	209.9	211.4	212.1	213.1	0.5%
Annualized Dividend Per Share	$0.93	$0.76	$0.76	$0.76	$0.78	$0.80	$0.82	$0.84	2.5%
Payout Ratio (%)	101	97	62	66	73	89	66	54	
Returns									
Return on Common Equity	7.7	10.2	17.7	14.4	11.9	9.3	12.7	15.0	
Internal Cash % of Total Capital	19	(3)	(0)	7	9	7	9	10	
Coverage Ratios									
Interest Coverage Ex. Non-Cash	1.5	1.7	2.3	2.3	2.3	2.2	2.6	3.0	
Internal Cash % Of Construction	183	(53)	(1)	89	98	81	106	128	
Internal Cash % of Total Cap. Req.	174	(50)	(1)	37	96	67	101	123	
% of Total Capital									
Short-term Debt	0.6	2.2	3.9	0.9	0.5	0.5	0.4	0.4	
Total Debt	67.4	75.7	71.2	69.3	61.3	62.4	61.7	61.0	
Preferred Stock	10.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Common Equity	27.3	24.2	28.8	30.7	38.7	37.6	38.3	39.0	
% Growth in Invested Capital	-13.2	-13.8	4.3	1.9	-7.5	4.1	2.6	5.0	
Total Invested Capital	$6,141	$5,295	$5,523	$5,629	$5,208	$5,421	$5,562	$5,843	3.9%
Total Debt	3,813	4,009	3,931	3,900	3,191	3,383	3,433	3,563	
Total Preferred	649	0	0	0	0	0	0	0	
Total Common Equity	1,678	1,284	1,592	1,729	2,017	2,037	2,128	2,279	
Cash Flow									
Cash Flow From Operations	$632	$151	($75)	$471	$833	$719	$724	$729	
Dividends (Pref. & Common)	165	145	158	159	163	169	174	179	
Internal Cash	466	6	(233)	312	670	550	550	550	
Construction Excluding AFC	591	273	295	456	494	450	450	450	
Other Investments	63	0	0	0	0	0	0	0	
Redemptions	850	225	494	366	1,182	100	100	100	
Total Capital Requirements	1,503	498	789	822	1,676	550	550	550	
Total Financing	792	88	608	340	458	0	0	0	

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Date Printed:	07/31/08						TECO Energy, Inc.							Dave Parker (813) 274-7620
Fiscal Year:	DEC						TE							Michael Gresens, CFA (414) 765-3849
(in millions)														
Balance Sheet	**2003**	**2004**	**2005**	**2006**	**2007**	**2Q08**	**Cash Flow Statement**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008E**	**2009E**
ASSETS							**Net Income**	$165	$151	$255	$239	$224	$190	$265
Cash & Equivalents	$108	$97	$346	$442	$163	$172	Depreciation & Amort	382	290	282	282	264	266	279
Receivables	280	287	323	338	296	331	Net changes in (CA) & CL	143	42	23	4	(10)	0	0
Inventory	171	121	154	160	154	69	Deferred taxes/Non-Cash	(361)	(343)	(383)	42	76	0	0
Other	259	176	412	309	170	399	**Cash Flow from Operations**	329	140	177	567	554	455	544
Total Current	818	680	1,235	1,248	782	971	Dividend Payments	(165)	(145)	(158)	(159)	(163)	(169)	(174)
Fixed Assets	5,679	4,658	4,567	4,767	4,888	5,009	Net Capital Expenditures	(591)	(273)	(295)	(456)	(494)	(450)	(450)
Goodwill & Intangible Assets	344	271	305	301	298	291	**Free Cash Flow**	($427)	($279)	($276)	($48)	($103)	($164)	($80)
Other Assets	3,570	3,810	1,026	1,008	789	772								
Total Assets	$10,411	$9,419	$7,133	$7,325	$6,758	$7,044	Operating Cash Flow Per Share	$1.83	$0.72	$0.85	$2.72	$2.64	$2.15	$2.56
							Free Cash Flow Per Share	($2.38)	($1.45)	($1.32)	($0.23)	($0.49)	($0.78)	($0.38)
LIAB. & EQUITY														
Current Debt	$69	$129	$222	$687	$32	$7	**Du Pont Formula**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008E**	**2009E**
Payables	314	258	355	327	302	357	Net Margins (N/S)	6.1%	5.7%	8.5%	6.9%	6.3%	5.3%	6.8%
Other	1,864	1,836	349	337	283	429	Assets Turnover (S/A)	0.3	0.3	0.4	0.5	0.5	0.5	0.6
Total Current	2,247	2,222	926	1,350	618	793	Leverage (A/E)	4.5	6.7	5.8	4.4	3.8	3.3	3.3
							Return on Equity	7.7%	10.2%	17.7%	14.4%	11.9%	9.3%	12.7%
L/T Debt & Lease	3,745	3,883	3,709	3,213	3,158	3,212								
Deferred Taxes	2,143	2,087	943	1,070	972	1,021	**Valuation Parameters**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008E**	**Recent**
Other Liabilities	0	0	0	0	0	0	Price (Common) - TE High	17.00	15.49	19.30	17.73	18.58	17.75	17.21
							Low	9.47	11.30	14.87	14.40	14.84	14.48	
Preferred Stock	649	0	0	0	0	0								
Common Equity	1,678	1,284	1,592	1,729	2,017	2,028	**Forward P/E Ratio** High	17.9x	18.2x	16.7x	16.0x	17.1x	16.1x	16.1x
Total	$10,462	$9,477	$7,170	$7,362	$6,765	$7,054	Low	6.5x	12.7x	13.2x	11.8x	13.8x	13.3x	13.3x
							Close	17.8x	15.7x	14.0x	16.0x	15.5x	16.0x	16.0x
Ratio Analysis:														
Current Ratio	0.4	0.3	1.4	1.0	1.3	1.2	**Book Value**	$8.92	$6.21	$7.64	$8.25	$9.56	$9.64	$10.03
Working Capital	(1,468)	(1,510)	185	144	34	14	**Price/Book Ratio** High	1.9x	2.5x	2.5x	2.1x	1.9x	1.8x	1.8x
Working Cap/Assets	(14%)	(16%)	3%	2%	1%	0%	Low	1.1x	1.8x	1.9x	1.7x	1.6x	1.5x	1.5x
Inventory Turns	4	6	8	9	10	12	Close	1.6x	2.5x	2.2x	2.1x	1.8x	1.8x	1.8x
Total Debt/Capital	62%	76%	71%	69%	61%	61%	**EBITDA**	$876	$850	$953	$911	$852	$775	$892
LT Debt/Equity	223%	302%	233%	186%	157%	159%	**Enterprise Value** High	$6,711	$6,839	$7,566	$7,121	$6,920	$6,965	$7,179
EBIT/Interest Expense	1.6x	1.7x	2.3x	2.3x	2.3x	2.3x	Low	5,356	6,032	6,644	6,426	6,135	6,274	6,457
Total Debt/EBIT	7.7x	7.2x	5.9x	6.2x	5.4x	5.9x	**EV / EBITDA** High	7.7x	8.0x	7.9x	7.8x	8.1x	9.0x	8.0x
							Low	6.1x	7.1x	7.0x	7.1x	7.2x	8.1x	7.2x
							Close	7.1x	8.0x	7.5x	7.7x	7.8x	9.0x	8.0x

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Appendix - Important Disclosures and Analyst Certification



1 Baird maintains a trading market in the securities of TE.

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Utilities Research
June 16, 2008

TECO Energy, Inc. (TE)

Raising Price Target on Significant Coal Price Inflation; Maintain Rating

Price: (06/13/08)	**21.42**	**Rating:**	**Neutral**	**FY Dec**	**2007A**	**2008E**	**2009E**
52WK H-L:	**22 - 14**			Q1	0.21A	0.15A	
Market Cap (mil):	**4,506.77**	**Suitability:**	**Average Risk**	Q2	0.25A	0.23E	
Shares Out (mil):	209.4			Q3	0.38A	0.36E	
Float (mil):	196.2			Q4	0.23A	0.26E	
Avg. Daily Vol (mil):	2.70			**Total**	**1.07A**	**1.00E**	**1.30E**
		Price Target:	**19**	Previous			1.15E
Dividend:	0.78	Previous:	18	FY P/E	20.0x	21.4x	16.5x
Yield:	3.64						

Please refer to Appendix - Important Disclosures and Analyst Certification.

David E. Parker
dparker@rwbaird.com
813.274.7620

Michael L. Gresens, CFA
mgresens@rwbaird.com
414.765.3849

Weston A. Wicks
wwicks@rwbaird.com
414.298.1412

Action

We have adjusted our estimates and raised our price target to $19 to reflect the doubling of spot coal prices in 2008. While TE has fully hedged expected steam coal production in the near term, we expect longer-term unhedged coal margins to expand with additional upside if robust coal prices are maintainable. We maintain our Neutral rating believing the potential expansion in coal margins is mostly reflected in the current price.

Summary

- TECO's stock has performed extremely well over the last several months as it has participated in a coal rally, with spot market Central Appalachian steam coal prices doubling in 2008 and nearly tripling since the market bottom in early 2007, and metallurgical coal prices reportedly more than doubling in 2008.
- TECO is fully hedged for 2008 at 2006 and 2007 coal prices without a hedge on rising production costs, which should impact 2008 results along with lower regulated utility customer growth.
- However, TECO is largely unhedged for 2009 and 2010 for met coal prices and 40-50% unhedged for 2010 steam coal prices. 2009 steam coal prices were largely hedged during the initial price rise in late 2007 and early 2008.
- In 3/2008 and 5/2008, management stated that it expects to see a $7-10/ton average price increase for its expected coal production in 2009 with upside if still-unhedged met coal prices were sustainable.
- We maintain our 2008 EPS estimate of $1.00, but have increased our 2009 EPS estimate from $1.15 to $1.30 and our 2010 EPS estimate from $1.30 to $1.55.
- We do not believe current robust coal margins are sustainable longer term, which is reflected in our estimates; however, we now expect the coal bubble will positively impact margins for at least the next 3-5 years enhancing value to investors. Therefore we have raised our 12-month price target from $18 to $19, which is 12.3x our 2010 EPS estimate.

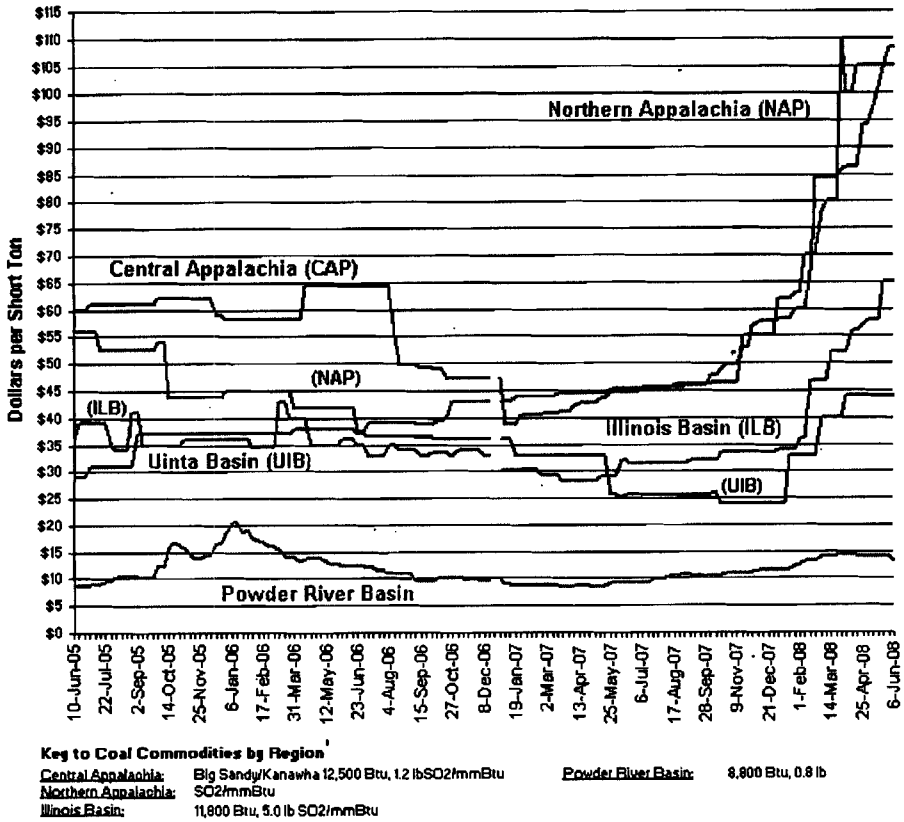
Details

We believe the significant increase in the stock of TE has been entirely related to the significant increase in coal prices since early 2008, and increased belief that at least a portion of the increase will be sustained for several years.

TECO Coal mines its coal from 37 underground and surface mines in the Central Appalachia region, primarily in eastern Kentucky and partially into western Virginia, with 277.1 million tons of proven and probable recoverable reserves as of 12/31/2007. TECO Coal produced 9.2 million tons of coal in 2007 and expects to produce 10.5 million tons in 2008 and 11.0-11.5 million tons in 2009, with approximately 30-40% of coal production being of specialty coals, including metallurgical (met) and PCI (pulverized coal injection) coal used in steel production and specialty stoker products used in ferro-silicon and industrial applications.

Approximately 60-70% of TECO Coal's coal production is of Central Appalachian steam coal used for power generation. Following a material decline in prices in 2006 through early 2007, spot market prices for Central Appalachian coal have risen significantly to approximately $110/ton, up from a low of $40/ton in early 2007 and nearly $60/ton at the beginning of 2008. Figure 1 shows a chart from the EIA regarding coal prices across regions and with different base composition metrics, with declining utility coal inventories, rising transportation costs, increased scrubber installations in the eastern U.S. to handle higher-sulfur coal, a boom in global coal demand and supply disruptions all playing a part in the rapid price increase.

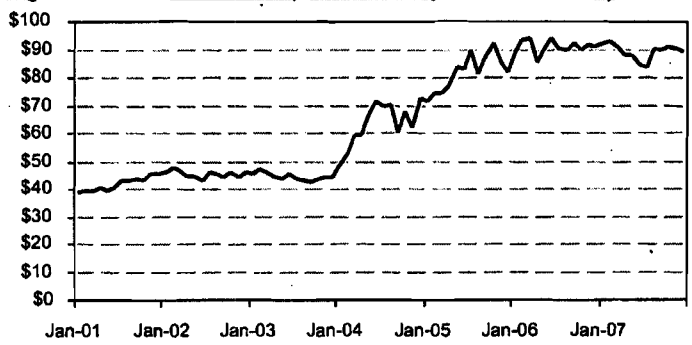
Figure 1: Coal Prices by Basin



Source: EIA

Approximately 30-40% of TECO's expected 2009 coal production is of specialty coals, including metallurgical coal. Metallurgical coal, which is a key component in making steel, have seen dramatic price increases so far in 2008. Figure 2 highlights met coal prices from 2001 through the end of 2007, with major price increases clearly visible in 2004 and 2005 with prices in 2006 and 2007 stagnating at approximately $90/ton. Since that time, however, there have been price reports for met coal up to nearly $300/ton for 2009-2011 production, driven in part by extreme global demand for steel and global coal production disruptions, including in Australia, South Africa and the U.S., which has experienced increased regulatory scrutiny on mining operations following some higher profile mining accidents.

Figure 2: Met Coal Prices (Declared Export Values/Ton)



Source: EIA

We have increased our 2009 and 2010 EPS estimates assuming that TECO will be able to capture some of this increase in coal, offset partially by cost pressures from similar commodity cost inflation. We have raised our 2009 EPS estimate from $1.15 to $1.30 and our 2010 EPS estimate from $1.30 to $1.55. The increased estimates relate entirely to higher anticipated coal earnings, with assumed net income/ton rising from $4/ton in 2008 to nearly $8/ton in 2009 and over $11/ton in 2010, driven by a mix of price increases and cost increases. Management had stated in 3/2008 (and restated in 5/2008) that it expects realized coal prices to rise from approximately $58/ton in 2008 to $65-68/ton in 2009, with potential upside if met coal price increases were sustainable. If spot coal prices maintain its dramatic rise, additional EPS upside from its forecasted 2009 expected pricing level is available to TECO, although production costs, including diesel and steel costs, are also on the rise.

We have increased our 12-month price target from $18 to $19 to reflect the upside potential from the recent run up in coal pieces. Figure 3 highlights a sum-of-the-parts valuation based on our earnings estimates and current peer valuations, we believe revealing that our 12-month price target represents some discount to a peer valuation. Major coal producers currently trade at a median 14x 2009 EPS estimates and 10x 2010 EPS estimates, while regulated electric/gas utilities currently trade at 14x 2009 EPS estimates and 12.5x 2010 EPS estimates. While not taking a view of the coal industry, we generally believe there is upside to regulated utility industry valuations with our belief being that a fair value should be approximately 16-17x forward earnings in part based upon material earnings growth potential from investing in major utility infrastructure programs to meet rising customer demands and environmental requirements, and to replace fuel costs with capital costs. There is some increased regulatory risk with TECO's regulated utilities as it recently filed for rate relief but we believe the regulatory environment in Florida is generally constructive.

Figure 3: Sum-of-the-Parts Current Valuation

	EPS Estimates			Peer Valuation		Implied Value/Share	
	2008	2009	2010	2009	2010	2009	2010
Regulated Utility	0.83	0.87	0.94	14x	13x	$12.0	$11.9
TECO Coal	0.19	0.44	0.60	13x	10x	$5.8	$6.0
TECO Guatemala	0.20	0.21	0.23	13x	12x	$2.7	$2.6
Parent/Other	(0.22)	(0.22)	(0.22)	13x	11x	($2.9)	($2.5)
NOL's						$1.5	$1.5
Total	1.00	1.30	1.55	15x	13x	$19	$19

Source: FactSet and Robert W. Baird & Co. estimates.

Investment Thesis

We maintain a Neutral rating on the shares of TECO Energy with a 12-month price target of $19. Upside to our EPS estimates and target price exists if current robust coal margins are maintainable longer term and/or TE formalizes plans to further enhance its utility growth potential most likely through additional utility infrastructure and generation expansion. Key investment considerations include the following:

- **Well-Positioned Utility Operations.** TE has benefited from solid 2-3% customer growth and supportive regulation, although current market conditions have caused a slowdown in growth. TE expects to spend $400 million in annual base capital expenditures on average over the next five years, nearly two times depreciation levels, with potential generation additions being additive.
- **Improved Financial Health.** Following significant losses in 2003 and 2004 from TECO's merchant operations, TECO's balance sheet has strengthened reflecting improved operating performance, the disposition of the merchant power and transportation operations, and significant debt reduction. We expect these positive trends to continue as TE monetizes its merchant-related NOLs and continues its solid operating performance.
- **TECO Transport Sale.** In early 12/2007, TECO sold its Transport business for $405 million, which raised $370-380 million in net proceeds. The sale allowed TECO to accelerate its NOL monetization and corporate-level debt repayment, thus creating more balance sheet capacity to fund regulated utility investment opportunities.
- **Coal Benefiting From Global Commodity Inflation.** We expect earnings from TECO Coal in 2009 and 2010 to benefit from a significant spike in global coal prices due to a number of supply and demand issues.
- **Attractive and Sustainable Dividend Yield.** We expect a resumption of dividend growth in 2008 given improving cash flow and EPS growth.
- **Valuation.** Our 12-month price target of $19 is 12.3x our 2010 EPS estimate, which includes substantial earnings upside from significant coal price inflation, we believe a slight discount to its peers based on a sum-of-the-parts valuation due to the uncertainty regarding the sustainability of spiking coal prices.

Risks & Caveats

We maintain a suitability rating of Average Risk on TE due to the additional risk associated with TE's non-regulated business, which are more susceptible to earnings fluctuations from varying market conditions. Risks include, but are not limited to, the following:

- Profitability of TE's unregulated segments can fluctuate with swings in the economy and commodity prices. The company's business is sensitive to fluctuations in the weather. A particularly warm winter or cool summer could adversely affect TE's financial results.
- The company has no control of the wholesale prices of natural gas, oil or coal. A spike in the price of these fuels could impact TE's financial results.
- TE's utility operations are subject to federal, state and local legislative requirements. Changes in regulations or in the regulatory environment in general could impact TE's earnings.
- TECO Coal's financial results fluctuates with the market price of coal which could increase the volatility of TE's stock price.

Company Description

TECO Energy is a diversified energy company headquartered in Tampa, Florida. Its primary businesses are Tampa Electric, Peoples Gas, TECO Coal and TECO Guatemala. Tampa Electric Company provides retail electric service to more than 660,000 customers in West Central Florida. Peoples Gas System provides retail natural gas service to over 330,000 customers in Florida. TECO Coal operates coal mines and handling facilities in Kentucky and Tennessee, and through 2007, had interests in several synfuel production facilities. TECO Guatemala is engaged in the distribution and generation of electricity in Guatemala.

BAIRD 777 E. WISCONSIN AVENUE, MILWAUKEE, 53202
Dave Parker (813) 274-7620
Michael Gresens, CFA (414) 765-3849

TECO Energy - Quarterly Earnings Model

	2006				2007				2008			
	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08E	3Q08E	4Q08E
Net Sales	$836	$863	$923	$826	$821	$867	$990	$858	$792	$846	$977	$876
Cost of Goods Sold	340	344	390	315	350	369	435	362	365	387	470	407
Gross Income	496	518	533	511	471	497	555	496	427	449	507	469
Operating Expense	405	412	402	436	390	402	414	414	349	351	365	375
Operating Income	92	106	131	75	81	95	141	82	79	98	142	95
Pretax Income	83	77	118	73	64	74	119	73	45	74	117	74
Net Income	$58	$52	$77	$51	$44	$53	$79	$48	$31	$49	$77	$55
EPS	$0.28	$0.25	$0.37	$0.25	$0.21	$0.25	$0.38	$0.23	$0.15	$0.23	$0.36	$0.26
Dividends	$0.19	$0.19	$0.19	$0.19	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20
Average Shares	209	209	209	209	209	210	210	210	211	211	211	212
Margin Analysis												
Gross Margin	59.3%	60.1%	57.7%	61.8%	57.3%	57.4%	56.1%	57.8%	54.0%	53.1%	51.9%	53.6%
Operating Expense	48.4%	47.7%	43.6%	52.8%	47.4%	46.4%	41.8%	48.2%	44.0%	41.5%	37.4%	42.8%
Operating Margin	11.0%	12.3%	14.2%	9.0%	9.9%	11.0%	14.2%	9.6%	9.9%	11.6%	14.5%	10.8%
Pretax Margin	10.0%	8.9%	12.8%	8.8%	7.7%	8.6%	12.0%	8.5%	5.7%	8.8%	12.0%	8.4%
Net Margin	6.9%	6.1%	8.4%	6.2%	5.3%	6.1%	8.0%	5.6%	4.0%	5.8%	7.9%	6.3%

TECO Energy - Annual Earnings Model

	2004	2005	2006	% chg	2007	% chg	2008E	% chg	2009E	% chg	2010E	% chg
Net Sales	$2,669	$3,010	$3,448	15%	$3,536	3%	$3,491	(1%)	$3,758	8%	$4,031	7%
Cost of Goods Sold	935	1,081	1,390	29%	1,517	9%	1,638	8%	1,671	2%	1,706	2%
Gross Income	1,734	1,929	2,058	7%	2,020	(2%)	1,853	(8%)	2,087	13%	2,325	11%
Operating Expense	1,472	1,574	1,655	5%	1,620	(2%)	1,439	(11%)	1,588	10%	1,749	10%
Operating Income	262	355	403	14%	400	(1%)	414	4%	499	21%	576	15%
Pretax Income	238	382	351	(8%)	330	(6%)	310	(6%)	392	26%	467	19%
Net Income	$151	$255	$239	(6%)	$224	(6%)	$212	(5%)	$276	30%	$331	20%
EPS	$0.78	$1.22	$1.14	(6%)	$1.07	(7%)	$1.00	(6%)	$1.30	30%	$1.55	19%
Dividends	$0.76	$0.76	$0.76	0%	$0.78	3%	$0.80	3%	$0.82	3%	$0.84	2%
Average Shares	193	208	209	0%	210	1%	211	1%	212	0%	213	0%
Margin Analysis												
Gross Margin	65.0%	64.1%	59.7%		57.1%		53.1%		55.5%		57.7%	
Operating Expense	55.1%	52.3%	48.0%		45.8%		41.2%		42.2%		43.4%	
Operating Margin	9.8%	11.8%	11.7%		11.3%		11.8%		13.3%		14.3%	
Pretax Margin	8.9%	12.7%	10.2%		9.3%		8.9%		10.4%		11.6%	
Net Margin	5.7%	8.5%	6.9%		6.3%		6.1%		7.3%		8.2%	

Balance Sheet Data

	2004	2005	2006	2007	1Q08
Cash & Equivalents	$154	$383	$479	$170	$128
Receivables	287	323	338	298	310
Inventory	121	154	160	154	147
Current Assets	738	1,272	1,286	790	735
Fixed Assets	4,658	4,567	4,767	4,888	4,952
Total Assets	9,476	7,170	7,362	6,765	6,742
Current Debt	129	222	687	32	25
Payables	258	355	327	302	282
Current Liabilities	2,222	926	1,350	618	683
Other Liabilities	2,087	943	1,070	972	1,005
L.T. Debt and Lease	3,880	3,709	3,213	3,158	3,062
Common Equity	1,284	1,592	1,729	2,017	1,993

Ratio Analysis

	2005	2006	2007	1Q08
Debt/Total Cap	71%	69%	61%	61%
Current Ratio	1.4	1.0	1.3	1.1
Days Sales Outst.	37	35	33	33
EBIT/Interest	2.3x	2.3x	2.3x	2.3x
Inventory Turn	7.9x	8.9x	9.7x	8.8x
Return on Equity	17.7%	14.4%	11.9%	11.2%
High P/E Ratio	15.8x	15.5x	17.4x	17.7x
Low P/E Ratio	12.2x	12.6x	13.9x	14.4x
Book Value	$7.64	$8.25	$9.56	$9.46
Price/Book	2.2x	2.1x	1.8x	1.7x
Cash Flow/Share	$2.58	$2.50	$2.32	$2.22
Price/Cash Flow	6.7x	6.9x	7.4x	7.2x

Please refer to "Appendix - Important Disclosures" and Analyst Certification.

TECO Energy, Inc.

($ in Millions Except As Noted)

	2003	2004	2005	2006	2007	2008E	2009E	2010E	3 Yr Growth
Net Revenue	$2,718	$2,669	$3,010	$3,448	$3,536	$3,491	$3,758	$4,031	4.5%
EBIT by Segment									
Utilities	$359.9	$386.6	$399.1	$387.8	$407.7	$415.4	$435.5	$468.0	4.7%
Wholesale Generation/Guatemala	(19.2)	13.7	36.4	61.3	67.7	62.4	66.0	69.2	0.7%
Transport	29.4	22.4	31.6	44.1	36.7	0.0	0.0	0.0	
Coal	100.8	95.3	193.7	125.0	70.7	60.5	126.5	170.8	34.2%
Eliminations/Other Income	23.0	42.0	10.3	10.9	5.1	1.5	1.5	1.5	
Earnings Before Interest & Taxes	$493.9	$560.0	$671.1	$629.1	$587.9	$539.8	$629.5	$709.5	6.5%
Other Income	83.6	180.8	229.1	156.1	188.2	126.2	130.5	133.1	(10.9%)
Minority Interest	48.8	79.5	87.1	69.6	0.0	0.0	0.0	0.0	
Operating Income	$361.5	$299.7	$354.9	$403.4	$399.7	$413.7	$499.0	$576.4	13.0%
Interest Expense	313.8	321.6	288.7	278.3	257.8	229.4	237.3	242.7	(2.0%)
Pretax Income	$180.1	$238.3	$382.4	$350.8	$330.1	$310.4	$392.2	$466.8	12.2%
Net Income	$164.8	$151.2	$254.7	$238.8	$223.7	$212.0	$275.9	$331.1	14.0%
Earnings Per Share	**$0.92**	**$0.78**	**$1.22**	**$1.14**	**$1.07**	**$1.00**	**$1.30**	**$1.55**	13.4%
Diluted Shares	179.9	192.6	208.2	208.7	209.9	211.1	212.1	213.1	0.5%
Annualized Dividend Per Share	$0.93	$0.76	$0.76	$0.76	$0.78	$0.80	$0.82	$0.84	2.5%
Payout Ratio (%)	101	97	62	66	73	80	63	54	
Returns									
Return on Common Equity	7.7	10.2	17.7	14.4	11.9	10.4	13.1	14.8	
Internal Cash % of Total Capital	19	(3)	(0)	7	9	7	9	10	
Coverage Ratios									
Interest Coverage Ex. Non-Cash	1.5	1.7	2.3	2.3	2.3	2.3	2.6	2.9	
Internal Cash % Of Construction	183	(53)	(1)	89	98	89	110	130	
Internal Cash % of Total Cap. Req.	174	(50)	(1)	37	96	73	106	124	
% of Total Capital									
Short-term Debt	0.6	2.2	3.9	0.9	0.5	0.5	0.4	0.4	
Total Debt	67.4	75.7	71.2	69.3	61.3	62.2	61.4	60.6	
Preferred Stock	10.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Common Equity	27.3	24.2	28.8	30.7	38.7	37.8	38.6	39.4	
% Growth in Invested Capital	-13.2	-13.8	4.3	1.9	-7.5	4.5	2.8	5.0	
Total Invested Capital	$6,141	$5,295	$5,523	$5,629	$5,208	$5,444	$5,596	$5,878	4.1%
Total Debt	3,813	4,009	3,931	3,900	3,191	3,383	3,433	3,563	
Total Preferred	649	0	0	0	0	0	0	0	
Total Common Equity	1,678	1,284	1,592	1,729	2,017	2,060	2,162	2,314	
Cash Flow									
Cash Flow From Operations	$632	$151	($75)	$471	$833	$719	$724	$729	
Dividends (Pref. & Common)	165	145	158	159	163	169	174	179	
Internal Cash	466	6	(233)	312	670	550	550	550	
Construction Excluding AFC	591	273	295	456	494	450	450	450	
Other Investments	63	0	0	0	0	0	0	0	
Redemptions	850	225	494	366	1,182	100	100	100	
Total Capital Requirements	1,503	498	789	822	1,676	550	550	550	
Total Financing	792	88	608	340	458	0	0	0	

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Date Printed:	06/15/08					
Fiscal Year:	DEC					
(in millions)						
Balance Sheet	**2003**	**2004**	**2005**	**2006**	**2007**	**1Q08**
ASSETS						
Cash & Equivalents	$108	$97	$346	$442	$163	$118
Receivables	280	287	323	338	296	310
Inventory	171	121	154	160	154	147
Other	259	176	412	309	170	150
Total Current	818	680	1,235	1,248	782	725
Fixed Assets	5,679	4,658	4,567	4,767	4,888	4,952
Goodwill & Intangible Assets	344	271	305	301	298	268
Other Assets	3,570	3,810	1,026	1,008	789	787
Total Assets	$10,411	$9,419	$7,133	$7,325	$6,758	$6,733
LIAB. & EQUITY						
Current Debt	$69	$129	$222	$687	$32	$25
Payables	314	258	355	327	302	282
Other	1,864	1,836	349	337	283	376
Total Current	2,247	2,222	926	1,350	618	683
L/T Debt & Lease	3,745	3,883	3,709	3,213	3,158	3,062
Deferred Taxes	2,143	2,087	943	1,070	972	1,005
Other Liabilities	0	0	0	0	0	0
Preferred Stock	649	0	0	0	0	0
Common Equity	1,678	1,284	1,592	1,729	2,017	1,993
Total	$10,462	$9,477	$7,170	$7,362	$6,765	$6,742
Ratio Analysis:						
Current Ratio	0.4	0.3	1.4	1.0	1.3	1.1
Working Capital	(1,468)	(1,510)	185	144	34	(51)
Working Cap/Assets	(14%)	(16%)	3%	2%	1%	(1%)
Inventory Turns	4	6	8	9	10	9
Total Debt/Capital	62%	76%	71%	69%	61%	61%
LT Debt/Equity	223%	302%	233%	186%	157%	155%
EBIT/Interest Expense	1.6x	1.7x	2.3x	2.3x	2.3x	2.3x
Total Debt/EBIT	7.7x	7.2x	5.9x	6.2x	5.4x	5.5x

TECO Energy, Inc.
TE

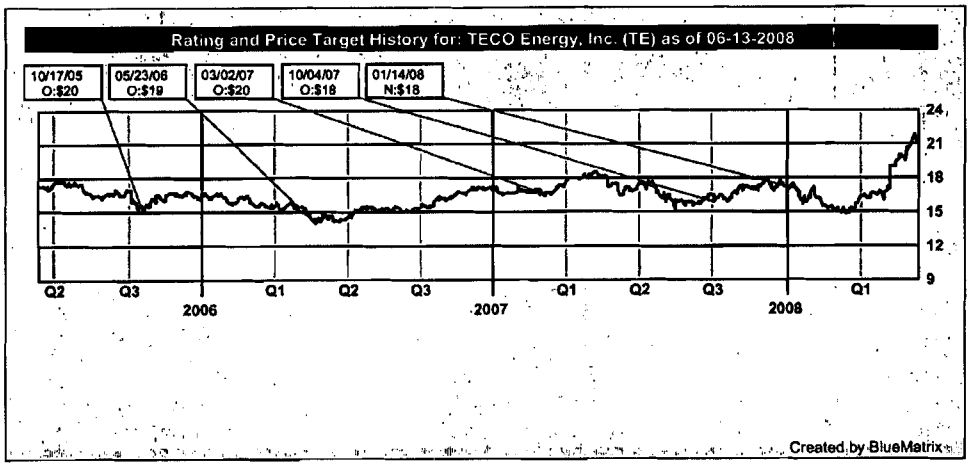
Dave Parker (813) 274-7620
Michael Gresens, CFA (414) 765-3849

Cash Flow Statement	2003	2004	2005	2006	2007	2008E	2009E
Net Income	$165	$151	$255	$239	$224	$212	$276
Depreciation & Amort	382	290	282	282	264	270	288
Net changes in (CA) & CL	143	42	23	4	(10)	0	0
Deferred taxes/Non-Cash	(361)	(343)	(383)	42	76	0	(0)
Cash Flow from Operations	329	140	177	567	554	482	564
Dividend Payments	(165)	(145)	(158)	(159)	(163)	(169)	(174)
Net Capital Expenditures	(591)	(273)	(295)	(456)	(494)	(450)	(450)
Free Cash Flow	($427)	($279)	($276)	($48)	($103)	($137)	($60)
Operating Cash Flow Per Share	$1.83	$0.72	$0.85	$2.72	$2.64	$2.28	$2.66
Free Cash Flow Per Share	($2.38)	($1.45)	($1.32)	($0.23)	($0.49)	($0.65)	($0.28)

Du Pont Formula	2003	2004	2005	2006	2007	2008E	2009E
Net Margins (N/S)	6.1%	5.7%	8.5%	6.9%	6.3%	6.1%	7.3%
Assets Turnover (S/A)	0.3	0.3	0.4	0.5	0.5	0.5	0.6
Leverage (A/E)	4.5	6.7	5.8	4.4	3.8	3.3	3.2
Return on Equity	7.7%	10.2%	17.7%	14.4%	11.9%	10.4%	13.1%

Valuation Parameters		2003	2004	2005	2006	2007	2008E	Recent
Price (Common) - TE	High	17.00	15.49	19.30	17.73	18.58	17.75	17.21
	Low	9.47	11.30	14.87	14.40	14.84	14.48	
Forward P/E Ratio	High	17.9x	18.2x	16.7x	16.0x	17.1x	16.1x	16.1x
	Low	6.5x	12.7x	13.2x	11.8x	13.8x	13.3x	13.3x
	Close	17.8x	15.7x	14.0x	16.0x	15.5x	16.0x	16.0x
Book Value		$8.92	$6.21	$7.64	$8.25	$9.56	$9.75	$10.18
Price/Book Ratio	High	1.9x	2.5x	2.5x	2.1x	1.9x	1.8x	1.8x
	Low	1.1x	1.8x	1.9x	1.7x	1.6x	1.5x	1.5x
	Close	1.6x	2.5x	2.2x	2.1x	1.8x	1.8x	1.8x
EBITDA		$876	$850	$953	$911	$852	$810	$918
Enterprise Value	High	$6,711	$6,839	$7,566	$7,121	$6,920	$6,961	$7,179
	Low	5,356	6,032	6,644	6,426	6,135	6,270	6,457
EV / EBITDA	High	7.7x	8.0x	7.9x	7.8x	8.1x	8.6x	7.8x
	Low	6.1x	7.1x	7.0x	7.1x	7.2x	7.7x	7.0x
	Close	7.1x	8.0x	7.5x	7.7x	7.8x	8.6x	7.8x

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TECO Energy, Inc.
June 16, 2008

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Utilities Research
April 30, 2008

TECO Energy, Inc. (TE)

Mild Weather, Slower Customer Growth Pressures 1Q08 Earnings; Maintain Rating

Price: (04/29/08)	**16.66**	**Rating:**	**Neutral**	**FY Dec**	**2007A**	**2008E**	**2009E**
52WK H-L:	**19 - 14**			Q1	0.21A	0.15A	
Market Cap (mil):	**3,505.26**	**Suitability:**	**Average Risk**	Q2	0.25A	0.23E	
Shares Out (mil):	209.4			Q3	0.38A	0.37E	
Float (mil):	196.7			Q4	0.23A	0.25E	
Avg. Daily Vol (mil):	1.79			**Total**	**1.07A**	**1.05E**	**1.15E**
		Price Target:	**18**	FY P/E	15.6x	15.9x	14.5x
Dividend:	0.78						
Yield:	4.68						

Please refer to Appendix - Important Disclosures and Analyst Certification.

David E. Parker
dparker@rwbaird.com
813.274.7620

Michael L. Gresens, CFA
mgresens@rwbaird.com
414.765.3849

Weston A. Wicks
wwicks@rwbaird.com
414.298.1412

Action

1Q08 results were well below our estimates on higher operating costs, mild weather and slower customer growth at the utility. Such cost pressures could be offset in 2009 and 2010 through higher realized coal prices and rate relief for both the electric and gas utilities, but we expect heightened regulatory risk related to those rate cases to limit upside stock potential. We maintain our Neutral rating and $18 price target.

Summary

- TECO reported 1Q08 adjusted EPS of $0.15 versus $0.21 last year and our estimate of $0.23. The consensus estimate was $0.21.
- TE reaffirmed its 2008 EPS guidance of $0.95-1.10.
- Management expects slower customer growth and higher operating expenses to cause regulated ROEs to fall below allowed ROE bands at both the gas and electric utilities, likely prompting gas and electric rate cases in 2008 and 2009 and introducing some element of regulatory risk. In addition, TECO Coal earnings are likely to be weak in 2008 due to rising cash production costs that are generally not hedged relative to average prices that are largely hedged at below-market prices, although market prices and hedges in place for 2009 and 2010 are significantly above currently realized levels.
- We are lowering our 2008 EPS estimate from $1.05 to $1.00, but maintaining our 2009 and 2010 EPS estimates of $1.15 and $1.30, respectively.
- Regulated utility earnings declined 21% YOY to $25.9 million as mild weather and slower customer growth impacted both electric and gas margins, and higher O&M expenses due to planned outages and higher bad debts expenses.
- Parent interest costs continue to decline as TECO utilizes the proceeds from the Transport sale and NOL tax carryforward monetization to reduce debt levels.
- We maintain our 12-month price target of $18, which is 15.6x our 2009 EPS estimate, we believe a slight discount to its peers when fully valued.

Details

TECO reported 1Q08 adjusted EPS of $0.15 versus $0.21 last year and our $0.23 estimate. The consensus estimate was $0.21.

1Q08 Results (mil)	Actual	Year Ago	Change	Estimate	Variance
Revenue	$792	$821	-3.6%	$834	-5.0%
Gross Income	427	471	-9.3%	416	2.7%
Gross Margin	54.0%	57.3%		49.9%	
Operating Expense	349	390	-10.5%	319	9.3%
Operating Income	79	81	-3.3%	97	-19.0%
Operating Margin	9.9%	9.9%		11.6%	
Pretax Income	45	62	-28.3%	73	-38.8%
Net Income	$31	$44	-28.5%	$48	-34.5%
Diluted EPS	$0.15	$0.21	-29.2%	$0.23	-34.3%
Diluted Shares	211	209	1.0%	211	-0.3%
1Q08 nonrecurring and other items of note:					
Excludes $0.6M costs related to TECO Transport sale ($0.00/share).					
1Q07 nonrecurring and other items of note:					
Excludes $1.8M costs related to TECO Transport sale ($0.01/share).					
Excludes $30.7M earnings from synfuel-related activities ($0.15/share).					

EPS Reconciliation		
Prior Year EPS		$0.21
Tampa Electric	(0.03)	
Peoples Gas System	(0.00)	
TECO Coal	(0.02)	
TECO Transport	(0.03)	
TECO Guatemala	0.00	
Parent/Other	0.02	
Additional Shares	(0.00)	
Current EPS		$0.15

2008 Earnings Guidance

TE reaffirmed 2008 EPS guidance of $0.95-1.10 versus $1.07 in 2007 (excluding items). We have lowered our 2008 EPS estimate from $1.05 to $1.00, and maintained our 2009 and 2010 EPS estimates of $1.15 and $1.30, respectively. TECO expects the primary earnings drivers to include the following:

- Tampa Electric – slower customer growth of 0.5-1.0% with approximately flat-to-down weather-normalized average customer usage; offsetting higher O&M expenses; higher depreciation and interest expenses from higher net PP&E levels, particularly related to the NOx control investments; higher AFUDC related to peak generation construction; while continued equity infusions into the utility to support capital expenditures should lead to a decline in earned ROE levels to below Tampa Electric's allowed 10.75-12.75% ROE band, which is likely to cause a rate case for 2009.
- Lower earnings at Peoples Gas as slower customer growth and therm sales growth are offset by the effects of higher O&M and depreciation rates. 2007 earnings were below Peoples Gas' allowed 10.5-12.5% ROE band, which should lead it to file for a base rate increase in 2008.
- Slightly higher TECO Coal earnings (excluding synfuel) reflecting increased production levels in 2008 (10.5 million tons versus 9.2 million tons in 2007) with slight price

increases offset by higher increases in O&M expenses, due primarily to higher diesel fuel, petroleum and safety-related costs.

- TECO Guatemala 2008 earnings should be below record 2007 levels due primarily to increased planned outages.
- Costs at the parent company level (primarily interest expense) should continue to decline due to debt retirements.

Segment Analysis

	3 Mos. Ended		%
Segment Revenue	**3/31/2008**	**3/31/2007**	**Change**
Tampa Electric	$461.5	$471.9	-2%
Peoples Gas System	179.0	169.2	6%
TECO Coal	149.1	127.5	17%
TECO Transport	0.0	75.3	-100%
TECO Guatemala	2.3	1.9	21%
Total Net Revenue	791.9	845.8	-6%
Other/eliminations	(0.2)	(24.5)	NM
Consolidated Revenue	$791.7	$821.3	-4%
Net Income			
Tampa Electric	$15.9	$21.8	-27%
Peoples Gas System	10.0	11.0	-9%
TECO Coal	7.5	11.7	-36%
TECO Transport	0.0	6.4	-100%
TECO Guatemala	10.5	10.3	2%
Parent/Other	(13.1)	(17.3)	NM
Total Net Income	$30.8	$43.9	-30%

Regulated Utility

Tampa Electric

Tampa Electric's 1Q08 net income declined 27% YOY (-$5.9 million) to $15.9 million from $21.8 million last year, reflecting sluggish customer growth, mild weather, lower average usage and increased O&M expenses. Tampa Electric provides retail electric service to over 660,000 customers in West Central Florida.

Tampa Electric's retail energy sales declined 2.1% YOY due to milder weather, the slowing economy, and a 10% decrease in electric sales to lower-margin phosphate customers. Combined heating and cooling degree days in the Tampa area were 10% below normal and 11% below 1Q07. Annual customer growth has dipped to 0.6% from 2.5-3.0% in 2006, reflecting the slowdown in the housing market. In a similar theme to the other Florida utilities, Tampa Electric's customer growth has dipped following significant condo construction over the past several years, with population growth in the region going more towards filling unused condos which already have customer connections. In addition, the general mix shift towards condos that experience lower average customer usage continues to place pressure on overall customer usage excluding weather impacts.

Electric utility gross margins increased 5% YOY to $216.0 million due mainly to increased pass-through costs offset partially by the installation of SCR equipment. Base revenue (excluding clause-related revenue) declined $3.2 million reflecting the mild weather. Depreciation and amortization expenses declined to $45.2 million from $46.4 million last year primarily related to the results of a depreciation study completed during 3Q07 that reduced depreciation rates, offset partially by higher plant balances. Base O&M expenses (excluding clause-recovered expenses) increased $7 million ($4.5 million after-tax) due primarily to planned plant outage requirements, higher bad debts expense and higher vehicle fuel costs. Interest expenses increased $2.6 million YOY ($1.6 million after-tax) due to higher levels of long-term debt outstanding and higher interest rates on tax-exempt auction-rate debt, which experienced a market failure during the quarter and temporarily reset to elevated levels.

	3 Mos. Ended		%
Tampa Electric	**3/31/2008**	**3/31/2007**	**Change**
Operating Revenue ($mil)			
Residential	207.0	216.3	-4.3%
Commercial	147.5	146.6	0.6%
Industrial - Phosphate	16.6	18.8	-11.5%
Industrial - Other	27.3	28.7	-4.7%
Other Sales of Electricity	42.6	40.5	5.3%
Deferred and Other Revenue	(7.3)	(3.6)	
Retail Revenue	433.8	447.2	-3.0%
Sales for resale	16.0	15.6	3.0%
Other Operating Revenue	11.8	9.2	28.3%
Total Operating Revenue	$461.6	$471.9	-2.2%
Electric Sales (MWh)			
Residential	1,778.1	1,862.6	-4.5%
Commercial	1,468.0	1,458.8	0.6%
Industrial - Phosphate	244.6	271.4	-9.8%
Industrial - Other	305.8	319.7	-4.3%
Other Sales of Electricity	418.6	392.0	6.8%
Retail Sales	4,215.2	4,304.5	-2.1%
Sales for resale	189.1	198.1	-4.5%
Total Electric Sales	4,404.3	4,502.6	-2.2%
Electric Retail Rev. cents/kWh			
Residential	11.64	11.61	0.3%
Commercial	10.05	10.05	0.0%
Industrial - Phosphate	6.79	6.92	-1.8%
Industrial - Other	8.93	8.96	-0.4%
Other Sales of Electricity	10.18	10.32	-1.4%
Total Retail Rev. cents/kWh	10.29	10.39	-0.9%
Sales for resale	8.48	7.86	7.9%
Total Rev. cents/kWh	10.48	10.48	0.0%

Capital Expenditure Needs
Tampa Electric is currently installing environmental upgrades at its Big Bend Station. It will invest approximately $330 million to install selective catalytic reduction (SCR) systems at each of the four units at the station. The SCR for Unit 4 was completed in 6/2007, while Units 3, 2 and 1 are targeted for completion by May of 2008, 2009 and 2010, respectively.

TE is still evaluating its options as to how to meet its 2013 baseload needs following the 2007 rejection of an IGCC plant. The most likely option would be construction of a combined-cycle natural gas-fired facility, which TE estimates would cost $500-600 million for an approximate 555-MW facility. To meet the 2013 need, engineering for the project would need to begin by 2008 with peak spending occurring in 2010. We estimate the total EPS contribution could be approximately $0.15/share.

In addition to its baseload needs, TE also requires additional peaking capacity, which it believes could better suit its system needs than continuing with purchased power contracts. In particular, enhanced reliability rules is requiring more generating plants in Florida to have "Black Start" capabilities, or the ability to start generation without requiring

an external power source. As such, TE plans to install five combustion turbines with 300 MWs of capacity at its existing generation stations by 2010. TE expects the additions will cost $237 million, with the bulk of the spending ($108 million) occurring in 2008. TE had completed the addition of two 150-MW simple cycle natural gas turbines at its Polk Station in 2006. Management announced that it may moderately delay some of its planned capacity additions due to weaker demand trends.

Peoples Gas System

Peoples Gas 1Q08 net income declined 9% YOY to $10.0 million from $11.0 million in 1Q07 primarily reflecting lower average retail customer usage due to milder weather conditions and the slowing economy, partially offset by sluggish 0.3% customer growth. The 0.3% customer growth was well below the historical 3%-plus averages, again reflecting the slowdown in the housing market, with average customer usage patterns continuing to decline. In addition, sales to industrial customers, particularly in the housing-sensitive asphalt, concrete and wallboard industries, declined 9% YOY due to weaker economic activity. Depreciation expense increased $0.5 million YOY to $10.3 million reflecting a depreciation study approved by the FPSC in 1/2007. Peoples Gas System is engaged in natural gas distribution to more than 300,000 customers in Florida's major metropolitan areas.

	3 Mos. Ended		%
Gas Stats	**3/31/2008**	**3/31/2007**	**Change**
Gas Revenue ($mil)			
Residential	48.8	54.3	-10.2%
Commercial	44.4	50.2	-11.7%
Industrial	2.2	2.5	-12.0%
Off System Sales	68.6	46.8	46.6%
Power Generation	3.4	2.8	21.4%
Other	9.8	10.8	-9.3%
Total Gas Revenue	$177.1	$167.5	5.8%
Gas Throughput (mil. th)			
Residential	27.8	29.2	-4.7%
Commercial	107.0	107.5	-0.5%
Industrial	46.7	51.4	-9.1%
Off System Sales	78.5	62.7	25.2%
Power Generation	106.7	65.5	63.1%
Total Gas Throughput	366.8	316.2	16.0%
Gas Rev. $/th			
Residential	1.76	1.86	-5.8%
Commercial	0.41	0.47	-11.3%
Industrial	0.05	0.05	-3.3%
Off System Sales	0.87	0.75	17.1%
Power Generation	0.03	0.04	-25.6%
Total Gas $/th	0.48	0.53	-8.8%
Avg. Customers (000)	336.1	335.1	0.3%

Non-Regulated Operations

TECO Transport

TECO Transport was sold in 12/2007 for a net gain of $149.4 million, which raised gross cash of $405 million and net proceeds of $370-380 million, which includes the monetization of accumulated NOLs.

TECO Coal

TECO Coal reported net income of $7.5 million in 1Q08, down from $11.7 million of net income in 1Q07 (excluding $30.7 million in synfuel earnings, which ceased at the end of 2007). Revenue increased 17% YOY to $149.1 million as production levels increased to 2.5 million tons from 2.1 million tons in 1Q07 and average selling prices increased slightly. However, the cash cost of production increased 7% YOY primarily related to continued increases in petroleum-related costs. For 2008, TECO expects further increases in petroleum-related costs as well as increased mine safety expenses. Management chose not to hedge its costs for 2008 as it believed forward prices were at heightened levels. TECO has largely hedged expected production for 2008 at 2006 and 2007 market prices, with current market prices significantly above hedged levels in part reflecting higher production costs. We expect a significant earnings increase in 2009 and 2010 as production levels increase and realized prices reset closer to current market levels.

TECO Coal operates surface and underground mines, and coal processing and loading facilities in Kentucky, Tennessee and Virginia. Following the expiration of synfuel-related tax credits at 12/31/2007, it has exited the synfuel processing business.

TECO Guatemala

TECO Guatemala 1Q08 net income edged up to $10.5 million from $10.3 million last year reflecting the benefit of an inflation adjustment for non-fuel energy sales rates by the San Jose Power Station. The earnings improvement also reflected lower interest expenses, continued customer growth and increased energy sales at EEGSA, partially offset by higher O&M expenses. TECO owns two power stations in Guatemala, one a coal-fired plant (San Jose) and the other a peaking facility (Alborada), both of which drive utility-like earnings due to longer-term contracts. TECO also owns a 24% stake in EEGSA, the largest distribution utility in Guatemala, which benefits from solid core growth plus the electrification of rural areas.

Management expects 2008 earnings results from TECO Guatemala to decline principally related to decreased availability of the San Jose Power Station, which will have increased maintenance work scheduled in 2008, and the absence of a $1.9 million net benefit related to the 2007 reversal of certain estimated expenses, offset partially by improved core earnings results from EEGSA. We also expect to learn whether TECO will be successful in a competitive bid process for a 200-MW coal-fired new capacity request by Guatemala's other main distribution utility, Union Fenosa. We believe TECO has an advantage in that the San Jose station is the only coal-fired plant located in Guatemala, presumably providing it a cost advantage.

Parent & Other

Excluding transaction costs related to the Tranportation sale, 1Q08 Parent & Other earnings improved to a $12.5 million drag from a $17.3 million drag in 1Q07, reflecting lower interest costs following approximately $0.7 billion in debt reduction.

Investment Thesis

We maintain a Neutral rating on the shares of TECO Energy with a 12-month price target of $18. Key investment considerations include the following:

- **Well-Positioned Utility Operations.** TE has benefited from solid 2-3% customer growth and supportive regulation, although current market conditions have caused a slowdown in growth. TE expects to spend $400 million in annual base capital expenditures on average over the next five years, nearly two times depreciation levels, with potential generation additions being additive.
- **Improved Financial Health.** Following significant losses in 2003 and 2004 from TECO's merchant operations, TECO's balance sheet has improved reflecting improved operating performance, the disposition of the merchant and transportation operations, and significant debt reduction. We expect these positive trends to continue as TE monetizes its merchant-related NOLs and continues its solid operating performance.
- **TECO Transport Sale.** In early 12/2007, TECO sold its Transport business for $405 million, which raised $370-380 million in net proceeds. The sale allowed TECO to accelerate its NOL monetization and corporate-level debt repayment, thus creating more balance sheet capacity to fund regulated utility investment opportunities.
- **Attractive and Sustainable Dividend Yield.** We expect a resumption of dividend growth in 2008 given improving cash flow and EPS growth.
- **Valuation.** Our 12-month price target of $18 is approximately 15.6x our 2009 EPS estimate, we believe a discount to its utility peers when fully valued.

Risks & Caveats

We maintain a suitability rating of Average Risk on TE due to the additional risk associated with TE's non-regulated business, which are more susceptible to earnings fluctuations from varying market conditions. Risks include, but are not limited to, the following:

- Profitability of TE's unregulated segments can fluctuate with swings in the economy and commodity prices. The company's business is sensitive to fluctuations in the weather. A particularly warm winter or cool summer could adversely affect TE's financial results.
- The company has no control of the wholesale prices of natural gas, oil or coal. A spike in the price of these fuels could impact TE's financial results.
- TE's utility operations are subject to federal, state and local legislative requirements. Changes in regulations or in the regulatory environment in general could impact TE's earnings.

Company Description

TECO Energy is a diversified energy company headquartered in Tampa, Florida. Its primary businesses are Tampa Electric, Peoples Gas, TECO Coal and TECO Guatemala. Tampa Electric Company provides retail electric service to more than 660,000 customers in West Central Florida. Peoples Gas System provides retail natural gas service to over 330,000 customers in Florida. TECO Coal operates coal mines and handling facilities in Kentucky and Tennessee, and through 2007, had interests in several synfuel production facilities. TECO Guatemala is engaged in the distribution and generation of electricity in Guatemala.

BAIRD 777 E. WISCONSIN AVENUE, MILWAUKEE, 53202

Dave Parker (813) 274-7620
Michael Gresens, CFA (414) 765-3849

TECO Energy - Quarterly Earnings Model

	2006				2007				2008			
	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08E	3Q08E	4Q08E
Net Sales	$836	$863	$923	$826	$821	$867	$990	$858	$792	$845	$981	$884
Cost of Goods Sold	340	344	390	315	350	369	435	362	365	397	470	407
Gross Income	496	518	533	511	471	497	555	496	427	449	511	477
Operating Expense	405	412	402	436	390	402	414	414	350	350	367	378
Operating Income	92	106	131	75	81	95	141	82	78	98	144	99
Pretax Income	83	77	118	73	64	74	119	73	44	74	119	79
Net Income	$58	$52	$77	$51	$44	$53	$79	$48	$31	$49	$78	$53
EPS	$0.28	$0.25	$0.37	$0.25	$0.21	$0.25	$0.38	$0.23	$0.15	$0.23	$0.37	$0.25
Dividends	$0.19	$0.19	$0.19	$0.19	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20
Average Shares	209	209	209	209	209	210	210	210	211	211	211	212
Margin Analysis												
Gross Margin	59.3%	60.1%	57.7%	61.8%	57.3%	57.4%	56.1%	NA	54.0%	53.1%	52.1%	53.9%
Operating Expense	48.4%	47.7%	43.6%	52.8%	47.4%	46.4%	41.8%	NA	44.2%	41.5%	37.4%	42.7%
Operating Margin	11.0%	12.3%	14.2%	9.0%	9.9%	11.0%	14.2%	9.6%	9.8%	11.6%	14.7%	11.2%
Pretax Margin	10.0%	8.9%	12.8%	8.8%	7.7%	8.6%	12.0%	8.5%	5.5%	8.8%	12.1%	8.9%
Net Margin	6.9%	6.1%	8.4%	6.2%	5.3%	6.1%	8.0%	5.6%	3.9%	5.8%	7.9%	6.0%

TECO Energy - Annual Earnings Model

	2004	2005	2006	% chg	2007	% chg	2008E	% chg	2009E	% chg	2010E	% chg
Net Sales	$2,669	$3,010	$3,448	15%	$3,536	3%	$3,502	(1%)	$3,687	5%	$3,866	5%
Cost of Goods Sold	935	1,081	1,390	29%	1,517	9%	1,638	8%	1,671	2%	1,706	2%
Gross Income	1,734	1,929	2,058	7%	2,020	(2%)	1,863	(8%)	2,016	8%	2,160	7%
Operating Expense	1,472	1,574	1,655	5%	1,620	(2%)	1,444	(11%)	1,541	7%	1,630	6%
Operating Income	262	355	403	14%	400	(1%)	419	5%	475	13%	530	12%
Pretax Income	238	382	351	(8%)	330	(6%)	317	(4%)	370	17%	422	14%
Net Income	$151	$255	$239	(6%)	$224	(6%)	$212	(5%)	$247	17%	$280	13%
EPS	$0.76	$1.22	$1.14	(6%)	$1.07	(7%)	$1.00	(6%)	$1.16	16%	$1.32	13%
Dividends	$0.76	$0.76	$0.76	0%	$0.78	3%	$0.80	3%	$0.82	3%	$0.84	2%
Average Shares	193	208	209	0%	210	1%	211	1%	212	0%	212	0%
Margin Analysis												
Gross Margin	65.0%	64.1%	59.7%		57.1%		53.2%		54.7%		55.9%	
Operating Expense	55.1%	52.3%	48.0%		45.8%		41.2%		41.8%		42.2%	
Operating Margin	9.8%	11.8%	11.7%		11.3%		12.0%		12.9%		13.7%	
Pretax Margin	8.9%	12.7%	10.2%		9.3%		9.1%		10.0%		10.9%	
Net Margin	5.7%	8.5%	6.9%		6.3%		6.0%		6.7%		7.2%	

Balance Sheet Data

	2004	2005	2006	2007	1Q08
Cash & Equivalents	$154	$383	$479	$170	$128
Receivables	287	323	338	296	310
Inventory	121	154	160	154	147
Current Assets	738	1,272	1,286	790	735
Fixed Assets	4,658	4,567	4,767	4,888	4,952
Total Assets	9,476	7,170	7,362	6,765	6,742
Current Debt	129	222	687	32	25
Payables	258	355	327	302	282
Current Liabilities	2,222	926	1,350	618	683
Other Liabilities	2,087	943	1,070	972	1,005
L.T. Debt and Lease	3,880	3,709	3,213	3,158	3,062
Common Equity	1,284	1,592	1,729	2,017	1,993

Ratio Analysis

	2005	2006	2007	1Q08
Debt/Total Cap	71%	69%	61%	61%
Current Ratio	1.4	1.0	1.3	1.1
Days Sales Outst.	37	35	33	33
EBIT/Interest	2.3x	2.3x	2.3x	2.3x
Inventory Turn	7.9x	8.9x	9.7x	8.8x
Return on Equity	17.7%	14.4%	11.9%	11.1%
High P/E Ratio	15.8x	15.5x	17.4x	17.7x
Low P/E Ratio	12.2x	12.6x	13.9x	14.5x
Book Value	$7.64	$8.25	$9.56	$9.45
Price/Book	2.2x	2.1x	1.8x	1.7x
Cash Flow/Share	$2.58	$2.50	$2.32	$1.91
Price/Cash Flow	6.7x	6.9x	7.4x	8.3x

Please refer to "Appendix - Important Disclosures" and Analyst Certification.

TECO Energy, Inc.

($ in Millions Except As Noted)

	2003	2004	2005	2006	2007	2008E	2009E	2010E	3 Yr Growth
Net Revenue	$2,718	$2,669	$3,010	$3,448	$3,536	$3,502	$3,687	$3,866	3.0%
EBIT by Segment									
Utilities	$359.9	$386.6	$399.1	$387.8	$407.7	$415.4	$437.5	$470.0	4.9%
Wholesale Generation/Guatemala	(19.2)	13.7	36.4	61.3	67.7	62.4	66.0	69.2	0.7%
Transport	29.4	22.4	31.6	44.1	36.7	0.0	0.0	0.0	
Coal	100.8	95.3	193.7	125.0	70.7	66.0	100.6	122.3	20.0%
Eliminations/Other Income	23.0	42.0	10.3	10.9	5.1	1.5	1.5	1.5	
Earnings Before Interest & Taxes	$493.9	$560.0	$671.1	$629.1	$587.9	$545.3	$605.5	$663.0	4.1%
Other Income	83.6	180.8	229.1	156.1	188.2	126.2	130.5	133.1	(10.9%)
Minority Interest	48.8	79.5	87.1	69.6	0.0	0.0	0.0	0.0	
Operating Income	$361.5	$299.7	$354.9	$403.4	$399.7	$419.2	$475.1	$529.9	9.9%
Interest Expense	313.8	321.6	288.7	278.3	257.8	228.4	235.6	241.3	(2.2%)
Pretax Income	$180.1	$238.3	$382.4	$350.8	$330.1	$316.9	$369.9	$421.7	8.5%
Net Income	$164.8	$151.2	$254.7	$238.8	$223.7	$211.5	$246.7	$279.9	7.8%
Earnings Per Share	**$0.92**	**$0.78**	**$1.22**	**$1.14**	**$1.07**	**$1.00**	**$1.16**	**$1.32**	7.4%
Diluted Shares	179.9	192.6	208.2	208.7	209.9	211.2	211.8	212.2	0.4%
Annualized Dividend Per Share	$0.93	$0.76	$0.76	$0.76	$0.78	$0.80	$0.82	$0.84	2.5%
Payout Ratio (%)	101	97	62	66	73	80	70	64	
Returns									
Return on Common Equity	7.7	10.2	17.7	14.4	11.9	10.4	11.8	12.8	
Internal Cash % of Total Capital	19	(3)	(0)	7	9	8	9	11	
Coverage Ratios									
Interest Coverage Ex. Non-Cash	1.5	1.7	2.3	2.3	2.3	2.4	2.6	2.7	
Internal Cash % Of Construction	183	(53)	(1)	89	98	91	106	120	
Internal Cash % of Total Cap. Req.	174	(50)	(1)	37	96	74	101	115	
% of Total Capital									
Short-term Debt	0.6	2.2	3.9	0.9	0.5	0.5	0.5	0.5	
Total Debt	67.4	75.7	71.2	69.3	61.3	60.0	58.4	56.4	
Preferred Stock	10.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Common Equity	27.3	24.2	28.8	30.7	38.7	40.0	41.6	43.6	
% Growth in Invested Capital	-13.2	-13.8	4.3	1.9	-7.5	-1.1	-0.5	0.0	
Total Invested Capital	$6,141	$5,295	$5,523	$5,629	$5,208	$5,150	$5,123	$5,125	(0.5%)
Total Debt	3,813	4,009	3,931	3,900	3,191	3,091	2,991	2,891	
Total Preferred	649	0	0	0	0	0	0	0	
Total Common Equity	1,678	1,284	1,592	1,729	2,017	2,060	2,133	2,234	
Cash Flow									
Cash Flow From Operations	$632	$151	($75)	$471	$833	$719	$724	$728	
Dividends (Pref. & Common)	165	145	158	159	163	169	174	178	
Internal Cash	466	6	(233)	312	670	550	550	550	
Construction Excluding AFC	591	273	295	456	494	450	450	450	
Other Investments	63	0	0	0	0	0	0	0	
Redemptions	850	225	494	366	1,182	100	100	100	
Total Capital Requirements	1,503	498	789	822	1,676	550	550	550	
Total Financing	792	88	608	340	458	0	0	0	

BAIRD 777 E. WISCONSIN AVENUE, MILWAUKEE, 53202

Date Printed:	04/29/08	**TECO Energy, Inc.**	**Dave Parker (813) 274-7620**
Fiscal Year:	DEC	**TE**	**Michael Gresens, CFA (414) 765-3849**
(in millions)			

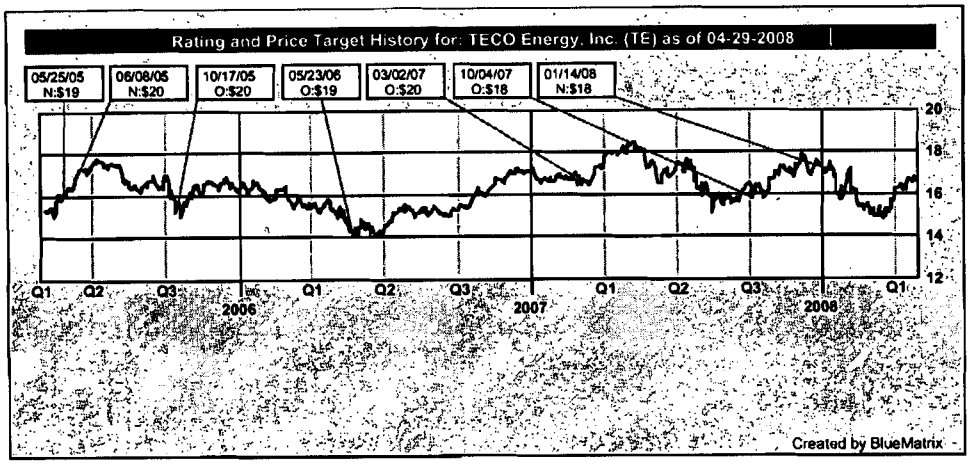
Balance Sheet	**2003**	**2004**	**2005**	**2006**	**2007**	**1Q08**
ASSETS						
Cash & Equivalents	$108	$97	$346	$442	$163	$118
Receivables	280	287	323	338	296	310
Inventory	171	121	154	160	154	147
Other	259	176	412	309	170	150
Total Current	818	680	1,235	1,248	782	725
Fixed Assets	5,679	4,658	4,567	4,767	4,888	4,952
Goodwill & Intangible Assets	344	271	305	301	298	268
Other Assets	3,570	3,810	1,026	1,008	789	787
Total Assets	$10,411	$9,419	$7,133	$7,325	$6,758	$6,733
LIAB. & EQUITY						
Current Debt	$69	$129	$222	$687	$32	$25
Payables	314	258	355	327	302	282
Other	1,864	1,836	349	337	283	376
Total Current	2,247	2,222	926	1,350	618	683
L/T Debt & Lease	3,745	3,883	3,709	3,213	3,158	3,062
Deferred Taxes	2,143	2,087	943	1,070	972	1,005
Other Liabilities	0	0	0	0	0	0
Preferred Stock	649	0	0	0	0	0
Common Equity	1,678	1,284	1,592	1,729	2,017	1,993
Total	$10,462	$9,477	$7,170	$7,362	$6,765	$6,742
Ratio Analysis:						
Current Ratio	0.4	0.3	1.4	1.0	1.3	1.1
Working Capital	(1,468)	(1,510)	185	144	34	(51)
Working Cap/Assets	(14%)	(16%)	3%	2%	1%	(1%)
Inventory Turns	4	6	8	9	10	9
Total Debt/Capital	62%	76%	71%	69%	61%	61%
LT Debt/Equity	223%	302%	233%	186%	157%	155%
EBIT/Interest Expense	1.6x	1.7x	2.3x	2.3x	2.3x	2.3x
Total Debt/EBIT	7.7x	7.2x	5.9x	6.2x	5.4x	5.5x

Cash Flow Statement	**2003**	**2004**	**2005**	**2006**	**2007**	**2008E**	**2009E**
Net Income	$165	$151	$255	$239	$224	$212	$247
Depreciation & Amort	382	290	282	282	264	270	289
Net changes in (CA) & CL	43	(1)	13	(92)	187	142	75
Deferred taxes/Non-Cash	(261)	(300)	(376)	138	159	95	113
Cash Flow from Operations	329	140	174	567	833	719	724
Dividend Payments	(165)	(145)	(158)	(159)	(163)	(169)	(174)
Net Capital Expenditures	(591)	(273)	(295)	(456)	(494)	(450)	(450)
Free Cash Flow	($427)	($279)	($279)	($48)	$176	$100	$100
Operating Cash Flow Per Share	$1.83	$0.72	$0.84	$2.72	$3.97	$3.40	$3.42
Free Cash Flow Per Share	($2.38)	($1.45)	($1.34)	($0.23)	$0.84	$0.47	$0.47

Du Pont Formula	**2003**	**2004**	**2005**	**2006**	**2007**	**2008E**	**2009E**
Net Margins (N/S)	6.1%	5.7%	8.5%	6.9%	6.3%	6.0%	6.7%
Assets Turnover (S/A)	0.3	0.3	0.4	0.5	0.5	0.5	0.5
Leverage (A/E)	4.5	6.7	5.8	4.4	3.8	3.3	3.3
Return on Equity	7.7%	10.2%	17.7%	14.4%	11.9%	10.4%	11.8%

Valuation Parameters		**2003**	**2004**	**2005**	**2006**	**2007**	**2008E**	**Recent**
Price (Common) - TE	High	17.00	15.49	19.30	17.73	18.58	17.75	17.21
	Low	9.47	11.30	14.87	14.40	14.84	16.82	
Forward P/E Ratio	High	17.9x	18.2x	16.7x	16.0x	17.1x	15.8x	15.8x
	Low	6.5x	12.7x	13.2x	11.8x	13.8x	13.3x	13.3x
	Close	17.8x	15.7x	14.0x	16.0x	15.5x	15.1x	15.1x
Book Value		$8.92	$6.21	$7.64	$8.25	$9.56	$9.75	$10.07
Price/Book Ratio	High	1.9x	2.5x	2.5x	2.1x	1.9x	1.8x	1.8x
	Low	1.1x	1.8x	1.9x	1.7x	1.6x	1.7x	1.7x
	Close	1.6x	2.5x	2.2x	2.1x	1.8x	1.8x	1.8x
EBITDA		$876	$850	$953	$911	$852	$815	$894
Enterprise Value	High	$6,711	$6,839	$7,566	$7,121	$6,920	$6,670	$6,730
	Low	5,356	6,032	6,644	6,426	6,135	6,474	6,525
EV / EBITDA	High	7.7x	8.0x	7.9x	7.8x	8.1x	8.2x	7.5x
	Low	6.1x	7.1x	7.0x	7.1x	7.2x	7.9x	7.3x
	Close	7.1x	8.0x	7.5x	7.7x	7.8x	8.1x	7.4x

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1 Baird maintains a trading market in the securities of TE.

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TECO Energy, Inc.
April 30, 2008

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Utilities Research
February 6, 2008

TECO Energy, Inc. (TE)

Solid 4Q07 Results, but Outlook Lowered; Maintain Neutral Rating

Price: (02/05/08)	**16.43**	**Rating:**	**Neutral**	**FY Dec**	**2007A**	**2008E**	**2009E**
52WK H-L:	**19 - 15**			Q1	0.21A	0.23E	
Market Cap (mil):	**3,619.05**	**Suitability:**	**Average Risk**	Q2	0.25A	0.25E	
Shares Out (mil):	208.9			Q3	0.38A	0.33E	
Float (mil):	196.1			Q4	0.23A	0.24E	
Avg. Daily Vol (mil):	1.64			**Total**	**1.07A**	**1.05E**	**1.15E**
		Price Target:	**18**	Previous	1.03E	1.15E	1.27E
Dividend:	0.78			FY P/E	15.4x	15.6x	14.3x
Yield:	4.52						

Please refer to Appendix - Important Disclosures and Analyst Certification.

David E. Parker
dparker@rwbaird.com
813.274.7620

Michael L. Gresens, CFA
mgresens@rwbaird.com
414.765.3849

Action

4Q07 results exceeded our expectations on favorable weather and controlled operating expenses. However, we have lowered our earnings expectations based upon slower regulated customer growth and increased maintenance activity in Guatemala during 2008. In addition, we expect regulatory risk to increase in 2008 and 2009 as TECO files for base rate increases at both the gas and electric utilities. We maintain our Neutral rating and $18 price target.

Summary

- TECO reported 4Q07 adjusted EPS of $0.23 versus $0.25 last year and our consensus-matching estimate of $0.19.
- TE provided 2008 EPS guidance of $0.95-1.10, below our $1.15 EPS estimate and 2007 adjusted EPS of $1.07. We estimate the TECO Transport sale creates a $0.05/share headwind for 2008.
- Management expects slower customer growth and operating expense increases to cause the regulated ROE to fall below allowed ROE bands, likely prompting gas and electric rate cases in 2008 and 2009 thereby raising regulatory risk. In addition, TECO Guatemala's 2008 earnings are expected to be pressured by increased scheduled maintenance activities and TECO Coal could be impacted by higher production costs.
- We have lowered our 2008 EPS estimate from $1.15 to $1.05, our 2009 EPS estimate from $1.27 to $1.15, and our 2010 EPS estimate from $1.40 to $1.30.
- Regulated utility 4Q07 earnings increased 34% YOY to $35.3 million as improved electric earnings from more favorable weather, fewer outages and lower depreciation and property tax expenses, was offset partially by reduced gas utility earnings from slower customer growth, mild weather and higher operating expenses.
- Parent interest costs continue to decline as TECO utilizes the proceeds from the Transport sale and NOL tax carryforward monetization to reduce debt levels.
- We maintain our 12-month price target of $18, which is 15.6x our 2009 EPS estimate, we believe a slight discount to its peers when fully valued.

Details

TECO reported 4Q07 adjusted EPS of $0.23 versus $0.25 last year and our $0.19 consensus-matching estimate. GAAP 4Q07 EPS was $0.83 compared to $0.26 in 4Q06.

4Q07 Results (mil)	Actual	Year Ago	Change	Estimate	Variance
Revenue	$858	$826	3.9%	$830	3.4%
Gross Income	496	511	-2.8%	500	-0.8%
Gross Margin	57.8%	61.8%		60.3%	
Operating Expense	409	436	-6.3%	422	-3.3%
Operating Income	88	75	17.6%	78	12.2%
Operating Margin	10.2%	9.0%		9.4%	
Pretax Income	75	73	2.9%	58	29.9%
Net Income	$48	$51	-7.2%	$40	17.9%
Diluted EPS	$0.23	$0.25	-7.7%	$0.19	18.2%
Diluted Shares	210	209	0.6%	211	-0.3%
4Q07 nonrecurring and other items of note:					
Excludes $149.4M gain on Transport sale ($0.71/share)					
Excludes $3.3M transaction costs ($0.02/share)					
Adds back $2.5M in TECO Transport depreciation excluded for GAAP ($0.01/share).					
Excludes $20.2M loss on debt extinguishment ($0.09/share)					
Excludes $2.2M loss from synfuel ($0.01/share)					
4Q06 nonrecurring and other items of note:					
Excludes $0.7M hurricane recovery costs					
Excludes $3.8M synfuel deferred tax asset charge					
Excludes $3.1M gain on turbine sales					
Excludes $1.6M loss on debt extinguishment					

EPS Reconciliation		
Prior Year EPS		$0.25
Tampa Electric	0.05	
Peoples Gas System	(0.00)	
TECO Coal	(0.07)	
TECO Transport	(0.02)	
TECO Wholesale Generation	0.00	
TECO Guatemala	0.00	
Parent/Other	0.02	
Additional Shares	(0.00)	
Current EPS		$0.23

2008 Earnings Guidance

TE issued 2008 EPS guidance of $0.95-1.10 versus $1.07 in 2007 (excluding items). We have lowered our 2008 EPS estimate from $1.15 to $1.05, our 2009 EPS estimate from $1.27 to $1.15, and our 2010 EPS estimate from $1.40 to $1.30. TECO expects the primary earnings drivers to include the following:

- Tampa Electric – slower customer growth should lead to: approximately 2.0% weather-normalized energy sales growth, offsetting higher O&M expenses; higher depreciation and interest expenses from higher net PP&E levels, particularly related to the NOx control investments; higher AFUDC related to peak generation construction; while continued equity infusions into the utility to support capital expenditures should lead to a decline in earned ROE levels to below Tampa Electric's allowed 10.75-12.75%

ROE band, which is likely to cause a rate case for 2009.

- Lower earnings at Peoples Gas as slower customer growth and therm sales growth are offset by the effects of higher O&M and depreciation rates. 2007 earnings were below Peoples Gas' allowed 10.5-12.5% ROE band, which will lead it to file for a base rate increase in 2008.
- Higher TECO Coal earnings (excluding synfuel) reflecting increased production levels in 2008 (9.5-10.0 million tons versus 9.2 million tons in 2007), with slight price increases offset by higher increases in O&M expenses, due primarily to higher diesel fuel, petroleum and safety-related costs.
- TECO Guatemala 2008 earnings should be below record 2007 levels due primarily to increased planned outages.
- Costs at the parent company level (primarily interest expense) are expected to decline due to debt retirements.

Segment Analysis

	3 Mos. Ended		%	12 Mos. Ended		%
Segment Revenue	12/31/2007	12/31/2006	Change	12/31/2007	12/31/2006	Change
Tampa Electric	$524.9	$492.6	7%	$2,188.4	$2,084.9	5%
Peoples Gas System	141.8	122.6	16%	599.7	577.5	4%
TECO Coal	147.8	153.0	-3%	544.5	574.9	-5%
TECO Transport	59.2	80.9	-27%	290.3	308.5	-6%
TECO Guatemala	2.1	2.0	5%	8.0	7.6	5%
Total Net Revenue	875.8	851.1	3%	3,630.9	3,553.4	2%
Other/eliminations	(17.5)	(24.9)	NM	(94.8)	(105.3)	NM
Consolidated Revenue	$858.3	$826.2	4%	$3,536.1	$3,448.1	3%
Net Income						
Tampa Electric	$29.0	$19.4	49%	$150.3	$136.0	11%
Peoples Gas System	6.3	7.0	-10%	26.5	29.6	-10%
TECO Coal	9.4	23.1	-59%	38.3	82.6	-54%
TECO Transport	4.5	8.5	-47%	24.3	25.8	-6%
TECO Guatemala	11.4	11.0	4%	44.7	37.6	19%
Parent/Other	(12.9)	(17.6)	NM	(60.3)	(72.7)	NM
Total Net Income	$47.7	$51.4	-7%	$223.8	$238.9	-6%

Regulated Utility

Tampa Electric

Tampa Electric's 4Q07 net income increased 49% YOY (+$9.6 million) to $29.0 million from $19.4 million last year, primarily reflecting increased retail energy sales from above-normal weather conditions and lower operating expenses. Tampa Electric provides retail electric service to over 660,000 customers in West Central Florida.

Tampa Electric's retail energy sales increased 2.7% YOY due to 1.3% customer growth, favorable weather and a 13% increase in electric sales to lower-margin phosphate customers. Combined heating and cooling degree days in the Tampa area were 8% above normal and 6% above 4Q06. Annual customer growth has dipped to 1.3% from 2.5-3.0 last year, reflecting the slowdown in the housing market. In addition, the mix of customers has shifted towards residences with lower average usage, such as the condo market. In addition, customer conservation continues to occur likely in response to higher energy prices and calls for efficiency.

Electric utility gross margins increased 6% YOY to $236.3 million due to the increase in energy sales. Depreciation and amortization expenses declined to $45.4 million from $46.6 million last year primarily related to the results of a depreciation study completed during 3Q07 that reduced depreciation rates, offset partially by higher plant balances. In addition, property tax law changes in Florida caused an approximate $1.0 million ($0.7 million after-tax) decrease in property taxes. Base O&M expenses (excluding clause-recovered expenses) declined $4 million ($2.6 million after-tax) due primarily to fewer planned outages. Interest expenses increased $1 million YOY ($0.7 million after-tax) due to higher levels of long-term debt outstanding as the utility continues to have significant capital expenditure needs, while interest income declined $2.0 million ($1.4 million after-tax) due to lower deferred fuel clause balances.

	3 Mos. Ended		%	12 Mos. Ended		%
Tampa Electric	12/31/2007	12/31/2006	Change	12/31/2007	12/31/2006	Change
Operating Revenue ($mil)						
Residential	236.3	221.4	7%	1,017.9	956.7	6%
Commercial	162.0	149.6	8%	653.6	602.4	9%
Industrial - Phosphate	18.6	16.5	13%	73.0	61.5	19%
Industrial - Other	28.7	28.0	3%	118.2	113.0	5%
Other Sales of Electricity	46.6	41.5	12%	178.4	182.2	10%
Deferred and Other Revenue	(29.0)	10.3		(73.6)	34.1	
Retail Revenue	$463.1	$467.2	-1%	$1,987.5	$1,929.8	2.0%
Sales for resale	17.1	16.0	7%	69.0	71.1	-3%
Other Operating Revenue	44.7	9.4	375%	130.1	84.1	55%
Total Operating Revenue	$524.9	$492.6	7%	$2,166.6	$2,085.0	4%
Electric Sales (MWh)						
Residential	2,048.0	2,005.4	2%	8,871.2	8,720.9	2%
Commercial	1,615.0	1,573.4	3%	6,541.5	6,356.8	3%
Industrial - Phosphate	267.4	251.5	6%	1,049.9	936.1	12%
Industrial - Other	318.0	328.8	-3%	1,315.6	1,343.3	-2%
Other Sales of Electricity	458.8	425.6	8%	1,754.5	1,668.0	5%
Retail Sales	$4,707.2	$4,584.6	3%	$19,532.8	$19,025.1	2.7%
Sales for resale	234.6	185.8	26%	905.1	862.1	5%
Total Electric Sales	$4,941.7	$4,770.4	4%	$20,437.9	$19,887.2	2.8%
Electric Retail Rev. cents/kWh						
Residential	11.54	11.04	4%	11.47	10.97	5%
Commercial	10.03	9.51	5%	9.99	9.48	5%
Industrial - Phosphate	6.94	6.55	6%	6.95	6.57	6%
Industrial - Other	9.04	8.51	6%	8.98	8.41	7%
Other Sales of Electricity	10.15	9.74	4%	10.17	9.72	5%
Deferred and Other Revenue						
Total Retail Rev. cents/kWh	9.84	10.19	-3%	10.07	10.14	-1%
Sales for resale	7.30	8.62	-15%	7.62	8.24	-8%
Total Rev. cents/kWh	10.62	10.33	3%	10.60	10.48	1%
Avg. Customers (000)	668.1	659.5	1.3%	666.4	653.7	1.9%
Retail Output to Line (MWh)	4,754.0	4,577.8	3.8%	20,448.7	20,025.1	2.1%

Capital Expenditure Needs

Tampa Electric is currently installing environmental upgrades at its Big Bend Station. It will invest approximately $330 million to install selective catalytic reduction (SCR) systems at each of the four units at the station. The SCR for Unit 4 was completed in 6/2007, while Units 3, 2 and 1 are targeted for completion by May of 2008, 2009 and 2010, respectively.

In 7/2007, TE filed a petition with the Florida PSC for a Determination of Need to build a proposed $2.0 billion, 630-MW IGCC plant (Integrated Coal Gasification Combined Cycle), which TE determined was needed to meet baseload capacity needs by 2013. Florida had passed legislation in 6/2007 that would allow utilities to recover funding costs on CWIP balances during construction of IGCC plants, which came in addition to prior legislation allowing the same for potential nuclear plants. The proposed plant also was awarded a $133 million federal tax incentive if the project was completed. Despite the need and tax support, TE withdrew its request in 10/2007 as the cost of the plant and CO2 concerns overburdened the potential benefits. In particular, Governor Crist's executive order calling for reductions in CO2 emissions to 2000 levels by 2017 made carbon sequestration an essential feature of the plant. However, the technology in scale is unproven and TE would have limited options to store the CO2, itself an unproven option even assuming TE would have access to underground storage.

TE is still evaluating its options as to how to meet its 2013 baseload needs. The most

likely option would be construction of a combined-cycle natural gas-fired facility, which TE estimates would cost $500-600 million for an approximate 600-MW facility. To meet the 2013 need, engineering for the project would need to begin by 2008 with peak spending occurring in 2010. We estimate the total EPS contribution could be approximately $0.15/share.

In addition to its baseload needs, TE also requires additional peaking capacity, which it believes could better suit its system needs than continuing with purchased power contracts. In particular, enhanced reliability rules is requiring more generating plants in Florida to have "Black Start" capabilities, or the ability to start generation without requiring an external power source. As such, TE plans to install five combustion turbines with 300 MWs of capacity at its existing generation stations by 2010. TE expects the additions will cost $237 million, with the bulk of the spending ($108 million) occurring in 2008. TE had completed the addition of two 150-MW simple cycle natural gas turbines at its Polk Station in 2006.

Peoples Gas System

Peoples Gas 4Q07 net income declined 10% YOY to $6.3 million from $7.0 million in 4Q06 primarily reflecting lower average retail customer usage and lower sales to low-margin power generation customers, partially offset by modest 0.8% customer growth. The 0.8% customer growth was well below the historical 3%-plus averages, again reflecting the slowdown in the housing market, with average customer usage patterns continuing to decline. In addition, sales to industrial customers, particularly in the housing-sensitive asphalt and concrete industries, declined 10% YOY due to weaker economic activity. Depreciation expense increased by $1.0 million YOY to $10.2 million reflecting a depreciation study approved by the FPSC in 1/2007. Like the electric utility, the gas utility benefited somewhat from the reduction in property taxes. Peoples Gas System is engaged in natural gas distribution to more than 300,000 customers in Florida's major metropolitan areas.

	3 Mos. Ended		%	12 Mos. Ended		%
Gas Stats	12/31/2007	12/31/2006	Change	12/31/2007	12/31/2006	Change
Gas Revenue ($mil)						
Residential	31.6	32.8	-4%	140.2	146.0	-4%
Commercial	35.3	36.4	-3%	158.4	164.4	-4%
Industrial	2.3	2.6	-10%	9.7	11.5	-16%
Off System Sales	58.6	36.3	61%	232.8	192.7	21%
Power Generation	3.4	3.0	15%	14.6	14.0	5%
Other	8.7	10.0	-13%	37.4	43.4	-14%
Total Gas Revenue	$140.0	$121.1	16%	$593.0	$571.9	4%
Gas Throughput (mil. th)						
Residential	16.5	18.3	-10%	70.1	73.0	-4%
Commercial	91.5	95.0	-4%	370.9	375.7	-1%
Industrial	44.3	48.7	-9%	186.3	209.1	-11%
Off System Sales	77.1	52.6	46%	303.5	247.5	23%
Power Generation	116.7	72.0	62%	471.7	395.4	19%
Total Gas Throughput	346.2	286.8	21%	1,402.5	1,300.7	8%
Gas Rev. $/th						
Residential	1.91	1.79	7%	2.00	2.00	0%
Commercial	0.39	0.38	1%	0.43	0.44	-2%
Industrial	0.05	0.05	-1%	0.05	0.05	-5%
Off System Sales	0.76	0.69	10%	0.77	0.78	-1%
Power Generation	0.03	0.04	-29%	0.03	0.04	-12%
Total Gas $/th	0.40	0.42	-4%	0.42	0.44	-4%
Avg. Customers (000)	333.6	331.0	0.8%	334.3	329.0	1.6%

Non-Regulated Operations

TECO Transport

TECO Transport was sold in 12/2007 for a net gain of $149.4 million, which raised gross cash of $405 million and net proceeds of $370-380 million, which includes the monetization of accumulated NOLs. Earnings results included in adjusted results were $4.5 million in 4Q07 versus $8.5 million in 4Q06.

While the final price was slightly below our expectation, we believe the benefits of the sale are multiple. First, it allowed TE to further reduce corporate-level debt, which could lead to improved credit ratings and more capital available to fund Tampa Electric's significant capital spending needs. Second, it eliminates the related-party issue that has impacted Tampa Electric's earnings since 2004 following the disallowance of some of the transportation costs paid by the utility to Transport for its coal transportation needs. That existing five-year transportation contracts expires 10/2008.

TECO Coal

TECO Coal's adjusted net income declined 9% YOY to $9.4 million in 4Q07 ($7.2 million including synfuel) from $10.3 million in 4Q06 ($19.3 million including synfuel; $23.1 million including synfuel but excluding tax-related charge) primarily reflecting increased production costs related to petroleum products. Revenue declined 3% YOY to $147.8 million as production levels declined slightly to 2.5 million tons from 2.6 million tons in 4Q06, offset partially by a slight increase in average selling prices net of transportation allowances. The cash cost of production increased 1.5% YOY primarily related to an increase in petroleum-related costs. For 2008, TECO expects further increases in petroleum-related costs as well as increased mine safety expenses. TECO Coal operates surface and underground mines, and coal processing and loading facilities in Kentucky,

Tennessee and Virginia. Following the expiration of synfuel-related tax credits at 12/31/2007, it has exited the synfuel processing business.

TECO Guatemala

TECO Guatemala 4Q07 net income increased nearly 4% YOY to $11.4 million from $11.0 million last year, capping a record year of earnings that witnessed the San Jose Power Station achieve a 94.9% Equivalent Availability Factor, a top 1% performance among similar North American coal-fired units. The fourth-quarter earnings improvement reflected customer growth and increased energy sales at EEGSA, plus improved earnings from EEGSA's affiliated companies. Improved power availability and higher average prices at the San Jose Power Station also contributed to improved earnings, while the Alborada Power Station received increased capacity payments. TECO owns two power stations in Guatemala, one a coal-fired plant (San Jose) and the other a peaking facility (Alborada), both of which drive utility-like earnings due to longer-term contracts. TECO also owns a 24% stake in EEGSA, the largest distribution utility in Guatemala, which benefits from solid core growth plus the electrification of rural areas.

Management expects 2008 earnings results from TECO Guatemala to decline principally related to decreased availability of the San Jose Power Station, which will have increased maintenance work scheduled in 2008, and the absence of a $1.9 million net benefit related to the 2007 reversal of certain estimated expenses, offset partially by improved core earnings results from EEGSA. We also expect to learn whether TECO will be successful in a competitive bid process for a 200-MW coal-fired new capacity request by Guatemala's other main distribution utility, Union Fenosa. We believe TECO has an advantage in that the San Jose station is the only coal-fired plant located in Guatemala, presumably providing it a cost advantage.

Parent & Other

Excluding gains, transaction fees and refinancing costs, 4Q07 Parent & Other earnings improved to a $12.9 million drag from a $17.7 million drag in 4Q06, related entirely to lower interest costs following debt reduction. Parent-level debt has declined to $1.3 billion from $2.0 billion last year following the retirement of $300 million of debt in 5/2007 and the refinancing/early retirement of a net $300 million in debt in 12/2007. We expect TECO to retire an additional $100 million in floating rate notes during 2Q08 to further reduce debt and interest cost levels.

Investment Thesis

We maintain a Neutral rating on the shares of TECO Energy with a 12-month price target of $18. Key investment considerations include the following:

- **Well-Positioned Utility Operations.** TE benefits from solid 2-3% customer growth and supportive regulation. TE expects to spend $400 million in annual base capital expenditures on average over the next five years, nearly two times depreciation levels, with potential generation additions being additive.
- **Improved Financial Health.** Following significant losses in 2003 and 2004 from TECO's merchant operations, TECO's balance sheet has improved reflecting improved operating performance, the disposition of the merchant and transportation operations, and significant debt reduction. We expect these positive trends to continue as TE monetizes its merchant-related NOLs and continues its solid operating performance.
- **TECO Transport Sale.** In early 12/2007, TECO sold its Transport business for $405 million, which raised $370-380 million in net proceeds. The sale allowed TECO to accelerate its NOL monetization and corporate-level debt repayment, thus creating more balance sheet capacity to fund regulated utility investment opportunities.

- **Attractive and Sustainable Dividend Yield.** We expect a resumption of dividend growth in 2008 given improving cash flow and EPS growth.
- **Valuation.** Our 12-month price target of $18 is approximately 15.6x our 2009 EPS estimate, we believe a discount to its utility peers when fully valued.

Risks & Caveats

We maintain a suitability rating of Average Risk on TE due to the additional risk associated with TE's non-regulated business, which are more susceptible to earnings fluctuations from varying market conditions. Risks include, but are not limited to, the following:

- Profitability of TE's unregulated segments can fluctuate with swings in the economy and commodity prices. The company's business is sensitive to fluctuations in the weather. A particularly warm winter or cool summer could adversely affect TE's financial results.
- The company has no control of the wholesale prices of natural gas, oil or coal. A spike in the price of these fuels could impact TE's financial results.
- TE's utility operations are subject to federal, state and local legislative requirements. Changes in regulations or in the regulatory environment in general could impact TE's earnings.

Company Description

TECO Energy is a diversified energy company headquartered in Tampa, Florida. Its primary businesses are Tampa Electric, Peoples Gas, TECO Coal and TECO Guatemala. Tampa Electric Company provides retail electric service to more than 660,000 customers in West Central Florida. Peoples Gas System provides retail natural gas service to over 335,000 customers in Florida. TECO Coal operates coal mines and handling facilities in Kentucky and Tennessee, and through 2007, had interests in several synfuel production facilities. TECO Guatemala is engaged in the distribution and generation of electricity in Guatemala.

BAIRD 777 E. WISCONSIN AVENUE, MILWAUKEE, 53202
Dave Parker (813) 274-7620
Michael Gresens, CFA (414) 765-3849

TECO Energy - Quarterly Earnings Model

	2006				2007				2008			
	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08E	2Q08E	3Q08E	4Q08E
Net Sales	$836	$863	$923	$826	$821	$867	$990	$858	$834	$851	$980	$862
Cost of Goods Sold	340	344	390	315	350	369	435	362	418	415	493	409
Gross Income	496	518	533	511	471	497	555	496	416	437	487	453
Operating Expense	405	412	402	436	390	402	414	414	319	334	358	350
Operating Income	92	106	131	75	81	95	141	82	97	103	129	103
Pretax Income	83	77	118	73	64	74	119	73	73	81	106	73
Net Income	$58	$52	$77	$51	$44	$53	$79	$48	$48.0	$52.9	$69.3	$51.5
EPS	$0.28	$0.26	$0.37	$0.25	$0.21	$0.26	$0.38	$0.23	$0.23	$0.25	$0.33	$0.24
Dividends	$0.19	$0.19	$0.19	$0.19	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20
Average Shares	209	209	209	209	209	210	210	210	211	211	211	212
Margin Analysis												
Gross Margin	59.3%	60.1%	57.7%	61.8%	57.3%	57.4%	56.1%	NA	49.9%	51.3%	49.7%	52.5%
Operating Expense	48.4%	47.7%	43.6%	52.8%	47.4%	46.4%	41.8%	NA	38.3%	39.2%	36.5%	40.6%
Operating Margin	11.0%	12.3%	14.2%	9.0%	9.9%	11.0%	14.2%	9.6%	11.6%	12.1%	13.2%	11.9%
Pretax Margin	10.0%	8.9%	12.8%	8.8%	7.7%	8.6%	12.0%	8.5%	8.8%	9.5%	10.8%	8.5%
Net Margin	6.9%	6.1%	8.4%	6.2%	5.3%	6.1%	8.0%	5.6%	5.8%	6.2%	7.1%	6.0%

TECO Energy - Annual Earnings Model

	2004	2005	2006	% chg	2007	% chg	2008E	% chg	2009E	% chg	2010E	% chg
Net Sales	$2,669	$3,010	$3,448	15%	$3,536	3%	$3,527	(0%)	$3,690	5%	$3,848	4%
Cost of Goods Sold	935	1,081	1,390	29%	1,517	9%	1,734	14%	1,778	3%	1,830	3%
Gross Income	1,734	1,929	2,058	7%	2,020	(2%)	1,793	(11%)	1,912	7%	2,018	6%
Operating Expense	1,472	1,574	1,655	5%	1,620	(2%)	1,361	(16%)	1,439	6%	1,494	4%
Operating Income	262	355	403	14%	400	(1%)	432	8%	473	10%	524	11%
Pretax Income	238	382	351	(8%)	330	(6%)	333	1%	367	10%	415	13%
Net Income	$151	$255	$239	(6%)	$224	(6%)	$222	(1%)	$244	10%	$275	13%
EPS	$0.78	$1.22	$1.14	(6%)	$1.07	(7%)	$1.06	(2%)	$1.16	10%	$1.30	13%
Dividends	$0.76	$0.76	$0.76	0%	$0.78	3%	$0.80	3%	$0.82	3%	$0.84	2%
Average Shares	193	208	209	0%	210	1%	211	1%	212	0%	212	0%
Margin Analysis												
Gross Margin	65.0%	64.1%	59.7%		57.1%		50.8%		51.8%		52.4%	
Operating Expense	55.1%	52.3%	48.0%		45.8%		38.6%		39.0%		38.8%	
Operating Margin	9.8%	11.8%	11.7%		11.3%		12.3%		12.8%		13.6%	
Pretax Margin	8.9%	12.7%	10.2%		9.3%		9.4%		10.0%		10.8%	
Net Margin	5.7%	8.5%	6.9%		6.3%		6.3%		6.6%		7.2%	

Balance Sheet Data

	2003	2004	2005	2006	4Q07
Cash & Equivalents	$160	$154	$383	$479	$170
Receivables	280	287	323	338	296
Inventory	171	121	154	160	154
Current Assets	870	738	1,272	1,286	790
Fixed Assets	5,679	4,658	4,567	4,767	4,888
Total Assets	10,462	9,476	7,170	7,362	6,765
Current Debt	69	129	222	687	32
Payables	314	258	355	327	302
Current Liabilities	2,247	2,222	926	1,350	618
Other Liabilities	2,143	2,087	943	1,070	972
L.T. Debt and Lease	3,744	3,880	3,709	3,213	3,156
Common Equity	1,678	1,284	1,592	1,729	2,017

Ratio Analysis

	2004	2005	2006	4Q07
Debt/Total Cap	76%	71%	69%	61%
Current Ratio	0.3	1.4	1.0	1.3
Days Sales Outst.	39	37	35	32
EBIT/Interest	1.7x	2.3x	2.3x	2.3x
Inventory Turn	6.4x	7.9x	8.9x	8.2x
Return on Equity	10.2%	17.7%	14.4%	12.2%
High P/E Ratio	19.7x	15.8x	15.5x	16.8x
Low P/E Ratio	14.4x	12.2x	12.6x	14.6x
Book Value	$6.21	$7.64	$8.25	$9.56
Price/Book	2.5x	2.2x	2.1x	1.8x
Cash Flow/Share	$2.29	$2.58	$2.50	$2.48
Price/Cash Flow	6.7x	6.7x	6.9x	6.9x

Please refer to "Appendix - Important Disclosures" and Analyst Certification.

TECO Energy, Inc.

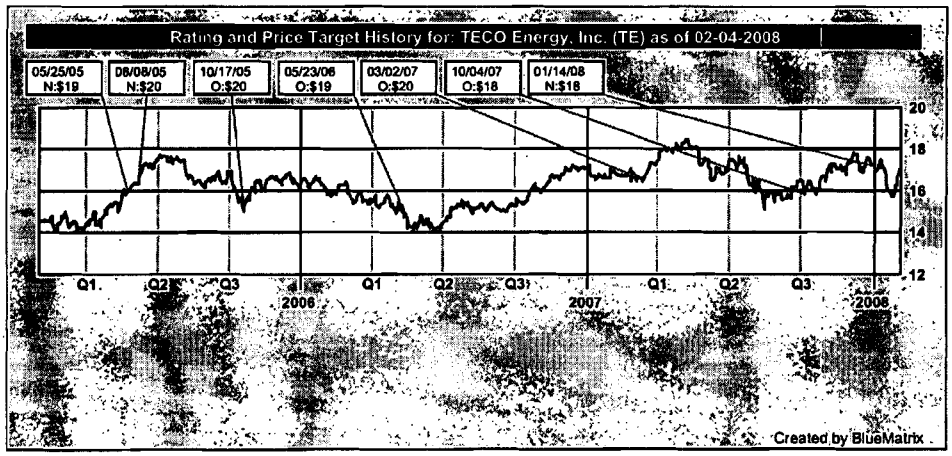
($ in Millions Except As Noted)

	2003	2004	2005	2006	2007E	2008E	2009E	2010E	3 Yr Growth
Net Revenue	$2,718	$2,669	$3,010	$3,448	$3,536	$3,527	$3,690	$3,848	2.9%
EBIT by Segment									
Utilities	$359.9	$386.6	$399.1	$387.8	$407.7	$422.2	$455.6	$498.9	7.0%
Wholesale Generation/Guatemala	(19.2)	13.7	36.4	61.3	67.7	61.6	65.1	68.2	0.3%
Transport	29.4	22.4	31.6	44.1	36.7	0.0	0.0	0.0	
Coal	100.8	95.3	193.7	125.0	70.7	73.0	81.6	88.9	7.9%
Eliminations/Other Income	23.0	42.0	10.3	10.9	5.1	1.5	1.5	1.5	
Earnings Before Interest & Taxes	$493.9	$560.0	$671.1	$629.1	$587.9	$558.3	$603.8	$657.6	3.8%
Other Income	83.6	180.8	229.1	156.1	188.2	126.2	130.5	133.1	(10.9%)
Minority Interest	48.8	79.5	87.1	69.6	0.0	0.0	0.0	0.0	
Operating Income	$361.5	$299.7	$354.9	$403.4	$399.7	$432.2	$473.3	$524.5	9.5%
Interest Expense	313.8	321.6	288.7	278.3	257.8	225.1	236.4	242.1	(2.1%)
Pretax Income	$180.1	$238.3	$382.4	$350.8	$330.1	$333.2	$367.4	$415.5	8.0%
Net Income	$164.8	$151.2	$254.7	$238.8	$223.7	$221.6	$244.1	$275.4	7.2%
Earnings Per Share	**$0.92**	**$0.78**	**$1.22**	$1.14	**$1.07**	**$1.05**	**$1.15**	**$1.30**	6.8%
Diluted Shares	179.9	192.6	208.2	208.7	209.9	211.4	211.8	212.2	0.4%
Annualized Dividend Per Share	$0.93	$0.76	$0.76	$0.76	$0.78	$0.80	$0.82	$0.84	2.5%
Payout Ratio (%)	101	97	62	66	73	76	71	65	
Returns									
Return on Common Equity	7.7	10.2	17.7	14.4	11.9	10.8	11.6	12.6	
Internal Cash % of Total Capital	19	(3)	(0)	7	10	8	9	10	
Coverage Ratios									
Interest Coverage Ex. Non-Cash	1.5	1.7	2.3	2.3	2.3	2.5	2.5	2.7	
Internal Cash % Of Construction	183	(53)	(1)	89	105	94	104	116	
Internal Cash % of Total Cap. Req.	174	(50)	(1)	37	103	77	99	111	
% of Total Capital									
Short-term Debt	0.6	2.2	3.9	0.9	0.5	0.5	0.5	0.5	
Total Debt	67.4	75.7	71.2	69.3	61.3	59.9	58.3	56.4	
Preferred Stock	10.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Common Equity	27.3	24.2	28.8	30.7	38.7	40.1	41.7	43.6	
% Growth in Invested Capital	-13.2	-13.8	4.3	1.9	-7.5	-0.9	-0.6	-0.1	
Total Invested Capital	$6,141	$5,295	$5,523	$5,629	$5,208	$5,160	$5,130	$5,128	(0.5%)
Total Debt	3,813	4,009	3,931	3,900	3,191	3,091	2,991	2,891	
Total Preferred	649	0	0	0	0	0	0	0	
Total Common Equity	1,678	1,284	1,592	1,729	2,017	2,070	2,140	2,237	
Cash Flow									
Cash Flow From Operations	$632	$151	($75)	$471	$758	$719	$724	$728	
Dividends (Pref. & Common)	165	145	158	159	164	169	174	178	
Internal Cash	466	6	(233)	312	595	550	550	550	
Construction Excluding AFC	591	273	295	456	520	450	450	450	
Other Investments	63	0	0	0	0	0	0	0	
Redemptions	850	225	494	366	530	100	100	100	
Total Capital Requirements	1,503	498	789	822	1,050	550	550	550	
Total Financing	792	88	608	340	0	0	0	0	

BAIRD 777 E. WISCONSIN AVENUE, MILWAUKEE, 53202

Date Printed:	02/05/08						TECO Energy, Inc.							Dave Parker (813) 274-7620
Fiscal Year:	DEC						TE							Michael Gresens, CFA (414) 765-3849
(in millions)														
Balance Sheet	**2002**	**2003**	**2004**	**2005**	**2006**	**4Q07**	**Cash Flow Statement**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008E**
ASSETS							Net Income	$350	$165	$151	$255	$239	$224	$222
Cash & Equivalents	$411	$108	$97	$346	$442	$163	Depreciation & Amort	303	382	290	282	282	279	270
Receivables	423	280	287	323	338	296	Net changes in (CA) & CL	33	43	(1)	13	(92)	50	126
Inventory	210	171	121	154	160	154	Deferred taxes/Non-Cash	(31)	(261)	(300)	(376)	138	205	102
Other	278	259	176	412	309	170	**Cash Flow from Operations**	656	329	140	174	567	758	719
Total Current	1,322	818	680	1,235	1,248	782	Dividend Payments	(216)	(165)	(145)	(158)	(159)	(164)	(169)
Fixed Assets	5,464	5,679	4,658	4,567	4,767	4,888	Net Capital Expenditures	(1,065)	(591)	(273)	(295)	(456)	(520)	(450)
Goodwill & Intangible Assets	1,199	344	271	305	301	298	**Free Cash Flow**	($625)	($427)	($279)	($279)	($48)	$75	$100
Other Assets	651	3,570	3,810	1,026	1,008	789								
Total Assets	$8,636	$10,411	$9,419	$7,133	$7,325	$6,758	Operating Cash Flow Per Share	$4.28	$1.83	$0.72	$0.84	$2.72	$3.61	$3.40
							Free Cash Flow Per Share	($4.08)	($2.38)	($1.45)	($1.34)	($0.23)	$0.36	$0.47
LIAB. & EQUITY														
Current Debt	$488	$69	$129	$222	$687	$32	**Du Pont Formula**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008E**
Payables	377	314	258	355	327	302	Net Margins (N/S)	13.1%	6.1%	5.7%	8.5%	6.9%	6.3%	6.3%
Other	244	1,864	1,836	349	337	283	Assets Turnover (S/A)	0.3	0.3	0.3	0.4	0.5	0.5	0.5
Total Current	1,109	2,247	2,222	926	1,350	618	Leverage (A/E)	3.4	4.5	6.7	5.8	4.4	3.8	3.3
							Return on Equity	15.3%	7.7%	10.2%	17.7%	14.4%	11.9%	10.8%
L/T Debt & Lease	3,324	3,745	3,883	3,709	3,213	3,158								
Deferred Taxes	943	2,143	2,087	943	1,070	972	**Valuation Parameters**		**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**Recent**
Other Liabilities	0	0	0	0	0	0	Price (Common) - TE	High	28.72	17.00	15.49	19.30	17.73	18.58	17.21
								Low	10.49	9.47	11.30	14.87	14.40	14.84	
Preferred Stock	649	649	0	0	0	0									
Common Equity	2,612	1,678	1,284	1,592	1,729	2,017	Forward P/E Ratio	High	12.2x	17.9x	18.2x	16.7x	16.0x	17.1x	15.8x
Total	$8,638	$10,462	$9,477	$7,170	$7,362	$6,765		Low	5.9x	6.5x	12.7x	13.2x	11.8x	13.8x	14.8x
								Close	9.8x	17.8x	15.7x	14.0x	16.0x	15.5x	15.6x
Ratio Analysis:															
Current Ratio	1.2	0.4	0.3	1.4	1.0	1.3	Book Value		$14.85	$8.92	$6.21	$7.64	$8.25	$9.56	$9.79
Working Capital	289	(1,468)	(1,510)	185	144	34	Price/Book Ratio	High	1.9x	1.9x	2.5x	2.5x	2.1x	1.9x	1.8x
Working Cap/Assets	3%	(14%)	(16%)	3%	2%	1%		Low	0.7x	1.1x	1.8x	1.9x	1.7x	1.6x	1.7x
Inventory Turns	3	4	6	8	9	8		Close	1.0x	1.6x	2.5x	2.2x	2.1x	1.8x	1.8x
Total Debt/Capital	54%	62%	76%	71%	69%	61%	EBITDA		$868	$876	$850	$953	$911	$867	$828
LT Debt/Equity	127%	223%	302%	233%	186%	158%	Enterprise Value	High	$7,802	$6,711	$6,839	$7,566	$7,121	$6,920	$6,673
EBIT/Interest Expense	3.2x	1.6x	1.7x	2.3x	2.3x	2.3x		Low	5,007	5,356	6,032	6,644	6,426	6,135	6,476
Total Debt/EBIT	6.8x	7.7x	7.2x	5.9x	6.2x	5.4x	EV / EBITDA	High	9.0x	7.7x	8.0x	7.9x	7.8x	8.0x	8.1x
								Low	5.8x	6.1x	7.1x	7.0x	7.1x	7.1x	7.8x
								Close	6.7x	7.1x	8.0x	7.5x	7.7x	7.6x	7.9x

Appendix - Important Disclosures and Analyst Certification



1 Baird maintains a trading market in the securities of TE.

10 Baird and/or its affiliates have been compensated by TECO Energy, Inc. for non-investment banking-securities related services in the past 12 months.

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Investment Ratings: Outperform (O) - Expected to outperform on a total return, risk-adjusted basis the broader U.S. equity market over the next 12 months. **Neutral (N)** - Expected to perform in line with the broader U.S. equity market over the next 12 months. **Underperform (U)** - Expected to underperform on a total return, risk-adjusted basis the broader U.S. equity market over the next 12 months.

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TECO Energy, Inc.
February 6, 2008

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Utilities Research
January 14, 2008

TECO Energy, Inc. (TE)

Downgrading to Neutral; Maintain $18 Price Target

				FY Dec	2007E	2008E	2009E
Price: (01/11/08)	**17.24**	**Rating:**	**Neutral**	Q1	0.21A		
52WK H-L:	**19 - 15**	Previous:	Outperform	Q2	0.25A		
Market Cap (mil):	**3,663.11**	**Suitability:**	**Average Risk**	Q3	0.38A		
Shares Out (mil):	208.9			Q4	0.19E		
Float (mil):	195.6			**Total**	**1.03E**	**1.15E**	**1.27E**
Avg. Daily Vol (mil):	1.51			FY P/E	16.7x	15.0x	13.6x
		Price Target:	**18**				
Dividend:	0.78						
Yield:	4.47						

Please refer to Appendix - Important Disclosures and Analyst Certification.

David E. Parker
dparker@rwbaird.com
813.274.7620

Michael L. Gresens, CFA
mgresens@rwbaird.com
414.765.3849

Action

We are lowering our rating on TE from Outperform to Neutral as we believe the current valuation is reasonable and we see insufficient catalysts to prompt an upward revision in our $18 price target. We expect earnings growth to be above average over the next several years as TECO reduces debt through NOL monetization and funds a moderate capital expenditure program.

Summary

- We have lowered our rating on TECO Energy (TE) from Outperform to Neutral as we believe the current valuation is reasonable.
- Our 12-month price target of $18 is 14.2x our 2009 EPS estimate of $1.27, we believe an appropriate discount to its utility peers until additional utility investment opportunities develop.
- The stock currently trades at a 15x forward P/E versus 16x for peers in Baird's Regulated Electric/Gas group and 19x for its coal peers.
- We expect TECO to generate above-average EPS growth over the next several years as it reduces parent debt through the monetization of NOL and AMT tax carryforwards ($961 million at 12/31/2006), with proceeds used to finance construction at the regulated utility.
- Over the next four years, we expect TECO's regulated utilities to invest $1.6 billion (1.7x depreciation), which includes over $200 million to complete SCR installations and over $230 million to install peaking units to meet demand needs and enable "Black Start" capability. Such estimates do not include potential investment in a combined-cycle unit to meet projected 2013 demand.
- In 12/2007, TECO completed the sale of TECO Transport, which raised approximately $375 million in net proceeds, in part by accelerating the monetization of NOLs. TECO used most of the proceeds to retire nearly all of its $300 million 7.50% 2010 notes (our estimates exclude the loss on debt extinguishment).

Details

No further details.

Investment Thesis

We maintain a Neutral rating on the shares of TECO Energy (TE) with a 12-month price target of $18. Key investment considerations include the following:

- **Well-Positioned Utility Operations.** TE benefits from strong 2-3% customer growth and supportive regulation that includes a healthy ROE band (10.75-12.75% for TE; 10.25-12.25% for PG). TE expects to spend $400 million in annual base capital expenditures on average over the next five years, nearly two times depreciation levels, with potential generation additions being additive.
- **Improved Financial Health.** Following significant losses in 2003 and 2004 from TECO's merchant operations, TECO's balance sheet has improved reflecting improved operating performance, the disposition of the merchant and transportation operations, and significant debt reduction. We expect these positive trends to continue as TE monetizes its merchant-related NOLs and continues its solid operating performance.
- **TECO Transport Sale.** In early 12/2007, TECO sold its Transport business for $405 million, which should raise $370-380 million. The sale allowed TECO to accelerate its NOL monetization and corporate-level debt repayment, thus creating more balance sheet capacity to fund regulated utility investment opportunities.
- **Attractive and Sustainable Dividend Yield.** We expect a resumption of dividend growth in 2008 given improving cash flow and EPS growth.
- **Valuation.** Our 12-month price target of $18 is approximately 15.0x our 2009 EPS estimate, we believe a discount to its utility peers when fully valued.

Risks & Caveats

We maintain a suitability rating of Average Risk on TE due to the additional risk associated with TE's non-regulated business, which are more susceptible to earnings fluctuations from varying market conditions. Risks include, but are not limited to, the following:

- Profitability of TE's unregulated segments can fluctuate with swings in the economy and commodity prices. The company's business is sensitive to fluctuations in the weather. A particularly warm winter or cool summer could adversely affect TE's financial results.
- The company has no control of the wholesale prices of natural gas, oil or coal. A spike in the price of these fuels could impact TE's financial results.
- TE's utility operations are subject to federal, state and local legislative requirements. Changes in regulations or in the regulatory environment in general could impact TE's earnings.

Company Description

TECO Energy is a diversified energy company headquartered in Tampa, Florida. Its primary businesses are Tampa Electric, Peoples Gas, TECO Coal and TECO Guatemala. Tampa Electric Company provides retail electric service to more than 660,000 customers in West Central Florida. Peoples Gas System provides retail natural gas service to over 335,000 customers in Florida. TECO Coal operates coal mines and handling facilities in Kentucky and Tennessee, and through 2007, has interests in several synfuel production facilities. TECO Guatemala is engaged in the distribution and generation of electricity in Guatemala.

BAIRD 777 E. WISCONSIN AVENUE, MILWAUKEE, 53202
Dave Parker (813) 274-7620
Michael Gresens, CFA (414) 765-3849

TECO Energy - Quarterly Earnings Model

	2005				2006				2007			
	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07E
Net Sales	$685	$719	$836	$770	$836	$863	$923	$826	$821	$867	$990	$830
Cost of Goods Sold	239	239	322	281	340	344	390	315	350	369	435	330
Gross Income	446	480	515	489	496	518	533	511	471	497	555	500
Operating Expense	366	387	409	412	405	412	402	436	390	402	414	422
Operating Income	80	93	105	77	92	106	131	75	81	95	141	78
Pretax Income	79	88	135	80	83	77	118	73	64	74	119	58
Net Income	$52	$57	$95	$50	$58	$52	$77	$51	$43.9	$53.1	$79.2	$40.4
EPS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dividends	$0.19	$0.19	$0.19	$0.19	$0.19	$0.19	$0.19	$0.19	$0.20	$0.20	$0.20	$0.20
Average Shares	206	209	209	210	209	209	209	209	209	210	210	211
Margin Analysis												
Gross Margin	65.1%	66.7%	61.5%	63.5%	59.3%	60.1%	57.7%	NA	57.3%	57.4%	56.1%	60.3%
Operating Expense	53.4%	53.9%	48.9%	53.5%	48.4%	47.7%	43.6%	NA	47.4%	46.4%	41.8%	50.9%
Operating Margin	11.7%	12.9%	12.6%	10.0%	11.0%	12.3%	14.2%	9.0%	9.9%	11.0%	14.2%	9.4%
Pretax Margin	11.6%	12.2%	16.2%	10.3%	10.0%	8.9%	12.8%	8.8%	7.7%	8.6%	12.0%	7.0%
Net Margin	7.5%	8.0%	11.4%	6.5%	6.9%	6.1%	8.4%	6.2%	5.3%	6.1%	8.0%	4.9%

TECO Energy - Annual Earnings Model

	2004	2005	2006	% chg	2007E	% chg	2008E	% chg	2009E	% chg	2010E	% chg
Net Sales	$2,669	$3,010	$3,448	15%	$3,508	2%	$3,475	(1%)	$3,625	4%	$3,772	4%
Cost of Goods Sold	935	1,081	1,390	29%	1,484	7%	1,655	12%	1,704	3%	1,754	3%
Gross Income	1,734	1,929	2,058	7%	2,024	(2%)	1,820	(10%)	1,922	6%	2,018	5%
Operating Expense	1,472	1,574	1,655	5%	1,628	(2%)	1,354	(17%)	1,415	5%	1,466	4%
Operating Income	262	355	403	14%	396	(2%)	466	18%	506	9%	552	9%
Pretax Income	238	382	351	(8%)	315	(10%)	367	17%	406	11%	449	10%
Net Income	$151	$255	$239	(6%)	$217	(9%)	$244	12%	$269	10%	$296	10%
EPS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dividends	$0.76	$0.76	$0.76	0%	$0.78	3%	$0.80	3%	$0.82	3%	$0.84	2%
Average Shares	193	208	209	0%	210	1%	211	1%	212	0%	212	0%
Margin Analysis												
Gross Margin	65.0%	64.1%	59.7%		57.7%		52.4%		53.0%		53.5%	
Operating Expense	55.1%	52.3%	48.0%		46.4%		39.0%		39.0%		38.9%	
Operating Margin	9.8%	11.8%	11.7%		11.3%		13.4%		14.0%		14.6%	
Pretax Margin	8.9%	12.7%	10.2%		9.0%		10.6%		11.2%		11.9%	
Net Margin	5.7%	8.5%	6.9%		6.2%		7.0%		7.4%		7.9%	

Balance Sheet Data

	2003	2004	2005	2006	3Q07
Cash & Equivalents	$160	$154	$383	$479	$174
Receivables	280	287	323	338	356
Inventory	171	121	154	160	179
Current Assets	870	738	1,272	1,286	1,003
Fixed Assets	5,679	4,658	4,567	4,767	4,815
Total Assets	10,462	9,476	7,170	7,362	7,165
Current Debt	69	129	222	687	80
Payables	314	258	355	327	260
Current Liabilities	2,247	2,222	926	1,350	742
Other Liabilities	2,143	2,087	943	1,070	1,100
L.T. Debt and Lease	3,744	3,880	3,709	3,213	3,454
Common Equity	1,678	1,284	1,592	1,729	1,869

Ratio Analysis

	2004	2005	2006	3Q07
Debt/Total Cap	76%	71%	69%	65%
Current Ratio	0.3	1.4	1.0	1.4
Days Sales Outst.	39	37	35	34
EBIT/Interest	1.7x	2.3x	2.3x	2.2x
Inventory Turn	6.4x	7.9x	8.9x	7.9x
Return on Equity	10.2%	17.7%	14.4%	12.8%
High P/E Ratio	19.7x	15.8x	15.5x	16.3x
Low P/E Ratio	14.4x	12.2x	12.6x	13.7x
Book Value	$6.21	$7.64	$8.25	$8.88
Price/Book	2.5x	2.2x	2.1x	1.9x
Cash Flow/Share	$2.29	$2.58	$2.50	$2.85
Price/Cash Flow	6.7x	6.7x	6.9x	5.8x

Please refer to "Appendix - Important Disclosures" and Analyst Certification.

TECO Energy, Inc.

($ in Millions Except As Noted)

	2003	2004	2005	2006	2007E	2008E	2009E	2010E	3 Yr Growth
Net Revenue	$2,718	$2,669	$3,010	$3,448	$3,508	$3,475	$3,625	$3,772	2.5%
EBIT by Segment									
Utilities	$359.9	$386.6	$399.1	$387.8	$396.7	$431.9	$465.9	$506.9	8.5%
Wholesale Generation/Guatemala	(19.2)	13.7	36.4	61.3	67.8	69.6	71.7	73.9	2.9%
Transport	29.4	22.4	31.6	44.1	38.0	0.0	0.0	0.0	
Coal	100.8	95.3	193.7	125.0	65.0	89.0	96.4	101.2	15.9%
Elimnations/Other Income	23.0	42.0	10.3	10.9	7.5	9.5	9.5	9.5	
Earnings Before Interest & Taxes	$493.9	$560.0	$671.1	$629.1	$575.0	$600.0	$643.4	$691.5	6.3%
Other Income	83.6	180.8	229.1	156.1	179.5	134.2	137.0	139.9	(8.0%)
Minority Interest	48.8	79.5	87.1	69.6	0.0	0.0	0.0	0.0	
Operating Income	$361.5	$299.7	$354.9	$403.4	$395.5	$465.8	$506.4	$551.6	11.7%
Interest Expense	313.8	321.6	288.7	278.3	260.4	232.6	237.1	242.8	(2.3%)
Pretax Income	$180.1	$238.3	$382.4	$350.8	$314.6	$367.4	$406.3	$448.7	12.6%
Net Income	$164.8	$151.2	$254.7	$238.8	$216.7	$243.7	$268.9	$296.3	11.0%
Earnings Per Share	**$0.92**	**$0.78**	**$1.22**	**$1.14**	**$1.03**	**$1.15**	**$1.27**	**$1.40**	10.7%
Diluted Shares	179.9	192.6	208.2	208.7	209.8	211.2	211.5	211.5	0.3%
Annualized Dividend Per Share	$0.93	$0.76	$0.76	$0.76	$0.78	$0.80	$0.82	$0.84	2.5%
Payout Ratio (%)	101	97	62	66	76	69	64	60	
Returns									
Return on Common Equity	7.7	10.2	17.7	14.4	12.3	13.4	14.1	14.7	
Internal Cash % of Total Capital	19	(3)	(0)	7	8	9	10	11	
Coverage Ratios									
Interest Coverage Ex. Non-Cash	1.5	1.7	2.3	2.3	2.2	2.6	2.7	2.8	
Internal Cash % Of Construction	183	(53)	(1)	89	81	101	111	122	
Internal Cash % of Total Cap. Req.	174	(50)	(1)	37	68	82	106	117	
% of Total Capital									
Short-term Debt	0.6	2.2	3.9	0.9	0.9	0.9	0.9	0.9	
Total Debt	67.4	75.7	71.2	69.3	65.4	63.8	61.9	59.7	
Preferred Stock	10.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Common Equity	27.3	24.2	28.8	30.7	34.6	36.2	38.1	40.3	
% Growth in Invested Capital	-13.2	-13.8	4.3	1.9	-8.5	-0.5	-0.1	0.4	
Total Invested Capital	$6,141	$5,295	$5,523	$5,629	$5,152	$5,127	$5,122	$5,141	(0.1%)
Total Debt	3,813	4,009	3,931	3,900	3,370	3,270	3,170	3,070	
Total Preferred	649	0	0	0	0	0	0	0	
Total Common Equity	1,678	1,284	1,592	1,729	1,782	1,857	1,952	2,071	
Cash Flow									
Cash Flow From Operations	$632	$151	($75)	$471	$635	$719	$723	$728	
Dividends (Pref. & Common)	165	145	158	159	164	169	173	178	
Internal Cash	466	6	(233)	312	472	550	550	550	
Construction Excluding AFC	591	273	295	456	520	450	450	450	
Other Investments	63	0	0	0	0	0	0	0	
Redemptions	850	225	494	366	530	100	100	100	
Total Capital Requirements	1,503	498	789	822	1,050	550	550	550	
Total Financing	792	88	608	340	0	0	0	0	

BAIRD 777 E. WISCONSIN AVENUE, MILWAUKEE, 53202

Date Printed: 01/11/08
Fiscal Year: DEC
(in millions)

TECO Energy, Inc.
TE

Dave Parker (813) 274-7620
Michael Gresens, CFA (414) 765-3849

Balance Sheet	2002	2003	2004	2005	2006	3Q07
ASSETS						
Cash & Equivalents	$411	$108	$97	$346	$442	$136
Receivables	423	280	287	323	338	356
Inventory	210	171	121	154	160	179
Other	278	259	176	412	309	294
Total Current	1,322	818	680	1,235	1,248	965
Fixed Assets	5,464	5,679	4,658	4,567	4,767	4,815
Goodwill & Intangible Assets	1,199	344	271	305	301	274
Other Assets	651	3,570	3,810	1,026	1,008	1,073
Total Assets	$8,636	$10,411	$9,419	$7,133	$7,325	$7,128
LIAB. & EQUITY						
Current Debt	$488	$69	$129	$222	$687	$80
Payables	377	314	258	355	327	260
Other	244	1,864	1,836	349	337	402
Total Current	1,109	2,247	2,222	926	1,350	742
L/T Debt & Lease	3,324	3,745	3,883	3,709	3,213	3,454
Deferred Taxes	943	2,143	2,087	943	1,070	1,100
Other Liabilities	0	0	0	0	0	0
Preferred Stock	649	649	0	0	0	0
Common Equity	2,612	1,678	1,284	1,592	1,729	1,869
Total	$8,638	$10,462	$9,477	$7,170	$7,362	$7,165
Ratio Analysis:						
Current Ratio	1.2	0.4	0.3	1.4	1.0	1.4
Working Capital	289	(1,468)	(1,510)	185	144	167
Working Cap/Assets	3%	(14%)	(16%)	3%	2%	2%
Inventory Turns	3	4	6	8	9	8
Total Debt/Capital	54%	62%	76%	71%	69%	65%
LT Debt/Equity	127%	223%	302%	233%	186%	189%
EBIT/Interest Expense	3.2x	1.6x	1.7x	2.3x	2.3x	2.2x
Total Debt/EBIT	6.8x	7.7x	7.2x	5.9x	6.2x	5.9x

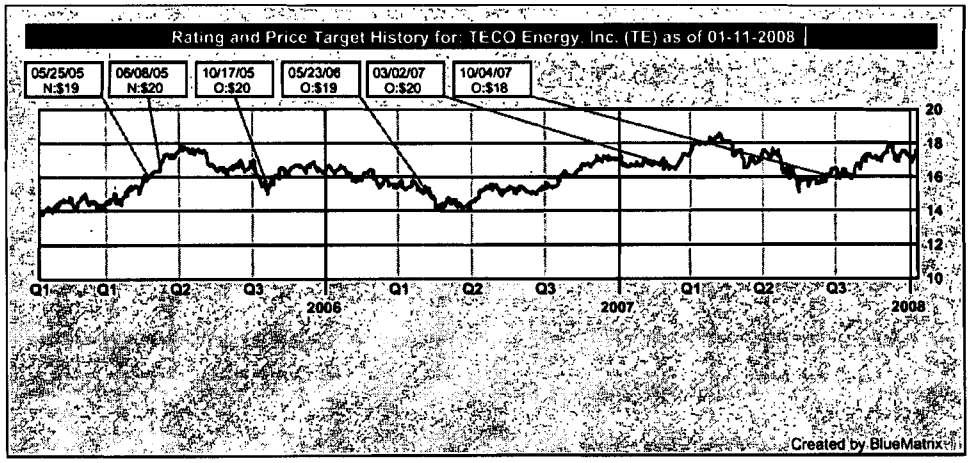
Cash Flow Statement	2002	2003	2004	2005	2006	2007E	2008E
Net Income	$350	$165	$151	$255	$239	$217	$244
Depreciation & Amort	303	382	290	282	282	281	264
Net changes in (CA) & CL	33	43	(1)	13	(92)	50	97
Deferred taxes/Non-Cash	(31)	(261)	(300)	(376)	138	88	114
Cash Flow from Operations	656	329	140	174	567	635	719
Dividend Payments	(216)	(165)	(145)	(158)	(159)	(164)	(169)
Net Capital Expenditures	(1,065)	(591)	(273)	(295)	(456)	(520)	(450)
Free Cash Flow	($625)	($427)	($279)	($279)	($48)	($48)	$100
Operating Cash Flow Per Share	$4.28	$1.83	$0.72	$0.84	$2.72	$3.03	$3.40
Free Cash Flow Per Share	($4.08)	($2.38)	($1.45)	($1.34)	($0.23)	($0.23)	$0.47

Du Pont Formula	2002	2003	2004	2005	2006	2007E	2008E
Net Margins (N/S)	13.1%	6.1%	5.7%	8.5%	6.9%	6.2%	7.0%
Assets Turnover (S/A)	0.3	0.3	0.3	0.4	0.5	0.5	0.5
Leverage (A/E)	3.4	4.5	6.7	5.8	4.4	4.1	3.9
Return on Equity	15.3%	7.7%	10.2%	17.7%	14.4%	12.3%	13.4%

Valuation Parameters		2002	2003	2004	2005	2006	2007E	Recent
Price (Common) - TE	High	28.72	17.00	15.49	19.30	17.73	18.58	17.21
	Low	10.49	9.47	11.30	14.87	14.40	14.84	
Forward P/E Ratio	High	12.2x	17.9x	18.2x	16.7x	16.0x	17.1x	15.8x
	Low	5.9x	6.5x	12.7x	13.2x	11.8x	13.8x	14.8x
	Close	9.8x	17.8x	15.7x	14.0x	16.0x	15.5x	15.6x
Book Value		$14.85	$8.92	$6.21	$7.64	$8.25	$8.46	$8.81
Price/Book Ratio	High	1.9x	1.9x	2.5x	2.5x	2.1x	2.2x	2.0x
	Low	0.7x	1.1x	1.8x	1.9x	1.7x	1.8x	1.9x
	Close	1.0x	1.6x	2.5x	2.2x	2.1x	2.0x	2.0x
EBITDA		$868	$876	$850	$953	$911	$856	$864
Enterprise Value	High	$7,802	$6,711	$6,839	$7,566	$7,121	$7,131	$6,882
	Low	5,007	5,356	6,032	6,644	6,426	6,347	6,685
EV / EBITDA	High	9.0x	7.7x	8.0x	7.9x	7.8x	8.3x	8.0x
	Low	5.8x	6.1x	7.1x	7.0x	7.1x	7.4x	7.7x
	Close	6.7x	7.1x	8.0x	7.5x	7.7x	8.0x	7.9x

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Appendix - Important Disclosures and Analyst Certification



1 Baird maintains a trading market in the securities of TE.

10 Baird and/or its affiliates have been compensated by TECO Energy, Inc. for non-investment banking-securities related services in the past 12 months.

Robert W. Baird & Co. and/or its affiliates expect to receive or intend to seek investment banking related compensation from the company or companies mentioned in this report within the next three months.

Investment Ratings: Outperform (O) - Expected to outperform on a total return, risk-adjusted basis the broader U.S. equity market over the next 12 months. **Neutral (N)** - Expected to perform in line with the broader U.S. equity market over the next 12 months. **Underperform (U)** - Expected to underperform on a total return, risk-adjusted basis the broader U.S. equity market over the next 12 months.

Risk Ratings: L - Lower Risk - Higher-quality companies for investors seeking capital appreciation or income with an emphasis on safety. Company characteristics may include: stable earnings, conservative balance sheets, and an established history of revenue and earnings. A - **Average Risk** - Growth situations for investors seeking capital appreciation with an emphasis on safety. Company characteristics may include: moderate volatility, modest balance-sheet leverage, and stable patterns of revenue and earnings. **H - Higher Risk** - Higher-growth situations appropriate for investors seeking capital appreciation with the acceptance of risk. Company characteristics may include: higher balance-sheet leverage, dynamic business environments, and higher levels of earnings and price volatility. **S - Speculative Risk** - High-growth situations appropriate only for investors willing to accept a high degree of volatility and risk. Company characteristics may include: unpredictable earnings, small capitalization, aggressive growth strategies, rapidly changing market dynamics, high leverage, extreme price volatility and unknown competitive challenges.

Valuation, Ratings and Risks: The recommendation and price target contained within this report are based on a time horizon of 12 months but there is no guarantee the objective will be achieved within the specified time horizon. Price targets are determined by a subjective review of fundamental and/or quantitative factors of the issuer, its industry, and the security type. A variety of methods may be used to determine the value of a security including, but not limited to, discounted cash flow, earnings multiples, peer group comparisons, and sum of the parts. Overall market risk, interest rate risk, and general economic risks impact all securities. Specific information regarding the price target and recommendation is provided in the text of our most recent research report.

Distribution of Investment Ratings: As of December 31, 2007, Baird U.S. Equity Research covered 497 companies, with 49% rated Outperform, 49% rated Neutral and 2% rated Underperform. Within these rating categories, 12% of Outperform-rated, 10% of Neutral-rated, and 20% of Underperform-rated companies have compensated Baird for investment banking services in the past 12 months and/or Baird managed or co-managed a public offering of securities for these companies in the past 12 months.

Analyst Compensation: Analyst compensation is based on: 1) The correlation between the analyst's recommendations and stock price performance; 2) Ratings and direct feedback from our investing clients, our sales force and from independent rating services; and 3) The analyst's productivity, including the quality of the analyst's research and the analyst's contribution to the growth and development of our overall research effort. This compensation criteria and actual compensation is reviewed and approved on an annual basis by Baird's Research Oversight Committee.

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TECO Energy, Inc.
January 14, 2008

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TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
SUPPLEMENTAL: DECEMBER 31, 2008

October 31, 2008

TECO Energy

(TE-NYSE)

Electric Utilities and Independent Power

Stock Rating: Market Perform
Industry Rating: Market Perform

Save the Date
December 2, 2008
BMO Capital Markets
4th ANNUAL UTILITY DAY, NYC
For more info, please contact your
BMO Capital Markets representative

Michael S. Worms
BMO Capital Markets Corp.
212-885-4031
michael.worms@bmo.com

Barbara Coletti
203-746-9312
barbara.coletti@bmo.com

Harsh Acharya
212-885-4012
harsh.acharya@bmo.com

Reducing 2009 EPS; Adjusting Target Price Lower

Event

TECO Energy reported EPS from continuing operations in 3Q08 of $0.28, a $0.10 decline from the $0.38 earned in 3Q07. EPS were adversely impacted by mild temperatures, the continuing effects of a weak economy in Florida, higher (expected) O&M costs, and lower margins from its coal business.

Impact

While expectations for 2008 earnings remain generally unchanged from our expectations, management indicated that coal production for 2009 would be at the lower end of its previous range and that production costs ($65/ton-$75/ton) will be higher, offset by higher prices for coal. Utility earnings should improve in 2H09, following mid-year decisions on pending electric and gas rate cases, although the continuing impact of a soft economy in Florida will continue to weigh.

Forecasts

We are maintaining our 2008 EPS estimate of $0.82, but reducing our 2009 estimate to $1.28 from $1.50, mainly reflecting lower production and lower margins from TECO Coal, and customer growth below TE's previous 1.2% forecast. Rate relief is expected in mid-2009.

Valuation

Reflecting the overall pullback in utility valuations as well as our revised EPS outlook, we are lowering our price target on TECO Energy to $14 based on our DCF analysis.

Recommendation

We are maintaining our **MARKET PERFORM** rating on TE shares.

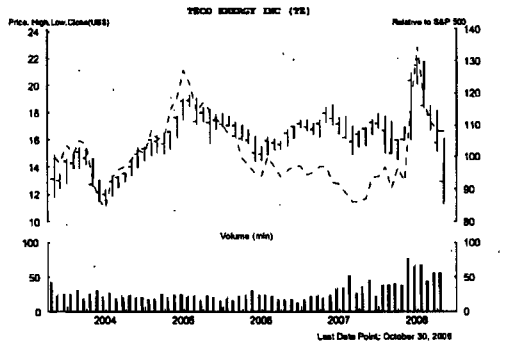
Securities Info

Price (31-Oct) Intraday	$12.00	Target Price	$14 ↓
52-Wk High/Low	$22/$11	Dividend	$0.80
Mkt Cap (mm)	$2,553	Yield	6.7%
Shs O/S (mm, BASIC)	212.7	Float O/S (mm)	198.2
Options O/S (mm)	6.4	ADVol (25-day, 000s)	2,279

Selected Bond Iss	Ind Prc	Rat'g Mdys/S&P	YTW	Spread
Teco Energy 5.125% '0	na	WR / NR		na
Teco Energy 7% '12	93	Baa3 / BB+	9.40%	780bp

Bond data from Bloomberg.

Price Performance



Valuation/Financial Data

(FY-Dec.)	2006A	2007A	2008E	2009E
EPS Pro Forma	$0.97	$1.07	$0.82	$1.28↓
P/E			14.6x	9.4x
First Call Cons.			*$0.87*	*$1.41*
EPS GAAP	$1.19	na	na	na
FCF	$1.31	$2.52	-$0.44	-$0.39↓
P/FCF			nm	nm
EBITDA ($mm)	$725	$599	$740	$944
EV/EBITDA			9.2x	7.2x
Rev. ($mm)	$3,409	$3,456	$3,478	$4,005
EV/Rev			2.0x	1.7x
FCF after Div. ($mm)	$57	$363	-$261	-$255

Quarterly EPS	1Q	2Q	3Q	4Q
2007A	$0.21	$0.25	$0.38	$0.23
2008E	$0.15A	$0.24A	$0.28A	$0.15

Balance Sheet Data (06/30/08)

Net Debt ($mm)	$4,254	TotalDebt/EBITDA	5.9x
Total Debt ($mm)	$4,339	EBITDA/IntExp	2.6x
Net Debt/Cap.	81.2%	Price/Book	1.3x

Source: BMO Capital Markets estimates, Bloomberg, FactSet, Global Insight, Reuters, and Thomson Financial.

Changes	Annual EPS	Annual FCF	Quarterly EPS	Target
	2009E $1.50 to $1.28	2009E -$0.17 to -$0.39	Q4/08E na to $0.15	$18.00 to $14.00

Please refer to pages 6 to 8 for Important Disclosures, including the Analyst's Certification.

Key Points

Despite an expected significant increase in earnings in 2009—albeit lower than we had earlier estimated, we find TE shares fairly valued at the current price and see few catalysts for significant price movement over the coming months. While we expect TE's electric and gas utilities to receive rate increases in mid-2009, customer growth is expected to be lower than its previous forecast of 1.2%. Management suggests that a rebound in the housing market in Florida may not occur until mid-2010. TECO Coal should benefit from sharply higher pricing in 2009, however, rising costs to produce and lower production levels (due to increased government scrutiny with regard to safety and a tight workforce) should combine to temper earnings expectations. We reiterate our **MARKET PERFORM** rating.

Valuation. Given the recent pullback in utility valuations as well as our revised EPS outlook, we are lowering our price target on TE shares to $14 based on our DCF analysis. We caution our target could be at risk should coal production cost increases outpace pricing.

Valuation : Discounted Free Cash Flows to Firm

($ million except per share amount)	2008	2009	2010	2011	2012
Cash From Operations	$558	$684	$747	$753	$782
Add: Interest Exp (After Tax)	152	162	169	173	176
Less: Capital Expenditures	(650)	(766)	(665)	(664)	(663)
Free Cash Flows to the Firm	60	80	252	262	295
PV Factors	*(0.84)*	*0.16*	*1.16*	*2.16*	*3.16*
FCFF		80	252	262	295
Present Value of FCFF		79	233	226	237
Terminal Value					7,800
PV Terminal Value					4,455
Aggregate Enterprise Value					6,302
Less: Net Debt (2008 YE)					(3,270)
Equity Value					3,032
Shares Outstanding					211
Target share Price					$14

Assumptions	
Terminal g =	2.5%
g 2012 - 2017 =	3.5%
β =	0.90
Equity Risk Premium =	6.50%
Risk Free Rate =	5.00%
Cost of Equity =	10.85%
Cost of Debt x (1 - t) =	4.9%
Debt/Equity =	1.68
WACC =	7.1%

Source: BMO Capital Markets estimates.

2008 and 2009 EPS Estimates

Maintaining 2008 EPS Estimate. We are maintaining our $0.82 EPS estimate for 2008. Tampa Electric continues to be adversely impacted by a slowing economy, lower customer growth, unfavorable weather and higher costs, while TECO Coal is pressured by difficult mining conditions, partly because of a shortfall in underground miners and increased government safety inspections. These pressures have further reduced expected coal production levels to 9.5 million tons in 2008 from a revised (lower) 10 million tons. As such, it appears EPS in 2008 will likely be at the lower end of TE's $0.80-$0.90 guidance range.

TECO Coal's selling prices for over 90% of this year's production reflect contracts signed in 2006 and 2007 or before, prior to the run up in coal prices; the remaining 10% of the current year contracts were signed early in 2008. As such, with the cost of production (particularly current prices for diesel oil, steel and petroleum-related products) continuing to rise, margins have been squeezed (cash margin is now forecast at $8/ton from $10/ton previously).

Reducing 2009 EPS Estimate. We are lowering our 2009 EPS estimate to $1.28 from $1.50 to reflect continued margin pressure at TECO Coal, despite significantly higher pricing. Factors included in our lower estimate are:

Coal. TECO Coal will benefit in 2009 from higher prices. However, production levels are now expected to be at the low end of TE's previous 10.5-11 million ton projection. The lower production is a function of the aforementioned workforce shortfall and safety inspections. Moreover, coal production costs are expected to be in the $65-$75/ton range.

For 2009, we are assuming TECO Coal produces 10.5 million tons of coal, with steam coal representing two-thirds, or about 7 million tons, and the remaining 3.5 million tons consisting of PCI and Met coal. Management indicated that 88% of total production (steam, PCI and Met) is hedged at an average selling price of $77/ton; 100% of its steam coal production is hedged.

It appears that the remaining 12% of production that is currently unhedged (PCI and Met coal) could generate a price of $200/ton, based on recent average prices.

Utilities. We expect that the current weak economy in Florida will persist well into 2009, and in fact, TE suggests that the current financial industry environment and tightening lending standards could delay the housing market recovery in Florida until mid-2010. Customer growth is now expected to be below the previous forecast of 1.2%. In fact, net growth (new customers less disconnects) in 3Q08 was modestly negative. Higher rates for both Tampa Electric and Peoples Gas around mid-year should help offset an otherwise economically challenging year.

TECO Guatemala. TE has a major maintenance outage scheduled at its San Jose unit. In addition, efforts to revise the Value Added Distribution tariff (VAD) decision continue, including legal, diplomatic and political resolutions.

3Q08 Results

TE reported 3Q08 EPS of $0.28 compared with $0.38 earned in 3Q07.

Tampa Electric's earnings ($50.6 million in 3Q08 versus $64.8 million) were adversely impacted by:

- Mild temperatures; cooling degree days were 7% below normal and 11% below last year;
- Net customer growth was negligible, as new customer additions were offset by disconnects;
- Lower sales to industrial and low-margin phosphate customers;
- Expected higher O&M costs, and
- Continued economic weakness.

TECO Coal's earnings were down in 3Q08 to $2.6 million from $3.8 million earned in 3Q07. Earnings were adversely impacted by lower tonnage and significantly higher production costs, partially offset by higher prices.

TECO Guatemala recorded modestly higher earnings in 3Q08 despite sharply lower VAD distribution rates (effective 8/1/08). Customer growth and increased sales, coupled with increased earnings from affiliated companies helped offset the lower rates.

Parent/Other improved to a loss of $10.4 million from $17.5 million, reflecting lower interest expense.

TECO Energy Income Statement Summary

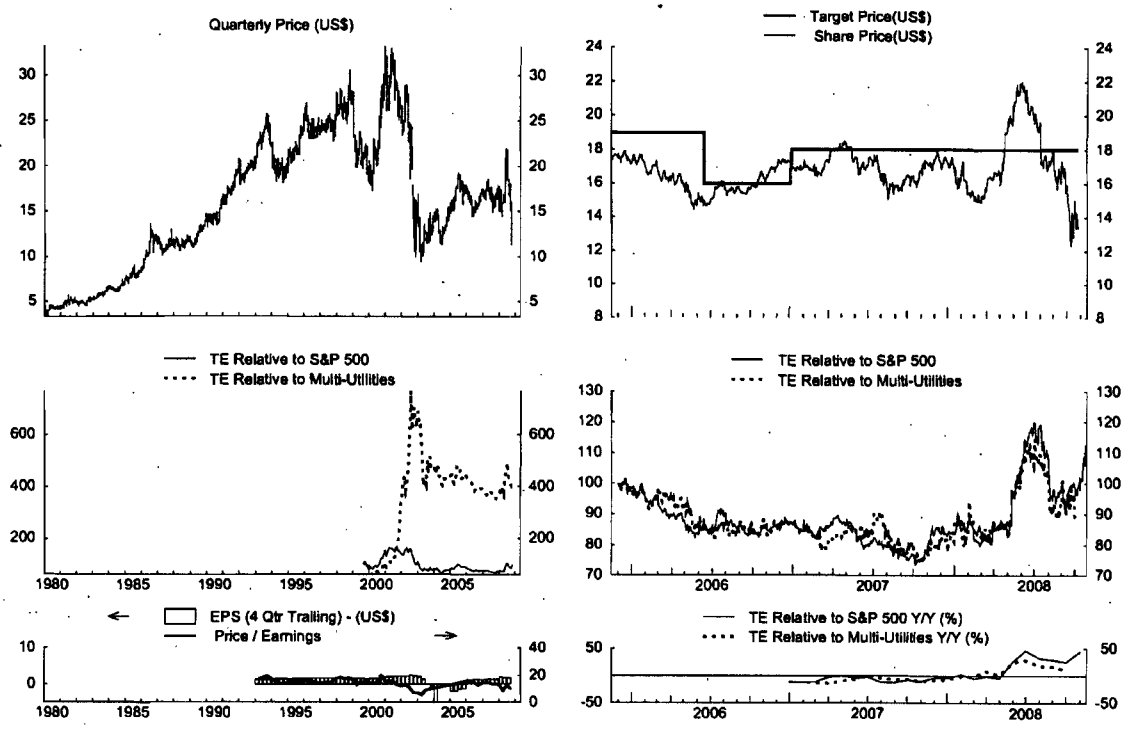
(Millions, except per-share data)	2007	2008E	2009E	2010E
Gross Margin	**$1,939.6**	**$1,933.9**	**$2,420.5**	**$2,621.4**
Operating Expenses	1,340.6	1,192.0	1,476.6	1,578.3
Non-recurring Items	(285.0)	0.0	0.0	0.0
Adjusted EBITDA	**$599.0**	**$741.9**	**$943.9**	**$1,043.1**
Depreciation & Amortization	263.7	287.5	315.6	340.0
Total Operating Expenses	2,835.8	3,023.2	3,377.2	3,552.2
Operating Income	**$335.3**	**$454.4**	**$628.3**	**$703.1**
Other Income	152.1	69.3	69.3	69.3
Adjusted EBIT	**$487.4**	**$523.7**	**$697.6**	**$772.4**
Net Interest Expense	257.8	244.5	261.4	273.2
Adjusted Pre-Tax Income	**$229.6**	**$279.2**	**$436.2**	**$499.2**
Federal Income Taxes, net	214.20	106.09	165.75	189.68
Adj. Recur. Oper. Earnings Avail.	**$216.2**	**$173.1**	**$270.4**	**$309.5**
Average Diluted Shares	208.7	210.8	211.8	212.8
Diluted Rec. Operating E.P.S.	**$1.07**	**$0.82**	**$1.28**	**$1.45**

TECO Energy Cash Flow Statement Summary

Operations				
Net Income	$413.2	$173.1	$270.4	$309.5
DD&A	263.7	287.5	315.6	340.0
Deferred Taxes	184.8	100.0	100.0	100.0
Deferred ITC	(2.5)	(2.5)	(2.0)	(2.0)
Income from Equity Investments	(18.0)	0.0	0.0	0.0
Minority Interest	(82.2)	0.0	0.0	0.0
Mark to market	(82.7)	0.0	0.0	0.0
Gain on sales of business/assets, pre-tax	(246.1)	0.0	0.0	0.0
Amortization of unearned compensation	11.6	0.0	0.0	0.0
Deferred recovery clause	123.7	0.0	0.0	0.0
Noncash debt extinguishment, pre-tax	2.6	0.0	0.0	0.0
Change in Working Capital/Other	(9.6)	0.0	0.0	0.0
Cash Flow from Operations	**$554.0**	**$558.1**	**$684.0**	**$747.5**
Total CAPEX (net of asset sales/synfuels proceeds)	$27.7	$650.0	$766.0	$665.0
Financings				
Common Stock, net	14.0	18.0	18.0	18.0
Total Dividends Paid	(163.0)	(168.0)	(172.6)	(178.7)
Bank Borrowings, net	(23.0)	0.0	0.0	0.0
Minority Interest	81.3	0.0	0.0	0.0
LT Debt Financing, net	(693.4)	241.8	236.6	78.2

Source: Company reports and BMO Capital Markets estimates.

TECO ENERGY INC (TE)



TE - Rating as of 10-Feb-04 = Mkt

Last Daily Data Point: October 27, 2008

Important Disclosures

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Methodology and Risks to Our Price Target

Methodology: Our valuation is based on a combination of our DCF analysis and current industry P/E multiples.
Risks: A material decline in power prices and / or a change in the regulatory environment could affect our price target.

Breakdown of Rating Distribution and Banking Clients

(As of September 30, 2008)	Buy	Hold	Sell	Unrated
% of total BMO Capital Markets Corp. coverage within rating category	30.8%	63.8%	5.5%	0.0%
% of stocks within rating category for which the Firm provided banking services over the past 12 months	14.6%	6.3%	4.5%	0.0%

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OP = Outperform: We believe the stock's total return, including dividends, will exceed the S&P 500's return by more than 15%.
Mkt = Market Perform: We believe the stock's total return will generally match that of the S&P 500.
Und = Underperform: We believe the stock's total return will fall short of the S&P 500's return by more than 15%.
NR = Not rated.
(R) = Restricted: Dissemination of research is currently restricted.
In addition, apart from our stock ratings, we apply the Speculative investment (S) postscript to those companies that have de minimis revenue and whose enterprise value appears to be contingent upon unprovable assumptions (e.g., the future approval of a drug or the successful completion of an oil well).

SECTOR RATINGS

OUTPERFORM - We believe the sector will outperform the S&P 500 Index.
MARKET PERFORM – We believe the sector's return will generally match that of the S&P 500.
UNDERPERFORM - We believe the sector will underperform the S&P 500 Index.

Prior BMO Capital Markets Corp. Rating System (prior to June 19, 2006)

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PRIOR STOCK RATINGS

OUTPERFORM - We believe the stock's total return, including dividends, will exceed the group average by over 15%.
NEUTRAL - We believe the stock's total return will generally match the group average.

UNDERPERFORM - We believe the stock's total return will fall short of the group average by more than 15%.

PRIOR SECTOR RATINGS

POSITIVE - We believe the sector will outperform the S&P 500 Index.

NEGATIVE - We believe the sector will underperform the S&P 500 Index.

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August 1, 2008

TECO Energy

(TE-NYSE)

Stock Rating: Market Perform
Industry Rating: Market Perform

Electric Utilities and Independent Power

Michael S. Worms
BMO Capital Markets Corp.
212-885-4031
michael.worms@bmo.com

Barbara Coletti
203-746-9312
barbara.coletti@bmo.com

Harsh Acharya
212-885-4012
harsh.acharya@bmo.com

Revising Estimates to Reflect Weak Economy and Strong Coal Market

Event

TE's 2008 performance has been challenged by the softening Tampa economy (2Q08 customer growth was a mere 0.2%), production issues at a new coal mine and rising coal production costs.

Impact

TE's 2008 coal contracts were signed prior to the recent price escalation. As such, the company is not expected to benefit from higher coal prices until 2009.

Forecasts

We are lowering our 2008 EPS estimate to $0.82 from $1.00 to reflect the aforementioned pressures on earnings (Florida economy, production issues and lower margins at TECO Coal). However, given the strong coal markets and with 20% of its anticipated production available to capture current pricing, we are raising our 2009 EPS estimate to $1.50 from $1.27.

Valuation

Given the execution risk associated with its coal contracting strategy coupled with the ongoing weakness in the Tampa economy, we find TE shares fairly valued at the current price, which is in line with our price target.

Recommendation

We reiterate our **MARKET PERFORM** rating.

Save the Date
December 2, 2008
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4th ANNUAL UTILITY DAY, NYC
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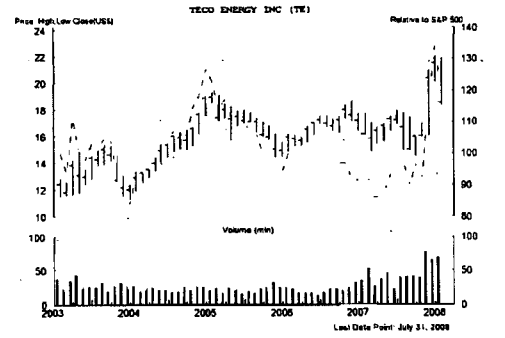
Securities Info

Price Intraday	$18.02	Target Price	$18
52-Wk High/Low	$22/$14	Dividend	$0.80
Mkt Cap (mm)	$3,798	Yield	4.4%
Shs O/S (mm, BASIC)	210.8	Float O/S (mm)	196.2
Options O/S (mm)	6.4	ADVol (25-day, 000s)	2,887

Selected Bond Iss	Ind Prc	Rat'g Mdys/S&P	YTW	Spread
Teco Energy 5.125% '0	na	WR / NR		na
Teco Energy 7% '12	102	Baa3 / BB+	6.39%	376bp

Bond data from Bloomberg.

Price Performance



Valuation/Financial Data

(FY-Dec.)	2006A	2007A	2008E	2009E
EPS Pro Forma	$0.97	$1.07	$0.82↓	$1.50↑
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First Call Cons.			*$1.00*	*$1.53*
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P/FCF			nm	nm
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FCF after Div. ($mm)	$57	$363	-$261	-$208

Quarterly EPS	1Q	2Q	3Q	4Q
2007A	$0.21	$0.25	$0.38	$0.23
2008E	$0.15A	$0.24A	na	na

Balance Sheet Data (03/31/08)

Net Debt ($mm)	$4,254	TotalDebt/EBITDA	5.9x
Total Debt ($mm)	$4,339	EBITDA/IntExp	2.6x
Net Debt/Cap.	83.3%	Price/Book	1.9x

Source: BMO Capital Markets estimates, Bloomberg, FactSet, Global Insight, Reuters, and Thomson Financial.

Changes	Annual EPS	Annual FCF
	2008E $1.00 to $0.82	2008E -$0.26 to -$0.44
	2009E $1.27 to $1.50	2009E -$0.39 to -$0.17

Please refer to pages 4 to 6 for Important Disclosures, including the Analyst's Certification.

Key Points

Despite an anticipated significant increase in earnings in 2009, we find TE shares fairly valued at the current price and see few catalysts for significant price movement over the coming months. While coal prices have risen dramatically, coal production costs have also risen and TECO is aggressively attempting to lock in margins. We believe an element of execution risk could keep TE shares trading within a relatively narrow range, in line with our current price target. We reiterate our **MARKET PERFORM** rating.

Adjusting 2008 and 2009 EPS Estimates

Lowering 2008 EPS Estimate. TE reported 2Q08 EPS of $0.24 compared with $0.25, with favorable weather, lower interest expense, and strong results at TECO Guatemala largely offsetting the impact of the weak Florida economy and housing market (customer growth and usage) as well as production/cost pressures at TECO Coal.

We are lowering our FY08 EPS estimate to $0.82 from $1.00 to reflect the aforementioned impact of the weak economy and unfavorable July weather coupled with the pressures at TECO Coal (we have lowered our production forecast to 10 million tons, from 10.5 million due to 2Q08 production issues as well as the unavailability of contract miners).

TECO Coal's selling prices for over 90% of this year's production reflect contracts signed in 2006 and 2007 or before, prior to the run up in coal prices, and the remaining 10% of the current year contracts were signed early in 2008. As such, with the cost of production (particularly current prices for diesel oil, steel and petroleum-related products) continuing to rise, margins have been squeezed (cash margin is now forecast at $8/ton from $10/ton previously).

Raising 2009 EPS Estimate. We are raising our 2009 EPS estimate to $1.50 from $1.27 to reflect higher margins at TECO Coal somewhat offset by our lower growth forecasts at the utilities. For 2009, we are assuming an average selling price at TECO Coal of $85/ton and production of 10.5 million tons. TE indicated it has contracted about 80% of its expected production at $66/ton. For the remainder (2/3 PCI and 1/3 met coal), we calculate a blended price of $160/ton. We assume cash costs of $61/ton, up from $51/ton in 2008.

Other drivers in 2009 include anticipated strong operational performance at TECO Guatemala partially offset by a scheduled major maintenance outage on the San José Power Station as well as expected base rate relief at the regulated Florida utilities.

TECO Energy Income Statement

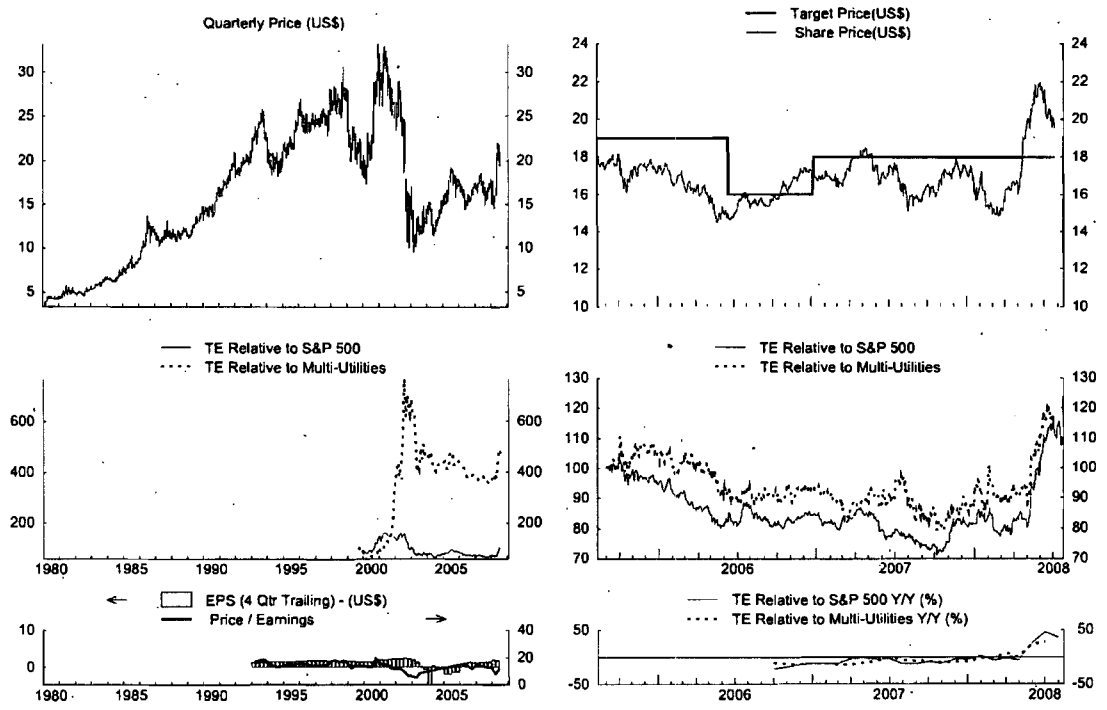
(Millions, except per-share data)	2007	2008E	2009E
Gross Margin	**$1,939.6**	**$1,932.0**	**$2,330.9**
Operating Expenses	1,340.6	1,192.0	1,313.5
Non-recurring Items	(285.0)	0.0	0.0
Adjusted EBITDA	**$599.0**	**$740.0**	**$1,017.4**
Depreciation & Amortization	263.7	287.5	315.6
Total Operating Expenses	2,835.8	3,023.2	3,214.1
Operating Income	**$335.3**	**$452.5**	**$701.8**
Other Income	152.1	69.3	69.3
Adjusted EBIT	**$487.4**	**$521.8**	**$771.1**
Net Interest Expense	257.8	244.5	259.8
Adjusted Pre-Tax Income	**$229.6**	**$277.3**	**$511.3**
Federal Income Taxes, net	214.20	105.36	194.29
Adj. Recur. Oper. Earnings Avail.	**$216.2**	**$171.9**	**$317.0**
Average Diluted Shares	208.7	210.8	211.8
Diluted Rec. Operating E.P.S.	**$1.07**	**$0.82**	**$1.50**

TECO Energy Cash Flow Statement

Operations			
Net Income	$413.2	$171.9	$317.0
DD&A	263.7	287.5	315.6
Deferred Taxes	184.8	100.0	100.0
Deferred ITC	(2.5)	(2.5)	(2.0)
Income from Equity Investments	(18.0)	0.0	0.0
Minority interest	(82.2)	0.0	0.0
Mark to market	(82.7)	0.0	0.0
Gain on sales of business/assets, pre-tax	(246.1)	0.0	0.0
Amortization of unearned compensation	11.6	0.0	0.0
Deferred recovery clause	123.7	0.0	0.0
Noncash debt extinguishment, pre-tax	2.6	0.0	0.0
Change in Working Capital/Other	(9.6)	0.0	0.0
Cash Flow from Operations	**$554.0**	**$556.9**	**$730.6**
Total CAPEX (net of asset sales/synfuels proceeds)	$27.7	$650.0	$766.0
Financings			
Common Stock, net	14.0	18.0	18.0
Total Dividends Paid	(163.0)	(168.0)	(172.6)
Bank Borrowings, net	(23.0)	0.0	0.0
Minority Interest	81.3	0.0	0.0
LT Debt Financing, net	(693.4)	243.0	190.0

Source: Company data, BMO Capital Markets estimates.

TECO ENERGY INC (TE)



TE - Rating as of 10-Feb-04 = Mkt

Last Daily Data Point: July 23, 2008

Important Disclosures

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Methodology and Risks to Our Price Target

Methodology: Our valuation is based on a combination of our DCF analysis and current industry P/E multiples.
Risks: A material decline in power prices and / or a change in the regulatory environment could affect our price target.

Breakdown of Rating Distribution and Banking Clients

(As of June 30, 2008)	Buy	Hold	Sell	Unrated
% of total BMO Capital Markets Corp. coverage within rating category	31.9%	62.5%	5.6%	0.0%
% of stocks within rating category for which the Firm provided banking services over the past 12 months	11.2%	3.7%	4.5%	0.0%

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Mkt = Market Perform: We believe the stock's total return will generally match that of the S&P 500.
Und = Underperform: We believe the stock's total return will fall short of the S&P 500's return by more than 15%.
NR = Not rated.
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SECTOR RATINGS

OUTPERFORM - We believe the sector will outperform the S&P 500 Index.
MARKET PERFORM – We believe the sector's return will generally match that of the S&P 500.
UNDERPERFORM - We believe the sector will underperform the S&P 500 Index.

Prior BMO Capital Markets Corp. Rating System (prior to June 19, 2006)

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PRIOR STOCK RATINGS

OUTPERFORM - We believe the stock's total return, including dividends, will exceed the group average by over 15%.
NEUTRAL - We believe the stock's total return will generally match the group average.

UNDERPERFORM - We believe the stock's total return will fall short of the group average by more than 15%.

PRIOR SECTOR RATINGS

POSITIVE - We believe the sector will outperform the S&P 500 Index.

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Flash BMO Capital Markets U.S.

Tuesday, April 29, 2008

TECO Energy (Market Perform)

(TE-NYSE)

Weak Sales Hurt 1Q08 Results; No Change to Outlook

Flash:

TECO Energy reported 1Q08 adjusted EPS of $0.15 compared with $0.21 in 1Q07, reflecting reduced contributions from Tampa Electric and Peoples Gas (lower sales – mild weather, slowing economy, and higher operating costs), and TECO Coal (greater mix of lower-margin steam coal) and the December 2007 sale of TECO Transport ($0.03 of EPS in 1Q07) somewhat offset by a modest improvement at TECO Guatemala and a sharp reduction in parent expenses (lower interest expense).

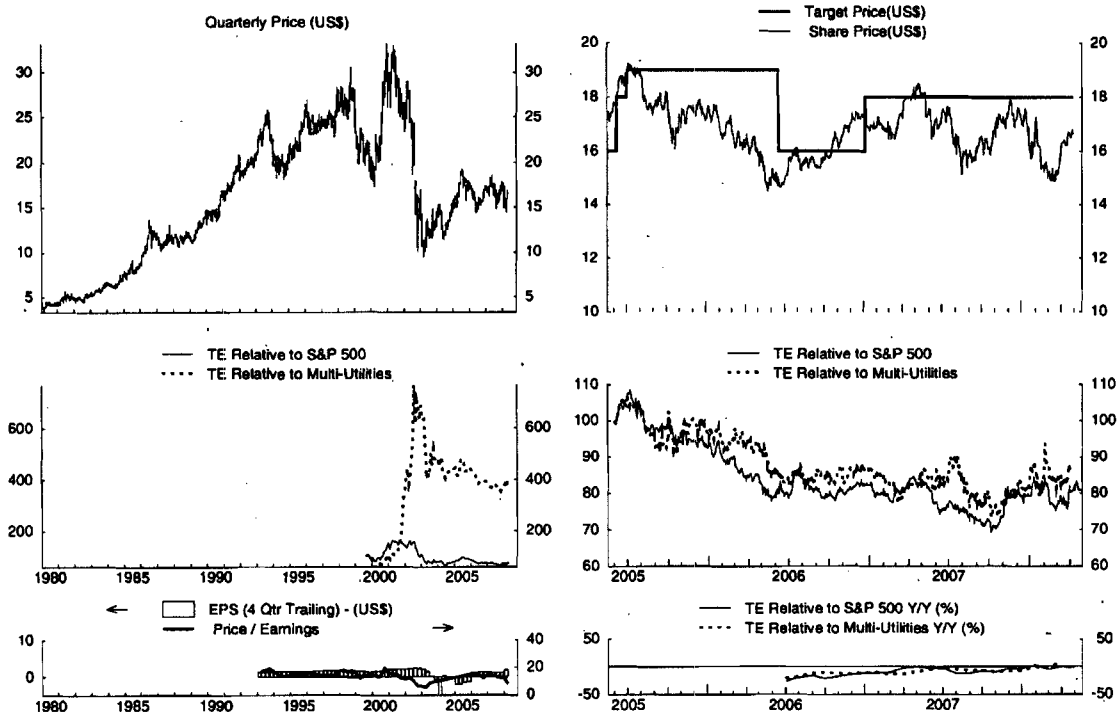
Our View:

* Despite a disappointing 1Q08 (consensus estimate $0.21), it appears that the drivers identified at its recent (March 27, 2008) analysts' presentation remain generally on track for 2008 and beyond, although we note that sales growth in 2008 is likely to be somewhat below original expectations and coal tonnage above.
* Our 2008 EPS estimate of $1.00 reflects pressure on utility earnings (economic slowdown and need for rate relief) and a normalized contribution from TECO Guatemala (superior performance in 2007) partially offset by higher production/margins at TECO Coal. We expect that lower interest expense should largely offset the loss of earnings from TECO Transport.
* In 2009, the strong coal markets are expected to continue and to support improved results for TECO Coal. Assuming reasonable regulatory treatment and the beginning of an economic recovery, we are maintaining our 2009 EPS estimate of $1.27, a 27% year-over-year improvement.
* We find TE shares fairly valued at the current price and reiterate our **MARKET PERFORM** rating.

Company:	TECO Energy (TE)
Price/Rating/Target:	$16.66/Market Perform/$18.00
Sector Name:	Electric Utilities and Independent Power
Analyst:	Michael S. Worms 212-885-4031
Email:	michael.worms@bmo.com
Associate:	Barbara Coletti 203-746-9312
Email:	barbara.coletti@bmo.com

Please refer to pages 2 to 4 for Disclosure Statements, including the Analyst's Certification.

TECO ENERGY INC (TE)



TE - Rating as of 10-Feb-04 = Mkt

Last Daily Data Point: April 28, 2008

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Methodology: Our valuation is based on a combination of our DCF analysis and current industry P/E multiples.

Risks: A material decline in power prices and / or a change in the regulatory environment could affect our price target.

Breakdown of Rating Distribution and Banking Clients

(As of March 31, 2008)	Buy	Hold	Sell	Unrated
% of total BMO Capital Markets Corp. coverage within rating category	33.0%	61.7%	5.3%	0.0%
% of stocks within rating category for which the Firm provided banking services over the past 12 months	13.8%	2.9%	4.8%	0.0%

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SECTOR RATINGS

OUTPERFORM - We believe the sector will outperform the S&P 500 Index.

MARKET PERFORM – We believe the sector's return will generally match that of the S&P 500.

UNDERPERFORM - We believe the sector will underperform the S&P 500 Index.

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March 28, 2008

TECO Energy

(TE-NYSE)

Stock Rating: Market Perform
Industry Rating: Market Perform

Electric Utilities and Independent Power

Michael S. Worms
BMO Capital Markets Corp.
212-885-4031
michael.worms@bmo.com

Barbara Coletti
203-746-9312
barbara.coletti@bmo.com

Harsh Acharya
212-885-4012
harsh.acharya@bmo.com

Raising 2009 EPS Estimate to Reflect Strong Coal Outlook

Event

At its annual analysts' conference in New York, management provided an update on the company's business model, which remains driven by utility infrastructure investment.

Impact

In addition to the significant rate base investment (Tampa Electric has budgeted $2.9 billon of capital spending 2008-2012), near-term EPS growth catalysts include the current strong coal pricing environment.

Forecasts

We are maintaining our 2008 EPS estimate of $1.00, which reflects pressure on utility earnings (need for rate relief) and a normalized contribution from TECO Guatemala (superior performance in 2007) partially offset by higher production/margins at TECO Coal. Given the more robust outlook for TECO Coal (margins expected to double to about $8/ton) and with rate relief likely to occur earlier in the year than we had previously anticipated, we are raising our 2009 estimate to $1.27.

Valuation

We find TE shares fairly valued at the current price, which represents a multiple in line with industry average.

Recommendation

We reiterate our **MARKET PERFORM** rating on TE.

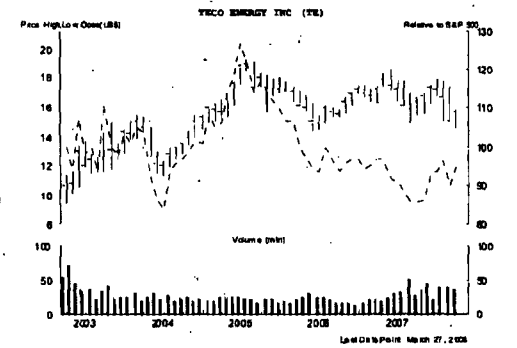
Securities Info

Price (27-Mar)	$15.74	Target Price	$18
52-Wk High/Low	$19/$14	Dividend	$0.78
Mkt Cap (mm)	$3,320	Yield	5.0%
Shs O/S (mm, BASIC)	210.9	Float O/S (mm)	196.6
Options O/S (mm)	6.4	ADVol (25-day, 000s)	1,700

Selected Bond Iss	Ind Prc	Rat'g Mdys/S&P	YTW	Spread
Teco Energy 5.125% '0	na	WR / NR		na
Teco Energy 7% '12	103	Baa3 / BB+	6.10%	356bp

Bond data from Bloomberg.

Price Performance



Valuation/Financial Data

(FY-Dec.)	2006A	2007A	2008E	2009E
EPS Pro Forma	$0.97	$1.07	$1.00	$1.27↑
P/E			15.7x	12.4x
First Call Cons.			*$1.05*	*$1.18*
EPS GAAP	$1.19	na	na	na
FCF	$1.31	$2.52	-$0.26↓	-$0.39↓
P/FCF			nm	nm
EBITDA ($mm)	$725	$599	$801	$940
EV/EBITDA			9.5x	8.1x
Rev. ($mm)	$3,409	$3,456	$3,524	$3,750
EV/Rev			2.1x	2.0x
FCF after Div. ($mm)	$57	$363	-$222	-$255
Quarterly EPS	**1Q**	**2Q**	**3Q**	**4Q**
2007A	$0.21	$0.25	$0.38	$0.23
2008E	na	na	na	na

Balance Sheet Data (12/31/07)

Net Debt ($mm)	$4,254	TotalDebt/EBITDA	5.4x
Total Debt ($mm)	$4,339	EBITDA/IntExp	2.8x
Net Debt/Cap.	81.7%	Price/Book	1.6x

Changes	Annual EPS	Annual FCF
	2009E $1.10 to $1.27	2008E $0.45 to -$0.26 2009E $0.81 to -$0.39

Please refer to pages 6 to 8 for Important Disclosures, including the Analyst's Certification.

Key Points

Management's comments focused on investment opportunities at Tampa Electric and the current strong market for its coal production. Balance sheet improvement (debt is presently at 61%) remains a priority and the company is targeting additional parent-level debt reduction in 2008 and also intends to use free cash flow to infuse equity into Tampa Electric as it grows through investment in infrastructure. Despite a slowing in the Florida economy, demand continues to expand, and TE projects the need for new generation beginning in 2009. Market conditions remain strong for TE's coal business, with TECO Coal signing multi-year contracts at attractive prices – after-tax margins are expected double in 2009 to about $8/ton.

We reiterate our **MARKET PERFORM** rating on TE shares, which we find fairly valued at the current price.

Raising 2009 EPS Estimate. At this time, we believe the key drivers for 2008 remain intact, and we are making no change to our $1.00 estimate. Reflecting the need for rate relief coupled with a slowing in the economy (although still above national average), we expect earnings at the utilities to be virtually flat in 2008. TECO Coal is expected to benefit from the improved pricing/demand conditions that surfaced in 4Q07 (it raised its production target to 10.5 million tons from 10 million tons). TECO Guatemala's contribution is expected to decline in 2008 largely owing to the superior results achieved in 2007 (capacity factor at San Jose power facility was comparable to the top 1% in the US).

For 2009, we are raising our estimate to $1.27 to reflect the aforementioned strength in the coal markets (and TECO's ability to sign multi-year contracts). TECO Coal has contracted and priced about 70% of its planned 2009 production and has contracted another 20% (will price late in 2008). As mentioned previously, based on current price/cost projections, after-tax margins in 2009 are expected to double to about $8/ton. Production is forecast at 11-11.5 million tons from 10.5 million in 2008.

In addition, we now believe rate relief may be forthcoming for Tampa Electric and Peoples Gas earlier in the year (we had previously expected a late 2009 decision). While the company did not indicate a specific filing date, it appears that it may file rate cases within the next several months; a final decision would be anticipated within nine months and settlement remains a distinct possibility.

Our 2009 estimate also reflects the YE2008 expiration of a waterborne transportation disallowance ($10 million, or $0.05 per share) and earnings on additional SCRs through the Environmental Cost Recovery Clause (by 2010 – four SCRs - $320 million total investment).

Key Highlights from Management's Presentations

Tampa Electric Continues to Grow; Rate Relief Needed

- Long-term customer and energy sales growth is projected at 2%, assuming a return to a more normal housing market. For the 2008-2009 timeframe, customer growth is likely to trend to the 1.3% level.

- Tampa Electric has budgeted capital investments of $2.9 billion (2008-2012), which includes spending for new generation.
  - Five peaking CTs in 2009 and 2010 (committed);
  - Additional peaking capacity in 2011 and 2012 - $320 million cost (proposed)
  - Natural gas combined cycle baseload capacity in early 2013 (proposed replacement for withdrawn IGCC plant) - $555 million (520 Mw) – subject to RFP and Need Determination process. Timing of the new generation reflects expected customer growth and the expiration of a 400 Mw purchased power agreement at the Hardee plant.
  - $320 million average annual recurring capital investments.
- Both Tampa Electric and Peoples Gas are expected to file for rate relief within the next few months (to be effective in early 2009).
  - 2008 ROEs for Tampa Electric and Peoples Gas are expected to be about 9%, well below the allowed ROE of 10.75%-12.75% at Tampa Electric and 10.25%-12.25% at Peoples Gas.
  - Rate relief is needed to recover the considerable infrastructure investment both utilities have made over the past several years as well as to recover rising operating costs.
  - We believe a settlement could be possible.

TECO Coal Drives Near-Term Outlook

- Management indicated that the coal markets remain strong; the company continues to sign attractive multi-year contracts. It has moved aggressively to lock in current prices and has contracted:
  - 100% of its projected 2008 production (10.5 million tons);
  - 70% of its projected 2009 production (11-11.5 million tons), and
  - Almost 40% of its projected 2010 production (11.5+ million tons).
- After-tax margins are expected to rise from $4/ton in 2008 to about $8/ton in 2009. Additional margin expansion is possible in 2010.

TECO Guatemala Offers Growth Opportunities

- 2007 was an exceptional year ($44.7 million compared to $37.6 million in 2006); results in 2008 are expected to return to a more normal level (about $40 million) given higher planned maintenance and the absence of a $1.9 million adjustment.
- EEGSA (about 15% of subsidiary earnings) will undergo a rate review in mid-summer; no significant rate adjustment is anticipated.

- Future opportunities in Guatemala include an RFP (from a neighboring utility) for 200 Mw baseload coal-fired generation, although TE indicated that if certain issues with the RFP are not resolved, it will most likely not bid.

Continued Balance Sheet Improvement

- TE has $508 million NOL tax benefits available and as a result is expected to pay minimal cash taxes through 2010.
- It also has $197 million AMT carry forward available, which limits its cash taxes to the AMT (20%) level.
- Cash generation and the aforementioned NOLs are expected to be available to infuse equity into Tampa Electric (up to $350 million in 2008) such that its equity component returns to the 55% level (from about 50%) despite a significant infrastructure investment program.

TECO Energy Income Statement

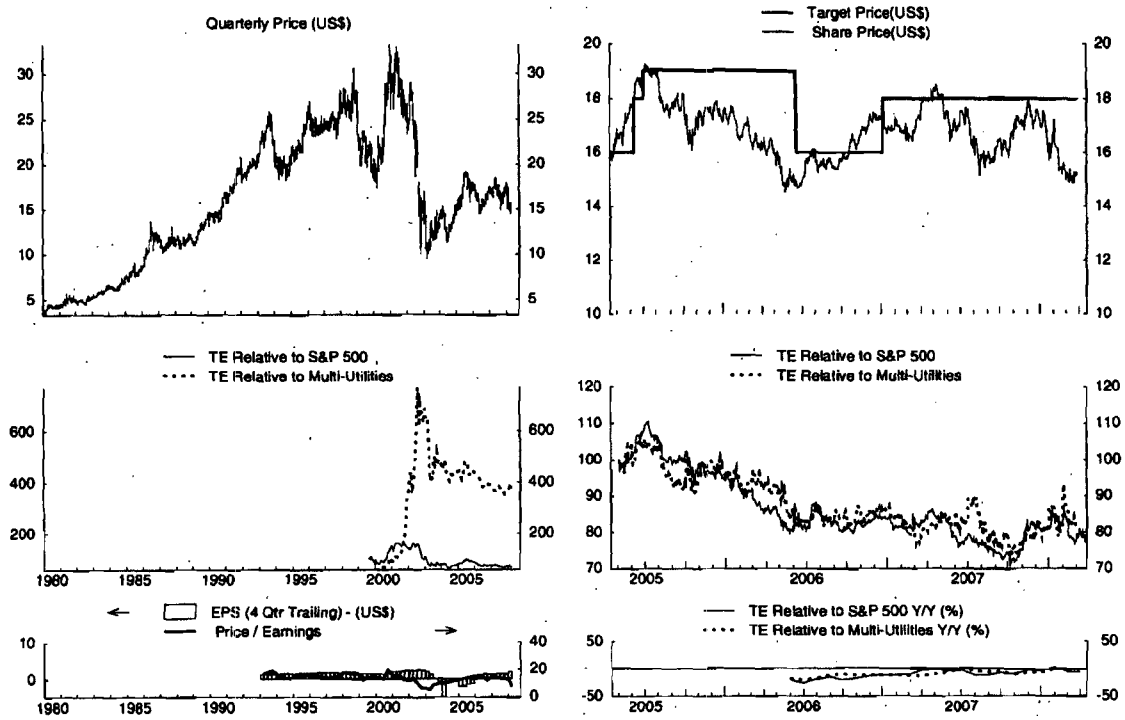
(Millions, except per-share data)	2007	2008E	2009E
Gross Margin	**$1,939.6**	**$1,980.7**	**$2,165.4**
Operating Expenses	1,340.6	1,178.9	1,225.4
Non-recurring Items	(285.0)	0.0	0.0
Adjusted EBITDA	**$599.0**	**$801.8**	**$940.0**
Depreciation & Amortization	263.7	287.5	315.6
Total Operating Expenses	2,835.8	3,010.2	3,126.0
Operating Income	**$335.3**	**$514.3**	**$624.3**
Other Income	152.1	69.3	69.3
Adjusted EBIT	**$487.4**	**$583.6**	**$693.6**
Net Interest Expense	257.8	243.1	258.6
Adjusted Pre-Tax Income	**$229.6**	**$340.5**	**$435.0**
Federal Income Taxes, net	214.20	129.39	165.31
Adj. Recur. Oper. Earnings Avail.	**$216.2**	**$211.1**	**$269.7**
Average Diluted Shares	208.7	210.8	211.8
Diluted Rec. Operating E.P.S.	**$1.07**	**$1.00**	**$1.27**

TECO Energy Cash Flow Statement

Operations			
Net Income	$413.2	$211.1	$269.7
DD&A	263.7	287.5	315.6
Deferred Taxes	184.8	100.0	100.0
Deferred ITC	(2.5)	(2.5)	(2.0)
Income from Equity Investments	(18.0)	0.0	0.0
Minority Interest	(82.2)	0.0	0.0
Mark to market	(82.7)	0.0	0.0
Gain on sales of business/assets, pre-tax	(246.1)	0.0	0.0
Amortization of unearned compensation	11.6	0.0	0.0
Deferred recovery clause	123.7	0.0	0.0
Noncash debt extinguishment, pre-tax	2.6	0.0	0.0
Change in Working Capital/Other	(9.6)	0.0	0.0
Cash Flow from Operations	**$554.0**	**$596.1**	**$683.3**
Total CAPEX (net of asset sales/synfuels proceeds)	$27.7	$650.0	$766.0
Financings			
Common Stock, net	14.0	18.0	18.0
Total Dividends Paid	(163.0)	(168.0)	(172.6)
Bank Borrowings, net	(23.0)	0.0	0.0
Minority Interest	81.3	0.0	0.0
LT Debt Financing, net	(693.4)	203.8	237.3

Source: Company data, BMO Capital Markets estimates.

TECO ENERGY INC (TE)



TE - Rating as of 10-Feb-04 = Mkt

Last Daily Data Point: March 26, 2008

Important Disclosures

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I, Michael S. Worms, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Methodology and Risks to Our Price Target

Methodology: Our valuation is based on a combination of our DCF analysis and current industry P/E multiples.
Risks: A material decline in power prices and / or a change in the regulatory environment could affect our price target.

Breakdown of Rating Distribution and Banking Clients

(As of December 31, 2007)	Buy	Hold	Sell	Unrated
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% of stocks within rating category for which the Firm provided banking services over the past 12 months	13.0%	4.8%	4.2%	0.0%

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OP = Outperform: We believe the stock's total return, including dividends, will exceed the S&P 500's return by more than 15%.
Mkt = Market Perform: We believe the stock's total return will generally match that of the S&P 500.
Und = Underperform: We believe the stock's total return will fall short of the S&P 500's return by more than 15%.
NR = Not rated.
(R) = Restricted: Dissemination of research is currently restricted.
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OUTPERFORM - We believe the sector will outperform the S&P 500 Index.
MARKET PERFORM – We believe the sector's return will generally match that of the S&P 500.
UNDERPERFORM - We believe the sector will underperform the S&P 500 Index.

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OUTPERFORM - We believe the stock's total return, including dividends, will exceed the group average by over 15%.
NEUTRAL - We believe the stock's total return will generally match the group average.

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PRIOR SECTOR RATINGS

POSITIVE - We believe the sector will outperform the S&P 500 Index.

NEGATIVE - We believe the sector will underperform the S&P 500 Index.

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Electric Utilities and Independent Power

February 29, 2008

Michael S. Worms
BMO Capital Markets Corp.
212-885-4031
michael.worms@bmo.com

Barbara Coletti
203-746-9312
barbara.coletti@bmo.com

Harsh Acharya
212-885-4012
harsh.acharya@bmo.com

Industry Rating: Market Perform

Notes from the Road: Meetings with FPL Group and TECO Energy

On February 27, 2008, BMO Capital Markets sponsored meetings with the senior management of FPL Group and TECO Energy in Florida. Timing was especially fortuitous, allowing the opportunity to meet FPL Group CFO designate Armando Pimentel, and occurring just a day after a major, but notably brief, power outage in southern Florida.

In addition, FPL took the opportunity to reaffirm its significant wind generation expansion program and to reassure investors that the size and scope of its wind portfolio – both operating and planned – allows it to absorb the normal glitches that can occur when installing new equipment. *As the company has stated previously, there are always "teething pains" that occur with new equipment.* However, FPL has the flexibility (varied projects and suppliers) to make the necessary adjustments to its construction schedule to allow it to meet its targets.

Economic Recovery Expected by Late 2009. Both FPL and TE are seeing a slowdown in the pace of customer growth (most likely to about 1%-1.5% from 2%-2.5%) in their service territories. However, the factors that have long made Florida an attractive relocation destination remain intact, and it is generally believed that the downturn will be relatively short-lived – growth is expected to accelerate by late 2009. In fact, a correction in the housing market could result in incremental growth longer term.

Florida's Legislative Focus May Not Be on Energy. The 2008 Florida legislative session is scheduled from March 4 – May 3. While it is expected that legislation related to renewable portfolio standards (and the recovery of such investment) will be introduced, the $3 billion Florida state budget deficit will likely be the primary issue before legislators this session and, it is possible, although unlikely, that energy issues may not be addressed this year.

Summary

- BMO Capital Markets sponsored meetings with the senior management of FPL Group and TECO Energy in Florida.
- The softening economy has slowed the rate of growth in Florida; recovery is expected to begin in late 2009.
- *As the company has stated previously, there are always "teething pains" that occur with new equipment.* However, FPL has the flexibility (varied projects and suppliers) to make the necessary adjustments to its construction schedule to allow it to meet its targets.
- FPL reiterated its 10% EPS growth target (2007-2012) reaffirmed its significant wind build-out program.
- TECO expects results in 2008 to be hindered by the need for rate relief, somewhat offset by a strong coal market.
- We reiterate our OUTPERFORM rating on FPL shares; we rate TE shares MARKET PERFORM.

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Environmental Legislation - Federal. According to FPL, the lobbying effort has intensified in Washington DC related to the Lieberman-Warner climate control bill. In May-June 2008, the bill is expected to be brought for full discussion to the Senate floor. At this time, there does not appear to be the 60 votes necessary to move the bill out of the Senate (about 4-5 short). As such, it appears that carbon legislation is unlikely to be completed until after the new administration is in place, effective in 2012, possibly.

Environmental Legislation – Regional. The Regional Greenhouse Gas Initiative (RGGI) is to be implemented effective January 1, 2009. The first three-year auction is scheduled to occur on June 1, 2008, although there could be some slippage since an auction administrator and executive director have not yet been chosen. While not significant for FPL initially, with its low carbon fleet in New England, the company stands to be a longer-term beneficiary.

FPL Group

During our time with FPL Group, we met with the senior management team, including the CEO, CFO and the presidents of both Florida Power & Light (FP&L) and FPL Energy (FPLE). We were also among the first group of investors to meet the new designated CFO Armando Pimentel.

Reflecting the company's 10%+ EPS growth prospects, coupled with incremental opportunities to extend its growth trajectory well into the next decade as well as a conservative financial structure (debt under 55% despite a significant capital spend program), **we believe FPL Group offers superior investment characteristics. Trading in line with industry average multiples, we believe FPL's current valuation fails to capture the company's above-average growth prospects.**

We regard FPL's profile among the strongest in the power sector, fueled by:

- a vibrant IPP subsidiary that continues to capitalize on the country's focus on renewable energy sources (particularly wind generation); and
- a still-growing utility (despite a pullback in revenue growth related to slower customer and usage growth).

We reiterate our **OUTPERFORM** rating.

Power Restored Rapidly. While not minimizing the significance of the power outage that occurred on February 26, management indicated that only about 20% of its customers (south Florida) were affected and at most, for three hours. The system reacted as designed when a major disturbance occurs (root cause still under investigation but possibly failure at a substation) and the plants that automatically shut down were brought back on line as quickly as possible. According to management, the maximum fine is estimated at $1 million. The outage is not expected to have an impact on FP&L's strong operating performance, which has been highlighted for best practices under a recent NERC audit.

10%+ EPS Growth Trajectory on Track Through 2012

Despite a slowing in customer growth at the utility, FPL remains on track to deliver 10%+ annual EPS growth (on average through 2012), in large part based on its wind development program, which as mentioned previously allows the company to absorb the glitches inherent in a major construction program.

- FPLE expects to add some 8,000-10,000 Mw of new wind capacity during the 2007-2012 period. The wind build-out program is expected to support about 50% of the targeted EPS growth.
- About 35% of the forecasted growth is expected to be driven by FP&L as the company expends some $2 billion annually on infrastructure investment.
- The remaining 15% of growth is expected to be provided by non-wind opportunities at FPL Energy, including recontracting of below market hedges, rising power prices and possible new solar investment (although becoming more attractive, solar generation is still very expensive at about $3,000/kwh).

Longer-Term Outlook Bullish. Beyond 2012, we believe FPLE's low carbon portfolio consisting of mainly natural gas, wind and nuclear generating units provides the opportunity to maintain a superior EPS growth trajectory driven by rising natural gas prices and a potential carbon tax. At this time, we assume a carbon tax of about $15/Mwh in 2012 and an open position of about 40 MMMwh (and growing), which we calculate to equate to about $600 million of incremental gross margin or some $390 million after-tax. We expect the company could have additional open generation as its contracts for the Duane Arnold nuclear plant (2013) and its older wind units (beginning in 2015) expire.

In addition, FP&L plans to invest $1.8 billion to uprate its existing nuclear units, which will be recoverable under Florida legislation/regulation without the need for a rate filing (about $100 million in earnings). The construction of new nuclear generation by FP&L could provide incremental upside, although we hasten to add that FPL has made no commitment to build new nuclear generation. Management continues to conservatively evaluate its options in this regard (discussed below).

Florida Power & Light Key Issues

Rate Settlement Expires at YE09. We expect FP&L to file a notice of intent with the Florida commission in 4Q08 and to file a rate case in early 2009. Hearings would occur in the spring, with an order delivered in the summer for rates to be effective January 1, 2010. *The utility intends to pursue a parallel path – fully litigated case and settlement negotiations – as it has in the past.* Key components of the case are expected to include:

- Extension of GBRA (generation build rider); West County Unit 1 (2009) will be recovered under the current GBRA; recovery of West County Unit 2 (2010) will require either extension of the GBRA or a separate rate filing.
- Higher O&M expenses.
- Process for cost recovery of renewable generation (if not addressed legislatively).
- Allowed ROE/capital structure – although FP&L would prefer to see its allowed equity component maintained at 55.8% (supports more favorable credit opinion), it would manage its equity to the commission's allowed level. Allowed ROE is always a point of contention (in virtually every regulatory jurisdiction); the commission could look to award incentive returns for new renewable investment.

Despite a significant capital investment program, FPL believes it can continue to deploy capital without driving up rates as the cost of new generation is offset by lower fuel/purchased power costs. Management believes it can keep the level of rate increases in line with inflation. While

revenue growth in the 2008-2009 period is likely to be negatively impacted by the slowdown in the Florida economy (lower customer growth and usage), new rates to be set for 2010 should reflect any revised sales base and outlook. The case will be based on a forward test year (2010) using 2008 actuals.

New Nuclear Generation Possible; Recovery of Uprates as Expended. Florida was among the first states to support new nuclear construction from both a legislative and regulatory position. Importantly, the Florida commission interpreted the law to include nuclear uprates, which means that the company will be able to recover its $1.8 billion capital program to uprate its nuclear plants as expended in 2011 and 2012, without having to file a new rate case. We estimate that this investment alone could generate incremental earnings of about $100 million (based on a 50/50 debt/equity ratio and an 11% ROE), depending upon the allowed ROE/capital structure at the time.

Although FP&L has indicated it is considering the construction of new nuclear generation, it intends to move slowly and cautiously in this regard, particularly since the level of federal loan guarantees is unclear, and even more important, there is uncertainty regarding the alternatives should commercial operation of the plant be delayed after construction is completed (final approval is required six months before the plant is brought online). Management indicated that a new two-unit nuclear facility coming on line in the 2016/17 time period could cost some $12-$13 billion.

Other Investment Opportunities. Although the company has made no formal decision, in an attempt to diversify its natural gas supply away from the Mobile Bay region (to onshore sources), FP&L might consider investment in an intrastate pipeline. There appears to be no shortage of supply or pipeline projects, the question is price.

FPL Energy Key Issues

Wind Build-Out Unchanged. The company's 8,000-10,000 Mw wind expansion program is on track. FPLE expects to add at least 1,000 Mw in 2008 and up to 1,500-2,000 Mw for the next several years.

- According to management, over the next few months, there are likely to be several unsuccessful attempts (probably originating in the House) to extend PTCs beyond the current YE08 expiration. However, no new legislation is expected until late in 2008 or even into 2009. Should extension slip into 2009, we would expect FPLE to revise its wind construction program accordingly (developing less in 2009 and accelerating the development program once the PTCs are extended). The size and scope of its program provides it with much flexibility; uncertainty related to the timing of PTC extension keeps marginal players out of the market.
- Management indicated that at some point, the PTCs may not be renewed, but most likely this will coincide with implementation of a carbon tax.
- Appropriate sites are still available for new wind projects, although new transmission will be required to bring the power to the load; FPLE could ultimately be involved in the construction of new transmission.
- Despite rising construction costs (estimated new generation cost of $1,800-$2,000/kw from $1,000-$1,200/kw a few years ago), new wind generation appears to be earning at

about the same level (mid-teen ROEs) since power prices have risen as well. PPAs are being signed at about $45/Mwh, up from the high $30s.

- The market for new wind generation in Texas remains very attractive and is not counter to the company's natural gas fired peaking generation in the state since the wind in Texas does not blow during high peak periods. Wind is not on the margin and it is highly unlikely that there would be sufficient wind to set prices.

Trading Business Likely To Remain a Modest Portion of the Whole. FPLE's asset management and optimization business accounts for about 5% of FPLE's gross margin. The business is expected to grow as FPLE grows, with the contribution remaining at about 5%. About one-third of the business is associated with asset optimization, one-third with full requirements (wholesale customers) and the remainder with trading (primarily physical trading).

TECO Energy

With the sale of TECO Transport, TE has improved its balance sheet (to 61% debt at year-end 2007 from 69% a year ago) and further narrowed its focus on its remaining energy-related businesses. The company is targeting additional parent-level debt reduction in 2008 ($100 million) and also intends to use free cash flow to infuse equity into Tampa Electric as it grows through investment in infrastructure. Although management indicated its current intention to remain in the coal business, it conceded that the market is attractive and it could consider monetizing its investment at the right price.

Reflecting the pressure on utility earnings in 2008 and most likely into 2009 (slowing customer growth and need for rate relief), we find TE shares fairly valued at a multiple in line with industry average. We reiterate our **MARKET PERFORM** rating.

Rate Filing Likely. Tampa Electric and Peoples Gas are expected to file test year letters, possibly by mid-2008; within 60 days the utilities are required to make formal filings. We expect the cases to be based on a 2009 forward test year, with new rates effective late in the year. Additional details regarding the filing are to be provided at TE's analyst presentation in late March 2008.

2008 Outlook Reflects Need for Rate Relief

- Tampa Electric – 1.5% customer growth (slowing economy), higher AFUDC (construction of peaking plants and NO_x control projects under construction at the Big Bend Power Station), and environmental recovery revenue (second NO_x control project to enter service in May on Big Bend Unit 3) offset by higher operating and financial expenses.

  Given the cost pressures, we expect Tampa Electric to under-earn its allowed 10.75%-12.75% ROE in 2008 and 2009 (last base rate increase in 1992). **We note that while growth is expected to slow, our forecast does not anticipate an extended depressed housing market or recession, which could further dampen the outlook.**

- Peoples Gas – sales growth offset by higher O&M and depreciation expense. Peoples Gas is expected to earn below its allowed 10.25%-12.25% ROE levels in 2008.

- TECO Coal – stronger performance reflecting an increase in sales (9.5-10 million tons compared to 9.2 million tons, including 6.0 million tons of synthetic fuel in 2007). The coal market has improved, driven by international supply and demand and the expectation of more normal inventory levels at US utilities. Margins are expected to compress modestly ($10/ton pre-tax compared with $11/ton in 2007) as somewhat higher (although still below current market) average prices are more than offset by higher production costs. We believe results could improve more significantly in 2009, reflecting the company's largely open position (about 35% hedged in early February 2008), amid rising prices.
- TECO Guatemala – difficult comparison following an outstanding 2007 performance coupled with increased scheduled maintenance at the San Jose station (lower availability and increased costs). We note that EEGSA will undergo a rate review in mid-summer.
- Parent costs are expected to decline because of the repayment of almost $657 million of debt in 2007, and the planned retirement of $100 million of floating rate debt in the second half of 2008, somewhat offset by lower interest income.

Longer-term growth opportunities include the possible construction of a 200 Mw coal-fired generation facility to serve a utility in Guatemala (bids placed in April, decision later this year) and continued infrastructure investment at Tampa Electric and Peoples Gas.

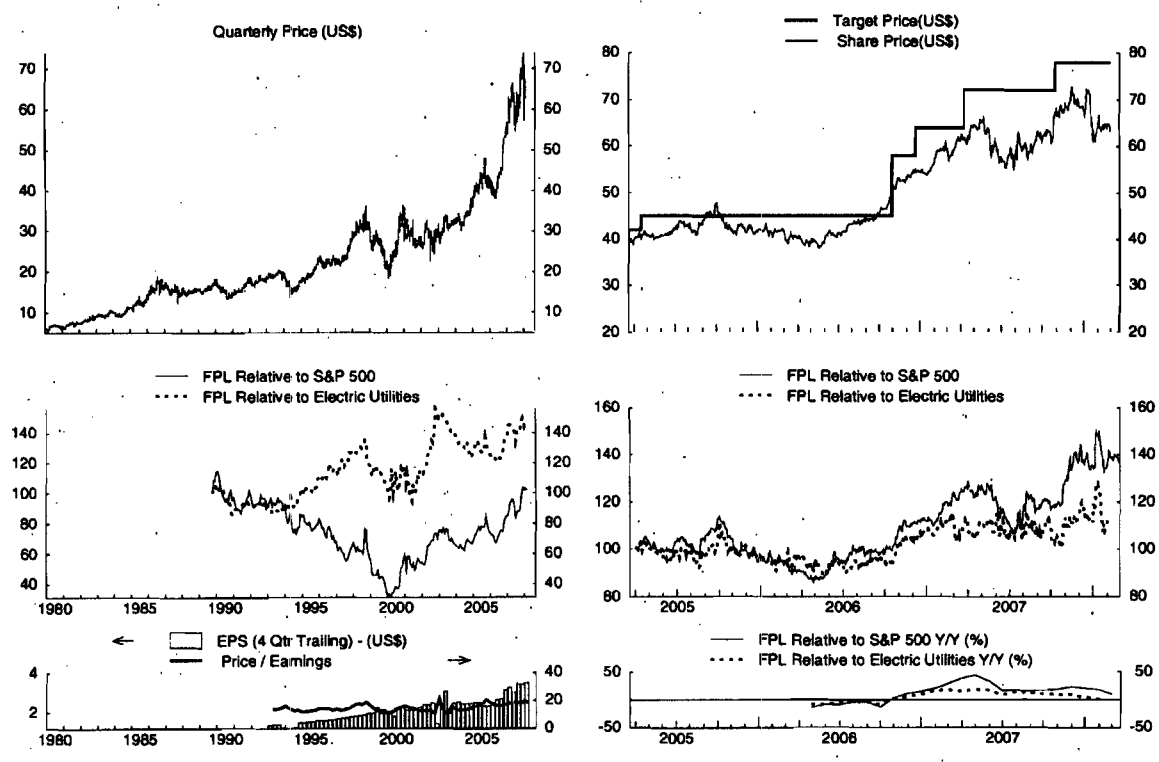
- If TE's bid is accepted, the plant would be project-financed; given the growing need for electric generation in Guatemala, we would expect additional opportunities to evolve over the coming years.
- Tampa Electric has indicated the need for baseload generation in 2013. At this time it appears most likely that the utility could seek to build new natural gas-fired generation. Although there is a clear need for fuel diversity in Florida, under Governor Crist's environmental plan, there is no support for coal-fired generation (conventional or IGCC) using current technology.

Coal Prices – Shift or Spike? While the recent volatility in coal prices can be in part attributed to temporary curtailments of supply (flooding at mines in Australia and Indonesia), there are other issues (rising demand in China, Canada and South Africa that have kept exports out of the market), that according to management, could mean higher prices will not mitigate to pre-2007 levels. The company noted that recently there has been a significant increase in customers seeking to sign long-term contracts, which could indicate that customers do not expect prices to decline significantly.

Electric Utilities and Independent Power	Rating	28-Feb Price	Target	EPS 2007E	EPS 2008E	EPS 2009E	P/E 2007E	P/E 2008E	P/E 2009E	Div	Yld	Book	Mkt Cap ($mm)
Allegheny Energy (AYE)	Outperform	$52.21	$74	$2.26	$2.62	$3.47	23.1	19.9	15.0	$0.60	1.1%	$14.57	8,652
American Electric Power (AEP)	Market Perform	$42.03	$51	$3.00	$3.15	$3.40	14.0	13.3	12.4	$1.64	3.9%	$24.78	16,812
Black Hills (BKH)	Market Perform	$37.17	$45	$2.68	$2.50	$2.64	13.9	14.9	14.1	$1.40	3.8%	$25.62	1,404
CMS Energy (CMS)	Market Perform	$14.93	$18	$0.84	$1.20	$1.30	17.8	12.4	11.5	$0.36	2.4%	$10.09	3,361
Consolidated Edison (ED)	Market Perform	$41.40	$46	$3.30	$3.25	$3.40	12.5	12.7	12.2	$2.32	5.6%	$33.14	11,241
Constellation Energy Group (CEG)	Market Perform	$91.29	$105	$4.60	$5.66	$6.60	19.8	16.1	13.8	$1.74	1.9%	$29.16	16,492
Dominion Resources (D)	Market Perform	$41.49	$46	$2.63	$3.06	$3.28	15.8	13.6	12.6	$1.58	3.8%	$16.06	23,875
DPL (DPL)	Market Perform	$26.13	$32	$1.53	$2.00	$2.30	17.1	13.1	11.4	$1.10	4.2%	$7.19	2,967
DTE Energy (DTE)	Market Perform	$41.40	$45	$2.82	$2.81	$3.21	14.7	14.7	12.9	$2.12	5.1%	$34.80	6,778
Duke Energy (DUK)	Market Perform	$17.93	$19	$1.25	$1.27	$1.37	14.3	14.1	13.1	$0.88	4.9%	$16.72	22,610
Edison International (EIX)	Market Perform	$50.40	$59	$3.45	$3.58	$3.84	14.6	14.1	13.1	$1.16	2.3%	$24.55	16,421
Energy East (EAS)	Market Perform	$26.84	$29	$1.60	$1.57	$1.53	16.8	17.1	17.5	$1.20	4.5%	$20.21	4,242
Entergy (ETR)	Outperform	$104.37	$124	$5.76	$6.70	$7.50	18.1	15.6	13.9	$3.00	2.9%	$41.03	20,287
Exelon (EXC)	Outperform	$77.40	$95	$4.32	$4.36	$4.55	17.9	17.8	17.0	$2.00	2.6%	$15.79	51,082
FirstEnergy (FE)	Market Perform	$69.94	$71	$4.23	$4.19	$4.87	16.5	16.7	14.4	$2.20	3.1%	$28.76	21,320
FPL Group (FPL)	Outperform	$63.13	$78	$3.48	$3.90	$4.29	18.1	16.2	14.7	$1.64	2.6%	$26.08	25,699
Mirant (MIR)	Market Perform	$36.26	$39	$2.85	$2.58	$3.69	12.7	14.1	9.8	$0.00	0.0%	$22.57	9,281
Northeast Utilities (NU)	Market Perform	$25.97	$30	$1.59	$1.90	$2.06	16.3	13.7	12.6	$0.80	3.1%	$18.54	4,025
PG&E (PCG)	Market Perform	$39.00	$48	$2.75	$2.92	$3.20	14.2	13.4	12.2	$1.44	3.7%	$23.45	13,781
Pinnacle West Capital (PNW)	Underperform	$36.80	$37	$3.05	$2.50	$2.65	12.1	14.7	13.9	$2.10	5.7%	$35.55	3,694
Progress Energy (PGN)	Market Perform	$43.35	$48	$2.76	$3.05	$3.09	15.7	14.2	14.0	$2.44	5.6%	$32.95	11,178
Public Service Enterprise Group (PEG)	Market Perform	$45.72	$53	$5.40	$2.96	$3.47	8.5	15.4	13.2	$1.17	2.6%	$14.37	23,253
Reliant Resources (RRI)	Market Perform	$23.57	$30	$0.43	$1.04	$1.55	54.8	22.7	15.2	$0.00	0.0%	$12.27	8,116
Sempra Energy (SRE)	Market Perform	$54.86	$63	$4.26	$4.00	$4.62	12.9	13.7	11.9	$1.28	2.3%	$30.96	14,335
Southern Company (SO)	Market Perform	$35.19	$36	$2.21	$2.26	$2.37	15.9	15.6	14.8	$1.61	4.6%	$16.26	26,726
TECO Energy (TE)	Market Perform	$15.33	$18	$1.07	$1.00	$1.10	14.3	15.3	13.9	$0.78	5.1%	$8.88	3,230
Wisconsin Energy (WEC)	Market Perform	$44.00	$47	$2.84	$2.80	$3.32	15.5	15.7	13.3	$1.08	2.5%	$25.95	5,145
XCEL Energy (XEL)	Market Perform	$20.24	$23	$1.43	$1.50	$1.61	14.2	13.5	12.6	$0.92	4.5%	$14.66	8,499

Source: BMO Capital Markets estimates and company reports.

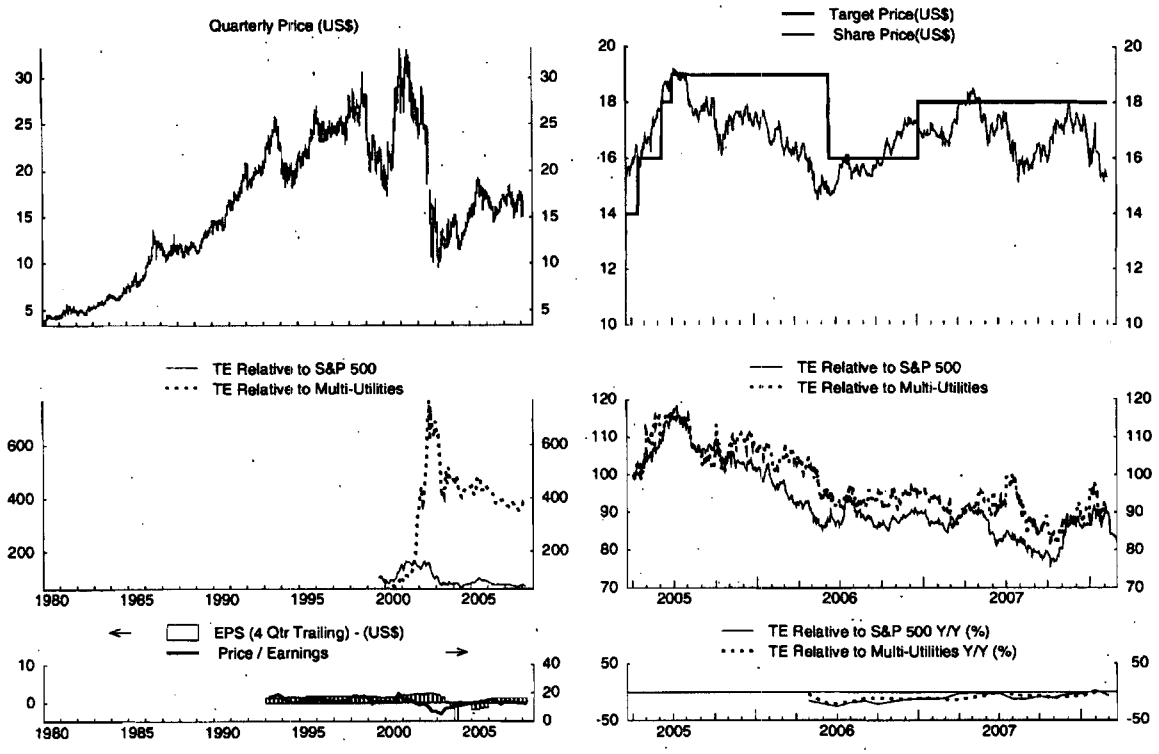
FPL GROUP INC (FPL)



FPL - Rating as of 27-Sep-02 = OP

Last Daily Data Point: February 28, 2008

TECO ENERGY INC (TE)



TE - Rating as of 10-Feb-04 = Mkt

Last Daily Data Point: February 28, 2008

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Mkt = Market Perform: We believe the stock's total return will generally match that of the S&P 500.
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February 5, 2008

TECO Energy

(TE-NYSE)

Stock Rating: Market Perform
Industry Rating: Market Perform

Electric Utilities and Independent Power

Michael S. Worms
BMO Capital Markets Corp.
212-885-4031
michael.worms@bmo.com

Barbara Coletti
203-746-9312
barbara.coletti@bmo.com

Harsh Acharya
212-885-4012
harsh.acharya@bmo.com

Lowering Estimates to Reflect Need for Rate Relief

Event

TECO Energy reported 2007 adjusted EPS of $1.07, ahead of our and consensus expectations, largely driven by sales growth, stronger coal prices and a better-than-expected performance at TECO Guatemala.

Impact

Significant infrastructure investment coupled with rising expenses and a slowing economy are expected to compress earnings at TE's utilities; rate cases are expected to be filed at Tampa Electric (possibly at year-end 2008) and Peoples Gas (2008).

Forecasts

Given the pressure on utility earnings and an anticipated return to more normal operating conditions at TECO Guatemala (superior performance in 2007) and despite a more robust outlook for TECO Coal, we are lowering our EPS estimates to $1.00 for 2008 and $1.10 for 2009. Results in 2009 will largely depend upon the timing of rate relief as well as TE's success in contracting its largely open coal position (strong current price environment).

Valuation

We find TE shares fairly valued at the current price, which represents a multiple in line with industry average.

Recommendation

We reiterate our **MARKET PERFORM** rating on TE.

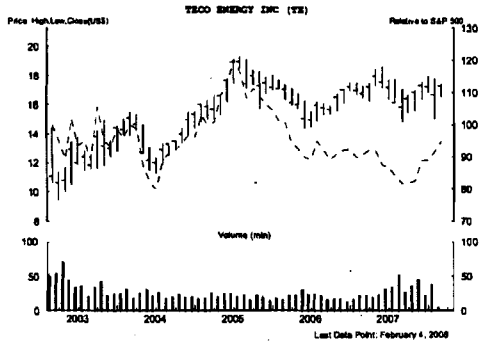
Securities Info

Price (5-Feb)	$16.60	Target Price	$18
52-Wk High/Low	$19/$15	Dividend	$0.78
Mkt Cap (mm)	$3,497	Yield	4.7%
Shs O/S (mm, BASIC)	210.7	Float O/S (mm)	196.1
Options O/S (mm)	6.4	ADVol (25-day, 000s)	1,642

Selected Bond Iss	Ind Prc	Rat'g Mdys/S&P	YTW	Spread
Teco Energy 5.125% '0	na	WR / NR		na
Teco Energy 7% '12	103	Baa3 / BB+	6.16%	338bp

Bond data from Bloomberg.

Price Performance



Valuation/Financial Data

(FY-Dec.)	2006A	2007A	2008E	2009E
EPS Pro Forma	$0.97	$1.07	$1.00↓	$1.10↓
P/E			16.6x	15.1x
First Call Cons.		*$1.02*	*$1.12*	*$1.22*
EPS GAAP	$1.19	na	na	na
FCF	$1.31	$2.52	$0.45↓	$0.81↑
P/FCF			36.9x	na
EBITDA ($mm)	$725	$679	$742	$795
EV/EBITDA			10.4x	9.8x
Rev. ($mm)	$3,409	$3,539	$3,456	$3,599
EV/Rev			2.2x	2.2x
FCF after Div. ($mm)	$57	$363	-$72	$0
Quarterly EPS	**1Q**	**2Q**	**3Q**	**4Q**
2006A	$0.22	$0.26	$0.31	$0.18
2007A	$0.21	$0.25	$0.38	$0.23

Balance Sheet Data (09/28/07)

Net Debt ($mm)	$4,254	TotalDebt/EBITDA	5.8x
Total Debt ($mm)	$4,339	EBITDA/IntExp	2.6x
Net Debt/Cap.	80.8%	Price/Book	1.9x

Changes	Annual EPS	Annual FCF
	2008E $1.15 to $1.00	2008E $0.73 to $0.45
	2009E $1.21 to $1.10	2009E $1.09 to ..81

Please refer to pages 6 to 8 for Disclosure Statements, including the Analyst's Certification.

Key Points

With the sale of TECO Transport, TE was able to improve its balance sheet (to 61% debt at year-end 2007 from 69% a year ago) and to further narrow its focus on its remaining energy-related businesses. The company is targeting additional parent-level debt reduction in 2008 ($100 million) and also intends to use free cash flow to infuse equity into Tampa Electric as it grows through investment in infrastructure. Although management indicated its current intention to remain in the coal business, it conceded that the market is attractive and it could consider monetizing its investment at the right price.

Reflecting the pressure on utility earnings in 2008 and most likely into 2009, we find TE shares fairly valued at a multiple in line with industry average. We reiterate our **MARKET PERFORM** rating.

Lowering EPS Estimates. We are lowering our 2008 and 2009 EPS estimates to $1.00 and $1.10, respectively. The primary reason for the change is the need for rate relief at the utilities coupled with slowing in the economy (although still above national average). We expect earnings at the utilities to be virtually flat in 2008; results in 2009 will depend upon the timing of rate relief (we would not expect Tampa Electric to file a rate case until late 2008 at the earliest). TECO Coal is expected to benefit from the improved pricing/demand conditions that surfaced in 4Q07. TECO Guatemala's contribution is expected to decline in 2008 largely owing to the superior results achieved in 2007 (capacity factor at San Jose power facility was comparable to the top 1% in the US).

Longer-term growth opportunities include the possible construction of a 200 Mw coal-fired generation facility to serve a utility in Guatemala (bids placed in April, decision later this year) and continued infrastructure investment at Tampa Electric and Peoples Gas.

Key Drivers for 2008 EPS:

- Tampa Electric – no change from 2007 levels - 2% customer growth (despite a slowing economy), higher AFUDC (construction of peaking plants and NO_x control projects under construction at the Big Bend Power Station), and environmental recovery revenue (second NO_x control project to enter service in May on Big Bend Unit 3), offset by higher operating and financial expenses.

  Given the cost pressures, we expect Tampa Electric to under-earn its allowed 10.75%-12.75% ROE in 2008 and 2009 (last base rate increase in 1992). **We note that while growth is expected to slow, our forecast does not anticipate an extended depressed housing market or recession, which could further dampen the outlook.**

- Peoples Gas – sales growth offset by higher O&M and depreciation expense. Peoples Gas is expected to earn below its allowed 10.25%-12.25% ROE levels in 2008.

- TECO Coal – 2008 net income is expected to rise (compared to adjusted 2007 results) reflecting an increase in sales (9.5-10 million tons compared to 9.2 million tons,

including 6.0 million tons of synthetic fuel in 2007). The coal market has improved, driven by international supply and demand and the expectation of more normal inventory levels at US utilities. Margins are expected to compress modestly ($10/ton pre-tax compared with $11/ton in 2007) as somewhat higher (although still below current market) average prices are more than offset by higher production costs. We believe results could improve more significantly in 2009, reflecting the company's largely open position (about 35% hedged), amid rising prices.

- TECO Guatemala -- 2008 earnings are expected to decline from 2007 levels reflecting the outstanding performance of the San Jose Power Station in 2007. In 2008, increased scheduled maintenance is expected to reduce availability, which will result in lower spot energy sales and increased costs. Results at EEGSA and the affiliated companies are expected to be driven by higher energy sales to retail customers more than offset by the absence of a $1.9 million after-tax benefit related to an adjustment to previously estimated results recorded in 2007. We note that EEGSA will undergo a rate review in mid-summer.

- Parent costs are expected to decline because of the repayment of almost $657 million of debt in 2007, and the planned retirement of $100 million of floating rate debt in the second half of 2008, somewhat offset by lower interest income.

2007 Review

TECO Energy reported adjusted 2007 earnings from continuing operations of $223.7 million, or $1.07 per share, compared with $201.5 million, or $0.97, in 2006. Results exclude earnings from synfuels production, the gain on the sale of TECO Transport and a loss on the early extinguishment of debt. On an operating basis, three of TE's four core businesses reported stronger results, with Tampa Electric continuing to benefit from customer growth, TECO Guatemala achieving exceptional operating performance, and TECO Coal gaining on improved pricing. Only Peoples Gas reported lower earnings, as higher costs continue to hinder growth.

	2007	2006
Tampa Electric	$150.3	$135.9
Peoples Gas System	$26.5	$29.7
TECO Coal	$38.3	$46.7
TECO Guatemala	$44.7	$37.6
Parent and Other	-$70.1	-$71.2
TECO Transport	$34.0	$22.8
Adjusted Earnings	**$223.7**	**$201.5**
Synthetic Fuels	$52.6	$32.1
Net Income from Continuing Operations	$276.3	$233.6
Shares Outstanding	209.9	208.7
Adjusted EPS	**$1.07**	**$0.97**

Source: TECO Energy and BMO Capital Markets research.

Results by Sector

Tampa Electric's 2007 results totaled $150.3 million compared to $135.9 million in 2006, driven primarily by lower depreciation and property tax expense and higher retail energy sales, partially

offset by higher O&M and interest expense. Retail sales rose by 2.7% while off-system energy sales increased 5% (1.9% average retail customer growth and favorable weather partially offset by changes in residential customers' consumption patterns).

Results for 2007 include a $2.1 million after-tax benefit for the wholesale component of the sale of SO_2 emissions credits, compared to $1.4 million in 2006. In 2007, Tampa Electric sold approximately $91 million of excess SO_2 emissions credits, of which only the wholesale component is reflected in net income.

Peoples Gas System's net income -- $26.5 million for 2007 compared to $29.7 million – reflects lower volumes transported for industrial customers (due to the slowdown in the Florida construction market), unfavorable weather and higher expenses which more than offset average customer growth of 1.6% and higher volumes transported for power generation customers.

TECO Coal earned recorded net income of $90.9 million in 2007 compared to $78.8 million in 2006, including earnings from synthetic fuel production of $52.6 million in 2007 and $32.1 million in 2006. Sales totaled 9.2 million tons in 2007, including 6.0 million tons of synthetic fuel, compared to 9.8 million tons, including 5.3 million tons of synthetic fuel in 2006 (synfuel production was curtailed for approximately six weeks because of high oil prices). Results in 2007 reflect average net selling price and cost of production roughly in line with 2006.

TECO Guatemala reported 2007 net income of $44.7 million compared to $37.6 million in 2006 driven by customer growth and higher energy sales at EEGSA and increased earnings from the EEGSA-affiliated companies (electricity transmission services, wholesale power sales to unregulated electric customers, engineering services and telecommunication carrier services), strong performance at the San José Power Station (92%+ capacity factor) and higher capacity payments for the Alborada Power Station. Interest expense and interest income also improved.

TECO Energy Income Statement

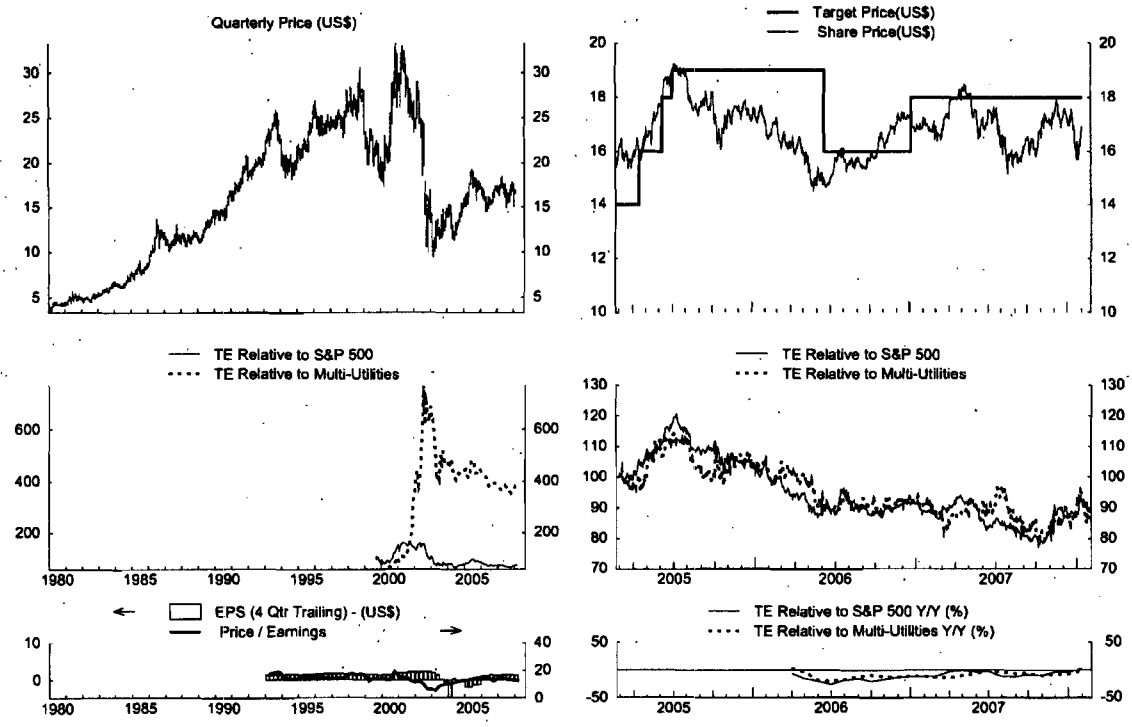
(Millions, except per-share data)	2006	2007P	2008E	2009E
Gross Margin	**$2,018.5**	**$2,141.5**	**$1,916.1**	**$2,011.8**
Operating Expenses	1,293.4	1,340.6	1,174.5	1,216.4
Non-recurring Items	(64.0)	(221.3)	0.0	0.0
Adjusted EBITDA	**$725.1**	**$679.0**	**$741.5**	**$795.4**
Depreciation & Amortization	282.2	263.7	264.3	278.9
Total Operating Expenses	2,901.6	2,899.5	2,979.0	3,083.3
Operating Income	**$442.9**	**$537.2**	**$477.2**	**$516.4**
Other Income	61.6	152.1	76.1	76.1
Adjusted EBIT	**$504.5**	**$567.4**	**$553.4**	**$592.6**
Net Interest Expense	276.3	257.8	216.5	217.6
Adjusted Pre-Tax Income	**$226.2**	**$309.6**	**$336.9**	**$374.9**
Federal Income Taxes, net	118.70	214.20	128.02	142.48
Adj. Recur. Oper. Earnings Avail.	**$203.3**	**$261.7**	**$208.9**	**$232.5**
Average Diluted Shares	208.7	209.1	209.6	210.6
Diluted Rec. Operating E.P.S.	**$0.97**	**$1.07**	**$1.00**	**$1.10**

TECO Energy Cash Flow Statement

Operations				
Net Income	$246.3	$413.2	$208.9	$232.5
DD&A	282.2	263.7	264.3	278.9
Deferred Taxes	112.5	184.8	100.0	100.0
Deferred ITC	(2.6)	(2.5)	(3.0)	(3.0)
Income from Equity Investments	(3.4)	(18.0)	0.0	0.0
Minority interest	(69.6)	(82.2)	0.0	0.0
Gain on sales of business/assets, pre-tax	(67.0)	(246.1)	0.0	0.0
Cash Flow from Operations	**$566.9**	**$512.9**	**$570.1**	**$608.4**
Total CAPEX (net of asset sales/synfuels proceeds)	$351.7	$27.7	$476.0	$437.0
Financings				
Common Stock, net	12.5	14.0	18.0	18.0
Total Dividends Paid	(158.7)	(163.0)	(166.2)	(172.0)
Bank Borrowings, net	(167.0)	0.0	0.0	0.0
Minority Interest	65.7	81.3	0.0	0.0
LT Debt Financing, net	128.2	(693.5)	54.1	(17.3)

Source: Company data, BMO Capital Markets estimates.

TECO ENERGY INC (TE)



TE - Rating as of 10-Feb-04 = Mkt

Last Daily Data Point: February 1, 2008

Important Disclosures

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I, Michael S. Worms, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Methodology and Risks to Our Price Target

Methodology: Our valuation is based on a combination of our DCF analysis and current industry P/E multiples.
Risks: A material decline in power prices and / or a change in the regulatory environment could affect our price target.

Breakdown of Rating Distribution and Banking Clients

(As of December 31, 2007)	Buy	Hold	Sell	Unrated
% of total BMO Capital Markets Corp. coverage within rating category	35.3%	58.6%	6.1%	0.0%
% of stocks within rating category for which the Firm provided banking services over the past 12 months	13.0%	4.8%	4.2%	0.0%

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OP = Outperform: We believe the stock's total return, including dividends, will exceed the S&P 500's return by more than 15%.
Mkt = Market Perform: We believe the stock's total return will generally match that of the S&P 500.
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NR = Not rated.
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OUTPERFORM - We believe the sector will outperform the S&P 500 Index.
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UNDERPERFORM - We believe the sector will underperform the S&P 500 Index.

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OUTPERFORM - We believe the stock's total return, including dividends, will exceed the group average by over 15%.
NEUTRAL - We believe the stock's total return will generally match the group average.
UNDERPERFORM - We believe the stock's total return will fall short of the group average by more than 15%.
PRIOR SECTOR RATINGS
POSITIVE - We believe the sector will outperform the S&P 500 Index.
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TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
SUPPLEMENTAL: DECEMBER 31, 2008

30 October 2008
Americas/United States
Equity Research
Electric Utilities

CREDIT SUISSE

TECO Energy (TE)

Rating	**OUTPERFORM***
Price (29 Oct 08, US$)	14.32
Target price (US$)	(from 21.50) 18.00[1]
52-week price range	21.96 - 12.30
Market cap. (US$ m)	3,827
Enterprise value (US$ m)	7,036

*Stock ratings are relative to the relevant country index.
[1]Target price is for 12 months.

Research Analysts

Dan Eggers, CFA
212.538.8430
dan.eggers@credit-suisse.com

Kevin Cole, CFA
212 538 8422
kevin.cole@credit-suisse.com

Yang Y. Song
212 538 4318
yang.y.song@credit-suisse.com

DECREASE TARGET PRICE

Down, But Not Out

TE Q308 earnings were $0.28, in-line with expectations, 2008 guidance was maintained at $0.80-0.90 and 2009 drivers were provided; conditions aren't great but we don't think they are 12% worse than peers. The Bad (and Good):

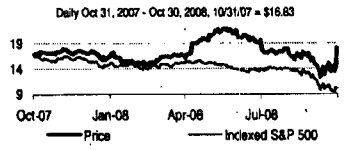
TE Coal is facing higher costs and challenges with volumes, themes consistent across the coal sector. TE is locking down costs for '09 (hedging costs when selling coal) and increased its hedge position / prices ('09: 88% at $77 / ton with met / PCI open exposure). We still assume fairly hefty price reversion in our estimates – **marking '09 open exposure to recent would add $0.21 of EPS.**

The Florida economy is crummy with Tampa being hit hard (to think cut-offs outpaced customer additions in Q308...) **which will translate into lower volume growth and delays to build new power plants** (we pushed out the CCGT by 2 years, re-start of peaker construction until 2014). **TE will resolve its rate cases at both Tampa Electric and Peoples Gas in Q209 where we currently assume 10.5% ROE / 50% equity; raising to the requested 12% / 55% at Tampa and 11.5% / 55% at Peoples would add $0.14 and $0.30 to our '09/'10 estimates.**

We admit that catalysts aren't great between (a) two rate cases (b) questions about the coal market and (c) Street estimates looking too high to us ('09 at $1.44 vs our $1.29, '10 at $1.71 vs our $1.61).

That said, we think the downside is already in TE's price, particularly since the bias to our estimates actually points higher (utilities and coal could add up to $0.35 to our '09 number alone) **and on just post rate case utility earnings TE is at 12.9x – meaning Coal, Guatemala, and the NOLs are free. We are lowering our target to $18** to incorporate our reduced utility target multiple but **should remind that with the tax asset position, TE will grow without new equity. Today might not be the day to Outperform, but still think TE can (and will). Our updated '08-'10 EPS are $0.84, $1.29, and $1.61, respectively.**

Share price performance



On 10/30/08 the S&P 500 index closed at 930.09

Quarterly EPS	Q1	Q2	Q3	Q4
2007A	0.36	0.31	0.44	0.22
2008E	0.15	0.24	0.27	0.18
2009E	—	—	—	—

Financial and valuation metrics

Year	12/07A	12/08E	12/09E
EPS (CS adj., US$)	1.32	0.84	1.29
Prev. EPS (US$)	—	0.86	1.23
P/E (x)	13.7	21.4	13.9
P/E rel. (%)	90.2	152.4	119.6
Revenue (US$ m)	3,536.1	3,767.4	4,791.3
EBITDA (US$ m)	865	760	928
EV/EBITDA (current)	7.9	9.3	7.8
Net debt (US$ m)	3,028	3,209	3,451
FFO/Interest	—	—	—
FFO/Total Debt	—	—	—
Number of shares (m)	213	BV/share (current, US$)	10
Net debt (current, US$ m)	3,134	Dividend (current, US$)	0.80
Net debt/tot. cap. (current, %)	59.5	Dividend yield (%)	4.4

Source: Company data, Credit Suisse estimates.

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Valuation

Exhibit 1: **TE Sum-of-the-Parts Valuation**

		LOW CASE		BASE CASE		HIGH CASE	
Tampa Electric							
2010 EPS (discounted)	0.92	13.0	4,074	14.0	4,261	15.0	4,449
2010 EBITDA (discount	657.1	6.5	4,158	7.0	4,478	7.5	4,798
			4,116		**4,370**		**4,623**
Peoples Gas							
2009 EPS	0.11	13.0	552	14.0	575	15.0	598
2009 EBITDA	102.6	6.5	667	7.0	718	7.5	769
			609		**647**		**684**
Coal							
2010 EBITDA	232.7	4.0	931	4.5	1,047	5.0	1,163
DCF		15.0%	1,102	14.0%	1,154	13.0%	1,211
			1,017		**1,100**		**1,187**
Guatemala							
2009 EPS	0.16	10.0	562	10.5	579	11.0	595
2009 EBITDA	56.2	7.5	421	8.0	449	8.5	477
			492		**514**		**536**
Corporate							
2009 EPS	(0.15)	15.5	(12)	16.0	(28)	16.5	(44)
2009 EBITDA	1.2	7.0	8	7.5	9	8.0	9
			(2)		**(10)**		**(17)**
Enterprise Value			**6,232**		**6,621**		**7,013**
Net Debt			3,209.5		3,209.5		3,209.5
PV of NOLs			489.9		489.9		489.9
Equity Value			**3,512**		**3,901**		**4,293**
Per Share Value			**16.47**		**18.30**		**20.13**
Per Share Value ex NOLs			**14.17**		**16.00**		**17.84**
Diluted Shares Outstanding			213.2		213.2		213.2

Source: Company data, Credit Suisse estimates

Exhibit 2: **TE Income Statement**

TECO Energy (NYSE: TE)	2007A	1Q08A	2Q08A	3Q08A	4Q08E	2008E	2009E	2010E	2011E	2012E
Gross Margin	**1,739.2**	**355.9**	**389.4**	**389.6**	**411.3**	**1,546.2**	**1,916.5**	**2,120.3**	**2,199.0**	**2,276.6**
O&M & Other	(841.9)	(158.4)	(168.0)	(154.3)	(171.0)	(651.7)	(827.4)	(890.0)	(958.6)	(1,027.5)
DD&A	(275.7)	(65.0)	(64.9)	(66.7)	(69.7)	(266.3)	(295.3)	(303.8)	(310.0)	(315.9)
Taxes other than Income Taxes	(218.3)	(54.9)	(54.1)	(52.1)	(75.0)	(236.1)	(246.9)	(262.7)	(265.1)	(264.3)
Operating Income	**403.3**	**77.6**	**102.4**	**116.5**	**95.6**	**392.1**	**546.9**	**663.7**	**665.3**	**668.9**
Other Income (inc. equity earnings)	185.8	24.9	27.3	27.7	21.4	101.3	86.1	87.3	95.1	116.0
Net Interest Expense	(257.8)	(57.7)	(55.9)	(57.4)	(54.8)	(225.8)	(221.5)	(238.1)	(233.6)	(230.7)
Interest Rate	*7.8%*	*7.8%*	*7.3%*	*7.3%*	*7.0%*	*7.3%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*
Pre-tax Income	**331.3**	**44.8**	**73.8**	**86.8**	**62.1**	**267.5**	**411.6**	**512.9**	**526.9**	**554.1**
Income Tax	(137.2)	(13.4)	(22.4)	(28.6)	(23.6)	(88.0)	(135.4)	(168.8)	(173.3)	(182.3)
Tax Rate	*41.4%*	*29.9%*	*30.4%*	*32.9%*	*38.0%*	*32.9%*	*32.9%*	*32.9%*	*32.9%*	*32.9%*
Minority Interests	82.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recurring Net Income	**276.3**	**31.4**	**51.4**	**58.2**	**38.5**	**179.5**	**276.1**	**344.2**	**353.5**	**371.8**
GAAP Net Income	403.0	31.4	51.4	58.2	38.5	179.5	276.1	344.2	353.5	371.8
Recurring EPS	**1.32**	**0.15**	**0.24**	**0.27**	**0.18**	**0.84**	**1.29**	**1.61**	**1.65**	**1.74**
Diluted Shares Outstanding	209.8	210.6	212.1	212.6	212.6	213.2	213.9	213.9	213.9	213.9
Recurring EPS ex. Synfuels	**1.07**	**0.15**	**0.24**	**0.28**	**0.18**	**0.84**	**1.29**	**1.61**	**1.65**	**1.74**
Growth	*11%*	*-29%*	*-5%*	*-26%*	*-21%*	*-21%*	*53%*	*25%*	*3%*	*5%*
Price	16.96	15.91	18.55	17.97	15.50	16.98	16.74	18.08	19.53	21.09
						18.4	13.0	11.2	11.8	12.1
Dividend per Common Share	0.76	0.19	0.20	0.20	0.20	0.80	0.82	0.85	0.89	0.92
Payout Ratio	71%					94%	63%	53%	54%	53%
Growth	0%					3%	3%	4%	4%	4%

Source: Company data, Credit Suisse estimates

Exhibit 3: **TE Cash Flow Statement**

CASH FLOW STATEMENT	2007A	1Q08A	2Q08A	3Q08A	4Q08E	2008E	2009E	2010E	2011E	2012E
Net Income	413.2	30.8	51.4	58.2	38.5	178.9	276.1	344.2	353.5	371.8
D&A	263.7	65.0	64.9	66.7	69.7	266.3	295.3	303.8	310.0	315.9
Deferred Income Taxes	184.8	15.5	24.2	29.8	22.3	91.8	127.2	158.5	162.8	164.5
Minority loss	(82.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Changes to Working Capital	(18.5)	(10.4)	40.1	(62.0)	(6.0)	(38.3)	0.0	0.0	0.0	0.0
Other	(207.0)	52.1	(95.1)	(5.5)	0.0	(48.5)	(5.3)	(5.3)	(11.8)	(31.5)
Operating Cash Flow	**554.0**	**153.0**	**85.5**	**87.2**	**124.6**	**450.3**	**693.3**	**801.2**	**814.5**	**820.7**
Capex	(494.4)	(136.9)	(128.8)	(136.8)	(157.8)	(560.3)	(760.0)	(498.2)	(528.6)	(641.5)
AFDUC	4.5	1.3	1.7	1.3	0.0	4.3	0.0	0.0	0.0	0.0
Purchases of Business	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sale of Business/Assets	405.2	(7.3)	0.0	3.6	0.0	(3.7)	0.0	0.0	0.0	0.0
Investments	13.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	43.5	89.5	(0.1)	(0.1)	0.0	89.3	0.0	0.0	0.0	0.0
Investing Cash Flow	**(27.7)**	**(53.4)**	**(127.2)**	**(132.0)**	**(157.8)**	**(470.4)**	**(760.0)**	**(498.2)**	**(528.6)**	**(641.5)**
Issuance of Common Stock	14.0	1.3	18.7	0.9	0.0	20.9	0.0	0.0	0.0	0.0
Purchase of Treasury Stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from LT Debt	444.1	190.8	137.1	(0.1)	0.0	327.8	0.0	0.0	0.0	0.0
Repayment of LT Debt	(1,158.7)	(288.1)	0.0	(5.7)	25.5	(268.3)	241.8	(120.9)	(96.5)	17.8
Net Increase in ST Debt	(23.0)	(7.0)	(18.0)	13.0	0.0	(12.0)	0.0	0.0	0.0	0.0
Issuance of Redeemable Pref.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity Contract Adj. Payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	(163.0)	(41.1)	(42.4)	(42.6)	(42.3)	(168.4)	(175.1)	(182.1)	(189.4)	(197.0)
Minority Interest	81.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	**(805.3)**	**(144.1)**	**95.4**	**(34.5)**	**(16.8)**	**(100.0)**	**66.7**	**(303.0)**	**(285.9)**	**(179.2)**
Change in Cash	**(279.0)**	**(44.5)**	**53.7**	**(79.3)**	**(50.0)**	**(120.1)**	**0.0**	**0.0**	**0.0**	**0.0**
Beginning Cash	441.6	162.6	118.1	171.8	92.5	162.6	42.5	42.5	42.5	42.5
Ending Cash	**162.6**	**118.1**	**171.8**	**92.5**	**42.5**	**42.5**	**42.5**	**42.5**	**42.5**	**42.5**

Source: Company data, Credit Suisse estimates

Exhibit 4: TE Balance Sheet

BALANCE SHEET	2007A	1Q08A	2Q08A	3Q08A	4Q08E	2008E	2009E	2010E	2011E	2012E
Cash & Cash Equivalents	162.6	118.1	171.8	92.5	42.5	42.5	42.5	42.5	42.5	42.5
Restricted Cash	7.4	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Accounts Receivable	295.9	309.9	330.8	340.5	346.5	346.5	346.5	346.5	346.5	346.5
Inventory	154.0	146.8	161.9	163.2	163.2	163.2	163.2	163.2	163.2	163.2
Other	169.9	152.4	309.0	252.3	252.3	252.3	252.3	252.3	252.3	252.3
Total Current Assets	**789.8**	**734.7**	**981.0**	**856.0**	**812.0**	**812.0**	**812.0**	**812.0**	**812.0**	**812.0**
Net PP&E	**4,888.2**	**4,952.3**	**5,009.3**	**5,083.2**	**5,171.2**	**5,171.2**	**5,635.9**	**5,830.3**	**6,048.9**	**6,374.5**
Other Investments	22.9	22.0	22.0	21.1	21.1	21.1	21.1	21.1	21.1	21.1
Investments in unconsol. affiliates	275.5	248.0	269.2	287.9	287.9	287.9	287.9	287.9	287.9	287.9
Goodwill	59.4	59.4	59.4	59.4	59.4	59.4	59.4	59.4	59.4	59.4
Deferred income taxes	424.9	416.3	384.8	355.2	332.9	332.9	205.7	47.2	(115.6)	(280.1)
Regulatory assets	186.8	186.7	184.5	190.8	190.8	190.8	196.1	201.4	213.2	244.7
Deferred charges & Other	115.8	116.6	118.6	121.4	121.4	121.4	121.4	121.4	121.4	121.4
Intangible assets	1.9	8.4	24.8	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total Other assets	**1,087.2**	**1,055.4**	**1,063.3**	**1,035.9**	**1,013.6**	**1,013.6**	**891.7**	**738.5**	**567.5**	**454.5**
Total Assets	**6,765.2**	**6,742.4**	**7,053.6**	**6,975.1**	**6,996.8**	**6,996.8**	**7,339.6**	**7,380.8**	**7,448.4**	**7,641.0**
Recourse	5.7	5.7	5.7	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Non-recourse	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
ST debt	7.1	0.0	7.1	6.9	6.9	6.9	6.9	6.9	6.9	6.9
Notes Payable	25.0	18.0	0.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0
Accounts payable	302.1	282.2	356.6	293.2	293.2	293.2	293.2	293.2	293.2	293.2
Current derivative liability	26.0	16.3	0.0	72.4	72.4	72.4	72.4	72.4	72.4	72.4
Customer deposits	138.1	141.1	142.9	144.2	144.2	144.2	144.2	144.2	144.2	144.2
Accrued interest	32.7	65.4	47.7	80.1	80.1	80.1	80.1	80.1	80.1	80.1
Taxes accrued	33.2	34.5	48.4	56.4	56.4	56.4	56.4	56.4	56.4	56.4
Assets held for sale & Other	53.4	116.2	190.1	41.5	41.5	41.5	41.5	41.5	41.5	41.5
Total Current Liabilities	**617.6**	**682.6**	**792.8**	**707.7**	**707.7**	**707.7**	**707.7**	**707.7**	**707.7**	**707.7**
Deferred Income Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment tax credit	12.2	11.4	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2
Regulatory Liabilities	582.7	590.8	611.1	592.8	592.8	592.8	592.8	592.8	592.8	592.8
Deferred credits & Other	377.3	402.3	398.7	415.1	415.1	415.1	415.1	415.1	415.1	415.1
Total Other Liabilities	**972.2**	**1,004.5**	**1,021.0**	**1,019.1**	**1,019.1**	**1,019.1**	**1,019.1**	**1,019.1**	**1,019.1**	**1,019.1**
Recourse	3,149.4	3,054.4	3,204.4	3,199.0	3,224.5	3,224.5	3,466.3	3,345.4	3,248.9	3,266.7
Non-recourse	9.0	7.7	7.7	7.6	7.6	7.6	7.6	7.6	7.6	7.6
Pref. Securities/Junior subord.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-Term Debt	**3,158.4**	**3,062.1**	**3,212.1**	**3,206.6**	**3,232.1**	**3,232.1**	**3,473.9**	**3,353.0**	**3,256.5**	**3,274.3**
Preferred Securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Common Stock	210.9	210.7	212.7	212.8	212.8	212.8	212.8	212.8	212.8	212.8
Additional Paid-in Capital	1,489.2	1,493.1	1,512.9	1,515.6	1,515.6	1,515.6	1,515.6	1,515.6	1,515.6	1,515.6
Retained earnings	334.1	323.8	332.9	348.5	344.7	344.7	445.8	607.8	771.9	946.7
AOCI	(17.2)	(34.6)	(30.8)	(35.2)	(35.2)	(35.2)	(35.2)	(35.2)	(35.2)	(35.2)
Unearned compensation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Shareholders' Equity	**2,017.0**	**1,993.0**	**2,027.7**	**2,041.7**	**2,037.9**	**2,037.9**	**2,139.0**	**2,301.0**	**2,465.1**	**2,639.9**
Total Liab. & Equity	**6,765.2**	**6,742.4**	**7,053.6**	**6,975.1**	**6,996.8**	**6,996.8**	**7,339.6**	**7,380.8**	**7,448.4**	**7,641.0**

Source: Company data, Credit Suisse estimates

Companies Mentioned *(Price as of 29 Oct 08)*
TECO Energy (TE, $14.32, OUTPERFORM, TP $18.00)

Disclosure Appendix

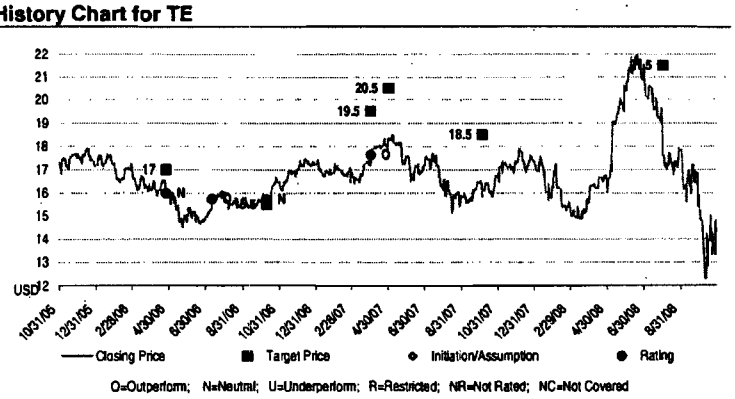
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See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for TE

TE Date	Closing Price (US$)	Target Price (US$)	Rating	Initiation/ Assumption
4/26/06	15.99	17	N	
7/11/06	15.74		O	
10/10/06	15.74	15.5	N	
4/2/07	17.63	19.5	O	
5/2/07	18.38	20.5		
10/5/07	16.13	18.5		
8/1/08	17.59	21.5		



O=Outperform; N=Neutral; U=Underperform; R=Restricted; NR=Not Rated; NC=Not Covered

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TECO Energy (TE)

Underperform/Sell*	13%	(50% banking clients)
Restricted	2%	

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Price Target: (12 months) for (TE)
Method: We calculate our $18 target price on TE by the sum-of-the-parts method, which in turn is based on discounted cash flow (DCF) and traditional multiple methodologies (including earnings before interest, taxes, and depreciation (EBITDA) multiple and earnings multiple). Valuing the utility business we use 14.0x price to earnings multiple on 2010 earnings and 7.0x 2010 EBITDA. Valuing the Peoples Gas business we use 14.0x price to earnings multiple on 2009 earnings and 7.0x 2009 EBITDA. Valuing Coal we use an 14.0% discount rate and 7.0x 2009 EBITDA discounted to 2009. Valuing the Guatemala business we use 10.5x price to earnings multiple on 2009 earnings and 8.0x 2009 EBITDA. On Corporate and Other we us an 7.5x 2009 EBITDA and 16.0x price to earnings multiple on 2009 earnings. (All multiples used are generally in line with the market).
Risks: Risks to our $18.00 target price on Teco Energy include: (1) uncertainty surrounding Florida market recovery (2) coal price assumptions - every $5 move in spot steam coal prices impacts out year earnings potential by ~6% (3) legislative approval of cash recovery on newbuild generation (4) regulatory changes in Florida

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United States of America: +1 (212) 325-2000

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Americas/United States
Equity Research
Electric Utilities

CREDIT SUISSE

TECO Energy (TE)

COMPANY UPDATE

Rating	OUTPERFORM*
Price (27 Mar 08, US$)	15.74
Target price (US$)	18.50[1]
52-week price range	18.50 - 14.88
Market cap. (US$ m)	3,293
Enterprise value (US$ m)	6,529

*Stock ratings are relative to the relevant country index.
[1]Target price is for 12 months.

Research Analysts

Dan Eggers, CFA
713 890 1659
dan.eggers@credit-suisse.com

Samantha Dennison
713 890 1661
samantha.dennison@credit-suisse.com

Justin Speer
713 890 1574
justin.speer@credit-suisse.com

Kevin Cole, CFA
713 890 1660
kevin.cole@credit-suisse.com

Help From Coal in 2009

TE reaffirmed '08 guidance of $0.95--1.10 at its annual financial update yesterday morning in addition to proving color on business drivers in '09 and beyond.

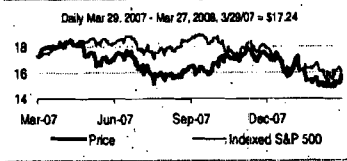
TE raised '08 coal production to 10.5MM tons from 9.5--10.0MM tons with the incremental production sold under new multi year contracts at attractive prices (TE is 100% hedged in '08 at $58/ton). However; petroleum related product costs are higher across all volumes versus prior guidance in the Fall; as a result TE expects cash and earnings margins to remain consistent with prior guidance ($5/ton pre tax margin). The incremental 750k volumes helps '08 earnings by $0.01 / share.

TE raised '09 production to 11-11.5MM tons at pricing of $65-68/ton. TE is 70% contracted (both volumes and price) in '09 with steam 100% hedged (60% of production) and met 10% hedged. TE expects to price its met coal in Q4, so guidance is predicated on continuation of strong coal markets (in Exhibit 1 we highlight TE's coal hedging and our assumptions). **TE expects coal net income to double in '09 over '08, which implies ~5% cost inflation,** and noted that 2010 could be better with utilities willing to sign multi year contracts in this inflated price environment (we'd caution against using spot pricing as this tends to reflect more one time "emergency" requirements). TE seems less likely to exit the business as cash is helping to support utility growth, although it remains open to the "right" price.

On the Utility side, TE is struggling with O&M inflationary pressures (not unique) and expects realize '08 ROEs in the 9% range, well below the bottom end of its allowed. **As a result, we expect to see Tampa file both gas and electric rate cases during '08 (no update on timing).** We model for new rates effective H2'09 using a 10.5% ROE, 50% equity ratio and assume a one year rate lag on historic rate base and costs (Florida rate cases typically take 9 months).

We are raising our '08-'10 EPS estimates to $1.00, $1.26, and $1.36, respectively. We remain attracted to the TE story with interim support from coal pricing, good longer term utility options, supportive valuation (12.5x '08 P/E adjusted for NOLs), and an attractive dividend yield (4.8% vs. group at 4.7%).

Share price performance



On 03/27/08 the S&P 500 index closed at 1325.76

Quarterly EPS	Q1	Q2	Q3	Q4
2007A	0.36	0.31	0.44	0.22
2008E	0.22	0.25	0.33	0.21
2009E	—	—	—	—

Financial and valuation metrics

Year	12/07A	12/08E	12/09E
EPS (CS adj., US$)	1.32	1.00	1.26
Prev. EPS (US$)	—	1.00	1.12
P/E (x)	12.0	15.7	12.5
P/E rel. (%)	84.8	127.3	90.7
Revenue (US$ m)	3,536.1	4,195.2	4,695.1
EBITDA (US$ m)	865	827	936
EV/EBITDA (current)	7.3	7.9	7.2
Net debt (12/07A, US$ m)	3,028	3,236	3,466
FFO/Interest	3.2	3.8	4.1
FFO/Total Debt	0.2	0.2	0.2
Number of shares (m)	209	BV/share (current, US$)	10
Net debt (current, US$ m)	3,095	Dividend annualized (US$)	0.76
Net debt/tot. cap. (current, %)	59.7	Dividend yield (%)	4.8

Source: Company data, Credit Suisse estimates.

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Additional Color from the Meeting

Utility capex remains unchanged from the 10-k at $2.9BN in '08-'12, which includes 5 CT committed peakers in '09-'10 and proposed additional peakers in '11 and '12 and a formal replacement of the IGCC with a ~520MW NGCC for $555MM ($1,000/kW) to help fill the gap of a 300MW contract rolling off. The NGCC is mostly inline with our assumptions, but due in service 2 years later than we expected. Despite rate base growing 65% to '13, TE does not plan to issue external equity to finance growth with cash support from the NOLs helping to maintain the Utility balance sheet -- a combination we like in the current environment.

TE Coal

Exhibit 1: TE Coal – CS Assumptions

	2008	2009	2010	2011	2012	2013	2014
Volume	9.8	9.2	10.5	11.2	11.5	11.5	11.5
Growth Y/Y	1.0%	-6.1%	14.1%	7.0%	2.0%	0.0%	0.0%
% Met Coal	33%	37%	40%	40%	40%	40%	40%
% Legacy Steam Coal Hedges			40%	40%	10%	10%	0%
% Steam Coal Hedged	35%	25%	100%	70%	35%	10%	10%
Spot Steam Coal Price	$64.41	$63.72	$67.00	$65.00	$65.00	$60.00	$55.00
Spot Met Coal Price	$68.00	$64.00	$70.00	$80.00	$70.00	$65.00	$60.00
Hedged Coal Price	$35.00	$35.00	$55.00	$67.00	$65.00	$65.00	$60.00
Legacy Hedged Coal Price			$42.50	$42.50	$42.50	$42.50	$42.50
Realized Price	**$58.70**	**$59.30**	**$58.00**	**$65.96**	**$65.65**	**$60.95**	**$57.30**

Source: Company data, Credit Suisse estimates

See CS estimated earnings, balance sheet and cash flow in Exhibit 2 through Exhibit 4.

TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
SUPPLEMENTAL: DECEMBER 31, 2008

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TECO Energy (TE)

Exhibit 2: TE Income Statement

TECO Energy (NYSE: TE)	2007A	1Q08E	2Q08E	3Q08E	4Q08E	2008E	2009E	2010E	2011E	2012E
Net Revenues	3,536.1									
Fuel, Purc. Power & Gas	(1,796.9)									
Gross Margin	**1,739.2**	**384.6**	**418.6**	**464.2**	**410.7**	**1,678.1**	**1,878.0**	**1,980.9**	**1,987.3**	**1,988.2**
O&M & Other	(841.9)	(125.2)	(147.9)	(163.7)	(160.5)	(597.3)	(677.8)	(710.8)	(691.1)	(673.2)
DD&A	(275.7)	(65.7)	(66.8)	(68.0)	(68.8)	(269.2)	(286.3)	(293.5)	(299.7)	(305.9)
Taxes other than Income Taxes	(218.3)	(87.0)	(88.6)	(84.6)	(75.6)	(335.8)	(348.1)	(362.7)	(366.7)	(367.7)
Operating Income	**403.3**	**106.8**	**115.3**	**147.9**	**105.8**	**475.7**	**565.9**	**614.0**	**629.8**	**641.3**
Other Income (inc. equity earnings)	185.8	20.1	22.2	18.7	21.4	82.4	83.8	91.6	109.2	133.3
Net Interest Expense	(257.8)	(53.0)	(54.2)	(55.1)	(55.5)	(217.7)	(223.3)	(242.9)	(248.2)	(256.8)
Interest Rate	*7.8%*	*7.0%*	*7.0%*	*7.0%*	*7.0%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*
Pre-tax Income	**331.3**	**73.9**	**83.3**	**111.5**	**71.6**	**340.4**	**426.4**	**462.7**	**490.8**	**517.8**
Income Tax	(137.2)	(28.1)	(31.7)	(42.4)	(27.2)	(129.3)	(162.0)	(175.8)	(186.5)	(196.8)
Tax Rate	*41.4%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*
Minority Interests	82.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recurring Net Income	**276.3**	**45.8**	**51.7**	**69.1**	**44.4**	**211.0**	**264.4**	**286.9**	**304.3**	**321.1**
GAAP Net Income	403.0	45.8	51.7	69.1	44.4	211.0	264.4	286.9	304.3	321.1
Recurring EPS	**1.32**	**0.22**	**0.25**	**0.33**	**0.21**	**1.00**	**1.26**	**1.36**	**1.45**	**1.53**
Diluted Shares Outstanding	209.8	210.2	210.2	210.2	210.2	210.2	210.2	210.2	210.2	210.2
Recurring EPS ex. Synfuels	**1.07**	**0.22**	**0.25**	**0.33**	**0.21**	**1.00**	**1.26**	**1.36**	**1.45**	**1.53**
Growth	*11%*	*4%*	*-3%*	*-13%*	*-7%*	*-6%*	*25%*	*9%*	*6%*	*6%*
Price	16.96	15.50	15.50	15.50	15.50	15.50	16.74	18.08	19.53	21.09
						15.4	13.3	13.2	13.5	13.8
Dividend per Common Share	0.76	0.19	0.19	0.19	0.19	0.78	0.81	0.84	0.87	0.91
Payout Ratio	71%					78%	64%	61%	60%	59%
Growth	0%					3%	3%	4%	4%	4%

Source: Company data, Credit Suisse estimates

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Exhibit 3: TE Balance Sheet

Cash & Cash Equivalents	162.6	62.6	(37.4)	(117.4)	(167.4)	(167.4)	(167.4)	(167.4)	(167.4)	(167.4)
Restricted Cash	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4
Accounts Receivable	295.9	302.9	305.9	309.9	315.9	315.9	315.9	315.9	315.9	315.9
Inventory	154.0	154.0	154.0	154.0	154.0	154.0	154.0	154.0	154.0	154.0
Other	169.9	169.9	169.9	169.9	169.9	169.9	169.9	169.9	169.9	169.9
Total Current Assets	**789.8**	**696.8**	**599.8**	**523.8**	**479.8**	**479.8**	**479.8**	**479.8**	**479.8**	**479.8**
Net PP&E	**4,888.2**	**4,980.3**	**5,071.2**	**5,161.0**	**5,250.0**	**5,250.0**	**5,723.7**	**6,039.3**	**6,405.8**	**6,827.2**
Other Investments	22.9	22.9	22.9	22.9	22.9	22.9	22.9	22.9	22.9	22.9
Investments in unconsol. affiliates	275.5	275.5	275.5	275.5	275.5	275.5	275.5	275.5	275.5	275.5
Goodwill	59.4	59.4	59.4	59.4	59.4	59.4	59.4	59.4	59.4	59.4
Deferred income taxes	424.9	398.3	368.3	328.2	302.4	302.4	148.9	(17.7)	(194.4)	(279.9)
Regulatory assets	186.8	186.8	186.8	186.8	186.8	186.8	191.3	202.2	229.3	278.9
Deferred charges & Other	115.8	115.8	115.8	115.8	115.8	115.8	115.8	115.8	115.8	115.8
Intangible assets	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Total Other assets	**1,067.2**	**1,060.6**	**1,030.6**	**930.5**	**964.7**	**964.7**	**815.7**	**660.1**	**510.4**	**474.5**
Total Assets	**6,765.2**	**6,737.7**	**6,701.6**	**6,675.2**	**6,694.4**	**6,694.4**	**7,019.1**	**7,179.1**	**7,396.0**	**7,781.6**
Recourse	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7
Non-recourse	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
ST debt	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1
Notes Payable	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Accounts payable	302.1	302.1	302.1	302.1	302.1	302.1	302.1	302.1	302.1	302.1
Current derivative liability	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0
Customer deposits	138.1	138.1	138.1	138.1	138.1	138.1	138.1	138.1	138.1	138.1
Accrued interest	32.7	32.7	32.7	32.7	32.7	32.7	32.7	32.7	32.7	32.7
Taxes accrued	33.2	33.2	33.2	33.2	33.2	33.2	33.2	33.2	33.2	33.2
Assets held for sale & Other	53.4	53.4	53.4	53.4	53.4	53.4	53.4	53.4	53.4	53.4
Total Current Liabilities	**617.6**	**617.6**	**617.6**	**617.6**	**617.6**	**617.6**	**617.6**	**617.6**	**617.6**	**617.6**
Deferred Income Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment tax credit	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2
Regulatory Liabilities	582.7	582.7	582.7	582.7	582.7	582.7	582.7	582.7	582.7	582.7
Deferred credits & Other	377.3	377.3	377.3	377.3	377.3	377.3	377.3	377.3	377.3	377.3
Total Other Liabilities	**972.2**	**972.2**	**972.2**	**972.2**	**972.2**	**972.2**	**972.2**	**972.2**	**972.2**	**972.2**
Recourse	3,149.4	3,116.0	3,068.2	3,012.6	3,027.4	3,027.4	3,257.2	3,306.6	3,402.6	3,657.7
Non-recourse	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Pref. Securities/Junior subord.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-Term Debt	**3,158.4**	**3,125.0**	**3,077.2**	**3,021.6**	**3,036.4**	**3,036.4**	**3,266.2**	**3,315.6**	**3,411.6**	**3,666.7**
Preferred Securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Common Stock	210.9	210.9	210.9	210.9	210.9	210.9	210.9	210.9	210.9	210.9
Additional Paid-in Capital	1,489.2	1,489.2	1,489.2	1,489.2	1,489.2	1,489.2	1,489.2	1,489.2	1,489.2	1,489.2
Retained earnings	334.1	340.0	351.7	380.9	385.4	385.4	480.2	590.8	711.8	842.2
AOCI	(17.2)	(17.2)	(17.2)	(17.2)	(17.2)	(17.2)	(17.2)	(17.2)	(17.2)	(17.2)
Unearned compensation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Shareholders' Equity	**2,017.0**	**2,022.9**	**2,034.6**	**2,063.8**	**2,068.3**	**2,068.3**	**2,163.1**	**2,273.7**	**2,394.7**	**2,525.1**
Total Liab. & Equity	**6,765.2**	**6,737.7**	**6,701.6**	**6,675.2**	**6,694.4**	**6,694.4**	**7,019.1**	**7,179.1**	**7,396.0**	**7,781.6**

Source: Company data, Credit Suisse estimates

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TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
SUPPLEMENTAL: DECEMBER 31, 2008

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TECO Energy (TE)

Exhibit 4: TE Cash Flow Statement

CASH FLOW STATEMENT	2007A	1Q08E	2Q08E	3Q08E	4Q08E	2008E	2009E	2010E	2011E	2012E
Net Income	413.2	45.8	51.7	69.1	44.4	211.0	264.4	286.9	304.3	321.1
D&A	263.7	65.7	66.8	68.0	68.8	269.2	286.3	293.5	299.7	305.9
Deferred Income Taxes	184.8	26.6	30.0	40.1	25.8	122.5	153.5	166.6	176.7	85.5
Minority loss	(82.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Changes to Working Capital	(18.5)	(7.0)	(3.0)	(4.0)	(6.0)	(20.0)	0.0	0.0	0.0	0.0
Other	(207.0)	0.0	0.0	0.0	0.0	0.0	(4.5)	(10.9)	(27.1)	(49.6)
Operating Cash Flow	**554.0**	**131.1**	**145.5**	**173.3**	**133.0**	**582.8**	**699.6**	**735.9**	**753.6**	**662.8**
Capex	(494.4)	(157.8)	(157.8)	(157.8)	(157.8)	(631.0)	(760.0)	(609.1)	(666.2)	(727.3)
AFDUC	4.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchases of Business	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sale of Business/Assets	405.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investments	13.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	43.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	**(27.7)**	**(157.8)**	**(157.8)**	**(157.8)**	**(157.8)**	**(631.0)**	**(760.0)**	**(609.1)**	**(666.2)**	**(727.3)**
Issuance of Common Stock	14.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchase of Treasury Stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from LT Debt	444.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of LT Debt	(1,158.7)	(33.4)	(47.8)	(55.6)	14.7	(122.0)	229.8	49.4	95.9	255.1
Net Increase in ST Debt	(23.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Issuance of Redeemable Pref.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity Contract Adj. Payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	(163.0)	(39.9)	(39.9)	(39.9)	(39.9)	(159.8)	(169.5)	(176.3)	(183.3)	(190.7)
Minority Interest	81.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	**(805.3)**	**(73.3)**	**(87.7)**	**(95.5)**	**(25.2)**	**(281.8)**	**60.4**	**(126.8)**	**(87.4)**	**64.5**
Change in Cash	**(279.0)**	**(100.0)**	**(100.0)**	**(80.0)**	**(50.0)**	**(330.0)**	**0.0**	**0.0**	**0.0**	**0.0**
Beginning Cash	441.6	162.6	62.6	(37.4)	(117.4)	162.6	(167.4)	(167.4)	(167.4)	(167.4)
Ending Cash	**162.6**	**62.6**	**(37.4)**	**(117.4)**	**(167.4)**	**(167.4)**	**(167.4)**	**(167.4)**	**(167.4)**	**(167.4)**

Source: Company data, Credit Suisse estimates

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Companies Mentioned *(Price as of 27 Mar 08)*
TECO Energy (TE, $15.74, OUTPERFORM, TP $18.50)

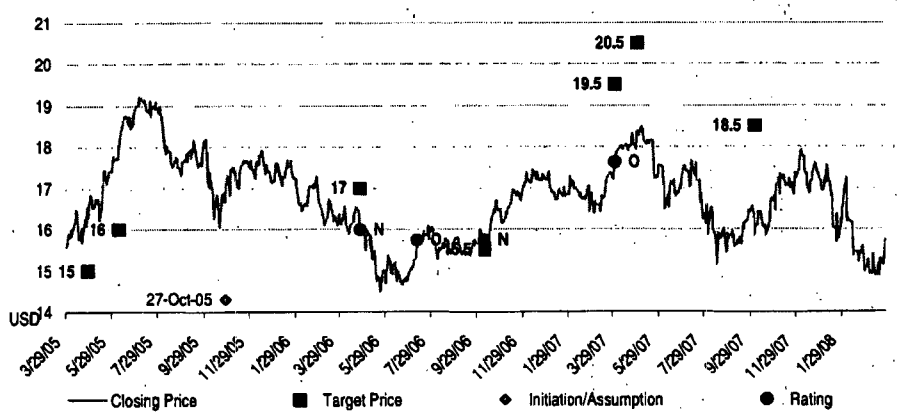
Disclosure Appendix

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See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for TE



O=Outperform; N=Neutral; U=Underperform; R=Restricted; NR=Not Rated; NC=Not Covered

TE Date	Closing Price Price (US$)	Target Price Price (US$)	Rating	Initiation/ Assumption
4/28/05	16.31	15		
6/8/05	18.06	16		
10/27/05				X
4/26/06	15.99	17	NEUTRAL	
7/11/06	15.74		OUTPERFORM	
10/10/06	15.74	15.5	NEUTRAL	
4/2/07	17.63	19.5	OUTPERFORM	
5/2/07	18.38	20.5		
10/5/07	16.13	18.5		

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Neutral: The stock's total return is expected to be in line with the industry average* (range of ±10%) over the next 12 months.

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***The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

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	Global Ratings Distribution	
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Neutral/Hold*	39%	(55% banking clients)
Underperform/Sell*	11%	(50% banking clients)
Restricted	2%	

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Price Target: (12 months) for (TE)
Method: We reach our $18.50 target price on Teco Energy using EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation and amortization) multiples, P/E (price/earnings) multiples, and a traditional discounted cash flow analysis. On our discounted cash flow, we use a 7.0% discount rate (modestly above the broader Utility average of 6.9%) and 7.0x terminal EBITDA multiple, supported by our sum-of-the parts analysis, using 8.0x Utility EBITDA, 7.0x Coal EBITDA, and 7.0x Guatemala EBITDA and 15.5x Utility EPS, 14.0x Coal EPS, and 14.0x Guatemala EPS.
Risks: Risks to our $18.50 target price on Teco Energy include: (1) uncertainty surrounding synfuel contribution (2) coal price assumptions - every $5 move in spot steam coal prices impacts out year earnings potential by ~6% (3) legislative approval of cash recovery on newbuild generation (4) regulatory changes in Florida

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28 March 2008
Americas/United States
Equity Research

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TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
SUPPLEMENTAL: DECEMBER 31, 2008

01 August 2008
Americas/United States
Equity Research
Electric Utilities

CREDIT SUISSE

TECO Energy (TE)

EARNINGS

Rating	**OUTPERFORM***
Price (31 Jul 08, US$)	18.55
Target price (US$)	(from 18.50) 21.50[1]
52-week price range	21.96 - 14.88
Market cap. (US$ m)	3,881
Enterprise value (US$ m)	7,041

*Stock ratings are relative to the relevant country index.
[1]Target price is for 12 months.

Research Analysts
Dan Eggers, CFA
713 890 1659
dan.eggers@credit-suisse.com
Kevin Cole, CFA
713 890 1660
kevin.cole@credit-suisse.com

Still See Opportunity

TECO's Q208 recurring earnings were $0.24 versus $ 0.28 a year ago, our $0.25, and Street consensus at $0.23

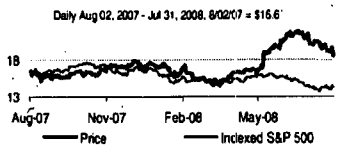
TE lowered 2008 guidance to $0.80-0.90 from $0.95-1.10 to incorporate the impact of FL's economic slowdown on the utilities, weak July weather that will hamper Tampa Electric, and a 20% increase in coal production costs. **While not looking too lightly past these pressures, we still see opportunity in TECO shares with earnings relief coming from the about to be filed rate cases and significantly better coal price realizations to come.**

Tampa Electric and Peoples Gas both plan to file base rate cases on 8/11 with targeted completion in May 2009 assuming no major delays. Our updated estimates assume rates effective for 2H09 using the average 08/09 rate base, 10.5% ROE and 50% equity ratio; we think our assumptions are conservative compared to a recent ROE award in FL (11% for a T&D utility) and less generous cost recovery. We also pushed back some of our assumed peaker construction due to the slower economy but still assume the CCGT is online in 2011.

Coal remains the major opportunity (and source of uncertainty) for TECO as talk of coal prices – particularly met coal – soar, partly offset by pressure on volumes (about 0.5 MM tons light) and production costs (materials, labor). TE provided a useful update to forward hedge positions and color on pricing (80% hedged at $66 in '09 with met making up the open position). We have attempted to take what feels like a more conservative stance on our Coal assumptions (Exhibit 2) with production costs up 15% in '09, pricing below spot.

We are updating our '08-10 estimates to $0.86, $1.23 and $1.72 and are raising our target price to $21.50 based on our sum-of-the-parts analysis. Upside exists with better Coal numbers or more constructive rate case outcomes.

Share price performance



On 07/31/08 the S&P 500 index closed at 1267.38

Quarterly EPS	Q1	Q2	Q3	Q4
2007A	0.36	0.31	0.44	0.22
2008E	0.15	0.24	0.28	0.19
2009E	—	—	—	—

Financial and valuation metrics

Year	12/07A	12/08E	12/09E
EPS (CS adj., US$)	1.32	0.86	1.23
Prev. EPS (US$)	—	1.00	1.26
P/E (x)	14.1	21.5	15.1
P/E rel. (%)	92.9	131.7	126.6
Revenue (US$ m)	3,536.1	3,951.0	4,723.2
EBITDA (US$ m)	865	780	893
EV/EBITDA (current)	8.0	9.0	8.2
Net debt (12/07A, US$ m)	3,028	3,160	3,440
FFO/Interest	—	—	—
FFO/Total Debt	—	—	—

Number of shares (m)	209	BV/share (current, US$)	9
Net debt (current, US$ m)	2,962	Dividend (current, US$)	0.76
Net debt/tot. cap. (current, %)	58.4	Dividend yield (%)	4.1

Source: Company data, Credit Suisse estimates.

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Sum-of-the-Parts Valuation

Exhibit 1: TE Sum-of-the-Parts Valuation

		LOW CASE		BASE CASE		HIGH CASE	
Tampa Electric							
2010 EPS (discounted)	0.98	15.0	4,523	15.5	4,620	16.0	4,718
2010 EBITDA (discounte	671.6	7.0	4,477	7.5	4,797	8.0	5,117
			4,500		**4,709**		**4,917**
Peoples Gas							
2008 EPS	0.12	16.0	647	16.5	660	17.0	672
2008 EBITDA	99.2	8.0	794	8.5	844	9.0	893
			721		**752**		**783**
Coal							
2010 EBITDA	221.3	4.0	885	4.5	996	5.0	1,107
DCF		9.0%	966	8.5%	992	8.0%	1,020
			926		**994**		**1,063**
Guatemala							
2008 EPS	0.22	10.0	686	10.5	709	11.0	732
2008 EBITDA	71.4	7.5	536	8.0	571	8.5	607
			611		**640**		**669**
Corporate							
2008 EPS	(0.18)	15.5	84	16.0	65	16.5	46
2008 EBITDA	18.1	7.0	127	7.5	136	8.0	145
			105		**100**		**95**
Enterprise Value			**6,863**		**7,195**		**7,528**
Net Debt			3,160.2		3,160.2		3,160.2
PV of NOLs			571.7		571.7		571.7
Equity Value			**4,274**		**4,606**		**4,939**
Per Share Value			**20.03**		**21.59**		**23.15**
Diluted Shares Outstanding			213.3		213.3		213.3

Source: Company data, Credit Suisse estimates

Exhibit 2: **TE Assumptions**

Volumes	2009	2010	2011	2012	2013	2014	2015	2016
Met Coal Production	33%	33%	33%	33%	33%	33%	33%	33%
High Vol C Met Coal	17%	17%	17%	17%	17%	17%	17%	17%
PCI	17%	17%	17%	17%	17%	17%	17%	17%
Steam Coal	67%	67%	67%	67%	67%	67%	67%	67%
Hedge %								
Steam Coal	90%	60%	25%	10%	0%	0%	0%	0%
Legacy Steam Coal Contract	10%	10%	10%	0%	0%	0%	0%	0%
High Vol C Met Coal	85%	0%	0%	0%	0%	0%	0%	0%
PCI	0%	0%	0%	0%	0%	0%	0%	0%
Total	81%	47%	24%	7%	0%	0%	0%	0%
Spot Exposure								
Steam Coal	0%	30%	65%	90%	100%	100%	100%	100%
High Vol C Met Coal	15%	100%	100%	100%	100%	100%	100%	100%
PCI	100%	100%	100%	100%	100%	100%	100%	100%
Total	19%	53%	76%	93%	100%	100%	100%	100%
Hedge Price								
Steam Coal (CAPP)	56.00	56.00	56.00	56.00	56.00	56.00	56.00	56.00
Legacy Steam Coal Contract	35.00	35.00	35.00	-	-	-	-	-
High Vol C Met Coal	125.00	125.00	125.00	125.00	125.00	125.00	125.00	125.00
PCI	-	-	-	-	-	-	-	-
Total	66.07	52.89	49.81	56.00				
Spot Price								
Steam Coal (CAPP)	85.00	78.00	78.00	78.00	78.00	78.00	78.00	78.00
High Vol C Met Coal	175.00	175.00	150.00	125.00	125.00	125.00	125.00	125.00
PCI	120.00	120.00	110.00	90.00	90.00	90.00	90.00	90.00
Total	127.91	121.44	100.50	88.43	87.74	87.74	87.74	87.74

Source: Company data, Credit Suisse estimates

Exhibit 3: TE Income Statement

TECO Energy (NYSE: TE)	2007A	1Q08A	2Q08A	3Q08E	4Q08E	2008E	2009E	2010E	2011E	2012E
Gross Margin	**1,739.2**	**355.9**	**389.4**	**456.6**	**417.7**	**1,633.3**	**1,889.3**	**2,132.9**	**2,207.1**	**2,243.7**
O&M & Other	(841.9)	(158.4)	(168.0)	(177.7)	(176.5)	(680.6)	(806.1)	(867.6)	(935.0)	(1,002.8)
DD&A	(275.7)	(65.0)	(64.9)	(66.5)	(67.3)	(263.6)	(276.8)	(284.3)	(289.4)	(294.2)
Taxes other than Income Taxes	(218.3)	(54.9)	(54.1)	(80.9)	(75.0)	(265.0)	(284.0)	(299.0)	(300.9)	(300.8)
Operating Income	**403.3**	**77.6**	**102.4**	**131.5**	**98.9**	**424.1**	**522.4**	**682.0**	**681.9**	**645.9**
Other Income (inc. equity earnings)	185.8	24.9	27.3	18.7	21.4	92.3	93.4	114.4	141.9	156.6
Net Interest Expense	(257.8)	(57.7)	(55.9)	(53.3)	(54.0)	(221.0)	(221.9)	(245.0)	(252.1)	(248.9)
Interest Rate	*7.8%*	*7.8%*	*7.3%*	*7.0%*	*7.0%*	*7.2%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*
Pre-tax Income	**331.3**	**44.8**	**73.8**	**96.9**	**66.2**	**295.4**	**394.0**	**551.4**	**571.6**	**556.7**
Income Tax	(137.2)	(13.4)	(22.4)	(36.8)	(25.1)	(97.8)	(130.4)	(182.5)	(189.2)	(184.0)
Tax Rate	*41.4%*	*29.9%*	*30.4%*	*38.0%*	*38.0%*	*33.1%*	*33.1%*	*33.1%*	*33.1%*	*33.1%*
Minority Interests	82.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recurring Net Income	**276.3**	**31.4**	**51.4**	**60.1**	**41.0**	**183.9**	**263.6**	**368.9**	**382.4**	**371.7**
GAAP Net Income	403.0	31.4	51.4	60.1	41.0	183.9	263.6	368.9	382.4	371.7
Recurring EPS	**1.32**	**0.15**	**0.24**	**0.28**	**0.19**	**0.86**	**1.23**	**1.72**	**1.79**	**1.74**
Diluted Shares Outstanding	209.8	210.6	212.1	212.7	212.7	213.3	214.0	214.0	214.0	214.0
Recurring EPS ex. Synfuels	**1.07**	**0.15**	**0.24**	**0.28**	**0.19**	**0.86**	**1.23**	**1.72**	**1.79**	**1.74**
Growth	*11%*	*-29%*	*-5%*	*-25%*	*-15%*	*-19%*	*43%*	*40%*	*4%*	*-3%*

Source: Company data, Credit Suisse estimates

Exhibit 4: **TE Cash Flow Statement**

CASH FLOW STATEMENT	2007A	1Q08A	2Q08A	3Q08E	4Q08E	2008E	2009E	2010E	2011E	2012E
Net Income	413.2	30.8	51.4	60.1	41.0	183.3	263.6	368.9	382.4	371.7
D&A	263.7	65.0	64.9	66.5	67.3	263.6	276.8	284.3	289.4	294.2
Deferred Income Taxes	184.8	15.5	24.2	34.9	23.8	98.4	122.6	171.5	177.8	134.5
Minority loss	(82.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Changes to Working Capital	(18.5)	(10.4)	40.1	(4.0)	(6.0)	19.7	0.0	0.0	0.0	0.0
Other	(207.0)	52.1	(95.1)	0.0	0.0	(43.0)	(10.6)	(30.0)	(56.0)	(69.2)
Operating Cash Flow	**554.0**	**153.0**	**85.5**	**157.4**	**126.1**	**522.0**	**652.4**	**794.7**	**793.6**	**731.3**
Capex	(494.4)	(136.9)	(128.8)	(157.8)	(157.8)	(581.2)	(760.0)	(718.7)	(638.8)	(424.7)
AFDUC	4.5	1.3	1.7	0.0	0.0	3.0	0.0	0.0	0.0	0.0
Purchases of Business	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sale of Business/Assets	405.2	(7.3)	0.0	0.0	0.0	(7.3)	0.0	0.0	0.0	0.0
Investments	13.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	43.5	89.5	(0.1)	0.0	0.0	89.4	0.0	0.0	0.0	0.0
Investing Cash Flow	**(27.7)**	**(53.4)**	**(127.2)**	**(157.8)**	**(157.8)**	**(496.1)**	**(760.0)**	**(718.7)**	**(638.8)**	**(424.7)**
Issuance of Common Stock	14.0	1.3	18.7	0.0	0.0	20.0	0.0	0.0	0.0	0.0
Purchase of Treasury Stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from LT Debt	444.1	190.8	137.1	0.0	0.0	327.9	0.0	0.0	0.0	0.0
Repayment of LT Debt	(1,158.7)	(288.1)	0.0	(39.3)	22.1	(305.3)	280.2	103.5	31.9	(112.5)
Net Increase in ST Debt	(23.0)	(7.0)	(18.0)	0.0	0.0	(25.0)	0.0	0.0	0.0	0.0
Issuance of Redeemable Pref.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity Contract Adj. Payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	(163.0)	(41.1)	(42.4)	(40.4)	(40.4)	(164.3)	(172.5)	(179.4)	(186.6)	(194.1)
Minority Interest	81.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	**(805.3)**	**(144.1)**	**95.4**	**(79.7)**	**(18.4)**	**(146.7)**	**107.6**	**(76.0)**	**(154.7)**	**(306.6)**
Change in Cash	**(279.0)**	**(44.5)**	**53.7**	**(80.0)**	**(50.0)**	**(120.8)**	**0.0**	**0.0**	**0.0**	**0.0**
Beginning Cash	441.6	162.6	118.1	171.8	91.8	162.6	41.8	41.8	41.8	41.8
Ending Cash	**162.6**	**118.1**	**171.8**	**91.8**	**41.8**	**41.8**	**41.8**	**41.8**	**41.8**	**41.8**

Source: Company data, Credit Suisse estimates

Companies Mentioned *(Price as of 31 Jul 08)*
TECO Energy (TE, $18.55, OUTPERFORM, TP $21.50)

Disclosure Appendix

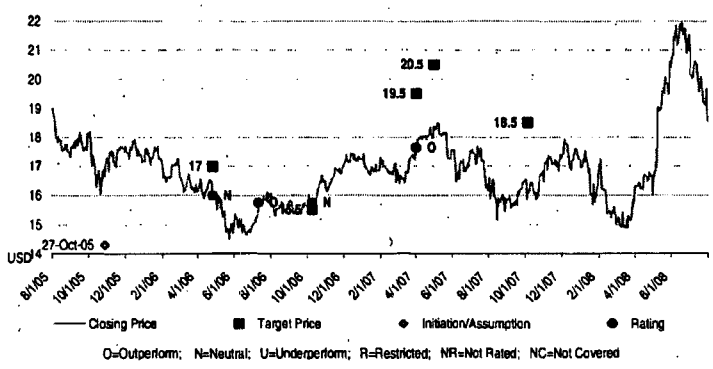
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3-Year Price, Target Price and Rating Change History Chart for TE

TE Date	Closing Price (US$)	Target Price (US$)	Rating	Initiation/ Assumption
10/27/05				X
4/26/06	15.99	17	N	
7/11/06	15.74		O	
10/10/06	15.74	15.5	N	
4/2/07	17.63	19.5	O	
5/2/07	18.38	20.5		
10/5/07	16.13	18.5		



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TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
SUPPLEMENTAL: DECEMBER 31, 2008

Neutral/Hold*	41%	(55% banking clients)
Underperform/Sell*	12%	(52% banking clients)
Restricted	2%	

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Price Target: (12 months) for (TE)
Method: We reach our $21.50 target price on Teco Energy using EV/EBITDA (enterprise value/earnings before interest, taxes, depreciation and amortization) multiples, P/E (price/earnings) multiples, and a traditional discounted cash flow analysis. On our discounted cash flow, we use an 8.0% discount rate (modestly above the broader Utility average of 6.9%) and 7.0x terminal EBITDA multiple, supported by our sum-of-the parts analysis, using 8.0x Utility EBITDA, 7.0x Coal EBITDA, and 7.0x Guatemala EBITDA and 15.5x Utility EPS, 14.0x Coal EPS, and 14.0x Guatemala EPS.
Risks: Risks to our $21.50 target price on Teco Energy include: (1) uncertainty surrounding synfuel contribution (2) coal price assumptions - every $5 move in spot steam coal prices impacts out year earnings potential by ~6% (3) legislative approval of cash recovery on newbuild generation (4) regulatory changes in Florida

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United States of America: +1 (212) 325-2000

TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008

Teco Energy Inc (TE)

Downside Looks Minimal But Upside No Longer Warrants A Buy Rating. Target $15.25/Share. Lowering Rating to Hold

- **Earnings Will Be Higher Than Consensus But Lower Than Our Prior Forecast** — We were too aggressive in assessing TE's earnings power at TECO Coal, overstating leverage on the revenue line and understating cost pressures. On the coal front we are taking in to account their disclosures on today's Q3 earnings call regarding cost escalation and hedging. We have reduced our consolidated earnings to $0.85, $1.65, $1.75 from $0.85, $2.00, $2.05.

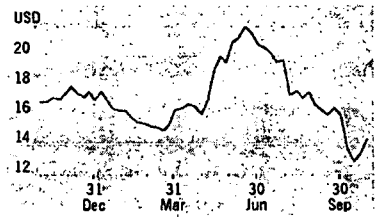
- **Concerns** — Besides a lower earnings outlook at TECO Coal, Tampa Electric is facing extremely weak economic conditions but should benefit from base rate relief in early/mid-2009. Uncertainty regarding the outcome of that case will likely weigh on the stock until a staff position is filed in March '09 and a final commission decision is granted in April '09. Guatemala will be impacted by a rate reduction in its distribution business and planned outages in its power generation business in '09.

- **Stock Looks Modestly Oversold But Lacks Meaningful Upside**— In our forecast we believe we already incorporate the impact of economic weakness in Florida on TECO's core utility business, as well as the outlook for TECO Guatemala and the parent. Accounting for these factors and looking at the diminished value of TECO Coal (due to both lower earnings expectations and compressed valuations for pure play coal stocks) we are lowering our target price to $15.25 from $16.50. This is 9.25X '09 and results in TR prospects of ~15% from current levels.

Change in opinion ☑
Rating change ☑
Target price change ☑
Estimate change ☑

Hold/High Risk	**2H**
from Buy/High Risk	
Price (30 Oct 08)	US$14.69
Target price	US$15.25
from US$16.50	
Expected share price return	3.8%
Expected dividend yield	5.4%
Expected total return	**9.3%**
Market Cap	US$3,096M

Price Performance (RIC: TE.N, BB: TE US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2007A	0.21A	0.25A	0.38A	0.23A	1.07A	1.07A
2008E	**0.15A**	**0.24A**	**0.28A**	**0.17E**	**0.84E**	**0.87E**
Previous	0.15A	0.24A	0.28E	0.17E	0.84E	na
2009E	**0.32E**	**0.43E**	**0.50E**	**0.40E**	**1.65E**	**1.44E**
Previous	0.41E	0.52E	0.59E	0.49E	2.00E	na
2010E	**na**	**na**	**na**	**na**	**1.75E**	**1.71E**
Previous	na	na	na	na	2.05E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Greg Gordon, CFA
+1-212-816-2802
greg.gordon@citi.com

See Appendix A-1 for Analyst Certification and important disclosures.

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Teco Energy Inc (TE)
30 October 2008

Fiscal year end 31-Dec	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	15.1	13.7	17.5	8.9	8.4
EV/EBITDA adjusted (x)	6.8	5.2	7.5	5.6	5.3
P/BV (x)	1.8	1.5	1.5	1.4	1.3
Dividend yield (%)	5.2	5.2	5.2	5.2	5.2
Per Share Data (US$)					
EPS adjusted	0.97	1.07	0.84	1.65	1.75
EPS reported	1.16	1.91	0.84	1.65	1.75
BVPS	8.31	9.57	9.69	10.60	11.61
DPS	0.76	0.76	0.76	0.76	0.76
Profit & Loss (US$M)					
Net sales	3,448	3,536	3,467	3,938	4,060
Operating expenses	-3,039	-3,126	-3,032	-3,208	-3,303
EBIT	**409**	**410**	**436**	**730**	**756**
Net interest expense	-276	-253	-236	-267	-259
Non-operating/exceptionals	156	377	53	11	11
Pre-tax profit	**290**	**534**	**253**	**474**	**508**
Tax	-119	-214	-76	-126	-137
Extraord./Min.Int./Pref.div.	70	82	0	0	0
Reported net income	**241**	**402**	**177**	**348**	**371**
Adjusted earnings	202	225	177	348	371
Adjusted EBITDA	920	1,137	779	1,063	1,104
Growth Rates (%)					
Sales	14.6	2.6	-1.9	13.6	3.1
EBIT adjusted	-6.1	37.0	-43.4	51.4	3.6
EBITDA adjusted	-4.3	23.6	-31.5	36.4	3.9
EPS adjusted	-21.4	10.4	-21.9	96.1	6.2
Cash Flow (US$M)					
Operating cash flow	**562**	**543**	**498**	**769**	**814**
Depreciation/amortization	282	264	285	314	328
Net working capital	-55	-19	64	0	0
Investing cash flow	**-384**	**-28**	**-487**	**-578**	**-408**
Capital expenditure	-455	-497	-44	-608	-438
Acquisitions/disposals	73	284	7	30	30
Financing cash flow	**-87**	**-805**	**-24**	**9**	**-251**
Borrowings	-6	-738	115	160	-100
Dividends paid	-159	-163	-164	-161	-161
Change in cash	**90**	**-291**	**-13**	**200**	**155**
Balance Sheet (US$M)					
Total assets	**7,362**	**6,765**	**7,148**	**7,505**	**7,625**
Cash & cash equivalent	442	163	149	349	504
Accounts receivable	338	296	331	331	331
Net fixed assets	4,767	4,888	5,165	5,441	5,535
Total liabilities	**5,555**	**4,748**	**5,101**	**5,261**	**5,161**
Accounts payable	327	302	357	357	357
Total Debt	3,703	3,158	3,312	3,472	3,372
Shareholders' funds	**1,807**	**2,017**	**2,047**	**2,244**	**2,464**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	26.7	32.2	22.5	27.0	27.2
ROE adjusted	12.2	12.0	8.7	16.2	15.7
ROIC adjusted	8.8	11.3	7.2	10.4	10.5
Net debt to equity	180.5	148.5	154.5	139.1	116.4
Total debt to capital	67.2	61.0	61.8	60.7	57.8

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Teco Energy Inc

Company description

TECO Energy, Inc. (TE) is a holding company whose core business, Tampa Electric Company, is a regulated electric and gas utility (Tampa Electric and Peoples Gas System), which owns more than 4,000 megawatts (MW) of generation capacity and serves more than 600,000 retail electric customers and 300,000 retail gas customers in west-central Florida. The company also operates a coal business in the US, and owns distribution and generation assets in Guatemala.

Investment strategy

We rate the shares of TECO Energy, Inc. Hold/ High Risk (2H). We expect earnings growth and strong cash flow generation through our forecast period, which should leave TECO in a position to retire high interest debt and improve its balance sheet. However, while company is materially benefiting from upside in coal prices through 2010, the company is now hampered with a fall off in coal prices and an increase in costs. Its business mix, which includes coal mines and investments in Latin American power infrastructure, makes it more risky that the average "Defensive" regulated utility.

Valuation

Our $15.25/share target price is approximately 9.25x our '09 estimate of $1.65/share and a target dividend yield on expected '09 dividends of 5.2%. This valuation is supported by our Dividend Risk Premium and Reference Dividend Discount models. This compares to current trading multiples for Defensive utilities ranging from 8x to 14x '09 EPS. TE deserves a discount due to its business mix, which includes international exposure and domestic coal production.

We recently lowered our target P/E multiple for defensive utilities from +/-14x to 11x '09 after reviewing current market conditions as they relate to the historical performance of utility stocks, and believe higher equity risk premiums, credit spreads & secular uncertainty regarding electricity demand growth, rate base growth and therefore LT earnings power warrant the reduction. This is corroborated both by our dividend risk premium model when looking at other periods of high relative stress on the utility sector (like the mid-1970's to early 1980's) and when looking at our reference dividend discount model, which has been a relatively good valuation indicator historically and is now extrapolating lower forward P/E's when adjusting for higher risk premiums and the potential for slower earnings and dividend growth rates due to a soft economic outlook.

Risks

We rate TECO Energy, Inc. High Risk. The company is more heavily levered than its regulated utility peer group and diversified in to more risky businesses. Roughly 69% of EPS come from its Florida utilities (before parent dilution),

with the remaining exposure to coal mining (levered to commodity price outlook) and investments in Latin American power infrastructure (somewhat opaque in its business outlook given lack of visibility on local regulation).

TECO is heavily levered --- Failure to meet cash flow targets could affect the company's financial condition and flexibility, as the level of TECO's indebtedness and restrictive covenants could limit its ability to obtain additional financing or refinance existing debt. While we estimate TECO will generate significant cash flow, which will enable it to service its long-term debt maturities, if cash flow targets are not met due to shortfalls in operating cash flows and/or failure to maintain capital spending at forecasted level, the company could face liquidity constraints.

Coal prices and volumes could affect long-term earnings power --- TECO Coal's earnings are dependant on realized commodity pricing, as well as, volumes sold. A deviation in price from our forecasted assumption could cause a negative or a positive impact on earnings contribution and is therefore a risk to our target price.

TECO owns assets power generation and distribution assets in Guatamela that generate 16% of annual EPS. Our ability to predict whether these investments will generate predicable returns is limited by lack of information regarding local regulation and the underlying current regulated rates of return in those businesses. Given upcoming rate reviews in Guatemala and TECO's contemplation of further investment in the region, earnings could vary meaningfully from our estimates.

If the impact on the company from any of these factors proves to be less than we anticipate, the stock could materially outperform our target price.

Conversely, if the impact on the company from any of these factors proves to be greater than we anticipate, the stock could underperform our target price.

Appendix A-1

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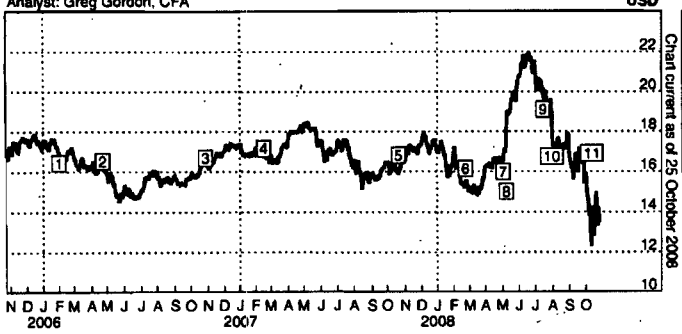
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TECO Energy, Inc. (TE)

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Analyst: Greg Gordon, CFA



Covered
Not covered

Rating/target price changes above reflect Eastern Standard Time

#	Date	Rating	Target Price	Closing Price
1:	1 Feb 06	2H	*16.75	16.98
2:	24 Apr 06	2H	*16.50	16.45
3:	27 Oct 06	2H	*17.50	16.49
4:	15 Feb 07	2H	*16.50	16.84
5:	19 Oct 07	2H	*16.00	15.85
6:	25 Feb 08	2H	*17.00	15.50
7:	2 May 08	2H	*17.75	16.64
8:	8 May 08	*1H	*21.50	17.71
9:	16 Jul 08	1H	*25.00	20.19
10:	31 Jul 08	1H	*22.50	18.55
11:	13 Oct 08	1H	*16.50	14.26

*Indicates change.

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Data current as of 30 September 2008

	Buy	Hold	Sell
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TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008

31 July 2008 | 9 pages

Teco Energy Inc (TE)

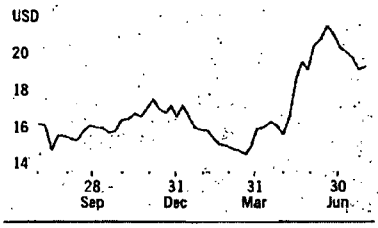
Target price change ☑
Estimate change ☑

Stock Is Still Cheap To More Modest Expectations For TECO Coal Profitability. Target Is Now $22.50/share.

- **Conclusion: Our prior expectations were "irrationally exuberant"** — We were too aggressive in assessing TE's earnings power at TECO Coal, overstating leverage on the revenue line and understating cost pressures. Taking in to account their disclosures on today's Q2 earnings call regarding cost escalation and hedging, we have reduced our consolidated earnings to $0.89, $1.95, $2.00 from $0.95, $2.80, $2.50, numbers (in hindsight more in line with our outlook when we upgraded the stock from hold to buy on 5/8/08).
- **Investment Edge: Retreat In the Stock is none-the-less a buying Opportunity**— We already incorporate the impact of economic weakness in Florida on TECO's core utility business, as well as the outlook for TECO Guatemala and the parent. Accounting for these factors we are lowering our target price to $22.50 from $25, (which is closer to our target when we upgraded TE on 5/8/08). This is 11.5X '09 and results in TR prospects of ~22% from current levels.
- **What Has Changed In Our Coal Model?:** We have updated our forecast to assume $66/ton hedge pricing on 80% of TE's assumed 10.75mm tons of 09 coal production. On the 20% that remains un-hedged (which is 2/3 PCI and 1/3 Met), we assume pricing averaging <$225 ton. We assume cash costs rise $51 ton in '08 to $61 ton in '09. In 2010 we assume another 10% increase in cash costs, Met/PCI pricing averaging $150 ton and all-in steam coal pricing of <$75 ton. So while we were way too aggressive previously regarding '09, we are once again at a conservative outlook for 2010.

Buy/High Risk	**1H**
Price (31 Jul 08)	US$18.81
Target price	US$22.50
from US$25.00	
Expected share price return	19.6%
Expected dividend yield	4.3%
Expected total return	**23.9%**
Market Cap	US$3,964M

Price Performance (RIC: TE.N, BB: TE US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2007A	0.21A	0.25A	0.38A	0.23A	1.07A	1.07A
2008E	**0.15A**	**0.21E**	**0.32E**	**0.21E**	**0.89E**	**1.01E**
Previous	0.15A	0.23E	0.34E	0.23E	0.95E	na
2009E	**na**	**na**	**na**	**na**	**1.95E**	**1.53E**
Previous	na	na	na	na	2.80E	na
2010E	**na**	**na**	**na**	**na**	**2.00E**	**1.86E**
Previous	na	na	na	na	2.50E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Greg Gordon, CFA
+1-212-816-2802
greg.gordon@citi.com

See Appendix A-1 for Analyst Certification and important disclosures.

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Teco Energy Inc (TE)
31 July 2008

Fiscal year end 31-Dec	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	19.3	17.5	21.2	9.6	9.4
EV/EBITDA adjusted (x)	7.7	6.0	8.7	7.6	6.5
P/BV (x)	2.3	2.0	2.0	1.7	1.6
Dividend yield (%)	4.0	4.0	4.0	4.0	4.0
Per Share Data (US$)					
EPS adjusted	0.97	1.07	0.89	1.95	2.00
EPS reported	1.16	1.91	0.89	1.95	2.00
BVPS	8.31	9.57	9.64	10.86	12.11
DPS	0.76	0.76	0.76	0.76	0.76
Profit & Loss (US$M)					
Net sales	3,448	3,536	3,428	3,960	4,104
Operating expenses	-3,039	-3,126	-2,954	-3,167	-3,295
EBIT	**409**	**410**	**473**	**793**	**810**
Net interest expense	-276	-253	-237	-258	-258
Non-operating/exceptionals	156	377	31	11	11
Pre-tax profit	**290**	**534**	**267**	**546**	**562**
Tax	-119	-214	-80	-133	-139
Extraord./Min.Int./Pref.div.	70	82	0	0	0
Reported net income	**241**	**402**	**187**	**413**	**423**
Adjusted earnings	202	225	187	413	423
Adjusted EBITDA	920	1,137	778	893	1,016
Growth Rates (%)					
Sales	14.6	2.6	-3.1	15.5	3.7
EBIT adjusted	-6.1	37.0	-43.5	19.0	18.5
EBITDA adjusted	-4.3	23.6	-31.6	14.8	13.8
EPS adjusted	-21.4	10.4	-17.4	120.1	2.2
Cash Flow (US$M)					
Operating cash flow	**562**	**543**	**548**	**832**	**861**
Depreciation/amortization	282	264	285	305	319
Net working capital	-55	-19	24	0	0
Investing cash flow	**-384**	**-28**	**-513**	**-578**	**-408**
Capital expenditure	-455	-497	-595	-608	-438
Acquisitions/disposals	73	284	-7	30	30
Financing cash flow	**-87**	**-805**	**-157**	**29**	**-71**
Borrowings	-6	-738	-4	180	80
Dividends paid	-159	-163	-162	-161	-161
Change in cash	**90**	**-291**	**-121**	**283**	**381**
Balance Sheet (US$M)					
Total assets	**7,362**	**6,765**	**6,848**	**7,291**	**7,643**
Cash & cash equivalent	442	163	43	326	707
Accounts receivable	338	296	310	310	310
Net fixed assets	4,767	4,888	5,197	5,482	5,585
Total liabilities	**5,555**	**4,748**	**4,812**	**4,992**	**5,072**
Accounts payable	327	302	282	282	282
Total Debt	3,703	3,158	3,162	3,342	3,422
Shareholders' funds	**1,807**	**2,017**	**2,037**	**2,299**	**2,571**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	26.7	32.2	22.7	22.5	24.7
ROE adjusted	12.2	12.0	9.2	19.1	17.4
ROIC adjusted	8.8	11.3	7.1	7.6	9.2
Net debt to equity	180.5	148.5	153.2	131.2	105.6
Total debt to capital	67.2	61.0	60.8	59.2	57.1

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Stock Cheap To More Rational Expectations

We now see earnings of $0.90 in '08, $1.95/share in '09 and $2.00/share '10. Our '09 estimate is down to reflect lower assumed coal prices taking in to account TE's disclosures on hedging, as well as higher operating cost assumptions. We are less bullish on the prospects for coal & we continue to be cautious on the prospects for the utility given declining customer growth / usage and two rate case proceedings likely taking place in a recessionary environment. Nonetheless, the pricing leverage TE has on its 11 million tons of expected coal production over the next few years is still quite meaningful given the high level of hedging and low price of those hedges in '09. This creates a favorable investment thesis despite our lower '08-'10 outlook..

Figure 1. TE Earnings

EARNINGS SUMMARY	2006A	2007A	2008E	2009E	2010E
Consolidated Net Income	201.6	225.4	187.2	413.0	423.1
Average Shares Outstanding	207.8	209.9	211.0	211.5	212.0
Consolidated Earnings Per Share	$ 0.97	$ 1.07	$0.89	$1.95	$2.00
Regulated Utility	0.79	0.84	$0.82	$0.86	$0.91
TECO Wholesale Generation - Merchant	-	-	-	-	-
TECO Transport	0.10	0.12	-	-	-
TECO Coal	0.23	0.18	0.12	1.15	1.11
Other Unregulated Companies	0.18	0.21	0.20	0.24	0.26
Other / Eliminations	(0.33)	(0.28)	(0.25)	(0.30)	(0.28)
Earnings Per share Growth Rate	(22%)	11%	(17%)	120%	2%

Source: Citi Investment Research

Price Target $22.50/share

For TECO Energy, Inc., we employ a hybrid valuation methodology, using the average of our P/E, sum-of-the-parts, and DCF analyses to arrive at our target price of $22.50/share. We have decreased our price target from $25/share.

Using a P/E methodology, we value the stock at $21.50/share. We base this target price on a 11x 2009 EPS of $1.95. The 11x multiple is at the bottom end of the range of valuations in our Integrated utility sub-group, which is also highly commodity cyclical. The average trading multiple on the integrated group is currently currently 13.7x '09 with a range of 10.3x -17.9x

For our sum-of-the-parts methodology, we arrive at a ~$22 valuation by aggregating the values of TECO's coal business. We apply a 13.5x multiple of 209 P/E multiple on the utility business, excluding earnings from TECO Coal. We then look at both a discounted cash flow associated with fully depleting TECO Coal's 277 million tons of coal reserves & a comparable EBITDA multiple to pure play coal companies, and add ~$2 per share for the realization of cash tax savings from TECO's NOL and AMT balance remaining at YE '09.

We arrive at a ~$24 target price using a DCF analysis. We employ a beta of 0.9, a terminal growth rate of ~2.5%, and an ~7.5% discount rate, which is slightly higher than our estimated weighted average cost of capital (WACC) for TECO, but consistent with our valuation methodology for utilities. In both the consolidated and stand-alone coal DCF we value the company using a coal price assumption from $60/ton on average to over $100/ton ($90 for steam coal and $150/ton for Met/PCI coal). Our EBITDA target multiple is comparable to current trading multiples for coal stocks.

Teco Energy Inc

Company description

TECO Energy, Inc. (TE) is a holding company whose core business, Tampa Electric Company, is a regulated electric and gas utility (Tampa Electric and Peoples Gas System), which owns more than 4,000 megawatts (MW) of generation capacity and serves more than 600,000 retail electric customers and 300,000 retail gas customers in west-central Florida. The company also operates a coal business in the US, and owns distribution and generation assets in Guatemala.

Investment strategy

We rate the shares of TECO Energy, Inc. Buy/ High Risk (2H). We expect earnings growth and strong cash flow generation through our forecast period, which should leave TECO in a position to retire high interest debt and improve its balance sheet. The company is materially benefiting from upside in coal prices through 2010. Its business mix, which includes coal mines and investments in Latin American power infrastructure, makes it more risky that the average "Defensive" regulated utility.

Valuation

For TECO Energy, Inc., we employ a hybrid valuation methodology, using the average of our P/E, sum-of-the-parts, and DCF analyses to arrive at our target price of $22.50/share. We have decreased our price target from $25/share.

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coal and $150/ton for Met/PCI coal). Our EBITDA target multiple is comparable to current trading multiples for coal stocks.

Risks

We rate TECO Energy, Inc. High Risk. The company is more heavily levered than its regulated utility peer group and diversified in to more risky businesses. Roughly 69% of EPS come from its Florida utilities (before parent dilution), with the remaining exposure to coal mining (levered to commodity price outlook) and investments in Latin American power infrastructure (somewhat opaque in its business outlook given lack of visibility on local regulation).

TECO is heavily levered --- Failure to meet cash flow targets could affect the company's financial condition and flexibility, as the level of TECO's indebtedness and restrictive covenants could limit its ability to obtain additional financing or refinance existing debt. While we estimate TECO will generate significant cash flow, which will enable it to service its long-term debt maturities, if cash flow targets are not met due to shortfalls in operating cash flows and/or failure to maintain capital spending at forecasted level, the company could face liquidity constraints.

Coal prices and volumes could affect long-term earnings power --- TECO Coal's earnings are dependant on realized commodity pricing, as well as, volumes sold. A deviation in price from our forecasted assumption could cause a negative or a positive impact on earnings contribution and is therefore a risk to our target price.

TECO owns assets power generation and distribution assets in Guatamela that generate 16% of annual EPS. Our ability to predict whether these investments will generate predicable returns is limited by lack of information regarding local regulation and the underlying current regulated rates of return in those businesses. Given upcoming rate reviews in Guatemala and TECO's contemplation of further investment in the region, earnings could vary meaningfully from our estimates.

If the impact on the company from any of these factors proves to be less than we anticipate, the stock could materially outperform our target price.

Conversely, if the impact on the company from any of these factors proves to be greater than we anticipate, the stock could underperform our target price.

Appendix A-1

Analyst Certification

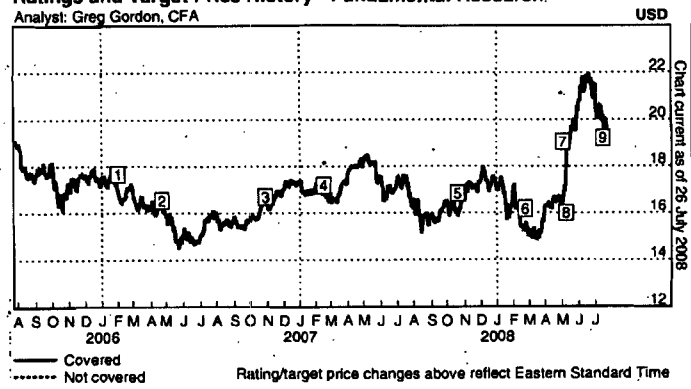
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TECO Energy, Inc. (TE)

Ratings and Target Price History - Fundamental Research

Analyst: Greg Gordon, CFA



Rating/target price changes above reflect Eastern Standard Time

#	Date	Rating	Target Price	Closing Price
1:	1 Feb 06	2H	*16.75	16.98
2:	24 Apr 06	2H	*16.50	16.45
3:	27 Oct 06	2H	*17.50	16.49
4:	15 Feb 07	2H	*16.50	16.84
5:	19 Oct 07	2H	*16.00	15.85
6:	25 Feb 08	2H	*17.00	15.50
7:	2 May 08	2H	*17.75	16.64
8:	8 May 08	*1H	*21.50	17.71
9:	16 Jul 08	1H	*25.00	20.19

*Indicates change.

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TAMPA ELECTRIC COMPANY
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FILED: OCTOBER 20, 2008
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31 July 2008 | 8 pages

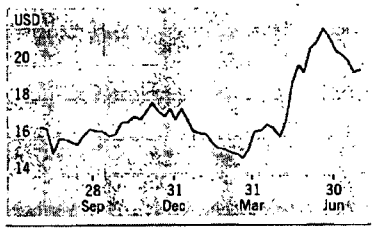
Teco Energy Inc (TE)

Preliminary Read On Q2: Consolidated EPS In Line But TECO Coal Suffers From Higher Costs. Outlook Still Robust For '09+.

- **Key Takeaway(s)** — TECO reported operating EPS of $0.24/share for Q2 vs. our estimate of $0.23. Earnings at the gas and electric utility were higher than we projected as were those at TECO Guatemala. However, TECO Coal missed our expectations due to significantly higher operating costs vs. hedged coal pricing. The company lowered guidance for '08 to $0.80-$0.90/share from $0.95-$1.10 due to costs at the coal business and the economic slowdown.
- **Near-Term Outlook** — When we do a quick preliminary stress test our model assuming higher cost assumptions for the balance of the year it could cut our EPS estimate for TECO Coal by $0.08 for '08 and put us in the middle of the new guidance range (we already assume a down year at the utilities).
- **Long-Term Outlook** — TECO coal's problems will resolve themselves next year when they re-price a large portion of their coal at market prices, including 4.4mm tons of Met & PCI coal that is hedged currently at $70 ton. We are cognizant that we are probably looking at higher operating costs than currently forecast. We also know that our pricing assumptions—at $150 ton on average for the Met & PCI coal and $100 ton for some un-hedged steam coal—are extremely conservative, so the outlook is still extremely robust.
- **Investment Edge** — We would be buyers of the stock on any weakness this morning. The company is hosting a conference call at 11:00am EST and may discuss both the cost and price outlook for TECO Coal for '09.

Buy/High Risk	**1H**
Price (30 Jul 08)	US$19.65
Target price	US$25.00
Expected share price return	27.2%
Expected dividend yield	4.1%
Expected total return	**31.3%**
Market Cap	US$4,141M

Price Performance (RIC: TE.N, BB: TE US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2007A	0.21A	0.25A	0.38A	0.23A	1.07A	1.07A
2008E	**0.15A**	**0.23E**	**0.34E**	**0.23E**	**0.95E**	**1.01E**
Previous	0.15A	0.23E	0.34E	0.23E	0.95E	na
2009E	**na**	**na**	**na**	**na**	**2.80E**	**1.53E**
Previous	na	na	na	na	2.80E	na
2010E	**na**	**na**	**na**	**na**	**2.50E**	**1.86E**
Previous	na	na	na	na	2.50E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Greg Gordon, CFA
+1-212-816-2802
greg.gordon@citi.com

See Appendix A-1 for Analyst Certification and important disclosures.

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Teco Energy Inc (TE)
31 July 2008

Fiscal year end 31-Dec	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	20.2	18.3	20.8	7.0	7.9
EV/EBITDA adjusted (x)	7.9	6.2	8.5	5.1	5.0
P/BV (x)	2.4	2.1	2.0	1.7	1.5
Dividend yield (%)	3.9	3.9	3.9	3.9	3.9
Per Share Data (US$)					
EPS adjusted	0.97	1.07	0.95	2.80	2.50
EPS reported	1.16	1.91	0.95	2.80	2.50
BVPS	8.31	9.57	9.70	11.76	13.52
DPS	0.76	0.76	0.76	0.76	0.76
Profit & Loss (US$M)					
Net sales	3,448	3,536	3,441	4,122	4,200
Operating expenses	-3,039	-3,126	-2,952	-3,104	-3,256
EBIT	**409**	**410**	**489**	**1,017**	**944**
Net interest expense	-276	-253	-237	-258	-258
Non-operating/exceptionals	156	377	31	11	11
Pre-tax profit	**290**	**534**	**283**	**770**	**696**
Tax	-119	-214	-83	-178	-166
Extraord./Min.Int./Pref.div.	70	82	0	0	0
Reported net income	**241**	**402**	**200**	**592**	**530**
Adjusted earnings	202	225	200	592	530
Adjusted EBITDA	920	1,137	812	1,342	1,283
Growth Rates (%)					
Sales	14.6	2.6	-2.7	19.8	1.9
EBIT adjusted	-6.1	37.0	-39.9	97.2	-7.0
EBITDA adjusted	-4.3	23.6	-28.6	65.2	-4.3
EPS adjusted	-21.4	10.4	-11.8	195.9	-10.7
Cash Flow (US$M)					
Operating cash flow	**562**	**543**	**566**	**1,054**	**993**
Depreciation/amortization	282	264	287	305	319
Net working capital	-55	-19	24	0	0
Investing cash flow	**-384**	**-28**	**-513**	**-578**	**-408**
Capital expenditure	-455	-497	-595	-608	-438
Acquisitions/disposals	73	284	-7	30	30
Financing cash flow	**-87**	**-805**	**-157**	**29**	**-71**
Borrowings	-6	-738	-4	180	80
Dividends paid	-159	-163	-162	-161	-161
Change in cash	**90**	**-291**	**-104**	**505**	**513**
Balance Sheet (US$M)					
Total assets	**7,362**	**6,765**	**6,861**	**7,483**	**7,942**
Cash & cash equivalent	442	163	60	565	1,078
Accounts receivable	338	296	310	310	310
Net fixed assets	4,767	4,888	5,195	5,480	5,583
Total liabilities	**5,555**	**4,748**	**4,812**	**4,992**	**5,072**
Accounts payable	327	302	282	282	282
Total Debt	3,703	3,158	3,162	3,342	3,422
Shareholders' funds	**1,807**	**2,017**	**2,049**	**2,491**	**2,870**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	26.7	32.2	23.6	32.5	30.6
ROE adjusted	12.2	12.0	9.8	26.1	19.8
ROIC adjusted	8.8	11.3	7.6	14.4	13.3
Net debt to equity	180.5	148.5	151.4	111.5	81.7
Total debt to capital	67.2	61.0	60.7	57.3	54.4

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Teco Energy Inc

Company description

TECO Energy, Inc. (TE) is a holding company whose core business, Tampa Electric Company, is a regulated electric and gas utility (Tampa Electric and Peoples Gas System), which owns more than 4,000 megawatts (MW) of generation capacity and serves more than 600,000 retail electric customers and 300,000 retail gas customers in west-central Florida. The company also operates a coal business in the US, and owns distribution and generation assets in Guatemala.

Investment strategy

We rate the shares of TECO Energy, Inc. Buy/ High Risk (2H). We expect earnings growth and strong cash flow generation through our forecast period, which should leave TECO in a position to retire high interest debt and improve its balance sheet. The company is materially benefiting from upside in coal prices through 2010. Its business mix, which includes coal mines and investments in Latin American power infrastructure, makes it more risky that the average "Defensive" regulated utility..

Valuation

For TECO Energy, Inc., we employ a hybrid valuation methodology, using the average of our P/E, sum-of-the-parts, and DCF analyses to arrive at our target price of $25/share. We have increased our price target from $21.50/share.

Using a P/E methodology, we value the stock at $28/share. We base this target price on a 10x 2009 EPS of $2.80. We look to 2009 as a representative of a potential peak in TECO's earnings power. The 10x multiple is 50 basis points below the bottom end of the range of valuations in our Integrated utility sub-group, which is also highly commodity cyclical. The average trading multiple on the integrated group is currently 14x '09 with a range of 10.5x -19.5x.

For our sum-of-the-parts methodology, we arrive at a ~$23 valuation by aggregating the values of TECO's coal business. We apply a 12.5x multiple of 2010.P/E multiple on the utility business, excluding earnings from TECO Coal. We then look at both a discounted cash flow associated with fully depleting TECO Coal's 277 million tons of coal reserves & a comparable EBITDA multiple to pure play coal companies, and add ~$2 per share for the realization of cash tax savings from TECO's NOL and AMT balance remaining at YE '09.

We arrive at a ~$24.50 target price using a DCF analysis. We employ a beta of 0.9, a terminal growth rate of ~2.5%, and an ~7.5% discount rate, which is slightly higher than our estimated weighted average cost of capital (WACC) for TECO, but consistent with our valuation methodology for utilities.

In both the consolidated and stand-alone coal DCF the value of the company has increased meaningfully as we have increased our terminal coal price

assumption from $60/ton on average to over $100/ton ($90 for steam coal and $150/ton for Met/PCI coal). Our EBITDA target multiple used in the sum-of-parts model is a multiple point discount to the take-out multiple announced this morning.

Risks

We rate TECO Energy, Inc. High Risk. The company is more heavily levered than its regulated utility peer group and diversified in to more risky businesses. Roughly 69% of EPS come from its Florida utilities (before parent dilution), with the remaining exposure to coal mining (levered to commodity price outlook) and investments in Latin American power infrastructure (somewhat opaque in its business outlook given lack of visibility on local regulation).

TECO is heavily levered --- Failure to meet cash flow targets could affect the company's financial condition and flexibility, as the level of TECO's indebtedness and restrictive covenants could limit its ability to obtain additional financing or refinance existing debt. While we estimate TECO will generate significant cash flow, which will enable it to service its long-term debt maturities, if cash flow targets are not met due to shortfalls in operating cash flows and/or failure to maintain capital spending at forecasted level, the company could face liquidity constraints.

Coal prices and volumes could affect long-term earnings power --- TECO Coal's earnings are dependant on realized commodity pricing, as well as, volumes sold. A deviation in price from our forecasted assumption could cause a negative or a positive impact on earnings contribution and is therefore a risk to our target price.

TECO owns assets power generation and distribution assets in Guatamela that generate 16% of annual EPS. Our ability to predict whether these investments will generate predicable returns is limited by lack of information regarding local regulation and the underlying current regulated rates of return in those businesses. Given upcoming rate reviews in Guatemala and TECO's contemplation of further investment in the region, earnings could vary meaningfully from our estimates.

If the impact on the company from any of these factors proves to be less than we anticipate, the stock could materially outperform our target price.

Conversely, if the impact on the company from any of these factors proves to be greater than we anticipate, the stock could underperform our target price.

Appendix A-1

Analyst Certification

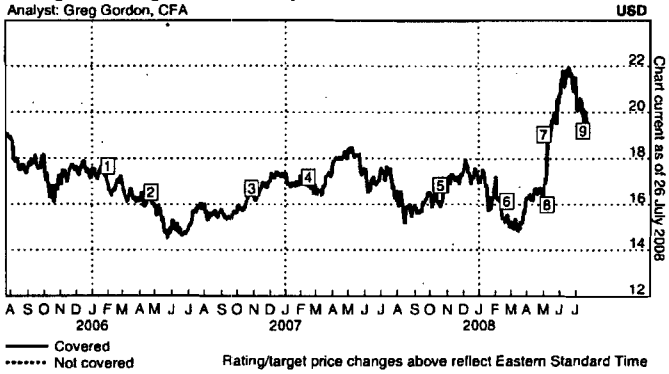
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TECO Energy, Inc. (TE)

Ratings and Target Price History - Fundamental Research

Analyst: Greg Gordon, CFA



#	Date	Rating	Target Price	Closing Price
1:	1 Feb 06	2H	*16.75	16.98
2:	24 Apr 06	2H	*16.50	16.45
3:	27 Oct 06	2H	*17.50	16.49
4:	15 Feb 07	2H	*16.50	16.84
5:	19 Oct 07	2H	*16.00	15.85
6:	25 Feb 08	2H	*17.00	15.50
7:	2 May 08	2H	*17.75	16.64
8:	8 May 08	*1H	*21.50	17.71
9:	16 Jul 08	1H	*25.00	20.19

*Indicates change.

—— Covered
••••••• Not covered

Rating/target price changes above reflect Eastern Standard Time

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TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
31, 2008

16 July 2008 | 12 pages

Teco Energy Inc (TE)

Target price change ☑
Estimate change ☑

Acquisition Of Competitor Highlights TECO Coal Value. Raising Estimates On Coal Pricing & Raising Target To $25/Share.

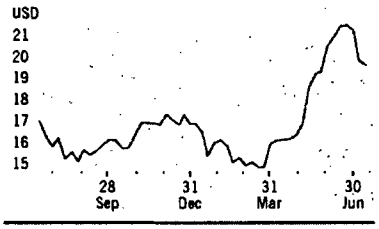
- **What's New** — This morning an international mining company announced the acquisition of a domestic coal mining company for a 35% premium to yesterday's closing price. Given that this competitor has a similar mix of coal production and is in the same general geographic region at TECO Coal subsidiary, this transaction bolsters our thesis on the value of TE stock.

- **Market Trends: Coal Prices Support Higher Earnings Power** — On a consolidated basis our EPS forecast is now $2.80/$2.50/share for '09 and '10 from $2.00/$1.50/share. We now assume realized pricing on 4.4mm tons of Met and PCI coal rises from $70/ton in '08 to $150/ton in '09 (from $125/ton), which is materially lower than the $200+/ton pricing Citi's coal analysts are seeing for coals in this category. We assume pricing on 6.6mm tons of steam coal rises from $50/ton to $100/ton (from $75/ton) as a portion came off contract and was re-priced in March '08. While these revenue assumptions may prove conservative we are nervous about cost escalation. Our model assumes a 15% annual increase in cost per ton. These changes in the model raise our '09 and '10 EPS forecast.

- **Target Price $25/Share** — Our price target is up to $25/share from $21.50/share, derived from looking at the average of three separate methodologies (consolidated P/E, DCF, sum-of-the-parts). The target implies 9x '09 earnings of $2.80, and results in total return prospects of ~26%+ when factoring in TE's current ~4.0% yield.

Buy/High Risk	**1H**
Price (16 Jul 08)	US$20.46
Target price	US$25.00
from US$21.50	
Expected share price return	22.2%
Expected dividend yield	3.9%
Expected total return	**26.1%**
Market Cap	US$4,312M

Price Performance (RIC: TE.N, BB: TE US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2007A	0.21A	0.25A	0.38A	0.23A	1.07A	1.07A
2008E	**0.15A**	**0.23E**	**0.34E**	**0.23E**	**0.95E**	**1.01E**
Previous	0.15A	0.24E	0.35E	0.22E	0.95E	na
2009E	**na**	**na**	**na**	**na**	**2.80E**	**1.44E**
Previous	na	na	na	na	2.00E	na
2010E	**na**	**na**	**na**	**na**	**2.50E**	**1.61E**
Previous	na	na	na	na	1.50E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Greg Gordon, CFA
+1-212-816-2802
greg.gordon@citi.com

See Appendix A-1 for Analyst Certification and important disclosures.

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2202AAX

Teco Energy Inc (TE)
16 July 2008

Fiscal year end 31-Dec	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	21.0	19.1	21.6	7.3	8.2
EV/EBITDA adjusted (x)	8.1	6.3	8.7	5.2	5.1
P/BV (x)	2.5	2.1	2.1	1.7	1.5
Dividend yield (%)	3.7	3.7	3.7	3.7	3.7
Per Share Data (US$)					
EPS adjusted	0.97	1.07	0.95	2.80	2.50
EPS reported	1.16	1.91	0.95	2.80	2.50
BVPS	8.31	9.57	9.70	11.76	13.52
DPS	0.76	0.76	0.76	0.76	0.76
Profit & Loss (US$M)					
Net sales	3,448	3,536	3,441	4,122	4,200
Operating expenses	-3,039	-3,126	-2,952	-3,104	-3,256
EBIT	**409**	**410**	**489**	**1,017**	**944**
Net interest expense	-276	-253	-237	-258	-258
Non-operating/exceptionals	156	377	31	11	11
Pre-tax profit	**290**	**534**	**283**	**770**	**696**
Tax	-119	-214	-83	-178	-166
Extraord./Min.Int./Pref.div.	70	82	0	0	0
Reported net income	**241**	**402**	**200**	**592**	**530**
Adjusted earnings	202	225	200	592	530
Adjusted EBITDA	920	1,137	812	1,342	1,283
Growth Rates (%)					
Sales	14.6	2.6	-2.7	19.8	1.9
EBIT adjusted	-6.1	37.0	-39.9	97.2	-7.0
EBITDA adjusted	-4.3	23.6	-28.6	65.2	-4.3
EPS adjusted	-21.4	10.4	-11.8	195.9	-10.7
Cash Flow (US$M)					
Operating cash flow	**562**	**543**	**566**	**1,054**	**993**
Depreciation/amortization	282	264	287	305	319
Net working capital	-55	-19	24	0	0
Investing cash flow	**-384**	**-28**	**-513**	**-578**	**-408**
Capital expenditure	-455	-497	-595	-608	-438
Acquisitions/disposals	73	284	-7	30	30
Financing cash flow	**-87**	**-805**	**-157**	**29**	**-71**
Borrowings	-6	-738	-4	180	80
Dividends paid	-159	-163	-162	-161	-161
Change in cash	**90**	**-291**	**-104**	**505**	**513**
Balance Sheet (US$M)					
Total assets	**7,362**	**6,765**	**6,861**	**7,483**	**7,942**
Cash & cash equivalent	442	163	60	565	1,078
Accounts receivable	338	296	310	310	310
Net fixed assets	4,767	4,888	5,195	5,480	5,583
Total liabilities	**5,555**	**4,748**	**4,812**	**4,992**	**5,072**
Accounts payable	327	302	282	282	282
Total Debt	3,703	3,158	3,162	3,342	3,422
Shareholders' funds	**1,807**	**2,017**	**2,049**	**2,491**	**2,870**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	26.7	32.2	23.6	32.5	30.6
ROE adjusted	12.2	12.0	9.8	26.1	19.8
ROIC adjusted	8.8	11.3	7.6	14.4	13.3
Net debt to equity	180.5	148.5	151.4	111.5	81.7
Total debt to capital	67.2	61.0	60.7	57.3	54.4

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TECO Remains Undervalued. Target $25.

We see earnings of $0.95 in '08, $2.80/share in '09 and $2.50/share '10. Our '09 estimate is up to reflect leverage to coal prices at TE Coal. While we are generally bullish on the prospects for coal, we are cautious on the prospects for the utility given declining customer growth / usage and two rate case proceedings likely taking place in a recessionary environment. Nonetheless, the pricing leverage TE has on its 11 million tons of expected coal production in 2011 appears quite meaningful and overwhelms the investment thesis despite its historically diminished proportion of the value proposition.

Figure 1. TE Earnings

EARNINGS SUMMARY	2006A	2007A	2008E	2009E	2010E
Consolidated Net Income	201.6	225.4	199.7	592.4	530.1
Average Shares Outstanding	207.8	209.9	211.0	211.5	212.0
Consolidated Earnings Per Share	$ 0.97	$ 1.07	$0.95	$2.80	$2.50
Regulated Utility	0.79	0.84	$0.82	$0.86	$0.91
TECO Wholesale Generation - Merchant	-	-	-	-	-
TECO Transport	0.10	0.12	-	-	-
TECO Coal	0.23	0.18	0.18	2.02	1.63
Other Unregulated Companies	0.18	0.21	0.19	0.22	0.24
Other / Eliminations	(0.33)	(0.28)	(0.25)	(0.30)	(0.28)
Earnings Per share Growth Rate	(22%)	11%	(12%)	196%	(11%)

Source: Citi Investment Research

Price Target $25/share

For TECO Energy, Inc., we employ a hybrid valuation methodology, using the average of our P/E, sum-of-the-parts, and DCF analyses to arrive at our target price of $25/share. We have increased our price target from $21.50/share.

Using a P/E methodology, we value the stock at $28/share. We base this target price on a 10x 2009 EPS of $2.80. We look to 2009 as a representative of a potential peak in TECO's earnings power. The 10x multiple is 50 basis points below the bottom end of the range of valuations in our Integrated utility sub-group, which is also highly commodity cyclical. The average trading multiple on the integrated group is currently 14x '09 with a range of 10.5x -19.5x.

For our sum-of-the-parts methodology, we arrive at a ~$23 valuation by aggregating the values of TECO's coal business. We apply a 12.5x multiple of 2010 P/E multiple on the utility business, excluding earnings from TECO Coal. We then look at both a discounted cash flow associated with fully depleting TECO Coal's 277 million tons of coal reserves & a comparable EBITDA multiple to pure play coal companies, and add ~$2 per share for the realization of cash tax savings from TECO's NOL and AMT balance remaining at YE '09.

We arrive at a ~$24.50 target price using a DCF analysis. We employ a beta of 0.9, a terminal growth rate of ~2.5%, and an ~7.5% discount rate, which is slightly higher than our estimated weighted average cost of capital (WACC) for TECO, but consistent with our valuation methodology for utilities.

In both the consolidated and stand-alone coal DCF the value of the company has increased meaningfully as we have increased our terminal coal price assumption from $60/ton on average to over $100/ton ($90 for steam coal and $150/ton for Met/PCI coal). Our EBITDA target multiple used in the sum-of-

parts model is a multiple point discount to the take-out multiple announced this morning.

Favorable Pricing Fundamentals Bode Well for Coal Margins in 2009

TE Coal's profit margins for '08 are hedged out at realized pricing of approximately $58/ton. In its March 27th, Financial Update, TE provided an update to its 2009 outlook, saying it expected to produce 11-11.5 million tons and average prices across all products to be $7-$10/ton higher than in 2008, assuming Met and PCI coal pricing of $80-90/ton, although the majority of their 4.4 million tons of production in that category is not yet priced for '09. Our coal analysts are seeing pricing in those categories at over double these prices as of April and May of '08.

We assume realized prices of $70/ton in '08 on Met/PCI coal. We assume $150/ton in '09, declining to $140 in 2010 on 4.4 million tons of Met/PCI coal production. We assume realized steam coal pricing of $50/ton in '08. We assume $80/ton in '09 and $86/ton in 2010, as much of it was hedged on multi-year contracts at lower prices.

For 2008, we are projecting cash margins of ~$10/ton on 10.5 million tons generally consistent with guidance. Based on a ~$5/ton pretax margin, and a 20% effective tax rate (based on standard deductions related to mineral extraction and depletion), we obtain ~$40 million in net income or roughly ~$0.20/share from coal production in 2008.

For 2009, we are now projecting cash margins of ~$53/ton, based on realized pricing of over $100/ton. This assumes a 15% increase in production costs per ton. While we are nervous that we might underestimate cost pressure, we are comfortable that we are using a large discount to current prices for PCI and met coal. While we admit our model is imprecise, we think we have captured the magnitude and direction of earnings in TE's coal business.

Tampa Electric Overview and Growth Prospects

We expect declining EPS at Tampa Electric and Peoples Gas in 2008 due to weak economic conditions. Customer growth of ~0.6% in conjunction with higher O&M, and D&A tend to depress earnings. O&M is expected to increase by almost 6% in 2008 and includes ongoing expenditures of $50 million per year for T&D storm hardening.

Tampa Electric earned an 11.4% ROE in 2007, toward the middle of its 10.75%-12.75% range on a rate base of ~$3bn and a 49% equity ratio. The company's ROE is expected to decline in 2008 due to capital investments and costs rising faster than revenues; we forecast Tampa Electric's earned ROE in the 9% range based on average rate base of ~$3bn and a ~53-54% equity ratio. In Florida, the ROE calculation is based on the actual equity mix, and not on the allowed equity mix of 58.6% that was deemed appropriate in Tampa Electric's last rate review in 1998. TE expects to file an electric rate case in 2008 or early 2009, and expects some regulatory recovery in 2009 (rate cases can take ~8 months). Tampa Electric will continue to benefit to some degree from earnings from environmental cost recovery on its four SCRs under

construction (2007-2011), and higher AFUDC, which is reflected in our model: The second SCR is expected to go into service in May of '08.

We model a $0.05 benefit from the elimination of a transportation disallowance cost at Tampa Electric by 2009. These transportation costs could soon be subject to recovery through the fuel clause provided the commission deems that Tampa Electric has conducted a fair and competitive bidding process for these transportation services. This does not require filling a full rate case and will likely be part of the company's annual fuel clause filing scheduled for the fall of 2008.

An additional rate filing is expected at Peoples Gas, which has an allowed ROE of 10.25%-12.25% on rate base of ~$500 million. The company has not disclosed the company's earned ROE in 2007, which could be below its allowed range. Peoples Gas expects to file for base rate relief in 2008 with final rates to be in place in early 2009.

Our estimates at the gas and electric utilities reflect $70 million of revenue recovery starting in Q2'09 ($0.20/share of cumulative benefit through 2010), which we estimate could represent a ~4% increase in base rates excluding fuel. For conservatism, we have assumed no proposed new generation capital expenditures in our forecasts. There are approximately $124 million in 2009 and average ~$247 million/ year in 2010-2012 according to the company's 10K filing.

Review of Teco Guatemala

Following the exit from other non-core businesses, Teco's investments in Guatemala utility infrastructure now generate 18% of total TE corporate earnings.

TE Guatemala, through its subsidiaries, owns a coal-fired generating facility (the 120MW San Jose Power Station) and has a 96% ownership interest in a oil-fired peaking power generating plant (78MW Alborada Power Station), both under long-term PPAs with EEGSA, a regulated distribution utility in Guatemala. EEGSA serves more than 800,000 customers in and around the metropolitan area of Guatemala City and is 81% owned by DECA II, an entity owned by a consortium of utilities. TE Guatemala indirectly holds a 30% interest in DECA II and a 24% indirect interest in EEGSA. DECA II also holds miscellaneous businesses other than EEGSA, including electricity transmission services, wholesale power sales to large electric customers, engineering services and telecommunications services.

Earnings contributions from the three major segments of the Guatemala operations are as follows: 50% of gross earnings before parent costs come from the San Jose Power Station, 15% come from the Alborada Power Station, and 35% from DECA II. Within DECA II, the affiliated energy related companies and earnings on existing offshore cash contributed 55% of overall earnings. The remainder is provided by EEGSA.

For 2008, the company is guiding for lower net income than in '07, in part due to a $1.9 million after-tax equity benefit that is unlikely to recur in '08. While the Alborada Power Station is expected to have a similar performance than in '07, San Jose will undergo planned maintenance which will increase O&M and

reduce the opportunity for spot market sales. EEGSA will undergo a review of retail distribution rates, which occurs every five years, and a final decision is expected in mid-summer this year.

The company is working on a 200MW RFP for coal fired power station that has been issued by Guatemala's other major distribution utility, Union Fenosa. The bids are due in April with the long-term power sales contract expected to be awarded later this year. If TE Guatemala wins this bid, it will likely use its offshore cash (roughly ~$59 million) and non-recourse project financing to fund this project. However, based on the company's March 27th Financial Update TE appears to have identified "several issues" with the RFP.

Teco Energy Inc

Company description

TECO Energy, Inc. (TE) is a holding company whose core business, Tampa Electric Company, is a regulated electric and gas utility (Tampa Electric and Peoples Gas System), which owns more than 4,000 megawatts (MW) of generation capacity and serves more than 600,000 retail electric customers and 300,000 retail gas customers in west-central Florida. The company also operates a coal business in the US, and owns distribution and generation assets in Guatemala.

Investment strategy

We rate the shares of TECO Energy, Inc. Buy/ High Risk (1H). We expect earnings growth and strong cash flow generation through our forecast period, which should leave TECO in a position to retire high interest debt and improve its balance sheet. The company is materially benefiting from upside in coal prices through 2010. Its business mix, which includes coal mines and investments in Latin American power infrastructure, makes it more risky that the average "Defensive" regulated utility.

Valuation

For TECO Energy, Inc., we employ a hybrid valuation methodology, using the average of our P/E, sum-of-the-parts, and DCF analyses to arrive at our target price of $25/share. We have increased our price target from $21.50/share.

Using a P/E methodology, we value the stock at $28/share. We base this target price on a 10x 2009 EPS of $2.80. We look to 2009 as a representative of a potential peak in TECO's earnings power. The 10x multiple is 50 basis points below the bottom end of the range of valuations in our Integrated utility sub-group, which is also highly commodity cyclical. The average trading multiple on the integrated group is currently 14x '09 with a range of 10.5x -19.5x.

For our sum-of-the-parts methodology, we arrive at a ~$23 valuation by aggregating the values of TECO's coal business. We apply a 12.5x multiple of 2010 P/E multiple on the utility business, excluding earnings from TECO Coal. We then look at both a discounted cash flow associated with fully depleting TECO Coal's 277 million tons of coal reserves & a comparable EBITDA multiple to pure play coal companies, and add ~$2 per share for the realization of cash tax savings from TECO's NOL and AMT balance remaining at YE '09.

We arrive at a ~$24.50 target price using a DCF analysis. We employ a beta of 0.9, a terminal growth rate of ~2.5%, and an ~7.5% discount rate, which is slightly higher than our estimated weighted average cost of capital (WACC) for TECO, but consistent with our valuation methodology for utilities.

In both the consolidated and stand-alone coal DCF the value of the company has increased meaningfully as we have increased our terminal coal price assumption from $60/ton on average to over $100/ton ($90 for steam coal and $150/ton for Met/PCI coal). Our EBITDA target multiple used in the sum-of-parts model is a multiple point discount to the take-out multiple announced this morning.

Risks

We rate TECO Energy, Inc. High Risk. The company is more heavily levered than its regulated utility peer group and diversified in to more risky businesses. Roughly 69% of EPS come from its Florida utilities (before parent dilution), with the remaining exposure to coal mining (levered to commodity price outlook) and investments in Latin American power infrastructure (somewhat opaque in its business outlook given lack of visibility on local regulation).

TECO is heavily levered --- Failure to meet cash flow targets could affect the company's financial condition and flexibility, as the level of TECO's indebtedness and restrictive covenants could limit its ability to obtain additional financing or refinance existing debt. While we estimate TECO will generate significant cash flow, which will enable it to service its long-term debt maturities, if cash flow targets are not met due to shortfalls in operating cash flows and/or failure to maintain capital spending at forecasted level, the company could face liquidity constraints and the shares could have difficulty reaching our target price.

Coal prices and volumes could affect long-term earnings power --- TECO Coal's earnings are dependant on realized commodity pricing, as well as, volumes sold. A deviation in price from our forecasted assumption could cause a negative or a positive impact on earnings contribution and is therefore a risk to our target price.

TECO owns assets power generation and distribution assets in Guatamela that generate 16% of annual EPS. Our ability to predict whether these investments will generate predicable returns is limited by lack of information regarding local regulation and the underlying current regulated rates of return in those businesses. Given upcoming rate reviews in Guatemala and TECO's contemplation of further investment in the region, earnings could vary meaningfully from our estimates.

If the impact on the company from any of these factors proves to be greater than we anticipate, the stock could have difficulty attaining our our target price.

Conversely, if the impact on the company from any of these factors proves to be greater than we anticipate, the stock could underperform our target price.

Appendix A-1

Analyst Certification

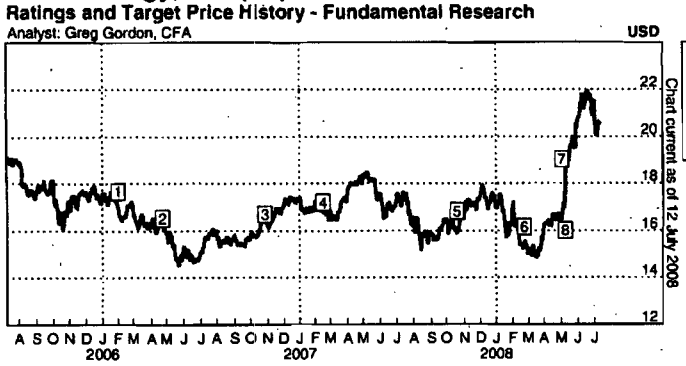
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TECO Energy, Inc. (TE)

Ratings and Target Price History - Fundamental Research

Analyst: Greg Gordon, CFA



#	Date	Rating	Target Price	Closing Price
1:	1 Feb 06	2H	*16.75	16.98
2:	24 Apr 06	2H	*16.50	16.45
3:	27 Oct 06	2H	*17.50	16.49
4:	15 Feb 07	2H	*16.50	16.84
5:	19 Oct 07	2H	*16.00	15.85
6:	25 Feb 08	2H	*17.00	15.50
7:	2 May 08	2H	*17.75	16.64
8:	8 May 08	*1H	*21.50	17.71

*Indicates change.

Rating/target price changes above reflect Eastern Standard Time

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FILED: OCTOBER 20, 2008

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Multi-Utilities (GEX) | Electric Utilities (GEX)

Company Focus

8 May 2008 | 12 pages

Teco Energy Inc (TE)

Our Prior Forecast Understated TE's Leverage To Higher Coal Prices. We Are Raising EPS Estimates, Target Price & Rating.

Change in opinion ☑
Rating change ☑
Target price change ☑
Estimate change ☑

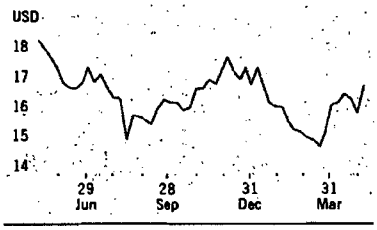
- **Revising Estimates Up Given Coal Pricing** — We are increasing our 2009 estimate by $0.75/share to $2.00/share, and our 2010 estimate up $0.20/share to $1.50 based on an uplift from assumed higher cash margins at Teco Coal, which hedged its '08 production and a portion of its '09 production before the recent run up in prices, but is meaningfully un-hedged on the portion of its 11-11.5 tons of expected '09 coal production that is Met & PCI coal.

- **Coal Price Leverage Is Profound** — We assume realized pricing on 4.4mm tons of Met and PCI coal rises from $70/ton in '08 to $125/ton in '09, which is materially lower than the $180+/ton pricing Citi's coal analysts are seeing for lower quality coals in this category. We assume pricing on 6.6mm tons of steam coal rises from $50/ton to $65/ton as a portion came off contract and was re-priced in March '08. While these revenue assumptions may prove conservative we are nervous about cost escalation. Our model assumes a 15% annual increase in cost per ton. Nonetheless, we now forecast gross margin per ton at TE Coal rising from $10 in '08 to $34 in '09 and settling at $20 ton in 2010. This is a higher margin than inferred by prior management guidance on realized pricing, given in March '08.

- **Price Target Now $21.50/share** — Our price target of $21.50/share is derived from looking at three separate methodologies. This is 10.8x '09 earnings of $2.00, and results in total return prospects of ~25%+ when factoring in TE's current ~4.5% yield.

Buy/High Risk	**1H**
from Hold/High Risk	
Price (08 May 08)	US$17.71
Target price	US$21.50
from US$17.75	
Expected share price return	21.4%
Expected dividend yield	4.5%
Expected total return	**25.9%**
Market Cap	US$3,732M

Price Performance (RIC: TE.N, BB: TE US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2007A	0.21A	0.25A	0.38A	0.23A	1.07A	1.07A
2008E	**0.15A**	**0.24E**	**0.35E**	**0.22E**	**0.95E**	**1.01E**
Previous	0.15A	0.24E	0.35E	0.22E	0.95E	na
2009E	**na**	**na**	**na**	**na**	**2.00E**	**1.23E**
Previous	na	na	na	na	1.25E	na
2010E	**na**	**na**	**na**	**na**	**1.50E**	**1.32E**
Previous	na	na	na	na	1.30E	na

Source: Powered by dataCentral. FC Cons: First Call Consensus.

Greg Gordon, CFA
+1-212-816-2802
greg.gordon@citi.com

Marc Decroisset
marc.decroisset@citi.com

See Appendix A-1 for Analyst Certification and important disclosures.

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Teco Energy Inc (TE)
8 May 2008

Fiscal year end 31-Dec	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	18.2	16.5	18.6	8.8	11.8
EV/EBITDA adjusted (x)	7.5	5.8	8.1	5.8	6.3
P/BV (x)	2.1	1.9	1.8	1.6	1.5
Dividend yield (%)	4.3	4.3	4.3	4.3	4.3
Per Share Data (US$)					
EPS adjusted	0.97	1.07	0.95	2.00	1.50
EPS reported	1.16	1.91	0.95	2.00	1.50
BVPS	8.31	9.57	9.71	10.97	11.74
DPS	0.76	0.76	0.76	0.76	0.76
Profit & Loss (US$M)					
Net sales	3,448	3,536	3,441	3,904	3,929
Operating expenses	-3,039	-3,126	-2,950	-3,093	-3,244
EBIT	**409**	**410**	**491**	**811**	**684**
Net interest expense	-276	-253	-237	-258	-258
Non-operating/exceptionals	156	377	31	11	11
Pre-tax profit	**290**	**534**	**285**	**564**	**437**
Tax	-119	-214	-84	-140	-118
Extraord./Min.Int./Pref.div.	70	82	0	0	0
Reported net income	**241**	**402**	**201**	**424**	**319**
Adjusted earnings	202	225	201	424	319
Adjusted EBITDA	920	1,137	806	1,125	1,013
Growth Rates (%)					
Sales	14.6	2.6	-2.7	13.4	0.6
EBIT adjusted	-6.1	37.0	-39.6	57.5	-15.2
EBITDA adjusted	-4.3	23.6	-29.1	39.5	-10.0
EPS adjusted	-21.4	10.4	-11.4	110.6	-25.0
Cash Flow (US$M)					
Operating cash flow	**562**	**543**	**560**	**839**	**725**
Depreciation/amortization	282	264	279	294	308
Net working capital	-55	-19	24	0	0
Investing cash flow	**-384**	**-28**	**-513**	**-578**	**-408**
Capital expenditure	-455	-497	-595	-608	-438
Acquisitions/disposals	73	284	-7	30	30
Financing cash flow	**-87**	**-805**	**-157**	**29**	**-71**
Borrowings	-6	-738	-4	180	80
Dividends paid	-159	-163	-162	-161	-161
Change in cash	**90**	**-291**	**-110**	**290**	**245**
Balance Sheet (US$M)					
Total assets	**7,362**	**6,765**	**6,862**	**7,315**	**7,563**
Cash & cash equivalent	442	163	54	344	589
Accounts receivable	338	296	310	310	310
Net fixed assets	4,767	4,888	5,203	5,499	5,613
Total liabilities	**5,555**	**4,748**	**4,812**	**4,992**	**5,072**
Accounts payable	327	302	282	282	282
Total Debt	3,703	3,158	3,162	3,342	3,422
Shareholders' funds	**1,807**	**2,017**	**2,050**	**2,323**	**2,491**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	26.7	32.2	23.4	28.8	25.8
ROE adjusted	12.2	12.0	9.9	19.4	13.2
ROIC adjusted	8.8	11.3	7.7	11.6	9.7
Net debt to equity	180.5	148.5	151.6	129.0	113.7
Total debt to capital	67.2	61.0	60.7	59.0	57.9

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Upgrading Stock on Coal Uplift

We see earnings of $0.95 in '08, $2.00/share in '09 and $1.50/share '10. Our '09 estimate is up to reflect leverage to coal prices at TE Coal. While we are bullish on the prospects for coal, we are cautious on the prospects for the utility given declining customer growth / usage and two rate case proceedings likely taking place in a recessionary environment. Nonetheless, the pricing leverage TE has on its 11 million tons of expected coal production in 2011 appears quite meaningful and will likely more than offset any weakness at the utility.

Figure 1. TE Earnings Dashboard

EARNINGS SUMMARY	2006A	2007A	2008E	2009E	2010E
Consolidated Net Income	201.6	225.4	200.8	423.9	316.6
Average Shares Outstanding	207.8	209.9	211.0	211.5	212.0
Consolidated Earnings Per Share	$ 0.97	$ 1.07	$0.95	$2.00	$1.50
Regulated Utility	0.79	0.84	$0.80	$0.86	$0.91
TECO Wholesale Generation - Merchant	-	-	-	-	-
TECO Transport	0.10	0.12	-	-	-
TECO Coal	0.23	0.18	0.18	1.15	0.57
Other Unregulated Companies	0.18	0.21	0.19	0.22	0.24
Other / Eliminations	(0.33)	(0.28)	(0.23)	(0.23)	(0.21)
Earnings Per share Growth Rate	(22%)	11%	(11%)	111%	(25%)

Source: Citi Investment Research

Price Target $21.50/share

For TECO Energy, Inc., we employ a hybrid valuation methodology, using the average of our P/E, sum-of-the-parts, and DCF analyses to arrive at our target price of $21.50/share. We have increased our price target from $17.75/share.

Using a P/E methodology, we value the stock at $23.25. We base this target price on a 11.5x 2009 EPS of $2.00. We look to 2009 as a representative of a potential peak in TECO's earnings power. The 11.5x multiple reflects the bottom end of the range of valuations in our Integrated utility sub-group, which is also highly commodity cyclical. The average trading multiple on the integrated group is currently 14x '09 with a range of 11.5x -18x.

For our sum-of-the-parts methodology, we arrive at a ~$21.25 valuation by aggregating the values of TECO's coal business. We apply a 14x multiple of 2009 P/E multiple on the utility business, excluding earnings from TECO Coal. We then look at both a discounted cash flow associated with fully depleting TECO Coal's 258 million tons of coal reserves & a comparable EBITDA multiple to pure play coal companies, and add ~$2 per share for the realization of cash tax savings from TECO's NOL and AMT balance remaining at YE '09.

We arrive at a ~$20 target price using a DCF analysis. We employ a beta of 0.9, a terminal growth rate of ~2.5%, and an ~7.5% discount rate, which is slightly higher than our estimated weighted average cost of capital (WACC) for TECO, but consistent with our valuation methodology for utilities.

Favorable Pricing Fundamentals Bode Well for Coal Margins in 2009

TE Coal's profit margins for '08 are hedged out at realized pricing of approximately $58/ton. In its March 27th, Financial Update, TE provided an update to its 2009 outlook, saying it expected to produce 11-11.5 million tons and average prices across all products to be $7-$10/ton higher than in 2008, assuming Met and PCI coal pricing of $80-90/ton, although the majority of their 4.4 million tons of production in that category is not yet priced for '09. Our coal analysts are seeing pricing in those categories at over double these prices as of April and May of '08.

We assume realized prices of $70/ton in '08 on Met/PCI coal. We assume $125/ton in '09, declining to $100 in 2010 on 4.4 million tons of Met/PCI coal production. We assume realized steam coal pricing of $50/ton in '08. We assume $64.50/ton in '09 and $72/ton in 2010, as much of it was hedged on multi-year contracts at lower prices.

For 2008, we are projecting cash margins of ~$10/ton on 10.5 million tons based on realized pricing of $58/ton, generally consistent with guidance. Based on a ~$5/ton pretax margin, and a 20% effective tax rate (based on standard deductions related to mineral extraction and depletion), we obtain ~$40 million in net income or roughly ~$0.20/share from coal production in 2008.

For 2009, we are now projecting cash margins of ~$33-$34/ton, up from $16/ton on 11 million tons based on realized pricing of $89/ton. This assumes a 15% increase in production costs per ton. While we are nervous that we might underestimate cost pressure, we are comfortable that we are using a large discount to current prices for PCI and met coal. While we admit our model is imprecise, we think we have captured the magnitude and direction of earnings in TE's coal business.

Based on a ~$28/ton pretax margin, and a 20% tax rate, we obtain ~$240 million in net income or ~$1.15/share for '09 from coal. By means of comparison, TE coal earned $47 million in net income excluding synfuel in 2006, following a period in 2005 that showed similar coal pricing characteristics. Our model reflects a ~15% increase in per unit cost for coal.

Tampa Electric Overview and Growth Prospects

We expect declining EPS at Tampa Electric and Peoples Gas in 2008 due to weak economic conditions. Customer growth of ~0.6% in conjunction with higher O&M, and D&A tend to depress earnings. O&M is expected to increase by almost 6% in 2008 and includes ongoing expenditures of $50 million per year for T&D storm hardening.

Tampa Electric earned an 11.4% ROE in 2007, toward the middle of its 10.75%-12.75% range on a rate base of ~$3bn and a 49% equity ratio. The company's ROE is expected to decline in 2008 due to capital investments and costs rising faster than revenues; we forecast Tampa Electric's earned ROE in the 9% range based on average rate base of ~$3bn and a ~53-54% equity ratio. In Florida, the ROE calculation is based on the actual equity mix, and not

on the allowed equity mix of 58.6% that was deemed appropriate in Tampa Electric's last rate review in 1998. TE expects to file an electric rate case in 2008 or early 2009, and expects some regulatory recovery in 2009 (rate cases can take ~8 months). Tampa Electric will continue to benefit to some degree from earnings from environmental cost recovery on its four SCRs under construction (2007-2011), and higher AFUDC, which is reflected in our model. The second SCR is expected to go into service in May of '08.

We model a $0.05 benefit from the elimination of a transportation disallowance cost at Tampa Electric by 2009. These transportation costs could soon be subject to recovery through the fuel clause provided the commission deems that Tampa Electric has conducted a fair and competitive bidding process for these transportation services. This does not require filling a full rate case and will likely be part of the company's annual fuel clause filing scheduled for the fall of 2008.

An additional rate filing is expected at Peoples Gas, which has an allowed ROE of 10.25%-12.25% on rate base of ~$500 million. The company has not disclosed the company's earned ROE in 2007, which could be below its allowed range. Peoples Gas expects to file for base rate relief in 2008 with final rates to be in place in early 2009.

Our estimates at the gas and electric utilities reflect $70 million of revenue recovery starting in Q2'09 ($0.20/share of cumulative benefit through 2010), which we estimate could represent a ~4% increase in base rates excluding fuel. For conservatism, we have assumed no proposed new generation capital expenditures in our forecasts. There are approximately $124 million in 2009 and average ~$247 million/ year in 2010-2012 according to the company's 10K filing.

Review of Teco Guatemala

Following the exit from other non-core businesses, Teco's investments in Guatemala utility infrastructure now generate 18% of total TE corporate earnings.

TE Guatemala, through its subsidiaries, owns a coal-fired generating facility (the 120MW San Jose Power Station) and has a 96% ownership interest in a oil-fired peaking power generating plant (78MW Alborada Power Station), both under long-term PPAs with EEGSA, a regulated distribution utility in Guatemala. EEGSA serves more than 800,000 customers in and around the metropolitan area of Guatemala City and is 81% owned by DECA II, an entity owned by a consortium of utilities. TE Guatemala indirectly holds a 30% interest in DECA II and a 24% indirect interest in EEGSA. DECA II also holds miscellaneous businesses other than EEGSA, including electricity transmission services, wholesale power sales to large electric customers, engineering services and telecommunications services.

Earnings contributions from the three major segments of the Guatemala operations are as follows: 50% of gross earnings before parent costs come from the San Jose Power Station, 15% come from the Alborada Power Station, and 35% from DECA II. Within DECA II, the affiliated energy related companies and

earnings on existing offshore cash contributed 55% of overall earnings. The remainder is provided by EEGSA.

For 2008, the company is guiding for lower net income than in '07, in part due to a $1.9 million after-tax equity benefit that is unlikely to recur in '08. While the Alborada Power Station is expected to have a similar performance than in '07, San Jose will undergo planned maintenance which will increase O&M and reduce the opportunity for spot market sales. EEGSA will undergo a review of retail distribution rates, which occurs every five years, and a final decision is expected in mid-summer this year.

The company is working on a 200MW RFP for coal fired power station that has been issued by Guatemala's other major distribution utility, Union Fenosa. The bids are due in April with the long-term power sales contract expected to be awarded later this year. If TE Guatemala wins this bid, it will likely use its offshore cash (roughly ~$59 million) and non-recourse project financing to fund this project. However, based on the company's March 27th Financial Update TE appears to have identified "several issues" with the RFP.

Q1 '08 EARNINGS REVIEW

TE reported Q1'08 EPS of $0.15/share versus our estimate of $0.24 and consensus of $0.21. Earnings from the gas and electric utilities were down significantly from the prior year due to mild weather and a slowing economy in Florida. The company is maintaining its '08 guidance of $0.95-$1.10/share but expects full-year customer growth to be slightly above the first quarter level of ~0.6%. The company premised its '08 guidance on 2% customer growth but contends that its guidance range is still reasonable.

Q1'08 net income at the utility was $15.9 million compared with $21.8 million the prior year. Results reflect 0.6% average customer growth, and a 2.1% decline in retail sales. Total degree days for the electric service area were 10% below normal and 11% below the first quarter 2007. Results at Peoples Gas were $10 million compared to $11 million the prior year, reflecting 0.3% customer growth and mild winter weather.

Teco coal expects 2008 sales of 10.5 million tons in response to market conditions. However, higher selling prices for the additional sales are expected to be offset by higher prices for diesel, resulting in after-tax margins of $4/ton.

During the company's conference call investors focused on weak results at the utility, possible rate relief in 2009, and the coal outlook for 2008 and 2009.

Teco Energy Inc

Company description

TECO Energy, Inc. (TE) is a holding company whose core business, Tampa Electric Company, is a regulated electric and gas utility (Tampa Electric and Peoples Gas System), which owns more than 4,000 megawatts (MW) of generation capacity and serves more than 600,000 retail electric customers

and 300,000 retail gas customers in west-central Florida. The company also operates a coal business in the US, and owns distribution and generation assets in Guatemala.

Investment strategy

We rate the shares of TECO Energy, Inc. Buy/ High Risk (1H). We expect earnings growth and strong cash flow generation through our forecast period, which should leave TECO in a position to retire high interest debt and improve its balance sheet. The company is materially benefiting from upside in coal prices through 2010. Its business mix, which includes coal mines and investments in Latin American power infrastructure, makes it more risky that the average "Defensive" regulated utility.

Valuation

For TECO Energy, Inc., we employ a hybrid valuation methodology, using the average of our P/E, sum-of-the-parts, and DCF analyses to arrive at our target price of $21.50/share. We have increased our price target from $17.75/share.

Using a P/E methodology, we value the stock at $23.25. We base this target price on a 11.5x 2009 EPS of $2.00. We look to 2009 as a representative of a potential peak in TECO's earnings power. The 11.5x multiple reflects the bottom end of the range of valuations in our Integrated utility sub-group, which is also highly commodity cyclical. The average trading multiple on the integrated group is currently 14X '09 with a range of 11.5X -18X, based on our analysis.

For our sum-of-the-parts methodology, we arrive at a ~$21.25 valuation by aggregating the values of TECO's coal business. We apply a 14x multiple of 2009 P/E multiple on the utility business, excluding earnings from TECO Coal. We then look at both a discounted cash flow associated with fully depleting TECO Coal's 258 million tons of coal reserves & a comparable EBITDA multiple to pure play coal companies, and add ~$2 per share for the realization of cash tax savings from TECO's NOL and AMT balance remaining at YE '09.

We arrive at a ~$20 target price using a DCF analysis. We employ a beta of 0.9, a terminal growth rate of ~2.5%, and an ~7.5% discount rate, which is slightly higher than our estimated weighted average cost of capital (WACC) for TECO, but consistent with our valuation methodology for utilities.

Risks

We rate TECO Energy, Inc. High Risk. The company is more heavily levered than its regulated utility peer group and diversified in to more risky businesses. Roughly 69% of EPS come from its Florida utilities (before parent dilution), with the remaining exposure to coal mining (levered to commodity price outlook) and investments in Latin American power infrastructure (somewhat opaque in its business outlook given lack of visibility on local regulation).

TECO is heavily levered --- Failure to meet cash flow targets could affect the company's financial condition and flexibility, as the level of TECO's indebtedness and restrictive covenants could limit its ability to obtain additional financing or refinance existing debt. While we estimate TECO will generate significant cash flow, which will enable it to service its long-term debt maturities, if cash flow targets are not met due to shortfalls in operating cash flows and/or failure to maintain capital spending at forecasted level, the company could face liquidity constraints.

Coal prices and volumes could affect long-term earnings power --- TECO Coal's earnings are dependant on realized commodity pricing, as well as, volumes sold. A deviation in price from our forecasted assumption could cause a negative or a positive impact on earnings contribution and is therefore a risk to our target price.

TECO owns assets power generation and distribution assets in Guatamela that generate 16% of annual EPS. Our ability to predict whether these investments will generate predicable returns is limited by lack of information regarding local regulation and the underlying current regulated rates of return in those businesses. Given upcoming rate reviews in Guatemala and TECO's contemplation of further investment in the region, earnings could vary meaningfully from our estimates.

If the impact on the company from any of these factors proves to be less than we anticipate, the stock could materially outperform our target price.

Conversely, if the impact on the company from any of these factors proves to be greater than we anticipate, the stock could underperform our target price.

Appendix A-1

Analyst Certification

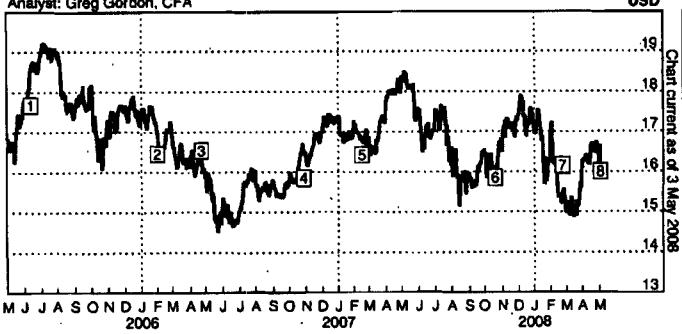
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IMPORTANT DISCLOSURES

TECO Energy, Inc. (TE)

Ratings and Target Price History - Fundamental Research

Analyst: Greg Gordon, CFA



#	Date	Rating	Target Price	Closing Price
1:	13 Jun 05	2H	*17.75	18.56
2:	1 Feb 06	2H	*16.75	16.98
3:	24 Apr 06	2H	*16.50	16.45
4:	27 Oct 06	2H	*17.50	16.49
5:	15 Feb 07	2H	*16.50	16.84
6:	19 Oct 07	2H	*16.00	15.85
7:	25 Feb 08	2H	*17.00	15.50
8:	2 May 08	2H	*17.75	16.64

*Indicates change.

Covered
Not covered

Rating/target price changes above reflect Eastern Standard Time

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TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008

Teco Energy Inc (TE)

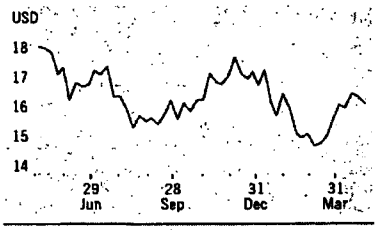
Target price change ☑
Estimate change ☑

Utility Earnings Under Pressure but Coal Price Sustains Earnings Power. Target Is Now $17.75/Share.

- **Economic Slowdown Reduces Growth at the Utilities** — TE reported Q1'08 EPS of $0.15/share versus our estimate of $0.24 and consensus of $0.21. Earnings from the gas and electric utilities were down significantly due to mild weather, and slower customer and usage growth in Florida. We have lowered our '08 forecast to $0.95/share, down from $1.07/share, primarily on the assumption of weaker growth at the utilities, so we are now at the low end of '08 guidance of $0.95-$1.10/share.
- **Revising Long-Term Estimates Up on Coal** — We are increasing our 2009 estimate by $0.05/share to $1.25/share based on an uplift from higher cash margins at Teco Coal, offset by lower growth at Tampa Electric. Our '10 estimate is $0.05 higher at $1.30/share.
- **Price Target Now $17.75/share** — Our price target of $17.75/share is 14.2x '09E earnings of $1.25, resulting in total return prospects of ~13%+. With a ~5% yield, we see downside protection and thematically, investors may be attracted to the coal story embedded which should sustain earnings growth through 2009.
- **What's Next?** — A gas rate case will be filed this year. A Tampa Electric fuel filing should take place in the fall, and we expect an electric rate case filing by late this year or Q1'09.

Hold/High Risk	**2H**
Price (01 May 08)	US$16.35
Target price	US$17.75
from US$17.50	
Expected share price return	8.6%
Expected dividend yield	4.9%
Expected total return	**13.5%**
Market Cap	US$3,448M

Price Performance (RIC: TE.N, BB: TE US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2007A	0.21A	0.25A	0.38A	0.23A	1.07A	1.07A
2008E	**0.15A**	**0.24E**	**0.35E**	**0.22E**	**0.95E**	**1.02E**
Previous	0.24E	0.25E	0.31E	0.20E	1.00E	na
2009E	**na**	**na**	**na**	**na**	**1.25E**	**1.23E**
Previous	na	na	na	na	1.20E	na
2010E	**na**	**na**	**na**	**na**	**1.30E**	**1.31E**
Previous	na	na	na	na	1.25E	na

Source: Powered by dataCentral. FC Cons: First Call Consensus.

Greg Gordon, CFA
+1-212-816-2802
greg.gordon@citi.com

Marc Decroisset
marc.decroisset@citi.com

See Appendix A-1 for Analyst Certification and important disclosures.

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Teco Energy Inc (TE)
2 May 2008

Fiscal year end 31-Dec	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	16.8	15.2	17.2	13.1	12.6
EV/EBITDA adjusted (x)	7.2	5.6	7.7	6.8	6.6
P/BV (x)	2.0	1.7	1.7	1.6	1.5
Dividend yield (%)	4.6	4.6	4.6	4.6	4.6
Per Share Data (US$)					
EPS adjusted	0.97	1.07	0.95	1.25	1.30
EPS reported	1.16	1.91	0.95	1.25	1.30
BVPS	8.31	9.57	9.71	10.22	10.79
DPS	0.76	0.76	0.76	0.76	0.76
Profit & Loss (US$M)					
Net sales	3,448	3,536	3,441	3,655	3,746
Operating expenses	-3,039	-3,126	-2,950	-3,043	-3,115
EBIT	**409**	**410**	**491**	**613**	**631**
Net interest expense	-276	-253	-237	-258	-258
Non-operating/exceptionals	156	377	31	11	11
Pre-tax profit	**290**	**534**	**285**	**365**	**383**
Tax	-119	-214	-84	-100	-107
Extraord./Min.Int./Pref.div.	70	82	0	0	0
Reported net income	**241**	**402**	**201**	**265**	**276**
Adjusted earnings	202	225	201	265	276
Adjusted EBITDA	920	1,137	806	926	960
Growth Rates (%)					
Sales	14.6	2.6	-2.7	6.2	2.5
EBIT adjusted	-6.1	37.0	-39.6	19.8	3.1
EBITDA adjusted	-4.3	23.6	-29.1	14.8	3.6
EPS adjusted	-21.4	10.4	-11.4	31.6	4.0
Cash Flow (US$M)					
Operating cash flow	**562**	**543**	**560**	**642**	**672**
Depreciation/amortization	282	264	279	294	308
Net working capital	-55	-19	24	0	0
Investing cash flow	**-384**	**-28**	**-513**	**-578**	**-408**
Capital expenditure	-455	-497	-595	-608	-438
Acquisitions/disposals	73	284	-7	30	30
Financing cash flow	**-87**	**-805**	**-157**	**29**	**-71**
Borrowings	-6	-738	-4	180	80
Dividends paid	-159	-163	-162	-161	-161
Change in cash	**90**	**-291**	**-110**	**93**	**193**
Balance Sheet (US$M)					
Total assets	**7,362**	**6,765**	**6,862**	**7,156**	**7,361**
Cash & cash equivalent	442	163	54	147	340
Accounts receivable	338	296	310	310	310
Net fixed assets	4,767	4,888	5,203	5,499	5,613
Total liabilities	**5,555**	**4,748**	**4,812**	**4,992**	**5,072**
Accounts payable	327	302	282	282	282
Total Debt	3,703	3,158	3,162	3,342	3,422
Shareholders' funds	**1,807**	**2,017**	**2,050**	**2,164**	**2,289**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	26.7	32.2	23.4	25.3	25.6
ROE adjusted	12.2	12.0	9.9	12.6	12.4
ROIC adjusted	8.8	11.3	7.7	8.9	8.9
Net debt to equity	180.5	148.5	151.6	147.6	134.6
Total debt to capital	67.2	61.0	60.7	60.7	59.9

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Robust Earnings Trajectory Through 2009

We see earnings of $0.95 in '08, $1.25/share in '09 and $1.30/share '10. Our '09 estimate is up $0.05/share primarily to reflect $0.10/share of improvement at TE Coal, offset by lower assumptions at the utility. While we are generally bullish on the prospects for coal, we are cautious on the prospects for the utility given declining customer growth / usage and two rate case proceedings likely taking place in a recessionary environment.

Figure 1. TE Earnings Dashboard

EARNINGS SUMMARY	2006A	2007A	2008E	2009E	2010E
Consolidated Net Income	201.6	225.4	200.8	265.0	276.1
Average Shares Outstanding	207.8	209.9	211.0	211.5	212.0
Consolidated Earnings Per Share	$ 0.97	$ 1.07	$0.95	$1.25	$1.30
Regulated Utility	0.79	0.84	$0.80	$0.86	$0.91
TECO Wholesale Generation - Merchant	-	-	-	-	-
TECO Transport	0.10	0.12	-	-	-
TECO Coal	0.23	0.18	0.18	0.40	0.37
Other Unregulated Companies	0.18	0.21	0.19	0.22	0.24
Other / Eliminations	(0.33)	(0.28)	(0.23)	(0.23)	(0.21)
Earnings Per share Growth Rate	(22%)	11%	(11%)	32%	4%

Source: Citi Investment Research

Price Target $17.75/share

For TECO Energy, Inc., we employ a hybrid valuation methodology, using the average of our P/E, sum-of-the-parts, and DCF analyses to arrive at our target price of $17.75/share. We have increased our price target from $17.50/share.

Using a P/E methodology, we value the stock at $17.50. We base this target price on a 14x 2009 EPS of $1.25. We look to 2009 as a representative for TECO's longer-term earnings power. The 14x multiple reflects our belief that the company should trade at a discount to the defensive group (with average price target multiple of 14.5x varying between 13x and 15x) given the necessity of near term rate cases, modestly lower long term growth prospects than peers, and an earnings mix that reflects commodity risk and international exposure.

For our sum-of-the-parts methodology, we arrive at a ~$17.00 valuation by aggregating the values of TECO's coal business. We apply a 14x multiple of 2009 P/E multiple on the utility business, excluding earnings from TECO Coal. We then add ~$3 per share for our estimate of the discounted cash flow associated with fully depleting TECO Coal's 258 million tons of coal reserves, and ~$2 per share for the realization of cash tax savings from TECO's NOL and AMT balance remaining at YE '09.

We arrive at a ~$18.50 target price using a DCF analysis. We employ a beta of 0.9, a terminal growth rate of ~2.5%, and an ~7.5% discount rate, which is slightly higher than our estimated weighted average cost of capital (WACC) for TECO, but consistent with our valuation methodology for utilities.

Tampa Electric Overview and Growth Prospects

We expect declining EPS at Tampa Electric and Peoples Gas in 2008 due to weak economic conditions. Customer growth of ~0.6% in conjunction with higher O&M, and D&A tend to depress earnings. O&M is expected to increase

by almost 6% in 2008 and includes ongoing expenditures of $50 million per year for T&D storm hardening.

Tampa Electric earned an 11.4% ROE in 2007, toward the middle of its 10.75%-12.75% range on a rate base of ~$3bn and a 49% equity ratio. The company's ROE is expected to decline in 2008 due to capital investments and costs rising faster than revenues; we forecast Tampa Electric's earned ROE in the 9% range based on average rate base of ~$3bn and a ~53-54% equity ratio. In Florida, the ROE calculation is based on the actual equity mix, and not on the allowed equity mix of 58.6% that was deemed appropriate in Tampa Electric's last rate review in 1998. TE expects to file an electric rate case in 2008 or early 2009, and expects some regulatory recovery in 2009 (rate cases can take ~8 months). Tampa Electric should continue to benefit to some degree from earnings from environmental cost recovery on its four SCRs under construction (2007-2011), and higher AFUDC, which is reflected in our model. The second SCR is expected to go into service in May of '08.

We model a $0.05 benefit from the elimination of a transportation disallowance cost at Tampa Electric by 2009. These transportation costs could soon be subject to recovery through the fuel clause provided the commission deems that Tampa Electric has conducted a fair and competitive bidding process for these transportation services. This does not require filling a full rate case and will likely be part of the company's annual fuel clause filing scheduled for the fall of 2008.

An additional rate filing is expected at Peoples Gas, which has an allowed ROE of 10.25%-12.25% on rate base of ~$500 million. The company has not disclosed the company's earned ROE in 2007, which could be below its allowed range. Peoples Gas expects to file for base rate relief in 2008 with final rates to be in place in early 2009.

Our estimates at the gas and electric utilities reflect $70 million of revenue recovery starting in Q2'09 ($0.20/share of cumulative benefit through 2010), which we estimate could represent a ~4% increase in base rates excluding fuel. For conservatism, we have assumed no proposed new generation capital expenditures in our forecasts. There are approximately $124 million in 2009 and average ~$247 million/ year in 2010-2012 according to the company's 10K filing.

Favorable Pricing Fundamentals Bode Well for Coal Margins in 2009

In its March 27th, Financial Update, TE provided an update to its 2009 outlook and expects to produce 11-11.5 million tons and average prices across all products to be $7-$10/ton higher than in 2008 (at ~$58/ton). The company has now contracted almost 90% of its 2009 production and 60% of its 2010 production. Roughly 70% of production for 2009 and 40% of production in 2010 has been both contracted and priced, whereas only 40% of 2009 production was both contracted and priced as of Q4'07.

As can be seen in the following tables, Central Appalachian coal prices and Met coal prices strengthened in late Nov./Dec. 2007 and early 2008. This was the basis of our prior contention that 2009 coal margins would be strong. Cash

margin expansion will be mitigated in 2008 relative to 2007 since much of steam and met production was contracted ahead of the run up in pricing.

Figure 2. Historical Coal Prices

Region	2Q'07	3Q'07	4Q'07	1Q'08	Current	Q3 Fwd
Central Appalachia	43.66	45.08	48.42	70.14	**95.00**	**91.30**
Northern Appalachia	44.75	45.70	50.55	71.07	**105.00**	**100.00**
Illinois Basin	28.85	31.62	33.10	42.00	**57.00**	**57.00**
Powder River Basin	8.82	10.03	11.02	13.15	**14.15**	**14.90**
Natural Gas (H. Hub)	7.53	6.17	6.96	8.61	**10.07**	
Crude Oil (WTI)	64.94	75.16	90.77	97.76	**116.62**	

Source: Platts, Citi Investment Research

Source: Platts and John Hill, Metals and Mining Analyst, Citi Investment Research

Figure 3. Coal Forecast

Region	Q1 '08A	Q2 '08A	Q3 '08E	Q4 '08E	FY '08E	FY '09E	FY '10E
PRB (US$/t)	12.50	13.00	13.50	14.00	13.25	14.50	16.00
Capp (US$/t)	65.00	65.00	65.00	65.00	65.00	68.00	62.00
Napp (US$/t)	64.00	64.00	64.00	64.00	64.00	66.00	60.00
Illinois Basin (US$/t)	40.00	40.00	40.00	40.00	40.00	44.00	44.00
Met (US$/t)	100.00	100.00	100.00	100.00	100.00	90.00	80.00

Source: John Hill, Metals and Mining Analyst, Citi Investment Research

For 2008, we are projecting cash margins of ~$10/ton on 10.5 million tons based on realized pricing of $58/ton, generally consistent with guidance. Based on a ~$5/ton pretax margin, and a 20% effective tax rate (based on standard deductions related to mineral extraction and depletion), we obtain ~$40 million in net income or roughly ~$0.20/share from coal production in 2008.

For 2009, we are now projecting cash margins of ~$16/ton (previously $13/ton) on 11 million tons (previously 10.5 million) based on realized pricing of $66/ton. Based on a ~$10/ton pretax margin, and a 20% tax rate, we obtain ~$85 million in net income or ~$0.40/share for '09 from coal. By means of comparison, TE coal earned $47 million in net income excluding synfuel in 2006, following a period in 2005 that showed similar coal pricing characteristics. Our model reflects a ~5% increase in per unit cost for coal.

Review of Teco Guatemala

Following the exit from other non-core businesses, Teco's investments in Guatemala utility infrastructure now generate 18% of total TE corporate earnings.

TE Guatemala, through its subsidiaries, owns a coal-fired generating facility (the 120MW San Jose Power Station) and has a 96% ownership interest in a

oil-fired peaking power generating plant (78MW Alborada Power Station), both under long-term PPAs with EEGSA, a regulated distribution utility in Guatemala. EEGSA serves more than 800,000 customers in and around the metropolitan area of Guatemala City and is 81% owned by DECA II, an entity owned by a consortium of utilities. TE Guatemala indirectly holds a 30% interest in DECA II and a 24% indirect interest in EEGSA. DECA II also holds miscellaneous businesses other than EEGSA, including electricity transmission services, wholesale power sales to large electric customers, engineering services and telecommunications services.

Earnings contributions from the three major segments of the Guatemala operations are as follows: 50% of gross earnings before parent costs come from the San Jose Power Station, 15% come from the Alborada Power Station, and 35% from DECA II. Within DECA II, the affiliated energy related companies and earnings on existing offshore cash contributed 55% of overall earnings. The remainder is provided by EEGSA.

For 2008, the company is guiding for lower net income than in '07, in part due to a $1.9 million after-tax equity benefit that is unlikely to recur in '08. While the Alborada Power Station is expected to have a similar performance than in '07, San Jose will undergo planned maintenance which will increase O&M and reduce the opportunity for spot market sales. EEGSA will undergo a review of retail distribution rates, which occurs every five years, and a final decision is expected in mid-summer this year.

The company is working on a 200MW RFP for coal fired power station that has been issued by Guatemala's other major distribution utility, Union Fenosa. The bids are due in April with the long-term power sales contract expected to be awarded later this year. If TE Guatemala wins this bid, it will likely use its offshore cash (roughly ~$59 million) and non-recourse project financing to fund this project. However, based on the company's March 27th Financial Update,TE appears to have identified "several issues" with the RFP.

Q1 '08 Earnings Review

TE reported Q1'08 EPS of $0.15/share versus our estimate of $0.24 and consensus of $0.21. Earnings from the gas and electric utilities were down significantly from the prior year due to mild weather and a slowing economy in Florida. The company is maintaining its '08 guidance of $0.95-$1.10/share but expects full-year customer growth to be slightly above the first quarter level of ~0.6%. The company premised its '08 guidance on 2% customer growth but contends that its guidance range is still reasonable.

Q1'08 net income at the utility was $15.9 million compared with $21.8 million the prior year. Results reflect 0.6% average customer growth, and a 2.1% decline in retail sales. Total degree days for the electric service area were 10% below normal and 11% below the first quarter 2007. Results at Peoples Gas were $10 million compared to $11 million the prior year, reflecting 0.3% customer growth and mild winter weather.

Teco coal expects 2008 sales of 10.5 million tons in response to market conditions. However, higher selling prices for the additional sales are expected to be offset by higher prices for diesel, resulting in after-tax margins of $4/ton.

During the company's conference call investors focused on weak results at the utility, possible rate relief in 2009, and the coal outlook for 2008 and 2009.

Teco Energy Inc

Company description

TECO Energy, Inc. (TE) is a holding company whose core business, Tampa Electric Company, is a regulated electric and gas utility (Tampa Electric and Peoples Gas System), which owns more than 4,000 megawatts (MW) of generation capacity and serves more than 600,000 retail electric customers and 300,000 retail gas customers in west-central Florida. The company also operates a coal business in the US, and owns distribution and generation assets in Guatemala.

Investment strategy

We rate the shares of TECO Energy, Inc. Hold/ High Risk (2H). We expect modest earnings growth and strong cash flow generation through our forecast period, which should leave TECO in a position to retire high interest debt and improve its balance sheet. The company could also benefit from upside in coal prices through 2009. Its business mix, which includes coal mines and investments in Latin American power infrastructure, makes it more risky that the average "Defensive" regulated utility.

Valuation

For TECO Energy, Inc., we employ a hybrid valuation methodology, using the average of our P/E, sum-of-the-parts, and DCF analyses to arrive at our target price of $17.75/share.

Using a P/E methodology, we value the stock at $17.50. We base this target price on a 14x 2009 EPS of $1.25. We look to 2009 as a representative for TECO's longer-term earnings power. The 14x multiple reflects our belief that the company should trade at a discount to the defensive group (with average price target multiple of 14.5x varying between 13x and 15x) given the necessity of near term rate cases, modestly lower long term growth prospects than peers, and an earnings mix that reflects commodity risk and international exposure.

For our sum-of-the-parts methodology, we arrive at a ~$17.00 valuation by aggregating the values of TECO's coal business. We apply a 14x multiple of 2009 P/E multiple on the utility business, excluding earnings from TECO Coal. We then add ~$3 per share for our estimate of the discounted cash flow associated with fully depleting TECO Coal's 258 million tons of coal reserves, and ~$2 per share for the realization of cash tax savings from TECO's NOL and AMT balance remaining at YE '09.

We arrive at a ~$18.50 target price using a DCF analysis. We employ a beta of 0.9, a terminal growth rate of ~2.5%, and an ~7.5% discount rate, which is

slightly higher than our estimated weighted average cost of capital (WACC) for TECO, but consistent with our valuation methodology for utilities.

Risks

We rate TECO Energy, Inc. High Risk. The company is more heavily levered than its regulated utility peer group and diversified in to more risky businesses. Roughly 69% of EPS come from its Florida utilities (before parent dilution), with the remaining exposure to coal mining (levered to commodity price outlook) and investments in Latin American power infrastructure (somewhat opaque in its business outlook given lack of visibility on local regulation).

TECO is heavily levered --- Failure to meet cash flow targets could affect the company's financial condition and flexibility, as the level of TECO's indebtedness and restrictive covenants could limit its ability to obtain additional financing or refinance existing debt. While we estimate TECO will generate significant cash flow, which will enable it to service its long-term debt maturities, if cash flow targets are not met due to shortfalls in operating cash flows and/or failure to maintain capital spending at forecasted level, the company could face liquidity constraints.

Coal prices and volumes could affect long-term earnings power --- TECO Coal's earnings are dependant on realized commodity pricing, as well as, volumes sold. A deviation in price from our forecasted assumption could cause a negative or a positive impact on earnings contribution and is therefore a risk to our target price.

TECO owns assets power generation and distribution assets in Guatamela that generate 16% of annual EPS. Our ability to predict whether these investments will generate predicable returns is limited by lack of information regarding local regulation and the underlying current regulated rates of return in those businesses. Given upcoming rate reviews in Guatemala and TECO's contemplation of further investment in the region, earnings could vary meaningfully from our estimates.

If the impact on the company from any of these factors proves to be less than we anticipate, the stock could materially outperform our target price.

Conversely, if the impact on the company from any of these factors proves to be greater than we anticipate, the stock could underperform our target price.

Appendix A-1

Analyst Certification

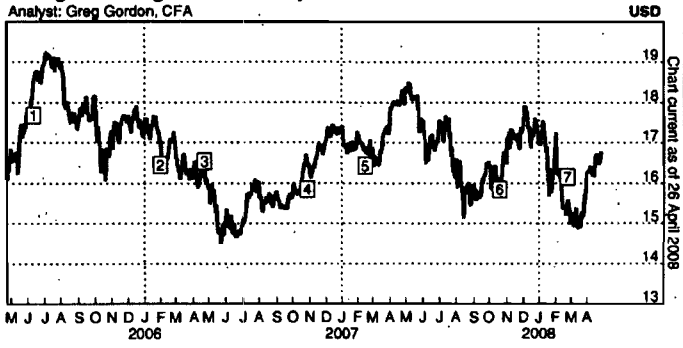
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TECO Energy, Inc. (TE)

Ratings and Target Price History - Fundamental Research

Analyst: Greg Gordon, CFA



Covered
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Rating/target price changes above reflect Eastern Standard Time

#	Date	Rating	Target Price	Closing Price
1:	13 Jun 05	2H	*17.75	18.56
2:	1 Feb 06	2H	*16.75	16.98
3:	24 Apr 06	2H	*16.50	16.45
4:	27 Oct 06	2H	*17.50	16.49
5:	15 Feb 07	2H	*16.50	16.84
6:	19 Oct 07	2H	*16.00	15.85
7:	25 Feb 08	2H	*17.00	15.50

*Indicates change.

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TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008

Teco Energy Inc (TE)

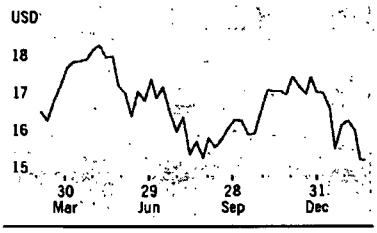
Target price change ☑
Estimate change ☑

Rate Relief at Tampa Electric and Coal Margins Should Boost '09 EPS – Target Is Now $17/share.

- **Raising our '09 Forecast** — We see growth accelerating in 2009 from rate filings at the electric and gas utilities, and an uplift from higher cash margins at Teco Coal. We are increasing our '09 estimate by $0.10. Our '07-'09 estimates are now $1.07/$1.00/$1.20 from $1.00/$1.05/$1.10.
- **Raising Price Target to $17/share** — Our price target of $17/share is 14x '09 earnings of $1.20, resulting in total return prospects of 15%. With a 5% yield, we see downside protection and thematically, investors may be attracted to the coal story embedded in the stock despite disappointing '08 guidance for that business unit.
- **What's New?** — In the fourth quarter TE introduced '08 guidance of $0.95-$1.10, net of its disposition of the transport business. Guidance reflects a $10/ton coal cash margin on 9.5-10 million tons, flat utility EPS, and lower parent dilution from debt retired in '07. For '07, the company earned approximately $1.07/share excluding synfuel, at the high end of its guidance of $0.97-$1.07 which included TECO transport.
- **What's Next?** — The company may provide an update on coal contracting at its March 27th Analyst day but is unlikely to provide pricing at that date. A fuel filing should take place in the fall at Tampa Electric, and a gas rate case will be filed this year. At Tampa Electric we expect an electric rate case filing by late this year or Q1'09.

Hold/High Risk	**2H**
Price (25 Feb 08)	US$15.50
Target price	US$17.00
from US$16.00	
Expected share price return	9.7%
Expected dividend yield	5.0%
Expected total return	**14.7%**
Market Cap	US$3,266M

Price Performance (RIC: TE.N, BB: TE US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2006A	0.23A	0.25A	0.31A	0.18A	0.97A	1.00A
2007E	**0.21A**	**0.25A**	**0.38A**	**0.23A**	**1.07E**	**1.07E**
Previous	0.21A	0.25A	0.32E	0.21E	1.00E	na
2008E	**0.24E**	**0.25E**	**0.31E**	**0.20E**	**1.00E**	**1.08E**
Previous	0.22E	0.27E	0.32E	0.23E	1.05E	na
2009E	**na**	**na**	**na**	**na**	**1.20E**	**1.18E**
Previous	na	na	na	na	1.10E	na

Source: Powered by dataCentral. FC Cons: First Call Consensus.

Greg Gordon, CFA
+1-212-816-2802
greg.gordon@citi.com

Marc Decroisset
marc.decroisset@citi.com

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Teco Energy Inc (TE)
25 February 2008

Fiscal year end 31-Dec	2005	2006	2007E	2008E	2009E
Valuation Ratios					
P/E adjusted (x)	12.5	15.9	14.4	15.5	12.9
EV/EBITDA adjusted (x)	7.0	7.0	5.4	7.4	6.9
P/BV (x)	2.0	1.9	1.6	1.6	1.5
Dividend yield (%)	4.9	4.9	4.9	4.9	4.9
Per Share Data (US$)					
EPS adjusted	1.24	0.97	1.07	1.00	1.20
EPS reported	1.33	1.16	1.91	1.00	1.20
BVPS	7.66	8.31	9.57	9.83	10.30
DPS	0.76	0.76	0.76	0.76	0.76
Profit & Loss (US$M)					
Net sales	3,010	3,448	3,536	3,469	3,667
Operating expenses	-2,650	-3,039	-3,126	-2,943	-3,069
EBIT	**360**	**409**	**410**	**526**	**598**
Net interest expense	-291	-276	-253	-239	-253
Non-operating/exceptionals	157	156	377	11	11
Pre-tax profit	**226**	**290**	**534**	**298**	**356**
Tax	-102	-119	-214	-87	-102
Extraord./Min.Int./Pref.div.	151	70	82	0	0
Reported net income	**274**	**241**	**402**	**211**	**254**
Adjusted earnings	255	202	225	211	254
Adjusted EBITDA	961	920	1,137	819	906
Growth Rates (%)					
Sales	9.1	14.6	2.6	-1.9	5.7
EBIT adjusted	31.3	-6.1	37.0	-37.8	13.7
EBITDA adjusted	19.3	-4.3	23.6	-28.0	10.7
EPS adjusted	62.1	-21.4	10.4	-6.9	20.2
Cash Flow (US$M)					
Operating cash flow	**174**	**562**	**543**	**560**	**627**
Depreciation/amortization	282	282	264	276	289
Net working capital	18	-55	-19	0	0
Investing cash flow	**37**	**-384**	**-28**	**-611**	**-578**
Capital expenditure	-295	-455	-497	-611	-608
Acquisitions/disposals	310	73	284	0	30
Financing cash flow	**38**	**-87**	**-805**	**-45**	**39**
Borrowings	-82	-6	-738	106	190
Dividends paid	-158	-159	-163	-160	-161
Change in cash	**249**	**90**	**-291**	**-96**	**88**
Balance Sheet (US$M)					
Total assets	**7,170**	**7,362**	**6,765**	**6,931**	**7,225**
Cash & cash equivalent	346	442	163	66	155
Accounts receivable	323	338	296	296	296
Net fixed assets	4,567	4,767	4,888	5,233	5,534
Total liabilities	**5,402**	**5,555**	**4,748**	**4,854**	**5,044**
Accounts payable	355	327	302	302	302
Total Debt	3,754	3,703	3,158	3,264	3,454
Shareholders' funds	**1,768**	**1,807**	**2,017**	**2,077**	**2,181**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	31.9	26.7	32.2	23.6	24.7
ROE adjusted	17.7	12.2	12.0	10.3	11.9
ROIC adjusted	9.0	8.8	11.3	7.8	8.5
Net debt to equity	192.7	180.5	148.5	153.9	151.3
Total debt to capital	68.0	67.2	61.0	61.1	61.3

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Robust Earnings Trajectory Through 2009

We see earnings growth from ~$1.07/share in '07 ($0.95 excluding TE Transportation) to $1.20/share in '09.

Figure 1. TE Earnings Dashboard

EARNINGS SUMMARY	2003A	2004A	2005A	2006E	2007E	2008E	2009E	2010E
Consolidated Net Income	164.9	147.0	254.7	201.8	225.4	210.8	254.0	265.4
Average Shares Outstanding	179.9	192.6	205.8	207.8	209.9	211.0	211.5	212.0
Consolidated Earnings Per Share	$ 0.92	$ 0.76	$ 1.24	$ 0.97	$ 1.07	$1.00	$1.20	$1.25
Regulated Utility	1.01	0.90	0.85	0.79	0.84	$0.84	$0.91	$0.95
TECO Wholesale Generation - Merchant	(0.34)	(0.27)	(0.08)	-	-	-	-	-
TECO Transport	0.09	0.07	0.09	0.10	0.12	-	-	-
TECO Coal	0.48	0.27	0.56	0.23	0.18	0.20	0.30	0.30
Other Unregulated Companies	0.08	0.17	0.19	0.18	0.21	0.18	0.20	0.21
Other / Eliminations	(0.39)	(0.38)	(0.39)	(0.33)	(0.28)	(0.22)	(0.21)	(0.21)
Earnings Per share Growth Rate	(55%)	(17%)	62%	(22%)	11%	(7%)	20%	4%

Source: Citi Investment Research

Reduced Leverage Drives Earnings in 2008: For 2008, our projections reflect flat earnings at the utility driven by a return to normal weather, offset by higher O&M, interest expense and depreciation. For TE coal, we project a modest increase in EPS driven primarily by a lower tax rate, but cash coal margins consistent with guidance of $10/ton. We expect a decline in EPS from Guatemala which had an exceptional year in 2007 and may experience higher O&M in '08. Parent dilution is reduced by about $0.08 year on year ($30 million pretax) due to a ~$600 million reduction in debt in 2007.

Improved Coal Margins and Rate Cases to Drive Earnings Growth in 2009: For 2009, our projections reflect a ~$0.02 increase in EPS from rate activity and customer growth, offset by higher operating costs, and a ~$0.05 elimination of a storm disallowance expense at the utilities. TE Coal should experience a strong year as it contracts its 60% open position entering 2008 on 10 million tons of volume. We forecast $0.10/share uplift from the coal segment.

New Price Target - $17/share

For TECO Energy, Inc., we employ a hybrid valuation methodology, using the average of our P/E, sum-of-the-parts, and DCF analyses to arrive at our target price of $17.00, up from $16/share.

Using a P/E methodology, we value the stock at $16.75 (up from $15.50). We base this target price on a 14x 2009 EPS of $1.20. We look to 2009 as a representative for TECO's longer-term earnings power. The 14x multiple reflects our belief that the company should trade at a discount to the defensive group (with average price target multiple of 14.5x varying between 13x and 15x) given the necessity of near term rate cases and modestly lower long term growth prospects than peers.

For our sum-of-the-parts methodology, we arrive at a ~$16.75 (from $16) valuation by aggregating the values of TECO's coal business. We apply a 14x multiple of 2009 P/E multiple on the utility business, excluding earnings from TECO Coal. We then add ~$2 per share for our estimate of the discounted cash flow associated with fully depleting TECO Coal's 258 million tons of coal reserves, and ~$2 per share for the realization of cash tax savings from TECO's NOL and AMT balance remaining at YE '09.

We arrive at a $17.50 target price using a DCF analysis (from $16.75). We employ a beta of 0.9, a terminal growth rate of ~2.5%, and an ~7.5% discount rate, which is slightly higher than our estimated weighted average cost of capital (WACC) for TECO, but consistent with our valuation methodology for utilities.

Tampa Electric Overview and Growth Prospects

We expect flat EPS growth at Tampa Electric and Peoples Gas in 2008. Customer growth of ~2% and weather normalized sales growth of ~2% is offset by higher O&M, which is expected to increase by almost 6% in 2008. O&M includes ongoing expenditures of $50 million per year for T&D storm hardening.

The company is increasing its capital budget for 2008 to $535 million, compared to $410 million in '07. Base line spending is about $270 million and $120 million is for its new peaking unit expansion. Spending on SCR projects for nitrogen oxide control are expected to be $95 million.

Tampa Electric earned an 11.4% ROE in 2007, toward the middle of its 10.75%-12.75% range on a rate base of ~$3bn and a 49% equity ratio. The company's ROE is expected to decline rapidly in 2008 due to capital investments and costs rising faster than revenues; we forecast Tampa Electric's earned ROE in the 9-10% range based on average rate base of ~$3bn and a 50% equity ratio. In Florida, the ROE calculation is based on the actual equity mix, and not on the allowed equity mix of 58.6% that was deemed appropriate in Tampa Electric's last rate review in 1998. TE expects to file an electric rate case in 2008 or early 2009, and expects some regulatory recovery in 2009 (rate cases can take ~8 months). Tampa Electric will continue to benefit to some degree from earnings from environmental cost recovery on its four SCRs under construction (2007-2011), and higher AFUDC, which is reflected in our model. The second SCR is expected to go into service in May of '08.

We model a $0.05 benefit from the elimination of a transportation disallowance cost at Tampa Electric by 2009. These transportation costs could soon be subject to recovery through the fuel clause provided the commission deems that Tampa Electric has conducted a fair and competitive bidding process for these transportation services. This does not require filling a full rate case and will likely be part of the company's annual fuel clause filing scheduled for the fall of 2008. The other ~$0.02 stems from our assumption of continued customer growth, and rate relief sufficient to maintain a ~9-10% blended ROE on an equity ratio of 49%. In '09, we model a $120 million (~5%) rate increase at Tampa Electric, effective mid-year.

An additional rate filing is expected at Peoples Gas, which has an allowed ROE of 10.25%-12.25% on rate base of ~$500 million. The company has not disclosed the company's earned ROE in 2007, which could be below its allowed range. Peoples Gas expects to file for base rate relief in 2008 with final rates to be in place in early 2009.

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Favorable Pricing Fundamentals Bode Well for Coal Margins in 2009

While profit margin guidance for '08 was disappointing (TE hedged before the recent coal price run-up), we can reasonably expect margin expansion at TE Coal which we forecast in '09. The company is now in the process of contracting 60% of its open production for 2009, or about 6 million tons. Central Appalachian coal prices and Met coal prices strengthened in late Nov./Dec. 2007 and early 2008 as seen in the following table.

Cash margin expansion will be mitigated in 2008 relative to 2007 since much of steam and met production was contracted ahead of the run up in pricing. Guidance on margins for 2009 will not be available until TE Coal completes its Met Coal contracting in October or November of '08.

Figure 2. Historical Coal Prices

	Average Prices (Survey)						
Region	3Q'07	1Q'07	2Q'07	4Q'07	4Q'07	Current	12 Fwd
Central Appalachia	45.42	40.22	43.66	45.08	48.42	**59.90**	**61.50**
Northern Appalachia	41.90	43.85	44.75	45.70	50.55	**70.00**	**66.75**
Illinois Basin	33.54	29.79	28.85	31.62	33.10	**36.00**	**36.00**
Powder River Basin	10.02	8.95	8.82	10.03	11.02	**13.10**	**13.60**
Natural Gas (H. Hub)	6.65	7.16	7.53	6.17	6.50	**8.90**	
Crude Oil (WTI)	59.94	58.13	64.94	75.16	90.12	**98.53**	

Source: John Hill, Metals and Mining Analyst, Citi Investment Research

Figure 3. Coal Forecast

Region	1Q'08	2Q'08	3Q'08	4Q'08	FY 2008	FY 2009	FY 2010
PRB (US$/t)	12.50	13.00	13.50	14.00	13.25	14.50	16.00
Capp (US$/t)	65.00	65.00	65.00	65.00	65.00	68.00	62.00
Napp (US$/t)	64.00	64.00	64.00	64.00	64.00	66.00	60.00
Illinois Basin (US$/t)	40.00	40.00	40.00	40.00	40.00	44.00	44.00
Met (US$/t)	100.00	100.00	100.00	100.00	100.00	90.00	80.00

Source: John Hill, Metals and Mining Analyst, Citi Investment Research

For 2008, we are projecting cash margins of ~$10/ton on 10 million tons based on realized pricing of $58/ton, generally consistent with guidance. Based on a ~$5.2/ton pretax margin, and a 20% effective tax rate (based on standard deductions related to mineral extraction and depletion), we obtain ~$40 million in net income or roughly $0.20/share from coal production in 2008.

For 2009, we are projecting cash margins of ~$13/ton on 10.5 million tons based on realized pricing of $64/ton. Based on a ~$8/ton pretax margin, and a 20% tax rate, we obtain ~$60 million in net income or ~$0.30/share for '09 from coal. By means of comparison, TE coal earned $47 million in net income excluding synfuel in 2006, following a period in 2005 that showed similar coal pricing characteristics. Our model reflects a ~5% increase in per unit cost for coal.

Review of Teco Guatemala

Following the exit from other non-core businesses, Teco's investments in Guatemala utility infrastructure now generate 18% of total TE corporate earnings.

TE Guatemala, through its subsidiaries, owns a coal-fired generating facility (the 120MW San Jose Power Station) and has a 96% ownership interest in a oil-fired peaking power generating plant (78MW Alborada Power Station), both under long-term PPAs with EEGSA, a regulated distribution utility in Guatemala. EEGSA serves more than 800,000 customers in and around the metropolitan area of Guatemala City and is 81% owned by DECA II, an entity owned by a consortium of utilities. TE Guatemala indirectly holds a 30% interest in DECA II and a 24% indirect interest in EEGSA. DECA II also holds miscellaneous businesses other than EEGSA, including electricity transmission services, wholesale power sales to large electric customers, engineering services and telecommunications services.

Earnings contributions from the three major segments of the Guatemala operations are as follows: 50% of gross earnings before parent costs come from the San Jose Power Station, 15% come from the Alborada Power Station, and 35% from DECA II. Within DECA II, the affiliated energy related companies and earnings on existing offshore cash contributed 55% of overall earnings. The remainder is provided by EEGSA.

For 2008, the company is guiding for lower net income than in '07, in part due to a $1.9 million after-tax equity benefit that is unlikely to recur in '08. While the Alborada Power Station is expected to have a similar performance than in '07, San Jose will undergo planned maintenance which will increase O&M and reduce the opportunity for spot market sales. EEGSA will undergo a review of retail distribution rates, which occurs every five years, and a final decision is expected in mid-summer this year.

The company is working on a 200MW RFP for coal fired power station that has been issued by Guatemala's other major distribution utility, Union Fenosa. The bids are due in April with the long-term power sales contract expected to be awarded later this year. If TE Guatemala wins this bid, it will likely use its offshore cash (roughly ~$59 million) and non-recourse project financing to fund this project.

Q4 '07 & YE EARNINGS REVIEW

TE reported Q4'07 EPS excluding synfuel of $0.23 versus our estimate of $0.21 and consensus of $0.19. For the year, the company earned approximately $1.07/share excluding synfuel, at the high end of its '07 guidance of $0.97-$1.07 which included TECO Transport. The company also introduced '08 guidance of $0.95-$1.10/share, excluding TECO Transport.

In the quarter, the company completed the sale of TECO Transport. This segment was placed as "an asset held for sale" for GAAP reporting purposes but included in non-GAAP operating results and in guidance through 12/3/2007 due to the ongoing contractual with this subsidiary through closing.

Teco Energy Inc

Company description

TECO Energy, Inc. (TE) is a holding company whose core business, Tampa Electric Company, is a regulated electric and gas utility (Tampa Electric and Peoples Gas System), which owns more than 4,000 megawatts (MW) of generation capacity and serves more than 600,000 retail electric customers and 300,000 retail gas customers in west-central Florida. The company also operates a coal business in the US, and owns distribution and generation assets in Guatemala.

Investment strategy

We rate the shares of TECO Energy, Inc. Hold/ High Risk (2H). We expect modest earnings growth and strong cash flow generation through our forecast period, which should leave TECO in a position to retire high interest debt and improve its balance sheet. The company could also benefit from upside in coal prices through 2009. Its business mix, which includes coal mines and investments in Latin American power infrastructure, makes it more risky that the average "Defensive" regulated utility.

Valuation

For TECO Energy, Inc., we employ a hybrid valuation methodology, using the average of our P/E, sum-of-the-parts, and DCF analyses to arrive at our target price of $17.00.

Using a P/E methodology, we value the stock at $16.75. We base this target price on a 14x 2009 EPS of $1.20. The 14x multiple reflects our belief that the company should trade at a discount to the defensive group (with average price target multiple of 14.5x varying between 13x and 15x) given the necessity of near term rate cases and modestly lower long term growth prospects than peers.

For our sum-of-the-parts methodology, we arrive at a ~$16.75 valuation by aggregating the values of TECO's coal business. We apply a 14x multiple of 2009 P/E multiple on the utility business, excluding earnings from TECO Coal. We then add ~$2 per share for our estimate of the discounted cash flow associated with fully depleting TECO Coal's 258 million tons of coal reserves, and the realization of cash tax savings from TECO's NOL balance.

We arrive at an $17.50 target price using a DCF analysis. We employ a beta of 0.9, a terminal growth rate of ~2.4%, and an ~7.5% discount rate, which is slightly higher than our estimated weighted average cost of capital (WACC) for TECO, but consistent with our valuation methodology for utilities.

Risks

We rate TECO Energy, Inc. High Risk. The company is more heavily levered than its regulated utility peer group and diversified in to more risky businesses. Slightly less than 80% of EPS come from its Florida utilities, with the remaining exposure to coal mining (levered to commodity price outlook) and investments in Latin American power infrastructure (somewhat opaque in its business outlook given lack of visibility on local regulation).

TECO is heavily levered --- Failure to meet cash flow targets could affect the company's financial condition and flexibility, as the level of TECO's indebtedness and restrictive covenants could limit its ability to obtain additional financing or refinance existing debt. While we estimate TECO will generate significant cash flow, which will enable it to service its long-term debt maturities, if cash flow targets are not met due to shortfalls in operating cash flows and/or failure to maintain capital spending at forecasted level, the company could face liquidity constraints.

Coal prices and volumes could affect long-term earnings power --- TECO Coal's earnings are dependant on realized commodity pricing, as well as, volumes sold. A deviation in price from our forecasted assumption could cause a negative or a positive impact on earnings contribution and is therefore a risk to our target price.

TECO owns assets power generation and distribution assets in Guatamela that generate >15% of annual EPS. Our ability to predict whether these investments will generate predicable returns is limited by lack of information regarding local regulation and the underlying current regulated rates of return in those businesses. Given upcoming rate reviews in Guatemala and TECO's contemplation of further investment in the region, earnings could vary meaningfully from our estimates.

If the impact on the company from any of these factors proves to be less than we anticipate, the stock could materially outperform our target price.

Conversely, if the impact on the company from any of these factors proves to be greater than we anticipate, the stock could underperform our target price.

Appendix A-1

Analyst Certification

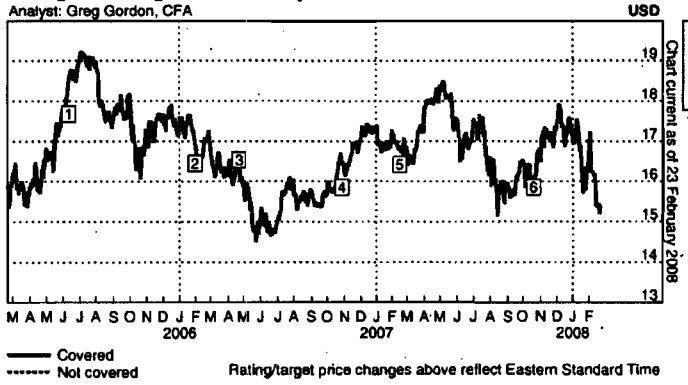
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TECO Energy, Inc. (TE)

Ratings and Target Price History - Fundamental Research

Analyst: Greg Gordon, CFA



#	Date	Rating	Target Price	Closing Price
1:	13 Jun 05	2H	*17.75	18.56
2:	1 Feb 06	2H	*16.75	16.98
3:	24 Apr 06	2H	*16.50	16.45
4:	27 Oct 06	2H	*17.50	16.49
5:	15 Feb 07	2H	*16.50	16.84
6:	19 Oct 07	2H	*16.00	15.85

*Indicates change.

Rating/target price changes above reflect Eastern Standard Time

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October 31, 2008

United States of America
Power and Utilities
Regulated Utilities

TECO Energy (TE - US$ 12.88) 2-Equal weight

Change of Price Target

Weak Economy and Coal Concerns Continue

Daniel Ford, CFA
1.212.526.0836
Dan.Ford@barcap.com

Investment Conclusion

- We are reiterating our 2-EW rating and are updating our eps estimates from $0.83/$1.05/ 1.09E to $0.83/$1.22/$1.36E for '08/09/10E. Our price target is lowered from $19 to $15 as a result of multiple compression, especially for the coal business. Full methodologies are detailed below.

Summary

- TE reported 3Q earnings of $0.28 vs. $0.38 last year, consensus of $0.30 and our estimate of $0.31. Earnings year over year were driven by slightly negative net growth at Tampa Electric, mild weather, and lower industrial sales due to the Florida economy. Furthermore, higher non-recovery clause O&M continued due to planned generating unit maintenance.
- TECO coal will see lower tonnage than expected with current expectations at 9.5 million tons, although prices will be better than achieved in '07. Despite better pricing coal costs are significantly higher, due to increasing labor cost pressures offsetting diesel fuel relief squeezing margins.
- TECO Guatemala will have lower VAD distribution rates effective August 1st and we have projected flat earnings as this and the San Jose outage in '09 are projected to offset growth in '09. Parent earnings improved due to lower interest expense.

EPS (US$) (FY Dec)

	2007	2008			2009			% Change	
	Actual	Old	Now	St. Est.	Old	Now	St. Est.	2008	2009
1Q	0.21A	0.15A	0.15A	0.15A	N/A	N/A	0.20E	-29%	N/A
2Q	0.25A	0.24A	0.24A	0.24A	N/A	N/A	0.37E	-4%	N/A
3Q	0.34A	N/A	N/A	0.30E	N/A	N/A	0.52E	N/A	N/A
4Q	0.23A	N/A	N/A	0.18E	N/A	N/A	0.30E	N/A	N/A
Year	1.07A	0.83E	0.83E	0.87E	1.05E	1.22E	1.44E	-22%	47%
P/E			15.5			10.6			

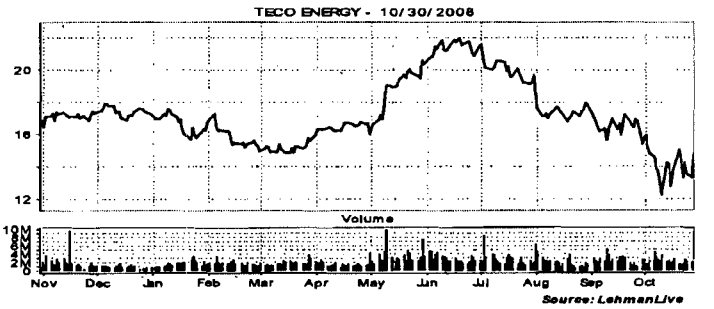
Market Data	
Market Cap (Mil.)	2740
Dividend Yield	6.21
52 Week Range	21.99 - 11.30

Financial Summary	
Revenue TTM (Mil.)	3527.2

Stock Rating		Target Price	
New:	2-Equal weight	New:	US$ 15.00
Old:	2-Equal weight	Old:	US$ 19.00

Sector View: 2-Neutral

Stock Overview



3Q 2008 Results

The company reported ongoing earnings of $0.28 v. $0.38 last year, consensus estimates of $0.30 and our estimate of $0.31. Year over year earnings were mainly driven by deteriorating growth in the utility businesses, higher expenses squeezing margins at the coal business, and significantly milder weather year over year.

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A comparison of earnings across both quarters is provided in the table below:

	3Q 2008	3Q 2007
Earnings Per Share	$0.28	$0.44
Exc. Disc. Ops	$0.00	$0.00
EPS Continuing Ops	$0.28	$0.44
Exc. Charges/Gains	$0.00	$0.00
Non-GAAP inc. Synfuel	$0.28	$0.44
Exclude Synfuel	$0.00	($0.06)
Non-GAAP exc. Synfuel	$0.28	$0.38

Source: Company Earnings Presentation

A breakout by subsidiary, not including parent earnings is provided below:

	Tampa Electric	Peoples Gas	TECO Coal	TECO Guatemala
Q3 '07 EPS	**$0.31**	**$0.02**	**$0.10**	**$0.05**
Revenues	($0.22)	$0.17	$0.00	$0.00
Operating Expenses	$0.15	($0.17)	($0.14)	$0.01
Depreciation	($0.03)	$0.00	$0.00	$0.00
Interest Expenses	$0.00	$0.00	$0.02	$0.00
Taxes	$0.03	($0.01)	$0.04	$0.00
Q3 '08 EPS	**$0.24**	**$0.01**	**$0.02**	**$0.06**

Source: Company Earnings Release, Supplemental Financials

Model Updates

Despite the lower outlook for growth and coal margins from the company, we are raising our numbers as a result of being overly conservative in our assumptions after the 2Q '08 earnings call vs. these new lower expectations from management. Furthermore, we are now taking account of the $10M lift to net income in '09 as a result of the expiration of Tampa Electric's waterborne transportation disallowance, which was not in our model previously. We have lowered our assumptions for Tampa Electric to constitute growth of -0.10% in '08, 0% in '09, and 0.75% in '10, and we have increased our previous expectations with regard to contracted prices of coal while also increasing coal costs. Despite the coal cost increases, our coal pricing assumptions were overly conservative and increasing these projections more than outweighs the increases in our cost estimates. Our current coal volume and price assumptions are in the table below:

Coal Volumes	2008E	2009E	2010E	2011E	2012E
Steam Coal	5.7	6.0	6.3	6.6	6.9
Met Coal	3.8	4.0	4.2	4.4	4.6
Ultimate $/ton for Steam	$ 58.00	$ 65.00	$ 71.38	$ 74.83	$ 67.50
Ultimate $/ton for Met Coal	$ 58.00	$ 115.00	$ 121.88	$ 120.00	$ 112.50

Source: Barclays Capital Estimates

We believe that given the current lower trend in coal prices that the above assumptions for ultimate achieved price constitute rational assumptions of contracted price under the spot quotes as well as the general trend of declining commodity prices which began at mid-year.

As a result of these updated assumptions we are actually raising our '09/10E from $1.05/$1.09E to $1.22/$1.36E, which we note is still below current consensus estimates of $1.44/$1.74E. Management now expects slower economic growth, consistent with our new assumptions above, due to the housing market slowdown being more severe in Florida and the Tampa area than originally expected. Continued dislocations in the credit markets are exacerbating the problem and management now expects the recovery not to occur until 2010.

General Rate Cases

The company filed General Rate Cases with the Florida Public Service Commission for both Tampa Electric and Peoples Gas in August 2008. In the Peoples Gas gas interim rate relief of $2.4M was granted this month. The milestones for both rate cases are provided in the schedule below:

	Tampa Electric	Peoples Gas
Request Filed	August '08	August '08
Interim Rates Granted	N/A	October '08

Staff Testimony Filed	November '08	December '08
Intervenor Testimony Filed	November '08	January '09
Rebuttal Testimony	December '08	January '09
Hearings	January '09	March '09
Staff Recommendation	March '09	April '09
Final Commission Decision	April '09	May '09
Rates Effective	May '09	June '09

Source: Company Earnings Presentation

Tampa Electric has requested an increase of $228.2M predicated on a 55.3% and a 12% ROE on a 13 month average rate base of $3.657B. Peoples Gas has requested an increase of $26.5M predicated on a 54.7% and a 11.5% ROE on a 13 month average rate base of $563.6M. We have assumed in our model an overall allowed ROE for both businesses at 10.5%, with rates effective on 7/1/09. We have also assumed a further rate case filed in 2010 and also predicated on a 10.5% with rates effective on 7/1/11.

2009 Outlook

Management issued a preliminary 2009 outlook, but no corresponding 2009 earnings guidance. The company expects a positive outlook for coal markets and prices and utility base rate relief, as discussed above, with rates effective at mid-year. The expiration of Tampa Electric's waterborne transportation disallowance will add $10M to net income going forward. Utility growth is expected to be below the previous forecast of 1.2%, which is consistent with our lower growth outlook above. TECO Guatemala will have a major maintenance outage at San Jose and the company is pursuing legal, diplomatic, and political channels in attempt so revise the VAD decision on rates. In particular for the coal business, management expects sales of 10.5M tons (we have modeled 10.0M). As of 3Q, 88% of the 2009 production is now contracted and priced at an average price of $77/ton and costs are expected to be between $65-$75/ton. Unpriced tons are composed of 60% met coal and 40% PCI coal for which management estimates recent market prices were ~$200/ton. We would anticipate that actual contracted prices achieved are below the actual strip prices in the marketplace, consistent with the assumptions we have outlined above.

Valuation

Our price target of $15 is premised upon an EV/EBITDA valuaiton of the various business segments. This is the utility '10E EV/EBITDA multiple of 6.3x $808.3M Tampa Electic & Corp '10E EBITDA, plus a 15% international operations discount to the utility '10E EV/EBITDA multiple of 6.3x (yeilding 5.4x) $68.5M TECO Guatemala '10E EBITDA, plus a coal comp multiple of 1.1x $205.4M TECO Coal '10E EBITDA. This yields $13 to which we add $2/share in NPV of NOLs which yields our final price target of $15.

Our prior price target of $19 was premised upon an EV/EBITDA valuation of the various business segment. This was the then utility '10E EV/EBITDA multiple of 6.8x $730.7M Tampa Electric & Corp '10E EBITDA, plus a 15% international operations discount to the then utility '10E EV/EBITDA multiple of 6.8x $75.5M TECO Guatemala '10E EBITDA, plus the then coal comp multiple of 5.9x $182.6M TECO Coal '10E EBITDA. This yielded $16.40 to which we added $2.60 in NPV of NOLs, which yielded our final pt of $19.

A financial summary follows in Table 1 below.

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Table 1 Financial Summary

Barclays Capital US Equity Research	US $ (000,000's)			TECO ENERGY					
FINANCIAL SUMMARY	2005A	2006A	2007A	2008E	2009E	2010E	2011E	2012E	5-Yr CAGR
Valuation Ratios									
EV/EBITDA	9.8x	8.8x	6.4x	9.8x	8.1x	7.6x	7.1x	7.0x	
P/E	10.5x	13.3x	12.1x	15.6x	10.5x	9.4x	8.4x	8.2x	
Dividend Yield	5.9%	5.9%	6.0%	6.0%	6.0%	6.8%	7.6%	8.3%	
Income Statement									
Tampa Electric	2,296	2,663	2,788	2,829	2,921	3,042	3,142	3,262	3.20%
TECO Coal	505	575	545	551	850	962	1,022	983	12.55%
TECO Guatemala	66	66	77	77	77	78	79	79	0.77%
Corporate, Other	143	144	128	196	196	197	199	201	9.54%
Revenues Total	**$3,010**	**$3,448**	**$3,536**	**$3,652**	**$4,044**	**$4,279**	**$4,442**	**$4,526**	**5.06%**
Tampa Electric	1,130	1,169	1,178	1,187	1,279	1,378	1,481	1,598	6.30%
TECO Coal	231	161	188	73	195	205	230	196	0.88%
TECO Guatemala	55	62	68	68	68	69	69	69	0.35%
Corporate, Other	514	666	492	683	860	963	1,001	998	15.18%
Gross Income Total	**$1,929**	**$2,058**	**$1,926**	**$2,010**	**$2,402**	**$2,615**	**$2,781**	**$2,862**	**8.24%**
Margin	**64.1%**	**59.7%**	**54.5%**	**55.0%**	**59.4%**	**61.1%**	**62.6%**	**63.2%**	
Tampa Electric	614	591	610	594	655	726	790	868	7.33%
TECO Coal	231	161	188	73	195	205	230	196	0.88%
TECO Guatemala	55	62	68	68	68	69	69	69	0.35%
Corporate, Other	(261)	(114)	28	(117)	(124)	(125)	(126)	(128)	NM
EBITDA	**$639**	**$700**	**$894**	**$617**	**$794**	**$874**	**$962**	**$1,006**	**2.39%**
Margin	**21.2%**	**20.3%**	**25.3%**	**16.9%**	**19.6%**	**20.4%**	**21.7%**	**22.2%**	
Tampa Electric	222	223	219	234	252	267	283	299	6.44%
TECO Coal	37	36	38	39	40	41	42	43	2.13%
TECO Guatemala	1	1	1	1	1	1	1	1	10.76%
Corporate, Other	23	22	(0)	0	(0)	0	(0)	(0)	-7.75%
Depreciation	**$282**	**$282**	**$258**	**$273**	**$292**	**$309**	**$326**	**$342**	**5.85%**
Tampa Electric	120	140	144	144	161	169	182	196	6.36%
TECO Coal	13	11	13	13	14	15	16	17	5.91%
TECO Guatemala	16	15	15	15	15	15	15	16	0.44%
Corporate, Other	140	116	90	106	119	117	116	115	4.92%
Interest	**$289**	**$281**	**$262**	**$278**	**$309**	**$316**	**$330**	**$343**	**5.54%**
Tampa Electric	108	97	100	89	99	117	129	147	8.02%
TECO Coal	65	36	46	7	50	52	60	48	0.72%
TECO Guatemala	(2)	9	8	8	8	8	8	8	0.39%
Corporate, Other	(69)	(22)	0	0	0	0	0	0	NM
Income Tax	**$102**	**$119**	**$154**	**$103**	**$157**	**$177**	**$197**	**$203**	**5.67%**
Tampa Electric	177	166	177	157	177	208	230	261	8.09%
TECO Coal	115	79	91	13	92	97	112	89	-0.39%
TECO Guatemala	40	38	45	44	44	45	45	45	0.17%
Corporate, Other	(209)	(108)	4	(123)	(137)	(136)	(136)	(136)	NM
Net Income	**$124**	**$175**	**$317**	**$92**	**$176**	**$214**	**$250**	**$260**	**-3.90%**
Shares Diluted	**208.2**	**208.7**	**209.9**	**210.5**	**211.1**	**217.5**	**218.1**	**218.6**	**0.82%**
Tampa Electric	$ 0.85	$ 0.80	$ 0.84	$ 0.75	$ 0.84	$ 0.96	$ 1.05	$ 1.19	7.22%
TECO Coal	$ 0.55	$ 0.38	$ 0.43	$ 0.06	$ 0.44	$ 0.45	$ 0.51	$ 0.41	-1.20%
TECO Guatemala	$ 0.19	$ 0.18	$ 0.21	$ 0.21	$ 0.21	$ 0.20	$ 0.21	$ 0.21	-0.65%
Corporate, Other	$ (0.37)	$ (0.39)	$ (0.42)	$ (0.19)	$ (0.26)	$ (0.25)	$ (0.24)	$ (0.23)	-11.12%
EPS Total	**$ 1.23**	**$ 0.97**	**$ 1.07**	**$ 0.83**	**$ 1.22**	**$ 1.36**	**$ 1.53**	**$ 1.57**	**8.10%**
Dividend per Share	**$ 0.760**	**$ 0.760**	**$ 0.775**	**$ 0.775**	**$ 0.775**	**$ 0.875**	**$ 0.975**	**$ 1.075**	**6.76%**
Guidance Range				*$0.80-$0.90*					

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Table 1 Continued

Cash Flow									
FFO	$557	$529	$671	$447	$550	$606	$659	$686	0.45%
CFO	$177	$567	$554	$357	$449	$508	$564	$592	1.35%
Tampa Electric	(246)	(420)	(423)	(593)	(722)	(629)	(629)	(629)	8.26%
TECO Coal	(24)	(40)	(44)	(26)	(34)	(36)	(37)	(38)	-2.80%
TECO Guatemala	(0)	(1)	(2)	(1)	(4)	(2)	(2)	(2)	-6.24%
Corporate, Other	(25)	6	(25)	0	0	0	0	0	-100.00%
Capex	($295)	($456)	($494)	($620)	($760)	($667)	($668)	($669)	6.22%
Dividends	(158)	(159)	(163)	(163)	(164)	(190)	(213)	(235)	7.59%
Free Cashflow Pre-div	261	73	176	(173)	(210)	(61)	(9)	17	-37.01%
Free Cashflow Post-div	104	(86)	13	(336)	(374)	(251)	(221)	(218)	#NUM!
Free Cashflow Yield	3.9%	-3.2%	0.5%	-12.4%	-13.7%	-9.0%	-7.9%	-7.7%	
Balance Sheet									
Cash	$346	$442	$163	$43	$92	$91	$90	$87	
Short Term Debt	222	687	32	29	132	390	918	1,822	
Long Term Debt	3,709	3,213	3,158	3,359	3,676	3,511	3,194	2,492	
Preferred Stock	0	0	0	0	0	0	0	0	
Shareowners Equity	1,592	1,729	2,017	2,043	2,152	2,423	2,559	2,683	
Total Capital	5,523	5,629	5,208	5,431	5,961	6,325	6,671	6,997	
Equity/Capital	28.8%	30.7%	38.7%	37.6%	36.1%	38.3%	38.4%	38.3%	
Return on Equity (ROE)	8.6%	10.5%	16.9%	4.5%	8.4%	9.4%	10.0%	9.9%	
Return on Invested Capital	6.6%	7.5%	11.7%	6.5%	8.8%	9.2%	9.8%	9.7%	
Earned ROE at Tampa Electric	10.7%	10.0%	10.5%	9.0%	8.9%	9.2%	9.4%	10.0%	
Credit Ratios									
Interest Coverage	2.2x	2.5x	3.4x	2.2x	2.6x	2.8x	2.9x	2.9x	
Debt/EBITDA	6.2x	5.6x	3.6x	5.5x	4.8x	4.5x	4.3x	4.3x	

Notes: FFO = Net Income + Depreciation; Interest Coverage = EBITDA/Interest Expense; ROIC = EBIT/Avg. Total Capital.
Source: Barclays Capital Estimates; Company Reports

Analyst Certification:

I, Daniel Ford, CFA, hereby certify (1) that the views expressed in this research Company Note accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Company Note and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Company Note.

Other Team Members:

Fowler, Ross ( ) 1.617.330.5893 ross.fowler@barcap.com

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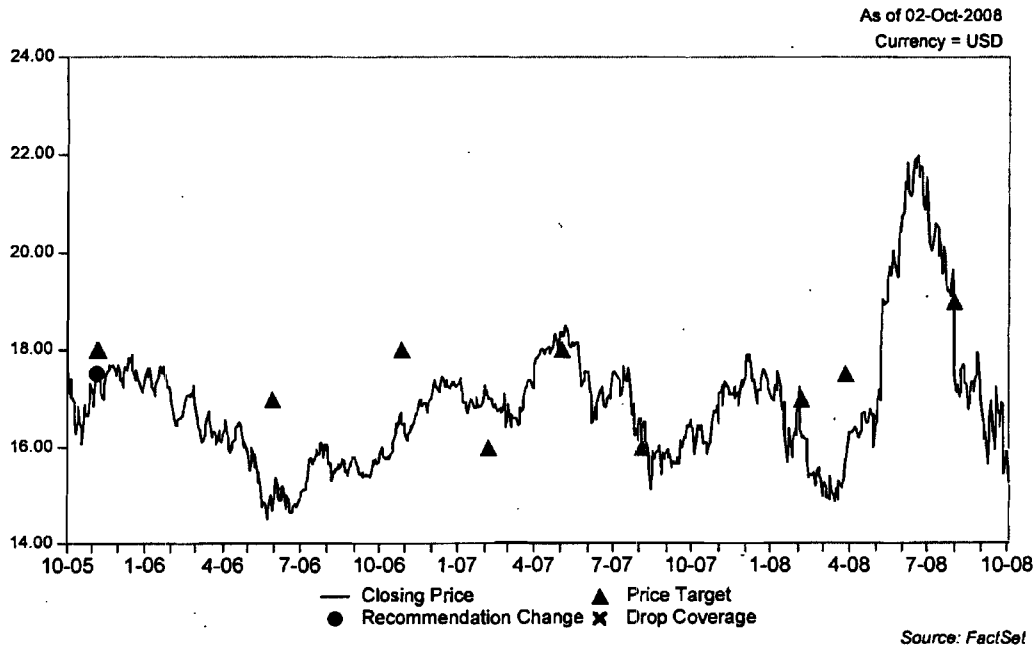
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Important Disclosures:

TECO Energy (TE) **US$ 12.88 (30-Oct-2008)** **2-Equal weight / 2-Neutral**

Rating and Price Target Chart:



Currency=US$

Date	Closing Price	Rating	Price Target
01-Aug-08	17.59		19.00
27-Mar-08	15.74		17.50
06-Feb-08	16.21		17.00
03-Aug-07	15.87		16.00
02-May-07	18.38		18.00
07-Feb-07	17.01		16.00

Date	Closing Price	Rating	Price Target
27-Oct-06	16.49		18.00
30-May-06	14.70		17.00
09-Nov-05	17.50		18.00
07-Nov-05	17.52		18.00
07-Nov-05	17.52	2 -Equal weight	

FOR EXPLANATIONS OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE PAGE FOLLOWING THE LAST PRICE CHART.

Barclays Capital Inc. and/or an affiliate makes a market or provides liquidity in the securities of TECO Energy.
Barclays Capital Inc. and/or an affiliate trade regularly in the shares of TECO Energy.

Valuation Methodology: Our price target of $15 is premised upon a EV/EBITDA valuaiton of the various business segments. This is the utility '10E EV/EBITDA multiple of 6.3x $808.3M Tampa Electic & Corp '10E EBITDA, plus a 15% international operations discount to the utility '10E EV/EBITDA multiple of 6.3x (yeilding 5.4x) $68.5M TECO Guatemala '10E EBITDA, plus a coal comp multiple of 1.1x $205.4M TECO Coal '10E EBITDA. This yields $13 to which we add $2/share in NPV of NOLs which yields our final price target of $15.

Risks Which May Impede the Achievement of the Price Target: Risks include sensitivity to power prices, ratings downgrades, increased cost of capital and write-offs.

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The analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities.

Company Name	Ticker	Price	Price Date	Stock / Sector Rating
TECO Energy	TE	US$ 12.88	30-Oct-2008	2-Equal weight / 2-Neutral

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CMS Energy (CMS)
DPL Inc. (DPL)
Duke Energy (DUK)
Hawaiian Electric Inds (HE)
NiSource, Inc. (NI)
NSTAR (NST)
PG&E Corp. (PCG)
Portland General Electric Co. (POR)
Puget Energy (PSD)
Southern Co. (SO)
Westar Energy (WR)
Xcel Energy (XEL)
American Electric Power (AEP)
Consolidated Edison (ED)
DTE Energy (DTE)
Great Plains Energy (GXP)
ITC Holdings (ITC)
Northeast Utilities (NU)
OGE Energy (OGE)
Pinnacle West Capital (PNW)
Progress Energy (PGN)
Sierra Pacific Resources (SRP)
TECO Energy (TE)
Wisconsin Energy (WEC)

In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating
1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.
2-Equal weight - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12- month investment horizon.
3-Underweight - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12- month investment horizon.
RS-Rating Suspended - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including when Barclays Capital Inc. is acting in an advisory capacity in a merger or strategic transaction involving the company.

Sector View
1-Positive - sector coverage universe fundamentals/valuations are improving.
2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.
3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

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BARCLAYS CAPITAL

September 26, 2008

United States of America
Power and Utilities
Regulated Utilities

TECO Energy (TE - US$ 16.43) 2-Equal weight

Initiation of Coverage

Initiation of Coverage: 2-EW, $19 PT

Daniel Ford, CFA
1.212.526.0836
daford@lehman.com

Investment Conclusion

- We are initiating coverage with a 2-Equal Weight rating and a $19 price target.

Summary

- Our earnings per share estimates are $0.83/$1.05/$1.09E for '08/09/10E respectively.
- Our price target of $19 is premised upon a EV/EBITDA valuation of the various business segment. This is the utility '10E EV/EBITDA multiple of 6.8x $730.7M Tampa Electric & Corp '10E EBITDA, plus a 15% international operations discount to the utility '10E EV/EBITDA multiple of 6.8x $75.5M TECO Guatemala '10E EBITDA, plus a coal comp multiple of 5.9x $182.6M TECO Coal '10E EBITDA. This yields $16.40 to which we add $2.60 in NPV of NOLs, which yields our final pt of $19. This is a consistent with our prior price target at Lehman Brothers.
- We remain watchful of final prices for the remaining metallurgical coal to be contracted this fall which could impact earnings.
- Our rating on the regulated utility sector is 2-Neutral premised upon the group being in the early phases of a long dated capital cycle, and the consequences thereof.

EPS (US$) (FY Dec)

	2007		2008			2009		% Change	
	Actual	Old	New	St. Est.	Old	New	St. Est.	2008	2009
1Q	0.21A	0.15A	0.15A	0.15A	N/A	N/A	0.20E	-29%	N/A
2Q	0.25A	0.24A	0.24A	0.24A	N/A	N/A	0.30E	-4%	N/A
3Q	0.34A	N/A	N/A	0.30E	N/A	N/A	0.65E	N/A	N/A
4Q	0.23A	N/A	N/A	0.18E	N/A	N/A	0.35E	N/A	N/A
Year	1.07A	0.83E	0.83E	0.88E	1.05E	1.05E	1.46E	-22%	27%
P/E			19.8			15.6			

Market Data

Market Cap (Mil.)	3495
Dividend Yield	4.87
52 Week Range	21.99 - 14.48

Financial Summary

Revenue TTM (Mil.)	3527.2

Stock Rating

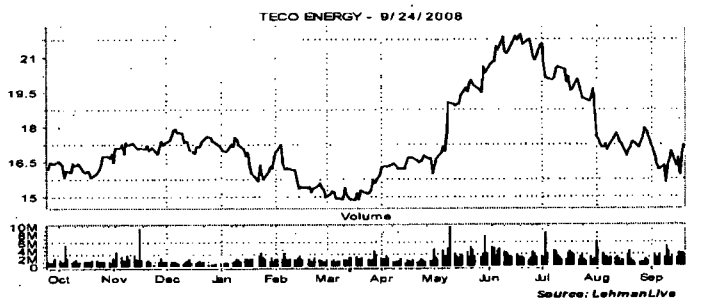
New:	2-Equal weight
Old:	2-Equal weight

Target Price

New:	US$ 19.00
Old:	US$ 19.00

Sector View: 2-Neutral

Stock Overview



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Other Team Members:

Fowler, Ross ( )	1.617.330.5893	rofowler@lehman.com

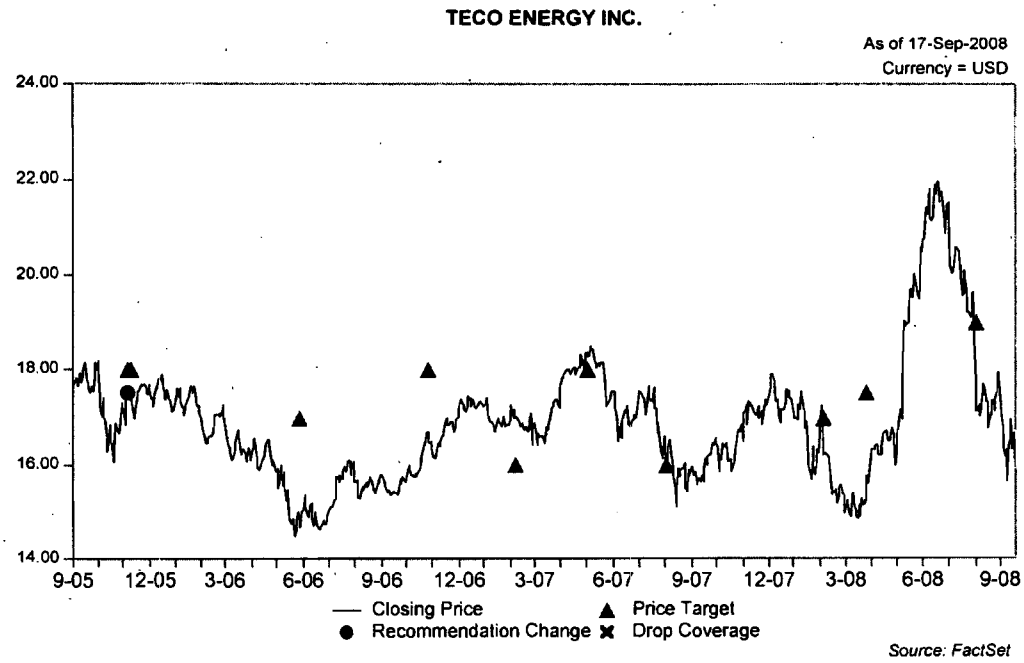
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TECO Energy (TE) **US$ 16.43 (24-Sep-2008)** **2-Equal weight / 2-Neutral**

Rating and Price Target Chart:



Source: FactSet

Currency=US$

Date	Closing Price	Rating	Price Target
01-Aug-08	17.59		19.00
27-Mar-08	15.74		17.50
06-Feb-08	16.21		17.00
03-Aug-07	15.87		16.00
02-May-07	18.38		18.00
07-Feb-07	17.01		16.00

Date	Closing Price	Rating	Price Target
27-Oct-06	16.49		18.00
30-May-06	14.70		17.00
09-Nov-05	17.50		18.00
07-Nov-05	17.52		18.00
07-Nov-05	17.52	2 -Equal weight	

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Valuation Methodology: Our price target of $19 is premised upon a EV/EBITDA valuation of the various business segment. This is the utility '10E EV/EBITDA multiple of 6.8x $730.7M Tampa Electric & Corp '10E EBITDA, plus a 15% international operations discount to the utility '10E EV/EBITDA multiple of 6.8x $75.5M TECO Guatemala '10E EBITDA, plus a coal comp multiple of 5.9x $182.6M TECO Coal '10E EBITDA. This yields $16.40 to which we add $2.60 in NPV of NOLs, which yields our final pt of $19.

Risks Which May Impede the Achievement of the Price Target: Risks include sensitivity to power prices, ratings downgrades, increased cost of capital and write-offs.

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Company Name	Ticker	Price	Price Date	Stock / Sector Rating
TECO Energy	TE	US$ 16.43	24-Sep-2008	2-Equal weight / 2-Neutral

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Consolidated Edison (ED)
DTE Energy (DTE)
Great Plains Energy (GXP)
ITC Holdings (ITC)
Northeast Utilities (NU)
OGE Energy (OGE)
Pinnacle West Capital (PNW)
Progress Energy (PGN)
Sierra Pacific Resources (SRP)
TECO Energy (TE)
Wisconsin Energy (WEC)
American Electric Power (AEP)
CMS Energy (CMS)
DPL Inc. (DPL)
Duke Energy (DUK)
Hawaiian Electric Inds (HE)
NiSource, Inc. (NI)
NSTAR (NST)
PG&E Corp. (PCG)
Portland General Electric Co. (POR)
Puget Energy (PSD)
Southern Co. (SO)
Westar Energy (WR)
Xcel Energy (XEL)

In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating
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2-Equal weight - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12- month investment horizon.
3-Underweight - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12- month investment horizon.
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Sector View
1-Positive - sector coverage universe fundamentals/valuations are improving.
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LEHMAN BROTHERS

EQUITY RESEARCH

August 12, 2008

United States of America
Power and Utilities
Regulated Utilities

Daniel Ford, CFA
1.212.526.0836
daford@lehman.com
LBI, New York

TECO Energy (TE - US$ 17.19) 2-Equal weight

Company Update

Tampa Elec & Peoples Gas File Rate Cases

Investment Conclusion

- On 8/11 Tampa Electric filed an electric rate case with the FL Public Service Commission. This is the first rate case filing since 1992. People's Gas also filed a rate case, its first filing since 2002.

Summary

- Peoples Gas's filing requests a base rate increase of $26.5 million which is around a 10% increase. The increase is requested to become effective in summer 2009. Tampa Electric's filing requests a base rate increase of $228.2 million which is around a 7.5% increase for residential customers and a 7.5-11% increase for commercial & industrial customers. The increase is requested to become effective in May 2009. TE also informed the FL PSC in July of approximately $209 million in under recovery of fuel in 2008. This request would raise rates another 6.8%. A procedural schedule is expected to be set by the FL PSC soon. Both rate cases were filed premised upon a 09 calendar end test year and return and capital metrics were not specified.
- The last rate case for Peoples Gas was premised upon a 10.25-12.25% ROE range on a 50.92% equity and a rate base of $505M. For Tampa Elec. these metrics were a 12% ROE and a 43.08% equity on a rate base of $1.85B.

Stock Rating		Target Price	
New:	2-Equal weight	New:	US$ 19.00
Old:	2-Equal weight	Old:	US$ 19.00

Sector View: 2-Neutral

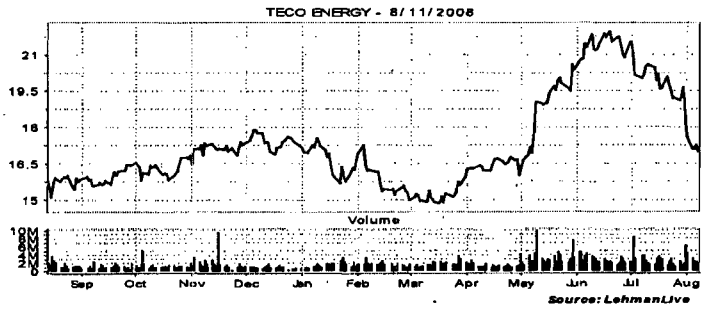
EPS (US$) (FY Dec)

	2007	2008			2009			% Change	
	Actual	Old	New	St. Est.	Old	New	St. Est.	2008	2009
1Q	0.21A	0.15A	0.15A	0.15A	N/A	N/A	N/A	-29%	N/A
2Q	0.25A	0.24A	0.24A	0.24A	N/A	N/A	N/A	-4%	N/A
3Q	0.34A	N/A	N/A	0.31E	N/A	N/A	N/A	N/A	N/A
4Q	0.23A	N/A	N/A	0.20E	N/A	N/A	N/A	N/A	N/A
Year	1.07A	0.83E	0.83E	0.90E	1.05E	1.05E	1.45E	-22%	27%
P/E			20.7			16.4			

Market Data	
Market Cap (Mil.)	3657
Dividend Yield	4.65
52 Week Range	21.99 - 14.48

Financial Summary	
Revenue TTM (Mil.)	3527.2

Stock Overview



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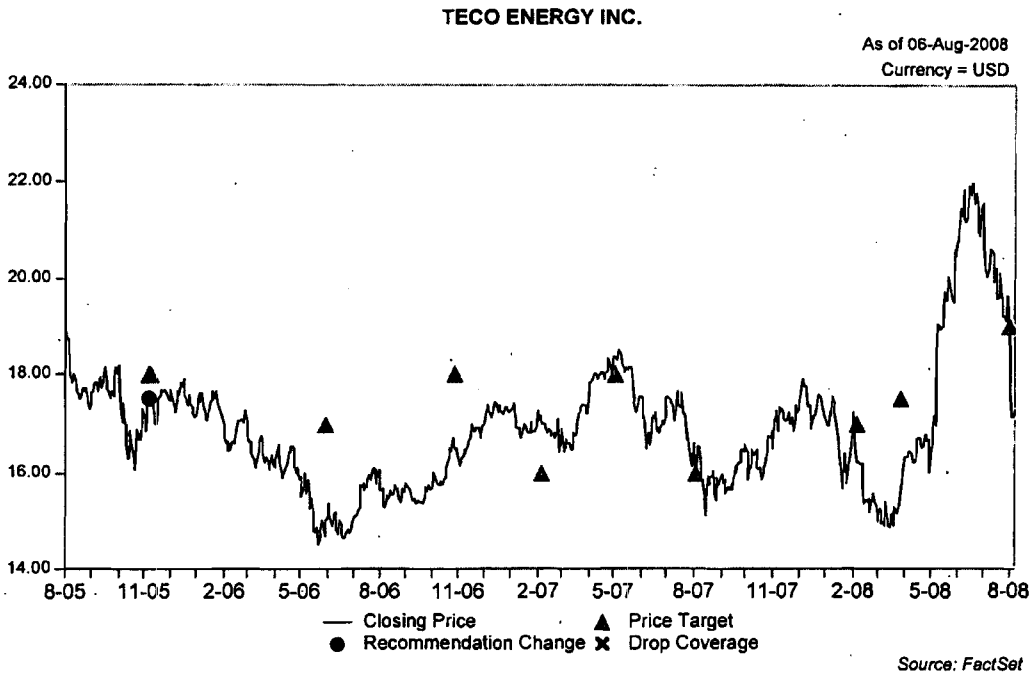
Fowler, Ross (LBI, New York) 1.617.330.5893 rofowler@lehman.com

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EQUITY RESEARCH

Important Disclosures:

TECO Energy (TE) **US$ 17.19 (08-Aug-2008)** **2-Equal weight / 2-Neutral**

Rating and Price Target Chart:



Source: FactSet

Currency=US$

Date	Closing Price	Rating	Price Target
01-Aug-08	17.59		19.00
27-Mar-08	15.74		17.50
06-Feb-08	16.21		17.00
03-Aug-07	15.87		16.00
02-May-07	18.38		18.00
07-Feb-07	17.01		16.00

Date	Closing Price	Rating	Price Target
27-Oct-06	16.49		18.00
30-May-06	14.70		17.00
09-Nov-05	17.50		18.00
07-Nov-05	17.52		18.00
07-Nov-05	17.52	2 -Equal weight	

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Valuation Methodology: Our $19 Price Target is premised upon the break out valuation below:

SUBSIDIARY	10 EBITDA	Multiple	EV
TAMPA ELEC/PEOPLES GAS	$646.6	6.8	4,396.6
GUATAMALA	$75.5	5.8	436.4
TECO COAL	$182.6	5.9	1,068.0
PARENT/OTHER	$84.1	6.8	572.2
			6,473.2
TOTAL DEBT			3,190.5
CASH			162.6
PV of NOLs			557.3
EQUITY			4,002.7
Shares			210
PRICE			$19

Risks Which May Impede the Achievement of the Price Target: Risks include sensitivity to power prices, ratings downgrades, increased cost of capital and write-offs.

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Company Name	Ticker	Price	Price Date	Stock / Sector Rating
TECO Energy	TE	US$ 17.19	08-Aug-2008	2-Equal weight / 2-Neutral

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Our coverage analysts use a relative rating system in which they rate stocks as 1-Overweight, 2-Equal weight or 3-Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry sector (the "sector coverage universe"). Below is the list of companies that constitute the sector coverage universe:

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Consolidated Edison (ED)
DTE Energy (DTE)
Great Plains Energy (GXP)
ITC Holdings (ITC)
Northeast Utilities (NU)
OGE Energy (OGE)
Pinnacle West Capital (PNW)
Progress Energy (PGN)
Sierra Pacific Resources (SRP)
TECO Energy (TE)
Wisconsin Energy (WEC)
American Electric Power (AEP)
CMS Energy (CMS)
DPL Inc. (DPL)
Duke Energy (DUK)
Hawaiian Electric Inds (HE)
NiSource, Inc. (NI)
NSTAR (NST)
PG&E Corp. (PCG)
Portland General Electric Co. (POR)
Puget Energy (PSD)
Southern Co. (SO)
Westar Energy (WR)
Xcel Energy (XEL)

In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating
1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.
2-Equal weight - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12- month investment horizon.
3-Underweight - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.
RS-Rating Suspended - The rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Lehman Brothers is acting in an advisory capacity in a merger or strategic transaction involving the company.

Sector View
1-Positive - sector coverage universe fundamentals/valuations are improving.
2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.
3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

Distribution of Ratings:
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13% have been assigned a 3-Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as Sell rating, 23% of companies with this rating are investment banking clients of the Firm.

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LEHMAN BROTHERS

EQUITY RESEARCH

August 01, 2008

United States of America
Power and Utilities
Regulated Utilities

Daniel Ford, CFA
1.212.526.0836
daford@lehman.com
LBI, New York

TECO Energy (TE - US$ 19.65) 2-Equal weight

Change of Price Target

FL/Coal Costs lead to lower '08 Guidance

Investment Conclusion

- We reiterate our 2-EW rating and are lowering our eps estimates from $1.01/$1.31E to $0.83/$1.05E for '08/'09 respectively. We are publishing an '10E eps of $1.09E. We are increasing our price target to $19 due to higher PV of NOLs, and now valuing off of '10E instead of '09E.

Summary

- Teco reported ongoing earnings of $0.24 for the quarter compared to $0.25 last year, consensus of $0.23 and our estimate of $0.25. Earnings were driven by better weather, lower sales growth as a result of the continued struggles of the Florida economy, cost pressures in the coal business, and positive effects from parent debt retirement.
- The company lowered 2008 earnings guidance due to the slower Florida economy and cost pressures in the coal business. While we anticipate that 2009 coal pricing will be higher than '08, the vast majority of open positions exist in 2010, so margin pressure may continue next year. Guidance was lowered from $0.95-$1.10 to $0.80-$0.90. We have lowered our earnings estimate for '08/09 as indicated above by lowering the growth rate in our model, ramping coal cost pressures and using Lehman's coal price forecasts as opposed to higher strip coal price levels in '09/10.

Stock Rating		Target Price	
New:	2-Equal weight	New:	US$ 19.00
Old:	2-Equal weight	Old:	US$ 17.50

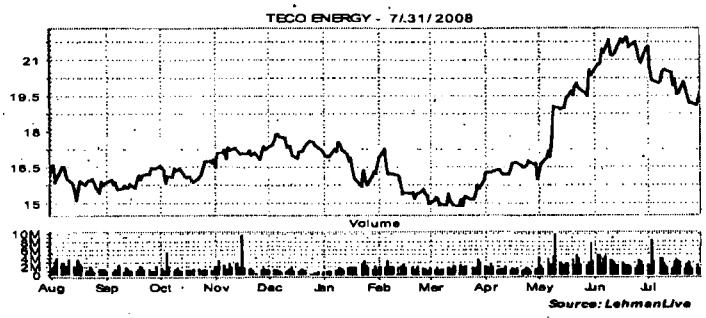
Sector View: 2-Neutral

EPS (US$) (FY Dec)

	2007		2008			2009		% Change	
	Actual	Old	New	St. Est.	Old	New	St. Est.	2008	2009
1Q	0.21A	0.15A	0.15A	0.15A	N/A	N/A	N/A	-29%	N/A
2Q	0.25A	N/A	0.24A	0.23E	N/A	N/A	N/A	-4%	N/A
3Q	0.34A	N/A	N/A	0.37E	N/A	N/A	N/A	N/A	N/A
4Q	0.23A	N/A	N/A	0.25E	N/A	N/A	N/A	N/A	N/A
Year	1.07A	1.01E	0.83E	1.00E	1.31E	1.05E	1.53E	-22%	27%
P/E			23.7			18.7			

Market Data		Financial Summary	
Market Cap (Mil.)	4141	Revenue TTM (Mil.)	3506.5
Dividend Yield	4.07		
52 Week Range	21.99 - 14.48		

Stock Overview



2Q '08 Ongoing Earnings

Slower than anticipated growth related to the weak Florida economy and margin pressures due to higher costs and already contracted prices in the coal business were the significant impacting factors in the quarter. A break out by subsidiary is provided below:

	Tampa Electric	Peoples Gas	TECO Coal	TECO Guatemala
Q1 '07 EPS	**$0.17**	**$0.03**	**$0.10**	**$0.06**
Revenues	+$0.01	+$0.20	+$0.14	$0.00
Operating Expenses	+$0.02	-$0.20	-$0.26	+$0.03

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PLEASE SEE ANALYST(S) CERTIFICATION(S) ON PAGE 4 AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 5

Depreciation	+$0.01	$0.00	+$0.01	-$0.02
Interest Expenses	$0.00	$0.00	$0.00	$0.00
Taxes	-$0.02	$0.00	+$0.03	$0.00
Q1 '08 EPS	**$0.19**	**$0.03**	**$0.02**	**$0.07**

Source: Company Earnings Release, Supplemental Financials

Lower Guidance, Model Updates

As mentioned above, the continued struggles of the Florida economy and increased cost pressures in the coal business, for which most of the '08 coal pricing was contracted in earlier years, caused management to lower earnings guidance from $0.95 - $1.10 to $0.80-$0.90 for 2008. Management had anticipated that the economy and housing market in Florida would bottom out sometime in 2008, but now that appears to not be likely until sometime in 2009.

We have made several updates to our model, which leads us to lower our earnings estimates from $1.01/$1.31E for '08/09 respectively to $0.83/$1.05E for those same years. Further, our '10E eps is $1.09 and assumes $200M of equity issuance in 2010 or approximately 5.5 million shares. We had been assuming contracting for future coal prices at 75% of forward strips in '09/'10. We have now updated this to reflect Lehman's go forward estimates for Central App (CAPP) coal and Met coal. Prior assumptions were $140/ton for CAPP in '09 and $127/ton in '10, while for Met Coal the assumed prices were $180/ton and $150/ton respectively. Our updated prices are $100/$95/ton for CAPP and $190/$162.50 for Met consistent with Lehman's updated coal price forecast. We have increased our rate of coal cost inflation and lowered the growth rate at the utilities from 1.56/1.19/1.47% for '08-'10, to 1.1/0.74/0.74%.

Valuation

We reiterate our 2-EW rating and are increasing our price target to $19 premised upon moving our valuation year form 2009 to 2010. This matters b/c there is more of a coal open position in 2010 which is captured in an increase in EBITDA year over year. Our current price target is premised upon the break-out valuation provided below. We value Teco Guatemala at a 15% international operations discount to the US Utility multiple. We value TECO Coal at the average 2010 EV/EBITDA multiple embedded in Lehman's price targets for Massey Energy (MEE) and Alpha Natural Resources (ANR) which both have similar coal profiles.

SUBSIDIARY	'10 EBITDA	Multiple	EV
TAMPA ELEC/PEOPLES GAS	$646.6	6.8	4,396.6
GUATAMALA	$75.5	5.8	436.4
TECO COAL	$182.6	5.9	1,068.0
PARENT/OTHER	$84.1	6.8	572.2
			6,473.2
TOTAL DEBT			3,190.5
CASH			162.6
PV of NOLs			557.3
EQUITY			4,002.7
Shares			210
PRICE			**$19**

Source: Lehman Brothers Estimates

Our prior price target of $17.50 was premised upon 2009 and detail is provided in the valuation below:

SUBSIDIARY	09 EBITDA	Multiple	EV
TAMPA ELEC	504.0	7.1	3,578
PEOPLES GAS	92.1	7.1	654
GUATAMALA	75.5	6.0	456
TECO COAL	236.9	7.1	1,670
PARENT	$ (18)	7.1	(128)
			6,231
TOTAL DEBT			3,087
CASH			118.1
PV of NOLs			421.1
EQUITY			3,683
Shares			211
PRICE			**$17.50**

Source: Lehman Brothers Estimates

A financial summary is provided in Table 1 below.

Table 1 Financial Summary

LEHMAN BROTHERS US Equity Research	US $ (000,000's)			TECO ENERGY					
FINANCIAL SUMMARY	**2005A**	**2006A**	**2007A**	**2008E**	**2009E**	**2010E**	**2011E**	**2012E**	**5-Yr CAGR**
Valuation Ratios									
EV/EBITDA	11.7x	10.5x	7.7x	11.5x	10.6x	10.3x	9.7x	9.2x	
P/E	15.1x	19.2x	17.4x	22.3x	17.6x	17.0x	15.4x	13.6x	
Dividend Yield	4.1%	4.1%	4.2%	4.2%	5.0%	6.4%	7.8%	9.2%	
Income Statement									
Tampa Electric	2,296	2,663	2,788	2,885	2,960	3,018	3,074	3,147	2.45%
TECO Coal	505	575	545	609	825	1,038	1,191	1,307	19.14%
TECO Guatemala	66	66	77	64	84	85	86	87	2.65%
Corporate, Other	143	144	128	198	200	201	204	207	10.11%
Revenues Total	**$3,010**	**$3,448**	**$3,536**	**$3,756**	**$4,069**	**$4,342**	**$4,555**	**$4,747**	**6.07%**
Tampa Electric	1,130	1,169	1,178	1,209	1,262	1,299	1,348	1,406	3.61%
TECO Coal	231	161	188	80	142	183	255	332	12.05%
TECO Guatemala	55	62	68	55	75	76	76	77	2.48%
Corporate, Other	514	666	492	736	892	1,066	1,150	1,191	19.33%
Gross Income Total	**$1,929**	**$2,058**	**$1,926**	**$2,080**	**$2,371**	**$2,624**	**$2,829**	**$3,007**	**9.31%**
Margin	**64.1%**	**59.7%**	**54.5%**	**55.4%**	**58.3%**	**60.4%**	**62.1%**	**63.3%**	
Tampa Electric	614	591	610	616	638	647	658	676	2.10%
TECO Coal	231	161	188	80	142	183	255	332	12.05%
TECO Guatemala	55	62	68	55	75	76	76	77	2.48%
Corporate, Other	(261)	(114)	28	(121)	(127)	(128)	(129)	(131)	NM
EBITDA	**$639**	**$700**	**$894**	**$630**	**$728**	**$777**	**$859**	**$954**	**1.31%**
Margin	**21.2%**	**20.3%**	**25.3%**	**16.8%**	**17.9%**	**17.9%**	**18.9%**	**20.1%**	
Tampa Electric	222	223	219	234	252	267	283	299	6.44%
TECO Coal	37	36	38	39	40	41	42	43	2.13%
TECO Guatemala	1	1	1	1	1	1	1	1	10.76%
Corporate, Other	23	22	(0)	0	(0)	0	(0)	(0)	-7.75%
Depreciation	**$282**	**$282**	**$258**	**$273**	**$292**	**$309**	**$326**	**$342**	**5.85%**
Tampa Electric	120	140	144	144	161	169	182	196	6.36%
TECO Coal	13	11	13	13	14	15	16	17	5.91%
TECO Guatemala	16	15	15	15	15	15	15	16	0.44%
Corporate, Other	140	116	90	106	119	124	137	149	10.52%
Interest	**$289**	**$281**	**$262**	**$278**	**$309**	**$324**	**$350**	**$378**	**7.56%**
Tampa Electric	108	97	100	96	93	89	82	78	-4.90%
TECO Coal	65	36	46	10	31	44	69	96	15.58%
TECO Guatemala	(2)	9	8	6	9	9	9	9	3.14%
Corporate, Other	(69)	(22)	0	0	0	0	0	0	#NUM!
Income Tax	**$102**	**$119**	**$154**	**$112**	**$133**	**$142**	**$160**	**$182**	**3.44%**
Tampa Electric	177	166	177	177	219	212	264	260	8.01%
TECO Coal	115	79	91	18	57	83	128	177	14.30%
TECO Guatemala	40	38	45	33	50	50	51	52	2.91%
Corporate, Other	(209)	(108)	4	(137)	(189)	(194)	(267)	(280)	NM
Net Income	**$124**	**$175**	**$317**	**$92**	**$138**	**$151**	**$176**	**$209**	**-7.95%**
Shares Diluted	**208.2**	**208.7**	**209.9**	**210.3**	**210.7**	**216.1**	**216.5**	**216.9**	**0.66%**
Tampa Electric	$ 0.85	$ 0.80	$ 0.84	$ 0.84	$ 1.04	$ 0.98	$ 1.22	$ 1.20	7.30%
TECO Coal	$ 0.55	$ 0.38	$ 0.43	$ 0.09	$ 0.27	$ 0.38	$ 0.59	$ 0.82	13.56%
TECO Guatemala	$ 0.19	$ 0.18	$ 0.21	$ 0.16	$ 0.24	$ 0.23	$ 0.24	$ 0.24	2.24%
Corporate, Other	$ (0.37)	$ (0.39)	$ (0.42)	$ (0.25)	$ (0.50)	$ (0.51)	$ (0.84)	$ (0.89)	16.06%
EPS Total	**$ 1.23**	**$ 0.97**	**$ 1.07**	**$ 0.83**	**$ 1.05**	**$ 1.09**	**$ 1.21**	**$ 1.36**	**5.06%**
Dividend per Share	**$ 0.760**	**$ 0.760**	**$ 0.775**	**$ 0.775**	**$ 0.925**	**$ 1.185**	**$ 1.445**	**$ 1.705**	**17.08%**
Guidance Range				*$0.80-$0.90*					

Table 1 Continued

Cash Flow									
FFO	$557	$529	$671	$448	$514	$544	$587	$638	-0.99%
CFO	$177	$567	$554	$354	$414	$444	$488	$539	-0.56%
Tampa Electric	(246)	(420)	(423)	(593)	(722)	(629)	(629)	(629)	8.26%
TECO Coal	(24)	(40)	(44)	(26)	(34)	(36)	(37)	(38)	-2.80%
TECO Guatemala	(0)	(1)	(2)	(1)	(4)	(2)	(2)	(2)	-6.24%
Corporate, Other	(25)	6	(25)	0	0	0	0	0	-100.00%
Capex	**($295)**	**($456)**	**($494)**	**($620)**	**($760)**	**($667)**	**($668)**	**($669)**	**6.22%**
Dividends	(158)	(159)	(163)	(163)	(195)	(256)	(313)	(370)	17.80%
Free Cashflow Pre-div	261	73	176	(172)	(246)	(122)	(81)	(31)	#NUM!
Free Cashflow Post-div	104	(86)	13	(335)	(441)	(378)	(394)	(400)	#NUM!
Free Cashflow Yield	2.7%	-2.2%	0.3%	-8.6%	-11.3%	-9.4%	-9.8%	-10.0%	
Balance Sheet									
Cash	$346	$442	$163	$41	$25	$31	$21	$11	
Short Term Debt	222	687	32	29	132	390	918	1,822	
Long Term Debt	3,709	3,213	3,158	3,359	3,676	3,611	3,459	2,937	
Preferred Stock	0	0	0	0	0	0	0	0	
Shareowners Equity	1,592	1,729	2,017	2,044	2,086	2,265	2,229	2,170	
Total Capital	5,523	5,629	5,208	5,432	5,895	6,267	6,605	6,928	
Equity/Capital	28.8%	30.7%	38.7%	37.6%	35.4%	36.1%	33.7%	31.3%	
Return on Equity (ROE)	8.6%	10.5%	16.9%	4.5%	6.7%	7.0%	7.8%	9.5%	
Return on Invested Capital	6.6%	7.5%	11.7%	6.7%	7.7%	7.7%	8.3%	9.0%	
Earned ROE at Tampa Electric	10.7%	10.0%	10.5%	10.1%	11.0%	9.2%	10.5%	9.7%	
Credit Ratios									
Interest Coverage	2.2x	2.5x	3.4x	2.3x	2.4x	2.4x	2.5x	2.5x	
Debt/EBITDA	6.2x	5.6x	3.6x	5.4x	5.2x	5.1x	5.1x	5.0x	

Notes: FFO = Net Income + Depreciation; Interest Coverage = EBITDA/Interest Expense; ROIC = EBIT/Avg. Total Capital.
Source: Lehman Brothers Estimates; Company Reports

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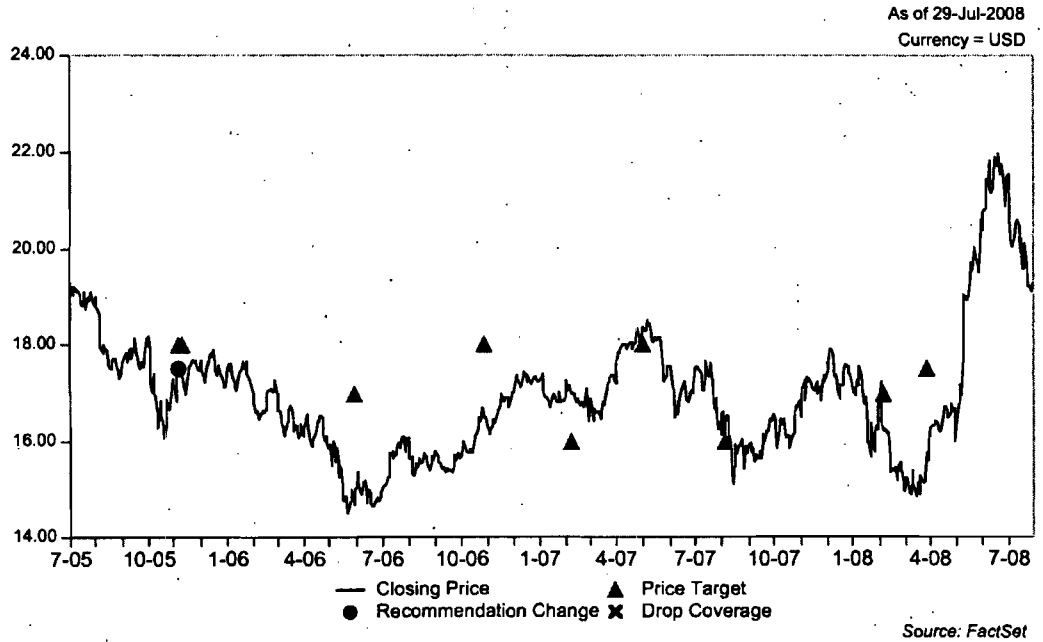
Fowler, Ross (LBI, New York) 1.617.330.5893 rofowler@lehman.com

Important Disclosures:

TECO Energy (TE) **US$ 19.65 (30-Jul-2008)** **2-Equal weight / 2-Neutral**

Rating and Price Target Chart:

TECO ENERGY INC.



Source: FactSet

Currency=US$

Date	Closing Price	Rating	Price Target
27-Mar-08	15.74		17.50
06-Feb-08	16.21		17.00
03-Aug-07	15.87		16.00
02-May-07	18.38		18.00
07-Feb-07	17.01		16.00

Date	Closing Price	Rating	Price Target
27-Oct-06	16.49		18.00
30-May-06	14.70		17.00
09-Nov-05	17.50		18.00
07-Nov-05	17.52		18.00
07-Nov-05	17.52	2 -Equal weight	

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Lehman Brothers Inc and/or an affiliate trade regularly in the shares of TECO Energy.

Valuation Methodology: Our $19 Price Target is premised upon the break out valuation below:

SUBSIDIARY	10 EBITDA	Multiple	EV
TAMPA ELEC/PEOPLES GAS	$646.6	6.8	4,396.6
GUATAMALA	$75.5	5.8	436.4
TECO COAL	$182.6	5.9	1,068.0
PARENT/OTHER	$84.1	6.8	572.2
			6,473.2
TOTAL DEBT			3,190.5
CASH			162.6
PV of NOLs			557.3
EQUITY			4,002.7
Shares			210
PRICE			$19

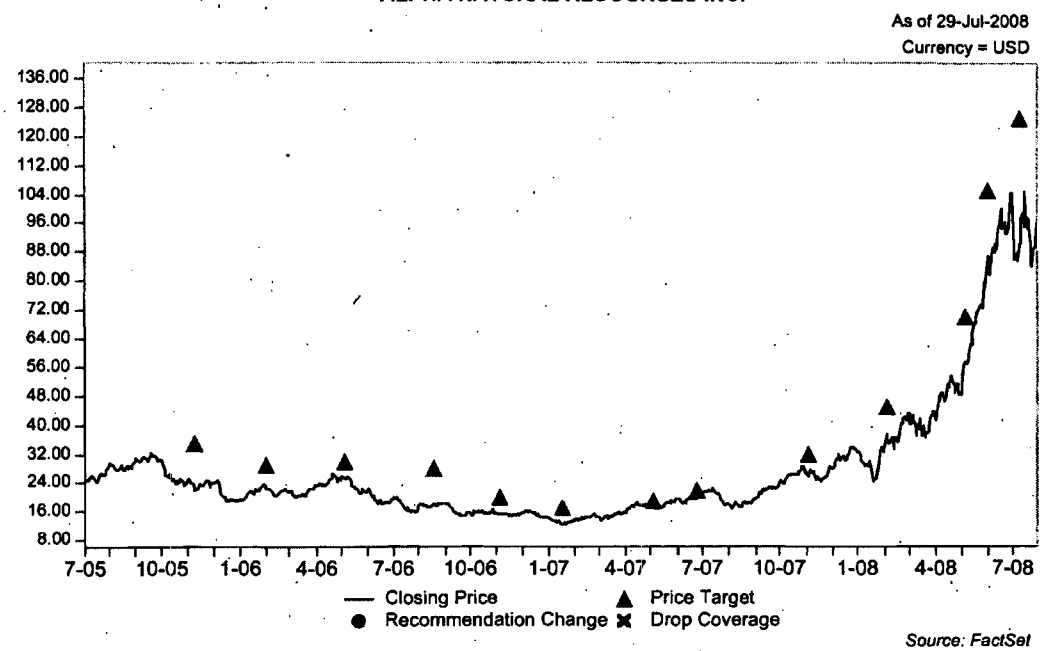
Risks Which May Impede the Achievement of the Price Target: Risks include sensitivity to power prices, ratings downgrades, increased cost of capital and write-offs.

Important Disclosures Continued:

Alpha Natural Resources (ANR) **US$ 102.80 (30-Jul-2008)** **1-Overweight / 1-Positive**

Rating and Price Target Chart:

ALPHA NATURAL RESOURCES INC.



Source: FactSet

Currency=US$

Date	Closing Price	Rating	Price Target
09-Jul-08	89.18		125.00
03-Jun-08	84.36		105.00
07-May-08	57.25		70.00
05-Feb-08	35.70		45.00
05-Nov-07	25.89		32.00
25-Jun-07	19.74		22.00
04-May-07	17.02		19.00

Date	Closing Price	Rating	Price Target
17-Jan-07	12.45		17.00
03-Nov-06	15.43		20.00
18-Aug-06	17.94		28.00
05-May-06	25.40		30.00
01-Feb-06	22.85		29.00
09-Nov-05	23.45		35.00

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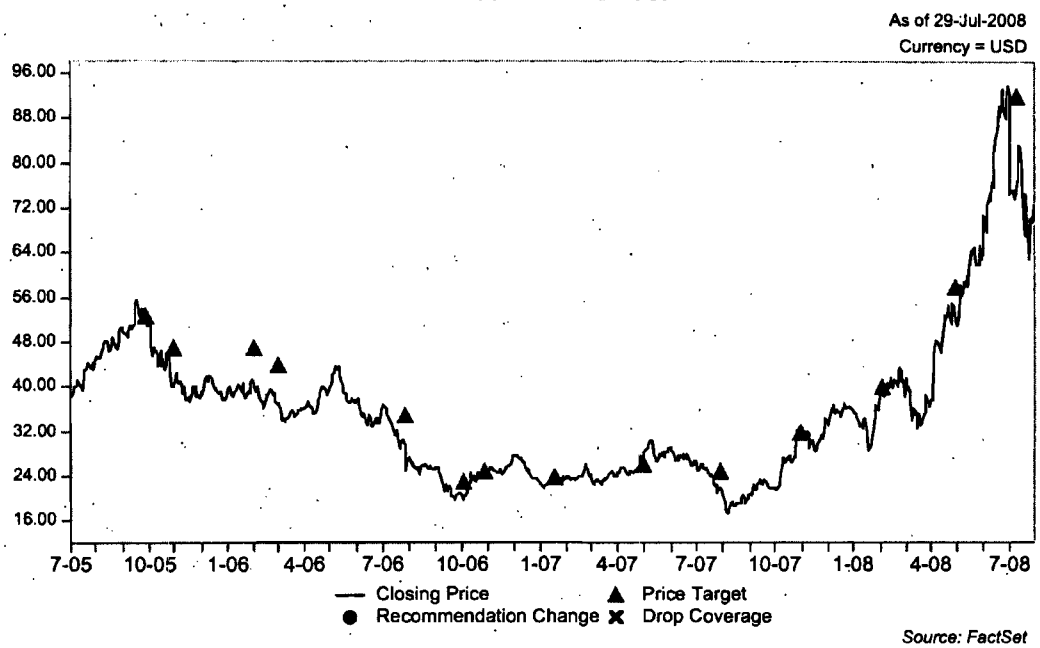
Risks Which May Impede the Achievement of the Price Target: Adverse weather, a weak economy, a material decline in steel demand, and/or operational problems are risks to our target price. Long-term, environmental regulations represent a risk to the industry.

Important Disclosures Continued:

Massey Energy (MEE) **US$ 78.95 (30-Jul-2008)** **2-Equal weight / 1-Positive**

Rating and Price Target Chart:

MASSEY ENERGY CO.



Source: FactSet

Currency=US$

Date	Closing Price	Rating	Price Target
09-Jul-08	76.00		92.00
29-Apr-08	51.81		58.00
05-Feb-08	38.95		40.00
31-Oct-07	31.68		32.00
30-Jul-07	21.78		25.00
02-May-07	28.36		26.00
17-Jan-07	23.47		24.00
27-Oct-06	25.73		25.00

Date	Closing Price	Rating	Price Target
04-Oct-06	20.06		23.00
28-Jul-06	25.05		35.00
01-Mar-06	36.82		44.00
02-Feb-06	39.96		47.00
31-Oct-05	40.07		47.00
28-Sep-05	52.89		53.00

FOR EXPLANATIONS OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE PAGE FOLLOWING THE LAST PRICE CHART.

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Risks Which May Impede the Achievement of the Price Target: Adverse weather, a weak economy, and/or operational problems are risks to our target. Long-term, environmental regulations represent a risk to the industry.

Important Disclosures Continued:
The analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities

Company Name	Ticker	Price	Price Date	Stock / Sector Rating
TECO Energy	TE	US$ 19.65	30-Jul-2008	2-Equal weight / 2-Neutral

Mentioned Company	Ticker	Price	Price Date	Stock / Sector Rating
Alpha Natural Resources	ANR	US$ 102.80	30 Jul 2008	1-Overweight / 1-Positive
Massey Energy	MEE	US$ 78.95	30 Jul 2008	2-Equal weight / 1-Positive

Guide to Lehman Brothers Equity Research Rating System:
Our coverage analysts use a relative rating system in which they rate stocks as 1-Overweight, 2-Equal weight or 3-Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry sector (the "sector coverage universe"). Below is the list of companies that constitute the sector coverage universe:

Alliant Energy (LNT)
Aquila, Inc (ILA)
Consolidated Edison (ED)
DTE Energy (DTE)
Great Plains Energy (GXP)
ITC Holdings (ITC)
Northeast Utilities (NU)
OGE Energy (OGE)
Pinnacle West Capital (PNW)
Progress Energy (PGN)
Sierra Pacific Resources (SRP)
TECO Energy (TE)
Wisconsin Energy (WEC)
American Electric Power (AEP)
CMS Energy (CMS)
DPL Inc. (DPL)
Duke Energy (DUK)
Hawaiian Electric Inds (HE)
NiSource, Inc. (NI)
NSTAR (NST)
PG&E Corp. (PCG)
Portland General Electric Co. (POR)
Puget Energy (PSD)
Southern Co. (SO)
Westar Energy (WR)
Xcel Energy (XEL)

In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating
1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.
2-Equal weight - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12- month investment horizon.
3-Underweight - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.
RS-Rating Suspended - The rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Lehman Brothers is acting in an advisory capacity in a merger or strategic transaction involving the company.

Sector View
1-Positive - sector coverage universe fundamentals/valuations are improving.
2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.
3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

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EQUITY RESEARCH

April 30, 2008

United States of America
Power and Utilities
Regulated Utilities

TECO Energy (TE - US$ 16.66) 2-Equal weight

Change of Earnings Forecast

1Q '08 Miss; Weather; Slow Growth in FL

Daniel Ford, CFA
1.212.526.0836
daford@lehman.com
LBI, New York

Investment Conclusion

- We reiterate our 2-EW rating and our price target of $17.50. We are lowering our '08/'09E eps from $1.04/$1.40E to $1.01/$1.31E given weather normalization in '08 and slower growth assumptions given the current state of the FL economy and it's continued susceptibility to the housing downturn.

Summary

- The company reported 1Q eps of $0.15 vs. $0.21 (excluding synfuels) last year and consensus of $0.21. Results were mainly driven by lower earnings at both Tampa Electric and Peoples Gas as a result of weather (11% below last year), and outages at phosphate plants which constitute their major industrial customers.
- Moreover, customer growth at Tampa Electric was +0.6%, while retail sales actually fell by 2.1% overall and by -4.5% to residential customers (some of which was due to weather as noted above). Both regulated utilities are expected to under earn their allowed ranges in '08 and therefore it is expected that they will file rate cases in 2H '08 or early '09. Coal results were slightly lower on a comparable basis due to sales mix.
- The company reiterated '08 guidance in a range of $0.95 - $1.10 consistent with our $1.01E.

Stock Rating		Target Price	
New:	2-Equal weight	New:	US$ 17.50
Old:	2-Equal weight	Old:	US$ 17.50

Sector View: 2-Neutral

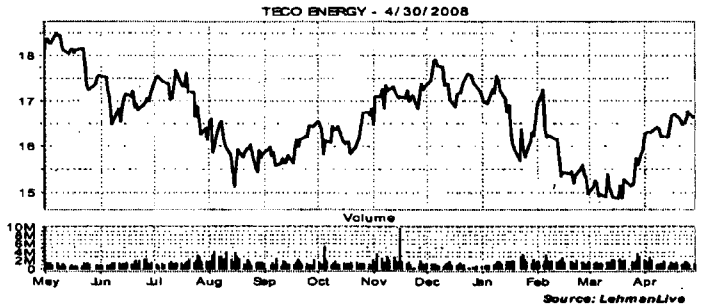
EPS (US$) (FY Dec)

	2007		2008			2009		% Change	
	Actual	Old	New	St. Est.	Old	New	St. Est.	2008	2009
1Q	0.21A	N/A	0.15A	0.21E	N/A	N/A	0.00E	-29%	N/A
2Q	0.25A	N/A	N/A	0.24E	N/A	N/A	0.00E	N/A	N/A
3Q	0.34E	N/A	N/A	0.36E	N/A	N/A	0.00E	N/A	N/A
4Q	0.23A	N/A	N/A	0.22E	N/A	N/A	0.00E	N/A	N/A
Year	1.07A	1.04E	1.01E	1.04E	1.40E	1.31E	1.24E	-6%	30%
P/E			16.5			12.7			

Market Data	
Market Cap (Mil.)	3508
Dividend Yield	4.69
52 Week Range	18.58 - 14.48

Financial Summary	
Revenue TTM (Mil.)	3536.1

Stock Overview



1Q '08 Earnings

The company reported 1Q eps of $0.15 vs. $0.21 last year, which excludes synfuels, a consensus estimate of $0.21 and our estimate of $0.25. The lower results vs. our estimate were mainly due to significantly milder weather and slower customer growth than anticipated, including the phosphate outage mentioned above. The earnings per share year over year for the 1Q period are shown in the table below:

Quarterly Results 1Q	2008	2007
Earnings per Share	$0.15	$0.35

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Investors should consider this report as only a single factor in making their investment decision.

PLEASE SEE ANALYST(S) CERTIFICATION(S) ON PAGE 3 AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 4

Discontinued Ops	$0.00	$0.00
Continuing Ops EPS	$0.15	$0.35
Charges and Gains	$0.00	$0.01
Non-GAAP EPS including Synfuel	$0.15	$0.36
Exclude Synfuel	$0.00	($0.15)
Non-GAAP EPS Exc. Synfuel	**$0.15**	**$0.21**

Source: Company Earnings Presentation

Tampa Electric earnings were driven by slowing customer growth, which was only +0.6% in 1Q '08 vs. +2.5% in 1Q '07 and +1.3% in 4Q '07. Also impacting results were lower retail energy sales as a result of milder weather which was 11% milder than year ago levels. Moreover, there were facility outages (which should not recur) at industrial phosphate facilities which impacted industrial sales levels in the quarter.

Peoples Gas saw limited customer growth as well and was impacted by the milder winter weather mentioned above. Also, lower property taxes and O&M expense was more than offset by higher D&A expense related to capital additions to the gas pipeline network. We would expect weather to normalize over the entire 2008 calendar year.

TECO coal saw higher tonnage sales in a stronger coal market, however this was more than offset by higher production costs (related to petroleum based inputs) and a shift in sales mix from higher priced met coal to more steam coal vs. 1Q '07.

TECO Guatemala saw higher rates for energy sales and lower interest expense, as well as strong customer growth at EEGSA and increased earnings from affiliates.

TECO Transport was sold in December of 2007 therefore there was no earnings contribution this year vs. last year. However, this was almost fully offset by a $6.8M reduction in parent interest expense as the proceeds of the sale were used to pay down parent debt.

The table below is a roll-forward of annual earnings by main business unit (not including the corporate parent):

	Tampa Electric	Peoples Gas	TECO Coal	TECO Guatemala
Q1 '07 EPS	**$0.10**	**$0.05**	**$0.20**	**$0.05**
Revenues	($0.05)	$0.05	$0.10	$0.00
Operating Expenses	$0.02	($0.05)	($0.20)	$0.00
Depreciation	$0.01	$0.00	$0.00	$0.00
Interest Expenses	($0.00)	$0.00	$0.00	$0.00
Taxes	$0.00	$0.00	$0.09	$0.00
Synfuel Removal			($0.15)	
Q1 '08 EPS	**$0.08**	**$0.05**	**$0.04**	**$0.05**

Source: Company Earnings Release, Supplemental Financials

2008 Guidance; Growth Outlook

Management reiterated their 2008 guidance outlook of a range of $0.95 to $1.10. We believe this guidance range incorporates a normalization of weather through the end of the year as well as some pick-up from higher spot price sales of coal on incremental volume increases. Offsetting this will be higher production costs of coal, as well as the lower growth forecast. We believe that continued growth of +0.6% in the customer base would put 2008 earnings into the lower half of the given guidance, which is consistent with our $1.01E for '08.

Management indicated that the housing slowdown was more severe in Florida than originally forecast, and they expect the weak economic conditions as a result to continue through 2008 with a recovery expected to begin in 2009. Full year growth is expected to be slightly above the +0.6% experienced in 1Q with recovery happening in 2009 and a back to normal growth rate of 2% achievable in 2010. Energy sales are not expected to outpace customer growth as they have in the past. As an example, Peoples Gas experienced lower throughput in 1Q due to lower usage from industrials related to the housing sector and lower usage from commercial customers in the consumer discretionary space. The company is currently evaluating needed generation additions post 2010 based upon this lower growth forecast. 2009 should however see a boost to earnings at TECO Coal as new contracts go into place with higher pricing, which is consistent with our revised $1.31E in that year.

The company plans to file rate cases at both Tampa Electric and Peoples Gas, likely in the 2H '08 with rates effective approximately 9 months post filing.

Valuation

We reiterate our 2-EW rating and our $17.50 price target. Our price target is premised upon the break out valuation of TECO's different business units as shown below:

SUBSIDIARY	09 EBITDA	Multiple	EV
TAMPA ELEC	504.0	7.1	3,578
PEOPLES GAS	92.1	7.1	654
GUATAMALA	75.5	6.0	456
TECO COAL	236.9	7.1	1,670
PARENT	$ (18)	7.1	(128)
			6,231
	TOTAL DEBT		3,087
	CASH		118.1
	PV of NOLs		421.1
	EQUITY		3,683
	Shares		211
	PRICE		**$ 17.50**

Source: Lehman Brothers Estimates

Tampa Electric, Peoples Gas, and the Parent use a '09E EV/EBITDA Utility group multiple of 7.1x. TECO Guatemala uses this multiple times a 15% discount due to the risk related to foreign operations. TECO Coal will have a production mix in 2009 of 60% steam coal and 40% metallurgical coal. The coal companies with productions close to this mix are Alpha Natural Resources (ANR) and Massey Energy (MEE); to value TECO Coal, we took the average of the EBITDA multiples for these two companies, 6.3x '09E for ANR and 7.8x '09E for MEE, to yield 7.1x '09E.

Analyst Certification:

I, Daniel Ford, CFA, hereby certify (1) that the views expressed in this research Company Note accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Company Note and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Company Note.

Other Team Members:

Fowler, Ross (LBI, New York) 1.617.330.5893 rofowler@lehman.com

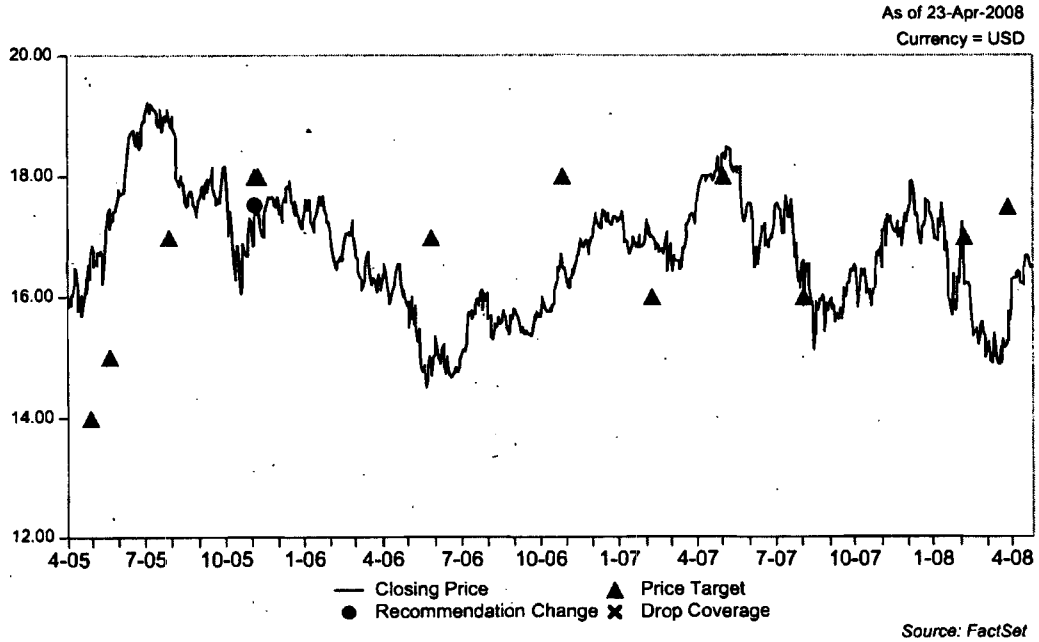
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Important Disclosures:

TECO Energy (TE) **US$ 16.66 (28-Apr-2008)** **2-Equal weight / 2-Neutral**

Rating and Price Target Chart:

TECO ENERGY INC.



Source: FactSet

Currency=US$

Date	Closing Price	Rating	Price Target
27-Mar-08	15.74		17.50
06-Feb-08	16.21		17.00
03-Aug-07	15.87		16.00
02-May-07	18.38		18.00
07-Feb-07	17.01		16.00
27-Oct-06	16.49		18.00
30-May-06	14.70		17.00

Date	Closing Price	Rating	Price Target
09-Nov-05	17.50		18.00
07-Nov-05	17.52		18.00
07-Nov-05	17.52	2 -Equal weight	
28-Jul-05	18.92		17.00
23-May-05	17.12		15.00
28-Apr-05	16.31		14.00

FOR EXPLANATIONS OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE PAGE FOLLOWING THE LAST PRICE CHART.

Lehman Brothers Inc and/or an affiliate trade regularly in the shares of TECO Energy.

Valuation Methodology: Our $17.50 Price Target is premised upon the break out valuation below:

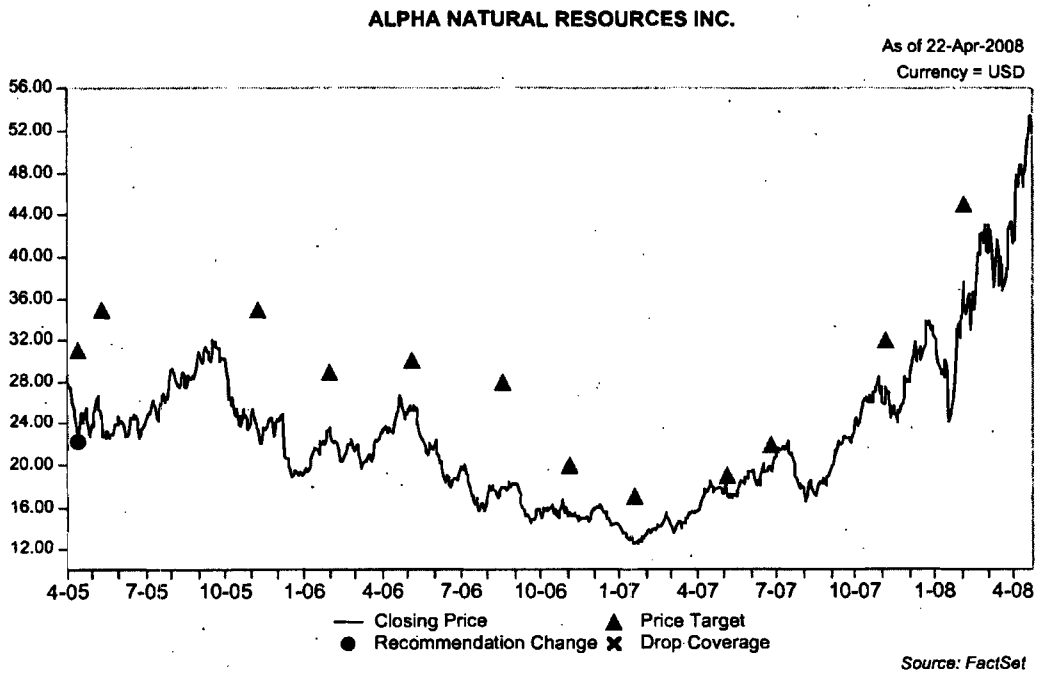
SUBSIDIARY	09 EBITDA	Multiple	EV
TAMPA ELEC	505.6	7.1	3,589
PEOPLES GAS	91.3	7.1	648
GUATAMALA	75.5	6.0	456
TECO COAL	236.9	7.1	1,670
PARENT	$(18)	7.1	(128)
			6,236
TOTAL DEBT			3,087
CASH			118
PV of NOLs			421
EQUITY			3,688
Shares			211
PRICE			$17.50

Risks Which May Impede the Achievement of the Price Target: Risks include sensitivity to power prices, ratings downgrades, increased cost of capital and write-offs.

Important Disclosures Continued:

Alpha Natural Resources (ANR) **US$ 48.37 (28-Apr-2008)** **1-Overweight / 1-Positive**

Rating and Price Target Chart:



Source: FactSet

Currency=US$

Date	Closing Price	Rating	Price Target
05-Feb-08	35.70		45.00
05-Nov-07	25.89		32.00
25-Jun-07	19.74		22.00
04-May-07	17.02		19.00
17-Jan-07	12.45		17.00
03-Nov-06	15.43		20.00
18-Aug-06	17.94		28.00

Date	Closing Price	Rating	Price Target
05-May-06	25.40		30.00
01-Feb-06	22.85		29.00
09-Nov-05	23.45		35.00
12-May-05	23.50		35.00
14-Apr-05	22.27		31.00
14-Apr-05	22.27	1 -Overweight	

FOR EXPLANATIONS OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE PAGE FOLLOWING THE LAST PRICE CHART.

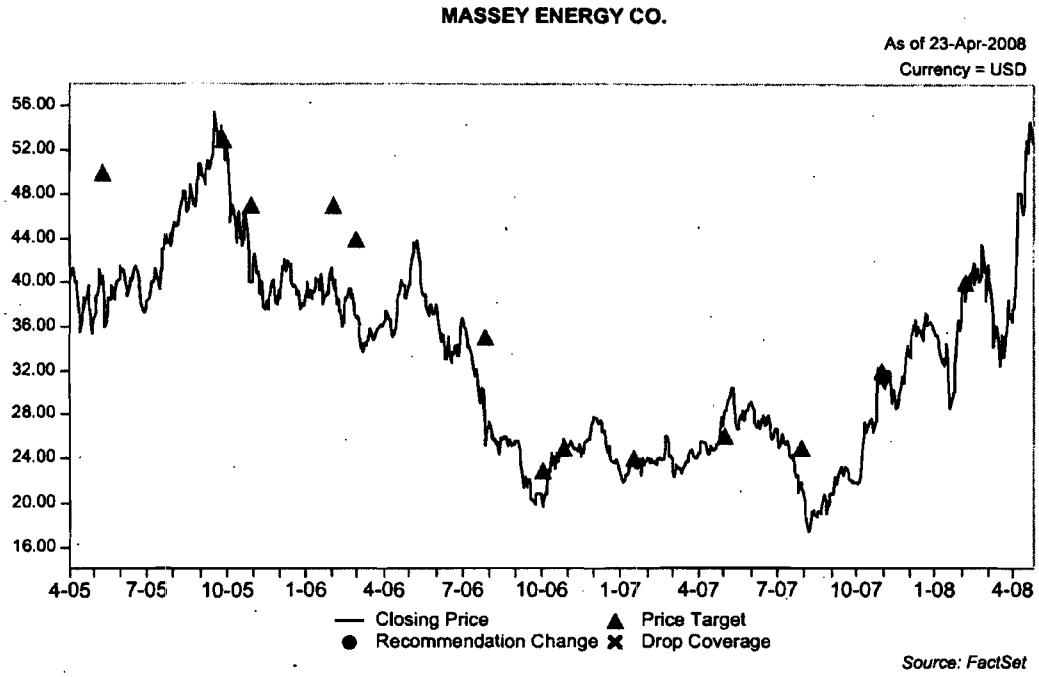
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Important Disclosures Continued:

Massey Energy (MEE) **US$ 51.81 (28-Apr-2008)** **2-Equal weight / 1-Positive**

Rating and Price Target Chart:



Source: FactSet

Currency=US$

Date	Closing Price	Rating	Price Target
05-Feb-08	38.95		40.00
31-Oct-07	31.68		32.00
30-Jul-07	21.78		25.00
02-May-07	28.36		26.00
17-Jan-07	23.47		24.00
27-Oct-06	25.73		25.00
04-Oct-06	20.06		23.00

Date	Closing Price	Rating	Price Target
28-Jul-06	25.05		35.00
01-Mar-06	36.82		44.00
02-Feb-06	39.96		47.00
31-Oct-05	40.07		47.00
28-Sep-05	52.89		53.00
11-May-05	40.47		50.00

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Company Name	Ticker	Price (28-Apr-2008)	Stock / Sector Rating
TECO Energy	TE	US$ 16.66	2-Equal weight / 2-Neutral

Related Stocks	Ticker	Price (28-Apr-2008)	Stock / Sector Rating
Alpha Natural Resources	ANR	US$ 48.37	1-Overweight / 1-Positive
Massey Energy	MEE	US$ 51.81	2-Equal weight / 1-Positive

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Wisconsin Energy (WEC)
American Electric Power (AEP)
CMS Energy (CMS)
DPL Inc. (DPL)
Duke Energy (DUK)
Hawaiian Electric Inds (HE)
NiSource, Inc (NI)
NSTAR (NST)
PG&E Corp (PCG)
Portland General Electric Co. (POR)
Puget Energy (PSD)
Southern Co (SO)
Westar Energy (WR)
Xcel Energy (XEL)

In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating
1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.
2-Equal weight - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12- month investment horizon.
3-Underweight - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.
RS-Rating Suspended - The rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Lehman Brothers is acting in an advisory capacity in a merger or strategic transaction involving the company.

Sector View
1-Positive - sector coverage universe fundamentals/valuations are improving.
2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.
3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

Distribution of Ratings:
Lehman Brothers Equity Research has 2159 companies under coverage.
39% have been assigned a 1-Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as Buy rating, 30% of companies with this rating are investment banking clients of the Firm.
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LEHMAN BROTHERS
EQUITY RESEARCH

March 27, 2008

United States of America
Power and Utilities
Regulated Utilities
Daniel Ford, CFA
1.212.526.0836
daford@lehman.com
LBI, New York

TECO Energy (TE - US$ 15.31) 2-Equal weight

Change of Price Target

A Good Breakfast - Back to Basics

Investment Conclusion

- We are reiterating our 2-EW rating and are raising our EPS est from $1.01/$1.30E to $1.04/$1.40E for '08/09E respectively. We are also raising our price target from $17 to $17.50 as a result of multiple expansion of the coal comps which more than offset slight contraction in utility multiples. Our full valuation analysis is presented below.

Summary

- On Thursday 3/27 TECO Energy held a Breakfast Meeting to update analysts. TE reiterated their previous '08 eps guidance of $0.95 to $1.05 per share, which is consistent with our revised $1.04E. It was also indicated that Tampa Electric will target a mid 50% equity ratio via contributions of at least $190M and a potential for an additional $160M from the parent to the sub. in the future.
- On the utility front, the housing market in FL is beginning to effect the outlook. It is expected to recover sometime in 09. On the coal front TE guided to higher tonnage in 08 (10.5 tons) and 09 (11-11.5 tons) and anticipated that margins could double from 0 to 09 and be potentially even stronger in 2010 despite continued cost pressures. Avg prices across all products are expected to be $7-10/ton higher although ~30% of unpriced met coal will not be finalized on price until 4Q '08.

Stock Rating		Target Price	
New:	2-Equal weight	New:	US$ 17.50
Old:	2-Equal weight	Old:	US$ 17.00

Sector View: 2-Neutral

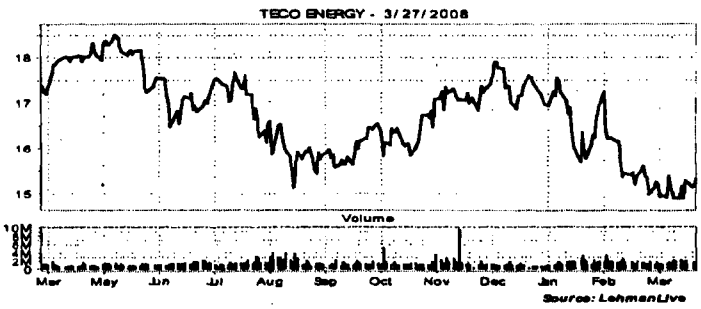
EPS (US$) (FY Dec)

	2007		2008			2009		% Change	
	Actual	Old	New	St. Est.	Old	New	St. Est.	2008	2009
1Q	0.21A	N/A	N/A	0.22E	N/A	N/A	0.00E	N/A	N/A
2Q	0.25A	N/A	N/A	0.25E	N/A	N/A	0.00E	N/A	N/A
3Q	0.34E	N/A	N/A	0.36E	N/A	N/A	0.00E	N/A	N/A
4Q	0.23A	N/A	N/A	0.22E	N/A	N/A	0.00E	N/A	N/A
Year	1.07A	1.01E	1.04E	1.05E	N/A	1.40E	1.18E	-3%	35%
P/E			14.7			10.9			

Market Data	
Market Cap (Mil.)	3226
Shares Outstanding (Mil.)	210.68
Float (%)	93
Dividend Yield	5.09
Convertible	No
52 Week Range	18.58 - 14.48

Financial Summary	
Revenue FY08 (Mil.)	3491.0
Five-Year EPS CAGR	5.0
Return on Equity	21.30
Current BVPS	9.56
Debt To Capital (%)	45.57

Stock Overview



A Good Breakfast

On Thursday 3/27 TECO Energy held a Breakfast Meeting to update analysts. We provide details of the updated by business segment below.

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Investors should consider this report as only a single factor in making their investment decision.

PLEASE SEE ANALYST(S) CERTIFICATION(S) ON PAGE 3 AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 4

Tampa Electric

The housing market in Florida will have an impact on growth rates in 2008, and the market is not expected to begin the recovery process until sometime in 2009. Overall housing permits in the Tampa area are down 40% in 2007 vs. 2006, and this should be no surprise to the market as the more frothy areas have experienced the severest housing slowdowns. Long term the company expects 2% year on year growth, but growth in the short term growth will be softer than this given the housing related slowdown.

Capex investment at Tampa Electric will total nearly $3B over the next 5 years, through 2012. Recurring investment totals approximately $320M per year, and generation build out includes 5 peaking plants in the next two years and a 520MW CCGT facility in Florida that will potentially be built pending a required RFP process. The current cost estimate for this facility is $555M or approximately $1,100/kw. For SCRs Tampa will be building a second scrubber this year and then another two in '09 and '10 which will all be recovered via the ECR clause at the mid-point of their allowed ROE range of 11.25-12.25%, for a cost of approximately $80M each at a 50% equity ratio, leading to approximately $5M in incremental earnings for each SCR.

Since the utility will earn below their allowed ROE range in 2008, the company will file for rate relief, likely sometime in 2008. A GRC sets to a 9 month clock for resolution once filed.

People's Gas

People's Gas should see a similar slowing in growth due to the housing related slowdown similar to that described for Tampa Electric above. The company will begin exploring investment options related to solar based hot water heaters with natural gas back up to help meet Governor Crist's GHG emissions mandates. Further, direct use of natural gas can reduce GHG emissions vs. electric appliance usage.

TECO Coal

TECO Coal expects to achieve improvements in earnings both in '08, given higher tonnage of production and in '09 given higher volumes as well as very favorable contract pricing. Due to global demand as well as issues in southern China, South Africa, and Australia that have restricted some supplies, prices have increased significantly on the spot market. Utility companies have shown a willingness to sign into longer term contracts related to supplies as TECO's legacy contracts at lower prices roll off. Volumes for 2008 were increased to 10.5 million tons while pricing was held at approximately $58/ton and margins at $5/ton. For 2009, volumes were increased to approximately 11-11.5 tons and average prices across all products are expected to be $7-10/ton higher than in '08. Despite higher production costs continuing, margins are expected to double in 2009 to ~$10/ton. The current contracted positions are 70% contracted & priced, 20% contracted & unpriced, and 10% uncontracted for 2009. The uncontracted/unpriced portion is largely met coal and will be contracted and/or priced in 4Q '08. For 2010 ~40% is contracted & priced, 25% contracted & unpriced, and 35% uncontracted.

Our modeled TECO Coal assumptions are detailed in the table below:

TECO COAL PROJECTED OPERATING STATISTICS

Volume (mil tons)	2006A	2007A	2008E	2009E
Steam Coal – utility	6.6	5.6	6.3	6.9
Metalurgical – specialt	3.2	3.7	4.2	4.6
TOTAL	9.8	9.25	10.5	11.5
Pricing ($/ton)				
Steam Coal	$ 51.00	$ 46.72	$ 47.00	$ 64.00
Metalurgical	$ 73.00	$ 72.19	$ 75.00	$ 74.50
Average Overall	$ 58.26	$ 56.91	$ 58.20	$ 68.20
Revenues/ton	$ 58.26	$ 56.91	$ 58.20	$ 68.20
O&M/ton	$ 42.25	$ 42.67	$ 46.77	$ 51.44
D&A/ton	$ 3.75	$ 3.75	$ 3.75	$ 3.75
TOTI/ton	$ 2.75	$ 2.75	$ 2.75	$ 2.75
Total Exp/ton	$ 48.75	$ 49.17	$ 53.27	$ 57.94
Margins per Ton	$ 9.51	$ 7.74	$ 4.93	$ 10.26
Pre TOTI Margin	$ 12.26	$ 10.49	$ 7.68	$ 13.01

Source: Lehman Brothers Estimates, Company Filings

Valuation

We are reiterating our 2-EW rating and are raising our EPS est from $1.01/$1.30E to $1.04/$1.40E for '08/09E, respectively. We are also raising our price target from $17 to $17.50 as a result of multiple expansion of the coal comps which more than offset slight contraction in utility multiples. Our full valuation analysis is presented in the table below:

SUBSIDIARY	09 EBITDA	Multiple	EV
TAMPA ELEC	527.9	6.9	3,643
PEOPLES GAS	97.5	6.9	672
GUATAMALA	75.5	6.2	469
TECO COAL	236.9	7.0	1,651
PARENT	$ (18)	6.9	(124)
			6,311
	TOTAL DEBT		3,191
	CASH		134
	PV of NOLs		421.1
	EQUITY		3,675
	Shares		210
	PRICE		**$ 17.50**

Source: Lehman Brothers Estimates

Tampa Electric, Peoples Gas, and the Parent use a '09E EV/EBITDA Utility group multiple of 6.9x. TECO Guatemala uses this multiple times a 10% discount due to the risk related to foreign operations. TECO Coal will have a production mix in 2009 of 60% steam coal and 40% metallurgical coal. The coal companies with productions close to this mix are Alpha Natural Resources (ANR) and Massey Energy (MEE); to value TECO Coal, we took the average of the EBITDA multiples for these two companies, 7.1x '10E for ANR and 6.0x '10E for MEE, brought back to '09 implying 6% growth to '09 to yield 7.0x '09E.

Analyst Certification:

I, Daniel Ford, CFA, hereby certify (1) that the views expressed in this research Company Note accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Company Note and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Company Note.

Other Team Members:

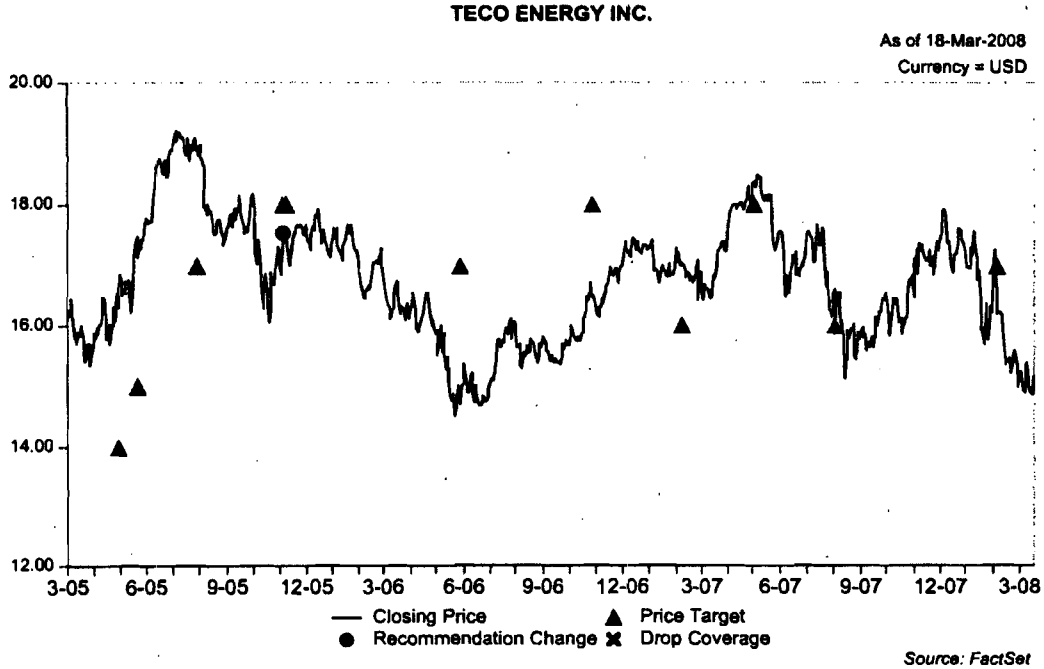
Fowler, Ross (LBI, New York) 1.617.330.5893 rofowler@lehman.com

LEHMAN BROTHERS
EQUITY RESEARCH

Important Disclosures:

TECO Energy (TE) **US$ 15.31 (26-Mar-2008)** **2-Equal weight / 2-Neutral**

Rating and Price Target Chart:



Source: FactSet

Currency=US$

Date	Closing Price	Rating	Price Target
06-Feb-08	16.21		17.00
03-Aug-07	15.87		16.00
02-May-07	18.38		18.00
07-Feb-07	17.01		16.00
27-Oct-06	16.49		18.00
30-May-06	14.70		17.00

Date	Closing Price	Rating	Price Target
09-Nov-05	17.50		18.00
07-Nov-05	17.52		18.00
07-Nov-05	17.52	2 -Equal weight	
28-Jul-05	18.92		17.00
23-May-05	17.12		15.00
28-Apr-05	16.31		14.00

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Lehman Brothers Inc and/or an affiliate trade regularly in the shares of TECO Energy.

Valuation Methodology: Our $17.50 Price Target is premised upon the break out valuation below:

SUBSIDIARY	09 EBITDA		Multiple	EV
TAMPA ELEC	527.9		6.9	3,643
PEOPLES GAS	97.5		6.9	672
GUATAMALA	75.5		6.2	469
TECO COAL	236.9		7.0	1,651
PARENT		$(18)	6.9	(124)
				6,311
	TOTAL DEBT			3,191
	CASH			134
	PV of NOLs			421
	EQUITY			3,675
	Shares			210
	PRICE			$17.50

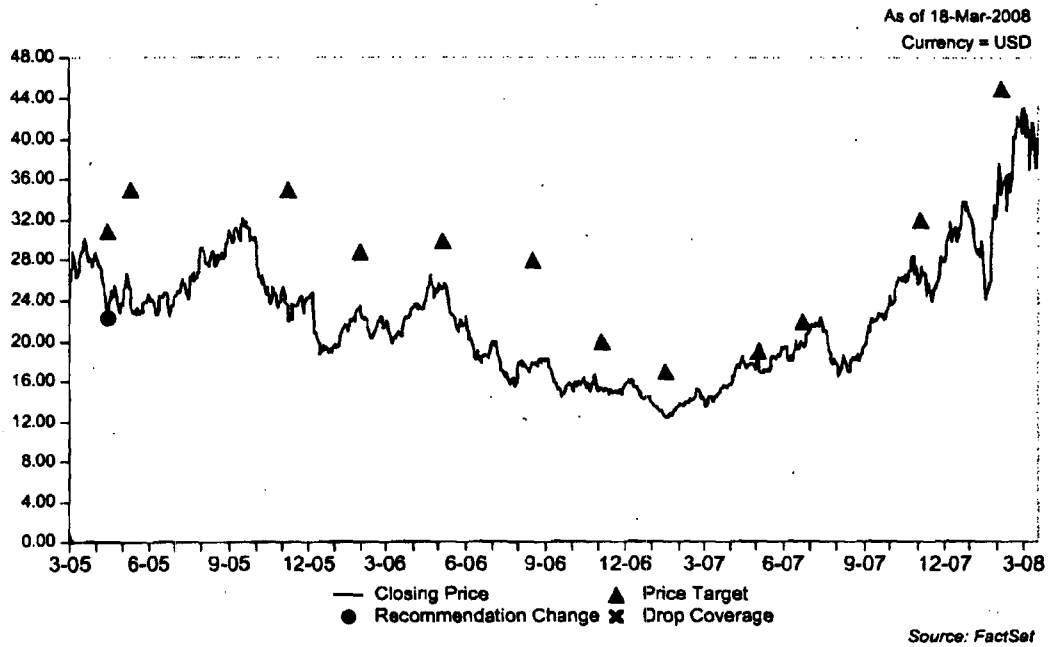
Risks Which May Impede the Achievement of the Price Target: Risks include sensitivity to power prices, ratings downgrades, increased cost of capital and write-offs.

Important Disclosures Continued:

Alpha Natural Resources (ANR) **US$ 42.34 (26-Mar-2008)** **1-Overweight / 1-Positive**

Rating and Price Target Chart:

ALPHA NATURAL RESOURCES INC.



Source: FactSet

Currency=US$

Date	Closing Price	Rating	Price Target
05-Feb-08	35.70		45.00
05-Nov-07	25.89		32.00
25-Jun-07	19.74		22.00
04-May-07	17.02		19.00
17-Jan-07	12.45		17.00
03-Nov-06	15.43		20.00
18-Aug-06	17.94		28.00

Date	Closing Price	Rating	Price Target
05-May-06	25.40		30.00
01-Feb-06	22.85		29.00
09-Nov-05	23.45		35.00
12-May-05	23.50		35.00
14-Apr-05	22.27		31.00
14-Apr-05	22.27	1 -Overweight	
01-Mar-05	24.99		0.00

FOR EXPLANATIONS OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE PAGE FOLLOWING THE LAST PRICE CHART.

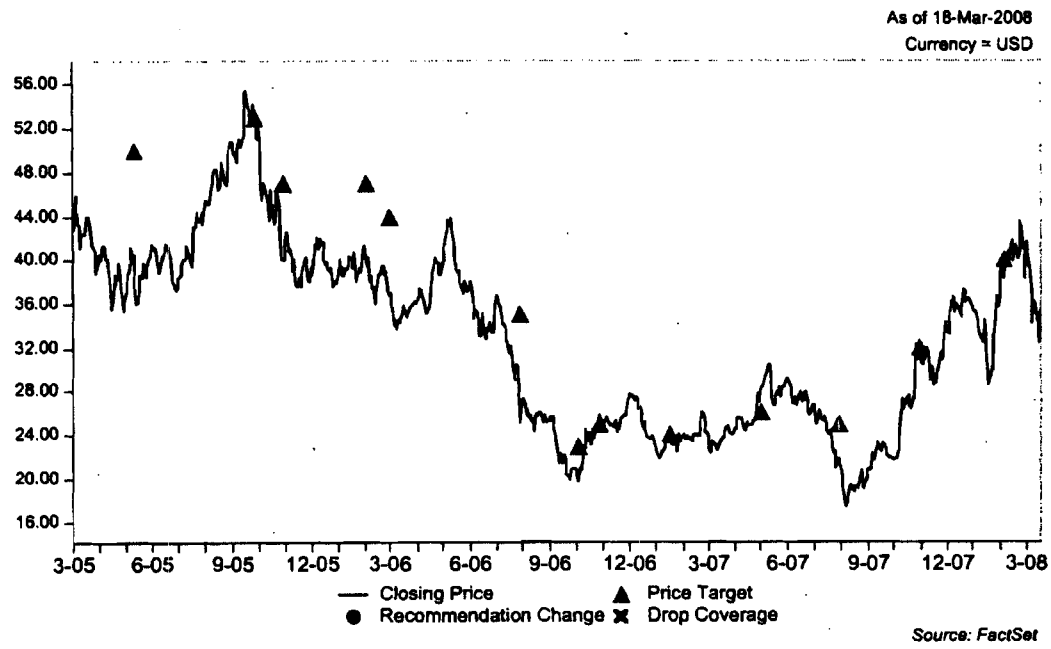
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Massey Energy (MEE) **US$ 38.52 (26-Mar-2008)** **2-Equal weight / 1-Positive**

Rating and Price Target Chart:



Source: FactSet

Currency=US$

Date	Closing Price	Rating	Price Target
05-Feb-08	38.95		40.00
31-Oct-07	31.68		32.00
30-Jul-07	21.78		25.00
02-May-07	28.36		26.00
17-Jan-07	23.47		24.00
27-Oct-06	25.73		25.00
04-Oct-06	20.06		23.00

Date	Closing Price	Rating	Price Target
28-Jul-06	25.05		35.00
01-Mar-06	36.82		44.00
02-Feb-06	39.96		47.00
31-Oct-05	40.07		47.00
28-Sep-05	52.89		53.00
11-May-05	40.47		50.00

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Company Name	Ticker	Price (26-Mar-2008)	Stock / Sector Rating
TECO Energy	TE	US$ 15.31	2-Equal weight / 2-Neutral

Related Stocks	Ticker	Price (26-Mar-2008)	Stock / Sector Rating
Alpha Natural Resources	ANR	US$ 42.34	1-Overweight / 1-Positive
Massey Energy	MEE	US$ 38.52	2-Equal weight / 1-Positive

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Aquila, Inc (ILA)
Consolidated Edison (ED)
DTE Energy (DTE)
Great Plains Energy (GXP)
ITC Holdings (ITC)
Northeast Utilities (NU)
OGE Energy (OGE)
Pinnacle West Capital (PNW)
Progress Energy (PGN)
Sierra Pacific Resources (SRP)
TECO Energy (TE)
Wisconsin Energy (WEC)
American Electric Power (AEP)
CMS Energy (CMS)
DPL Inc (DPL)
Duke Energy (DUK)
Hawaiian Electric Inds (HE)
NiSource, Inc (NI)
NSTAR (NST)
PG&E Corp (PCG)
Portland General Electric Co. (POR)
Puget Energy (PSD)
Southern Co (SO)
Westar Energy (WR)
Xcel Energy (XEL)

In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating
1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.
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3-Underweight - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.
RS-Rating Suspended - The rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Lehman Brothers is acting in an advisory capacity in a merger or strategic transaction involving the company.

Sector View
1-Positive - sector coverage universe fundamentals/valuations are improving.
2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.
3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

Distribution of Ratings:
Lehman Brothers Equity Research has 2128 companies under coverage.
39% have been assigned a 1-Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as Buy rating, 31% of companies with this rating are investment banking clients of the Firm.
47% have been assigned a 2-Equal weight rating which, for purposes of mandatory regulatory disclosures, is classified as Hold rating, 34% of companies with this rating are investment banking clients of the Firm.
11% have been assigned a 3-Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as Sell rating, 20% of companies with this rating are investment banking clients of the Firm.

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EQUITY RESEARCH

February 06, 2008

United States of America
Power and Utilities
Regulated Utilities

Daniel Ford, CFA
1.212.526.0836
daford@lehman.com
LBI, New York

TECO Energy (TE - US$ 17.25) 2-Equal weight

Change of Price Target

4Q Ongoing $0.23; '08 Guide $0.95-$1.10

Investment Conclusion

- We reiterate our 2-EW rating and are updating our EPS estimates from $1.12/$1.17E to $1.01/$1.30E respectively for '08/09E. Our price target increases from $16 to $17, due to multiple expansion, and premised upon the segment valuation presented below.

Summary

- The company reported a 4Q headline number of $0.83, however, this number is inclusive of the gain on sale of the transport business and synfuel. Removing these items produces the 4Q ongoing (ex-synfuel) eps of $0.23.
- The $0.05 improvement in year over year quarterly results was driven by higher earnings at Tampa Electric +$0.05, and higher parent earnings +$0.05, offset by lower results at TECO Coal -$0.01, and loss of earnings on the now sold TECO Transport -$0.04.
- Mgmnt also gave 2008 guidance in a range of $0.95 - $1.10 which is in line with our updated '08E EPS of $1.01E. This guidance range is premised upon flat earnings at Tampa Electric and People's Gas, higher results at TECO coal, and lower results at Guatemala. The loss of Transport's earnings shld be offset by parent debt retirement and lower overall interest expense.

Stock Rating		Target Price	
New:	2-Equal weight	New:	US$ 17.00
Old:	2-Equal weight	Old:	US$ 16.00

Sector View: 2-Neutral

EPS (US$) (FY Dec)

	2006	2007			2008			% Change	
	Actual	Old	New	St. Est.	Old	New	St. Est.	2007	2008
1Q	0.25A	0.21A	0.21A	0.21A	N/A	N/A	0.21E	-16%	N/A
2Q	0.24A	0.25A	0.25A	0.25A	N/A	N/A	0.26E	4%	N/A
3Q	0.30A	0.34E	0.34E	0.38A	N/A	N/A	0.40E	13%	N/A
4Q	0.18A	N/A	0.23A	0.19E	N/A	N/A	0.20E	28%	N/A
Year	0.97A	1.02E	1.07A	1.02E	1.12E	1.01E	1.12E	10%	-6%
P/E			16.1			17.1			

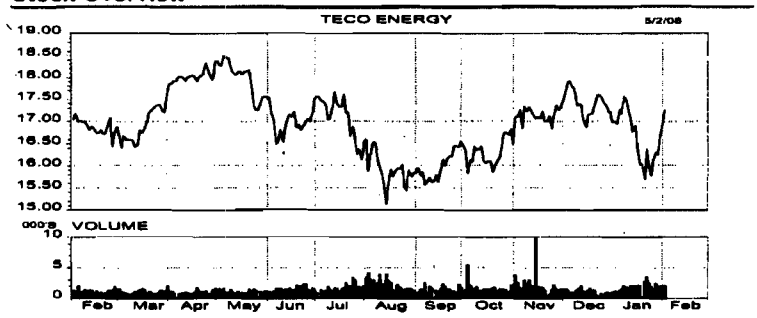
Market Data

Market Cap (Mil.)	3630
Shares Outstanding (Mil.)	210.68
Float (%)	93
Dividend Yield	4.60
Convertible	No
52 Week Range	18.58 - 14.84

Financial Summary

Revenue FY07 (Mil.)	3578.0
Five-Year EPS CAGR	0.0
Return on Equity	14.72
Current BVPS	8.25
Debt To Capital (%)	67.77

Stock Overview



Q4 2007 Earnings

TECO Energy reported a headline EPS number of $0.83 for Q4 '07 vs. $0.18 last year. This headline number included the gain on sale from the sale of the TECO Transport business. The true headline number is $0.22. Excluding synfuel earnings and charges/gains the clean ongoing operating EPS was $0.23 for Q4 '07 vs. $0.18 last year, as shown in the table below:

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Investors should consider this report as only a single factor in making their investment decision.

PLEASE SEE ANALYST(S) CERTIFICATION(S) ON PAGE 4 AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 5

	Q4 07	Q4 06
Earnings per Share	$0.22	$0.23
Exclude Disc. Ops	$0.00	$0.00
EPS Continuing Ops	$0.22	$0.23
Exclude Charges/Gains	$0.00	($0.01)
EPS including synfuel	$0.22	$0.22
Exclude Synfuel	$0.01	($0.04)
Results Excluding Synfuel	**$0.23**	**$0.18**

Source: Company Conference Call/Slide Presentation

The table below is a roll-forward of annual earnings by main business unit (not including the corporate parent):

	Tampa Electric	Peoples Gas	TECO Coal	TECO Guatemala
Q4 '06 EPS	**$0.09**	**$0.03**	**$0.05**	**$0.05**
Revenues	$0.16	$0.09	($0.03)	$0.00
Operating Expenses	($0.08)	($0.09)	($0.00)	$0.00
Depreciation	$0.01	$0.00	$0.00	$0.00
Interest	($0.01)	$0.00	$0.00	$0.00
Taxes	($0.03)	$0.00	$0.02	$0.00
Q4 '07 EPS	**$0.14**	**$0.03**	**$0.04**	**$0.05**

Source: Company Earnings Release

Results at Tampa Electric were driven by higher sales as a result of 1.3% customer growth, lower depreciation as a result of the FL PSC depreciation study approved in '07, and lower property taxes as a result of legislation passed in FL. Overall sales were up +2.7% despite a weakening housing market in FL, due to increases to phosphate industrial customers and warmer than normal weather early in 4Q.

Results at Peoples Gas reflect customer growth of +0.8% as a result of higher off-system sales which were offset by lower sales to retail customers mainly as a result of milder weather in 4Q07, as well as lower overall usage. Also affecting sales were lower sales to industrial customers (mainly in building materials) as a result of the slowdown in the FL housing market.

2008 Guidance

Management issued a 2008 guidance range of $0.95-$1.10, premised upon flat results year over year at the regulated businesses (Tampa Electric and Peoples Gas) and higher (non-synfuel related) results at TECO Coal. Results are expected to be lower at TECO Guatemala. The loss of TECO Transport earnings should be partially offset by $300M of parent debt retirement, using the proceeds of the sale. Overall parent interest expense will likely be lower which should be partially offset by lower investment income as a result of lower cash balances.

Assumptions embedded within the guidance for each business unit are provided below:

Tampa Electric

- Customer growth of 2% on a weather normal basis, sales growth of 2%, which is reflective of lower customer usage and a slowing housing market but not of any potential recession.
- O&M spending increases of 6% - related to higher costs of vehicle fuel, copper, steel, and labor
- Earnings on the second SCR through the regulated recovery mechanism
- Higher AFUDC

Management also provided capital expenditure guidance at Tampa Electric of $535M, as shown in the table below:

Tampa Electric CapEx Guidance

Maintenance Capex	$270M
Peaking Units	$120M
Environmental Spend	$95M
T&D Hardening	$20M
Cent FL Transmission	$30M
TOTAL	**$535M**

Source: Company Presentation

People's Gas

- Customer growth of 1%, premised on the statewide housing slowdown in FL and normalized weather

- Increase in non-fuel O&M by slightly higher than inflation

TECO Coal

- Sales of between 9.5 an 10.0 million tons, premised upon improving market conditions
- 100% Contracted at ~$58/ton average pricing
- Cash margins expected to be squeezed to $10/ton by increasing costs to $48/ton as a result of labor/materials inflation related to both fuel cost and increasing safety expenses

TECO Guatemala

- Losing $1.9M equity adjustment
- Higher scheduled maintenance expenses at San Jose

Parent

- $190M equity injection into Tampa Electric (from Transport sale proceeds)
- $100M in parent floating debt retirement

Upcoming Important Dates

- 10-K Filed in Late February
- 3/6 – UBS Investor Conference
- 3/27 – TECO Energy Update Analyst Day – Breakfast Meeting in NYC

Setting up 2009

While the middle of management's 2008 guidance range implies flat growth from 2007, there are several upside opportunities which the company could see come to fruition in 2009.

TECO Guatemala is currently undergoing the VAD (retail distribution rate) setting process under the typical 5 year review process. A decision on this is expected by mid-summer 2008. Further, there is an outstanding RFP for a 200MW for which bids are due in April '08. It is a long term PPA, and if TECO Guatemala bids the project, non-recourse project financing would be used.

TECO Coal is 60% open in 2009. The 40% contracted portion is largely composed of steam coal, and we anticipate that the composition of sales in 2009 is roughly 60% steam coal and 40% met coal. The 40% that has been contracted so far is largely at prices comparable to the $58/ton achieved price in 2008. Current CAPP coal strips have moved up significantly since the beginning of the year as a result of increased export demand driven by flooding in Australia, electricity outages in South Africa, and snowstorms in southern China. The movement in strip coal prices by basin is shown in the table below.

2009 Coal Prices

Basin	1/14/2008	2/1/2008
NYMEX	$ 59.40	$ 71.74
CSX Big Sandy <1%	$ 57.40	$ 72.00
NS Thacker <1%	$ 59.45	$ 80.75

Source: Evo.id

Upside in the coal business in 2009 will depend on the company's ability to leverage into contract levels that will likely be below strip, but based upon the current strip prices should be significantly above the $58/ton achieved for 2008.

At Tampa Electric and Peoples Gas we anticipate general rate cases to be filed within the current year. Management sees the need for base rate relief at both companies in 2009, and will likely file cases at each subsidiary with the FL PSC within the next 12 months. We anticipate that a Peoples Gas case will precede a filing by Tampa Electric.

Valuation

We reiterate our 2-EW rating and are updating our EPS estimates to $1.01/$1.30E from $1.12/$1.17E for '08/09E, respectively. These estimates imply assumptions consistent with management's guidance for 2008 (using similar assumptions for 2009) and using an average contracted price of $68/ton (40% contracted at $58/ton, 40% met at $80/ton, and 20% remaining open steam at $65/ton) for the remaining open coal position in 2009. We are raising our price target to $17, premised upon the valuation presented below:

SUBSIDIARY	09 EBITDA	Multiple	EV
TAMPA ELEC	509.9	7.2	3,671
PEOPLES GAS	97.5	7.2	702
GUATAMALA	68.7	6.5	445
TECO COAL	243.9	6.5	1,576
PARENT	$ (18)	7.2	(130)
			6,264
	TOTAL DEBT		3,535
	CASH		516.1
	PV of NOLs		388.4
	EQUITY		3,634
	Shares		210
	PRICE		**$ 17**

Source: Lehman Brothers Estimates

Tampa Electric, Peoples Gas, and the Parent use a '09E EV/EBITDA Utility group multiple of 7.2x. TECO Guatemala used this multiple times a 10% discount due to the risk related to foreign operations. TECO Coal will have a production mix in 2009 of 60% steam coal and 40% metallurgical coal. The coal companies with productions close to this mix are Alpha Natural Resources (ANR) and Massey Energy (MEE); to value TECO Coal we took the average of the EBITDA multiples for these two companies (7.1x '09E for ANR and 6.0x '09E for MEE) of 6.55x '09E EBITDA.

Our prior price target of $16 was premised upon the valuation presented below:

SUBSIDIARY	09 EBITDA	Multiple	EV
TAMPA ELEC	532.6	7.3	3,888
PEOPLES GAS	93.3	7.3	681
GUATAMALA	61.9	6.6	407
TECO COAL	140.7	6.3	879
PARENT	$ (18)	7.3	(131)
			5,723
	TOTAL DEBT		3,497
	CASH		632.3
	PV of NOLs		388.4
	EQUITY		3,247
	Shares		208.9
	PRICE		**$ 16**

Source: Lehman Brothers Estimates

Analyst Certification:

I, Daniel Ford, CFA, hereby certify (1) that the views expressed in this research Company Note accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Company Note and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Company Note.

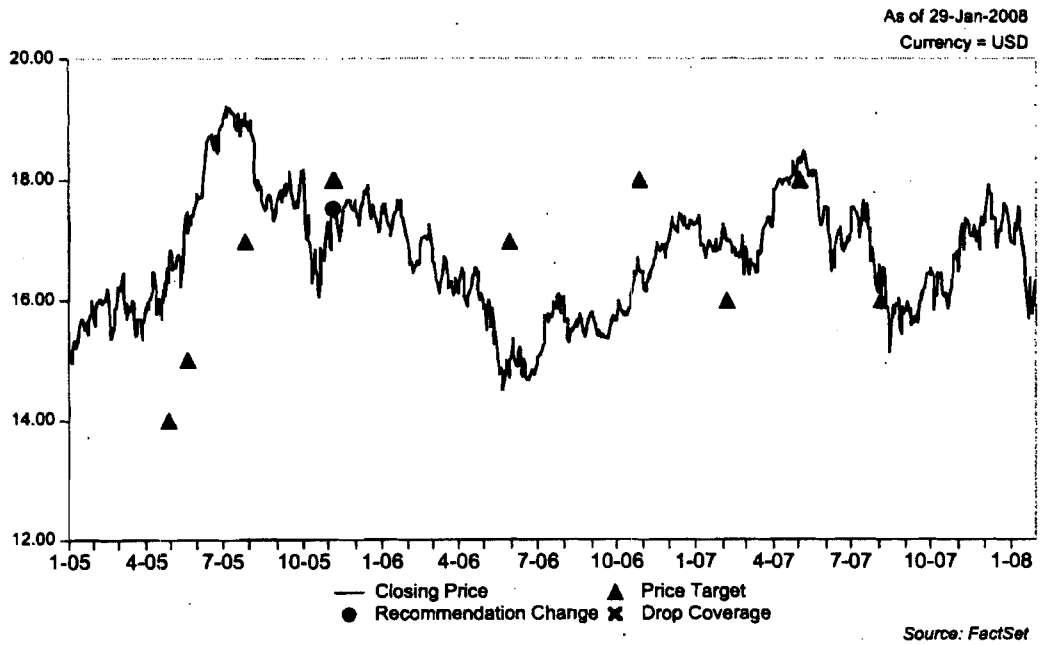
Other Team Members:

Fowler, Ross (LBI, New York) 1.617.330.5893 rofowler@lehman.com

Important Disclosures:

TECO Energy (TE) **US$ 17.25 (04-Feb-2008)** **2-Equal weight / 2-Neutral**

Rating and Price Target Chart:



Source: FactSet

Currency=US$

Date	Closing Price	Rating	Price Target
03-Aug-07	15.87		16.00
02-May-07	18.38		18.00
07-Feb-07	17.01		16.00
27-Oct-06	16.49		18.00
30-May-06	14.70		17.00
09-Nov-05	17.50		18.00

Date	Closing Price	Rating	Price Target
07-Nov-05	17.52		18.00
07-Nov-05	17.52	2 -Equal weight	
28-Jul-05	18.92		17.00
23-May-05	17.12		15.00
28-Apr-05	16.31		14.00

FOR EXPLANATIONS OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE PAGE FOLLOWING THE LAST PRICE CHART.

Lehman Brothers Inc and/or an affiliate trade regularly in the shares of TECO Energy.

Valuation Methodology: SUBSIDIARY 09 EBITDA Multiple EV

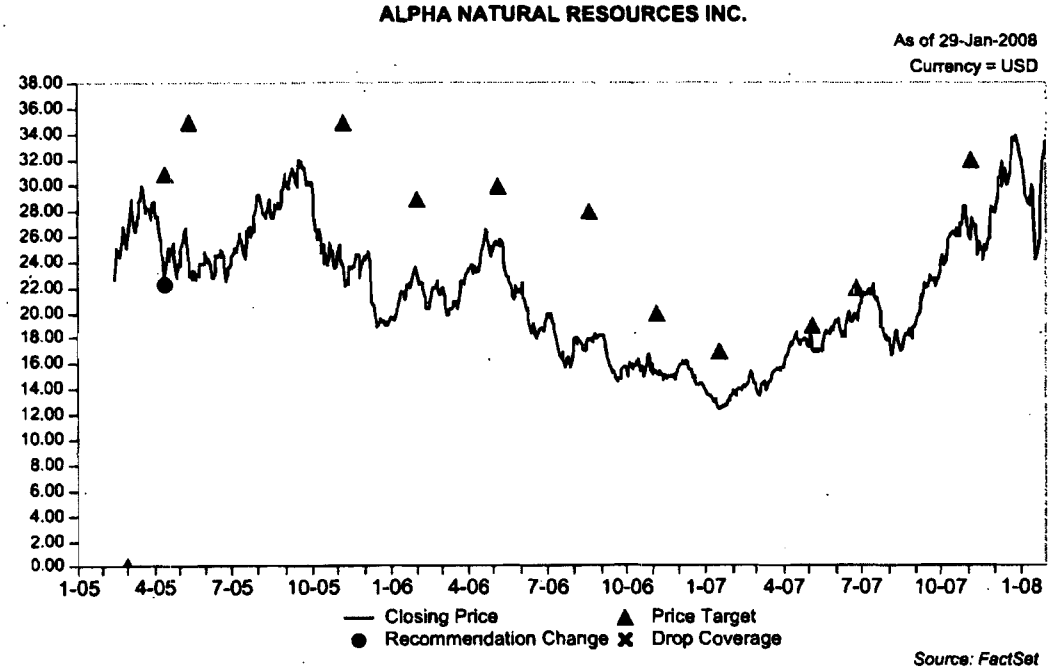
TAMPA ELEC	509.9		7.2	3,671
PEOPLES GAS	97.5		7.2	702
GUATAMALA	68.7		6.5	445
TECO COAL	243.9		6.5	1,576
PARENT		$(18)	7.2	(130)
				6,264
	TOTAL DEBT			3,535
	CASH			516.1
	PV of NOLs			388.4
	EQUITY			3,634
	Shares			210
	PRICE			$17

Risks Which May Impede the Achievement of the Price Target: Risks include sensitivity to power prices, ratings downgrades, increased cost of capital and write-offs.

Important Disclosures Continued:

Alpha Natural Resources (ANR) **US$ 37.52 (01-Feb-2008)** **1-Overweight / 1-Positive**

Rating and Price Target Chart:



Source: FactSet

Currency=US$

Date	Closing Price	Rating	Price Target
05-Nov-07	25.89		32.00
25-Jun-07	19.74		22.00
04-May-07	17.02		19.00
17-Jan-07	12.45		17.00
03-Nov-06	15.43		20.00
18-Aug-06	17.94		28.00
05-May-06	25.40		30.00

Date	Closing Price	Rating	Price Target
01-Feb-06	22.85		29.00
09-Nov-05	23.45		35.00
12-May-05	23.50		35.00
14-Apr-05	22.27		31.00
14-Apr-05	22.27	1 -Overweight	
01-Mar-05	24.99		0.00

FOR EXPLANATIONS OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE PAGE FOLLOWING THE LAST PRICE CHART.

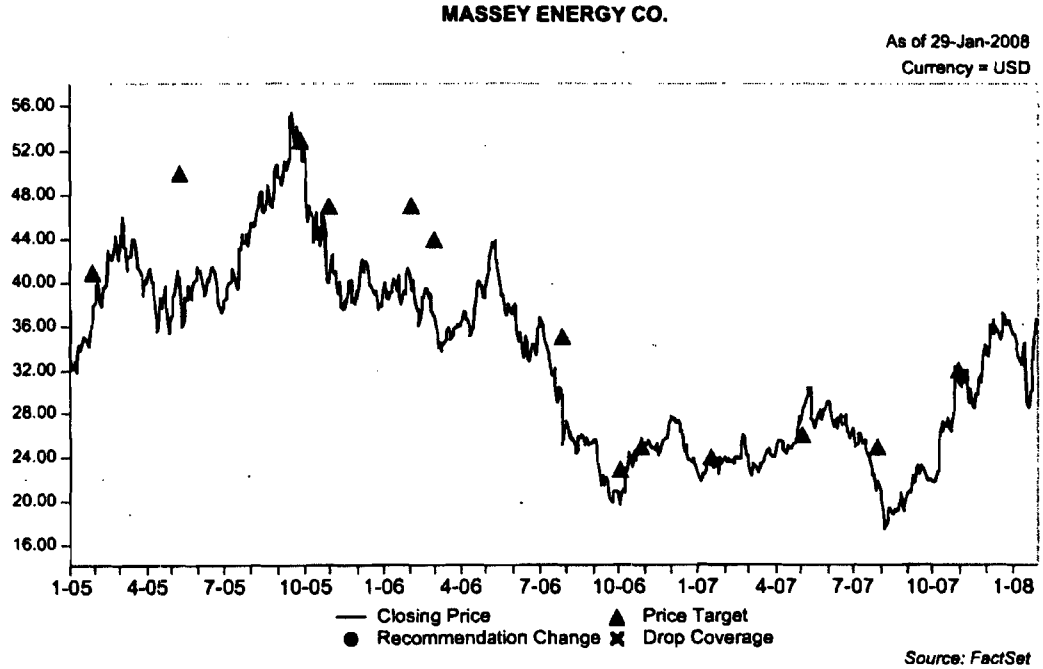
Lehman Brothers Inc and/or an affiliate trade regularly in the shares of Alpha Natural Resources.

Risks Which May Impede the Achievement of the Price Target: Adverse weather, a weak economy, a material decline in steel demand, and/or operational problems are risks to our target price. Long-term, environmental regulations represent a risk to the industry.

Important Disclosures Continued:

Massey Energy (MEE) **US$ 40.35 (01-Feb-2008)** **2-Equal weight / 1-Positive**

Rating and Price Target Chart:



Source: FactSet

Currency=US$

Date	Closing Price	Rating	Price Target
31-Oct-07	31.68		32.00
30-Jul-07	21.78		25.00
02-May-07	28.36		26.00
17-Jan-07	23.47		24.00
27-Oct-06	25.73		25.00
04-Oct-06	20.06		23.00
28-Jul-06	25.05		35.00

Date	Closing Price	Rating	Price Target
01-Mar-06	36.82		44.00
02-Feb-06	39.96		47.00
31-Oct-05	40.07		47.00
28-Sep-05	52.89		53.00
11-May-05	40.47		50.00
28-Jan-05	36.82		41.00

FOR EXPLANATIONS OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE PAGE FOLLOWING THE LAST PRICE CHART.

Lehman Brothers Inc and/or an affiliate trade regularly in the shares of Massey Energy.

Risks Which May Impede the Achievement of the Price Target: Adverse weather, a weak economy, and/or operational problems are risks to our target. Long-term, environmental regulations represent a risk to the industry.

Important Disclosures Continued:
The analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities

Company Name	Ticker	Price (04-Feb-2008)	Stock / Sector Rating
TECO Energy	TE	US$ 17.25	2-Equal weight / 2-Neutral

Related Stocks	Ticker	Price (01-Feb-2008)	Stock / Sector Rating
Alpha Natural Resources	ANR	US$ 37.52	1-Overweight / 1-Positive
Massey Energy	MEE	US$ 40.35	2-Equal weight / 1-Positive

Guide to Lehman Brothers Equity Research Rating System:
Our coverage analysts use a relative rating system in which they rate stocks as 1-Overweight, 2-Equal weight or 3-Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry sector (the "sector coverage universe"). Below is the list of companies that constitute the sector coverage universe:

Alliant Energy (LNT)
Aquila, Inc (ILA)
Consolidated Edison (ED)
DTE Energy (DTE)
Great Plains Energy (GXP)
ITC Holdings (ITC)
Northeast Utilities (NU)
OGE Energy (OGE)
Pinnacle West Capital (PNW)
Progress Energy (PGN)
Sierra Pacific Resources (SRP)
TECO Energy (TE)
Wisconsin Energy (WEC)
American Electric Power (AEP)
CMS Energy (CMS)
DPL Inc (DPL)
Duke Energy (DUK)
Hawaiian Electric Inds (HE)
NiSource, Inc (NI)
NSTAR (NST)
PG&E Corp (PCG)
Portland General Electric Co. (POR)
Puget Energy (PSD)
Southern Co (SO)
Westar Energy (WR)
Xcel Energy (XEL)

In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating
1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.
2-Equal weight - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12- month investment horizon.
3-Underweight - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.
RS-Rating Suspended - The rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Lehman Brothers is acting in an advisory capacity in a merger or strategic transaction involving the company.

Sector View
1-Positive - sector coverage universe fundamentals/valuations are improving.
2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.
3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

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46% have been assigned a 2-Equal weight rating which, for purposes of mandatory regulatory disclosures, is classified as Hold rating, 35% of companies with this rating are investment banking clients of the Firm.
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EQUITY RESEARCH

ROBERT L. CHEWNING
(804) 780-2098
rchewning@investdavenport.com
GARRETT S. NELSON
(804) 780-2059
gnelson@investdavenport.com

December 15, 2008

TECO Energy Inc. (TE-NYSE-$12.11)

Initiating Coverage With A Reduce/Sell Rating.

RATING: Reduce/Sell **SECTOR:** Energy
TARGET PRICE: $10.50 **SECTOR RECOMMENDATION:** Market-weight
BASIS OF TARGET: Sum of the Parts Valuation

We are initiating coverage of TECO Energy (TE-NYSE) with a Reduce/Sell rating. We place fair value for the shares in a range of $10-11 per share.

Headquartered in Tampa, Florida, TECO is a diversified utility consisting of four businesses, two of which are regulated utilities operating in Florida: 1) A regulated electric utility (Tampa Electric) and 2) A regulated gas utility (Peoples Gas) with operations in Florida; 3) A coal mining business with operations in Central Appalachia; and 4) TECO Guatemala, an electric power generation and distribution business located in Guatemala. Last year, the company's operating net income by segment was: Tampa Electric 67%, Peoples Gas 12%, TECO Coal (ex. synfuels) 17%, TECO Guatemala 20%, TECO Transport 11% and Other/Eliminations (27%). The company sold the Transport business in late 2007.

Our Reduce/Sell rating and our below consensus estimates for TECO arise from our bearish outlook for the company's Coal segment, that prior to 2008 was fairly profitable, largely due to its generation of Section 29 synthetic fuel tax credits, which expired at the end of 2007. We expect the company's coal business to earn $0.09 per share in 2008, which we think is roughly in line with consensus, but we believe that the earnings power for this segment implied in consensus estimates for 2009 and beyond are significantly above our estimates, which call for TECO Coal to earn $0.18 per share in 2009, $0.02 in 2010 and lose ($0.03) per share in 2011. We view TECO Coal as a high-cost producer (2009 company guidance of $65-75/ton fully loaded production costs, including depreciation and G&A) that will have difficulty making money at pricing levels which we are assuming in our estimates for other coal companies in our coverage universe.

Meanwhile, we expect the company's U.S. regulated utility operations (Tampa Electric and Peoples Gas) to realize good earnings growth from estimated 2008 levels, driven largely by assumed rate increases. Taking into account: 1) The expiration at the end of 2008 of a transportation contract disallowance worth $15 million in pretax margin, and 2) $150 million assumed electric base rate increase (66% of the amount requested) in May 2009, partially offset by 3) A 0.5% decline in electric sales, we estimate that Tampa Electric will earn $0.82 in 2009, an $0.18 improvement over our $0.64 estimate for 2008. Even with assumed flat sales in 2010, EPS for Tampa Electric should improve another $0.12 per share in 2010 to $0.94, reflecting roughly five months of the rate increase granted in May 2009. EPS for 2011 is expected to be relatively flat with 2001, with 1.0% sales growth offset by higher expenses. The earnings trend for Peoples Gas is expected to be similar, with $17.5 million of assumed increases in rates, effective July 2009 driving a $0.01 improvement in 2009 to EPS of $0.12, a further $0.02 increase in EPS in 2010 to $0.14, and flat earnings in 2011. **Continued...**

RISK PROFILE: Average
RISK CONSIDERATIONS: Regulatory and political risk; energy commodity prices; weather; worldwide metallurgical & utility coal demand; skilled labor availability; permitting and operating issues; environmental regulations.

Disclosure Code: None
Important disclosures and analyst certifications are in the Disclosure Section.

Valuation Data (source: StockVal)

FYE Dec		2008E	2009E	2010E
Projected P/E:		14.6x	11.6x	11.5x
Projected EPS:	Q1	$0.15	$0.13	–
	Q2	$0.24	$0.24	–
	Q3	$0.27	$0.39	–
	Q4	$0.16	$0.28	–
Total		$0.83	$1.04	$1.05

Trading & Operating Data

52-Wk Range:	$10.50-$21.99
Dividend Indicated FY1:	$0.80
Dividend Yield Indicated:	6.6%
Volume 60-Day Avg (Th):	2,569.00
Book Value PS LQtr:	$9.60
Price/BV:	1.3x

Company Profile
Headquartered in Tampa, Florida, TECO Energy is an energy-related holding company consisting of four businesses: 1) A regulated electric (Tampa Electric) and 2) Gas utility (Peoples Gas) with operations in Florida; 3) A coal mining business with operations in Central Appalachia; and 4) TECO Guatemala, an electric power generation and distribution business located in Guatemala. The stock is an S&P 500 component and trades on the NYSE as TE.

Earnings from the Guatemala segment, which we project to be $0.21 in 2008, are expected to fall to $0.15 in 2009 due to a reduction in the distribution tariff that was instituted at the EEGSA distribution utility effective 8/1/08. We assume the company is successful in recouping some of the tariff cut through negotiation in 2009, which would drive earnings improvement in 2010 to $0.19 per share, and our 2011 earnings estimate for Guatemala is flat with the 2010 level.

On a consolidated basis, we estimate EPS for TECO of $0.83 in 2008 (versus a $0.80-$0.90 company guidance range), improving to $1.04 in 2009, and essentially remaining flat at that level in 2010 and falling to $1.01 in 2011. We would highlight that our 2008 EPS estimate is only $0.02 below the $0.85 consensus estimate, but our 2009 and 2010 estimates are 21% and 30% below the respective consensus estimates of $1.32 and $1.51. Below is a table showing our earnings projections by segment and consolidated earnings estimates versus the current consensus.

	2007A	2008E	2009E	2010E	2011E
Operating Diluted EPS By Segment					
Tampa Electric	$0.72	$0.64	$0.82	$0.94	$0.95
Peoples Gas	$0.13	$0.11	$0.12	$0.14	$0.14
TECO Coal	$0.18	$0.09	$0.18	$0.02	($0.03)
TECO Transport	$0.12				
TECO Guatemala	$0.21	$0.21	$0.15	$0.19	$0.19
Other & Eliminations	($0.29)	($0.22)	($0.23)	($0.23)	($0.23)
Davenport Estimate	**$1.07**	**$0.83**	**$1.04**	**$1.05**	**$1.01**
Consensus Estimate (as of 12/12/08)	**$1.07**	**$0.85**	**$1.32**	**$1.51**	**NA**
Variance vs. Consensus	**--**	**($0.02)**	**($0.28)**	**($0.46)**	**--**

Company Description

Headquartered in Tampa, Florida, TECO Energy is an energy-related holding company consisting of four businesses: 1) A regulated electric utility (Tampa Electric) and 2) A regulated gas utility (Peoples Gas) with operations in Florida; 3) A coal mining business (TECO Coal) with operations in Central Appalachia; and 4) TECO Guatemala, an electric power generation and distribution business located in Guatemala. The stock is an S&P 500 component and trades on the NYSE under the ticker symbol TE.

Tampa Electric Company is the company's principal subsidiary, a regulated utility serving 667,800 customers in the Tampa-St. Petersburg area of west-central Florida. Tampa Electric was originally incorporated in 1899, and the company's breakdown of base revenues by customer in 2007 was: residential 55%, commercial 30%, other retail 9%, industrial 5% and phosphate 2%; while the company's breakdown of MWh sales by customer was: residential 45%, commercial 34%, other retail 9%, industrial 7% and phosphate 5%. Tampa Electric's generating assets are comprised of five electric generating plants and five combustion turbine unit with a total net generating capacity of 4,606 MW (as of 6/30/08), shown in the table below.

Tampa Electric Company Generating Capacity		
Plant	**Fuel**	**MW**
Bayside	Natural Gas	1,837
Big Bend	Coal	1,607
Polk #1	Coal/Oil Gasification	255
Polk #2	Natural Gas/Oil	184
Polk #3	Natural Gas/Oil	184
Polk #4	Natural Gas/Oil	184
Polk #5	Natural Gas/Oil	184
Big Bend Peaking Units	Diesel or #2 Oil	129
Phillips	Diesel or #2 Oil	36
City of Tampa	Natural Gas or #2 Oil	6
Total		4,606

Source: Company reports

Recently, concerns at Tampa Electric have surrounded moderating customer growth rates (+0.3% YTD, versus 1.9% in 2007) in the company's service territory and lower average per-customer usage. On 8/11/08, the company filed for a $228.2 million increase in rate base with the Florida PSC to cover the inflationary costs and returns on capital since the company last filed for an increase in 1992. The increase in rate base would increase the midpoint of the company's allowed ROE from 11.75% (+/-100 basis points) to 12.00%. The FPSC hearing is scheduled for January 2009, with a final decision and expected in April, with new rates taking effect on or after 5/1/09. Our estimates assume that the company is awarded $150 million. Our estimates also assume no customer growth in 2009 or 2010, with a 1.0% y/y increase in 2011; and a (0.5%) y/y decline in MWh sales per customer in

2009, flat in 2010 and a 1.0% y/y increase in 2011. Based on our assumptions, we forecast operating EPS from Tampa Electric of: $0.64, $0.82, $0.94 and $0.95 for the years 2008-2011.

Peoples Gas System, which the company acquired in 1997, is Florida's leading supplier of natural gas. Peoples serves roughly 340,000 residential and commercial customers located throughout the state, with a presence in all of the Florida's major metropolitan areas.

As with Tampa Electric, customer growth at Peoples has declined (from 1.6% in 2007 to 0.3% YTD) in tandem with a slowdown in the Florida housing market and a mild 2007-08 winter, pushing the subsidiary's ROE below their allowed range of 10.25-12.25%, prompting Peoples to file for a 25 basis point increase ($26.5 million) in rate base on 8/11/08. This would increase the midpoint of their authorized ROE from 11.25% to 11.50%, and represented the subsidiary's first filing since December 2002. The FPSC hearing is scheduled for March 2009, with a final decision expected in May, and new rates taking effect on or after 6/1/09. Our estimates assume that the company is awarded $17.5 million, effective 7/1/09, and our growth rate assumptions with regard to customers and Therm sales per customer from 2009-11 are consistent with our assumptions for Tampa Electric. Based on these assumptions, we forecast operating EPS from Peoples Gas of: $0.11, $0.12, $0.14 and $0.14 in 2008-2011.

TECO Coal consists of 4 mining complexes comprised of 37 mines (23 underground and 14 surface) located primarily in eastern Kentucky, with limited operations in southwest Virginia. As of 12/31/07, TECO possessed 277.1 mm tons of proven and probable recoverable reserves. In 2007, the company sold 9.2 mm tons of coal, 6.0 mm tons of which were sold as synfuels, eligible for tax credits under the Section 29 program that ended on 12/31/07. In 2009, management expects 62% of production to be sold as steam coal to electric utilities, with 35% expected to be sold as high-vol met or PCI coal to steel producers, and 3% to other customers. Last year, 89% of the company's coal volumes were shipped by rail, with the remainder transported via truck or barge. TECO Coal and its subsidiaries employed 1,052 workers as of 12/31/07, all of which are non-union. Importantly, these company-employed miners account for only about 55-60% of coal production, with contact miners accounting for the balance. Management has expressed a desire to increase their percentage of company-employed miners towards two-thirds. TECO Coal's operations are summarized in the table below.

TECO Coal

Mining Complex	Location	Mine Types	Mining Method	Tons Sold, 2007 (mm)
Premier Elkhorn Coal	KY	7 Underground, 6 Surface	CM, D/L	3.04
Perry County Coal	KY	3 Underground, 1 Surface	CM, D/L, HM	3.04
Clintwood Elkhorn Mining	KY, VA	13 Underground, 6 Surface	CM, D/L, HM, A	2.87
Gatliff Coal Company	KY	1 Surface	D/L	0.27
Total		23 Underground, 14 Surface		9.22

Mining Method: CM= Continuous Miner; D/L = Dozers & Front-End Loaders; HM = Highwall Miners; A = Auger

Source: Company reports

We would characterize the company's coal operations as relatively high-cost (largely due to the fact that the vast majority of the company's coal is mined via continuous miners and dozers/front-end loaders). For 2009, management's fully-loaded production cost guidance range (including depreciation and G&A) is $65-75/ton. We are projecting all-in production costs per ton of $71 in 2009, and assuming only slight y/y increases of 1% in both 2010 and 2011. TE has committed and priced 88% of expected coal production for 2009 at an average price of $77/ton, 52% for 2010 and roughly 25% for 2011. Our estimates assume coal shipments of 9.2 mm tons this year, and that annual shipments remain flat at 9.6 mm tons from 2009-2011, as the company increasingly encounters operational issues that many of the CAPP producers are currently experiencing, including but not limited to: a shortage of skilled labor, geological and permitting issues. Our 2008 and 2009 shipment estimates compares to the company's guidance of 9.5 and 10.5 mm tons, respectively. After incorporating our price deck of $65 on CAPP steam coal, $75 on PCI and $80 on met coal on the company's unpriced volumes for 2009 and 2010, and a $5 per ton increase in these price levels in 2011, we project EBIT margins per ton of $6.14 in 2009, $1.67 in 2010 and $1.13 in 2011. For the TECO Coal segment, we forecast 2008-2011 EPS of $0.09, $0.18, $0.02 and ($0.03), respectively. The EPS sensitivity to every $5/ton change in these price assumptions is $0.02 in 2009, $0.09 in 2010 and $0.14 in 2011. We believe that the primary shortfall of our consolidated earnings estimates with respect to the current consensus is due to our coal projections.

TECO Guatemala includes the company's 96% interest in the Alborada Power Station, 24% interest in Empresa Electrica de Guatemala (EEGSA) S.A. and 100% interest in the San Jose Power Station. The 78-MW Alborada and 120-MW San Jose Power Stations have long-term sales agreements. San Jose is a pulverized coal-fired power plant, with Alborada is a simple-cycle unit which uses #2 oil as its primary fuel. Empresa Electrica de Guatemala (EEGSA) and its affiliate companies, in which TECO holds a 24% interest, is the largest electric utility in Central America, serving roughly 860,000 customers, primarily located in metropolitan areas of Guatemala. TECO Guatemala is characterized by higher customer and energy sales growth than either Tampa Electric or Peoples Gas.

The primary factor weighing on near-term results for the business segment is a reduction in the distribution tariff that took effect at the EEGSA utility on 8/1/08. We project that EPS for the segment earnings will decline from $0.21 in 2008 to $0.15 in 2009, and that the company successfully recoups some of tariff cut through negotiation in 2009, driving EPS improvement to $0.19 in both 2010 and 2011. For 2008, management's guidance is for the segment's earnings to remain flat with the 2007 level of $0.21 per share.

Financial Projections, Valuation & Ratings

On a consolidated basis, our EPS estimates for TECO Energy are $0.83 in 2008 (versus a $0.80-$0.90 company guidance range), improving to $1.04 in 2009, increasing a penny to $1.05 in 2010 and declining to $1.01 in 2011. We would highlight that our 2008 EPS estimate is only $0.02 below the $0.85 consensus estimate, while our 2009 and 2010 estimates are 21% and 30% below the respective consensus estimates of $1.32 and $1.51.

Key assumptions used in our forecast, in addition to those previously noted, would include: 1) Maintenance of, but no increase in, the current annual dividend rate of $0.80; 2) Capex levels of $631 million in 2008, $636 million in 2009, and $421 million for both 2010 and 2011; 3) Cumulative net debt issuance of $250 million over the 2008-2011 period to fund all shortfalls from internally generated cash flow; and 4) Equity/capitalization ratios in the range of 37%-39% for the consolidated company, and in the range of 49%-50% for Tampa Electric through the forecast period.

From a valuation standpoint, we believe primary support is provided by the stock's 6.6% dividend yield. While we expect the dividend to be maintained, we note that the payout ratio never falls below 76% throughout the forecast period. On our 2009 and 2010 estimates, the stock is trading at P/Es of 11.7x and 11.5x, respectively, with the 2010 multiple representing an 8.5% premium to the corresponding regulated peer average multiple of 10.6x.

We are establishing a fair value range of $10-11 for TECO Energy shares, which we feel is primarily supported by a sum of the parts valuation of $10.55, which is based on the following: 1) A valuation of $10.52 per share for the utility segment (Tampa Electric and Peoples), reflecting a P/E multiple of 10.0x applied to our 2010 estimate of $1.05 for utility EPS; 2) A negative value of $2.06 per share for the non-Tampa Electric segments, based on 2010 EV/EBITDA multiples of 8.0x for TECO Guatemala, 4.0x for TECO Coal, and 7.0x for Corporate and other, and non-Tampa Electric net debt (as of 12/31/10) of $1,107 million; and 3) A present value (as of 12/31/08) for the company's NOLs and alternative minimum tax carry-forwards of $2.09 per share. We note that our fair value range for TECO reflects P/E multiple ranges of 9.5x-10.5x and 9.9x-10.8x, and EV/EBITDA ratios of 6.2x-6.5x and 6.1x-6.4x on our consolidated estimates for TECO for 2009 and 2010, respectively. Additionally, the midpoint of our fair value estimate implies a market/book equity ratio on year-end equity of 1.1x, and a dividend yield of 7.6%. With the stock trading at a 15% premium to the midpoint of our fair value estimate, we consider the shares overvalued, supporting our Reduce/Sell rating.

We place the risk associated with TECO shares as average, which include, but are not limited to: 1) Inadequate rate relief from the Florida PSC in pending rate cases for Tampa Electric and Peoples Gas; 2) Inability to effect a readjustment of VAD tariff reduction imposed 8/1/08 by Guatemalan regulators of the distribution EEGSA in which the company has a 24% interest; 3) The inability to arrange, on reasonable terms, financing needed to meet capex and refunding requirements, including scheduled maturities of TECO Energy and TECO Finance totaling $803 million in the 2010-2012 period; 4) Potential losses at TECO Coal due to some combination of lower than expected prices for coal, higher than expected operating costs, and lower than expected production levels; and 5) The possibility of a reduction in the current common stock dividend rate or elimination of the dividend that could result from a variety of circumstances; including inadequate earnings, and difficulties related to funding and liquidity.

TECO Energy
Consolidated Financials

($ in millions)

DAVENPORT & COMPANY, LLC
Garrett S. Nelson
(804) 780-2059
gnelson@investdavenport.com
Robert L. Chewning
(804) 780-2098
rchewning@investdavenport.com

	2005	2006	2007	2008E	2009E	2010E	2011E
EBITDA by segment							
Tampa Electric	$ 523.1	$ 509.9	$ 526.3	$ 515.5	$ 607.2	$ 659.8	$ 675.5
Peoples Gas	98.2	100.2	100.1	97.9	103.3	111.0	113.9
TECO Coal	243.0	171.3	199.7	70.9	98.9	58.4	48.7
TECO Guatemala	69.4	76.5	83.3	82.4	69.0	78.0	78.0
TECO Transport	54.2	58.9	58.9				
TWG Merchant	(4.3)						
Other & Eliminations	(99.8)	6.8	166.7	(26.2)	(26.8)	(26.8)	(26.8)
Total EBITDA	883.8	923.6	1,135.0	740.6	851.6	880.5	889.3
Depreciation	(282.2)	(282.2)	(263.9)	(263.3)	(276.4)	(287.6)	(300.1)
EBIT	601.6	641.4	871.1	477.3	575.2	592.9	589.1
Interest charges	(288.7)	(278.3)	(258.0)	(224.9)	(249.5)	(253.5)	(259.0)
Pretax income	312.9	363.1	613.1	252.4	325.8	339.4	330.1
Income taxes	(101.9)	(118.7)	(214.2)	(77.9)	(105.2)	(115.8)	(114.4)
Net income - GAAP	211.0	244.4	398.9	174.4	220.6	223.6	215.7
Special items	43.7	(10.8)	(122.5)	0.6	-	-	-
Net income - operating	**254.7**	**233.6**	**276.4**	**175.0**	**220.6**	**223.6**	**215.7**
less synfuel	(82.4)	(32.1)	(52.6)				
Net income - operating, excluding synfuel	**$ 172.3**	**$ 201.5**	**$ 223.8**	**$ 175.0**	**$ 220.6**	**$ 223.6**	**$ 215.7**
Average shares - basic	206.3	207.9	209.1	210.6	211.2	211.2	211.2
Average shares - diluted	208.2	208.7	209.9	212.0	212.6	212.6	212.6
EPS - diluted							
EPS, continuing operations - GAAP	$ 1.01	$ 1.17	$ 1.90	$ 0.82	$ 1.04	$ 1.05	$ 1.01
Special items	0.21	(0.05)	(0.58)	0.00	-	-	-
Operating EPS	$ 1.22	$ 1.12	$ 1.32	$ 0.83	$ 1.04	$ 1.05	$ 1.01
less synfuel	(0.40)	(0.15)	(0.25)	-	-	-	-
Operating EPS excluding synfuels	**$ 0.83**	**$ 0.97**	**$ 1.07**	**$ 0.83**	**$ 1.04**	**$ 1.05**	**$ 1.01**
Operating EPS less synfuels by segment							
Tampa Electric	$ 0.71	$ 0.65	$ 0.72	$ 0.64	$ 0.82	$ 0.94	$ 0.95
Peoples Gas	0.14	0.14	0.13	0.11	0.12	0.14	0.14
TECO Coal	0.16	0.22	0.18	0.09	0.16	0.02	(0.03)
TECO Transport	0.09	0.12	0.12				
TECO Guatemala	0.19	0.18	0.21	0.21	0.15	0.19	0.19
TWG Merchant	(0.08)						
Other & Eliminations	(0.39)	(0.36)	(0.29)	(0.22)	(0.23)	(0.23)	(0.23)
Total	**$ 0.83**	**$ 0.97**	**$ 1.07**	**$ 0.83**	**$ 1.04**	**$ 1.05**	**$ 1.01**

E=Davenport & Co. Equity Research estimate.

TECO Energy
Consolidated Financials

($ in millions)

DAVENPORT & COMPANY, LLC
Garrett S. Nelson
(804) 780-2058
gnelson@investdavenport.com
Robert L. Chewning
(804) 780-2098
rchewning@investdavenport.com

	2005	2006	2007	2008E	2009E	2010E	2011E
Cash Flow Statement							
Net income	$ 274.5	$ 246.3	$ 413.2	$ 174.4	$ 220.6	$ 223.6	$ 215.7
Depreciation	282.2	282.2	263.7	263.3	276.4	287.6	300.1
Deferred income taxes	110.8	112.5	184.8	82.6	99.9	110.0	108.7
Deferred recovery clauses	(154.3)	53.4	123.7	(140.1)	145.0	-	-
Other	(336.1)	(127.5)	(431.4)	36.3	-	-	-
Cash from operations	177.1	566.9	554.0	416.6	741.9	621.2	624.5
Capex	(295.3)	(456.7)	(494.4)	(631.0)	(636.0)	(420.7)	(420.7)
Sale of assets	278.3	100.4	405.2	(3.7)	-	-	-
Other	51.3	3.6	61.5	93.6	-	-	-
Cash for investing	34.3	(351.7)	(27.7)	(541.1)	(636.0)	(420.7)	(420.7)
Long-term debt issuance	311.9	327.5	444.1	427.8	175.0	175.0	250.0
Long-term debt repayment	(494.1)	(199.3)	(1,137.5)	(293.8)	(6.9)	(107.9)	(368.4)
Change in short-term debt	100.0	(167.0)	(23.0)	63.0	(30.0)	-	-
Minority interest	83.1	65.7	81.3	-	-	-	-
Sale of common stock	16.2	12.5	14.0	20.9	-	-	-
Dividends	(157.7)	(158.7)	(163.0)	(168.3)	(169.0)	(169.0)	(169.0)
Other	178.2		(21.2)	-	-	-	-
Total cash from (for) financing	37.6	(119.3)	(805.3)	49.6	(30.9)	(101.9)	(287.4)
Change in cash	249.0	95.9	(279.0)	(75.0)	75.1	98.6	(83.5)
Beginning cash	96.7	345.7	441.6	162.6	87.6	162.7	261.3
Ending cash	$ 345.7	$ 441.6	162.6	87.6	162.7	261.3	177.9
Balance Sheet							
Cash		$ 441.6	$ 162.8	$ 87.6	$ 162.7	$ 261.3	$ 177.9
Other current assets		844.1	627.2	763.5	763.5	763.5	763.5
Total current assets		1,285.7	789.8	851.1	926.2	1,024.8	941.4
Property, plant and equipment		4,766.9	4,888.2	5,245.0	5,604.6	5,737.7	5,858.2
Other assets		1,309.2	1,087.2	1,058.9	913.9	913.9	913.9
Total Assets		$ 7,361.8	$ 6,765.2	$ 7,155.0	$ 7,444.7	$ 7,676.4	$ 7,713.4
Current maturities of long-term debt		$ 639.4	$ 7.1	$ 6.9	$ -	$ -	$ -
Short-term debt		48.0	25.0	88.0	58.0	58.0	58.0
Other current liabilities		663.0	585.5	687.8	687.8	687.8	687.8
Total current liabilities		1,350.4	617.6	782.7	745.8	745.8	745.8
Long-term debt		3,212.6	3,158.4	3,308.8	3,481.6	3,548.7	3,430.3
Other long-term liabilities		1,069.8	972.2	1,032.2	1,132.2	1,242.1	1,350.9
Common Equity		1,729.0	2,017.0	2,033.5	2,085.1	2,139.8	2,186.5
Total Liabilities and Equity		$ 7,361.8	$ 6,765.2	$ 7,155.0	$ 7,444.7	$ 7,676.4	$ 7,713.4
Capitalization							
Current and short-term debt		$ 687.4	$ 32.1	$ 94.9	$ 58.0	$ 58.0	$ 58.0
Long-term debt		3,212.6	3,158.4	3,308.8	3,481.6	3,548.7	3,430.3
Common Equity		1,729.0	2,017.0	2,033.5	2,085.1	2,139.8	2,186.5
Total Capitalization		$ 5,629.0	$ 5,207.5	$ 5,435.0	$ 5,624.7	$ 5,746.5	$ 5,674.8
% Capitalization							
Current and short-term debt		12.2%	0.6%	1.7%	1.0%	1.0%	1.0%
Long-term debt		57.1%	60.7%	60.8%	61.9%	61.8%	60.4%
Common Equity		30.7%	38.7%	37.4%	37.1%	37.2%	38.5%
Total Capitalization		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Weighted interest rate			7.28%	6.82%	7.19%	7.09%	7.30%

E=Davenport & Co. Equity Research estimate.

TECO Energy
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($ in millions)

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Garrett S. Nelson
(804) 780-2058
gnelson@investdavenport.com
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rchewning@investdavenport.com

	2005	2006	2007	2008E	2009E	2010E	2011E
Electric revenues	$ 1,748.2	$ 2,084.9	$ 2,188.4	$ 2,130.9	$ 2,236.8	$ 2,339.9	$ 2,394.1
Fuel	(546.8)	(906.8)	(947.9)	(830.5)	(839.5)	(876.6)	(901.4)
Purchase power	(269.7)	(221.3)	(271.9)	(322.8)	(321.0)	(327.4)	(334.0)
Gross margin - electric	929.7	956.8	968.6	977.6	1,076.2	1,135.9	1,158.7
Gas revenues	549.5	577.0	599.1	662.4	645.5	672.7	686.3
Cost of natural gas sold	(350.2)	(365.3)	(389.9)	(455.2)	(431.2)	(449.0)	(458.1)
Gross margin - gas	199.3	211.7	209.2	207.1	214.3	223.7	228.2
Total gross margin	1,129.0	1,168.5	1,177.8	1,184.8	1,290.6	1,359.6	1,386.9
Other operations expense	(269.7)	(293.5)	(279.8)	(290.9)	(294.4)	(296.6)	(298.9)
Maintenance	(91.8)	(111.8)	(113.9)	(122.2)	(124.0)	(126.5)	(129.0)
Depreciation	(222.1)	(222.8)	(218.7)	(225.1)	(235.2)	(244.0)	(254.0)
Other taxes	(153.8)	(172.4)	(174.6)	(171.9)	(174.0)	(178.0)	(182.0)
Operating income	391.6	368.0	390.8	374.7	462.9	514.5	523.0
AFUDC - equity	-	2.7	4.5	5.6	5.6	5.6	5.6
Other income (expense), net	6.3	14.3	10.5	6.7	6.8	6.8	6.8
EBIT	397.9	385.0	405.8	387.0	475.3	526.9	535.4
Interest expense	(113.4)	(123.7)	(130.9)	(134.8)	(155.0)	(160.0)	(165.5)
AFUDC - debt	-	1.1	1.7	2.2	2.5	2.5	2.5
Pretax income	284.5	262.4	276.6	254.4	322.9	369.4	372.4
Income taxes	(107.8)	(96.8)	(99.8)	(96.1)	(122.7)	(140.4)	(141.5)
Net income - GAAP	$ 176.7	$ 165.6	176.8	$ 158.3	$ 200.2	$ 229.0	$ 230.9
Special items			-				
Net income operating	$ 176.7	$ 165.6	$ 176.8	$ 158.3	$ 200.2	$ 229.0	$ 230.9
EBITDA	$ 620.0	$ 607.8	$ 624.5	$ 612.1	$ 710.5	$ 770.9	$ 789.4
Electric sales growth (MWhs)		1.0%	2.8%	-2.0%	-0.5%	0.0%	2.0%
Gross margin - electric ($/MWh)	$ 47.23	$ 48.11	$ 47.39	$ 48.82	$ 54.0	$ 57.0	$ 57.0
Natural gas sales growth (Therms)		14.4%	7.8%	3.8%	-0.5%	0.0%	2.0%
Gross margin - natural gas ($/Therms in 000)	$ 175.24	$ 162.71	$ 149.16	$ 142.29	$ 148.0	$ 154.4	$ 154.4
EBITDA / gross margin - electric	56.3%	53.3%	54.3%	52.7%	56.4%	58.1%	58.3%
EBITDA / gross margin - natural gas	49.3%	47.3%	47.8%	47.3%	48.2%	49.6%	49.9%
Income tax rate - Tampa Elec + Peoples	37.9%	36.9%	36.1%	37.8%	38.0%	38.0%	38.0%
ROE, ending - Tampa Elec + Peoples	10.61%	9.66%	9.82%	7.72%	9.3%	10.1%	9.9%
ROE, average - Tampa Elec + Peoples		9.80%	10.1%	8.2%	9.5%	10.4%	10.0%

E=Davenport & Co. Equity Research estimate.

TECO Energy
Tampa Electric Company
Financials
($ in millions)

DAVENPORT & COMPANY, LLC
Garrett S. Nelson (804) 780-2059 gnelson@investdavenport.com
Robert L. Chewning (804) 780-2098 rchewning@investdavenport.com

	2005	2006	2007	2008E	2009E	2010E	2011E
Tampa Electric Segment							
Gross margin	$ 929.7	$ 956.8	$ 968.8	$ 977.6	$ 1,078.2	$ 1,135.9	$ 1,158.7
Other operating expenses, net	(406.6)	(446.9)	(442.3)	(462.1)	(469.0)	(476.1)	(483.2)
EBITDA	523.1	509.9	526.3	515.5	607.2	659.8	675.5
Depreciation	(187.1)	(186.3)	(176.6)	(183.3)	(192.0)	(200.0)	(208.0)
EBIT	336.0	323.6	347.7	332.2	415.2	459.8	467.5
Interest expense	(98.3)	(107.4)	(112.2)	(114.5)	(133.3)	(137.5)	(142.0)
Pretax income	237.7	216.2	235.5	217.7	282.0	322.3	325.5
Income taxes	(90.6)	(80.3)	(85.2)	(82.8)	(107.1)	(122.5)	(123.7)
Net income - GAAP	$ 147.1	$ 135.9	150.3	135.1	174.8	199.8	201.8
Special items			-	-	-	-	-
Net income - operating	$ 147.1	$ 135.9	$ 150.3	$ 135.1	$ 174.8	$ 199.8	$ 201.8
Electric sales (GWhs in 000)							
Residential	8,558	8,721	8,871				
Commercial	6,234	6,357	6,542				
Industrial - phosphate		936	1,050				
Industrial - other	2,478	1,343	1,316				
Other sales	1,642	1,668	1,755				
Total retail sales	18,912	19,025	19,533				
Sales for resale	773	862	905				
Total sales	19,685	19,887	20,438	20,025	19,925	19,925	20,325
Y/Y sales growth - %	3.1%	1.0%	2.8%	-2.0%	-0.5%	0.0%	2.0%
Average customers (in thousands)	635.7	653.7	666.4	667.8	667.8	667.8	674.5
Y/Y customer growth - %		2.8%	1.9%	0.2%	0.0%	0.0%	1.0%
Sales (MWh) / customer	31.0	30.42	30.67	29.99	29.84	29.84	30.14
Y/Y change in sales (MWh)/customer		-1.7%	0.8%	-2.2%	-0.5%	0.0%	1.0%
Gross margin / MWh	$ 47.23	$ 48.11	$ 47.39	$ 48.82	$ 54.02	$ 57.01	$ 57.01
Y/Y change in gross margin / MWh		1.9%	-1.5%	3.0%	10.6%	5.5%	0.0%
Peoples Gas Segment							
Gross margin	$ 199.3	$ 211.7	$ 209.2	$ 207.1	$ 214.3	$ 223.7	$ 228.2
Other operating expenses, net	(101.1)	(111.5)	(109.1)	(109.2)	(111.0)	(112.7)	(114.4)
EBITDA	98.2	100.2	100.1	97.9	103.3	111.0	113.9
Depreciation	(35.0)	(36.5)	(40.1)	(41.8)	(43.2)	(44.0)	(46.0)
EBIT	63.2	63.7	60.0	56.1	60.1	67.0	67.9
Interest expense	(15.1)	(15.2)	(17.1)	(18.3)	(19.2)	(20.0)	(21.0)
Pretax income	48.1	48.5	42.9	37.8	40.9	47.0	46.9
Income taxes	(18.5)	(18.8)	(18.4)	(14.6)	(15.5)	(17.9)	(17.8)
Net income - GAAP	$ 29.6	$ 29.7	26.5	23.2	25.4	29.2	29.0
Special items			-	-	-	-	-
Net income - operating	$ 29.6	$ 29.7	$ 26.5	$ 23.2	$ 25.4	$ 29.2	$ 29.0
Natural Gas sales (Therms in millions)							
Residential	70.7	73.0	70.2				
Commercial	380.3	375.7	370.9				
Industrial		209.1	186.3				
Off system sales	394.6	247.5	303.5				
Power generation	291.7	395.7	471.6				
Total	1,137.3	1,301.0	1,402.5	1,455.8	1,448.5	1,448.5	1,477.6
Y/Y sales growth - %	1.1%	14.4%	7.8%	3.8%	-0.5%	0.0%	2.0%
Average customers (in thousands)	316.385	329.0	334.1	335.1	335.1	335.1	338.4
Y/Y customer growth - %		3.3%	1.5%	0.3%	0.0%	0.0%	1.0%
Sales (Therms) / customer	3,572.1	3,954.0	4,197.8	4,344.9	4,323.2	4,323.2	4,366.4
Y/Y growth in sales / customer		10.7%	6.2%	3.5%	-0.5%	0.0%	1.0%
Gross margin / Therms in 000	$ 175.24	$ 162.71	$ 149.16	$ 142.29	$ 147.96	$ 154.44	$ 154.44
Y/Y change in gross margin / Therm		-7.1%	-8.3%	-4.6%	4.0%	4.4%	0.0%

E=Davenport & Co. Equity Research estimate.

TECO Energy
Tampa Electric Company
Financials
($ in millions)

DAVENPORT & COMPANY, LLC
Garrett S. Nelson (804) 780-2058 gnelson@investdavenport.com
Robert L. Chewning (804) 780-2066 rchewning@investdavenport.com

	2005	2006	2007	2008E	2009E	2010E	2011E
Cash flow statement							
Net income	$ 176.7	$ 165.6	$ 176.8	$ 158.3	$ 200.2	$ 229.0	$ 230.9
Depreciation	222.1	222.8	218.7	225.1	235.2	244.0	254.0
Deferred income taxes	72.2	(23.2)	(45.6)	67.9	-	-	-
Deferred recovery clause	(154.3)	53.4	123.7	(142.1)	145.0	-	-
Other	19.0	37.2	(28.6)	24.7	-	-	-
Cash from operations	335.7	455.8	445.0	333.9	580.4	473.0	484.9
Capex, net of AFUDC	(246.0)	(417.7)	(418.5)	(602.5)	(636.0)	(385.0)	(385.0)
Other	5.3	(1.4)	0.4	2.2	-	-	-
Cash for investings	(240.7)	(419.1)	(418.1)	(600.3)	(636.0)	(385.0)	(385.0)
Long-term debt issuance	-	327.5	444.1	427.8	175.0	75.0	50.0
Long-term debt repayment	(5.5)	(91.9)	(356.9)	(292.5)	(5.5)	(3.7)	(3.4)
Change in short-term debt	100.0	(167.0)	(23.0)	63.0	(30.0)	-	(30.0)
Common stock	-	51.8	81.8	200.0	-	-	-
Dividends	(173.4)	(169.4)	(166.1)	(106.4)	(100.0)	(120.0)	(150.0)
Other	-			-	-	-	-
Cash from (for) financing	(78.9)	(49.0)	(20.1)	291.9	39.5	(48.7)	(133.4)
Change in cash	16.1	(12.3)	6.8	25.5	(16.1)	39.3	(33.5)
Beginning cash	1.3	17.4	5.1	11.9	37.4	21.3	60.6
Ending cash	$ 17.4	$ 5.1	$ 11.9	$ 37.4	$ 21.3	$ 60.6	$ 27.1
Balance sheet							
Property, plant & equipment	$ 4,241.3	$ 4,467.3	$ 4,738.9	$ 5,110.9	$ 5,511.7	$ 5,652.7	$ 5,783.7
Current assets	738.2	637.0	457.1	703.1	687.0	726.3	692.8
Deferred debits	152.5	280.8	223.3	254.6	109.6	109.6	109.6
Total assets	$ 5,132.0	$ 5,385.1	$ 5,419.3	$ 6,068.6	$ 6,308.3	$ 6,488.6	$ 6,586.1
Current maturities of long-term debt	$ 5.9	$ 156.1	$ 5.7	5.5	$ 5.5	$ 5.5	$ 5.5
Short-term debt	215.0	48.0	25.0	88.0	58.0	58.0	28.0
Other current liabilities	626.8	576.9	489.0	616.1	616.1	616.1	616.1
Total current liabilities	847.7	781.0	519.7	709.6	679.6	679.6	649.6
Deferred credits	1,110.3	1,269.2	1,253.8	1,313.4	1,313.4	1,313.4	1,313.4
Long-term debt	1,508.5	1,601.4	1,844.8	1,994.7	2,164.2	2,235.5	2,282.1
Common stock equity	1,665.5	1,713.5	1,801.0	2,050.9	2,151.1	2,260.1	2,341.0
Total liabilities and common stock equity	$ 5,132.0	$ 5,365.1	$ 5,419.3	$ 6,068.6	$ 6,308.3	$ 6,488.6	$ 6,586.1
Capitalization							
Current maturities and short-term debt	$ 220.9	$ 204.1	$ 30.7	$ 93.5	$ 63.5	$ 63.5	$ 33.5
Long-term debt	1,509	1,601	1,845	1,995	2,164	2,236	2,282
Total debt	1,729	1,806	1,876	2,088	2,228	2,299	2,316
Common stock equity	1,666	1,714	1,801	2,051	2,151	2,260	2,341
Total capitalization	$ 3,395	$ 3,519	$ 3,677	$ 4,139	$ 4,379	$ 4,559	$ 4,657
Capitalization - %							
Current maturities and short-term debt	6.5%	5.8%	0.8%	2.3%	1.5%	1.4%	0.7%
Long-term debt	44.4%	45.5%	50.2%	48.2%	49.4%	49.0%	49.0%
Total debt	50.9%	51.3%	51.0%	50.5%	50.9%	50.4%	49.7%
Common stock equity	49.1%	48.7%	49.0%	49.5%	49.1%	49.6%	50.3%
Total capitalization	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Weighted interest rate			6.91%	7.13%	7.10%	7.10%	7.18%

E=Davenport & Co. Equity Research estimate.

TECO Energy
TECO Coal

DAVENPORT & COMPANY, LLC
Garrett S. Nelson
(804) 780-2058
gnelson@investdavenport.com
Robert L. Chewning
(804) 780-2098
rchewning@investdavenport.com

	2005	2006	2007	2008E	2009E	2010E	2011E
Revenues	$ 505.1	$ 574.9	$ 544.5	$ 593.7	$ 740.5	$ 706.4	$ 703.2
Operating costs	(262.1)	(403.6)	(344.8)	(522.8)	(641.6)	(648.0)	(654.5)
EBITDA	243.0	171.3	199.7	70.9	98.9	58.4	48.7
Depreciation	(36.8)	(36.4)	(38.4)	(37.1)	(40.0)	(42.4)	(44.9)
EBIT	206.2	134.9	161.3	33.8	58.9	16.0	3.8
Interest charges	(25.9)	(20.5)	(24.1)	(10.7)	(12.0)	(12.0)	(12.0)
Pretax income	180.3	114.4	137.2	23.1	46.9	4.0	(8.2)
Income taxes	(64.9)	(35.6)	(46.3)	(3.5)	(9.4)	(0.8)	1.6
Net income - GAAP	115.4	78.8	90.9	19.6	37.5	3.2	(6.6)
Special items	-	-	-	-	-	-	-
Net income - operating	115.4	78.8	90.9	19.6	37.5	3.2	(6.6)
less synfuel	(82.4)	(32.1)	(52.6)	-	-	-	-
Net income - operating, excluding synfuel	$ 33.0	$ 46.7	$ 38.3	$ 19.6	$ 37.5	$ 3.2	$ (6.6)
Synthetic fuel tons sold	6.4	5.3	6.0	0.0	0.0	0.0	0.0
Other tons sold	3.3	4.5	3.2	9.2	9.6	9.6	9.6
Total tons sold	9.7	9.6	9.2	9.2	9.6	9.6	9.6
Per ton sold							
Price	$52.07	$58.66	$59.18	$64.53	$77.14	$73.58	$73.25
Operating costs	(27.02)	(41.18)	(37.48)	(56.83)	(66.83)	(67.50)	(68.18)
Cash margin	**$25.05**	**$17.48**	**$21.71**	**$7.71**	**$10.30**	**$6.08**	**$5.07**
Depreciation	(3.79)	(3.71)	(4.17)	(4.03)	(4.17)	(4.42)	(4.68)
Interest expense	(2.67)	(2.09)	(2.62)	(1.16)	(1.25)	(1.25)	(1.25)
Pretax margin	**$18.59**	**$11.67**	**$14.91**	**$2.51**	**$4.89**	**$0.42**	**($0.86)**
Fully loaded production cost / ton	$ 30.81	$ 44.90	$ 41.66	$ 60.86	$ 71.00	$ 71.92	$ 72.86
EBIT margin / ton	$ 21.26	$ 13.77	$ 17.53	$ 3.67	$ 6.14	$ 1.67	$ 0.39

E=Davenport & Co. Equity Research estimate.

TECO Energy
TECO Coal

DAVENPORT & COMPANY, LLC
Garrett S. Nelson
(804) 780-2059
gnelson@investdavenport.com
Robert L. Chewning
(804) 780-2066
rchewning@investdavenport.com

	2005	2006	2007	2008E	2009E	2010E	2011E
Commitments							
As of 10/30/08							
Committed & Priced Tons (mm tons)							
Steam					6.8	4.5	2.4
Met					0.8	0.2	0.0
PCI					0.7	0.3	0.0
Total					8.3	5.0	2.4
Committed, But Unpriced Tons							
Steam						1.8	0.3
Met						0.3	0.0
PCI						0.3	0.0
Total						2.4	0.3
Uncommitted & Unpriced Tons							
Steam					0.0	0.8	4.2
Met					0.8	1.0	1.5
PCI					0.5	0.8	1.2
Total					1.3	2.2	6.9
Total Tons							
Steam					6.8	6.9	6.9
Met					1.6	1.5	1.5
PCI					1.2	1.2	1.2
Total					9.6	9.6	9.6
Prices							
Committed & Priced Tons							
Steam					$68.00	$68.00	$68.00
Met					$130.00	$130.00	$130.00
PCI					$105.00	$105.00	$105.00
Average Price					$77.00	$72.70	$68.00
Unpriced Tons (All)							
Steam					$65.00	$65.00	$70.00
Met					$80.00	$80.00	$85.00
PCI					$75.00	$75.00	$80.00
Total					$76.01	$74.58	$75.00
Average Realized Price/Ton							
Steam					$68.00	$68.96	$69.30
Met					$105.00	$68.67	$85.00
PCI					$91.75	$82.50	$80.00
Total					$77.14	$73.38	$73.25
% Committed & Priced Tons							
Steam					*100.0%*	*65.2%*	*34.8%*
Met					*50.0%*	*13.3%*	*0.0%*
PCI					*55.8%*	*25.0%*	*0.0%*
Total					**86.1%**	**52.1%**	**25.0%**
% Committed, But Unpriced Tons							
Steam						*26.1%*	*4.3%*
Met						*20.0%*	*0.0%*
PCI						*25.0%*	*0.0%*
Total						**25.0%**	**3.1%**
% Uncommitted & Unpriced Tons							
Steam					*0.0%*	*8.7%*	*60.9%*
Met					*50.0%*	*66.7%*	*100.0%*
PCI					*44.2%*	*50.0%*	*100.0%*
Total					**13.9%**	**22.9%**	**71.9%**

E=Davenport & Co. Equity Research estimate.

TECO Energy
Guatemala
Financials
($ in millions)

DAVENPORT & COMPANY, LLC
Garrett S. Nelson
(804) 780-2058
gnelson@investdavenport.com
Robert L. Chewning
(804) 780-2068
rchewning@investdavenport.com

	2005	2006	2007	2008E	2009E	2010E	2011E
Revenues	$ 7.7	$ 7.6	$ 8.0	$ 8.1	$ 8.0	$ 8.0	$ 8.0
Equity earnings	57.9	58.7	68.5	69.5	56.0	65.0	65.0
Operating (costs)/other revenue, net	3.8	10.2	6.8	4.8	5.0	5.0	5.0
EBITDA	69.4	76.5	83.3	82.4	69.0	78.0	78.0
Depreciation	(0.8)	(0.6)	(0.7)	(0.8)	(0.8)	(0.8)	(0.8)
EBIT	68.6	75.9	82.6	81.6	68.2	77.2	77.2
Interest charges	(30.1)	(29.6)	(30.1)	(30.4)	(31.0)	(30.0)	(30.0)
Pretax income	38.5	46.3	52.5	51.2	37.2	47.2	47.2
Income taxes	1.9	(8.7)	(7.8)	(7.3)	(5.6)	(7.1)	(7.1)
Net income - GAAP	$ 40.4	$ 37.6	44.7	43.9	31.6	40.1	40.1
Special items			-	-	-	-	-
Net income - operating	$ 40.4	$ 37.6	$ 44.7	$ 43.9	$ 31.6	$ 40.1	$ 40.1
Income tax rate	-4.9%	18.8%	14.9%	14.3%	15.0%	15.0%	15.0%

E=Davenport & Co. Equity Research estimate.

TECO Energy
Other & Eliminations
Financials
($ in millions)

DAVENPORT & COMPANY, LLC
Garrett S. Nelson
(804) 780-2059
gnelson@investdavenport.com
Robert L. Chewning
(804) 780-2066
rchewning@investdavenport.com

	2005	2006	2007	2008E	2009E	2010E	2011E
Revenues	$ (77.6)	$ (105.4)	$ (94.8)	$ (0.8)	$ (0.8)	$ (0.8)	$ (0.8)
Operating costs	(22.2)	112.2	261.5	(25.4)	(26.0)	(26.0)	(26.0)
EBITDA	(99.8)	6.8	166.7	(26.2)	(26.8)	(26.8)	(26.8)
Depreciation	(0.4)	(0.3)	(0.5)	(0.3)	(0.4)	(0.4)	(0.4)
EBIT	(100.2)	6.5	166.2	(26.5)	(27.2)	(27.2)	(27.2)
Interest charges	(94.3)	(102.5)	(68.7)	(51.0)	(54.0)	(54.0)	(54.0)
Pretax income	(194.5)	(96.0)	97.5	(77.5)	(81.2)	(81.2)	(81.2)
Income taxes	67.4	35.8	(45.0)	30.2	32.5	32.5	32.5
Net income - GAAP	$ (127.1)	$ (60.4)	52.5	(47.3)	(48.7)	(48.7)	(48.7)
Special items	46.7	(13.8)	(112.8)	-	-	-	-
Net income - operating	$ (80.4)	$ (74.2)	$ (60.3)	$ (47.3)	$ (48.7)	$ (48.7)	$ (48.7)
Income taxes	34.7%	37.1%	46.2%	38.9%	40.0%	40.0%	40.0%

E=Davenport & Co. Equity Research estimate.

TECO Energy
Valuation

	2008E	2009E	2010E	2011E
EPS	$ 0.83	$ 1.04	$ 1.05	$ 1.01
Dividend per share	$ 0.80	$ 0.80	$ 0.80	$ 0.80
Book Value / share	$ 9.65	$ 9.87	$ 10.13	$ 10.35
EBITDA	$ 741	$ 852	$ 880	$ 889
Stock price	**$ 12.11**	**$ 12.11**	**$ 12.11**	**$ 12.11**
Shares outstanding - million	212.0	212.6	212.6	212.6
Equity market capitalization	$ 2,567	$ 2,575	$ 2,575	$ 2,575
Net debt	3,314	3,377	3,345	3,310
Enterprise value	$ 5,881	$ 5,951	$ 5,920	$ 5,885
Valuation multiples				
Price/earnings	14.7x	11.7x	11.5x	11.9x
Dividend yield	6.6%	6.6%	6.6%	6.6%
Market / book value	1.3x	1.2x	1.2x	1.2x
EV / EBITDA	7.9x	7.0x	6.7x	6.6x

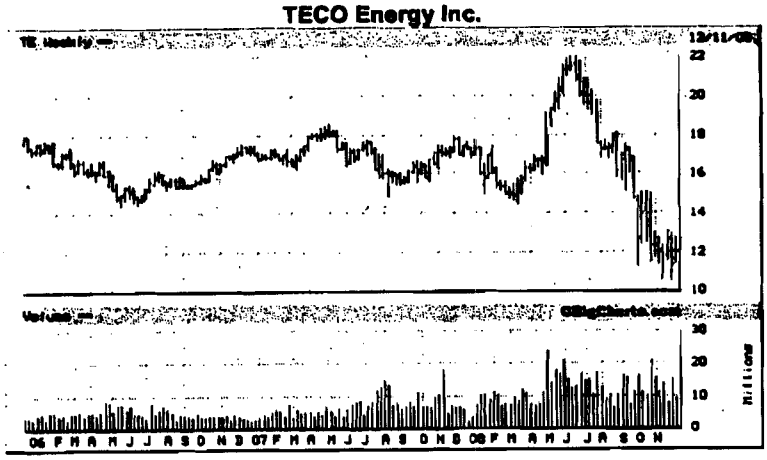
E=Davenport & Co. Equity Research estimate.

TECO Energy
Sum of the Parts Valuation

	Metric	Multiple	Estimate	Value Total	Per Share
Utility	**2010 P/E**	**10.0x**	**$ 1.05**	**$ 2,229**	**$ 10.52**
Guatemala	'10 EV/EBITDA	8.0x	78	$ 624	
TECO Coal	'10 EV/EBITDA	4.0x	58	234	
Corporate / other	'10 EV/EBITDA	7.0x	-26.8	(188)	
Enterprise Value - non-utility segments				670	
- non-Tampa Electric Debt				(1,308)	
+ non-Tampa Electric cash				201	
Equity value - non-utility segments				**(437)**	**(2.06)**
Value of Tax credits	NPV at 12/31/08			**443**	**2.09**
Sum of the Parts Equity Value				**$ 2,236**	**$ 10.55**

E=Davenport & Co. Equity Research estimate.

TECO Energy Inc.



Disclosure Section
As of 10/01/08, Davenport's ratings of covered companies were distributed as follows: 52.1% Buy, 43.1% Neutral, 4.8% Sell
As of 10/01/08, Davenport's percentages of covered companies that were investment banking clients within the past 12 months by rating were: 5.7% Buy, 8.3% Neutral, 0.0% Sell

Companies Mentioned in this Report and Associated Disclosures
TECO Energy Inc. (TE - NYSE):None

Description of Rating System

Strong Buy	These shares are viewed as compelling short and long-term investment opportunities. We expect these shares to materially outperform the market over the next 12 months. Aggressive purchase is recommended at current prices.
Buy	These shares offer attractive long-term appreciation potential from current prices. We would expect these shares to outperform the market over a longer-term horizon and long-term investors can buy at current prices.
Neutral	These shares should perform roughly in-line with the current market. We neither encourage the purchase nor the sale of these securities at current prices.
Reduce/Sell	These shares have more downside risk than upside potential at current prices. We expect these shares to underperform the market at current prices.

Risk Profile Considerations
This risk classification has been determined primarily from considering the level and predictability of earnings, the volatility of the stock relative to the market, applicable debt ratings, the composition and level of the company's capital structure, the dependence on key customers, and other relevant risk considerations.

Description of Possible Disclosure Codes

A1	The Research Analyst or a member of the Analyst's household owns common stock of the subject company.
A2	The Research Analyst or a member of the Analyst's household owns preferred stock of the subject company.
A3	The Research Analyst or a member of the Analyst's household has options on the common stock of the subject company.
A4	The Research Analyst or a member of the Analyst's household owns rights for the securities of the subject company.
A5	The Research Analyst or a member of the Analyst's household owns warrants for the securities of the subject company.
A6	The Research Analyst or a member of the Analyst's household has futures contracts on the securities of the subject company.
A7	The Research Analyst or a member of the Analyst's household has a short position in the common stock of the subject company.
A8	The Research Analyst or a member of the Analyst's household owns a debt security issued by the subject company.
B	The Research Analyst or a member of the Analyst's household serves as an officer, director, or advisory board member of the subject company.
I	Davenport or its affiliates received compensation for investment banking services from the subject company in the past 12 months.
I2	Davenport or its affiliates expects to receive or intends to seek compensation for investment banking services from the subject company in the next 3 months.
I/F	Davenport or its affiliates received fixed income investment banking fees from this company within the past 12 months.

S/C The subject company was a non-investment banking – securities related services client of Davenport or its affiliates for which compensation was received during the past 12-months.

N/C The subject company was a non-securities services client of Davenport or its affiliates for which compensation was received during the past 12-months.

O As of the end of the month immediately preceding the date of this report (or the end of the second most recent month if the report date is less than 10 calendar days after the end of the most recent month), Davenport or its affiliates beneficially owned 1% or more of any class of common equity securities of the subject company calculated in accordance with Section 13(d) of the Securities Exchange Act of 1934.

SCC The Research Analyst received non-investment banking related compensation from the subject company in the past 12 months.

U Davenport or its affiliates managed or co-managed a public offering of securities for the subject company in the past 12 months.

C Any other actual, material conflict of interest of the Research Analyst or Davenport and its affiliates, of which Davenport and its affiliates or the Research Analyst knows, or has reason to know, at the time of this report.

This report has been compiled from sources believed to be reliable; however, there is no guarantee of its accuracy or completeness. Any opinions expressed here are statements of judgment on this date and are subject to future change without notice. Neither this information nor any opinions expressed herein are a solicitation to purchase or sell any securities. This information contains forward looking predictions that are subject to certain risks and uncertainties which could cause actual results to differ materially from those currently anticipated or projected. Securities discussed in this report may not be suitable for all investors due to different needs, objectives, and financial resources, nor may the securities mentioned in this report be registered in every state. The research analyst(s) that prepared this report may receive compensation from a general bonus pool that is based on various factors, including Davenport's total revenues, a portion of which are generated by Davenport's investment banking activities.

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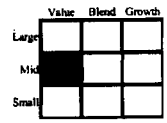
Certification
As the primary author of this report, I hereby certify that the views and opinions expressed herein accurately reflect my personal views and opinions about the principal subject(s) of this report. Further, I hereby certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or personal views expressed here.

Robert L. Chewning, Garrett S. Nelson

HILLIARD LYONS

David B. Burks
Vice President
November 3, 2008

Rating: – Buy
Suitability: 3
Utilities



TECO Energy

(TE - NYSE)

We are upgrading our opinion to Buy.
We like the stock's valuation and 6.9% dividend yield.

		December Fiscal Year	2007	2008E	2009E
Recent Price	$11.54	Diluted Earnings Per Share	$1.07	$0.85	$1.25
52-Week High Price	$21.99	P/E Multiple	10.8x	13.6x	9.2x
52-Week Low Price	$11.30	Payout Ratio	73%	94%	64%
Indicated Dividend	$0.80				
Dividend Yield	6.9%	Dividend cycle	Feb., May, Aug., Nov.		
Market Value (millions)	$2,411	Nuclear Generation			No

Company Description: TECO Energy, Inc. is an energy-related holding company. Its principal subsidiary, Tampa Electric Company, is a regulated utility with both electric and gas divisions (Tampa Electric and Peoples Gas System). Other subsidiaries include TECO Coal, which owns and operates coal production facilities in Kentucky and Virginia, and TECO Guatemala, which is engaged in electric power generation and distribution and energy-related businesses in Guatemala.

- **We are upgrading our opinion on TECO Energy to Buy from Neutral.** We recommend purchase of the stock for the following reasons:
- **The stock is attractively priced, in our opinion.** TE is trading at just 9.2x our 2009 earnings estimate of $1.25 per share. By contrast, the average electric trades at 12x estimated 2009 earnings. Moreover, TECO's average P/E range over the past decade has typically been between 11 on the low end and 16 on the high end.
- **TECO has an above average dividend yield of 6.9%.** The dividend is secure, in our view.
- **The stock price is down 45% from its 52-week high of $21.99.** We believe at this level the upside potential far outweighs the downside risk.
- **We expect 2009 earnings to rise to $1.25 per share from $0.85 per share in 2008.** We feel utility earnings could potentially get a boost from a rate hike next May. This could help offset the current economic weakness in its service territory. Also, TECO's coal business is expected to provide a significant boost to 2009 earnings. This segment could benefit from increased production and higher prices.
- **Our price target is $15.** This would imply a potential total return of 37%.

Note Important Disclosures on Pages 4 and 5.
Note Analyst Certification on Page 4.

J.J.B. Hilliard, W.L. Lyons, LLC. Member NYSE, FINRA & SIPC. The information herein has been obtained from sources we believe to be reliable but is not guaranteed and does not purport to be a complete statement of all material factors. This is for informational purposes and is not a solicitation of orders to purchase or sell securities.

EQUITY RESEARCH

Opinion Upgraded
We are raising our rating on TECO Energy to Buy from Neutral to reflect what we believe is an attractive valuation. TECO now trades at just 9.2x our 2009 earnings estimate of $1.25 per share. Moreover, our estimate remains below the consensus estimate of $1.41 per share. By comparison, the average utility trades at approximately 12x estimated 2009 earnings. Thus, the stock is trading at nearly a 25% discount to the group. Also, over the past decade TECO's average annual P/E has generally fluctuated on average from about 11 on the low side to 16 on the high end. As a result, the stock is currently trading well below its historical average. We believe that at current levels the upside potential is significantly higher than the downside risk.

While the company is currently experiencing a challenging year due to a weak housing market and economy in its service area along with increased costs in its coal operation, we feel the company is well situated for a significant increase in earnings next year. Potentially higher earnings could come from both the company's utility and coal businesses. TECO's utilities filed for a rate hike in August and we believe the company has a reasonable chance at a meaningful rate increase. Also, TECO Coal is expected to benefit from higher contracted coal prices even though coal prices have dropped significantly in recent months.

In addition, the stock has a current dividend yield of 6.9%, well above average for the electric utility group. We view the dividend as secure. While the dividend payout ratio is currently a lofty 94% on estimated 2008 earnings of $0.85 per share, the dividend payout ratio drops to a much smaller 64% on potential 2009 earnings of $1.25 per share. We feel TECO will be in a position to modestly grow its dividend should earnings trend higher as we expect.

Recent Results
On October 30, TECO Energy reported third quarter earnings of $0.28 per share versus $0.44 per share in the third quarter of 2007. However, last year's earnings included $0.11 per share from the operation of TECO Transport (since sold) and synthetic fuel, whose production ceased at year-end. In the 2008 quarter earnings at Tampa Electric and Peoples Gas System were negatively impacted by the weak housing market and economy in Florida. New customer additions were essentially offset by meter disconnects associated with housing foreclosures and vacant homes. This is very unusual from an historical perspective as the company has typically benefitted above average customer growth. Also, the company's service territory experienced one of its wettest summer seasons in decades, which reduced demand. TECO Coal's earnings contribution declined due to cost pressure and production issues that are impacting the entire coal industry. The labor market for miners has been very tight which has increased costs.

Management Reaffirms 2008 Guidance
TECO continues to expect full-year 2008 operating earnings of $0.80 to $0.90 per share. This range assumes a continuation of the current weak Florida economic and housing market conditions; normal weather for the remainder of the year; and that TECO produced about 9.5 million tons of coal at selling prices and production costs consistent with third quarter levels. The company revised its coal production forecast down from a previous range of 10 to 10.5 million tons due largely to an industry-wide shortage of miners. TECO's Guatemalan results are expected to be flat with 2007 levels. We are maintaining our 2008 earnings estimate of $0.85 per share. In 2007, the company earned $1.07 per share.

Outlook

We believe the company's earnings prospects for 2009 and beyond are considerably better than this year. We expect earnings gains in both TECO's utility and coal operations. With regard to the utility, management believes economic conditions will remain challenging, with no pick-up in the housing market until the second half of 2010. Customer growth will likely be small and well below historical levels. However, the company's two utilities, Tampa Electric and Peoples Gas, filed for rate relief in August 2008. Tampa Electric is seeking a $228.2 million rate hike while Peoples Gas seeks a $26.5 million rate increase. Tampa Electric expects a final ruling from the Florida Public Service Commission in April of 2009, with rates becoming effective in May. The company has not had a general rate increase since 1992. We feel TECO operates in a constructive regulatory environment which could lead to a rate increase next spring. This could give utility earnings a meaningful boost, in our view.

Management expects 2009 will be a strong year for its coal operations due to increased potential production of 10.5 million tons at much higher prices. Currently, 88% of expected 2009 production is contracted and priced at an average price of $77 per ton, which is a 20% increase over contracted prices in 2008. Uncontracted coal production is a much higher quality coal that sells for as much as $200 per ton. Fully loaded production costs, including administrative and general and depreciation and depletion costs, are expected to be in range of $65 and $75 per ton, primarily due to higher labor costs and higher costs for contract miners. We expect coal to become a bigger earnings contributor to TECO next year. We expect a lower earnings contribution from the company's operations in Guatemala due to a scheduled maintenance outage and lower rates.

Rating

We have upgraded our opinion to Buy from Neutral. In our view, the stock has fallen to a level where the upside potential far outweighs the downside risk. While the company is experiencing a tough earnings year, we believe TECO is well positioned for improved earnings in 2009 if the company is granted a rate hike at its utility operations and realizes higher margins on its coal operations as expected. In addition to what we feel is an attractive valuation, the stock offers a generous 6.9% dividend yield. Thus, we feel the stock is an appropriate holding for utility investors seeking total return.

Valuation

Our one year price target for TECO Energy is $15. We feel that if TE's earnings develop in 2009 as expected, the company's P/E multiple will expand to a level consistent with its peer group. With the group selling at a 12x earnings multiple, that would generate our price target of $15. Our price target implies a potential total return of 37%.

Risks

There exist a variety of risks that could prevent the stock from attaining our price objective. These include continued economic weakness in TECO's service territory, resulting in lower customer growth, demand and usage; changing regulatory conditions at the federal or state levels; new potentially onerous legislation; large sensitivity to changing coal prices; international exposure with its operations in Guatemala; unfavorable weather.

Our suitability rating is 3 on our 1 to 4 scale. In our view, the company has sufficient cash and credit facilities to manage its businesses. However, the stock carries more risk than the average electric due to its exposure to coal and its international operation in Guatemala. Approximately 70% of earnings come from the traditional utility business.

Additional information is available upon request.

Analyst Certification

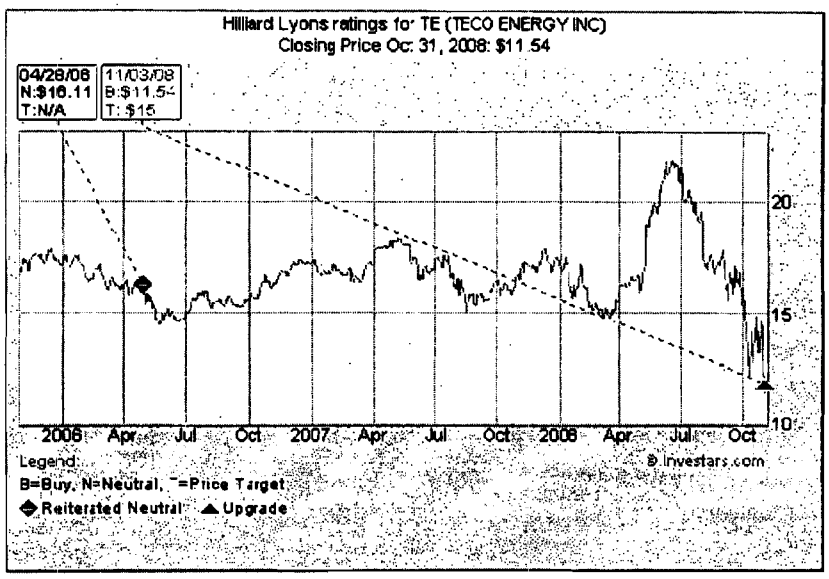
I, David Burks, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

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Investment Ratings
Buy – We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy – We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time than our Buy rated issues.
Neutral – We believe the stock is an average holding in its sector, currently fully valued, and may be used as a source of funds if better opportunities arise.
Underperform – We believe the stock is vulnerable to a price setback in the next 12 months.

Suitability Ratings
1 – A large cap, core holding with a solid history.
2 – A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks.
3 – An above average risk/reward ratio could be due to its small size, lack of product diversity, sporadic earnings or high leverage.
4 – Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product.



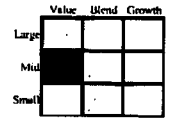
	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	29%	3%	97%
Long-term Buy	28	23%	4%	96%
Neutral	51	41%	8%	92%
Underperform	9	7%	0%	100%

As of 1 October 2008

HILLIARD LYONS

David B. Burks
Vice President
August 5, 2008

Rating: 3 – Neutral
Utilities



TECO Energy

(TE - NYSE)

Company reports lower second quarter earnings & cuts 2008 guidance. We maintain our Neutral rating.

Recent Price	$17.11	**December Fiscal Year**	**2007**	**2008E**	**2009E**
52-Week High Price	$21.99	Diluted Earnings Per Share	$1.07	$0.85	$1.05
52-Week Low Price	$14.48	P/E Multiple	16.0x	20.1x	16.3x
		Payout Ratio	73%	94%	76%
Indicated Dividend	$0.80				
Dividend Yield	4.7%	Dividend cycle	Feb., May, Aug., Nov.		
Market Value (millions)	$3,575	Nuclear Generation			No

Company Description: TECO Energy, Inc. is an energy-related holding company. Its principal subsidiary, Tampa Electric Company, is a regulated utility with both electric and gas divisions (Tampa Electric and Peoples Gas System). Other subsidiaries include TECO Coal, which owns and operates coal production facilities in Kentucky and Virginia, and TECO Guatemala, which is engaged in electric power generation and distribution and energy-related businesses in Guatemala.

- **TECO Energy reported second quarter adjusted earnings from continuing operations of $0.24 per share versus $0.28 per share in the second quarter of 2007.** This was $0.01 above the consensus estimate of $0.23 per share. Second quarter results also exclude contributions from synfuels. While the company's utilities benefitted from better weather, they were also negatively impacted by the continued weak Florida economy and housing market which limited customer and energy sales growth. Earnings from TECO Coal were lower than expected due to production cost pressures.

- **Management lowered 2008 earnings guidance.** The company lowered 2008 earnings guidance from a previous range of $0.95 to $1.10 per share to a new range of $0.80 to $0.90 per share. The company made the earnings revision based on year-to-date results along with continued cost pressure at TECO coal and the continuation of the effects of a slow Florida economy on customer growth and energy sales for the remainder of the year. We are trimming our 2008 EPS estimate to $0.85 per share to reflect new guidance.

- **We are maintaining our Neutral rating on the stock as we believe the stock is fairly valued.** In our view, the company's long-term prospects remain sound. While the company is experiencing a slowdown in customer growth and economic activity in its service territory, we believe TECO could benefit from upcoming rate filings and a growing coal business.

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EQUITY RESEARCH

Second Quarter Highlights

Second Quarter Earnings

TECO Energy posted second quarter adjusted operating earnings of $0.24 per share versus $0.28 per share in the second quarter of 2007. The $0.24 per share figure was $0.01 per share above the consensus estimate of $0.23 per share. Second quarter results exclude contributions from synfuels. Although weather was favorable to the companies utilities, earnings were negatively impacted by the continued weak Florida economy and housing market which limited customer growth and energy sales growth. In addition, the earnings contribution from TECO Coal was lower than expected due to production cost pressures.

The earnings contributions from Tampa Electric increased in the second quarter. Tampa Electric contributed net income of $40.2 million versus $24.7 million for the same period in 2007. Results for the quarter reflected higher energy sales due to hotter weather than in 2007, and increased sales to other utilities. However, customer growth continues to noticeably slow. In the second quarter average customer growth was just 0.2%. This represented a sequential decline from the 0.6% average customer growth in the first quarter this year. As recently as the first quarter of 2007, average customer growth was 2.5%. The Florida economy has experienced a noticeable slowdown that has negatively impacted customer growth and sales. Peoples Gas reported net income of $5.3 million versus $5.4 million in the same period in 2007. Quarterly results reflected higher off-system sales, higher volumes transported for power generation and industrial customers and average customer growth of 0.3%. These impacts were offset by higher operations and maintenance expense, higher depreciation expense and increased interest expense. TECO Coal generated second quarter net income of $4.2 million compared to $9.8 million in the second quarter of 2007. Earnings were lower primarily due to higher production costs.

Management Cuts 2008 Earnings Guidance

Based on year-to-date results and the company's expectation that the Florida economy and housing markets will remain weak, TECO lowered its 2008 EPS guidance to a range of $0.80 to $0.90, down from the previous guidance of $0.95 to $1.10 per share. This guidance also assumes ongoing cost pressures at TECO Coal. Accordingly, we are reducing our 2008 earnings estimate by $0.15 per share to $0.85 per share.

Outlook

Despite the reduction in earnings guidance from management, we still believe that TECO has a solid long term fundamental outlook. While the slowdown in customer growth and housing is negatively impacting the company more than anticipated, we believe these trends will eventually moderate. Also, the company expects to file rate cases at both Tampa Electric and Peoples Energy in the near future. Rate increases in the second half of 2009 could boost long term earnings as could the company's growing coal business.

Rating

We rate the stock Neutral as we believe the stock is fairly valued. The company operates two solid utilities in Tampa Electric and Peoples Gas and we expect that both should fare relatively well on a longer term basis as growth rates potentially rebound over the next two years. As a result, we believe long term earnings will trend higher.

Additional information is available upon request.

Analyst Certification

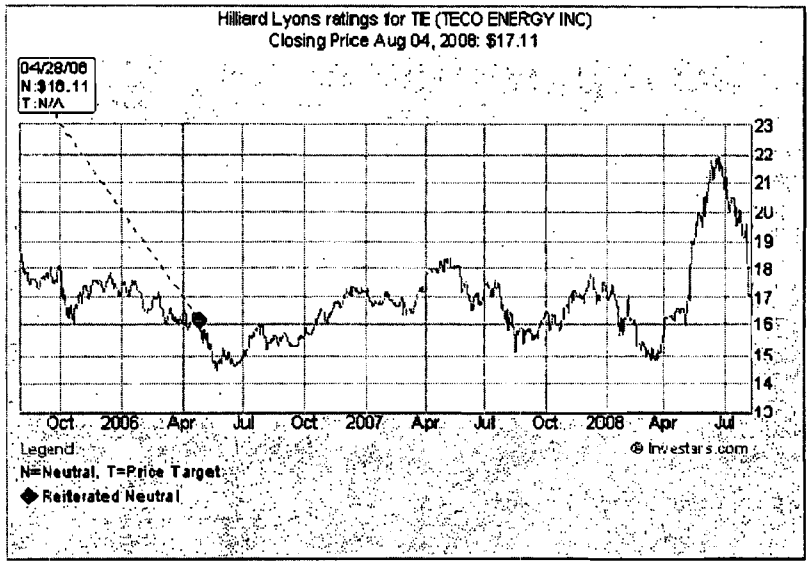
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Important Disclosures

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Investment Ratings
Buy – We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy – We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time than our Buy rated issues.
Neutral – We believe the stock is an average holding in its sector, currently fully valued, and may be used as a source of funds if better opportunities arise.
Underperform – We believe the stock is vulnerable to a price setback in the next 12 months.

Suitability Ratings
1 – A large cap, core holding with a solid history.
2 – A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks.
3 – An above average risk/reward ratio could be due to its small size, lack of product diversity, sporadic earnings or high leverage.
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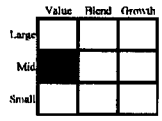
	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	33	27%	3%	97%
Long-term Buy	30	24%	7%	93%
Neutral	59	48%	5%	95%
Underperform	2	2%	0%	100%

As of 7 July 2008

HILLIARD LYONS

David B. Burks
Vice President
April 30, 2008

Rating: 3 – Neutral
Utilities



TECO Energy

(TE - NYSE)

Company reports lower first quarter earnings.
We maintain our Neutral rating.

Recent Price	$16.66	**December Fiscal Year**	**2007**	**2008E**	**2009E**
52-Week High Price	$18.58	Diluted Earnings Per Share	$1.07	$1.00	$1.15
52-Week Low Price	$14.48	P/E Multiple	15.6x	16.7x	14.5x
		Payout Ratio	73%	78%	68%
Indicated Dividend	$0.78				
Dividend Yield	4.7%	Dividend cycle	Feb., May, Aug., Nov.		
Market Value (millions)	$3,515	Nuclear Generation			No

Company Description: TECO Energy, Inc. is an energy-related holding company. Its principal subsidiary, Tampa Electric Company, is a regulated utility with both electric and gas divisions (Tampa Electric and Peoples Gas System). Other subsidiaries include TECO Coal, which owns and operates coal production facilities in Kentucky and Virginia, and TECO Guatemala, which is engaged in electric power generation and distribution and energy-related businesses in Guatemala.

- **TECO Energy reported first quarter adjusted earnings from continuing operations of $0.15 per share versus $0.21 per share in the first quarter of 2007.** This was $0.06 below the consensus estimate of $0.21 per share. First quarter results also exclude contributions from synfuels. Earnings were lower due primarily to lower earnings from both Tampa Electric and Peoples Gas as a result of milder weather. Total heating degree days were 10% below normal and 11% below the first quarter 2007 period. The lower first quarter results were also negatively impacted by slower customer and economic growth in its service territory as well as higher operation and maintenance expense associated with planned plant outages.

- **Management reaffirms 2008 earnings guidance.** Despite the lower first quarter earnings, TECO still anticipates that it will achieve its previous earnings target. The company expects this year's earnings to range between $0.95 per share and $1.10 per share. This guidance assumes a normalization of weather through the remainder of the year. We are trimming our 2008 earnings estimate by $0.05 per share to $1.00 per share to reflect the light first quarter.

- **We are maintaining our Neutral rating on the stock as we believe the stock is fairly valued.** In our view, the company's long-term prospects remain sound. While the company is experiencing a slowdown in customer growth and economic activity in its service territory, we still believe that that the company's service territory remains attractive.

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EQUITY RESEARCH

First Quarter Highlights

First Quarter Earnings
TECO Energy posted first quarter adjusted operating earnings of $0.15 per share versus $0.21 per share in the first quarter of 2007. The $0.15 per share figure was $0.06 per share below the consensus estimate of $0.21 per share. First quarter results exclude contributions from synfuels. Earnings were primarily lower due to lower earnings at Tampa Electric and Peoples Gas as a result of significantly milder than usual weather. Total heating degree days were 10% below normal and 11% below the first quarter of 2007 period. The lower first quarter results were also negatively impacted by slower customer and economic growth in its service territory along with higher operation and maintenance expense associated with planned plant outages.

Earnings contributions from both Tampa Electric and Peoples Gas declined in the first quarter. Tampa Electric contributed net income of $15.9 million versus $21.8 million for the same period in 2007. Results for the quarter reflected 0.6% average customer growth and lower retail energy sales. By contrast, customer growth was 2.5% in 1Q'07. Total retail energy sales declined by 2.1%, driven by lower sales to weather-sensitive residential customers and lower sales to lower-margin phosphate customers due to phosphate production facility outages. Peoples Gas reported net income of $10.0 million versus $11.0 million in the same period in 2007. Quarterly results reflected average customer growth of 0.3% and lower sales to residential customers, primarily due to mild weather. Sales to commercial and industrial customers declined due to the continued weak housing market, which is negatively impacting housing-related industries. TECO Coal generated first quarter net income of $7.5 million compared to $11.7 million in the first quarter of 2007. Earnings were lower from this unit due to a sales mix and higher production costs.

Management Maintains 2008 Earnings Guidance
TECO reaffirmed its previous earnings guidance range for 2008 of between $0.95 and $1.15 per share. This guidance assumes weather normalization for the balance of the year. It also assumes that customer growth will remain below historical levels. As a result of the light first quarter, we are reducing our 2008 earnings estimate by $0.05 per share to $1.00 per share.

Outlook
We believe that TECO has a solid fundamental outlook. We believe that the company's decision several years ago to exit the merchant energy business was a sound strategic move as it allowed the company to reduce its risk profile and strengthen its balance sheet through debt reduction. While the slowdown in customer growth and housing is negatively impacting the company more than anticipated, we believe these trends will eventually moderate. Also, the company expects to file rate cases at both Tampa Electric and Peoples Energy in the second half of this year. New rates could become effective approximately nine months after filing.

Rating
We rate the stock Neutral as we believe the stock is fairly valued. The company operates two solid utilities in Tampa Electric and Peoples Gas and we expect that both should fare relatively well on a longer term basis as growth rates potentially rebound over the next two years. Also, the company is in an improved financial condition which allows TECO to support its dividend.

Additional information is available upon request.

Analyst Certification

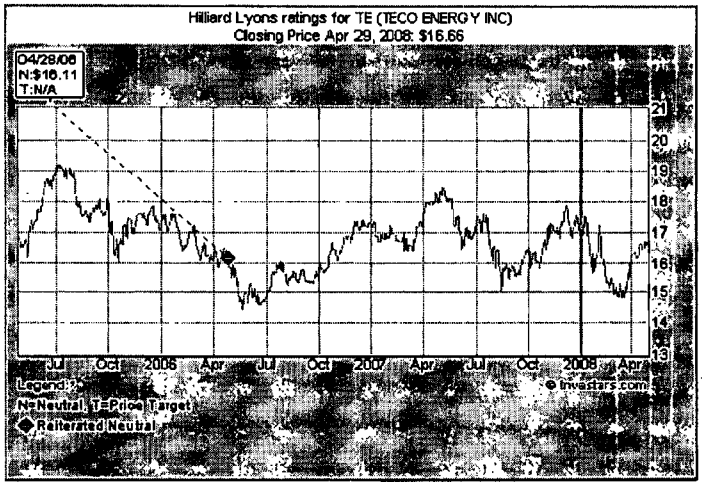
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Investment Ratings
Buy – We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy – We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time than our Buy rated issues.
Neutral – We believe the stock is an average holding in its sector, currently fully valued, and may be used as a source of funds if better opportunities arise.
Underperform – We believe the stock is vulnerable to a price setback in the next 12 months.

Suitability Ratings
1 – A large cap, core holding with a solid history.
2 – A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks.
3 – An above average risk/reward ratio could be due to its small size, lack of product diversity, sporadic earnings or high leverage.
4 – Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product.



	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	33	28%	6%	94%
Long-term Buy	26	22%	8%	92%
Neutral	59	49%	8%	92%
Underperform	2	2%	0%	100%

As of 4 April 2008

JESUP & LAMONT
ESTABLISHED 1877

Quarterly Update

Electric Utility Research

Member NASD, SIPC

October 31, 2008
Timothy M. Winter, CFA
Senior Analyst
(314) 238-1203
twinter@jesuplamont.com

TECO Energy (TE)

Reiterate Our Buy Rating

Current Price: $12.88
Target Price: $19
BUY

Revenues and Earnings	F2007A	F2008E		F2009E
Revenues	**$3,537.3**	**$3,415.6**		**$3,945.9**
1Q	$866.5	$887.2	A	$918.3
2Q	$990.0	$926.1	A	$958.5
3Q	$858.3	$926.1	A	$958.5
4Q	$791.7	$676.2	E	$1,110.6
EPS	**$1.07**	**$0.82**		**$1.40**
1Q	$0.18	$0.15	A	$0.20
2Q	$0.28	$0.24	A	$0.30
3Q	$0.38	$0.27	A	$0.65
4Q	$0.23	$0.11	E	$0.25
Current Annual Dividend:	**$0.80**	**Current Yield:**		**6.2%**
P/E (x)	12.0	15.7		9.2
Book Value	$9.56	$9.65		$10.26
ROE	12.0%	8.5%		14.1%

Stock Data	
52-Week Range	$11.3 - $21.99
Shares Outstanding (mil.)	212.74
Market Capitalization (mil.)	$2,740.1
Enterprise Value (mil.)	$5,954.8
Debt to Capital	120.8%
Insider Ownership	6.8%
Institutional Ownership	60.9%
Short Interest (mil. shares)	3.50
Average Daily Volume	2,489,200

Company Description. TECO Energy's four business units include Tampa Electric, a regulated electric utility serving nearly 670,000 customers in West Central Florida; Peoples Gas System, Florida's largest natural gas distribution utility; TECO Coal, producer of coal in Kentucky and Virginia; and TECO Guatemala, owner of two power plants and an interest in Guatemala's largest distribution utility.

See Last Page for Disclosure

Highlights

TE shares were weak yesterday following the third quarter EPS report, which did not include the desired coal contract disclosure. TE disclosed that it had made progress by increasing its hedged exposure to 88% of expected production at average prices of $77/ton. This is an increase from the most recent disclosure of 80% and $66/ton, respectively. Management also discussed that its remaining 12% production is 60% met coal and 40% PCI tons and that similar quality coal is being contracted in the markets for roughly $200/ton. We expect TE will finalize negotiations for the remaining production at similar prices. We also expect continued efforts, as is its normal course of operation, to contract 2010 and 2011 production. We expect material EPS and cash flow gains as a result.

Despite the share price action yesterday, we continue to believe our TE investment thesis remains on track. We expect the Florida utilities, which are experiencing a depressed state economy, to benefit from pending rate cases with new rate plans in place by April 2009. We also expect material cash flow of roughly $750-800 million over the 2009-2011 period to be reinvested in the utility business where healthy 11% ROEs can be earned on an ongoing basis.

TE maintained its 2008 EPS guidance of $0.80-to-$0.90 and our 2008 EPS estimate remains $0.82. We have revised our 2009 and 2010 EPS estimates to reflect TE's updated guidance for its coal hedging program, cash production costs and market conditions. Our new estimates are $1.40 and $2.20, respectively, compared to $1.50 and $2.40, respectively. The revision reflects changes in coal contributions to $0.55 and $1.15, respectively, compared with previous estimates of $0.65 and $1.35, respectively. The primary driver of the lower contributions is an increase in estimated coal production costs to $70/ton (mid-point of management estimate of $65-to-$75/ton) from $61/ton.

Investment Appraisal

Reported Third Quarter 2008 EPS of $0.27 vs. 40.34

On October 30, TE reported third quarter ongoing 2008 EPS of $0.27 vs. $0.34 (excludes numerous non-recurring items). Our 2008 third quarter estimate was $0.32. Year-to-date EPS were $0.67 vs. $0.74 (excludes numerous non-recurring items).

Lower results were due to the significantly weakened Florida economy, mild weather and challenging operating conditions for TECO Coal.

Lower Results Due to Weak Florida Economy and Poor Weather

Tampa Electric contributed $0.24 vs. $0.31 for the same period last year. The electric utility experienced a (6.7%) decline in retail energy sales due to weather and the weak economy. Cooling degree days were (7%) below normal and (11%) below last year. Customer growth was 0.3% year-to-date and 0% quarter over quarter. New customer connections were more than offset by meter disconnections associated with foreclosures and vacant homes. In July Tampa Electric experienced the wettest summer month in 50 years. Residential sales declined (8.8%) and sales to the industrial/phosphate customer fell (20.5%). Peoples' Gas contributed $0.01 vs. $0.02 last year due to lower customer growth and higher operation and maintenance expenses.

Coal Results Continue to Be Hurt By Hedged Revenues and Challenging Mining Environment

TECO Coal's third quarter 2008 contribution was $0.01 vs. $0.04 as volumes declined to 2.2 million tons vs. 2.4 million (includes 1.7 million tons of synfuel) reflecting problems with a mine and a shortage of miners. Average selling prices were 10% higher, but production costs 16% higher driven by higher diesel oil prices, steel products, explosives and higher contract miner costs. TECO Coal had hedged a significant portion of its 2008 production during 2006 and 2007, which was prior to the run-up in coal prices.

TECO Guatemala contributed $0.06 vs. $0.05 driven by significantly higher power prices generated from the San Jose Power Station. Interest expense for the two generating stations decreased due lower rates and lower project balances. At EEGSA, the distribution utility, customer growth and higher sales were offset by the lower Value Added Distribution tariff effective August 1, 2008.

Parent and other losses declined to ($0.05) from ($0.08) driven by lower interest expense.

Outlook

TE Maintained 2008 Guidance of $0.80-to-$0.90

TE maintained its 2008 EPS guidance of $0.80-to-$0.90 and our 2008 EPS estimate remains $0.82. We have revised our 2009 and 2010 EPS estimates to reflect TE's updated guidance for its coal hedging program, cash production costs and market conditions. Our new estimates are $1.40 and $2.20, respectively, compared to $1.50 and $2.40, respectively. The revision reflects

changes in coal contributions to $0.55 and $1.15, respectively, compared with previous estimates of $0.65 and $1.35, respectively. The primary driver of the lower contributions is an increase in estimated coal production costs to $70/ton (mid-point of management estimate of $65-to-$75/ton) from $61/ton.

We revised 2009 and 2010 EPS Estimates to $1.40 and $2.20 to Reflect Modestly Lower Coal Contributions

TECO Energy EPS By Segment					
	2006A	2007A	2008E	2009E	2010E
Tampa Electric	$0.65	$0.72	$0.67	$0.80	$0.90
People's Gas	0.14	0.13	0.14	0.15	0.18
TECO Coal	0.22	0.18	0.05	0.55	1.15
TECO Guatemala	0.18	0.21	0.18	0.12	0.19
TECO Transport	0.11	0.16	0.00	0.00	0.00
Parent	(0.34)	(0.34)	(0.22)	(0.22)	(0.22)
EPS (exlc. Coal)	**$0.97**	**$1.07**	**$0.77**	**$0.85**	**$1.05**
EPS (with Coal)	**$0.96**	**$1.06**	**$0.82**	**$1.40**	**$2.20**

J&L Estimates. Figures exclude items J&L believes to be non-recurring.

We note that our 2008 EPS estimate of $0.82 is significantly below 2007 results of $1.07. Lower 2008 results are due to increased cost pressures at TECO Coal and the ongoing effects of the slow Florida economy on customer growth and energy sales.

We expect TECO Energy parent loss, which was ($0.34) in both 2007 and 2006, to moderate to roughly ($0.22) in 2008 and 2009 due to significant debt-paydown over the past few years. We expect the effective tax rate to be in the range of 30% to 35%, but cash income tax payments of less than 5% of net income. The low cash tax payment is due to significant operating loss carry-forwards associated with past merchant plant losses and deferred taxes accumulated form significant synthetic coal production, which ended in 2007.

The Impact of the Weak Florida Economy Will Be Addressed in Pending Rate Cases

The Florida Utilities EPS Outlook;

We expect Tampa Electric's 2008 results to fall to $0.65-0.70, which is modestly below 2007 results of $0.72 per share. **However, we expect material EPS growth in 2009 and 2010 primarily through a pending base rate increase and constructive Florida regulatory mechanisms to recognize rate base expansion.** The 2008 decline is due to the absence of normal customer/sales growth combined with higher non-fuel operation and maintenance (O&M) expense, depreciation expense and interest expense associated with normal increases in rate base. Higher costs have been driven by increased prices for copper and steel products, subcontracted labor, major generating unit outages during the installation of NO_x control equipment, and higher employee benefits costs. Tampa Electric has stated for some-time that the need for rate relief would result in declining profit margins in 2008/2009, but the weak economy and slowed customer growth has exacerbated the situation. We now expect electric utility results to fall below the bottom of the

We Expect Solid Long-Term Rate Base Growth From the Florida Utilities

10.75%-12.75% authorized ROE range by 2009 absent rate relief.

On Aug. 11, 2008, Tampa Electric Co. (TEC) filed a request with the FPSC for a $228.2 million, or 10%, electric base rate increase, premised upon 12% allowed return on equity. The filing used a 50.2% regulatory capital structure and an 8.82% return on an average rate base valued at $3,656.8 million for the calendar-2009 test year. The requested 12% equity return is the midpoint of a requested range of 11% to 13%. The FPSC is required to issue a written order within eight months of the filing, which would be April 11, 2009. We expect the economic and customer growth situation as well as inflationary commodity pressures to be addressed in the revised rates. **We expect rate relief in mid-April 2009 to be a significant driver of EPS in 2009 and beyond.**

TEC's year-end 2007 rate base was roughly $3.0 billion with a roughly 50/50 capital structure and the addition of new peaking and base-load capacity, environmental equipment and improved transmission/distribution system will further expand rate base. We expect Tampa Electric's rate base to further expand to $3.7 billion in 2009 and to over $4.0 billion by 2011 when new base-load capacity is in operation. **Assuming constructive rate treatment (an 11.0% ROE on a 50% capital structure), we project TEC 2011 EPS power of $1.09, which results in a 9.2% compound annual growth rate from 2007 results of $0.72.**

Tampa Electric Rate Base Growth at 11.0% ROE					
($ millions)	**2007A**	**2008E**	**2009E**	**2010E**	**2011E**
Beginning rate base	2,850.0	3,000.0	3,313.0	3,733.0	4,080.0
Depreciation	(219.0)	(230.0)	(241.0)	(253.0)	(266.0)
Capital expednitures	369.0	543.0	661.0	600.0	600.0
Year-end rate base	3,000.0	3,313.0	3,733.0	4,080.0	4,414.0
Average rate base	2,925.0	3,156.5	3,523.0	3,906.5	4,247.0
Capital structure	0.5	0.5	0.5	0.5	0.5
Earned ROE	0.1	0.1	0.1	0.1	0.1
Earnings	166.7	173.6	193.8	214.9	233.6
Shares outstanding	209.0	213.0	214.0	214.0	214.0
EPS	**$0.80**	**$0.82**	**$0.91**	**$1.00**	**$1.09**
J&L EPS Estimates	**$0.72**	**$0.67**	**$0.80**	**$0.90**	

Source: Jesup & Lamont; Company documents

In addition to the general rate case, Tampa Electric receives annual rate recognition and return on investment for environmental improvements through Florida's Environmental Cost Recovery Mechanism (ECRC). We expect Environmental Cost Recovery related earnings from the second NOx control project, which entered service in July 2008 on Big Bend Unit 3. In addition, we expect non-cash AFUDC earnings to increase in 2008-2010 related to increased infrastructure investment.

We expect Peoples Gas System (PGS) 2008 EPS contribution to be roughly

the same as the $0.13 contributed in 2007. 2007 results were below the 2003 authorized ROE range of 10.25%-to-12.25%. On June 12, 2008, the company submitted a Notice of Intent to file a request for a gas base rate increase of roughly $25 million based on a calendar-2009 test year.

On August 11, 2008, PGS' filed a request with the FPSC for a $26.5 million, or 1.9%, gas base rate increase premised upon an 11.5% allowed return on equity. The filing used a 48.5% regulatory capital structure and an 8.88% return on an average rate base valued at $563.6 million for the calendar-2009 test year. The requested 11.5% equity return is the midpoint of a requested range of 10.5% to 12.5%. As permitted by Florida statute, PGS also requested that $3.7 million of the proposed increase be implemented on an interim basis, effective October 10, 2008. The requested interim increase is based on a 10.25% equity return, the lower end of the company's currently authorized range, and an 8.31% return on a $515.2 million rate base. Again, the FPSC is required to issue a written order regarding permanent rates by April 11, 2009 and we expect the weak economy, customer growth and inflationary commodity market to be recognized.

Peoples Gas (PGS), Florida's largest natural gas utility serving 335,000 customers, was acquired by TECO Energy in 1997. With a presence in most of Florida's major metropolitan areas, and many of Florida's fastest growing markets including Southwest Florida and the Ocala region, Peoples Gas has added 140,000 new customers since 1997. Natural gas has not made significant inroads in Florida and the penetration rate for the state's households is less than 10%. **We expect 5-to-7% annual EPS growth at PGS following flat results in 2008 and a constructive general rate case decision in early 2009.**

TECO Coal

Coal Production

On the third quarter call, management revised 2008 sales forecast to 9.5 million tons, which compares to previous forecasts of 10 and 10.5 million tons. The lower forecast was necessitated by an industry-wide shortage of qualified miners and contract miners as well as two separate issues with individual mines. Management forecasts 2009 sales volumes of 10.5 million tons, but will be somewhat dependent upon the availability of miners. Projected volumes reflect an improved coal market driven by supply and demand in the international coal market. TECO Coal's sales mix has historically been 2/3 steam coal and 1/3 industrial specialty metallurgical coal. Coal production totaled 9.2 million, 9.8 million and 9.7 million in 2007, 2006 and 2006, respectively. Synthetic coal represented 6.0 million, 5.3 million and 6.4 million, respectively, tons of total output in 2007, 2006 and 2005, respectively.

Coal Pricing Big Determinant in EPS and Cash Flow Contribution

TECO Coal sells almost all of its annual production under either multi-year contracts or contracts that are finalized late in the previous year or early in the delivery year. The company currently has 100% of its planned 2008 sales under contracts that were signed primarily in 2006 and 2007 before significant coal market price increases occurred late in 2007. The multi-year approach to contracting reduced the impact of the weaker coal markets in 2006 and 2007, but is limiting the upside revenue that could have been achieved from the very strong coal markets in 2008. As a result, our projected EPS contribution is a modest $0.05 per share.

TECO Coal currently has roughly 88% of expected 2009 production contracted and priced at $77/ton, including all expected steam coal production. The un-contracted potential 2009 production is higher quality metallurgical coal, which sells for significantly greater values than steam coal. Assuming 9.5 million tons, or 88% of the forecasted 10.75 million tons, is hedged at $77/ton and 1.8 million tons, or 12%, will be sold at an average of $200/ton (35% at $185/ton and 65% at $210/ton), we would expect an average realized price of $92/ton. The quality of coal varies significantly and spot coal prices for similar quality metallurgical coal have recently averaged over $200/ton. Given management's expectation of a $65-75/ton cash operating cost, the cash margin for the expected production would be $22/ton. We consider our pricing estimates to be 'reasonable-to-conservative', but note our projections could prove optimistic and/or cash productions costs could increase more than expected. The TECO Coal contribution is highly sensitive to changes in coal prices.

Our modeling assumes production grows at 5% in 2010 and 2011 and average realized prices grow to $114/ton in 2010 and $126/ton in 2011. Our assumed average realized prices blend the currently contracted portions at lower prices and un-contracted portions at today's higher market prices. In addition, we assume production costs grow at a 5-10% annual rate from projected 2009 rates of $70/ton.

Our assumptions result in TECO Coal EPS contributions of $0.05 in 2008, $0.55 in 2009 and $1.15 in 2010. More importantly, cash flow over the 2009-2011 period is expected to be over $750-800 million. We note that this represents a reduction in cash flow of roughly $100 million from our previous estimates. By 2011, only 25% of expected sales are contracted with nearly all metallurgical coal un-priced.

TECO Guatemala

TECO Guatemala expects 2008 net income to decrease from 2007 levels due

to a challenging comparison and a disappointing rate decision for the utility distribution company. Our EPS projections assume a roughly $0.20 contribution in 2008, $0.17 in 2009 and $0.18 in 2010. TECO Guatemala's (TEG) operations include two power plants, the 120-megawatt San José Power Station (96%-ownership position) and the 78-megawatt Alborada Power Station, and a 24 percent interest in the largest electric distribution utility in Central America, Empresa Electrica de Guatemala, S.A. (EEGSA). TEG contributed $0.21, or 20%, of 2007 consolidated EPS. The contribution consisted of roughly $0.10, or 50%, contributed by the San Jose power station, $0.03, or 15%, by the Alborada power station, and $0.07, or 35%, from DECAII (45% from EEGSA and 55% from affiliated companies and earnings on off-shore cash).

The San José facility is a pulverized coal-fired baseload plant located about 75 km south of Guatemala City near the Pacific coast. The Alborada station is a simple-cycle facility located in Escuintla, Guatemala. Both power plants operate under long-term power agreements. EEGSA serves more than 618,000 electric distribution customers, including the major metropolitan market area in Guatemala. Demand has grown at a rate of approximately eight percent annually.

Poor Rate Decision Could Result in Loss of Almost $0.07 Per Share

On July 31, 2008, the Guatemalan regulatory authority issued a disappointing decision in EEGSA's five-year rate resetting process. TE management stated in an 8-K that the new lower rates put "all of EEGSA's earnings at risk during the time this tariff remains in effect, which is expected to be a new five-year term, similar to the process used to set the charges in 2003." We understand that the EPS contribution to TE's consolidated 2007 EPS was roughly $0.07. EEGSA, Iberdrola (EEGSA's managing partner), and EEGSA's other investors are actively pursuing the legal and other efforts to facilitate reconsideration of the level of the Value Added Distribution (VAD) charge through a procedure consistent with EEGSA's interpretation of Guatemala's Electricity Law.

Appraisal

While our BUY rating and forecasted near-term share price out-performance is highly dependent upon the coal markets, we regard TE as a solid long-term utility investment. TE's corporate strategy was simplified and risk profile diminished following the 2005 exodus from the merchant power business and subsequent period of non-core asset divestitures and balance sheet repair. We believe the company's long-term value and future earnings power is dependent upon its growing core Florida electric and gas utilities, which generated roughly 80% of 2007 consolidated EPS. The utilities serve premier franchise territories, operate in a constructive regulatory environment and have significant rate base expansion opportunity. On August 11, 2008, Tampa Electric and People's Gas filed for general

rate increases with new rates to be effective in April 2009. Given Tampa Electric and People's Gas growing customer and rate bases, we expect reasonable rate-treatment to lead to solid utility EPS growth in 2009 and beyond.

Tampa Electric, TE's primary subsidiary, faces the challenges of adding and financing new generation to serve its growing customer load, meeting stricter environmental regulations and spending on system reliability, all the while keeping electric bills reasonable. These challenges are rather typical for a traditional regulated electric utility and the constructive management of such activities, particularly receipt of constructive rate treatment, could be potentially rewarding for shareholders. We highlight that the heavy capital expenditure budget offers TE the opportunity to reinvest the $900 million of cash flow we forecast from the coal subsidiary. Given the likelihood of earning a utility return on the cash flow stream, we believe it is appropriate to assign valuation multiples more appropriate for utility earnings streams as opposed to coal earnings streams to expected returns from the invested cash.

Valuation

We consider the weakness in share price over the recent period to be a buying opportunity. We believe concerns over coal margins will be alleviated as old contracts are replaced with new contracts at higher prices. Weakness from the Florida economy will be addressed in the pending rate cases as well as an eventual return of the economic cycle. Finally, we expect significant cash from the coal business to be reinvested in the utility business and result in continued progress in balance sheet improvement.

TE shares currently trade at 15.7X, 9.2X and 5.9X our 2008, 2009 and 2010 EPS estimates of $0.82, $1.50 and $2.40, respectively. This compares to average/median multiples for the electric utility sector of 14.0X, 12.7X and 11.5X, respectively.

When we exclude our 2008-2010 coal EPS estimates of $0.05, $0.55 and $1.15, respectively, TE shares are trading at 26.7X, 15.2X and 12.3X, respectively. As a result, we see minimal downside should our coal estimates prove optimistic.

Given our belief that the Florida Utilities warrant average-to-premium multiples relative to the electric utility group, we assign a P/E multiple near the bottom end of the historical range for electric utilities (11-17X) of 12X to our TE utility 2010 EPS estimate of $1.08 and achieve a utility value of $13 per share. As a result, investors are currently paying nothing for our estimated 3-year cash flow stream of $750-800 million ($3-4/share) and EPS sum (2008-2010 coal EPS stream) of $1.90. **We consider the purchase of TE shares a relatively inexpensive call option on the upside of the coal.**

Should we take a conservative assumption that coal prices fall over the next twelve-to-eighteen months and TE can lock in today's coal prices over the next few months, we still see material up-side value. Assuming the $750-800 million of cash flow over the 2009-2011 period alone is reinvested in the utility business, we believe it can generate ongoing utility EPS of $0.20-to-$0.25 and result in additional utility value of $2-3 per share (12X $0.22). Should we assume long-term coal EPS power of roughly $0.20-.30 annually with a 10X multiple results in a long-term TECO Coal value of $2.50 per share.

Utility value	$13
$800 million of cash	$3.00
Remaining coal value	$2.50
Consolidated value	**$18.50 per share**

Based on our dividend discount model and assuming a 3.75% risk premium, a 3.5% long-term growth rate and a 4.25% 30-year Treasury bond yield, our fair price estimate is $19.12 per share.

TE Fair Value Calculation

Period	Annual Dividend	Discount Rate	PV of Dividends
0	$0.80		
1	$0.82	0.93	$0.76
2	$0.84	0.86	$0.72
3	$0.88	0.80	$0.70
4	$0.92	0.74	$0.68
5	$0.96	0.68	$0.66
	Sum of PV of Dividends		[redacted]
6	$0.99	0.83	
ROR	[redacted]	LT Growth Rate	[redacted]
	Terminal Value		[redacted]

Present Value of the Stock	[redacted]
Price Objective	$19.00
Current Share Price	[redacted]
Discount	[redacted]

Finally, we consider TE to be a potential takeover candidate given its leveraged balance sheet and prized utility franchise. The Chairman and CEO, Sherrill Hudson, is 65 years old.

TECO Energy

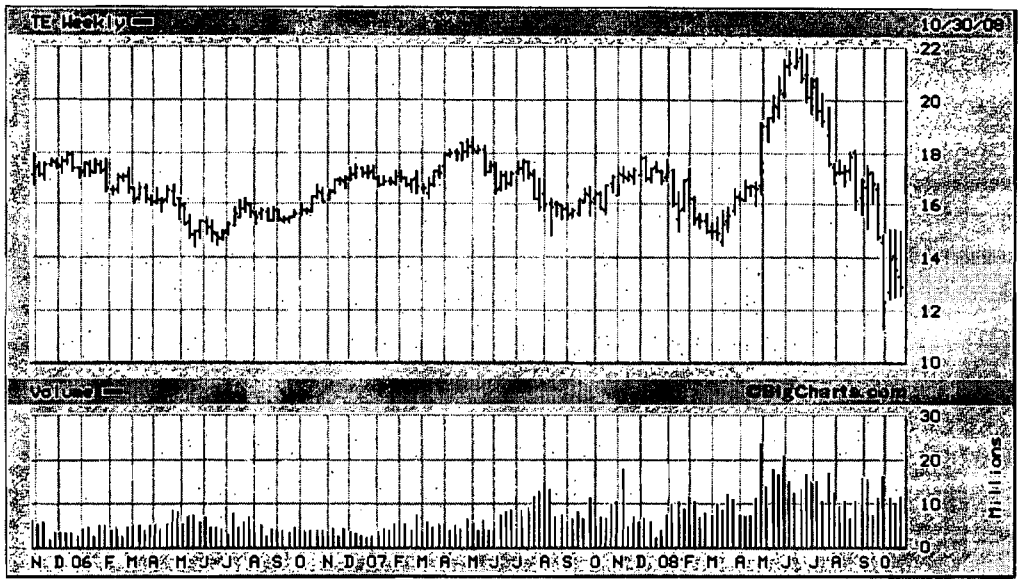
Financial Statements (2005-2010)
(in $ million unless otherwise noted)

	2005A	2006A	2007A	2008E	2009E	2010E
Operating revenues	**3,010,106**	**3,448,100**	**3,537,300**	**3,415,578**	**3,945,928**	**4,376,973**
Operating expense						
Fuel and purchased power	730,800	1,024,700	1,126,600	1,226,709	1,245,252	1,268,957
Cost of natural gas	350,200	365,300	389,900	401,597	405,613	417,781
Other	270,300	294,000	280,400	293,790	308,480	323,903
Operating other expense						
Mining and related costs	412,500	450,200	435,400	510,000	752,500	849,384
Waterborne transportation costs	191,800	217,800	206,400	0	0	0
Other	49,300	15,600	16,600	9,750	10,043	10,344
Maintenance	168,400	183,300	183,500	148,900	158,098	167,897
Depreciation & amortization	282,187	282,200	263,700	270,957	288,092	303,976
Gain on sale	3,000	(21,000)	(221,300)	0	0	0
Taxes other than income	194,654	217,500	218,300	199,500	207,480	215,779
Total operating expenses	**2,653,141**	**3,029,600**	**2,899,500**	**3,061,203**	**3,375,557**	**3,558,022**
Operating income	**356,965**	**418,500**	**637,800**	**354,375**	**570,371**	**818,951**
Other income	158,000	154000	152000	71,738	62,938	91,371
Interest expense	288,700	278,300	257,800	158,646	172,516	184,852
Pre-tax income	**226,265**	**294,200**	**532,000**	**267,467**	**460,793**	**725,469**
Income tax	101,942	118,700	214,200	93,614	161,278	253,914
Minority interest	(87,122)	(69,600)	(82,200)	0	0	0
GAAP net income	211,445	245,100	400,000	173,854	299,515	471,555
Net income, excl. non-recurring	**254000**	**241000**	**224000**	**173,854**	**299,515**	**471,555**
Avg. shares out.	208,200	207,900	209,100	211,994	213,534	213,980
EPS, excl. non-recurring	**$1.22**	**$1.16**	**$1.07**	**$0.82**	**$1.40**	**$2.20**
Cash Flow Statement	**2005A**	**2006A**	**2007A**	**2008E**	**2009E**	**2010E**
Net income	274,500	246,300	413,200	173,854	299,515	471,555
Depreciation	282,200	282,200	263,700	270,957	288,092	303,976
Deffered income taxes	110,800	112,500	184,800	175,000	175,000	175,000
Other	(490,400)	(74,100)	(307,700)	0	0	0
Operating cash flow	**177,100**	**566,900**	**554,000**	**619,810**	**762,607**	**950,531**
Capital expenditures	(295,300)	(455,700)	(494,400)	(536,500)	(654,175)	(592,834)
Asset sales	278,300	100,400	405,200	0	0	0
Other	50,400	10,300	61,900	80,000	0	0
Other subsidiaries	900	(6,700)	(400)	(88,000)	(95,000)	(95,000)
Investing cash flow	**34,300**	**(351,700)**	**(27,700)**	**(544,500)**	**(749,175)**	**(687,834)**
Equity issuance	16,200	12,500	14,000	35,000	15,000	0
Common dividends	(157,700)	(158,700)	(163,000)	(169,595)	(175,098)	(179,744)
Other	179,100	26,900	(656,300)	(90,000)	110,000	0
Financing cash flow	**37,600**	**(119,300)**	**(805,300)**	**(224,595)**	**(50,098)**	**(179,744)**
Balance sheet	**2005A**	**2006A**	**2007A**	**2008E**	**2009E**	**2010E**
Common equity	**1,591,700**	**1,729,000**	**2,017,000**	**2,056,259**	**2,195,676**	**2,487,488**
% of total capitalization	0.0	31.1	38.7	38.5	39.2	42.2
Short-term debt	0	616,000	32,100	32,100	32,100	32,100
Long-term debt	0	3,212,600	3,158,400	3,258,400	3,368,400	3,368,400
Total capitalization	**1,591,700**	**5,557,600**	**5,207,500**	**5,346,759**	**5,596,176**	**5,887,988**
Book value/share (year-end)	**7.72**	**8.25**	**9.56**	**9.65**	**10.26**	**11.62**
Return on Avg. Equity	**17.25%**	**14.53%**	**12.01%**	**8.49%**	**14.06%**	**20.14%**

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October 31, 2008

TECO Energy (TE) – 3 Year Price Chart



Price Target and Ratings Changes over the Past 3 Years:

Date	Stock Price	Rating	Target Price	Initiation
9/9/2008	$16.33	Buy	$19.00	X

Companies Mentioned in Report:

- NA

Analyst Disclosure

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Initiation Report

Electric Utility Research

Member NASD, SIPC

September 9, 2008
Timothy M. Winter, CFA
Senior Analyst
(314) 238-1203
twinter@jesuplamont.com

TECO Energy (TE)

Initiating Coverage Report

Current Price: $16.33
Target Price: $19

BUY

Revenues and Earnings	F2007A	F2008E	F2009E
Revenues	**$3,537.3**	**$3,415.6**	**$3,882.9**
1Q	$821.3	$791.7 A	$819.4
2Q	$866.5	$887.2 A	$918.3
3Q	$990.0	$1,024.7 E	$1,060.5
4Q	$858.3	$712.0 E	$1,084.8
EPS	**$1.07**	**$0.82**	**$1.50**
1Q	$0.18	$0.15 A	$0.20
2Q	$0.28	$0.24 A	$0.30
3Q	$0.38	$0.32 E	$0.65
4Q	$0.23	$0.11 E	$0.35
Current Annual Dividend:	**$0.80**	**Current Yield:**	**4.9%**
P/E (x)	15.1	19.8	10.8
Book Value	$9.56	$9.65	$10.36
ROE	12.0%	8.5%	15.0%

Stock Data	
52-Week Range	$14.48 - $21.99
Shares Outstanding (mil.)	212.74
Market Capitalization (mil.)	$3,474.0
Enterprise Value (mil.)	$6,519.0
Debt to Capital	92.7%
Insider Ownership	6.8%
Institutional Ownership	63.5%
Short Interest (mil. shares)	6.64
Average Daily Volume	3,464,950

Company Description. TECO Energy's four business units include Tampa Electric, a regulated electric utility serving nearly 670,000 customers in West Central Florida; Peoples Gas System, Florida's largest natural gas distribution utility; TECO Coal, producer of coal in Kentucky and Virginia; and TECO Guatemala, owner of two power plants and an interest in Guatemala's largest distribution utility.

Highlights

- **We have initiated coverage of TECO Energy with a "BUY" rating and a $19 price objective.**
- **TE share price out-performance highly dependent upon successful coal contracting.** TECO Coal owns roughly 277 million tons of proven and probable coal reserves located in Kentucky, Tennessee and southwestern Virginia with expected 2009 production capacity of 10.5-to-11.0 million tons. While most of 2008 production was contracted at prices significantly below current market prices, the likely sale of un-contracted 2009-2011 production at market prices could lead to significant earnings gains and cash flow over the next few years. We estimate TECO Coal EPS contributions of $0.05 in 2008, $0.65 in 2009 and $1.35 in 2010, which helps drive our 2008, 2009 and 2010 TE consolidated EPS estimates of $0.82, $1.50 and $2.40.
- **Adding generation in a Green World.** Based on our estimates, TECO Coal will generate roughly $900 million in cash flow over the 2009-2011 period, which can be used to fund the heavy utility capital program.
- **Back-to-Basics reformation complete.** TE's long-term value and future earnings power is dependent upon its growing core Florida electric and gas utilities, which generated roughly 80% of 2007 consolidated EPS. The utilities serve premier franchise territories, operate in a constructive regulatory environment and have significant rate base expansion opportunity, but EPS results in 2008 and the first quarter of 2009 will likely be flat-to-down given the need for rate relief.
- **In August 2008, Tampa Electric and People's Gas filed for general rate increases with new rates to be effective in April 2009.**
- **Florida Utilities pending rate cases to restore earnings power.** Tampa Electric, TE's primary subsidiary, faces the challenges of adding and financing new generation to serve its growing customer load, meeting stricter environmental regulations and spending on system reliability, all the while keeping electric bills reasonable. Given the Florida utilities growing customer and rate bases, we expect reasonable rate-treatment to lead to solid EPS growth in 2009 and beyond.

See Last Page for Disclosure

Coverage Initiated With a BUY Rating and $19 Price Objective

Investment Appraisal

We have initiated coverage of TECO Energy with a "BUY" rating and a $19 price objective. We expect TECO Coal to realize material earnings and cash flow gains over the 2009-2011 period through the contracting of un-hedged coal production at market prices, which have risen significantly in the past twelve-months. TECO Coal owns roughly 277 million tons of proven and probable coal reserves located in Kentucky, Tennessee and southwestern Virginia with expected 2009 production capacity of 10.5-to-11.0 million tons. The bulk of 2008 production was contracted at prices significantly below current market prices, but we expect the sale of un-contracted 2009-2011 production at market prices to lead to significant earnings and cash flow gains over the next few years.

TECO Coal Positioned to Reap Significant Earnings & Cash Flow Gains From Un-Contracted 2009-2011 Coal Position

We estimate TECO Coal EPS contributions of $0.05 in 2008, $0.65 in 2009 and $1.35 in 2010, which helps drive our 2008, 2009 and 2010 consolidated EPS estimates of $0.82, $1.50 and $2.40, respectively. Our strong growth forecast is driven by the significant rise in coal prices over the past twelve-months and the assumption that the subsidiary will execute contracts and successfully deliver product at market prices. We note that our 2008 EPS estimate of $0.82 is significantly below 2007 results of $1.07 and caused by the weak Florida economy, need for utility rate relief and coal margin pressure.

Steam Coal Prices Have More Than Doubled From 2008 Contracted Prices of $59/Ton

TECO Coal expects to realize an average price of $59 per ton for roughly 10 million tons of production in 2008. Over the past twelve-months, spot and forward steam coal prices have more than doubled and higher quality metallurgical coal prices have been contracted by other coal producers at more than $300 per ton. Based on our estimates that the 2009-2011 un-contracted or contracted/unpriced production sells for a conservative $150-$175/ton (blended average of $166/ton), TECO Coal could potentially generate roughly $900 million in cash flow over the 2009-2011 period. Importantly, the cash can be reinvested in the Tampa Electric business, where future earnings and cash flow streams are not subject to cyclical swings of commodity prices.

TECO Energy A Solid Long-Term Utility Investment

While our BUY rating and forecasted near-term share price out-performance is highly dependent upon the coal markets, we regard TE as a solid long-term utility investment. TE's corporate strategy was simplified and risk profile diminished following the 2005 exodus from the merchant power business and subsequent period of non-core asset divestitures and balance sheet repair. We believe the company's long-term value and future earnings power is dependent upon its growing core Florida electric and gas utilities, which generated roughly 80% of 2007 consolidated EPS. The utilities serve premier franchise territories, operate in a constructive regulatory environment and have significant rate base expansion opportunity. On August 11, 2008, Tampa Electric and People's Gas filed for general rate increases with new rates to be effective in April 2009. Given Tampa Electric and People's Gas growing customer and rate bases, we expect reasonable rate-treatment to lead to solid utility EPS growth in 2009 and beyond.

Over $900 Million of Coal Cash Flow Can Be Re-invested in Utility Business

Tampa Electric, TE's primary subsidiary, faces the challenges of adding and financing new generation to serve its growing customer load, meeting stricter environmental regulations and spending on system reliability, all the while keeping electric bills reasonable. These challenges are rather typical for a traditional regulated

Our 2008, 2009 & 2010 EPS Estimates Are $0.80, $1.50 & $3.20

electric utility and the constructive management of such activities, particularly receipt of constructive rate treatment, could be potentially rewarding for shareholders. We highlight that the heavy capital expenditure budget offers TE the opportunity to reinvest the $900 million of cash flow we forecast from the coal subsidiary. Given the likelihood of earning a utility return on the cash flow stream, we believe it is appropriate to assign valuation multiples more appropriate for utility earnings streams as opposed to coal earnings streams to expected returns from the invested cash.

Balance Sheet Has Significantly Improved

Balance Sheet

As of June 30, 2008, the balance sheet and credit profile were much improved, but still relatively weak for a traditional regulated utility, with a 36.2% common equity and a Standard & Poor's (S&P) Senior Unsecured credit rating of BBB- with a positive outlook. Write-offs and losses associated with failed investments in roughly 7,000 megawatts of merchant generation made during the years 2000-2003 had left the balance sheet at roughly 25% common equity and credit ratings below investment grade. Debt pay-down over the 2005-2007 period was materially aided by significant earnings and cash flow generation from TECO Coal, specifically tax-credited synthetic coal production, a dividend reduction and the year-end 2007 sale of TECO Transport for $405 million. The Transport sale and expiration of synthetic coal production reduced TE's overall business risk and resulted in a simpler, cleaner investment story. The only remaining non-regulated businesses are TECO Coal and TECO Guatemala, which combined contribute 28% of our estimated consolidated 2008 EPS estimate.

Shares Offer a 4.9% Yield; Payout Ratio High in 2008, But We Consider Dividend Secure

Dividend Policy

TE shares offer a 4.9% yield on the $0.80 annual dividend. We consider the dividend secure, but note that the annual $0.80 rate results in nearly a 100% payout ratio of our 2008 EPS estimate of $0.82. We expect solid EPS growth in 2009 and beyond driven by the sale of coal at near-market prices, pending electric and gas utility rate increases and long-term rate recognition of rate base growth from the Florida utilities.

Due to the financial difficulties resulting from its merchant generation operations, TE cut its dividend by almost 50% in 2003 to $0.76. On April 30, 2008, TE increased its annual dividend to $0.80 per share, from $0.78 per share, which marked the second consecutive year of a $0.02 annual increase.

Share Price Somewhat of Roller Coaster in 2008

Share Price Performance and Valuation

TE shares have out-performed the S&P Electric group over the past twelve-months, but under-performed over the past few years. However, we note that TE shares had a significant run of roughly 40% from early March 2008 through mid-June 2008 when potential coal profits were initially recognized. Shares have since declined roughly 25% following disappointing second quarter 2008 EPS results, which included poor coal results, concern over a weak Florida economy and a disappointing rate decision in Guatemala.

Total Return Performance (%)			
	Year-to-date	1-Year	3-Year
TECO Energy	(3)	9	5
S&P Electrics	(15)	(6)	13
S&P 500	(14)	(13)	3

Source: FactSet

We attribute the three-year under-performance to a weak balance sheet, lack of EPS growth relative to the electric power sector and uncertainty over the credit profile. We consider the weakness over the recent and three-year weakness to be a buying opportunity. We believe concerns over coal margins will be alleviated as old contracts are replaced with new contracts at higher prices. Weakness from the Florida economy will be addressed in the pending rate cases as well as an eventual return of the economic cycle. Finally, we expect significant cash from the coal business to be reinvested in the utility business and result in continued progress in balance sheet improvement.

TE shares currently trade at 19.7X, 10.8X and 6.7X our 2008, 2009 and 2010 EPS estimates of $0.82, $1.50 and $2.40, respectively. This compares to average/median multiples for the electric utility sector of 14.0X, 12.7X and 11.5X, respectively.

When we exclude our 2008-2010 coal EPS estimates of $0.05, $0.65 and $1.35, respectively, TE shares are trading at 21.1X, 18.4X and 15.9X, respectively. As a result, we see minimal downside should our coal estimates prove optimistic.

We Believe Share Price Reflects Solid Utility With Free Call Option on Coal Markets

Given our belief that the Florida Utilities warrant average-to-premium multiples relative to the electric utility group, we assign a group multiple of 12.7X to our TE utility 2010 EPS estimate of $1.08 and achieve a utility value of $13.72 per share. As a result, investors are currently paying roughly $2.61 ($16.33-$13.72 = $2.61) per share for a 3-year cash flow stream of $900 million ($4.20/share) and EPS sum (2008-2010 coal EPS stream) of $2.05. We note that we consider our EPS and cash assumptions to be relatively reasonable given that it simply applies today's prices (discounted) to un-hedged annual production. **We consider the purchase of TE shares a relatively inexpensive call option on the upside of the coal.**

Should we take a conservative assumption that coal prices fall over the next twelve-to-eighteen months and TE can lock in today's coal prices over the next few months, we still see material up-side value. Assuming the $900 million of cash flow over the 2009-2011 period alone is reinvested in the utility business, we believe it can generate ongoing utility EPS of $0.20-to-$0.25 and result in additional utility value of $3 per share (13X $0.22). Should we assume long-term coal EPS power of roughly $0.20-.30 annually with a 10X multiple results in a long-term TECO Coal value of $2.50 per share.

Utility value	$13.72
$900 million of cash	$3.00 ($4.20 discounted to present value)
Remaining coal value	$2.50
Consolidated value	**$19.22 per share**

Based on our dividend discount model and assuming a 3.25% risk premium, a 3.5% long-term growth rate and a 4.50% 30-year Treasury bond yield, our fair price

estimate is $18.88 per share.

TE Fair Value Calculation

Period	Annual Dividend	Discount Rate	PV of Dividends
0	$0.80		
1	$0.82	0.93	$0.76
2	$0.84	0.86	$0.72
3	$0.86	0.80	$0.69
4	$0.88	0.74	$0.65
5	$0.92	0.69	$0.63
	Sum of PV of Dividends		$3.46
6	$0.95	0.81	
ROR	7.75%	LT Growth Rate	3.50%
	Terminal Value		$15.43

Present Value of the Stock	$18.88
Price Objective	$19.00
Current Share Price	$16.21
Discount	14.21%

Finally, we consider TE to be a potential takeover candidate given its leveraged balance sheet and prized utility franchise. The Chairman and CEO, Sherrill Hudson, is 65 years old.

TECO Description

Roughly 80% of TECO Energy 2007 EPS Derived From Florida Utility Businesses

TECO Energy's four business units include Tampa Electric, a regulated electric utility serving nearly 670,000 customers in West Central Florida; Peoples Gas System, Florida's largest natural gas distribution utility; TECO Coal, producer of coal in Kentucky and Virginia; and TECO Guatemala, owner of two power plants and an interest in Guatemala's largest distribution utility.

The Florida utilities, Tampa Electric (TEC) and Peoples Gas (PGS), represent the majority of TE's operations, accounting in total for 78% and 79% of consolidated revenues and ongoing EPS in 2007. An EPS break-down by segment is listed below:

TECO Energy EPS By Segment					
	2006A	2007A	2008E	2009E	2010E
Tampa Electric	$0.65	$0.72	$0.67	$0.80	$0.90
People's Gas	0.14	0.13	0.14	0.15	0.18
TECO Coal	0.22	0.18	0.05	0.65	1.35
TECO Guatemala	0.18	0.21	0.18	0.12	0.19
TECO Transport	0.11	0.16	0.00	0.00	0.00
Parent	(0.34)	(0.34)	(0.22)	(0.22)	(0.22)
EPS (exlc. Coal)	**$0.97**	**$1.07**	**$0.77**	**$0.85**	**$1.05**
EPS (with Coal)	**NMF**	**NMF**	**$0.82**	**$1.50**	**$2.40**

J&L Estimates. Figures exclude items J&L believes to be non-recurring.

Our 2008, 2009 and 2010 EPS Estimates are $0.82, $1.50 and $2.40

2008-2010 EPS Outlook

Our 2008, 2009 and 2010 EPS estimates are $0.82, $1.50 and $2.40, respectively, and include TECO Coal EPS contributions of $0.05 in 2008, $0.65 in 2009 and $1.35 in 2010. We note that our 2008 EPS estimate of $0.82 is significantly below 2007 results of $1.07

On July 31, 2008, TE lowered its 2008 EPS outlook to $0.80-to-$0.90, from the previous range of $0.95-to-$1.10 established in February 2008. The revision was necessitated by weaker-than-expected year-to-date results, increased cost pressures at TECO Coal and the ongoing effects of the slow Florida economy on customer growth and energy sales. The revised range assumes a continued weak Florida economy/housing market and continued high production costs at TECO Coal. In addition, Tampa Electric's service area experienced a very rainy July, which reduced electric sales in July of 2008.

Parent Loss Continues to Decline Due To Parent Company Debt-Paydown

We expect TECO Energy parent loss, which was ($0.34) in both 2007 and 2006, to moderate to roughly ($0.22) in 2008 and 2009 due to significant debt-paydown over the past few years. We expect the effective tax rate to be in the range of 30% to 35%, but cash income tax payments of less than 5% of net income. The low cash tax payment is due to significant operating loss carry-forwards associated with past merchant plant losses and deferred taxes accumulated form significant synthetic coal production, which ended in 2007.

Low Cash Tax Rate From Operating Loss Carry-Forwards and Deferred Tax Position

The Florida Utilities EPS Outlook;

Tampa Electric 2008 Contribution To Fall Given Need For Rate Relief

We expect Tampa Electric's 2008 results to fall to $0.65-0.70, which is modestly below 2007 results of $0.72 per share. **However, we expect material EPS growth in 2009 and 2010 primarily through a pending base rate increase and constructive Florida regulatory mechanisms to recognize rate base expansion.** The 2008 decline is due to the absence of normal customer/sales growth combined with higher non-fuel operation and maintenance (O&M) expense, depreciation expense and interest expense associated with normal increases in rate base. Higher costs have been driven by increased prices for copper and steel products, subcontracted labor, major generating unit outages during the installation of NO_x control equipment, and higher employee benefits costs. Tampa Electric has stated for some-time that the need for rate relief would result in declining profit margins in

2008/2009, but the weak economy and slowed customer growth has exacerbated the situation. We now expect electric utility results to fall below the bottom of the 10.75%-12.75% authorized ROE range by 2009 absent rate relief.

Pending Tampa Electric Rate Case Decision Expected in April 2009

On Aug. 11, 2008, Tampa Electric Co. (TEC) filed a request with the FPSC for a $228.2 million, or 10%, electric base rate increase, premised upon 12% allowed return on equity. The filing used a 50.2% regulatory capital structure and an 8.82% return on an average rate base valued at $3,656.8 million for the calendar-2009 test year. The requested 12% equity return is the midpoint of a requested range of 11% to 13%. The FPSC is required to issue a written order within eight months of the filing, which would be April 11, 2009. We expect the economic and customer growth situation as well as inflationary commodity pressures to be addressed in the revised rates. **We expect rate relief in mid-April 2009 to be a significant driver of EPS in 2009 and beyond.**

Rate Increases Expected to Drive 2009 EPS

TEC's year-end 2007 rate base was roughly $3.0 billion with a roughly 50/50 capital structure and the addition of new peaking and base-load capacity, environmental equipment and improved transmission/distribution system will further expand rate base. We expect Tampa Electric's rate base to further expand to $3.7 billion in 2009 and to over $4.0 billion by 2011 when new base-load capacity is in operation. **Assuming constructive rate treatment (an 11.0% ROE on a 50% capital structure), we project TEC 2011 EPS power of $1.09, which results in a 9.2% compound annual growth rate from 2007 results of $0.72.**

Tampa Electric Rate Base Growth at 11.0% ROE					
($ millions)	2007A	2008E	2009E	2010E	2011E
Beginning rate base	2,850.0	3,000.0	3,313.0	3,733.0	4,080.0
Depreciation	(219.0)	(230.0)	(241.0)	(253.0)	(266.0)
Capital expednitures	369.0	543.0	661.0	600.0	600.0
Year-end rate base	3,000.0	3,313.0	3,733.0	4,080.0	4,414.0
Average rate base	2,925.0	3,156.5	3,523.0	3,906.5	4,247.0
Capital structure	0.5	0.5	0.5	0.5	0.5
Earned ROE	0.1	0.1	0.1	0.1	0.1
Earnings	166.7	173.6	193.8	214.9	233.6
Shares outstanding	209.0	213.0	214.0	214.0	214.0
EPS	**$0.80**	**$0.82**	**$0.91**	**$1.00**	**$1.09**
J&L EPS Estimates	**$0.72**	**$0.67**	**$0.80**	**$0.90**	

Source: Jesup & Lamont; Company documents

Constructive Treatment of Environmental Equipment and New Generation to Lead to Long-Term Rate Base Growth

In addition to the general rate case, Tampa Electric receives annual rate recognition and return on investment for environmental improvements through Florida's Environmental Cost Recovery Mechanism (ECRC). We expect Environmental Cost Recovery related earnings from the second NOx control project, which entered service in July 2008 on Big Bend Unit 3. In addition, we expect non-cash AFUDC earnings to increase in 2008-2010 related to increased infrastructure investment.

We expect Peoples Gas System (PGS) 2008 EPS contribution to be roughly the same as the $0.13 contributed in 2007. 2007 results were below the 2003 authorized ROE range of 10.25%-to-12.25%. On June 12, 2008, the company submitted a Notice of Intent to file a request for a gas base rate increase of roughly $25 million based on a calendar-2009 test year.

Peoples Gas Files For Rate Relief

On August 11, 2008, PGS' filed a request with the FPSC for a $26.5 million, or 1.9%, gas base rate increase premised upon an 11.5% allowed return on equity. The filing used a 48.5% regulatory capital structure and an 8.88% return on an average rate base valued at $563.6 million for the calendar-2009 test year. The requested 11.5% equity return is the midpoint of a requested range of 10.5% to 12.5%. As permitted by Florida statute, PGS also requested that $3.7 million of the proposed increase be implemented on an interim basis, effective October 10, 2008. The requested interim increase is based on a 10.25% equity return, the lower end of the company's currently authorized range, and an 8.31% return on a $515.2 million rate base. Again, the FPSC is required to issue a written order regarding permanent rates by April 11, 2009 and we expect the weak economy, customer growth and inflationary commodity market to be recognized.

PGS Rate Case Decision Expected in April of 2009

Significant Long-Term Gas Utility Growth Opportunity

Peoples Gas (PGS), Florida's largest natural gas utility serving 335,000 customers, was acquired by TECO Energy in 1997. With a presence in most of Florida's major metropolitan areas, and many of Florida's fastest growing markets including Southwest Florida and the Ocala region, Peoples Gas has added 140,000 new customers since 1997. Natural gas has not made significant inroads in Florida and the penetration rate for the state's households is less than 10%. **We expect 5-to-7% annual EPS growth at PGS following flat results in 2008 and a constructive general rate case decision in early 2009.**

Non-Utility Businesses; Coal and Guatemala

Given the significant earnings and cash flow gains expected from the TECO Coal subsidiary over the next few years, we have discussed our expectations in greater detail below.

TECO Coal

TECO Coal Owns 277 Million Tons of Coal Reserves

TECO Coal operates surface and underground mines and related coal processing facilities in eastern Kentucky, Tennessee and southwestern Virginia producing metallurgical-grade and high quality steam coals. Its primary customers include the U.S. and European steel industries, as well as domestic utilities and industrial customers. As of Dec. 31, 2007, the TECO Coal operating companies had a combined estimated 277.1 million tons of proven and probable recoverable reserves.

Coal Production of Nearly 30 Million Tons Over Past Three Years

Coal production totaled 9.2 million, 9.8 million and 9.7 million in 2007, 2006 and 2006, respectively. Synthetic coal represented 6.0 million, 5.3 million and 6.4 million, respectively, tons of total output in 2007, 2006 and 2005, respectively. Synfuel production was a highly profitable earnings and cash flow generator for TE over the past few years due to a federal tax credit generated by chemically altering coal dust/waste into usable briquettes. Synfuel production generated $80 million of net cash and $53 million in net income in 2007. However, the tax credit permanently expired at year-end 2007 and 67% of the credit phased out in 2007 (35% in 2006) due to high oil prices above permitted levels.

Coal Production

TECO Coal has replaced synthetic coal production with increased production of

Production Forecast for 10 Million Tons in 2008 and 10.75 Million in 2009

conventional steam coal and higher quality metallurgical coal. Management's most recently revised 2008 sales forecast is for roughly 10 million tons compared to a previous forecast of 10.5 million tons. The lower forecast was necessitated by an industry-wide shortage of qualified miners and contract miners. Management forecasts 2009 sales volumes of 10.5-to-11.0 million tons, but will be somewhat dependent upon the availability of miners. Projected volumes reflect an improved coal market driven by supply and demand in the international coal market. TECO Coal's sales mix has historically been 2/3 steam coal and 1/3 industrial specialty metallurgical coal.

Coal Pricing Big Determinant in EPS and Cash Flow Contribution

Multi-Year Contracting Strategy Hurts 2008 Results But Leaves Upside for 2009-2011

TECO Coal sells almost all of its annual production under either multi-year contracts or contracts that are finalized late in the previous year or early in the delivery year. In 2007, TECO Coal benefited from contracts signed in the stronger 2005 price environment. The company currently has 100% of its planned 2008 sales under contracts that were signed primarily in 2006 and 2007 before significant coal market price increases occurred late in 2007. The multi-year approach to contracting reduced the impact of the weaker coal markets in 2006 and 2007, but is limiting the upside revenue that could have been achieved from the very strong coal markets in 2008.

The Fluidness of Coal Forecasting Continues

Coal Production Costs Have Risen Dramatically in 2008

TECO Coal expects 2008 average realized prices of $59 per ton, which is higher than realized in 2007, but lower than the current market prices for low-quality steam coal of roughly $125/ton. The below-market contracting combined with a 20% increase in production costs have squeezed 2008 year-to-date and expected second-half 2008 margins. Management's revised 2008 forecast combines an expected average selling price of $59/ton with a higher $51/ton average production cost. In February 2008, TE management had expected to realize an average price of $58/ton with an average production cost $48/ton. As a result, expected 2008 fully-loaded cash margins have decreased from $10/ton ($4/ton after-tax) to $8/ton ($2/ton after-tax). As a result, our projected EPS contribution is a modest $0.05 per share.

Earnings implications are as follows:

2008 Coal Economics	Revised Forecast	Original Forecast
Coal Price/Ton	**$59**	**$58**
Cash-cost	51	48
Cash margin	8	10
DD&A & allocated interest	5	5
Pre-tax margin	3	5
Volume	10	10.5
Pre-tax earnings	**30**	**53**
After-tax earnings	20	41
Shares outstanding	213	213
EPS	**$0.09**	**$0.25**

Source: Company presentation; J&L Estimates

20% of 2009 Production Not Yet Priced; Market Prices Significantly Higher Than the 80% Contracted at $66/Ton

TECO Coal currently has roughly 80% of expected 2009 production contracted and priced at $66/ton, including all expected steam coal production. The un-contracted potential 2009 production is higher quality metallurgical coal, which sells for significantly greater values than steam coal. Assuming 8.6 million tons, or 80% of the forecasted 10.75 million tons, is hedged at $66/ton and 2.15 million tons, or 20%, will be sold at an average of $166/ton (35% at $150/ton and 65% at $175/ton), we would expect an average realized price of $86/ton. The quality of coal varies significantly and spot coal prices for the highest quality metallurgical coal have recently been sold for over $300/ton. Given management's expectation of a $61/ton cash operating cost, the cash margin for the expected production would be $25/ton. We consider our pricing estimates to be 'reasonable-to-conservative', but note our projections could prove optimistic and/or cash productions costs could increase more than expected. The TECO Coal contribution is highly sensitive to changes in coal prices as can be seen in the below scenario analysis.

2009 Coal Economics	Unhedged Scenarios		
Hedged	**Low**	**Base**	**High**
$66	**$100**	**$150**	**$200**
61	61	61	61
5	39	89	139
5	5	5	5
0	34	84	134
8.8	2.2	2.2	2.2
0	**75**	**185**	**295**
0	56	139	221
214	214	214	214
$0.00	**$0.26**	**$0.65**	**$1.03**

2010 Coal Economics	Unhedged Scenarios		
Hedged	**Low**	**Base**	**High**
$70	**$100**	**$150**	**$200**
65	65	65	65
5	35	85	135
5	5	5	5
0	30	80	130
6	6	6	6
0	**180**	**480**	**780**
	126	336	546
214	214	214	214
$0.00	**$0.59**	**$1.57**	**$2.55**

Source: Company presentation; J&L Estimates

Our modeling assumes production grows at 5% in 2010 and 2011 and average realized prices grow to $114/ton in 2010 and $126/ton in 2011. Our assumed average realized prices blend the currently contracted portions at lower prices and un-contracted portions at today's higher market prices. In addition, we assume production costs grow at a 15% annual rate.

Central Appalachia-Forward Steam Coal Prices

Region	Heat Content	Sulfur Content	Mode	Delivery Period Q4 2008	Q1 2009	Q2 2009	Year 2009
				$/ton	$/ton	$/ton	$/ton
NYMEX look-alike	12,000	1.67	Barge	117	119	119	119
Big Sandy/Ohio River	12,000	1.2	Barge	122	122	123	123
Big Sandy/Kanawha	12,500	1.5	CSX	132	133	133	132
Big Sandy/Kanawha	12,500	1.2	CSX	136	136	135	135
Thacker/Kenova	12,500	1.5	NS	140	141	142	142
Thacker/Kenova	12,500	1.2	NS	143	144	146	146

Source: SNL Database: 9/8/08

Our assumptions result in TECO Coal EPS contributions of $0.05 in 2008, $0.65 in 2009 and $1.35 in 2010. More importantly, cash flow over the 2008-2010 period is expected to be over $900 million. By 2011, only 25% of expected sales are contracted with nearly all metallurgical coal un-priced.

We Expect TECO Coal Contributions of $0.05 in 2008, $0.65 in 2009 and $1.35 in 2010

TECO COAL							
	2005	2006	2007	2008E	2009E	2010E	2011E
Coal Sales (millions tons)	9.7	9.8	9.2	10.0	10.8	11.3	11.9
Average realized price ($/ton)	$52.07	$58.66	$59.18	$59.00	$86.05	$113.96	$126.25
Sold forward (%)				100.0%	80.0%	47.0%	25.0%
Sold forward (tons)				10.0	8.6	5.3	3.0
Avg. price contracted ($/ton)				$59.00	$66.00	$55.00	$55.00
Expected revenues				$590.0	$567.6	$291.8	$163.0
Unhedged (%)				0.0%	20.0%	53.0%	75.0%
Unhedged tons				0.0	2.2	6.0	8.9
Mettalurgical coal (%)				0.0%	35.0%	35.0%	35.0%
Mettalurgical coal (tons)				0.0	0.8	2.1	3.1
Assumed price ($/ton)				$175.00	$150.00	$150.00	$150.00
Unhedged met revenues				$0.0	$112.9	$314.1	$466.7
PCI Coal (%)				65.0%	65.0%	65.0%	65.0%
PCI Coal (tons)				0.0	1.4	3.9	5.8
Assumed price ($/ton)				$225.00	$175.00	$175.00	$150.00
Unhedged PCI revenues				$0.0	$244.6	$680.5	$866.7
Total Coal Revenues	$505.1	$574.9	$544.5	$590.0	$925.0	$1,286.4	$1,496.3
Operating Expenses							
Cash cost ($/ton)	$40.40	$48.45	$47.54	$51.00	$61.00	$70.15	$80.74
Cash expenses	391.9	474.8	437.4	510.0	655.8	791.8	957.0
Depreciation	36.8	36.4	38.4	41.3	47.0	50.8	57.3
Depreciation/ton ($)	$3.79	$3.71	$4.17	$4.13	$4.37	$4.50	$4.84
Total interest charges	13.4	10.6	12.5				
Internally allocated interest charges	12.5	9.9	11.6				
Total interest charges	25.9	20.5	24.1	26.2	30.0	32.4	36.6
Total interest cost/ton ($)	$2.67	$2.09	$2.62	$2.62	$2.79	$2.87	$3.09
Total Operating Expenses	$454.58	$531.71	$499.87	$577.52	$732.72	$875.06	$1,050.91
Pre-tax income	$50.52	$43.19	$44.63	$12.48	$192.32	$411.30	$445.39
Provision/benefit for taxes	64.9	35.6	46.3	2.8	52.9	123.4	155.9
Tax rate				22.5%	27.5%	30.0%	35.0%
Earnings	115.4	78.8	90.9	9.7	139.4	287.9	289.5
Avg. shares out.	208	208	209	212	213	214	214
EPS	$0.55	$0.38	$0.43	$0.05	$0.65	$1.35	$1.35
Cash Flow	$152.2	$115.2	$129.3	$51.0	$186.4	$338.7	$346.8

First half 2008 Coal Results Disappointing

First Half 2008 TECO Coal Results Disappointing

TECO Coal's first half 2008 earnings contribution was a disappointing $11.7 million, or $0.06 per share, compared to $21.6 million (excludes a $41.7 million from synthetic fuel), or $0.10 per share. Year-to-date 2008 coal production was 4.9 million tons compared to 4.3 million tons (included 2.8 million tons of synthetic fuel). 2008 results reflect a 5% increase in average realized coal prices and an even greater 13% increase in the cash production costs. Higher costs were driven by diesel fuel prices that were more than double 2007 prices; the per-ton cost for steel products used in underground mining, such as roof bolts, that were more than double 2007 levels, and the cost of explosives used in surface mining operations that were 42% higher than in 2007.

TECO Coal contributed second quarter 2008 earnings of $4.2 million, or $0.02 per share, compared to $9.8 million (excludes $11 million of synfuel), or $0.04 per share,

High Production Costs and Previous Contracting Squeeze Margins

in the same period in 2007. Second quarter total sales were 2.4 million tons vs. to 2.2 million tons (included 1.5 million tons of synthetic fuel).in the second quarter of 2007. Production was lower than expected due to difficult mining conditions in an underground mine. Compared to the second quarter in 2007, results reflect an average per ton selling price almost 10% higher across all products, excluding transportation allowances, but cash cost of production per ton increased almost 20% over 2007's level,

Potential for Coal Subsidiary Sale

TECO Coal Could Fetch High Price if Sold

Along with the increased price of spot/forward coal prices, the value of coal reserves has increased significantly and we assume TE has received solicitations/inquiries regarding the potential sale of TECO Coal. Given TE's recent history of divesting non-core assets, focus on balance sheet improvement and the heavy projected capital budget at Tampa Electric, lead us to wonder whether TE would divest its coal subsidiary. Assuming a reasonable sales price, we would view such a transaction positively. However, we highlight that the coal business could generate significant cash flow that could be re-invested in the utility business. It is our understanding that TE management plans to maintain ownership of TECO Coal and reap the future benefits of the coal business. We place a higher value on the regulated Florida electric and gas utility business and believe considerable investment opportunity exists in the state of Florida.

TECO Guatemala

TECO Guatemala Consists of Two Power Plants and Interest in Distribution Utility

TECO Guatemala expects 2008 net income to decrease from 2007 levels due to a challenging comparison and a disappointing rate decision for the utility distribution company. Our EPS projections assume a roughly $0.20 contribution in 2008, $0.17 in 2009 and $0.18 in 2010. TECO Guatemala's (TEG) operations include two power plants, the 120-megawatt San José Power Station (96%-ownership position) and the 78-megawatt Alborada Power Station, and a 24 percent interest in the largest electric distribution utility in Central America, Empresa Electrica de Guatemala, S.A. (EEGSA). TEG contributed $0.21, or 20%, of 2007 consolidated EPS. The contribution consisted of roughly $0.10, or 50%, contributed by the San Jose power station, $0.03, or 15%, by the Alborada power station, and $0.07, or 35%, from DECAII (45% from EEGSA and 55% from affiliated companies and earnings on off-shore cash).

The San José facility is a pulverized coal-fired baseload plant located about 75 km south of Guatemala City near the Pacific coast. The Alborada station is a simple-cycle facility located in Escuintla, Guatemala. Both power plants operate under long-term power agreements. EEGSA serves more than 618,000 electric distribution customers, including the major metropolitan market area in Guatemala. Demand has grown at a rate of approximately eight percent annually.

Poor Rate Decision Could Result in Loss of Almost $0.07 Per Share

Distribution Utility Receives Poor Rate Decision

On July 31, 2008, the Guatemalan regulatory authority issued a disappointing decision in EEGSA's five-year rate resetting process. TE management stated in an 8-K that the new lower rates put "all of EEGSA's earnings at risk during the time this tariff remains in effect, which is expected to be a new five-year term, similar to the

process used to set the charges in 2003." We understand that the EPS contribution to TE's consolidated 2007 EPS was roughly $0.07. EEGSA, Iberdrola (EEGSA's managing partner), and EEGSA's other investors are actively pursuing the legal and other efforts to facilitate reconsideration of the level of the Value-Added Distribution (VAD) charge through a procedure consistent with EEGSA's interpretation of Guatemala's Electricity Law.

More Details on the Rate Decision

Distribution Utility to Appeal Poor Decision

The Comisión Nacional de Energia Eléctrica (CNEE) was created under the General Electricity Law of 1996 as a branch of the Ministry of Energy and Mines in Guatemala and regulates the energy sector in Guatemala. On July 25, CNEE issued a communication unilaterally disbanding the panel of experts appointed under existing regulations to review and approve the new Value Added Distribution (VAD) charge. The VAD was expected to be reset in a manner similar to the process utilized in 2003, in accordance with applicable Guatemalan law. EEGSA expected that the panel's action was going to result in increased rates. On July 31, 2008, CNEE issued resolutions setting new tariff rates for EEGSA, which deviated significantly from the rates calculated consistent with the panel of experts' guidance.

First Half 2008 Results

TEG First Half Results of $0.12 vs. $0.11

TECO Guatemala contributed first half 2008 earnings of $25.4 million, or $0.12 per share, compared to $23.1 million, or $0.11 per share, in the 2007 period. Proceeds from spot energy sales at the San José Power Station significantly improved due to higher spot market prices, but earnings under the power sales contract were down slightly due to the timing of a scheduled maintenance outage. Interest expense for both the Alborada and San José power stations decreased due to lower interest rates and lower project debt balances.

At EEGSA, the distribution utility, 2008 second quarter and year-to-date results reflect customer growth and higher energy sales, which resulted in higher net income, offset by higher costs at EEGSA. The earnings from the unregulated EEGSA-affiliated companies (DECA II), which provide, among other things, electricity transmission services, telecommunication carrier service, wholesale power sales to unregulated electric customers and engineering services, increased in both periods from fundamental growth in the businesses. Results for EEGSA and affiliated companies also include a $3.1 million benefit related to an adjustment to previously estimated 2007 income and year-end equity balances, compared to a similar $1.9 million benefit in 2007.

Capital Expenditures/Cash Flow and Balance Sheet Projections

TE Capital Expenditure Budget Heavy, But No Equity Issuances Needed

We consider TE's cash situation adequate to fund its electric and gas utility rate base expansion over the forecast period without the need for the issuance of common equity. Our forecast assumes constructive rate treatment for Tampa Electric and People's Gas in 2009 as well as the sale of unhedged coal production at today's market prices over the 2009-2011 period. We note that our coal estimates result in the generation of roughly $900 million of cash flow over the 2009-2011 period.

TECO Energy's capital expenditure budget totals $631 million in 2008 and

approximately $2.8 billion for the 2009-2012 period. The budget includes $543 million for Tampa Electric in 2008 and $2.4 billion over the 2009-2012 period, including the natural gas-fired combined cycle base-load generating capacity addition and new natural gas-fired combustion turbines to meet peak load generating capacity requirements. Roughly $320 million of the 2008 budget is related to system growth and generation reliability.

Capital expenditures for PGS are expected to be about $59 million in 2008 and $241 million during the 2009 – 2012 period. The gas utility projects roughly $40 million annually associated with customer growth and system expansion. The remainder represents capital expenditures for ongoing renewal, replacement and system safety. TECO Coal expects to invest $26 million in 2008 and $145 million during the 2009 – 2012 period. Included in these amounts is normal renewal and replacement capital, including coal mining equipment.

TECO Energy Capital Expenditure Budget
($ millions)

Tampa Electric	2007A	2008	2009	2010-2012	2008-2012 Total
Peoples Gas	48	59	61	180	300
TECO Coal	44	26	34	111	171
TECO Transport	25	0	0	0	0
TECo Guatemala	2	1	4	5	10
Other	0	2	0	1	3
Total	488	631	760	2,004	3,395

Source: TECO Energy 2007 10K

In 2007, operating cash flow was $554 million, which included $124 million of recovery of un-recovered 2005 and 2006 fuel costs. We estimate operating cash flow of roughly $620 million in 2008, $785 million in 2009 and $992 million in 2010, respectively.

TE's cash flow situation is materially aided by its deferred income tax assets, which were $926.7 million at year-end 2007. The balance is primarily related to net operating loss (NOL) carry-forwards from the disposition of merchant power assets. TE expects future income tax cash payments of roughly 10% of the Alternative Minimum (AMT) through 2011. Beyond 2011 TE expects to use $200 million of AMT carry-forwards to limit future tax cash payments to the level of the AMT. TE projects cash tax payments of under $10 million annually over the 2008-2011 period.

TECO Energy Cash Flow and Balance Sheet Projections				
($ million)				
	2007A	**2008E**	**2009E**	**2010E**
Operating cash flow	554,000	619,810	784,548	992,097
Capital expenditures	(494,400)	(631,000)	(760,000)	(677,000)
Common dividends	(163,000)	(169,595)	(175,098)	(179,744)
Free cash flow	(103,400)	(180,785)	(150,550)	135,353
Total long-term debt	3,158,400	3,258,400	3,368,400	3,368,400
Balance Sheet Ratios	**2007A**	**2008E**	**2009E**	**2010E**
Common equity	38.7	38.5	39.5	42.9
Short-term debt	0.6	0.6	0.6	0.5
Long-term debt	60.7	60.9	60.0	56.6

Source: Company documents and J&L estimates

A major component of TE's strategic plan has been to reduce its significant debt load. The company has made significant progress in this area, reducing total debt from $5,160 million (a 25% equity ratio) at year-end 2003 to $3,204 million (a 39% equity ratio) as of June 30, 2008. Based on our cash flow projections, we estimate TE will need roughly $150 million external financing in 2009, but will be cash flow-positive in 2010. We also note that we do not see the need for equity even under a worst-case scenario for the coal markets. Assuming $0.25 annual coal contribution over the period would allow TE to issue $500 million in debt while maintaining a common equity ratio of roughly 38-40% at the parent and modestly above 50% at Tampa Electric.

Credit Ratings Upgrades

Credit Ratings Improved; S&P Upgrades Outlook to Positive

TE's senior unsecured debt is rated at Baa3 with a stable outlook by Moody's Investor's Services (Moody's); BBB- by Standard & Poor's (S&P) with a positive outlook, and BBB- by Fitch Ratings (Fitch).

Credit Ratings of Senior Unsecured Debt at Jun. 30, 2008

	Standard & Poor's	*Moody's*	*Fitch*
Tampa Electric Company	BBB-	Baa2	BBB+
TECO Energy/TECO Finance	BB+	Baa3	BBB-

On June 9, 2008, Standard & Poor's Ratings Services on changed its outlook on TECO Energy Inc. and its utility subsidiary Tampa Electric Co. to positive from stable. S&P's outlook revision was based on the prospect that a low-risk business profile, coupled with improving financial performance, could lead to higher ratings in the next 12 to 18 months. In addition, S&P affirmed the BBB- ratings on both entities.

Tampa Electric Serves Premier Utility Franchise in Florida

Tampa Electric

Tampa Electric (TEC), TE's largest subsidiary, serves over 668,000 electric customers in West Central Florida, including the city of Tampa and the surrounding bay area. The service area covers 2,000 square miles, including all of Hillsborough County and parts of Polk, Pasco and Pinellas counties. **During 2007, TEC**

contributed $0.72 to consolidated EPS of $1.07 and accounted for 66% of ongoing consolidated EPS and 62% of revenues. The utility's retail service territory has been one of the faster growing in the U.S. and annual customer and weather-normalized sales growth had averaged above 2.5% over the last several years.

Weak Economy Hurting Electric Utility Results

Service Area Economy

The Florida housing market remains weak and tight credit and lending standards for home mortgage are keeping customer growth significantly below recent historical rates. TEC experienced 1.9% customer growth and 2.7% sales growth in 2007. According to the most recent U.S. Census Bureau data, Florida added 194,000 new residents in 2007, and while this is the first time this decade that growth in new residents was less than 200,000 in a given year, it still represented very substantial growth.

Customer Growth Nearly Stalled

Tampa Electric's customer growth slowed further through the first half of 2008, with growth at a 0.2% rate in the second quarter 2008, which was well below the first quarter growth of 0.6%. Year-to-date customer growth was 0.4%, which is below previous customer growth forecasts of more than 0.6% for the year. In addition, average energy usage per Tampa Electric and PGS' residential customer declined in 2006 and 2007. TEC attributes this to mild weather, higher energy prices reflected both through the fuel charge on bills and for higher energy prices in general, increased appliance efficiency, and to the slow-down in residential construction.

The statewide economic situation is also driving lower electric and natural gas sales to commercial and industrial customers that supply the housing industry and consumer discretionary purchases. As of the second quarter 2008, the local unemployment rate was above the national and state levels driven primarily by the drastic slowdown in the construction industry. Economists and real estate associations indicate that the housing market is expected to remain weak throughout 2008 and into 2009, depending on the absorption of excess inventory. In addition, the current slowdown in the Florida housing market has increased the number of vacant residences which have active meters but minimal energy consumption. **We note that TEC's upcoming rate filing will likely reflect an updated customer mix and growth profile.**

Only 9% of Customer Mix is Industrial

TEC's customer mix is more stable than that of many electric utilities as 46% and 30% of 2007 electric revenues were derived from less economically-sensitive residential and commercial customers, while a modest 9% was derived from industrial customers. Usage is not highly seasonal, but winter peak loads are experienced due to electric space heating, fewer daylight hours and colder temperatures, and summer peak loads are experienced due to the use of air conditioning and other cooling equipment. In August of 2007, Tampa Electric set an all-time peak demand of 4,265 megawatts which broke the August 2006 demand record of 4,233 megawatts.

Generation

TEC Owns 4,600 Megawatts of

TEC owns more than 4,600 MW of generating capacity, of which roughly 40% is coal-fired, with the remainder being natural gas and/or oil-fired. The company's

Generation

generation portfolio is listed below:

Tampa Electric Generating Portfolio			
Plant Name	**Nameplate Capacity**	**Type**	**In-Service Date**
Bid Bend	1,823 megawatts	Coal	1970
Big Bend CT	174	CT-Gas	1969
H.L.Culbreath Bayside	2,014	CC-Gas	2003
Polk CT	352	CT-Gas	2000
Polk IGCC	326	CC-Coal	1996
Polk Unit 4 & 5	352	ST-Gas	2007
Source: Company documents			

Approximately 59% of Tampa Electric's generation of electricity for 2007 was coal-fired, with natural gas representing approximately 40% and oil representing approximately 1%. Tampa Electric used its generating units to meet approximately 85% of the total system load requirements, with the remaining 15% coming from purchased power. In April 2007, two 160-MW gas-fired peaking units, Polk Units 4 and 5, were placed into service at a total cost of $70 million. Construction of the new simple-cycle combustion turbines took about eight months.

New Generation Needed

New Generation Needed Over Next Several years

Historical customer growth has driven the need for roughly 130-150 MW of additional capacity per year and TEC anticipates the need for several hundred MWs of peaking capacity over the 2009-2012 time-frame. This need will be re-evaluated as the service area economy progresses. The company faces the challenges of adding new generation to serve customer load, meeting stricter environmental regulations and spending on system reliability, all the while keeping electric bills reasonable. The construction of new base load generation is an expensive lengthy undertaking and complicated by uncertain emissions rules, rising nuclear and coal plant construction costs, high and volatile natural gas prices and significant political opposition to most new construction.

Five Peaking Units Planned For 2008-2009

TEC plans to construct five peaking capacity combustion turbines in 2008 and 2009 at the Bayside and Big Bend power stations with an expected total cost of $236 million, excluding AFUDC. These units will meet the expected peak demand requirements in 2009 and 2010, and several will be configured to meet NERC system reliability requirements. TEC expects to need additional combustion turbines to meet peak load demand in 2011 and 2012. The total cost for these units is estimated to be $320 million.

The company currently plans to meet its expected 2013 base-load capacity need with a combined-cycle natural gas-fired plant, which together with associated transmission system improvements is expected to cost approximately $555 million. In October 2007, Tampa Electric canceled plans to build a $2 billion 630-megawatt coal- and petroleum coke-fueled Integrated Gasification Combined Cycle (IGCC) unit. The cancellation was due to uncertainty related to carbon dioxide (CO2) regulations, particularly capture and sequestration issues, and the potential for related project cost increases.

Environmental Compliance

Environmental Upgrades Result in Rate Base Growth and Recognized Through the Environmental Cost Recovery Clause

In 2004, TEC began installaction of selective catalytic reduction equipment (SCR's) for NOx control on Big Bend Unit 4 and SCR technology on Big Bend Units 1, 2, and 3. The SCR project is part of a 10-year, $1.5 billion Tampa Electric program that was the centerpiece of an agreement with the U.S. Environmental Protection Agency and Florida's Department of Environmental Protection to dramatically reduce overall emissions from its power plants. The $330 million emissions control project will make Big Bend one of the cleanest coal-fired power stations in the nation. The project is scheduled to be completed in three phases: Big Bend Unit 4 was the first to receive the new equipment and went into service in mid-2007. Unit 3 was completed in July, 2008 and Units 2 and 1 are scheduled for May 1, 2009 and May 1, 2010. When completed in late 2010, the project will reduce NOx emissions at Big Bend by about 85% from 1998 levels.

The FPSC has determined that it is appropriate for TEC to recover the operating costs of and earn a return on the investment in the SCR's to be installed on all four of the units at the Big Bend Station and pre-SCR projects on Big bend Units 1-3 (which are early plant improvements to reduce NOx emissions prior to installing the SCRs) through the Environmental Cost Recovery Clause (ECRC). Recovery of the first SCR (Big Bend Unit 4) was approved in late 2007.

As part of that program, the company earlier this decade converted its Gannon coal plant into the gas-fired H.L. Culbreath Bayside plant.

Spending on Hardening Systems To Prepare For Hurricanes

Hurricane Storm Hardening

Due to extensive storm damage to utility facilities during the 2004 and 2005 hurricane seasons, the FPSC ordered all utilities to implement a 10-point storm plan. TEC's plan resulted in an average incremental non-fuel O&M expense of approximately $15 million annually and increased capital expenditures. In 2008, Tampa Electric expects to invest approximately $22 million of capital for higher levels of transmission and distribution pole replacement, improvements to circuits serving critical infrastructure and the completion of the global information system required under the storm hardening program. Future capital expenditures required under the storm hardening program are expected to average approximately $19 million annually for the foreseeable.

TEC Capital Expenditures

Tampa Electric's 2008-2012 capital expenditure budget totals roughly $2.9 billion, including $543 million in 2008. The company's budget totaled $369 million in 2007. The budget breakdown is as follows:

Tampa Electric Capital Expenditure Budget ($ millions)					
	2007A	2008	2009	2010-2012	2008-2012 Total
Tampa Electric					
Transmission	19	55	70	187	312
Distribution	112	134	127	399	660
Existing generation	130	84	127	239	450
Committed new generation	12	108	118	7	233
Proposed new generation		11	124	741	876
New generation	12	119	242	748	1,109
Other	30	47	35	96	178
NOX control projects	79	72	52	13	137
Other environmental	27	23	8	25	56
Net impact accruals & retentions	(40)	9			9
Total	369	543	661	1,707	2,911

Source: TECO Energy 2007 10K

Tampa Electric's total capital expenditures over the 2009 – 2012 period are projected to be about $2.4 billion, including its next baseload generating capacity addition and new natural gas-fired combustion turbines to meet peak load generating capacity requirements in the 2009 – 2012 period. Tampa Electric expects to spend approximately $320 million annually to support normal system growth and reliability. This level of ongoing capital expenditures reflects the generally higher costs for materials and contractors, new long-term regulatory requirements for storm hardening, and an active program of transmission and distribution system upgrades which will occur over the forecast period.

In addition to the $320 million of ongoing average annual capital expenditures, Tampa Electric expects to spend $65 million for compliance with the Environmental Consent Decree for the remaining SCR equipment and $33 million for other required environmental capital expenditures in the 2009 – 2012 period. The Environmental Consent Decree compliance expenditures are eligible for recovery of depreciation and a return on investment through the Environmental Cost Recovery Clause.

Regulation

FPSC Has Historically Been A Constructive PUC

We have historically viewed the Florida Public Service Commission (FPSC) and Florida regulation as constructive from an investor viewpoint. Electric and gas utilities remain regulated on a rate base-rate of return methodology and the FPSC has adopted several constructive mechanisms in dealing with electric utility issues. The November 2006 election of a new governor resulted in some controversy regarding two PSC commissioner appointments (Argenziano and Skop) and there has been minimal electric rate activity recently. Commissioners and term expirations are listed below:

Commissioners

Nancy Argenziano (R)	January 1, 2011.
Nathan Skop	January 1, 2011.
Chairman Lisa Polak Edgar (R),	January 2009.
Matthew Carter II (R),	January 2010.

Katrina Tew (R), January 2010.

Over the last several years, authorized returns on common equity (ROE's) PSC were slightly above the industry averages nationwide, and the FPSC has generally permitted a 200 basis point-dead band around the authorized return. Constructive regulatory mechanisms recognize changes for fuel, conservation, environmental compliance and other costs on a timely basis.

Legislation enacted in 2006 contains provisions that streamlined the approval process for new generating plants in the state. The FPSC has also established an Environmental Cost Recovery Clause (ECRC) that enables utilities to recover, between general rate cases, expenditures made to comply with new environmental laws or mandates. The clause is reviewed annually and permits recovery of environmental compliance costs and a return on capital investments. In addition, the PSC has authorized the utilities to recover the large majority of restoration costs incurred as a result of the major hurricanes that impacted Florida in 2004 and 2005.

Tampa Electric Files For First Rate Increase Since 1992

Pending Rate Case First Filed Since 1992

On Aug. 11, 2008, Tampa Electric Co. (TEC) filed a request with the FPSC for a $228.2 million, or 10%, electric base rate increase, premised upon 12% allowed return on equity. The filing used a 50.2% regulatory capital structure and an 8.82% return on an average rate base valued at $3,656.8 million for the calendar-2009 test year. The requested 12% equity return is the midpoint of a requested range of 11% to 13%. The FPSC is required to issue a written order within eight months of the filing, which would be April 11, 2009.

The request was expected and driven by higher costs related to labor, materials (e.g., steel and concrete), environmental compliance, reliability, and energy efficiency programs. On June 12, 2008, the company had submitted a Notice of Intent to file a request for an electric base rate increase in the range of $225 million to $235 million based on a calendar-2009 test year.

TEC is currently authorized an 11.75% return on equity, the mid-point of a 10.75%-to-12.75% authorized range established by the PSC in 1995, following a settlement. The company's last base rate change occurred in 1992, when the PSC authorized a $29.6 million increase premised upon a 12% return on equity (43.08% of a regulatory capital structure) and an 8.34% return on rate base.

The combination of slowed customer growth, lower usage-per-customer, rising operating and maintenance expenses, as well as increases in other employee-related costs has resulted in declining earned returns on common equity. The company's forecasted ROE is expected to decline to levels below the bottom of its allowed range for the full year 2008. As mentioned, Tampa Electric has not sought a base rate increase since 1992. Since that last rate proceeding, the company has added more than 200,000 customers or roughly 50% since 1992 and made significant investments in facilities and infrastructure, including base-load and peaking generating capacity additions to reliably serve the growing customer base.

In addition, the capital expenditure budget has materially increased and we expect and higher levels of non-fuel operations and maintenance expenditures. Year-end 2007

rate base is estimated at $3.0 billion with a roughly 50/50 capital structure. We expect Tampa Electric's rate base to further expand to $3.7 billion in 2009 and to over $4.0 billion by 2011. We estimate TEC requires roughly a $180 million annual rate increase, or 8%, to achieve an 11.5% earned ROE in the twelve-month period beginning in mid-2009. Assuming constructive rate treatment (an 11.0% ROE on a 50% capital structure), we project TEC 2011 EPS power of $1.09, which results in a 9.2% compound annual growth rate from 2007 results of $0.72.

Recent Rate Activity

Little Rate Case Activity in the State Over the Past Several Years

There has been little major regulatory activity involving TEC over the past few years and the company's last rate case was in 1992 where the authorized ROE range was set at 10.75%-to-12.75%. The authorized ROE was affirmed in 2000. Increases in expenses for fuel and purchased power, capacity costs, conservation costs and environmental costs have been recovered through FPSC permitted recovery adjustment clauses.

For several years, the state's two largest electric utilities, Florida Power & Light (FPL-61.44-Not Rated) and Progress Energy Florida.(subsidiary of Progress Energy), have operated under incentive rate plans that contain no equity return for earnings monitoring purposes and provide for revenue sharing with ratepayers when base revenues exceed certain thresholds. In our opinion, Florida electric utilities have earned returns near authorized levels without the need for material general rate increases due to strong customer growth, low inflation rates as well as minimal need for new base-load generation.

In November 2007, the FPSC approved Tampa Electric's requested rate adjustments, including the proceeds from the actual and projected sale of excess sulfur dioxide (SO_2) emissions allowances in 2007 and 2008 and the operating cost for and a return on the capital invested on the selective catalytic reduction (SCR) projects ($160 million investment) to enter service on Big Bend Units 3 and 4 as well as the operating and maintenance (O&M) costs associated with the Big Bend Units 1 and 2 pre- SCR projects, which are required by the Environmental Protection Agency (EPA) Consent Decree and Florida Department of Environmental Protection (FDEP) Consent Final Judgment. This rate proceeding was initiated in September of 2007 when Tampa Electric filed with the FPSC for approval of fuel and purchased power, capacity, environmental and conservation cost recovery rates for the period January 2008 through December 2008.

TECO Energy Forms Pipeline

TE Forms New Gas Pipeline Subsidiary

In August 2008, TE formed an intrastate natural gas pipeline subsidiary, SeaCoast Gas Transmission LLC. SeaCoast Gas has entered into an agreement with JEA, formerly Jacksonville Electric Authority, to provide long-term gas transportation services to JEA's planned Greenland Energy Center. The subsidiariy's planned pipeline, which is under development, would connect the pipeline systems owned by Florida Gas Transmission and El Paso to JEA's proposed power plant. The estimated cost for the planned 40-to-50 mile pipeline is $60-to-$100 million. FPSC and DEP approvals are expected following project applications in 2009.

JEA plans to build two 175-MW gas-fired combustion turbines at the Greenland

Energy Center. Construction is scheduled to begin in 2009, with commercial operations expected in 2010. We believe SeaCoast Gas subsidiary represents a natural extension of the activities of Peoples Gas System. Given the expected growth of gas-fired electric generation in Florida and the availability of additional gas supplies in the Jacksonville area, SeaCoast Gas is also exploring opportunities for the future expansion of the pipeline.

Recent Earnings

First Half 2008 Results of $0.39 vs. $0.46

On July 31, 2008, TE reported first half 2008 EPS results of $0.39 (excludes non-recurring items) compared with $0.46 (excludes non-recurring items) for the same period in 2007.

TECO Segment Earnings		
	First Half	
Segment	2008	2007
Tampa Electric	$0.27	$0.27
People's Gas	0.07	0.08
TECO Coal	0.06	0.10
TECO Guatemala	0.12	0.11
TECO Transport	0.00	0.08
Parent	(0.12)	(0.16)
	$0.39	$0.48

Tampa Electric's contribution was flat the negative impact of higher operating & maintenance expense and the weak Florida economy more than offset the positive impact of higher weather-related sales. Higher non-fuel operations & maintenance expense was related to scheduled generating unit outages and bad debt expense continued to pressure margins. TEC's customer growth was a meager 0.2% in the second quarter, which was significantly lower than last year's second quarter customer growth of 2.2%. Hotter spring weather led to a 2.7% increase in retail energy sales.

Peoples Gas results were $0.07 vs. $0.08 last year due primarily to lower customer growth and lower customer usage. PGS experienced lower sales from consumer oriented commercial customers, notably restaurants, related to the state wide economic slowdown.

Flat Result From Florida Utilities and Margin Pressure at TECO Coal

TECO Coal's contribution was somewhat disappointing as higher tonnage and better prices were more than offset by higher production costs. Coal production and sales were higher compared to last year, but lower than forecast due to difficult mining conditions and a new underground mine in April and May.

TECO Guatemala's first half contribution grew to $0.12 vs $0.11 despite a short scheduled maintenance outage at the San Jose Power Station. Spot energy sales and prices from San Jose were stronger given the higher diesel fuel cost as diesel was on the margin in Guatemala. TEG also experienced the benefit of higher energy sales and customer growth at EEGSA, the distribution utility.

The parent loss benefited from debt redemption activities as interest expense is lower

than last year.

2007 Results

TE reported 2007 ongoing EPS of $1.07 (excludes non-recurring items and synfuel contributions), which was the high-end of the projected $0.97-$1.07 range vs. $0.97 (excludes non-recurring items and synfuel contributions) for the same period last year. Fundamental highlights of the year included the sale of TECO Transport and continued material balance sheet improvement. The company paid down roughly $700 million in debt in 2007 and common equity increased roughly $290 million, which resulted in a common equity ratio of nearly 39%. Standard and Poor's upgraded credit ratings to investment grade.

The major factor driving higher results was a $0.72 contribution from Tampa Electric vs. $0.65 for the same period last year. Higher results were primarily driven by lower depreciation and property tax expense and higher retail energy sales, partially offset by higher operations and maintenance and interest expense. TEC benefited from $5.1 million of lower-after-tax depreciation expenses and $2.4 million of lower after-tax property tax expense due to tax law changes and an updated depreciation audit. AFUDC rose significantly to $4.5 million related to construction of new peaking units that entered service in April 2007 and the installation of NOx control equipment compared to $2.7 million in 2006.

Retail energy sales rose 2.7% and off-system sales rose 5.0% reflecting the positive effects of 1.9% average retail customer growth. In addition, total heating and cooling degree days were more than 2% above normal and 5% above 2006 total degree days. These positives were partially offset by changes in residential customers' consumption patterns due to a higher percentage of smaller, more energy-efficient, multi-family residences, and voluntary conservation due to higher prices for all forms of energy.

Excluding all FPSC-approved cost recovery clause-related expenses, operations and maintenance expense increased by $3.6 million after-tax, compared to 2006, primarily due to higher employee-related costs, additional spending on the distribution system to comply with storm-hardening requirements and planned outage requirements on generating units partially. 2007 results also reflect a $2.1 million after-tax benefit for the wholesale component of the sale of sulfur dioxide emissions credits compared to a $1.4 million benefit in 2006.

The People's Gas 2007 ongoing EPS contribution fell to $0.13 vs. $0.14 in 2006. Results reflect 1.6% average customer growth, mild winter weather and lower industrial sales due to the Florida housing construction slow-down.

The TECO Coal 2007 ongoing EPS contribution was $0.18 (excludes $0.25 of non-recurring synthetic fuel contribution) vs. $0.22 (excludes $0.15 of non-recurring synfuel contribution) for the same period last year. Total sales were 9.2 million tons, including 6.0 million tons of synfuel, compared to 9.8 million tons, including 5.3 million of synthetic fuel, in 2006. 2007 results reflect a (1%) lower average net selling price per ton excluding transportation allowances and a less-than 0.5% increase in the cash production cost. The $52.6 million of benefits from the production of synthetic fuel in 2007 reflect a $91.1 million after-tax reduction in

earnings benefits due to the estimated 67% phase-out compared to the 35% phase-out and $36.7 million after-tax reduction in 2006. The results also reflect a $53.8 million after-tax benefit from adjusting to market the valuation of the oil price hedges placed to protect the 2007 synthetic fuel benefits against high oil prices. The synthetic fuel 2007 EPS contribution, which we exclude from our definition of operating EPS, was $0.25 per share vs. $0.15 for the same period last year.

TECO Guatemala reported a 2007 ongoing EPS contribution of $0.21 vs. $0.18 in 2006. Higher results reflect customer growth and higher energy sales at EEGSA and higher earnings from EEGSA-affiliated companies, which provide transmission services, wholesale power sales, engineering services and telecommunications services.

Parent and other loss was unchanged at ($0.34) in 2007 and 2006.

TECO Energy

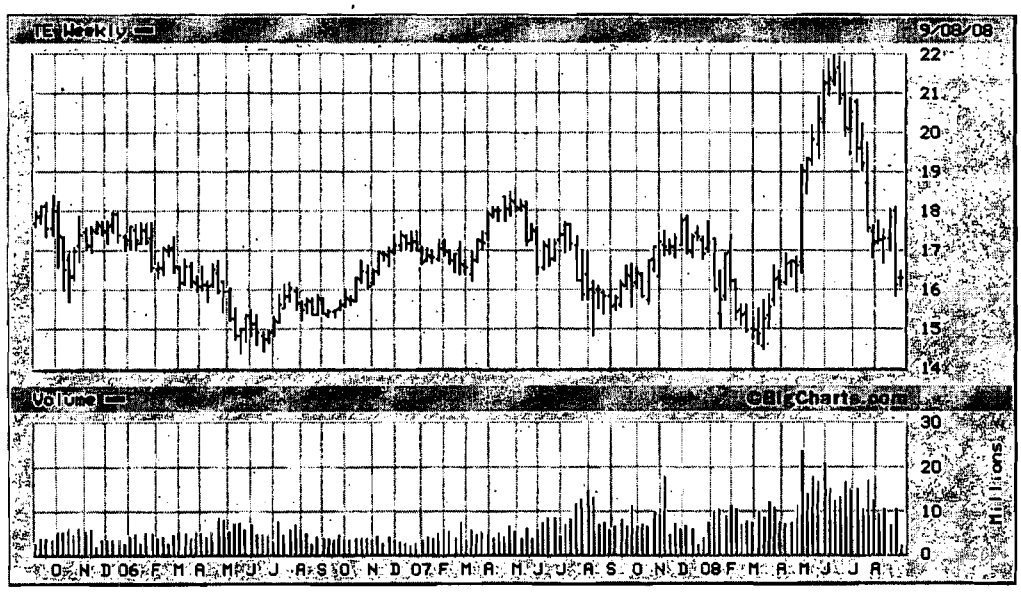
Financial Statements (2005-2010)
(in $ million unless otherwise noted)

	2005A	2006A	2007A	2008E	2009E	2010E
Operating revenues	**3,010,106**	**3,448,100**	**3,537,300**	**3,415,578**	**3,882,933**	**4,389,762**
Operating expense						
Fuel and purchased power	730,800	1,024,700	1,126,600	1,226,709	1,245,252	1,275,995
Cost of natural gas	350,200	365,300	389,900	401,597	405,613	417,781
Other	270,300	294,000	280,400	293,790	308,480	323,903
Operating other expense						
Mining and related costs	412,500	450,200	435,400	510,000	655,750	791,818
Waterborne transportation costs	191,800	217,800	206,400	0	0	0
Other	49,300	15,600	16,600	9,750	10,043	10,344
Maintenance	168,400	183,300	183,500	148,900	158,098	167,897
Depreciation & amortization	282,187	282,200	263,700	270,957	288,092	303,976
Gain on sale	3,000	(21,000)	(221,300)	0	0	0
Taxes other than income	194,654	217,500	218,300	199,500	207,480	215,779
Total operating expenses	**2,653,141**	**3,029,600**	**2,899,500**	**3,061,203**	**3,278,807**	**3,507,494**
Operating income	**356,965**	**418,500**	**637,800**	**354,375**	**604,126**	**882,268**
Other income	158,000	154000	152000	71,738	62,938	91,371
Interest expense	288,700	278,300	257,800	158,646	172,516	184,222
Pre-tax income	**226,265**	**294,200**	**532,000**	**267,467**	**494,548**	**789,416**
Income tax	101,942	118,700	214,200	93,614	173,092	276,296
Minority interest	(87,122)	(69,600)	(82,200)	0	0	0
GAAP net income	211,445	245,100	400,000	173,854	321,456	513,121
Net income, excl. non-recurring	**254000**	**241000**	**224000**	**173,854**	**321,456**	**513,121**
Avg. shares out.	208,200	207,900	209,100	211,994	213,534	213,980
EPS, excl. non-recurring	**$1.22**	**$1.16**	**$1.07**	**$0.82**	**$1.50**	**$2.40**
Cash Flow Statement	**2005A**	**2006A**	**2007A**	**2008E**	**2009E**	**2010E**
Net income	274,500	246,300	413,200	173,854	321,456	513,121
Depreciation	282,200	282,200	263,700	270,957	288,092	303,976
Deffered income taxes	110,800	112,500	184,800	175,000	175,000	175,000
Other	(490,400)	(74,100)	(307,700)	0	0	0
Operating cash flow	**177,100**	**566,900**	**554,000**	**619,810**	**784,548**	**992,097**
Capital expenditures	(295,300)	(455,700)	(494,400)	(536,500)	(654,175)	(592,834)
Asset sales	278,300	100,400	405,200	0	0	0
Other	50,400	10,300	61,900	80,000	0	0
Other subsidiaries	900	(6,700)	(400)	(88,000)	(95,000)	(95,000)
Investing cash flow	**34,300**	**(351,700)**	**(27,700)**	**(544,500)**	**(749,175)**	**(687,834)**
Equity issuance	16,200	12,500	14,000	35,000	15,000	0
Common dividends	(157,700)	(158,700)	(163,000)	(169,595)	(175,098)	(179,744)
Other	179,100	26,900	(656,300)	(90,000)	110,000	0
Financing cash flow	**37,600**	**(119,300)**	**(805,300)**	**(224,595)**	**(50,098)**	**(179,744)**
Balance sheet	**2005A**	**2006A**	**2007A**	**2008E**	**2009E**	**2010E**
Common equity	**1,591,700**	**1,729,000**	**2,017,000**	**2,056,259**	**2,217,617**	**2,550,994**
% of total capitalization	0.0	31.1	38.7	38.5	39.5	42.9
Short-term debt	0	616,000	32,100	32,100	32,100	32,100
Long-term debt	0	3,212,600	3,158,400	3,258,400	3,368,400	3,368,400
Total capitalization	**1,591,700**	**5,557,600**	**5,207,500**	**5,346,759**	**5,618,117**	**5,951,494**
Book value/share (year-end)	**7.72**	**8.25**	**9.56**	**9.65**	**10.36**	**11.92**
Return on Avg. Equity	**17.25%**	**14.53%**	**12.01%**	**8.49%**	**15.01%**	**21.52%**

JESUP & LAMONT
ESTABLISHED 1877

September 9, 2008

TECO Energy (TE) – 3 Year Price Chart



Price Target and Ratings Changes over the Past 3 Years:

Date	Stock Price	Rating	Target Price	Initiation
9/9/2008	$16.33	Buy	NM	X

Companies Mentioned in Report:

- None

Analyst Disclosure

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J.P.Morgan
North America Equity Research
30 October 2008

TECO Energy Inc

Coal Margins Under Pressure; Lowering Estimates

Neutral

TE, TE US
Price: $12.88

We expect TECO shares to remain under pressure for the next few days as the company decreased their previous 2008 and 2009 coal production tonnage as well as provided additional margin data at TECO Coal that we believe may result in some downward pressure on Street estimates. In addition, the company continues to experience lower customer growth due the weakness in the Florida economy, which we have previously reflected in our latest estimates update in July. A key bull case behind the stock has been expected strong coal business results; however, we believe the future tonnage reductions and expected lower coal margins highlight the potential volatility that remains at TECO Coal. We are cutting our 2009E and 2010E EPS. We are maintaining our Neutral rating as we believe the discount to the group on 2009 P/E appropriately reflects the commodity sensitivity of TECO's coal business.

- **Lowering 2009E and 2010E EPS.** We are lowering our 2009E and 2010E EPS to $1.45 from $1.70 and to $1.60 from $1.80, respectively. Our estimate adjustments reflect lower 2009 coal tonnage production (now 10.5m from 10.5-11m) and higher cost pressures at TECO Coal. Our expectations for rate relief at Tampa Electric and Peoples Gas starting in mid-year 2009 remain unchanged. Ultimately, our estimates are highly sensitive to realized commodity prices.

- **We expect TECO coal margins to suffer in 2009 and 2010 even with higher selling prices.** Management indicated in its 3Q08 EPS presentation that 88% of 2009 coal production is hedged at $77/ton, a significant increase over 2008 hedges at $59 per ton. The company hopes to finalize pricing for their unhedged portion (met and PCI coal) in the next few months.

- **Rising costs pressure TECO Coal margins in 2009 and pressure likely continues into 2010.** TECO Coal margins are under pressure in 2009 and 2010 as a result of lower production tonnage due to tougher mining conditions and limited qualified miners as well as higher production costs. Adjusting both the revenue and cost sides of the coal business drives our EPS estimate lower in 2009. We assume that the company realizes a similarly reduced margin in 2010, which also drives our 2010E EPS down.

Electric Utilities

Andrew Smith[AC]
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

Raquel Antonious
(1-212) 622-0144
raquel.s.antonious@jpmorgan.com

Stefka Gerova
(1-212) 622-0549
stefka.g.gerova@jpmorgan.com

J.P. Morgan Securities Inc.

Price Performance



TECO Energy Inc (TE;TE US)

	2007A	2008E	2009E (Old)	2009E (New)	2010E (Old)	2010E (New)
EPS Reported ($)						
Q1 (Mar)	0.21	0.15A				
Q2 (Jun)	0.25	0.24A				
Q3 (Sep)	0.35	0.28A				
Q4 (Dec)	0.83					
FY	1.05	0.85	1.70	1.45	1.80	1.60
P/E FY	12.3	15.2	7.6	8.9	7.2	8.1

Source: Company data, Reuters, J.P. Morgan estimates. Note: Official estimates rounded to the nearest $0.05 per share.

Company Data	
Price ($)	12.88
Date Of Price	30 Oct 08
52-week Range ($)	21.99 - 11.30
Mkt Cap ($ mn)	2,743.44
Fiscal Year End	Dec
Shares O/S (mn)	213
Dividend ($)	0.76
Div. Yield	5.9%

See page 4 for analyst certification and important disclosures.

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www.morganmarkets.com

Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

Valuation

TECO shares trade at a discount of about 20% to the group on 2009 results (8.9x 2009E EPS versus 11.1x for the UTY). However, we believe the discount is warranted given its EPS growth profile in conjunction with its business mix, whereby it derives a portion of its earnings from its coal business, which is highly sensitive to commodity prices, and TECO Guatemala.

Risks to Our Rating

TECO shares could outperform or underperform versus our Neutral rating for a number of reasons:

- Realized coal prices at TECO's coal mining business could be higher or lower than we expect.
- Production costs at TECO's coal mining business could be higher or lower than we expect, expanding or shrinking margins.
- TECO's rate case filing could be delayed and/or the results of its rate case could be better or worse than we project.
- The Florida economy could expand or contract faster or slower than we anticipate driving better or worse results at the utility.
- Its debt reduction plans could go faster or slower than we anticipate, which could impact our EPS projections.
- The impact of CO2 emissions restrictions could be less significant or more onerous than our expectations.

Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

North America Equity Research
30 October 2008

J.P.Morgan

TECO Energy Inc: Summary of Financials

Income Statement - Annual	FY07A	FY08E	FY09E	FY10E
Sales	3,536	3,403	3,944	4,199
COGS	1,516	1,738	1,786	1,879
D&A	-	-	-	-
Operations and maintenance	-	-	-	-
Other expenses	82	0	0	0
Total operating expenses	-	-	-	-
Other income / (expense)	373	83	84	84
EBIT	**789**	**496**	**710**	**763**
EBITDA	**1,052**	**752**	**986**	**1,054**
Interest expense	258	228	241	250
Income tax provision	214	91	159	174
Tax rate	34.9%	34.0%	34.0%	34.0%
Discontinued operations and other	14	0	0	0
Preferred dividends	-	-	-	-
Net income	**399**	**177**	**310**	**339**
Total non-recurring items	(123)	0	0	0
Net income (Recurring)	**262**	**177**	**310**	**339**
Diluted shares outstanding	**210**	**212**	**212**	**212**
Diluted EPS	**1.25**	**0.84**	**1.46**	**1.60**
DPS ($)	0.78	0.81	0.85	0.89
Payout ratio	62.5%	96.9%	58.2%	55.9%

Income Statement - Quarterly	1Q08A	2Q08A	3Q08A	4Q08E
Sales	-	-	-	-
COGS	-	-	-	-
D&A	-	-	-	-
Operations and maintenance	-	-	-	-
Other expenses	-	-	-	-
Total operating expenses	-	-	-	-
Other income / (expense)	-	-	-	-
EBIT	-	-	-	-
EBITDA	-	-	-	-
Interest expense	-	-	-	-
Income tax provision	-	-	-	-
Tax rate	-	-	-	-
Discontinued operations and other	-	-	-	-
Preferred dividends	-	-	-	-
Net income	-	-	-	-
Total non-recurring items	-	-	-	-
Net income (Recurring)	-	-	-	-
Diluted shares outstanding	-	-	-	-
Diluted EPS	-	-	-	-
DPS ($)	-	-	-	-
Payout ratio	-	-	-	-

Balance Sheet and Cash Flow Data	FY07A	FY08E	FY09E	FY10E
Cash and cash equivalents	163	0	0	0
Current assets	627	627	627	627
PP&E	4,888	5,263	5,749	6,177
Non-current assets	1,087	1,087	1,087	1,087
Total assets	**6,765**	**6,977**	**7,463**	**7,892**
Current liabilities	618	683	882	1,174
Long-term Debt	3,158	3,213	3,220	3,042
Preferred stock	-	-	-	-
Other non-current liabilities	972	1,058	1,208	1,372
Common equity	2,017	2,023	2,153	2,304
Total liabilities & equity	6,765	6,977	7,463	7,892
Net income	399	177	310	339
D&A	-	-	-	-
Change in working capital	34	0	0	0
Change in other assets	107	342	426	456
Net operating cash flow	**554**	**519**	**736**	**794**
Cash flow from investing activities	**(28)**	**(631)**	**(762)**	**(720)**
Net common equity issued/(repurchased)	14	0	0	0
Net debt issued/(repurchased)	(716)	120	206	114
Common dividends paid	163	171	179	188
Other financing activity	60	0	0	0
Cash flow from financing activities	**(805)**	**(51)**	**26**	**(75)**
Increase/(decrease) in cash	(279)	(163)	0	0
Cash at beginning of the period	442	163	0	0
Cash at end of the period	163	0	0	0

Ratio Analysis	FY07A	FY08E	FY09E	FY10E
Sales growth	2.6%	(3.8%)	15.9%	6.5%
EBITDA growth	23.2%	(28.5%)	31.0%	6.9%
EBIT growth	37.9%	(37.1%)	43.1%	7.4%
Net income (recurring) growth	13.1%	(32.4%)	74.8%	9.4%
COGS growth	9.1%	14.6%	2.8%	5.2%
Total operating expenses growth	2.3%	(4.2%)	10.9%	6.1%
Diluted EPS growth	12.4%	(32.9%)	74.8%	9.4%
Gross margin	57.1%	48.9%	54.7%	55.2%
Operating margin	22.3%	14.6%	18.0%	18.2%
Debt / Capital (book)	-	-	-	-
Times interest earned	3.1	2.2	2.9	3.1
FFO / Interest	3.0	3.3	4.1	4.2
FFO / Debt	24.4%	22.6%	27.8%	28.8%
ROE	13.0%	8.8%	14.4%	14.7%
Return on invested capital (ROIC)	7.7%	4.8%	7.8%	7.9%

Source: Company reports and J.P. Morgan estimates.

Note: $ in millions (except per-share data). Fiscal year ends Dec

Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

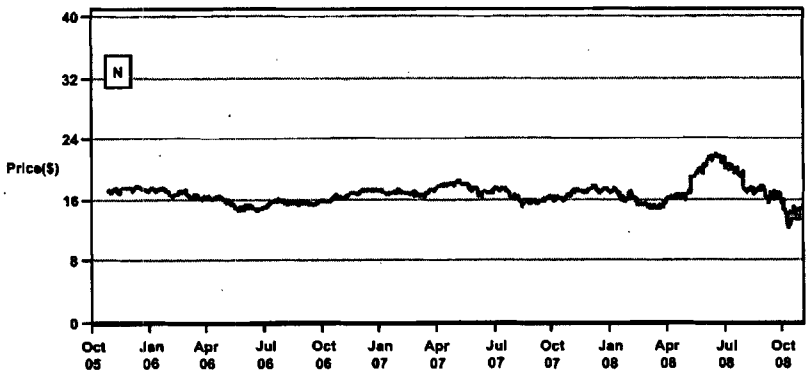
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TECO Energy Inc (TE) Price Chart



Source: Reuters and J.P. Morgan; price data adjusted for stock splits and dividends.
This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

J.P.Morgan

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IB clients*	53%	51%	43%
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Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

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TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
SUPPLEMENTAL: DECEMBER 31, 2008

North America Equity Research
31 July 2008

JPMorgan

TECO Energy Inc

Lowering 2008 Estimate and Boosting 2009 Estimate to Reflect Coal Margins and Utility Growth

Neutral

$18.55
31 July 2008

We expect TECO shares to remain under pressure for the next few days as the company cut 2008 guidance as well as provided additional margin data at TECO Coal that we believe may result in some downward pressure on Street estimates. A key bull case behind the stock has been expected strong coal business results; however, we believe today's guidance update highlights the potential volatility that remains at TECO Coal. We are cutting our 2008E EPS, raising 2009E EPS and introducing 2010E EPS. We are maintaining our Neutral rating as we believe the share's discount to the group on 2009E P/E appropriately reflects the commodity sensitivity of TECO's coal business.

- **Lowering 2008E, increasing 2009E EPS, and introducing 2010 estimate.** We are lowering our 2008E EPS to $0.85 from $1.00 to reflect higher cost pressures at TECO Coal from doubled y-o-y diesel prices and increased cost of steel products. We are also cutting 2008 estimates to reflect weak sales at Tampa Electric. We are increasing 2009E to $1.70 from $1.15 to reflect significant coal volumes sold under contract given that our previous estimate did not reflect the current strong coal pricing environment. Strong coal prices are being offset by continued cost pressures; however, as TECO Coal expects production cost to be up 20% y-o-y. We are further introducing our 2010E EPS of $1.80, which reflects ongoing strength at TECO Coal. Our expectations for rate relief at Tampa Electric starting in 2009 remain unchanged. Ultimately, our estimates are highly sensitive to realized commodity prices.

Electric Utilities

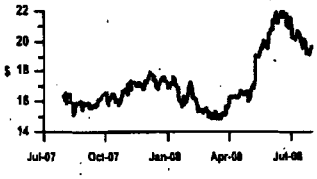
Andrew Smith[AC]
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

Raquel Antonious
(1-212) 622-0144
raquel.s.antonious@jpmorgan.com

Stefka Gerova
(1-212) 622-0549
stefka.g.gerova@jpmorgan.com

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Price Performance



TECO Energy Inc (TE;TE US)

	2008E (Old)	2008E (New)	2009E (Old)	2009E (New)	2010E
EPS Reported ($)					
Q1 (Mar)	0.15A	0.15A			
Q2 (Jun)	0.25	0.24A			
Q3 (Sep)					
Q4 (Dec)					
FY	1.00	0.85	1.15	1.70	1.80
P/E FY	18.6	21.8	16.1	10.9	10.3

Source: Company data, Reuters, JPMorgan estimates. Note: Official estimates rounded to the nearest $0.05 per share.

Company Data	
Price ($)	18.55
Date Of Price	31 Jul 08
52-week Range ($)	21.99 - 14.48
Mkt Cap ($ mn)	3,905.48
Fiscal Year End	Dec
Shares O/S (mn)	211
Dividend ($)	0.76
Div. Yield	4.1%

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Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

- **We expect results at TECO Coal to suffer in 2008, however, strong prices likely drive 2009 upside.** Management indicated in its 2Q08 EPS presentation that 80% of 2009 coal production is hedged at $66/ton, a significant increase over 2008 hedges at $59 per ton. We expect TECO to sell the balance of its 2009 coal production at an average price of about $150 per ton.

- **Rising costs pressure TECO Coal margins in 2008 and pressure likely continues into 2009.** TECO Coal margins are under pressure in 2008 as a result of diesel prices doubling y-o-y as well as higher costs for steel products. The company indicated that it expects production costs to rise 20% y-o-y into 2009 as well. It is currently actively hedging its production costs, but ultimate realized prices for diesel, steel, explosives, etc... could widen or shrink margins.

- **Rate relief remains likely in 2009.** TECO reiterated its intent to file a request for a base rate increase on 8/11 for rate relief in 2009. If the rate case is fully litigated, rates will most likely take affect in May of 2009. In our view, the company is likely to pursue a settlement as observed in other cases in Florida. Regardless, we assume the company receives rate relief in 2009.

- **Trading at a discount; but warranted.** TECO shares trade at a discount of about 19% to the group on 2009 results (10.8x 2009E EPS versus 13.4x for the UTY). However, we believe the discount is warranted given its EPS growth profile in conjunction with its business mix; whereby it derives a portion of its earnings from its coal business, which is highly sensitive to commodity prices, and TECO Guatemala.

Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

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Investment Risks

TECO shares could outperform or underperform versus our Neutral rating for a number of reasons:

- Realized coal prices at TECO's coal mining business could be higher or lower than we expect.
- Production costs at TECO's coal mining business could be higher or lower than we expect, expanding or shrinking margins.
- TECO's rate case filing could be delayed and/or the results of its rate case could be better or worse than we project.
- The Florida economy could expand or contract faster or slower than we anticipate driving better or worse results at the utility.
- Its debt reduction plans could go faster or slower than we anticipate, which could impact our EPS projections.

The impact of CO2 emissions restrictions could be less significant or more onerous than our expectations

Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

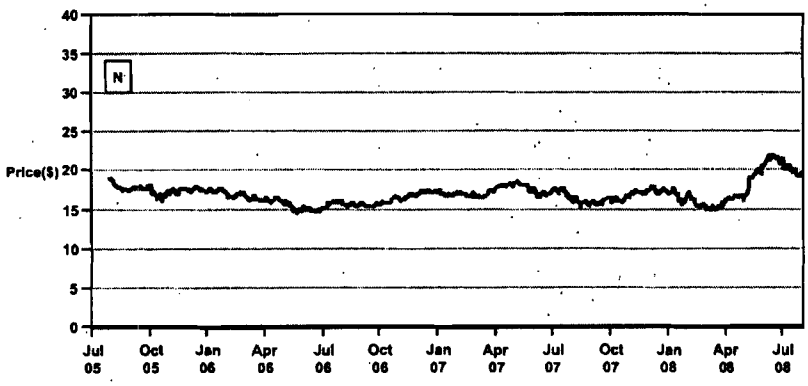
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Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

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Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

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TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
SUPPLEMENTAL: DECEMBER 31, 2008

North America Equity Research
30 April 2008

JPMorgan

TECO Energy Inc

1Q08 Results Below Consensus on Coal Timing; No Change to Guidance - ALERT

Neutral

$16.76
25 April 2008

Electric Utilities

Andrew Smith[AC]
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

Raquel Antonious
(1-212) 622-0144
raquel.s.antonious@jpmorgan.com

Stefka Gerova
(1-212) 622-0549
stefka.g.gerova@jpmorgan.com

Rajeev Lalwani
(1-212) 622-6448
rajeev.lalwani@jpmorgan.com

- **1Q08 results below consensus; expect neutral share reaction.** After the market close yesterday, Neutral-rated TECO Energy (TE) reported 1Q08 EPS from continuing operations of $0.15, below our estimate of $0.20 and consensus of $0.21. Management reiterated 2008 EPS guidance of $0.95-$1.10, compared to our estimate of $1.00 and the Street estimate of $1.04. TE is maintaining 2008 EPS guidance due to an expected strong summer and slightly higher YOY earnings in TECO Coal, which will more than offset slower utility customer growth. We expect yesterday's release to have a neutral impact on the shares as the outlook was maintained and the weak quarter was mostly the result of timing at the coal business.

- **Lower results due to timing of delivered coal shipments.** We did not factor into our estimates the timing impact of the delivery of higher priced met coal shipments on sales at TECO Coal, which drove down EPS results for 1Q08. This should be made up later in the year. Earnings at Tampa Electric and People Gas declined YOY, primarily due to slower customer growth of 0.6% and 0.3%, respectively, and milder weather during 1Q08.

- **Coal price escalation benefits 2009 EPS.** The upside from higher production (~10.5m) in 2008 is mostly offset by increased production costs and hedged pricing as nearly all 2008 coal production is contracted. Conversely, since 2009 coal production (~11m tons) is 70% hedged at higher average prices, net income could potentially double driven by higher margins ($7-10/ton over 2008) and the increased sales volumes.

- **Rate relief and settlement remain likely in 2009.** TECO did not provide any better sense of the timing of its planned rate case filings at both utilities. The company reiterated that it expects People Gas to file sometime in 2008 for rate relief in 2009, and that Tampa Electric will need a rate increase in 2009. In our view, the company is likely to pursue a settlement as observed in other cases in Florida.

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2202AHY

Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

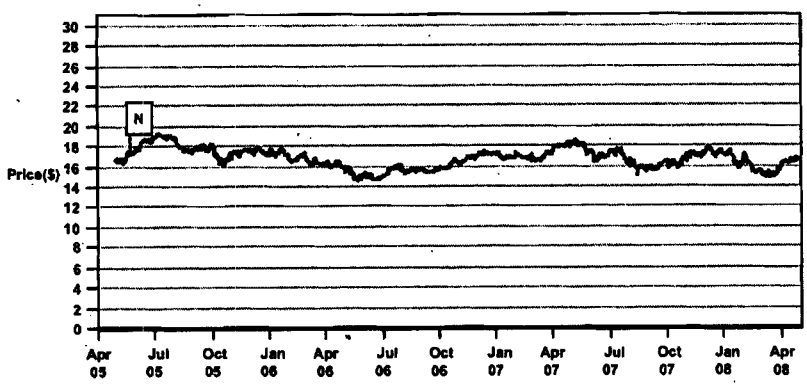
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TECO Energy Inc (TE) Price Chart



Date	Rating	Share Price ($)	Price Target ($)
23-May-05	N	17.12	-

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
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Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

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Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

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Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

North America Equity Research
30 April 2008

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27 March 2008

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TECO Energy Inc

Stronger Outlook Driven Primarily by Coal - ALERT

Neutral

$15.71 (Intraday)
27 March 2008

Electric Utilities

Andrew Smith[AC]
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

Raquel Antonious
(1-212) 622-0144
raquel.s.antonious@jpmorgan.com

Stefka Gerova
(1-212) 622-0549
stefka.g.gerova@jpmorgan.com

Rajeev Lalwani
(1-212) 622-6448
rajeev.lalwani@jpmorgan.com

- **Earnings outlook strong due to growth in coal business.** TECO Energy held its analyst meeting this morning and provided incremental positive data points on its coal business, especially on the pricing side as the coal markets remain strong. In addition, the outlook for the utility remains strong driven by an imminent rate filing and significant capital spending. TECO maintained its 2008 guidance of $0.95-$1.10 per share, but hinted at a better 2009. Relative to our estimates we expect up to $0.20 per share of upside at the coal business from pricing/volume improvements. We are reiterating our Neutral rating, but note that TECO shares are likely to outperform in the near term given the improved outlook from today's analyst meeting.

- **Coal prices are expected to outpace the rise in production costs.** TECO management expects 2008 coal production to increase from their February guidance of 9.5-10m tons to 10.5m tons. Management also expects 2009 coal production to be 11-11.5m tons and potentially higher in 2010, due to additional mining capacity and production gains. Despite production being higher in 2008, it is being partially offset by increased production costs. Conversely, 2009 net income/margins could potentially double driven by higher pricing ($7-10/ton over 2008) and increased volumes.

- **Rate relief likely in 2009 and settlement possible.** Rate case filings at the utilities still appear likely this year with an increase for 2009 and management noted they are likely to pursue a settlement as observed in other cases in Florida. According to the company, both utilities are expected to under-earn this year with a 9% earned ROE. Management also expects the equity ratio to increase to the 53% level due to incremental utility capital infusions, allowing for a material rate increase in 2009. In addition, the longer-term outlook for spending remains robust and is at $2.9 billion from 2008-2012. Separately, expectations for TECO Guatemala remain unchanged with the retail distribution rate setting process to occur mid-summer and the RFP for the coal plant still pending.

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Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

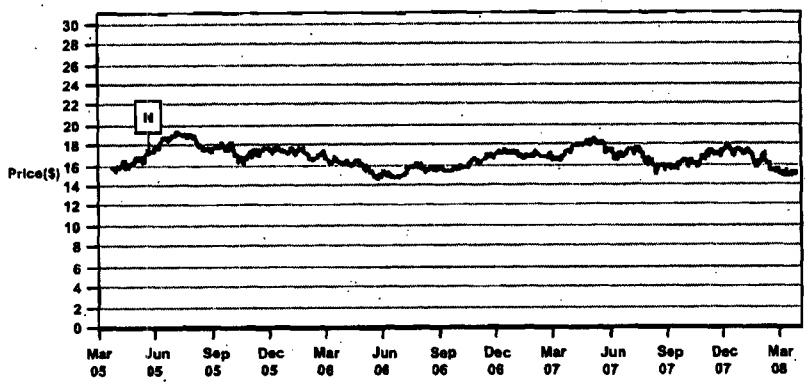
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TECO Energy Inc (TE) Price Chart



Date	Rating	Share Price ($)	Price Target ($)
23-May-05	N	17.46	-

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
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Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

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JPMorgan Equity Research Ratings Distribution, as of December 31, 2007

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IB clients*	50%	51%	38%
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Andrew Smith
(1-713) 216-7681
andrew.i.smith@jpmorgan.com

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Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

North America Equity Research
27 March 2008

JPMorgan

North America Equity Research
17 March 2008

JPMorgan

TECO Energy Inc

Short Term Trade Idea: Possible Upside Surprise at 3/27 Analyst Day

Neutral

$14.90
14 March 2008

Management discussed several key issues in our meetings at headquarters last week including: the coal pricing environment, its auction rate debt refinancing, its pending rate case filing and its bid to construct a power plant in Guatemala. We believe it could surprise to the upside at its upcoming analyst day on increased coal contacting and pricing. Accordingly, we would be buyers of the stock on a trade on potential short term strength around its analyst day, but we are also maintaining our Neutral rating as we believe the share's 5% discount to the group is warranted by its modest EPS growth and earnings derived from non-utility businesses, partly offset by its above-average dividend yield. It is also not clear to us how long the current high coal price environment may persist.

- **Upside surprise possible at its analyst day on coal pricing.** As of year end results, TECO's coal production was fully sold forward for 2008, but only 40% hedged for 2009. While the company did not provide any update on pricing or hedges in our meetings, management indicated that customers remained willing to sign contracts in the current high coal price environment for similar tenors to TECO's current book. Management indicated that it planned to update its coal outlook at its March 27th analyst day in New York, and we believe increased hedging in a higher priced environment could give investors better visibility into 2009 EPS and drive the shares in the short term. The one factor that TECO appears to be continuing to struggle with is rising operating costs at is coal business (consistent with what competitors are facing); however, the company also indicated that coal price escalation is far outpacing rising production costs.

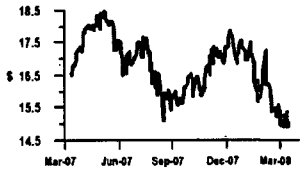
Electric Utilities

Andrew Smith[AC]
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

Rajeev Lalwani
(1-212) 622-6448
rajeev.lalwani@jpmorgan.com

Stefka Gerova
(1-212) 622-0549
stefka.g.gerova@jpmorgan.com

Price Performance



	YTD	-1M	-3M	-12M
Absolute	-13.4%	-3.0%	-12.5%	-9.6%

Source: RIMES, Reuters.

TECO Energy Inc (TE;TE US)

	2006A	2007A	2008E (Old)	2009E (Old)
EPS ($)				
Q1 (Mar)	0.26	0.21		
Q2 (Jun)	0.29	0.25		
Q3 (Sep)	0.38	0.38		
Q4 (Dec)	0.23	0.23		
FY	1.16	1.06	1.00	1.15
P/E FY	12.8	14.1	14.9	13.0

Source: Company data, Reuters, JPMorgan estimates. Note: Official estimates rounded to the nearest $0.05 per share.

Company Data	
Price ($)	14.90
Date Of Price	14 Mar 08
52-week Range ($)	18.58 - 14.73
Mkt Cap ($ mn)	3,137.02
Fiscal Year End	Dec
Shares O/S (mn)	211
Dividend ($)	0.76
Div. Yield	5.1%

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Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

- **Auction rate debt refinancing proceeding; could drive early debt reduction.** The company indicated that it has five tranches of auction rate debt outstanding. Each of the issues has a remarketing provision that allows TECO to convert is auction rate debt to term debt. The company recently completed the conversion of an $86 million tranche, and plans to address two additional tranches, totaling $100 million in the near future. The remaining two tranches, totaling $95 million, are being considered for retirement. Retiring the final two tranches would accelerate TECO's debt reduction, and be incremental to its already stated plans to retire $100 million of floating rate debt. We also note that TECO expects little EPS impact from the remarketing.

- **Plans to file for rate relief proceeding.** TECO did not provide any better sense of the timing of its planned rate case filing other than to reiterate that it will need rate relief in 2009 to continue earning within its allowed ROE range. The company said that the swing factor that will determine when it files for rate relief is weather as favorable weather could push out the required filing. As part of its rate case; the company also indicated that it continues to plan to infuse $190 million of equity into the utility and indicated that it would seek to have the equity layer at the utility in the low 50% range in the rate case. It may reach this level ahead of a rate filing, but management also expects that it will file updated financial projections during the rate case process, so it could infuse equity after the rate case filing, but before the update filing.

- **TECO Guatemala's bidding process into an RFP to build capacity moving forward, but commodity risk being negotiated.** TECO indicated that the bidding process to construct a 200 MW coal fired power plant in Guatemala is proceeding. The bids include construction and operating costs as well as a proposal for a PPA. This leaves the builder of the plant with commodity risk; however, and TECO indicated that bidders in the process do not want to assume commodity risk that would be embedded in the PPA. Negotiations to restructure part of the bidding to convert fuel to a pass-thru and eliminate the commodity risk from the project appear to be ongoing. TECO indicated it will not assume commodity risk on the project if its bid is ultimately successful.

- **Expectations for significant cash flow from NOL tax loss carryfowards and AMT taxpayer status remain.** TECO expects to shield about $500 million of cash taxes between now and 2010 as its uses its NOL balance. It expects an additional $190 million of cash tax shield as an AMT tax payer that will last for about one year after it exhausts its NOL balance.

Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

- **Trading at a modest discount; but warranted.** TECO shares trade at about a 5% discount to the group on 2009 results (13x 2009E EPS versus 13.8x for the UTY). However, we believe the discount is warranted given its EPS growth profile in conjunction with its business mix; whereby it derives a portion of its earnings from its coal business and TECO Guatemala. We note that its above-average dividend yield could be attractive for investors seeking to generate current income.

Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

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Investment Risks

TECO shares could outperform or underperform versus our Neutral rating for a number of reasons:

- Realized coal prices at TECO's coal mining business could be higher or lower than we expect.
- Production costs at TECO's coal mining business could be higher or lower than we expect, expanding or shrinking margins.
- TECO's rate case filing could be delayed and/or the results of its rate case could be better or worse than we project.
- The Florida economy could expand or contract faster or slower than we anticipate driving better or worse results at the utility.
- Its debt reduction plans could go faster or slower than we anticipate, which could impact our EPS projections.
- The impact of CO2 emissions restrictions could be less significant or more onerous than our expectations.

Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

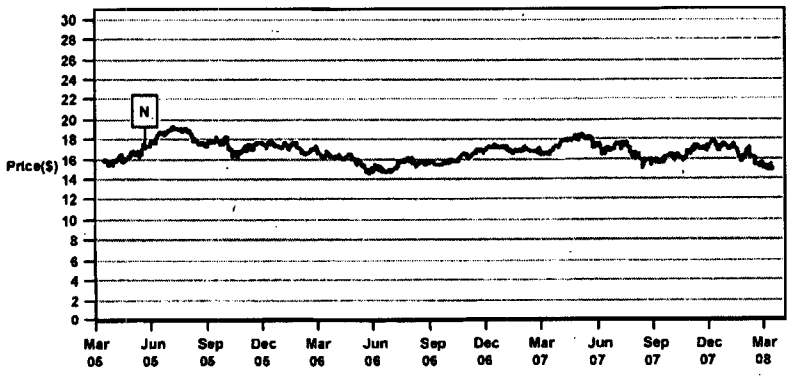
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Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

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North America Equity Research
05 February 2008

JPMorgan

TECO Energy Inc

Regulatory Lag Hurts 2008, but Rate Relief and Rising Coal Prices Could Help 2009 and Beyond

Neutral

$16.69 (intraday)
05 February 2008

TECO Energy reported 4Q07 results today and introduced guidance for 2008. The utility continues to operate in an attractive territory (despite potential modest short-term housing weakness) and it could benefit from improving coal pricing. However, the utility is suffering from regulatory lag that the company hopes to address with 2009 rate relief, and materially higher realized coal prices are likely at least one year away. TECO offers an above average dividend yield, but we see limited EPS growth in 2008. Investors will also have limited visibility into likely 2009E EPS as the company works through the regulatory process to address its ROE shortfall. Accordingly, we are maintaining our Neutral rating.

- **In-line 2007 results.** TECO Energy reported in-line 2007 EPS of $1.06 versus our estimate for $1.05. Rising operating costs offset rising coal prices, while the dilution from the sale of the company's waterborne transportation business was largely offset by the redeployment of sale proceeds for debt reduction.

- **Attractive utility territory, but growth potentially slowing near term.** Despite a modest slowdown in new home growth (consistent with comments from Florida Power & Light), we believe TECO's utilities operate in an attractive territory and in a state with a constructive regulatory environment. We estimate that a 100 bps swing in electric utility sales growth in 2008 impacts EPS by about $0.02.

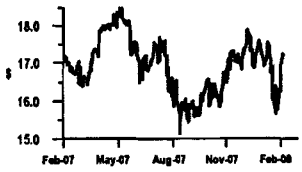
Electric Utilities

Andrew Smith[AC]
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

Rajeev Lalwani
(1-212) 622-6448
rajeev.lalwani@jpmorgan.com

Stefka Gerova
(1-212) 622-0549
stefka.g.gerova@jpmorgan.com

Price Performance



	YTD	-1M	-3M	-12M
Absolute	0.2%	1.8%	0.9%	0.4%

Source: RIMES, Reuters.

TECO Energy Inc (TE;TE US)

	2006A	2007A	2008E (Old)	2008E (New)	2009E
EPS ($)					
Q1 (Mar)	0.26	0.21			
Q2 (Jun)	0.29	0.25			
Q3 (Sep)	0.38	0.38			
Q4 (Dec)	0.23	0.23			
FY	1.16	1.06	1.10	1.00	1.15
P/E FY	14.4	15.7	15.2	16.7	14.5

Source: Company data, Reuters, JPMorgan estimates. Note: Official estimates rounded to the nearest $0.05 per share.

Company Data	
Price ($)	16.69
Date Of Price	05 Feb 08
52-week Range ($)	18.58 - 14.84
Mkt Cap ($ mn)	3,513.88
Fiscal Year End	Dec
Shares O/S (mn)	211
Dividend ($)	0.76
Div. Yield	4.6%

See page 4 for analyst certification and important disclosures, including investment banking relationships.
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Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

- **Coal business leveraged to improving prices, but offset by near-term contracts.** Coal prices have been rising recently, which could help improve results at TECO's coal business; however, as a result of its contracting strategy at the coal business, it will likely not have exposure to improving coal prices until 2009. Meanwhile, the coal business continues to struggle with cost pressures.

- **Rate relief could boost 2009 results.** The company indicated today that it will likely earn below the bottom end of its allowed ROE range at its utilities, and that it intends to seek rate relief to address the continuing ROE shortfall into 2009. We expect the company to be granted rate relief for rates in effect in mid-2009 that improves its utility ROE to the low 10% range.

- **Lowering 2008E EPS estimates; introducing 2009E EPS.** We are cutting our 2008E EPS to $1.00 from $1.10 to reflect fine-tuning around elimination of TECO Transport earnings as well as related interest cost reductions from associated debt reduction. We are also cutting 2008E EPS to reflect slowing utility growth as well as rising capital spending absent rate relief. We are introducing 2009E EPS of $1.15 per share. Year over year growth is driven primarily by rate relief at TECO's Tampa Electric utility, but realized coal pricing could also be a significant EPS driver that could swing EPS higher or lower.

- **Trades at a modest premium to the group, which we believe may be warranted; reiterate Neutral.** TECO shares currently trade at a P/E of 16.7 and 14.5x our 2008E and 2009E EPS respectively, a modest premium to the group averages of 15.4x and 14.0x. We believe the premium valuation reflects TECO's attractive utility territory and its above-average dividend. We also believe its premium valuation reflects investors' expectations that rate relief at its utility could further boost EPS growth. We reiterate our Neutral rating on the stock.

Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

JPMorgan

Investment Risks

Among the negative risks to our Neutral rating on TECO are uncertainty around coal production costs and the potential for deteriorating conditions at the regulated utilities. We expect coal production costs to grow faster than realized pricing, which will likely compress margins in the coal segment. Lower than expected customer growth or higher than forecasted operating expenses at Tampa Electric and Peoples Gas would pressure results at the regulated utilities and likely contribute to earnings deceleration.

Positive risks to our Neutral rating include stronger than forecasted customer and load growth at Tampa Electric and higher than expected commodity prices at the unregulated businesses. Upside to our customer and load growth estimates could contribute to enhanced profitability at Tampa Electric. Similarly, increased commodity prices may benefit TECO Coal operations, as higher averaged realized pricing may be achieved, and at TECO Transport, where distribution services may become more valuable as the prices of dry-bulk goods rise.

Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

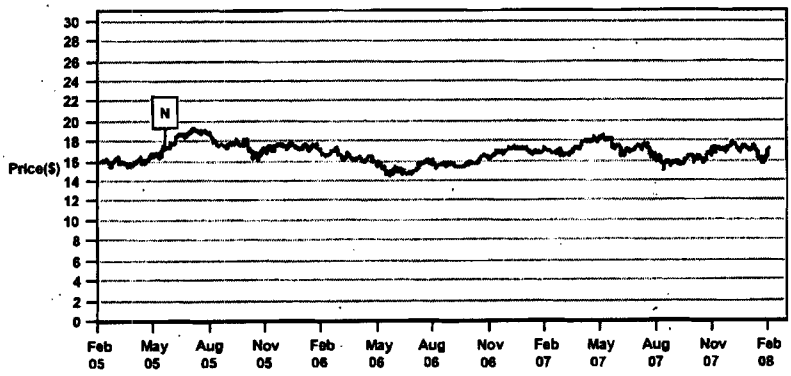
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TECO Energy Inc (TE) Price Chart



Date	Rating	Share Price ($)	Price Target ($)
23-May-05	N	17.12	-

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
This chart shows JPMorgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
JPMorgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

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Andrew Smith
(1-713) 216-7681
andrew.t.smith@jpmorgan.com

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IB clients*	50%	51%	38%
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IB clients*	71%	64%	49%

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Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

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Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

North America Equity Research
05 February 2008

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2202AIV

December 5, 2008
ENERGY: Utilities
Estimates Change / Rating Change

KeyBanc

TECO Energy, Inc.:

TE: Coal Catalyst Fades, Shares Reasonably Priced; Downgrade to HOLD

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

Paul T. Ridzon: (216) 263-4789 — pridzon@keybanccm.com
Timothy Yee: (216) 563-2161 — tyee@keybanccm.com

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Rating	
Price	
12 Mo. Price Target	
Dividend	
Yield	
52 Wk. Range	
Trading Volume	
Market Cap. (mm)	
Shares Out. (mm)	
Book Value/Share	

Fiscal Year End	
2009E	
2008E	
2007A	
2009 P/E	
2008 P/E	
First Call 2009E	
First Call 2008E	

Next Quarter	
Estimate	
Vs.	
First Call Estimate	

ACTION STATEMENT

Coal Catalyst Fades, Shares Reasonably Priced; Downgrade to **HOLD**

KEY INVESTMENT POINTS

Anecdotal information on coal pricing suggests that economic issues are impacting the steel production outlook, which, in turn, has loosened up tight coal pricing. While coal pricing is generally more sticky than the pricing of more liquid commodities, this stickiness appears to be fading.

Lower steel production is in part to work off excess inventory levels. However, we lack clarity on end demand and pricing power of input producers in a slowing global economy.

We are dropping our pricing assumptions for TECO Energy's (TE-NYSE) unhedged coal to $125/T (from $225/T) for metallurgical and $85/T (from $160/T) for PCI coal.

The earnings impact lowers our 2009 forecast by $0.40 to $1.30 per share.

Given the likely loss of a potential catalyst and overhang around long-term pricing, we believe a **HOLD** rating is appropriate.

We believe a key issue to watch for in the future is a turn in steel demand, likely driven by a Chinese economic recovery.

VALUATION

Based upon our revised 2009 estimate, shares of TE trade at a P/E multiple of 8.6x, vs. the utility group at 11.1x. We believe this adequately reflects the commodity volatility inherent in the coal segment. We believe a 7.1% yield and potential upside to a Florida recovery make shares modestly attractive, but believe few near-term catalysts suggest a **HOLD** rating is appropriate.

From a sum-of-the-parts analysis, we value the utility, Guatemala and holding company operations at the group average multiple of 11.1x, for a value of $10 per share. We assign the forecasted 2009 coal earnings of $0.40 a multiple of 4.0x.

RISKS

We believe the primary risk to TE is further deterioration of the Florida economy.

FOR IMPORTANT DISCLOSURES AND CERTIFICATIONS, PLEASE REFER TO PAGES 3 - 4 OF THIS NOTE.

EPS (Net) Summary

	2007A	%CHG	2008E	%CHG	2009E	%CHG
1Q	$0.21	-8.7%	$0.15A	-28.6%	--	--
2Q	$0.25	0.0%	$0.24A	-4.0%	--	--
3Q	$0.38	26.7%	$0.27A	-28.9%	--	--
4Q	$0.23	27.8%	$0.19	-17.4%	--	--
YEAR	$1.07	10.3%	$0.85	-20.6%	$1.30	52.9%

Source: KeyBanc Capital Markets Inc. estimates

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TECO Energy, Inc. - TE

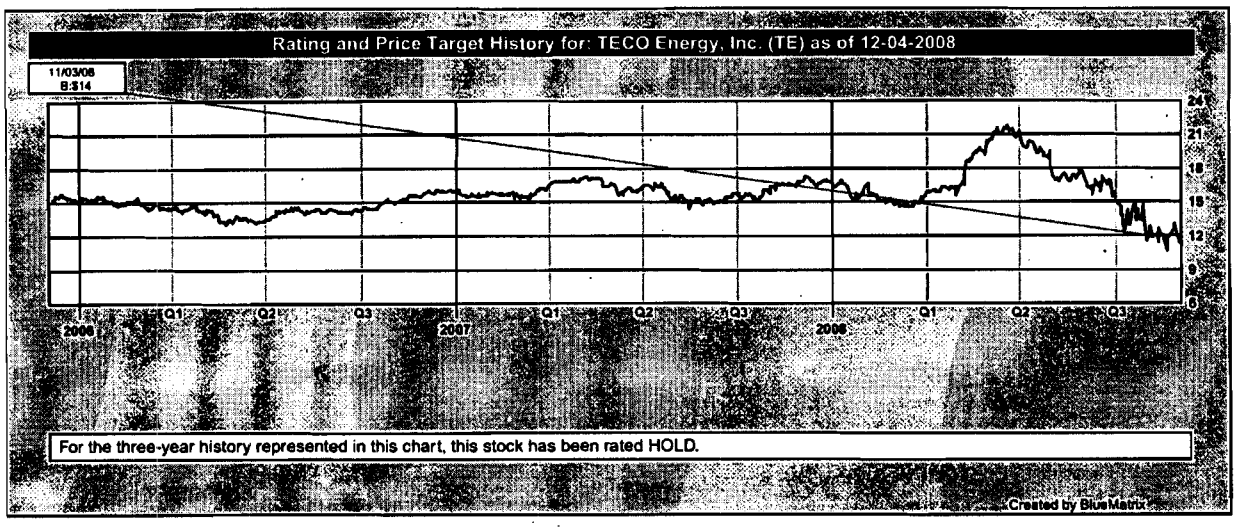
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Three-Year Rating and Price Target History



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Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
BUY [BUY]	124	37.92	27	21.77	BUY [BUY]	21	39.62	12	57.14
HOLD [HOLD]	190	58.10	34	17.89	HOLD [HOLD]	31	58.49	15	48.39
SELL [UND]	13	3.98	0	0.00	SELL [UND]	1	1.89	0	0.00

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BUY - The security is expected to outperform the market over the next six to 12 months; investors should consider adding the security to their holdings opportunistically, subject to their overall diversification requirements.

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November 3, 2008
ENERGY: Utilities
Company Update / Estimates Change / Rating Change / Price Target Change

KeyBanc Capital Markets

TECO Energy, Inc.:

TE: Oversold on Coal Concerns; Upgrading to BUY from HOLD

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

Paul T. Ridzon: (216) 263-4789 — pridzon@keybanccm.com
Timothy Yee: (216) 563-2161 — tyee@keybanccm.com

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Rating	BUY
Price	$11.54
12-Mo. Price Target	$14.00
Dividend	$0.80
Yield	6.9%
52-Wk. Range	$11-$22
Trading Volume	2,307,000
Market Cap. (mm)	$2,453.4
Shares Out. (mm)	212.60
Book Value	$7.07

Fiscal Year End	December
2009E	$1.70
2008E	$0.85
2007A	$1.07
2009 P/E	6.8x
2008 P/E	13.6x
First Call 2009E	$1.56
First Call 2008E	$0.86

Next Quarter	December
Estimate	$0.19
Vs.	$0.23
First Call Estimate	$0.17

ACTION STATEMENT

With TECO Energy (TE-NYSE) Heavily Sold on Higher Coal Costs, We Are Upgrading Our Rating on the Shares to BUY from HOLD and Establishing a $14 Price Target.

KEY INVESTMENT POINTS

TE shares have seen heavy selling pressure after management indicated that costs at the mining business had risen further, resulting in downgrades and driving overly bullish estimates downward.

We are upgrading shares to **BUY** from HOLD and establishing a $14 price target, offering over 20% price appreciation plus a 6.9% yield.

We believe that at current pricing, little value is given for the coal business, which we expect to earn roughly $0.80 per share in 2009.

We have lowered our 2008 estimate to $0.85 from $0.90. We are raising our 2009E to $1.70 from $1.60 after refining our coal outlook and making what we consider to be conservative gas and electric rate case outcome assumptions.

VALUATION

Our $14 price target is based on a sum-of-the parts analysis. We assign a group average multiple of 11.6x to the combined utility, Guatemala and holding company earnings of $0.90. We value TECO Coal at the 4.2x average P/E of a peer group, applied to our $0.80 estimated 2009 coal earnings. Based upon our revised 2009 estimate, shares of TE trade at a 6.8x P/E multiple compared to the group average P/E of 11.6x. Our $14 price target represents an 8.2x P/E multiple.

RISKS

We believe the primary risks that could impede TE from achieving our price target are the timing of Florida's economic turnaround, obtaining constructive outcomes in its general base rate case filings, and further cost pressures negatively impacting the coal segment.

INVESTMENT OPINION

We are upgrading shares of TE with a $14 price target representing 12-month total return potential of over 25%. Shares have sold off sharply after TE outlined higher costs at the mining segment in its 3Q08 earnings discussion. We believe investor expectations were overly optimistic and current share pricing reflects little value for the coal operations. We believe shares are oversold following downgrades and estimate reductions. We further believe that consensus numbers do not reflect rate case potential to mitigate underearning at the regulated gas and electric utilities.

FOR IMPORTANT DISCLOSURES AND CERTIFICATIONS, PLEASE REFER TO PAGES 5 - 6 OF THIS NOTE.

2009 Earnings Outlook
We are raising our 2009 estimate to $1.70 from $1.60 per share. This higher estimate is based on higher coal expectations and conservative rate case outcome assumptions, as outlined below.

Utility Forecast
We are forecasting 2009 regulated utility results of $0.98 per share. On August 11, TE filed full base rate cases for both the electric and gas utilities. TE requested a $228.2 million electric revenue increase on a $3.657 billion rate base, 55.3% equity capital structure, weighted average cost of capital of 8.82% and a 12% ROE. In the gas rate case, TE requested a $26.5 million revenue increase on a $563.6 million rate base, 54.7% equity capital structure, weighted average cost of capital of 8.88% and an 11.5% ROE. New electric rates are expected to be effective in May 2009 and new gas rates effective in June 2009. We outline our assumptions behind our gas and electric estimates in the following table:

Tampa Electric Regulatory Parameters - Rates Effective May 2009						
	Rate Base ($mm)	Equity Capital	ROE	Partial Yr. Weighting*	Net Income ($mm)	EPS
Rate Case Filing	$3,657	55.3%	12.0%	100%	$242.7	$1.14
Assumed Old Rates	$3,300	53.0%	9.5%	40.0%	$66.5	$0.31
Assumed New Rates	$3,500	53.0%	10.3%	60.0%	$114.1	$0.54
2009 Forecast					**$180.5**	**$0.85**
Peoples Gas Regulatory Parameters - Rates Effective June 2009						
Rate Case Filing	$564	54.7%	11.5%	100%	$35.5	$0.17
Assumed Old Rates	$540	53.0%	9.5%	62.5%	$17.0	$0.08
Assumed New Rates	$550	53.0%	10.3%	37.5%	$11.2	$0.05
2009 Forecast					**$28.2**	**$0.13**
Shares Outstanding	212					
** New rates in effect for only part of year, 2009 Forecast considers partial year of old rate tariffs*						

Coal Forecast
We forecast TECO Coal to earn $0.80 per share in 2009. TE expects to produce 10.5 million tons in 2009. TE indicated that 88% of this production had been contracted at $77/ton. Of the remaining 12% unhedged, 60% is PCI Coal and 40% metallurgical grade (Met) coal. TE indicated it was seeing reports of PCI price at $175/ton and Met coal in the range of $225-$245/ton. Our 2009 earnings sensitivity around pricing on unhedged coal is $0.037 per share for each $10 per ton price movement and $0.037 per share for every $1 movement in production cost. Our $0.80 estimate is based on the following assumptions, which we consider conservative vs. current markets:

TECO Coal Forecast Assumptions	
Tons Produced (mm)	10.5
Hedged	88%
Hedged Price/ton	$77
Unhedged Production	12%
Unhedged Met	60%
Unhedged PCI	40%
Met Coal Price	$225
PCI Coal Price	$160
Blended Price/ton	$91.64
Cash Cost/ton	$65
DD&A/ton	$5
Pretax Income	$227
Tax Rate	25%
Net Income ($mm)	**$170.4**
EPS	**$0.80**
Shares Outstanding	212

Guatemala Forecast
We forecast TECO Guatemala to earn $0.13 per share. This segment earned $0.21 in 2007. 2009 will be impacted by a planned extended maintenance outage, which we believe will be a $0.03 drag. Recent regulatory actions are expected to be an additional $10 million or $0.05 per share.

Parent/Other Forecast
Parent losses are forecast to be at a run rate consistent with 3Q results of a $0.055 per share loss. Our 2009 forecast is a loss of $0.22 per share.

TECO Energy Consolidated Forecast
Our consolidated 2009 forecast for TECO Energy is outlined below:

Segment	Net Income	EPS
Tampa Electric	$180.5	$0.85
Peoples Gas	$28.2	$0.13
TECO Coal	$170.4	$0.80
TECO Guatamala	$27.6	$0.13
Parent	($46.6)	($0.22)
	$360.1	**$1.70**

Our sum-of-the-parts valuation assigns the average 2009 P/E multiple of our coverage list of 11.6x to the earnings of the Florida Utilities, Guatemalan operations and the parent losses. We value coal earnings at 4.2x based upon the average valuation of a peer group of coal producers, as shown:

TKR	Company	2009 FC*	Price	2009 P/E
ANR	Alpha Natural Resources	12.06	35.77	3.0
ACI	Arch Coal Inc.	5.12	21.41	4.2
CNX	Consol Energy Inc.	6.52	31.39	4.8
FCL	Foundation Coal Holdings Inc.	4.2	20.76	4.9
ICO	International Coal Group	0.87	4.68	5.4
JRCC	James River Coal Co.	6.16	19.22	3.1
MEE	Massey Energy Co.	6.42	23.09	3.6
PCX	Patriot Coal Corp.	4.77	15.83	3.3
BTU	Peabody Energy Corp.	5.48	34.51	6.3
WLT	Walter Industries	12.19	38.75	3.2
			Average:	**4.2**
	** First Call Consensus Estimate*		**High:**	**6.3**
			Low:	**3.0**

3Q08 EARNINGS REVIEW

TE reported 3Q08 ongoing earnings of $0.27 per share vs. $0.38 per share in 3Q07. GAAP earnings were $0.27 vs. $0.44 per share. The difference between GAAP and ongoing earnings in the same period last year was due to $0.06 gain from SynFuels and net $0.00 of transaction and depreciation costs associated with the December 2007 sale of TECO Transport barge business, which are one-time special items excluded from ongoing earnings. Segment operating detail for the quarter is given below:

Tampa Electric ($0.238 vs. $0.309) – Mild and wet weather, lower sales to industrial customers, and general economic weakness helped to decrease revenues $14.2 million this quarter compared to 3Q07. Retail energy sales were down 6.7%, with cooling degree days 7% below normal and 11% lower compared to last year. Net customer growth was 0.0% vs 1.8% last year, with new customer additions more than offset by disconnects from home foreclosures and vacancies. O&M expenses were modestly higher by $0.6 million as higher spending on power facility maintenance, slightly higher bad debt expense and higher employee-related and vehicle diesel fuel costs were partly offset by lower overhead and lower self insurance expenses. Higher depreciation rates raised expenses $4.4 million, interest expense was up $1.2 million and interest income was down $2.7 million.

Peoples Gas ($0.012 vs. $0.018) – Peoples Gas saw lower margins on off-system sales, higher transport volumes for large industrial customers, and weak customer growth of 0.2%. These effects were more than offset by higher O&M, depreciation and interest expenses in the quarter.

TECO Coal ($0.017 vs. $0.035) – Higher production input costs (diesel, steel, explosives and labor) are impacting the coal sector. While output was fully hedged for 2008, commodity input costs were left somewhat open to fluctuating prices. Production costs rose 16% in 3Q08 over last year, while sales declined to 2.2 million tons vs. 2.4 million tons sold in 3Q07. TECO Coal experienced lower than expected coal production again in the 3Q due to adverse mining geology in a new underground mine (roof fall temporarily halted production) and finding competitive qualified labor. Coal sales forecasts were lowered to 9.5 million tons (from earlier estimate of 10.0 million tons) for 2008, and revised to a point estimate of about 10.5 million tons (from earlier estimated range of 10.5 million-11.0 million tons) for 2009.

TECO Transport ($0.000 vs $0.052) – TE monetized its barge business at the end of 2007.

Guatemala ($0.055 vs. $0.049) – Higher market prices helped spot energy sales at San Jose Power Station. Segment results benefited from lower interest expense, customer growth and usage at the distribution utility (EEGSA), and earnings from unregulated businesses, partly offset by a reduced Value Added Distribution (VAD) tariff at EEGSA that reduced net income by $0.6 million in the quarter.

Parent Costs (-$0.049 vs. -$0.083) – Proceeds from the TECO Transport sale last year allowed for parent debt retirement, which drove a $4.0 million reduction in interest costs this quarter partially offset by lower investment income from lower cash balances.

EPS (Net) Summary

	2007A	%CHG	2008E	%CHG	2009E	%CHG
1Q	$0.21	-8.7%	$0.15A	-28.6%	--	--
2Q	$0.25	0.0%	$0.24A	-4.0%	--	--
3Q	$0.38	26.7%	$0.27A	-28.9%	--	--
4Q	$0.23	27.8%	$0.19	-17.4%	--	--
YEAR	$1.07	10.3%	$0.85	-20.6%	$1.70	100.0%

Source: KeyBanc Capital Markets Inc. estimates

KeyBanc Capital Markets Inc. Disclosures and Certifications

TECO Energy, Inc. - TE

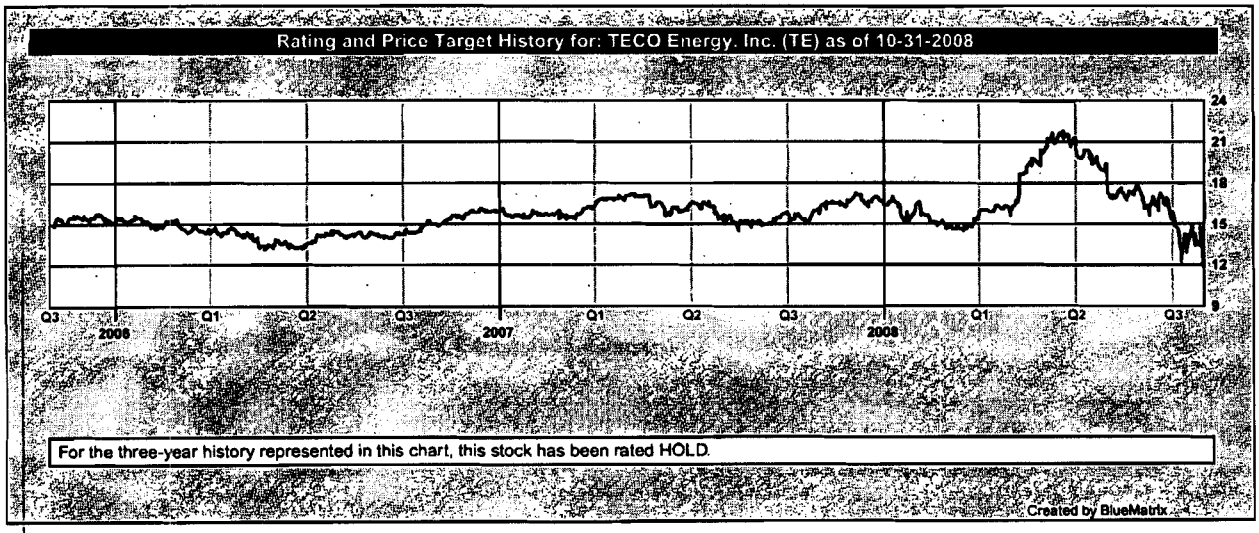
For the three-year history represented in this chart, this stock has been rated HOLD.

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Three-Year Rating and Price Target History



Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector

KeyBanc Capital Markets

Rating	Count	Percent	IB Serv/Past 12 Mos. Count	IB Serv/Past 12 Mos. Percent
BUY [BUY]	134	39.64	29	21.64
HOLD [HOLD]	195	57.69	35	17.95
SELL [UND]	9	2.66	0	0.00

ENERGY

Rating	Count	Percent	IB Serv/Past 12 Mos. Count	IB Serv/Past 12 Mos. Percent
BUY [BUY]	20	38.46	12	60.00
HOLD [HOLD]	31	59.62	15	48.39
SELL [UND]	1	1.92	0	0.00

Rating System

BUY - The security is expected to outperform the market over the next six to 12 months; investors should consider adding the security to their holdings opportunistically, subject to their overall diversification requirements.

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August 1, 2008
ENERGY: Utilities
Estimates Change

KeyBanc
Capital Markets

TECO Energy, Inc.:

TE: Revising Estimates

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

Paul T. Ridzon: (216) 263-4789 — pridzon@keybanccm.com
Timothy Yee: (216) 563-2161 — tyee@keybanccm.com

Investors should assume that we are seeking or will seek investment banking or other business relationships with the company described in this report.

Rating	HOLD
Price	$16.55
12-Mo. Price Target	NA
Dividend	$0.80
Yield	4.3%
52-Wk. Range	$14-$22
Trading Volume	2,105,000
Market Cap. (mm)	$3,906.6
Shares Out. (mm)	210.60
Book Value	$7.07

Fiscal Year End	December
2009E	$1.60
2008E	$0.90
2007A	$1.07
2009 P/E	11.6x
2008 P/E	20.6x
First Call 2009E	$1.49
First Call 2008E	$0.94

Next Quarter	September
Estimate	$0.52
Vs.	$0.38
First Call Estimate	$0.36

ACTION STATEMENT

2008 Challenged 2009 Coal Upside

KEY INVESTMENT POINTS

On July 31, 2008, TECO Energy (TE-NYSE) reported 2Q08 earnings of $0.24 per share, in line with our $0.24 estimate and ahead of the First Call consensus estimate of $0.23 per share.

TE expects to file full base rate cases at both electric and gas utilities by August 11, 2008, with new rates expected to be effective by May 2009. TE's notice of intent to file to the Florida Public Service Commission proposed an approximately $230 million electric revenue increase and an approximately $25 million gas revenue increase.

TECO Coal (the unregulated mining subsidiary) experienced lower than expected coal production and higher production costs from input price inflation and difficulty finding qualified labor. Coal sales forecasts were lowered to 10.0 million tons (from 10.5 million tons) for 2008, and down to a range of 10.5 million-11.0 million tons (from 11.0 million-11.5 million tons) for 2009.

TE lowered 2008 guidance to $0.80-$0.90 per share (from $0.95-$1.10) due to production cost pressures at TECO Coal, higher O&M at the utilities (planned plant outages and bad debt expense), and slowing customer growth as a result of general economic weakness in Florida. **We are lowering our 2008 estimate to $0.90 from $1.00 per share.**

After evaluating TE's preliminary 2009 business outlook and our modeling assumptions of its coal hedging and contract pricing positions, **we are raising our 2009 estimate to $1.60 from $1.40 per share.**

VALUATION

Based upon our revised 2009 estimate, shares of TE sell at an 11.6x P/E multiple, compared to the group average P/E of 13.6x. We believe shares are modestly attractive, but trade at a discount due to coal pricing volatility.

RISKS

We believe the primary risks affecting TE are the timing of the Florida economic turnaround, obtaining constructive outcomes in its general base rate case filings, and a retreat in commodity prices, which could detract from the upside at the coal business.

FOR IMPORTANT DISCLOSURES AND CERTIFICATIONS, PLEASE REFER TO PAGES 3 - 4 OF THIS NOTE.

DISCUSSION

TE reported 2Q08 earnings of $0.24 vs. $0.35; excluding unusual items of transaction costs for sale of TECO Transport barge business last year and SynFuels in 2Q07, operating earnings were $0.24 vs. $0.25. Segment detail is given below:

Tampa Electric ($0.190 vs. $0.165) – In line with our expectations, Tampa Electric experienced hotter weather that helped drive retail sales up 2.7% and increased base revenues by $7.6 million over 2Q07. Customer growth slowed to 0.2% vs. 2.2% due to the weak housing market and a general economic slowdown in Florida. O&M expense increased $1.9 million from planned power generation unit outages and $0.4 million from higher bad debt expense. Tampa Electric estimates its fuel under-recovery for 2008 will grow to approximately $209 million, and would be recovered in 2009 through the normal true-up mechanism in TE's fuel adjustment clause to be filed in September this year.

Peoples Gas ($0.025 vs. $0.026) – Peoples Gas saw a 24.6% increase in off-system sales and 8.9% higher transport volumes for generation and a new large industrial customer, along with 2.1% higher residential sales from milder weather. This was more than offset by higher O&M, depreciation, and interest expenses in the quarter. Lower commercial volumes of -1.4% in the restaurant sector reflected a slowing Florida economy. Customer growth slowed to 0.3% from 2.1%.

TECO Coal ($0.020 vs. $0.047) – Rising production input costs (diesel, steel, and explosives) are impacting the coal sector. While output was fully hedged for 2008, commodity input costs were left somewhat open to fluctuating prices. Production costs rose 20% in 2Q08 over 2Q07, while sales increased to 2.4 million tons from 2.2 million tons. TECO Coal experienced lower than expected coal production in the 2Q due to difficult mining geology (sandstone conditions) in a new underground mine and finding qualified labor. 2008 sales forecasts were lowered from 10.5 million tons to 10 million tons.

TECO Transport ($0.000 vs $0.068) – TE monetized its barge business at the end of 2007.

Guatemala ($0.070 vs. $0.061) – Higher market prices helped spot energy sales at San Jose Power Station. Segment results benefited from lower interest expense, customer growth and usage at the distribution utility and earnings from unregulated businesses. Partly offsetting these were higher operating costs.

Parent Costs (-$0.062 vs. -$0.114) – Proceeds from the TECO Transport sale last year allowed for parent debt retirement, which drove a $4.9 million reduction in interest costs this quarter.

2009 BUSINESS AND EARNINGS OUTLOOK

A preliminary 2009 business outlook was provided by TE management during the 2Q08 earnings conference call, with updates on 2009 coal hedging and contract positions. After modeling our coal assumptions and adjusting for a slowing Florida economy and potential rate case impacts in 2009, we are raising our 2009 estimate to $1.60 from $1.40 per share. Coal pricing is a material earnings driver. Our 2009 earnings sensitivity around pricing on unhedged coal is $0.075 per share for each $10 per ton price movement. We have assumed uncontracted coal is priced at $150 per ton. Additionally, we are assuming a reasonable outcome to TE's pending electric and gas rate cases seeking a combined rate increase of $255 million.

EPS (Net) Summary

	2007A	%CHG	2008E	%CHG	2009E	%CHG
1Q	$0.21	-8.7%	$0.15A	-28.6%	--	--
2Q	$0.25	0.0%	$0.24A	-4.0%	--	--
3Q	$0.38	26.7%	$0.32	-15.8%	--	--
4Q	$0.23	27.8%	--	--	--	--
YEAR	$1.07	10.3%	$0.90	-15.9%	$1.60	77.8%

Source: KeyBanc Capital Markets Inc. estimates

KeyBanc Capital Markets Inc. Disclosures and Certifications

TECO Energy, Inc. - TE

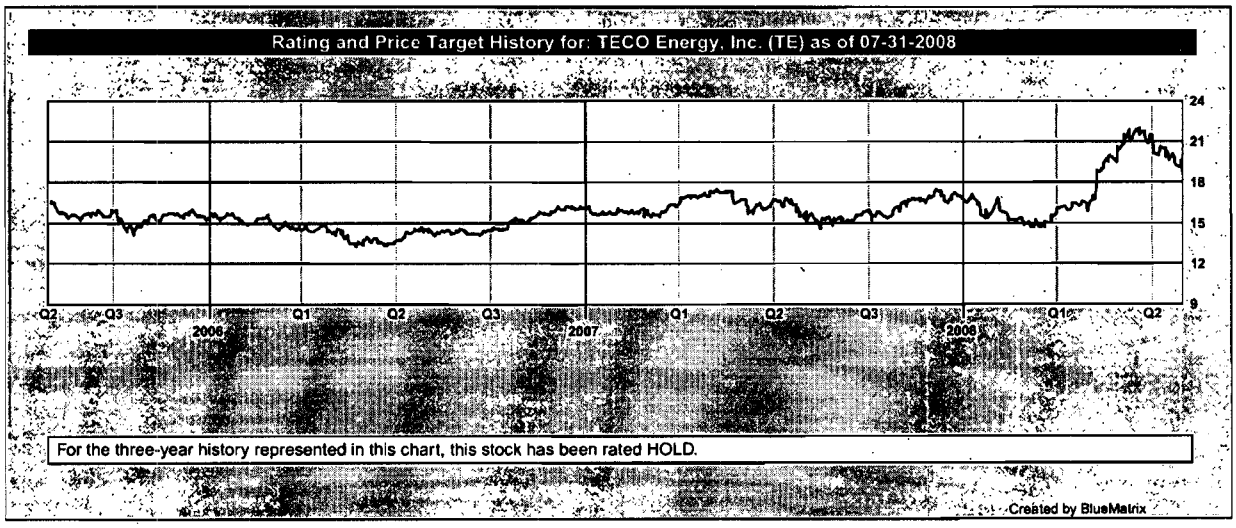
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Three-Year Rating and Price Target History



Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector

KeyBanc Capital Markets			IB Serv/Past 12 Mos.		ENERGY			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
BUY [BUY]	137	42.55	34	24.82	BUY [BUY]	18	33.33	10	55.56
HOLD [HOLD]	178	55.28	38	21.35	HOLD [HOLD]	36	66.67	18	50.00
SELL [UND]	7	2.17	0	0.00	SELL [UND]	0	0.00	0	0.00

Rating System

BUY - The security is expected to outperform the market over the next six to 12 months; investors should consider adding the security to their holdings opportunistically, subject to their overall diversification requirements.

HOLD - The security is expected to perform in line with general market indices over the next six to 12 months; no buy or sell action is recommended at this time.

UNDERWEIGHT - The security is expected to underperform the market over the next six to 12 months; investors should reduce their holdings opportunistically.

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April 30, 2008
ENERGY: Utilities
Estimates Change

KeyBanc
Capital Markets

TECO Energy, Inc.:

TE: Mild Weather, Florida Economy Yield Weak 1Q; Lowering 2008 Estimate

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

Paul T. Ridzon: (216) 263-4789 — pridzon@keybanccm.com

Investors should assume that we are seeking or will seek investment banking or other business relationships with the company described in this report.

Rating	HOLD
Price	$16.86
12-Mo. Price Target	NA
Dividend	$0.78
Yield	4.7%
52-Wk. Range	$14-$19
Trading Volume	11,619,000
Market Cap. (mm)	$3,505.3
Shares Out. (mm)	210.40
Book Value	$7.07

Fiscal Year End	December
2008E	$1.00
2007A	$1.07
2006A	$0.97
2008 P/E	16.7x
2007 P/E	15.6x
First Call 2008E	$1.04
First Call 2007A	$1.07

Next Quarter	June
Estimate	$0.23
vs.	$0.25
First Call Estimate	$0.24

KEY INVESTMENT POINTS

On April 29, TECO Energy (TE-NYSE) reported 1Q08 earnings of $0.15 per share, below our $0.19 estimate and the consensus estimate of $0.21 per share.

Relative to our expectations, Tampa Electric had milder weather and a slowing economy, driving earnings $0.02 below our forecast. Customer growth declined to 0.6% from previous highs over 2%.

TE expects rate cases at the electric and gas utilities will be necessary in 2008 and 2009, given slowing growth and cost pressures.

Teco Coal also came in $0.02 below our estimate and 1Q07. Product mix was toward lower margin steam coal. Teco Coal is expected to be back-end-loaded, as mix shifts toward metallurgical coal.

TE maintained 2008 guidance of $0.95-$1.10. We are lowering our 2008 estimate to $1.00 from $1.05.

VALUATION

Based upon our revised 2008 estimate, shares of TE sell at a 16.7x P/E multiple, a 12% premium to the group average of 14.9x. We believe this fairly reflects upside in 2009 and 2010 when the coal contracts below market expire.

RISKS

We believe the primary risks affecting TE are the timing of the Florida economic turnaround and a retreat in commodity prices, which could detract from the upside at the coal business.

SUMMARY

TE reported 1Q08 earnings of $0.15 vs. $0.35; excluding unusual items of transaction costs for the barge sale and SynFuels in 1Q07, operating earnings were $0.15 vs. $0.21. Segment detail is given below.

Tampa Electric ($0.075 vs. $0.104) – Results reflect very mild weather, we suspect little heating or A/C load was experienced, driving base revenues down $3.2 million. Customer growth was 0.6% vs. 2.5%. For the year, management expect 2008 growth to be a slight improvement vs. the 1Q. O&M was negatively impacted $0.01 by planned maintenance outages.

Peoples Gas ($0.047 vs. $0.052) – Peoples saw little heating load, as weather was 10% milder than 1Q08. Customer growth slowed to 0.3% from 2.1%.

FOR IMPORTANT DISCLOSURES AND CERTIFICATIONS, PLEASE REFER TO PAGES 3 - 4 OF THIS NOTE.

Teco Coal ($0.036 vs. $0.056) – Input costs (diesel and steel) are impacting the sector, as output was hedged, but input costs were left somewhat open for the year. Production costs rose 7%. Tonnage increased to 2.4 million tons from 2.1 million tons. Mix was weighted to steam coal, but is expected to move toward met coal later in the year. We expect full year results will be comparable to 2007 (excluding SynFuels), as incremental volume sold into spot pricing offsets input pressures.

Transport ($0.00 vs $0.03) – TE monetized the barge business in 2007.

Guatemala ($0.050 vs. $0.049) – Results include benefits of an inflation adjuster, lower interest costs and customer growth. Partly offsetting these were higher operating costs.

Parent Costs ($0.059) vs. ($0.083) – Proceeds from the transport sale allowed debt reduction, which drove a $6.8 million reduction in interest costs.

EPS (Net) Summary

	2006A	%CHG	2007A	%CHG	2008E	%CHG
1Q	$0.23	-8.0%	$0.21	-8.7%	$0.15A	-28.6%
2Q	$0.25	-10.7%	$0.25	0.0%	$0.23	-8.0%
3Q	$0.30	-34.8%	$0.38	26.7%	--	--
4Q	$0.18	-25.0%	$0.23	27.8%	--	--
YEAR	$0.97	-21.8%	$1.07	10.3%	$1.00	-6.5%

Source: KeyBanc Capital Markets Inc. estimates

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TECO Energy, Inc. - TE

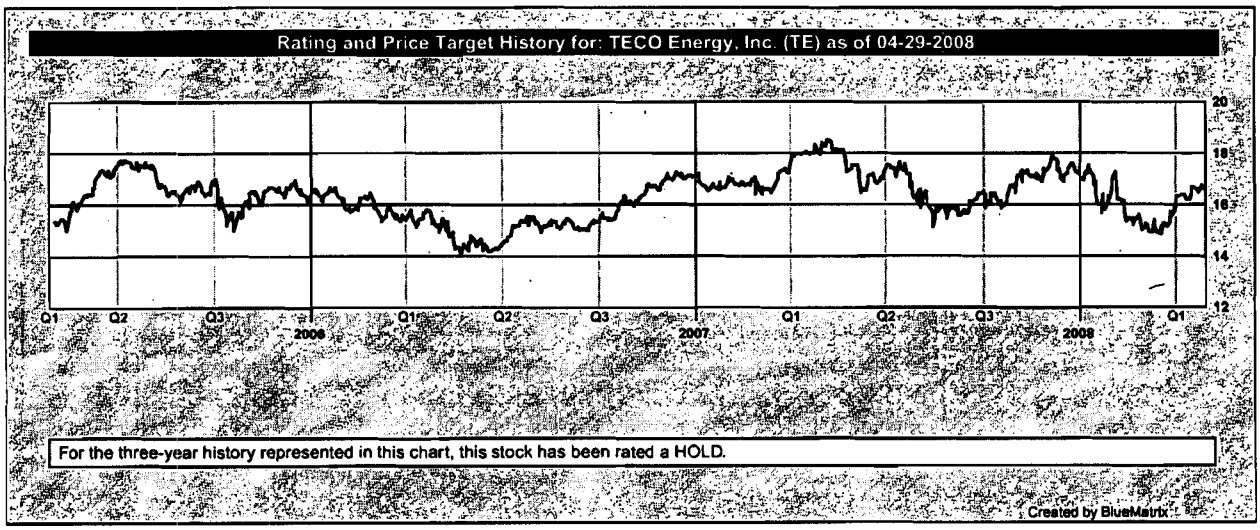
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Three-Year Rating and Price Target History



Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector

KeyBanc Capital Markets			IB Serv/Past 12 Mos.		ENERGY			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
BUY [BUY]	140	45.16	35	25.00	BUY [BUY]	17	32.08	8	47.06
HOLD [HOLD]	163	52.58	37	22.70	HOLD [HOLD]	36	67.92	18	50.00
SELL [UND]	7	2.26	0	0.00	SELL [UND]	0	0.00	0	0.00

Rating System

BUY - The security is expected to outperform the market over the next six to 12 months; investors should consider adding the security to their holdings opportunistically, subject to their overall diversification requirements.

HOLD - The security is expected to perform in line with general market indices over the next six to 12 months; no buy or sell action is recommended at this time.

UNDERWEIGHT - The security is expected to underperform the market over the next six to 12 months; investors should reduce their holdings opportunistically.

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TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008

Macquarie Research
Equities (USA)

UNITED STATES

TECO Energy

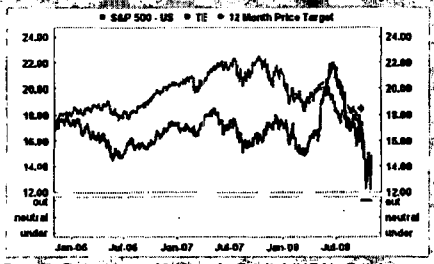
31 October 2008

TE US		Outperform
Stock price as of 30 Oct 08	US$	12.88
12-month target	US$	17.00
12-month TSR	%	+38.2
Valuation	US$	17.00
- DCF (WACC 7.0%, beta 0.9)		
GICS sector		Utilities
Market cap	US$m	2,740
30-day avg turnover	US$m	32.7
Number shares on issue	m	212.7

Investment fundamentals

Year end 31 Dec		2007A	2008E	2009E	2010E
Sales/revenue	m	3,531.3	3,423.5	3,922.5	4,293.9
EBITDA	m	674.2	634.9	788.7	865.5
EBITDA growth	%	-0.3	-5.8	24.2	9.7
Reported profit	m	200.0	172.9	250.3	286.4
Gross cashflow	m	580.4	433.4	525.8	575.0
EPS rep	¢	95.3	82.2	118.3	134.8
EPS rep growth	%	13.8	-13.7	43.9	13.9
PE rep	x	13.5	15.7	10.9	9.6
Total DPS	¢	78.0	79.5	80.0	84.0
Total div yield	%	6.1	6.2	6.2	6.5
ROA	%	11.2	6.9	8.4	8.9
ROE	%	16.9	8.5	12.1	13.2
EV/EBITDA	x	8.6	9.2	7.4	6.8
Net debt/equity	%	150.1	161.4	170.2	164.9
Price/book	x	1.3	1.3	1.3	1.2

TE US vs S&P 500 - US$ & rec history



Source: Datastream, Macquarie Capital (USA), October 2008 (all figures in USD unless noted)

Analyst
Marc De Croisset
1 212 231 2625 marc.decroisset@macquarie.com

Looking for utility investors!

Event

- Guidance for TE Coal did not fail to disappoint in the quarter and cost escalation seems to be an ongoing theme. Our forecast largely took this into account. We were more surprised by a retrenchment of capex at Tampa. While we had removed 70% of proposed new generation expenditures in our forecast, we now conservatively remove all of these expenditures going forward. This shaves almost US$1/sh from our price target. We believe TE is oversold at these levels.
- TE reported 3Q EPS of US$0.27/sh (diluted) versus our estimate of US$0.26/sh and consensus of US$0.31/sh. Utility earnings were impacted by mild weather and virtually no customer growth. Retail sales at Tampa were down almost 7% year on year. Preliminary guidance for 2009 indicates that pricing at TE Coal could be strong, but could be partially offset by a wide variance in estimated cash costs ranging from US$60 to US$70 per ton.

Impact

- **We eliminate all proposed new generation from our forecast:** This reduces our regulated EPS by ~US$0.05/sh in each of 2009 and 2010. Roughly 30% of this capex was reflected in our prior estimates.
- **Maintaining margins at TE coal, but on lower volume:** We are keeping our overall cash margin at US$17/ton and reducing our tonnage expectations down to 10m from 11m in each of 2009 and 2010. This reduces our EPS by ~US$0.05/sh each year.
- **A high ROE in the pending rate cases is fully justified:** While an ROE of 11% to 12% was a stretch in August, it is now more than justified based on capital market conditions. We assume an ROE of 10% in our forecast, but recognize that a higher ROE is likely required for new projects to be value accretive to shareholders. As the proceedings unfold, the utilities will have an opportunity to incorporate new facts to support their revenue request.

Earnings revision

- We are taking our 2009E and 2010E EPS down by US$0.10/sh to US$1.18/sh and US$1.35/sh from US$1.28/sh and US$1.45/sh, respectively.

Price catalyst

- 12-month price target: US$17.00 based on a PER methodology.
- Catalyst: Resolution of the Florida rate case in 2009

Action and recommendation

- We continue to rate the shares an Outperform but have lowered our price target to US$17/sh from US$18.50/sh, largely due to a lower EPS at the utility for 2010.

For a complete discussion of our valuation and risks, see our full report.

Please refer to the important disclosures and analyst certification on inside back cover of this document, or on our website www.macquarie.com.au/research/disclosures.

Near term pain is long-term gain

We continue to recommend TECO based on an intentionally conservative forecast, in which we discount the earnings potential for TE Coal and the utilities. We believe the stock to be cheap to our forecast and that a turnaround of the regulated utilities in 2010 will benefit shareholders with a one-year investment horizon. Our EPS estimates for 2008, 2009 and 2010 are US$0.82, US$1.18 and US$1.35, respectively.

Our valuation is driven primarily by improved results at the regulated utilities in 2010. While we had previously incorporated 30% of the US$876m in proposed generation expenditures through 2012, we now conservatively remove all of these expenditures from our estimates. This reduces our utility forecast by US$0.05/sh in 2009 and 2010, and reduces our price target by roughly US$0.7/sh. Our assumed ROE of 10% looks low based on current capital markets conditions. TE will need a higher ROE to make its projects value accretive to shareholders.

We believe TE Coal is on the brink of landing some strong results next year. However, we continue to be skeptical that the company will be able to sustain this level of profitability longer term. Our DCF valuation for this segment is ~US$2.5/share and assumes an eventual return to cash margins of ~US$10/ton after 2010. Our EPS has been lower than consensus largely on the basis of our conservatism for this segment.

Tampa Electric and Peoples Gas earnings to accelerate in 2009 and 2010 due to rate activity: The company has requested a US$228m revenue increase at Tampa Electric and a US$26m revenue increase at Peoples Gas. We assume that ~40% of the revenue is obtained, resulting in a ~10% ROE, substantially lower than the 12% and 11.5% ROEs requested at Tampa Electric and Peoples Gas, respectively. New rates would be effective May 2009. Growth post 2010 will depend on how the company's capital plan evolves and on whether or not new base generation is built.

TE Coal will drive earnings growth through 2010: We assume a large step-up in 2009 and 2010; driven by cash margin expansion from US$8/ton in 2008 to ~US$17/ton in 2010. Our EPS forecasts are highly sensitive to the price of open positions for Metallurgical coal and Central Appalachian coal. For 2009, our coal margins reflect US$70/ton in cash costs (at the upper end of guidance of US$60-70/ton), US$77/ton in contract pricing, and a blended price for Met/PCI of ~US$170/ton. We believe these assumptions to be conservative.

Fig 1 We forecast peak earnings in 2010 due to TE Coal and recovery at Tampa ($US/sh)

	2007	2008E	2009E	2010E	2011E	2012E
Regulated	$0.84	$0.78	$0.97	$1.12	$1.14	$1.19
Coal	$0.18	$0.10	$0.42	$0.43	$0.19	$0.20
Guatemala	$0.21	$0.18	$0.13	$0.16	$0.16	$0.17
Other	($0.28)	($0.24)	($0.34)	($0.36)	($0.34)	($0.36)
Total EPS (US$/sh)	**$0.95**	**$0.82**	**$1.18**	**$1.35**	**$1.16**	**$1.20**
Growth %		-13.7%	43.9%	13.9%	-14.1%	3.9%

Source: Macquarie Capital (USA), October 2008

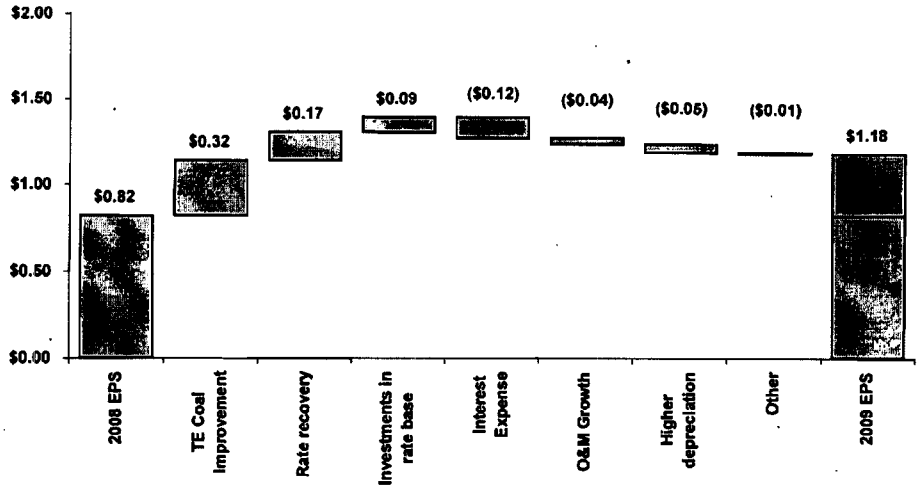
Our target price of US$17/sh is based on the following sum of the parts.

Fig 2 We derive our US$17/sh target price from a sum of the parts

	Metric	Multiple	Price
EPS regulated utility 2010E	$1.12	13.0x	$14.50
Equity base Guatemala 2008E	$334	0.3x	$0.47
DCF coal business	$169	3.9x	$2.46
NOLs and AMT			$2.32
HoldCo debt			($2.55)
Sum of the parts			**$17.21**

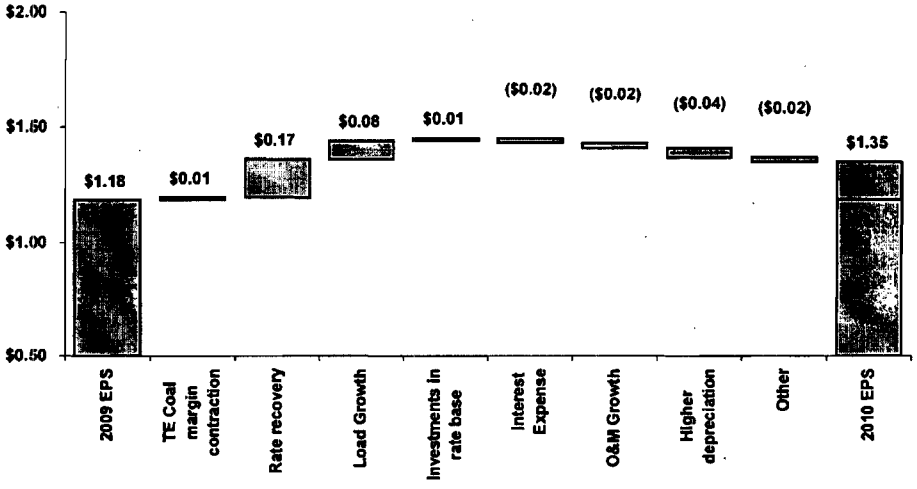
Source: Macquarie Capital (USA), October 2008

Fig 3 2009E earnings expected to be driven by TE Coal and May '09 recovery at the regulated utilities (US$)



Source: Macquarie Capital (USA), October 2008

Fig 4 2010E earnings driven by rate recovery at the regulated utilities; upside to our TE coal estimates is likely if the cost structure softens or pricing is strong (US$)



Source: Macquarie Capital (USA), October 2008

Valuation and Risks

Valuation

Our target price of US$17/sh is based on a sum of the parts and is further supported by a DCF.

We apply a 13x multiple to 2010E forward earnings for the utility segment. This multiple is a discount to our anchor multiple of 13.5x for regulated names, which we believe is warranted given the company's concentrated exposure to Florida. Our anchor multiple is derived from a linear regression of utility dividend yields against US 10-year Treasury bond yields and Moody's Baa corporate yield spreads. We believe that utility valuations are being depressed by the historically high level of credit spreads, despite strong valuation support from the 10-year US Treasury bond yield. Our anchor multiple assumes a reversion to more normal credit spreads around 2% from 5.9% currently, followed by a subsequent increase in the 10-year Treasury bond yield to roughly 4.5% over the next 12 months. Please see our industry report for more detail.

Fig 5 We derive our US$17/sh target price from a sum of the parts

	Metric	Multiple	Price
EPS regulated utility 2010E	$1.12	13.0x	$14.50
Equity base Guatemala 2008E	$334	0.3x	$0.47
DCF coal business	$169	3.9x	$2.46
NOLs and AMT			$2.32
HoldCo debt			($2.55)
Sum of the parts			**$17.21**

Source: Macquarie Capital (USA), October 2008

Risks

Level of market interest rates and inflation could impact valuation near term

Regulated utility trading multiples are strongly correlated to the level of long-term interest rates. If long-term rates increase as a result of heightened inflationary expectations, for example, trading multiples for regulated utilities would likely compress.

Extent of leverage to higher coal prices is uncertain in 2009 and 2010

Our earnings forecasts rely on the assumption that cost pressures at TE coal will subside in 2009 and 2010 and that the company will recontract its output at higher prices. The evolution of margins at TE coal is highly uncertain and subject to commodity pricing risk, both on the upside and on the downside.

Adequate regulatory recovery is not assured in the Florida rate case

Tampa Electric and Peoples Gas have rate cases pending before the Florida public utility commission. If the regulators do not allow adequate recovery of costs and expenditures incurred on a timely basis, TECO's future earnings could be negatively impacted relative to our forecasts.

Slowing economy, particularly in Florida, may diminish demand for electricity

TECO is affected by general economic conditions. In particular, the projected growth in Tampa Electric's service area in Florida is important to the realization of the company's forecasts for annual energy sales growth.

Operating risk in Guatemala

The level of earnings at TECO Guatemala is uncertain due to the regulatory challenges now being encountered in this jurisdiction. While we have eliminated most of the earnings that we believe are at risk, more downside is possible.

Regulated utility recovery key to outlook

Tampa Electric is seeking rate recovery of US$228m, which is a key earnings driver for 2009 and 2010

On 11 August 2008 Tampa Electric filed for a base-rate increase, requesting a revenue increase of US$228.2m, premised on a 50.2% equity mix, 12% ROE and 2009 rate base of US$3.657bn. The 12% ROE is at the midpoint of a requested range of 11–13%. The new rates would be effective May 2009. Tampa Electric's last rate case was in 1992. It has since added baseload and peaking capacity and more than 200,000 customers on its system. A rate case was likely overdue, and the need for recovery has been accelerated by a weak economy, lower usages and sub-par customer growth. Our forecasts assume that roughly half of the revenue requested is secured over 2009 and 2010 and that the ROE awarded could be meaningfully less than the 12% requested.

Tampa Electric's current allowed ROE range is 10.75%–12.75%, premised on a regulatory equity mix of 55.3% and a rate base currently valued at ~US$3.1bn. The company earned an ROE of 11.4% in 2007 that was buoyed by favorable weather and a depreciation adjustment in the second half of the year. The ROE for 2007 is derived based on the actual equity mix of ~49%. Management has indicated that its ROE at Tampa Electric will decline below the low end of the allowed band in 2009, and we estimate that it could fall to ~9% prior to regulatory recovery.

Peoples Gas has requested a base revenue increase of US$26.5m

Peoples Gas System filed a rate case on 11 August 2008 for a base rate hike of US$26.5m, premised on a 48.5% equity mix, 11.5% ROE and 2009 rate base of US$563.6m. The increase was requested to cover higher expenses, including an increase in labor costs and a doubling in the cost of steel pipe. Peoples Gas added ~100,000 new customers since its last rate case. We are assuming that roughly 50% of this revenue is awarded, with rates effective in May 2009.

Peoples Gas is currently authorized an 11.25% ROE and an 8.83% return on a rate base currently valued at ~US$505.4m. Rates were last established in 2003 following adoption of a settlement in the company's previous rate case proceeding.

The company's capital plan has some uncertainty – we fully discount longer-term generation additions in our forecasts

Tampa Electric's total capital expenditures over the 2009–2012 period are projected by the company to be about US$2.4bn, including baseload generating capacity and new natural gas-fired combustion turbines. Incorporated in this capital plan is US$876m of proposed expenditures for combustion turbines and a combined cycle natural gas plant – we give no credit to these proposals in our forecasts. Tampa Electric expects to spend approximately US$320m annually to support normal system growth and reliability.

Committed new generation is included in our forecasts. Tampa Electric has committed to constructing five peaking capacity combustion turbines in 2008 and 2009 at the Bayside and Big Bend power stations, with an expected total cost of US$236m, excluding AFUDC. These units will meet the expected peak demand requirements in 2009 and 2010, and several will be configured to meet the NERC black start requirements for system reliability.

Proposed new generation is given no credit in our forecasts. Tampa Electric expects to need additional combustion turbines to meet peak load demand in 2011 and 2012, and the total cost for these units is estimated to be US$320m. However, there is a reasonable likelihood that these units could be delayed given reduced demand in a recessionary environment, and these projects are at risk. Tampa Electric also currently has plans to meet its 2013 baseload capacity needs with a combined-cycle natural gas-fired plant, which the company expects to cost approximately US$555m with associated transmission. Tampa Electric will issue a request for Proposal (RFP) for this required baseload capacity in 2008. The prospects for baseload additions seem plausible longer term, but we assume they are pushed out indefinitely.

TE Coal could be strong near term

The improvement in coal margins will likely come in 2009 and 2010 as output is repriced at more favorable levels. We have increased both our pricing and cost assumptions for TE Coal since our last publication, but our cash margin assumptions remain unchanged. However, we reduce our volume assumption from 11m to 10m tons. On its 3Q08 conference call, management provided more detail on 2009 coal pricing, which we summarize in the following table.

Fig 6 Guidance for 2009 gives us enough rope to hang ourselves – but specifics will not be forthcoming until Met coal is fully contracted

2009 Guidance	Q2'08 Guidance	Q3'08 Guidance
2009 Production contracted and priced per ton	US$66.00	US$77.00
Contracted volume as % of production	80.0%	88.0%
Steam coal contracted	100.0%	100.0%
Met coal as % of production	33.0%	33.0%
Steam CAAP coal as % of production	66.0%	66.0%
Unpriced tons	35% Met Coal / 65% PCI	40% Met Coal / 60% PCI
Cost increases	20.0%	20-27%
Volume	10.5–11m tons	10.5m tons

Source:Company data, October 2008

Fig 7 We assume US$17/ton cash margins for 2009, driven by higher Met/PCI pricing

US$ per ton	Coal margins 2009
Revenue	$87
Cash cost	$70
Cash margin	**$17**
DD&A and allocated interest	$5
Pretax margin	**$12**
Volume (tons in millions)	10

Source: Macquarie Capital (USA), October 2008

Fig 8 Our EPS forecast for TE coal in 2009 is highly sensitive to coal pricing assumption

Met price (US$/ton)	PCI price (US$/ton)	Contracted revenues (US$m)	Open revenues '09 (US$m)	Total revenues (US$m)	Realized price per ton (US$/ton)	Cash margin (US$m)	Pretax margin (US$m)	Taxes at 25% (US$m)	Post tax margin (US$m)	Volumes (tons)	Net income (US$m)	EPS impact
$150	$100	$678	$141	$819	$82	$12	$7	-$1.7	$5	10	$52	$0.24
$160	$110	$678	$153	$831	$83	$13	$8	-$2.0	$6	10	$61	$0.29
$170	$120	$678	$165	$843	$84	$14	$9	-$2.3	$7	10	$70	$0.33
$180	$130	$678	$177	$855	$85	$15	$10	-$2.6	$8	10	$79	$0.37
$190	$140	$678	$189	$867	$87	$17	$12	-$2.9	$9	10	$88	$0.41
$200	$150	$678	$201	$879	$88	$18	$13	-$3.2	$10	10	$97	$0.46
$210	$160	$678	$213	$891	$89	$19	$14	-$3.5	$11	10	$106	$0.50
$220	$170	$678	$225	$903	$90	$20	$15	-$3.8	$11	10	$115	$0.54
$230	$180	$678	$237	$915	$91	$21	$16	-$4.1	$12	10	$124	$0.58
$240	$190	$678	$249	$927	$93	$23	$18	-$4.4	$13	10	$133	$0.63
$250	$200	$678	$261	$939	$94	$24	$19	-$4.7	$14	10	$142	$0.67

Source: Macquarie Capital (USA), October 2008

Fig 9 Consolidated income statement (US$m, except per-share data)

Income Statement	2006A	2007A	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Total Revenue	$3,448	$3,339	$3,424	$3,922	$4,294	$4,282	$4,416	$4,578	$4,788	$5,035
Operating Expenses	3,030	2,900	3,049	3,409	3,717	3,769	3,891	4,051	4,253	4,471
Gross Margin	418	440	374	513	577	513	525	527	535	564
EBIT	418	440	374	513	577	513	525	527	535	564
EBITDA	700	688	635	789	865	814	838	851	871	911
Interest Expense	(279)	(255)	(265)	(276)	(287)	(287)	(287)	(287)	(287)	(287)
Other Income	224	97	149	137	138	143	146	144	143	144
EBT	363	282	258	374	427	369	385	384	391	421
Taxes	(119)	(82)	(85)	(123)	(141)	(122)	(127)	(127)	(129)	(139)
Net Income	$244	$200	$173	$250	$286	$247	$258	$257	$262	$282
S/O	210	210	210	212	213	214	215	216	217	218
EPS	$1.16	$0.95	$0.82	$1.18	$1.35	$1.16	$1.20	$1.19	$1.21	$1.30
% EPS Growth		nm	-13.7%	43.9%	13.9%	-14.1%	3.9%	-0.6%	1.3%	7.0%
EPS										
Regulated	$0.79	$0.84	$0.78	$0.97	$1.12	$1.14	$1.19	$1.21	$1.22	$1.30
Coal	$0.22	$0.18	$0.10	$0.42	$0.43	$0.19	$0.20	$0.18	$0.18	$0.18
Guatemala	$0.18	$0.21	$0.18	$0.13	$0.16	$0.16	$0.17	$0.17	$0.18	$0.19
Other	($0.02)	($0.28)	($0.24)	($0.34)	($0.36)	($0.34)	($0.36)	($0.37)	($0.37)	($0.37)
Total	$1.16	$0.95	$0.82	$1.18	$1.35	$1.16	$1.20	$1.19	$1.21	$1.30

Source: Macquarie Capital (USA), October 2008

Fig 10 Consolidated statement of cashflows (US$m)

Statement of Cash Flows	2006A	2007A	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Cash Flow from Operations										
Net Income	$246	$413	$173	$250	$286	$247	$258	$257	$262	$282
Depreciation	$282	$264	$261	$276	$289	$301	$312	$324	$336	$348
Amortization of regulatory assets	$12	$0	$0	$0	$0	$0	$0	$0	$0	$0
Amortization of nuclear fuel	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Change in operating assets & liabilities	($25)	($282)	($91)	($38)	($42)	($46)	($52)	($52)	($52)	($52)
Other & Synfuel Tax Credits	$52	$159	$99	$0	$0	$0	$0	$0	$0	$0
Total CFFO	$567	$554	$441	$488	$533	$502	$519	$530	$546	$578
Cash Flow From Investing										
Property additions	($456)	($494)	($620)	($636)	($421)	($421)	($420)	($367)	($367)	($367)
Nuclear fuel additions	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Proceeds from asset sales	$100	$405	($7)	$0	$0	$0	$0	$0	$0	$0
Other	$4	$62	$92	$0	$0	$0	$0	$0	$0	$0
Total CFFI	($352)	($28)	($535)	($636)	($421)	($421)	($420)	($367)	($367)	($367)
Cash Flow From Financing										
Short term borrowings	($167)	($23)	$175	$350	$120	$0	$100	$80	$0	$0
Long term borrowings	$128	($693)	$40	$0	$0	$0	$0	$0	$0	$0
Dividends	($159)	($163)	($168)	($169)	($178)	($179)	($189)	($198)	($208)	($217)
Share Repurchases for Forecast	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Other	$78	$74	$20	$0	$0	$0	$0	$0	$0	$0
Total CFFI	($119)	($805)	$67	$181	($58)	($179)	($89)	($118)	($208)	($217)
Starting Cash	$346	$442	$163	$136	$169	$223	$125	$135	$180	$151
Change in Cash	$96	($279)	($26)	$33	$54	($98)	$10	$45	($28)	($6)
Ending Cash	$442	$163	$136	$169	$223	$125	$135	$180	$151	$145

Source: Macquarie Capital (USA), October 2008

Fig 11 Consolidated balance sheet (US$m)

Balance Sheet	2006A	2007A	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Assets:										
Cash	$442	$163	$136	$169	$223	$125	$135	$180	$151	$145
Net Receivables	$309	$329	$297	$336	$377	$423	$475	$526	$578	$630
Materials	$160	$154	$162	$162	$162	$162	$162	$162	$162	$162
Other	$375	$145	$369	$369	$369	$369	$369	$369	$369	$369
Total Current Assets	$1,286	$790	$964	$1,035	$1,131	$1,078	$1,140	$1,236	$1,260	$1,305
Gross PPE	$6,750	$6,529	$7,026	$7,662	$8,083	$8,504	$8,924	$9,291	$9,658	$10,025
Less: Accumulated Depreciation	($2,317)	($2,006)	($2,159)	($2,435)	($2,723)	($3,024)	($3,337)	($3,661)	($3,997)	($4,344)
CWIP	$334	$365	$366	$366	$366	$366	$366	$366	$366	$366
Net PPE	$4,767	$4,888	$5,233	$5,593	$5,726	$5,846	$5,953	$5,996	$6,028	$6,047
Goodwill	$59	$59	$59	$59	$59	$59	$59	$59	$59	$59
Regulatory Assets	$231	$187	$185	$185	$185	$185	$185	$185	$185	$185
Other	$1,019	$841	$819	$819	$819	$819	$819	$819	$819	$819
Total Assets	$7,362	$6,765	$7,260	$7,691	$7,920	$7,987	$8,157	$8,296	$8,350	$8,415
Liabilities and Owner's Equity										
Current Portion of LTD	$639	$7	$7	$7	$7	$7	$7	$7	$7	$7
Short Term Borrowings	$48	$25	$200	$550	$670	$670	$770	$850	$850	$850
Accounts Payable	$327	$302	$357	$357	$357	$357	$357	$357	$357	$357
Other	$337	$283	$429	$429	$429	$429	$429	$429	$429	$429
Total Current Liabilities	$1,350	$618	$993	$1,343	$1,463	$1,463	$1,563	$1,643	$1,643	$1,643
Long Term Debt	$3,213	$3,158	$3,212	$3,212	$3,212	$3,212	$3,212	$3,212	$3,212	$3,212
Other	$1,070	$972	$1,021	$1,021	$1,021	$1,021	$1,021	$1,021	$1,021	$1,021
Total Liabilities	$5,633	$4,748	$5,226	$5,576	$5,696	$5,698	$5,796	$5,876	$5,876	$5,876
Preferred Stock	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Shareholder's Equity	$1,729	$2,017	$2,034	$2,116	$2,224	$2,292	$2,361	$2,420	$2,475	$2,539
Total Liabilities and OE	$7,362	$6,765	$7,260	$7,691	$7,920	$7,987	$8,157	$8,296	$8,350	$8,415

Source: Macquarie Capital (USA), October 2008

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >5% in excess of benchmark return (>2.5% in excess for listed property trusts)
Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts)
Underperform – return >5% below benchmark return (>2.5% below for listed property trusts)

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of benchmark return
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Underperform (Sell) – return >5% below benchmark return

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Australian/NZ/Canada stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non-recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards)

Recommendation proportions – For quarter ending 30 September 2008

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	43.17%	61.57%	63.08%	53.60%	71.54%	43.00%	(for US coverage by MCUSA, 1.6% of stocks followed are investment banking clients)
Neutral	41.37%	16.43%	30.77%	37.60%	24.61%	48.00%	(for US coverage by MCUSA, 0.0% of stocks followed are investment banking clients)
Underperform	15.47%	22.00%	6.15%	8.80%	3.85%	9.00%	(for US coverage by MCUSA, 0.0% of stocks followed are investment banking clients)

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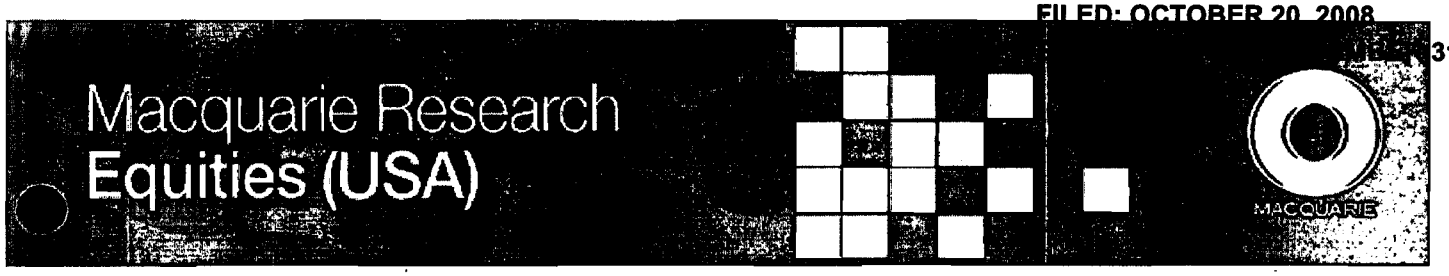
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Research

Heads of Equity Research

John O'Connell (Global Co – Head)	(1 212) 231 2631
David Rickards (Global Co – Head)	(612) 8232 4017
Graham Copley (US)	(1 212) 231 2632
Stephen Harris (Canada)	(1 416) 848 3655
Alan Watson (Europe)	(44 20) 3037 4383
Julian Wentzel (South Africa)	(2711) 583 2202

Consumer Staples

Food & Beverages

Julian Wentzel (Johannesburg)	(2711) 583 2202

Consumer Discretionary

Gaming

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Martin Duilaart (Johannesburg)	(2711) 583 2322

Retailing

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Julian Wentzel (Johannesburg)	(2711) 583 2202

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Wilson Leong (New York)	(1 212) 231 2560
Angie Sedita (New York)	(1 212) 231 2622
Mark Heim (Calgary)	(1 403) 218 6652
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Ian Macqueen (Calgary)	(1 403) 218 6659
Jenny Mikhareva (Calgary)	(1 403) 218 6655
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Brendan Warn (London)	(44 20) 3037 4559

Alternative Energy

Kelly Dougherty (New York)	(1 212) 231 2493
Shai Hill (London)	(44 20) 3037 4232
Ben Kluftinger (London)	(44 20) 3037 4077

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Diversified financials

Specialty finance

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Julian Wentzel (Johannesburg)	(2711) 583 2202

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TMET

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Glenn Jamieson (Toronto)	(416) 848 3658

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Marc De Croisset (New York)	(1 212) 231 2625
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Stephen Harris (Toronto)	(1 416) 848 3655
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Gurvinder Brar (London)	(44 20) 3037 4036
Christian Davies (London)	(44 20) 3037 4037
Adam Strudwick (London)	(44 20) 3037 4038
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Economics and Strategy

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Contact Gareth Warfield for access (612) 8232 3207

Email addresses

FirstName.Surname@macquarie.com
eg. David.Rickards@macquarie.com

Sales

Equities

Stevan Vrcelj (Head of Global Sales)	(612) 8232 5999
Luke Sullivan (New York)	(1 212) 231 2507
Alex Rothwell (Toronto)	(1 416) 848 3677
Rob Fabbro (Continental Europe)	(44 20) 7065 2031
Charles Nelson (London)	(44 20) 7065 2032

US Sales

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Brad Bullock (New York)	(1 212) 231 2573
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Wes Dalton (San Francisco)	(1 415) 762 5007
Roni Gudell (Boston)	(1 617) 217 2087

EU Sales

Doug Stone (New York)	(1 212) 2312606

US Sales Trading

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John Szucs (Toronto)	(416) 848 3678
Asdam Al-Khabyyr (Montréal)	(514) 925 2857
Joanne Patterson (Montréal)	(514) 925 2872
Cindy Vaincourt (Montréal)	(514) 925 2867

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Macquarie Research
Equities (USA)

UNITED STATES

TECO Energy



23 September 2008

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Analyst
Marc De Croisset
1 212 231 2625 marc.decroisset@macquarie.com

All that glitters is not coal

Initiating with an Outperform and US$18.50/sh target price

TE has been among the best-performing utility stocks of the year, down 2.4% YTD vs the 19% decline in the broader utility index. We believe this outperformance has been driven, in part, by expectations that results at TE Coal will improve in 2009, and it has become the proverbial 'tail that wags the dog.' We are reluctant to attribute significant value to this segment given its commodity price exposure, and we conservatively discount its earnings potential. In our view, the driver of value for TECO lies with the regulated utilities, which are currently experiencing the full impact of a slowdown in the economy and housing in Florida. It is our opinion that conditions at the utilities will improve following the current rate-case proceedings in Florida and that renormalization of customer usage trends will resume in 2010. Our target price of US$18.50/sh reflects US$15/sh for the utility, US$3/sh for TE Coal, and US$0.50/sh for TE Guatemala.

The coal story is a 'one-hit wonder,' in our view

TECO is a regulated utility first and foremost, and yet most of the debate seems focused on coal. The coal business should account for 16% of the overall valuation, by our estimate. While we believe this segment is on the brink of landing some strong results next year, we are skeptical that the company is able to sustain this level of profitability longer term. Our 2009 and 2010 forecasts for TE Coal are premised on cash margins of ~US$17/ton, almost twice the historical levels of ~US$10–US$12/ton, and reflect a 20% increase in unit costs, consistent with recent guidance. Our DCF valuation for this segment is US$3/share and assumes an eventual return to cash margins of ~US$10/ton.

Lights dim in Florida – rate relief key to long-term value

Florida appears to have been hit especially hard by the slowdown in the housing industry. Both customer growth and usage are well below their long-term trend of ~2%, and there is evidence of potential demand elasticity from rising electricity prices. The utilities are now seeking rate relief, in part a consequence of these factors. Tampa has requested a US$228m revenue increase premised on a 12% ROE, and Peoples Gas has filed for a US$26.5m revenue increase premised on an 11.5% ROE. We expect the outcome of these rate cases to have a material impact on our valuation for the utility, which contributes US$15 to our US$18.50/sh target price. Our utility valuation is based on a 13x PER multiple of 2010E EPS of US$1.18/sh. Our forecast assumes a ~10% blended ROE. Contentious issues in these proceedings are likely to include the magnitude of the ROE authorized and what level of customer usage is 'normal.' The company's last electric rate case was filed on 22 May 1992.

How could we be wrong?

The coal business may not deliver results that we expect and the regulated utility might not obtain adequate rate relief. TE might have limited access to the capital markets given its relatively high leverage.

For a complete discussion of our valuation and risks, see our full report.

Please refer to the important disclosures and analyst certification on inside back cover of this document, or on our website www.macquarie.com.au/research/disclosures.

TE US — Outperform

Stock price as of 22 Sep 08	US$	16.79
12-month target	US$	18.50
12-month TSR	%	14.9
Valuation	US$	18.50
DCF (WACC 7.0%, beta 0.9)		
GICS sector		Utilities
Market cap	US$m	3,572
30-day avg turnover	US$m	41.6
Number shares on issue	m	212.7

Investment fundamentals

Year end 31 Dec		2007A	2008E	2009E	2010E
Sales revenue	m	3,531.3	3,453.0	3,914.1	4,252.5
EBITDA	m	674.2	638.9	806.9	883.3
EBITDA growth	%	0.3	-5.2	26.3	9.5
Reported profit	m	200.0	174.2	270.9	307.2
Gross cashflow	m	580.4	436.8	550.5	599.9
EPS rep	¢	95.3	82.6	128.1	144.6
EPS rep growth	%	13.6	-13.4	54.6	12.8
PE rep	x	17.6	20.3	13.1	11.6
Total DPS	¢	78.0	79.5	80.0	84.0
Total div yield	%	4.6	4.7	4.8	5.0
ROA	%	11.2	6.9	8.7	9.1
ROE	%	16.9	8.6	13.0	14.0
EV/EBITDA	x	9.7	10.3	8.2	7.5
Net debt/equity	%	150.1	161.1	173.4	167.2
Price/book	x	1.7	1.7	1.7	1.6

TE US vs S&P 500 - US, & rec history



Source: Datastream, Macquarie Capital (USA), September 2008 (all figures in USD unless noted)

TECO Energy

Company profile

TECO Energy, Inc. (NYSE: TE), is an energy-related holding company. Its principal subsidiary, Tampa Electric Company, is a regulated utility in Florida with both electric and gas divisions (Tampa Electric and Peoples Gas System). Other subsidiaries include TECO Coal, which owns and operates coal production facilities in Kentucky and Virginia, and TECO Guatemala, which is engaged in electric power generation and distribution and energy-related businesses in Guatemala.

Tampa Electric is a regulated electric utility with more than 4,400MW of generating capacity. The company's service area covers 2,000 square miles in West Central Florida, including nearly all of Hillsborough County and parts of Polk, Pasco and Pinellas counties. Nearly 645,000 residential, commercial and industrial customers depend on Tampa Electric for power.

Peoples Gas System is Florida's leading provider of regulated natural gas distribution services. Peoples Gas provides natural gas service to more than 320,000 residential and commercial customers.

TECO Coal subsidiaries own and operate low-sulfur coal mines and coal preparation facilities in Kentucky and Virginia. These companies mine, process and ship more than 9m tons of conventional coal annually to the US and European steel industry as well as domestic utilities, and other industrial customers.

TECO Guatemala subsidiaries own two power plants with long-term power purchase agreements in Guatemala: the 120MW, coal-fired San José Power Station and the 78MW, oil-fired Alborada Power Station. TECO Guatemala's operations include a 24% interest in EEGSA, Guatemala's largest electric distribution utility.

Background

Between 2000 and 2003 TECO made a number of investments in unregulated domestic power generation facilities outside of Florida and in smaller unregulated energy services provider in Florida. These investments were made in anticipation of a movement toward competitive energy markets. The wholesale power markets did not evolve as anticipated, and in 2003 the company decided to exit the merchant power business and sold assets at prices below what they cost, resulting in large write-offs and large amounts of debt remaining at the parent-company level. The company has since reduced parent guaranteed debt from US$2.7bn in 2002 to US$1.3bn at the end of 2007.

The two-minute overview

We recommend TECO based on intentionally conservative forecasts and valuation. Our EPS estimates for 2008, 2009, 2010 are US$0.83, US$1.28 and US$1.45, respectively, and are well below the consensus of US$0.92, US$1.50 and US$1.79. Our valuation is driven primarily by improved results at the regulated utilities in 2010, assuming US$104m revenue recovery and a reversion to 2% usage growth. We view the stock as attractively priced to this outcome.

Operating results for 2008 are likely to be, well, disappointing ...

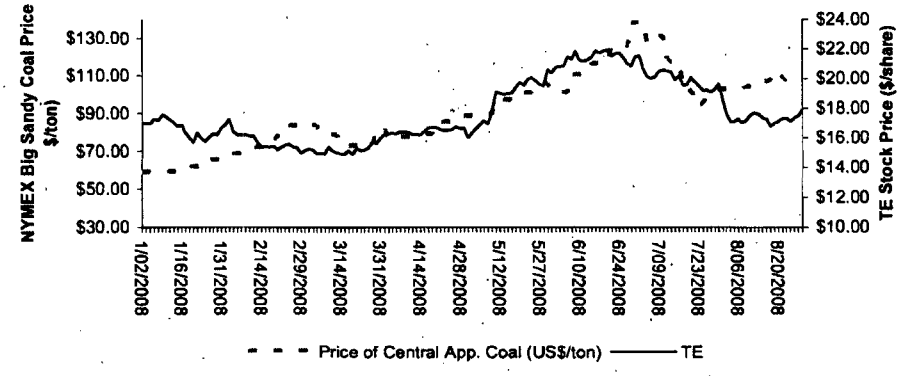
We believe that 2008 is going to be a challenging year for TECO, and EPS could likely be down from the US$0.95 earned in '07 (pro forma the disposition of a transportation business). Management lowered its 2008 EPS guidance to US$0.80–0.90 in its second-quarter conference call from the US$0.95–1.10 guidance provided in February. While little specific explanation was given, it appears that margin contraction at TE coal, combined with weak housing and customer growth at the regulated utilities, have led the company to re-assess its forecast. Third-quarter results will likely show more evidence of weakness at the utility but may give management an opportunity to showcase the prospects of its coal business, which we believe should experience substantial margin expansion in 2009.

Windfall profits from TE coal are reflected in our valuation

TE is trading in tandem with coal prices ... yet the utility should be driving the valuation, in our opinion

An end to the margin compression trend at TE Coal is now likely in 2009 and 2010. Recent operating results in this division have been pressured by escalating costs, without a corresponding increase in revenue. As older and less profitable contracts expire this year, the company should be able to capture upside from higher coal pricing from CAAP and Met/PCI coal. However, we treat 2009 and 2010 profits as supernormal and assume that US$17/ton margins for coal are unsustainable and revert back to their historical average of ~US$10/ton. Any indication that we are wrong on our long-term coal assumption could cause us to reassess our investment opinion.

Fig 1 TE (yes, a regulated utlity!) has had strong trading correlation to coal prices (US$)



Source: Macquarie Capital (USA), September 2008.

TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
SUPPLEMENTAL: DECEMBER 31, 2008

Regulated utilities make up 80% of the value – and recovery is at hand

Recovery at the utility drives our valuation for TECO

The utility accounts for ~80% of the equity value of this stock, which is highly sensitive to the ROE and revenue recovery assumed. We are cautious that the requested ROEs are unrealistic given the current level of long-term interest rates and have assumed an ROE of ~10%. Our target price of US$18.50/sh is based on the following sum of the parts.

Fig 2 We derive our US$18.50/sh target price from a sum of the parts

	Metric	Multiple	Price
EPS regulated utility 2010E	US$1.18	13.0x	US$15.31
Equity base Guatemala 2008E	$334	0.3x	$0.47
DCF coal business	$187	4.0x	$2.86
NOLs and AMT			$2.38
HoldCo debt			($2.50)
Sum of the parts			**$18.51**

Source: Macquarie Capital (USA), September 2008

Fig 3 We forecast peak earnings in 2010 due to TE Coal and recovery at Tampa

	2007	2008E	2009E	2010E	2011E	2012E
Regulated	US$0.84	US$0.78	US$1.02	US$1.18	US$1.23	US$1.31
Coal	$0.18	$0.11	$0.47	$0.48	$0.37	$0.29
Guatemala	$0.21	$0.18	$0.13	$0.16	$0.16	$0.17
Other	($0.28)	($0.24)	($0.34)	($0.37)	($0.36)	($0.37)
Total EPS (US$/sh)	**$0.95**	**$0.83**	**$1.28**	**$1.45**	**$1.40**	**$1.40**
Growth %		-13.1%	54.6%	12.8%	-3.4%	0.1%

Source: Macquarie Capital (USA), September 2008

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TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
SUPPLEMENTAL: DECEMBER 31, 2008

Financial overview

We forecast peak earnings in 2009/10; potential deceleration in 2011

We forecast peak earnings in 2010, driven by rate recovery at the regulated utilities and realization of higher pricing at TE Coal. Thereafter, the picture clouds depending on the outlook for coal prices and rate-base expansion at the utility.

Tampa Electric and Peoples Gas earnings to accelerate in 2009 and 2010 due to rate activity: The company has requested a US$228m revenue increase at Tampa Electric and a US$26m revenue increase at Peoples Gas. We assume that ~40% of the revenue is obtained, resulting in a ~10% ROE, substantially lower than the 12% and 11.5% ROEs requested at Tampa Electric and Peoples Gas, respectively. New rates would be effective May 2009. We believe growth post 2010 will depend on how the company's capital plan evolves and on whether or not new base generation is built.

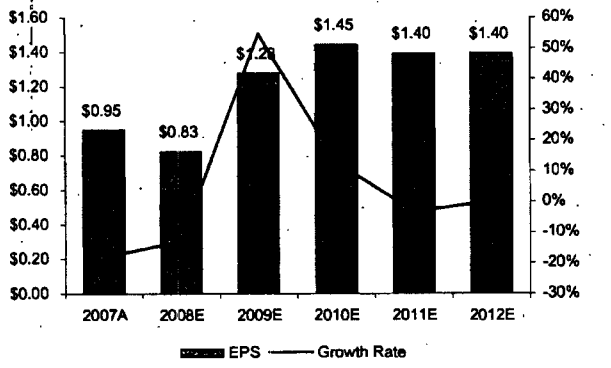
TE Coal will drive earnings growth through 2010: We assume a large step-up in 2009 and 2010, driven by cash margin expansion from US$8/ton in 2008 to ~US$17/ton in 2010. Our EPS forecasts are highly sensitive to the price of open positions for Metallurgical coal and Central Appalachian coal (see the coal section).

Fig 4 We forecast peak earnings in 2010 due to TE Coal and recovery at Tampa

	2007	2008E	2009E	2010E	2011E	2012E
Regulated	US$0.84	US$0.78	US$1.02	US$1.18	US$1.23	US$1.31
Coal	$0.18	$0.11	$0.47	$0.48	$0.37	$0.29
Guatemala	$0.21	$0.18	$0.13	$0.16	$0.16	$0.17
Other	($0.28)	($0.24)	($0.34)	($0.37)	($0.36)	($0.37)
Total EPS (US$/sh)	**$0.95**	**$0.83**	**$1.28**	**$1.45**	**$1.40**	**$1.40**
Growth %		-13.1%	54.6%	12.8%	-3.4%	0.1%

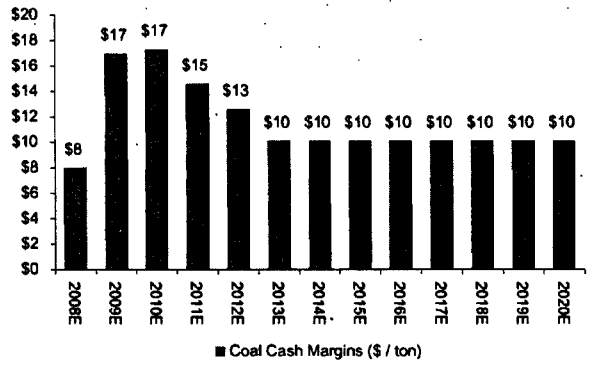
Source: Company data, Macquarie Capital (USA), September 2008

Fig 5 We see modest EPS growth through 2012 (US$)



Source: Company data, Macquarie Capital (USA), September 2008

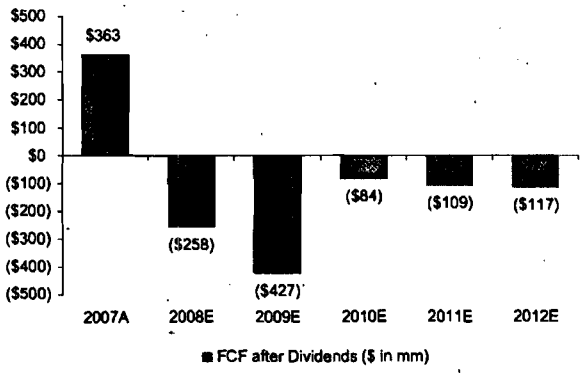
Fig 6 With growth driven by coal margin expansion (US$)



Source: Company data, Macquarie Capital (USA), September 2008

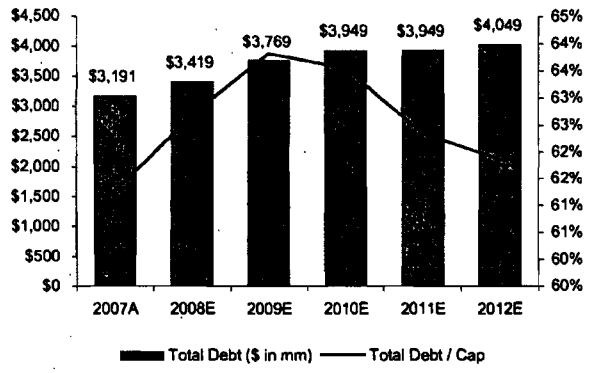
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Fig 7 FCF after dividends is negative from capex (US$m)



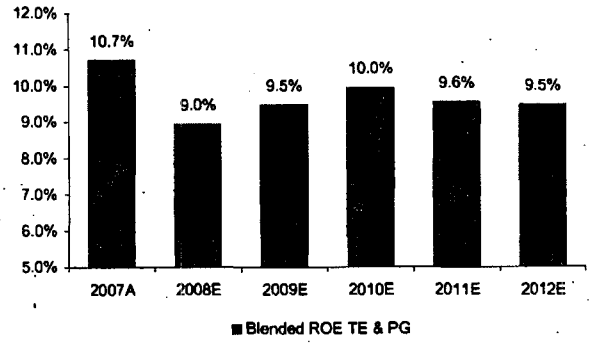
Source: Company data, Macquarie Capital (USA), September 2008

Fig 8 Overall leverage will increase, but windfall proceeds from coal could be used to delever (US$m)



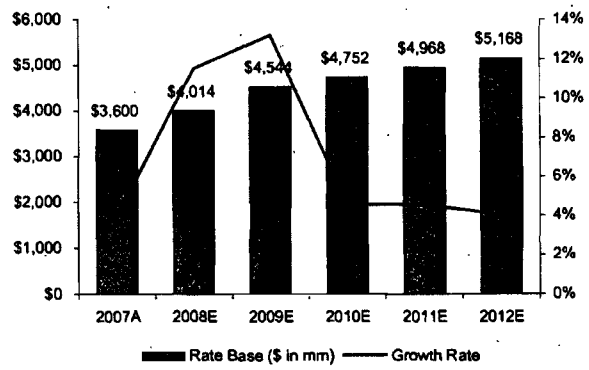
Source: Company data, Macquarie Capital (USA), September 2008

Fig 9 Florida rate activity will be key to 2009/10 outlook



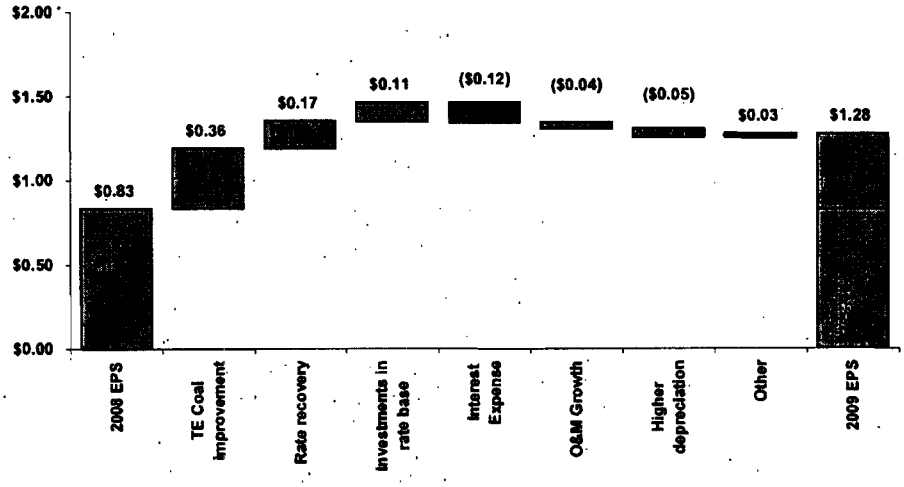
Source: Company data, Macquarie Capital (USA), September 2008

Fig 10 We forecast modest rate-base expansion for TE given its already-high level of leverage (US$m)



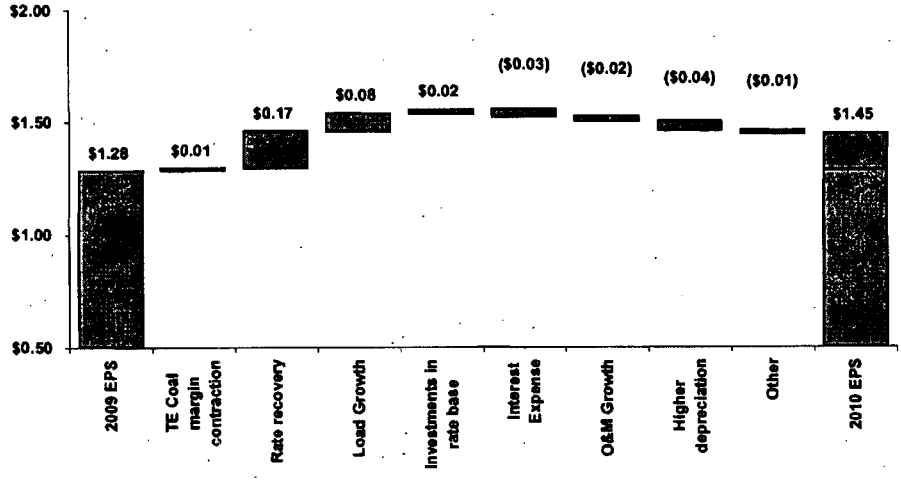
Source: Company data, Macquarie Capital (USA), September 2008

Fig 11 2009E earnings expected to be driven by TE Coal and May '09 recovery at the regulated utilities (US$)



Source: Macquarie Capital (USA), September 2008

Fig 12 2010E earnings driven by rate recovery at the regulated utilities; upside to our TE coal estimates is likely if the cost structure softens or pricing is strong (US$)



Source: Macquarie Capital (USA), September 2008

Valuation and recommendation

Our target price of US$18.50/sh is based on a sum of the parts and is further supported by a DCF.

Sum of the parts: We apply a 13x multiple to 2010 forward earnings for the utility segment. This multiple is a discount to our anchor multiple of 13.5x for regulated names, which we believe is warranted given the company's concentrated exposure to Florida. Our anchor multiple is derived from a linear regression of utility dividend yields against US 10-year Treasury bond yields and Moody's Baa corporate yield spreads. We believe that utility valuations are being depressed by the historically high level of credit spreads, despite strong valuation support from the 10-year US Treasury bond yield. Our anchor multiple assumes a reversion to more normal credit spreads around 2% from 3.8% currently, followed by a subsequent increase in the 10-year Treasury bond yield to roughly 4.5% over the next 12 months. Please see our industry report for more detail.

DCF valuation: Our DCF supports a US$18.50/sh target price. Assumptions include a 10-year treasury yield of ~4.5%, risk premium of ~4.5%, beta of ~1.0 and perpetuity growth rate of 2.5%.

Fig 13 We derive our US$18.50/sh target price from a sum of the parts

	Metric	Multiple	Price
EPS regulated utility 2010E	US$1.18	13.0x	US$15.31
Equity base Guatemala 2008E	$334	0.3x	$0.47
DCF coal business	$187	4.0x	$2.86
NOLs and AMT			$2.38
HoldCo debt			($2.50)
Sum of the parts			$18.51

Source: Macquarie Capital (USA), September 2008

Fig 14 Discounted cashflow valuation supports US$18/sh (US$m, except per-share data)

DCF Valuation		2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Period		0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5	8.5	9.5	10.5	11.5
EBITDA		$807	$883	$871	$868	$860	$880	$920	$941	$962	$984	$1,006	$1,029
EBIT		$572	$641	$623	$622	$604	$612	$640	$649	$658	$668	$678	$689
Taxes on EBIT	40%	(229)	(256)	(249)	(249)	(241)	(245)	(256)	(260)	(263)	(267)	(271)	(276)
Tax-Effected EBIT (EBIAT)		$343	$385	$374	$373	$362	$367	$384	$389	$395	$401	$407	$413
Depreciation & Amortization & Deferrals		$280	$293	$305	$316	$326	$338	$350	$362	$374	$386	$398	$410
Gross Cash Flow		$623	$677	$679	$689	$688	$705	$734	$751	$769	$787	$805	$823
(Incr)/Decr in Working Capital													
Capital Expenditures		(760)	(451)	(471)	(468)	(367)	(367)	(367)	(367)	(367)	(367)	(367)	(367)
Unlevered FCF		($137)	$226	$208	$221	$321	$338	$367	$384	$402	$420	$438	$456
Terminal Value													$9,162
Unlevered FCF + Terminal Value		($137)	$226	$208	$221	$321	$338	$367	$384	$402	$420	$438	$9,618
Discount Rate Assumed		7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%
Discounted FCF + Terminal Value		($133)	$204	$176	$175	$237	$233	$237	$232	$227	$221	$216	$4,428
Enterprise Value		$6,452											
Net Debt		($3,122)											
Equity Value		$3,330											
S/O		212											
Price / Share Before Tax Credit		$16											
Synthetic Fuel Tax Credit NPV		$2											
DCF Value		**$18**											

Source: Macquarie Capital (USA), September 2008

Risks

Level of market interest rates and inflation could impact valuation near term

Regulated utility trading multiples are strongly correlated to the level of long-term interest rates. If long-term rates increase as a result of heightened inflationary expectations, for example, trading multiples for regulated utilities would likely compress. Over a longer period of time, we would expect the regulatory process to compensate debt and equity holders for increases in the cost of capital.

Extent of leverage to higher coal prices is uncertain in 2009 and 2010

Our earnings forecasts rely on the assumption that cost pressures at TE coal will subside in 2009 and 2010 and that the company will recontract its output at higher prices. The evolution of margins at TE coal is highly uncertain and subject to commodity pricing risk, both on the upside and on the downside.

Adequate regulatory recovery is not assured in the Florida rate case

Tampa Electric and Peoples Gas have rate cases pending before the Florida public utility commission. If the regulators do not allow adequate recovery of costs and expenditures incurred on a timely basis, TECO's future earnings could be negatively impacted relative to our forecasts.

Slowing economy, particularly in Florida, may diminish demand for electricity

TECO is affected by general economic conditions. In particular, the projected growth in Tampa Electric's service area in Florida is important to the realization of the company's forecasts for annual energy sales growth. An unanticipated downturn or a failure of market conditions to improve, such as the current slowdown in the housing markets, in the Tampa Electric service areas or in Florida's economy could adversely affect Tampa Electric's or Peoples Gas' expected performance.

Operating risk in Guatemala

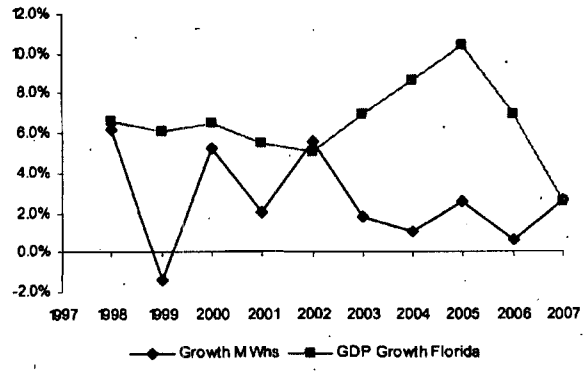
The level of earnings at TECO Guatemala is uncertain due to the regulatory challenges now being encountered in this jurisdiction. While we have eliminated most of the earnings that we believe are at risk, more downside is possible.

Tampa faces near-term pain

Tampa Electric Company is a Florida-based public utility engaged in the generation, purchase, transmission, distribution and sale of electric energy. The retail territory comprises 2,000 square miles in West Central Florida, including Hillsborough County and parts of Polk, Pasco and Pinellas counties, with an estimated population of over 1m. The principal communities served are Tampa, Winter Haven, Plant City and Dade City. In 2007, approximately 46% of Tampa Electric's total operating revenues were derived from residential sales, 30% from commercial sales and 9% from industrial sales.

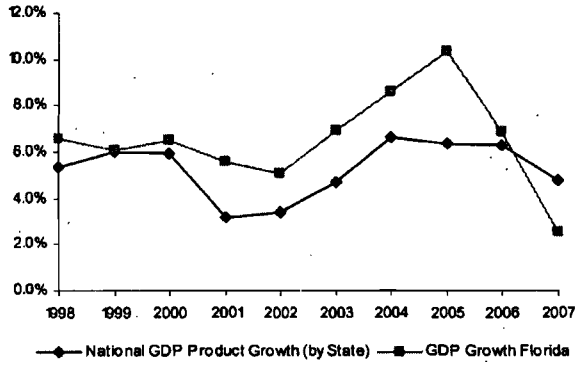
As seen in the following figures, Florida has been facing a relatively severe decline in GDP growth and customer usage, which has been a headwind for Tampa's operations, requiring the company to seek rate relief.

Fig 15 Usage growth in Florida has lagged GDP growth in recent years



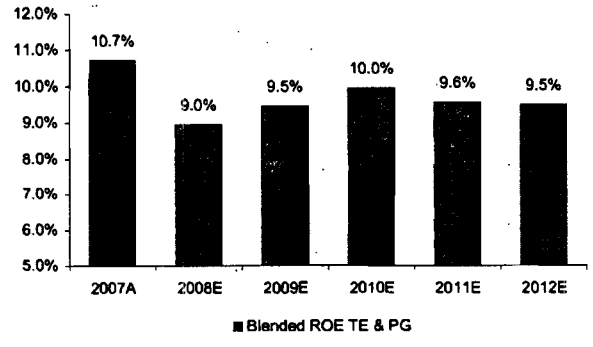
Note: Weather normalized starting 2003.
Source: Macquarie Capital (USA), September 2008

Fig 16 GDP growth in Florida, while typically strong, has decelerated with the demise of housing



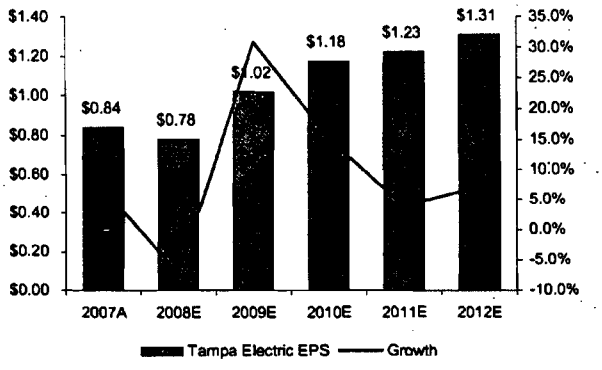
Source: Macquarie Capital (USA), September 2008

Fig 17 We assume ROEs below 11% at Tampa Electric



Source: Company data, Macquarie Capital (USA), September 2008

Fig 18 Rate recovery is expected in 2009

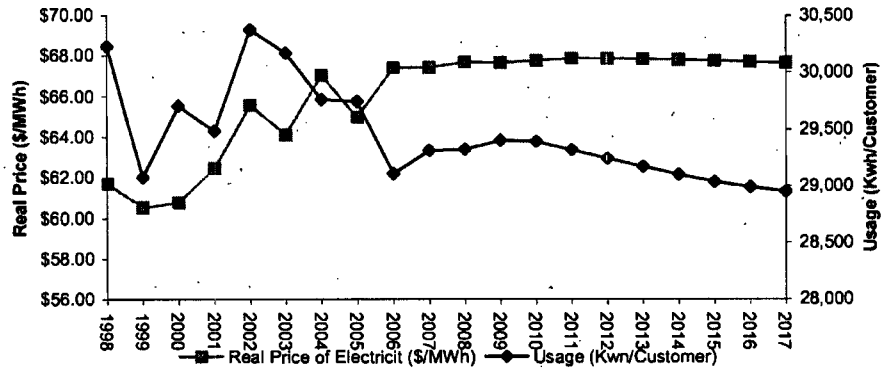


Source: Company data, Macquarie Capital (USA), September 2008

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The following chart was obtained from Tampa's Electric's testimony in its rate case proceeding. It offers some compelling evidence that customer usage in Florida has diminished over the past several years and could be linked to the rising price of electricity. This trend, in our view, is unlikely to end unless electricity prices abate. Customer growth, however, will probably resume its ~2% long-term trend in 2010 with the end of the housing crisis. We note that customer usage and growth in Florida have enabled many of the electric utilities in that state to avoid rate-case proceedings, which is a very favorable aspect of this geography.

Fig 19 Evidence of price elasticity in Tampa Electric's service territory may be diminishing usage per customer



Source: Docket# 080317-EI Lorraine Cifuentes Testimony, August 2008

Fig 20 Florida is the 4th-most populous state in the union and the 3rd-fastest growing in terms of population under normal conditions

State	Total Population 2007 (actual)	Population Change 2000 – 2007 (%)	Projected Change 2007 – 2012 (%)
Nevada	2,645,277	32.38	19.90
Arizona	6,363,799	24.04	16.96
Florida	**18,893,813**	**18.22**	**12.80**
Georgia	9,654,958	17.94	11.69
Idaho	1,513,708	16.98	11.98
Utah	2,610,198	16.88	12.02
Texas	23,986,432	15.03	9.89
Colorado	4,883,413	13.53	8.53
North Carolina	9,068,106	12.66	8.88
Delaware	880,458	12.36	8.53
Virginia	7,862,029	11.07	7.81
California	37,483,448	10.66	6.75
Washington	6,516,384	10.56	7.05
South Carolina	4,425,765	10.31	7.21

Source: SNL, August 2008

Tampa Electric is seeking rate recovery of US$228m, which is a key earnings driver for 2009 and 2010

The retail operations of Tampa Electric are regulated by the Florida Public Service Commission, which sets rates at a level that allows the utility to recover its costs plus a reasonable return on invested capital.

On 11 August 2008 Tampa Electric filed for a base-rate increase, requesting a revenue increase of US$228.2m, premised on a 50.2% equity mix, 12% ROE and 2009 rate base of US$3.657bn. The 12% ROE is at the midpoint of a requested range of 11–13%. The new rates would be effective May 2009. Tampa Electric's last rate case was in 1992. It has since added baseload and peaking capacity and more than 200,000 customers on its system. A rate case was likely overdue, and the need for recovery has been accelerated by a weak economy, lower usages and sub-par customer growth. Our forecasts assume that roughly half of the revenue requested is secured over 2009 and 2010 and that the ROE awarded could be meaningfully less than the 12% requested.

Tampa Electric's current allowed ROE range is 10.75%–12.75%, premised on a regulatory equity mix of 55.3% and a rate base currently valued at ~US$3.1bn. The company earned an ROE of 11.4% in 2007 that was buoyed by favorable weather and a depreciation adjustment in the second half of the year. The ROE for 2007 is derived based on the actual equity mix of ~49%. Management has indicated that its ROE at Tampa Electric will decline below the low end of the allowed band in 2009, and we estimate that it could fall to ~9% prior to regulatory recovery.

Peoples Gas has requested a base revenue increase of US$26.5m

Peoples Gas System filed a rate case on 11 August 2008 for a base rate hike of US$26.5m, premised on a 48.5% equity mix, 11.5% ROE and 2009 rate base of US$563.6m. The increase was requested to cover higher expenses, including an increase in labor costs and a doubling in the cost of steel pipe. Peoples Gas added ~100,000 new customers since its last rate case. We are assuming that roughly 50% of this revenue is awarded, with rates effective in May 2009.

Peoples Gas is currently authorized an 11.25% ROE and an 8.83% return on a rate base currently valued at ~US$505.4m. Rates were last established in 2003 following adoption of a settlement in the company's previous rate case proceeding.

The company's capital plan has some uncertainty – we discount longer-term generation additions in our forecasts

Tampa Electric's total capital expenditures over the 2009–2012 period are projected by the company to be about US$2.4bn, including baseload generating capacity and new natural gas-fired combustion turbines. Incorporated in this capital plan is US$876m of proposed expenditures for combustion turbines and a combined cycle natural gas plant – we give only 30% credit to these proposals in our forecasts. Tampa Electric expects to spend approximately US$320m annually to support normal system growth and reliability.

Committed new generation is included in our forecasts. Tampa Electric has committed to constructing five peaking capacity combustion turbines in 2008 and 2009 at the Bayside and Big Bend power stations, with an expected total cost of US$236m, excluding AFUDC. These units will meet the expected peak demand requirements in 2009 and 2010, and several will be configured to meet the NERC black start requirements for system reliability.

Proposed new generation is given 30% credit in our forecasts. Tampa Electric expects to need additional combustion turbines to meet peak load demand in 2011 and 2012, and the total cost for these units is estimated to be US$320m. However, there is a reasonable likelihood that these units could be delayed given reduced demand in a recessionary environment, and these projects are at risk. Tampa Electric also currently has plans to meet its 2013 baseload capacity needs with a combined-cycle natural gas-fired plant, which the company expects to cost approximately US$555m with associated transmission. Tampa Electric will issue an request for Proposal (RFP) for this required baseload capacity in 2008. The prospects for baseload additions seem fairly good, but we discount them nonetheless.

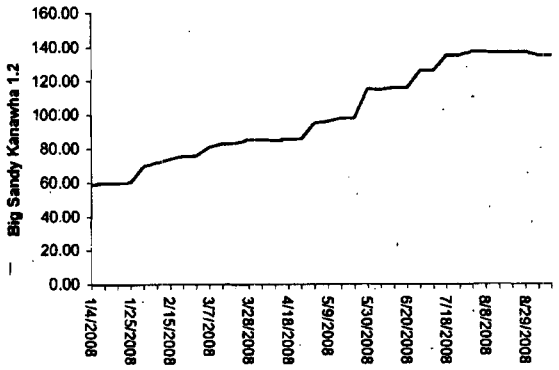
TECO Coal is the wildcard

The TE Coal story has disappointed, but its day may come in 2009

TE Coal owns and operates low-sulphur coal mines and preparation facilities in Kentucky and Virginia. Customers include domestic utilities (62%), North American and European steel mills and industrial customers. Tonnage delivered has increased from ~6m tons in 1996 to ~10m tons, with a current mix of 33% metallurgical ('Met') and PCI coal and ~66% Central Appalachian coal ('CAAP'). Reserves were 277m tons at 31 December 2007.

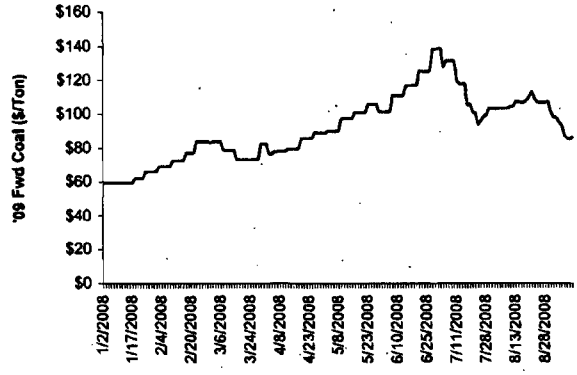
Since the start of 2008, forward prices for CAAP (NYMEX Big Sandy) coal have risen from ~US$60/ton to ~US$85/ton currently, Met coal is reputed to have increased from ~US$70/ton to US$225 to US$275/ton. Despite this run-up, TE coal cash margins (gross margins) did not improve in 2008, because the bulk of output was contracted at lower prices in 2006 and 2007. In addition, costs escalated rapidly with new safety regulations and higher prices for labor and fuel.

Fig 21 2009 forward prices for Big Sandy Kanawha 1.2 have almost doubled this year (pricing proxy for steam) ($US/ton)



Source: SNL, September 2008

Fig 22 2009 forward prices for NYMEX Big Sandy have increased sharply this year (pricing proxy for steam) (US$/ton)



Source: SNL, September 2008

The improvement in coal margins will likely come in 2009 and 2010 as output is repriced at more favorable levels. We take a conservative stance with respect to pricing here given the historical underperformance of this business. Guidance for TE Coal was lowered on the company's 2Q08 conference call based on higher-than-expected cost increases. Guidance for 2008 cash margins are now US$8/ton on 10m tons of volume, down from US$10/ton margins on 10.5m tons.

Fig 23 TE Coal lowers coal margin expectations for 2008

US$ per ton	New Guidance	Old Guidance
Revenue	US$59	US$58
Cash cost	$51	$48
Cash margin	**$8**	**$10**
DD&A and allocated interest	$5	$5
Pretax margin	**$3**	**$5**
Volume (tons in millions)	10.0	10.5

Source: Company data, September 2008

On its 2Q08 conference call, management also provided more detail on 2009 coal pricing, which we summarize in the following table.

Fig 24 Guidance for 2009 gives us enough rope to hang ourselves – but specifics will not be forthcoming until Met coal is fully contracted

2009 Guidance	
2009 Production contracted and priced per ton	US$66.00
Contracted volume as % of production	80.0%
Steam coal contracted	100.0%
Met coal as % of production	33.0%
Steam CAAP coal as % of production	66.0%
Unpriced tons	35% Met Coal and 65% PCI
Cost increases	20.0%
Volume	10.5–11mm tons

Source:Company data, September 2008

Here is the arithmetic for coal margins in 2009 based on the guidance above. A 20% increase takes costs per ton to US$61 from US$51. Contracted revenues should be ~US$581m based on US$66/ton and 8.8m tons of contracted output (80%*11m tons). This leaves 2.2m tons of Met and PCI coal to be sold in the spot market in the proportions specified above (0.77 tons Met and 1.43 ton of PCI). Met coal is reported to be trading over US$200/short ton at the mine, and PCI is reported to be trading over the US$150/ton level. This pricing implies US$369m in revenues from Met and PCI and a total of ~US$950m in revenues from coal overall, yielding US$86/ton in realized pricing. We believe this is a realistic outcome for TECO, and the coal business could deliver twice what we are forecasting from an EPS perspective.

We have taken a very conservative view on coal for 2009 ... the company will likely beat these estimates

We assume US$78/ton realized pricing in 2009, which we believe is a very conservative discount to what the company should be able to achieve. This assumes US$160/ton for Met coal and US$110/ton for PCI.

Fig 25 We assume US$17/ton cash margins for 2009, driven by higher Met/PCI pricing

US$ per ton	Coal margins 2009
Revenue	$78
Cash cost	$61
Cash margin	**$17**
DD&A and allocated interest	$5
Pretax margin	**$12**
Volume (tons in millions)	11
CAAP coal assumption	$64
PCI / Met coal assumption	$107

Source: Macquarie Capital (USA), September 2008

Fig 26 Our EPS forecast for TE coal in 2009 is highly sensitive to coal pricing assumption

Met price (US$/ton)	PCI price (US$/ton)	Contracted revenues (US$m)	Open revenues '09 (US$m)	Total revenues (US$m)	Realized price per ton (US$/ton)	Cash margin (US$m)	Pretax margin (US$m)	Taxes at 25% (US$m)	Post tax margin (US$m)	Volumes (tons)	Net income (US$m)	EPS impact
$130	$80	$581	$215	$795	$72	$11	$6	-$1.5	$5	11	$50	$0.24
$140	$90	$581	$237	$817	$74	$13	$8	-$2.0	$6	11	$67	$0.32
$150	$100	$581	$259	$839	$76	$15	$10	-$2.5	$8	11	$83	$0.39
$170	$120	$581	$303	$883	$80	$19	$14	-$3.5	$11	11	$116	$0.55
$180	$130	$581	$325	$905	$82	$21	$16	-$4.0	$12	11	$133	$0.63
$190	$140	$581	$347	$927	$84	$23	$18	-$4.5	$14	11	$149	$0.71
$200	$150	$581	$369	$949	$86	$25	$20	-$5.0	$15	11	$166	$0.78
$210	$160	$581	$391	$971	$88	$27	$22	-$5.5	$17	11	$182	$0.86

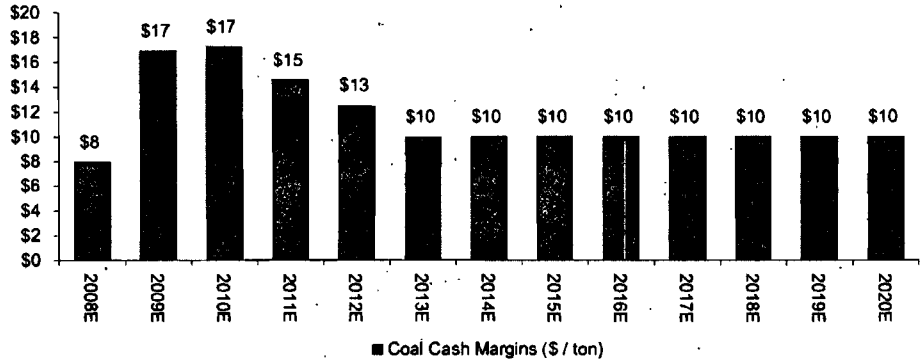
Source: Macquarie Capital (USA), September 2008

We value the coal business at US$3/sh based on a DCF

Our DCF of the coal business is predicated on depletion of the ~270m-ton reserves and assumes long-term cash margins shown in Figure 27. We do not claim any special insight into the coal market, but we are cautious on valuing this name at what could be a cyclical peak for coal and commodities. In addition, the company has historically sustained margins in the US$10–12/ton range, which excludes the impact from new safety regulations that might have permanently increased the overall cost structure.

We assume coal margins peak in 2009 and 2010 and decline thereafter

Fig 27 Our coal cash margin assumptions decline post 2010 (US$)



Source: Macquarie Capital (USA), September 2008

The coal assets are located in Kentucky

TECO Coal operates 23 underground mines that employ the room-and-pillar mining method and 14 surface mines. The company has four mining complexes, all operating in Kentucky and a portion operating in Virginia. A mining complex is defined as all mines that supply a single-wash plant. These complexes blend, process and ship coal that is produced from one or more mines, with a single complex handling the coal production of as many as 14 individual underground or surface mines. The complexes are located in close proximity to the preparation plants and rail shipping facilities. Coal is transported from TECO Coal's mining complexes to customers by means of railroad cars, trucks, barge or vessels, with rail shipments representing approximately 89% of 2007 shipments.

Coal mined by the operating companies of TECO Coal is processed and shipped from facilities located at each of the operating companies, with Clintwood Elkhorn Mining Company and Premier Elkhorn Coal Company having two facilities. The Clintwood facilities are located at Biggs, Kentucky, and Hurley, Virginia, and the Premier facilities are located at Myra, Kentucky. The Millard facility, which is idle, is located at Millard, Kentucky.

Fig 28 TE Coal processing facilities

Company	Facility	Location	Railroad	Utility Serviced
Gatliff Coal	Ada Tipple	Himyar, KY	CSXT Railroad	RECC
Clintwood Elkhorn	Clintwood #2 Plant	Biggs, KY	Norfolk Southern	AEP
Clintwood Elkhorn	Clintwood #3 Plant	Hurley, VA	Norfolk Southern	AEP
Premier Elkhorn	Bear Branch Plant	Myra, KY	CSXT Railroad	AEP
Premier Elkhorn	Millard Plant	Millard, KY	CSXT Railroad	AEP
Perry County Coal	Perry County Plant	Hazard, KY	CSXT Railroad	AEP

Source: Company data, December 2007

Fig 29 TE Mines in Kentucky produced ~9m tons annually since 2005

		Production in mm tons			Sales (mm tons)
Mine	Location	2007	2006	2005	2007
Gatliff Coal Company	Bell County, KY	0.26	0.36	0.34	0.27
Clintwood Elkhorn Mining	Pike County, KY	2.66	2.63	2.18	2.87
Premier Elkhorn Coal	Pike County, KY	3.15	3.33	3.31	3.04
Perry County Coal	Perry County, KY	3.05	3.57	3.37	3.04
Total		**9.12**	**9.89**	**9.2**	**9.22**

Source: Company data, December 2007

TE Coal has four mines located in Kentucky

Perry County Coal Corporation

Perry County Coal Corporation in Kentucky is supplied by three underground mines and one surface mine. Principal products include high-quality steam coal for utilities, industrial stoker and PCI products. Products from this location are shipped domestically via railroad and trucking contractors. Perry produced 3.0m tons of coal in 2007, leaving a reserve base of 137.8m recoverable tons.

Gatliff Coal Company

Gatliff Coal Company, located in Kentucky, is supplied by one surface mine. Principal products at this location consist of high quality steam coal for utilities. Products are transported by trucking contractors. Gatliff produced 0.26m tons of coal in 2007, leaving a reserve base of 6.8m recoverable tons.

Clintwood Elkhorn Mining Company

Clintwood Elkhorn has two facilities. One is located in Pike County, Kentucky, and is supplied by 11 underground mines and three surface mines. Principal products include metallurgical coals and steam coals. The second facility is located near Hurley, Virginia, and is supplied by two underground mines and three surface mines. In total, Clintwood Elkhorn Mining Company produced 2.7m tons of coal in 2007, leaving a reserve base of 51.5m recoverable tons.

Premier Elkhorn Coal Company

Premier Elkhorn Coal Company in Kentucky is supplied by production from seven underground mines and six surface mines. Principal products include high-quality steam coal for utilities, specialty stoker products for ferro-silicon and industrial customers and PCI and metallurgical coal for the steel mills. Products from this location are shipped domestically via CSXT Railroad and trucking contractors. Premier Elkhorn Coal Company produced 3.1m tons of coal in 2007, leaving a reserve base of 81m recoverable tons.

2202AKO

TECO Guatemala

Usually a steady business ... but also an example of the risks of emerging markets

TECO's assets in Guatemala include a 120MW coal-fired power plant, a 78MW gas-fired plant and a 24% interest in EEGSA, a Guatemalan distribution utility. The power stations have long-term, US-denominated, power-sale agreements with EEGSA that create some earnings stability for this segment. However, the rates at EEGSA are now in dispute based on a 15 August 8K, which essentially puts a portion of EEGSA's earnings at risk effective 31 July 2008. EEGSA contributed roughly US$12–15m in earnings in 2007, an amount that we have removed from our forecasts on a pro-rata basis in 2008 and in full for 2009. The earnings of the power plants do not appear to be at risk. We value this segment on a multiple of book until greater visibility is achieved on earnings.

Fig 30 TE owns generation and distribution in Guatemala

Project	Location	Size MW	Economic Interest
Alborada Power Station	Guatemala	78	96%
Empresa Electrica de Guatemala (EEGSA)	Guatemala	Distribution	24%
San Jose Power Station	Guatemala	120	100%

Source: Company data December 2007

EEGSA earnings are at risk near term; we remove them from our forecast

TECO Guatemala owns 24% of EEGSA through a consortium. TECO owns a 30% stake in a consortium, DECA II, that owns an 80.9% ownership interest in EEGSA. DECA II was created in 1988 by a TECO affiliate, Iberdrola, an electric utility in Spain, and Electricidade de Portugal, an electric utility in Portugal, to purchase the 80.9% ownership interest in EEGSA for US$520m. TECO Guatemala contributed US$100m in equity. The consortium maintains a controlling interest in EEGSA, which provides, among other things, electricity transmission services, telecommunication services and power sales to large electric customers and engineering services. EEGSA serves more than 800,000 customers in and around Guatemala City.

TECO owns 100% of San José, a pulverized coal plant. San Jose is a 120MW single-unit pulverized-coal baseload facility located in Guatemala. This facility was the first coal-fueled plant in Central America and meets environmental standards set by the World Bank. In 1996, San Jose signed a US-dollar-denominated power purchase agreement with EEGSA to provide capacity and energy for 15 years beginning in 2000. In 2001, San Jose signed an option with EEGSA to extend that PPA for five years for approximately US$2.5m.

TECO owns 96% of Alborada, a gas facility. TECO Guatemala also owns the Alborada Power Station, which has a US-dollar-denominated PPA with EEGSA to provide 78 MW of capacity for a 15-year period ending in 2010. In 2001, TECO signed an option with EEGSA to extend that PPA for five years for approximately US$2.9m.

2202AKP

Management team

Sherrill W. Hudson – Chairman of the Board and Chief Executive Officer. Prior to holding this position, Mr. Hudson was Managing Partner for South Florida, Deloitte & Touche, LLP. Mr. Hudson was named Chairman and Chief Executive Officer of TECO Energy in July 2004. He has been a member of the company's board since January 2003 and served as chair of the Audit Committee until being named Chairman and CEO. Mr. Hudson is a member of the Finance Committee and is involved in overseeing TECO Energy's operations and the implementation of new corporate strategies.

Charles A. Attal, III – General Counsel and Chief Legal Officer. Mr. Attal joined TECO Energy as Vice President and Deputy General Counsel on 17 September 2001 to manage the day-to-day legal affairs of the TECO Energy Legal Department, including all of the litigation for the TECO group of companies.

Charles R. Black – President, Tampa Electric Company. Mr. Black joined the company in 1973 and during the next seven years held various engineering positions within the Production Department. From 1980 to 1989, Mr Black held various management positions including Budget Director for Tampa Electric. In December 1991, he was named Vice President–Project Management for Tampa Electric. In that capacity he was responsible for the engineering and construction of Tampa Electric's Polk Power Station, a 250 MW IGCC Unit.

William N. Cantrell – President, Peoples Gas System. Mr. Cantrell also served as President of Tampa Electric from September 2003 to October 2004. He joined Tampa Electric in 1975 and held engineering and management positions in several departments before being named vice president-Energy Supply at Tampa Electric in 1994 with responsibility for engineering, operations, maintenance and construction for the company's power production facilities, including environmental matters and fuel procurement.

Gordon L. Gillette – Executive Vice President and Chief Financial Officer. Mr. Gillette was promoted to Executive Vice President and Chief Financial Officer for TECO Energy following his 2001 promotion to Senior Vice President of Finance and Chief Financial Officer. He also serves as President of TECO Guatemala, a TECO Energy subsidiary. Previously, Gillette was Vice President of Finance and Chief Financial Officer, a role he had held since March 1998. He joined Tampa Electric in 1981 as an engineer and worked in the production and planning areas.

John B. Ramil – President and Chief Operating Officer. Mr. Ramil was named President and Chief Operating Officer in July 2004. He is responsible for TECO Energy's five operating companies: Tampa Electric, Peoples Gas, TECO Coal, TECO Transport and TECO Guatemala. Mr Ramil was formerly President of Tampa Electric Company and Executive Vice President of its holding company, TECO Energy. Ramil also has served as Vice President–Finance and Chief Financial Officer for TECO Energy and earlier as Vice President–Energy Services & Planning for Tampa Electric.

Appendices

Fig 31 Consolidated income statement (US$m, except per-share data)

Income Statement	2006A	2007A	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Total Revenue	$3,448	$3,339	$3,453	$3,914	$4,252	$4,352	$4,533	$4,692	$4,902	$5,148
Operating Expenses	3,030	2,900	3,077	3,387	3,662	3,785	3,981	4,158	4,360	4,579
Gross Margin	418	440	376	527	591	566	552	534	542	570
EBIT	418	440	376	527	591	566	552	534	542	570
EBITDA	700	688	639	807	883	871	868	860	880	920
Interest Expense	(279)	(255)	(266)	(277)	(288)	(288)	(288)	(288)	(288)	(288)
Other Income	224	97	150	155	156	167	183	180	179	181
EBT	363	282	260	404	459	445	448	426	433	462
Taxes	(119)	(82)	(86)	(133)	(151)	(147)	(148)	(141)	(143)	(153)
Net Income	$244	$200	$174	$271	$307	$298	$300	$286	$290	$310
S/O	210	210	210	212	213	214	215	216	217	218
EPS	**$1.16**	**$0.95**	**$0.83**	**$1.28**	**$1.45**	**$1.40**	**$1.40**	**$1.32**	**$1.34**	**$1.42**
% EPS Growth		nm	-13.1%	54.6%	12.8%	-3.4%	0.1%	-5.2%	1.1%	6.3%
EPS										
Regulated	$0.79	$0.84	$0.78	$1.02	$1.18	$1.23	$1.31	$1.33	$1.35	$1.42
Coal	$0.22	$0.18	$0.11	$0.47	$0.48	$0.37	$0.29	$0.19	$0.19	$0.19
Guatemala	$0.18	$0.21	$0.18	$0.13	$0.16	$0.16	$0.17	$0.17	$0.18	$0.19
Other	($0.02)	($0.28)	($0.24)	($0.34)	($0.37)	($0.36)	($0.37)	($0.37)	($0.38)	($0.38)
Total	$1.16	$0.95	$0.83	$1.28	$1.45	$1.40	$1.40	$1.32	$1.34	$1.42

Source: Company data, Macquarie Capital (USA), September 2008

Fig 32 Consolidated statement of cashflows (US$m)

Statement of Cash Flows	2006A	2007A	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Cash Flow from Operations										
Net Income	$246	$413	$174	$271	$307	$298	$300	$286	$290	$310
Depreciation	$282	$264	$263	$280	$293	$305	$316	$326	$338	$350
Amortization of regulatory assets	$12	$0	$0	$0	$0	$0	$0	$0	$0	$0
Amortization of nuclear fuel	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Change in operating assets & liabilities	($25)	($282)	($91)	($48)	($54)	($62)	($76)	($76)	($76)	($76)
Other & Synfuel Tax Credits	$52	$159	$99	$0	$0	$0	$0	$0	$0	$0
Total CFFO	$567	$554	$445	$502	$545	$541	$540	$536	$552	$584
Cash Flow From Investing										
Property additions	($458)	($494)	($620)	($760)	($451)	($471)	($468)	($367)	($367)	($367)
Nuclear fuel additions	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Proceeds from asset sales	$100	$405	($7)	$0	$0	$0	$0	$0	$0	$0
Other	$4	$62	$92	$0	$0	$0	$0	$0	$0	$0
Total CFFI	($352)	($28)	($535)	($760)	($451)	($471)	($468)	($367)	($367)	($367)
Cash Flow From Financing										
Short term borrowings	($167)	($23)	$175	$350	$180	$0	$100	$80	$0	$0
Long term borrowings	$128	($693)	$40	$0	$0	$0	$0	$0	$0	$0
Dividends	($159)	($163)	($168)	($169)	($178)	($179)	($189)	($198)	($208)	($217)
Share Repurchases for Forecast	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Other	$78	$74	$20	$0	$0	$0	$0	$0	$0	$0
Total CFFI	($119)	($805)	$67	$181	$2	($179)	($89)	($118)	($208)	($217)
Starting Cash	$346	$442	$163	$140	$63	$159	$50	$33	$84	$61
Change in Cash	$96	($279)	($23)	($77)	$96	($109)	($17)	$51	($22)	($0)
Ending Cash	$442	$163	$140	$63	$159	$50	$33	$84	$61	$61

Source: Company data, Macquarie Capital (USA), September 2008

Fig 33 Consolidated balance sheet (US$m)

Balance Sheet	2006A	2007A	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Assets:										
Cash	$442	$163	$140	$63	$159	$50	$33	$84	$61	$61
Net Receivables	$309	$329	$297	$346	$400	$462	$538	$614	$690	$766
Materials	$160	$154	$162	$162	$162	$162	$162	$162	$162	$162
Other	$375	$145	$369	$369	$369	$369	$369	$369	$369	$369
Total Current Assets	$1,286	$790	$967	$939	$1,089	$1,042	$1,101	$1,228	$1,282	$1,357
Gross PPE	$6,750	$6,529	$7,026	$7,786	$8,237	$8,708	$9,176	$9,543	$9,910	$10,277
Less: Accumulated Depreciation	($2,317)	($2,006)	($2,161)	($2,441)	($2,733)	($3,038)	($3,354)	($3,680)	($4,018)	($4,368)
CWIP	$334	$365	$366	$366	$366	$366	$366	$366	$366	$366
Net PPE	$4,767	$4,888	$5,231	$5,711	$5,870	$6,036	$6,188	$6,229	$6,258	$6,275
Goodwill	$59	$59	$59	$59	$59	$59	$59	$59	$59	$59
Regulatory Assets	$231	$187	$185	$185	$185	$185	$185	$185	$185	$185
Other	$1,019	$841	$819	$819	$819	$819	$819	$819	$819	$819
Total Assets	$7,362	$6,765	$7,262	$7,713	$8,022	$8,141	$8,353	$8,520	$8,603	$8,695
Liabilities and Owner's Equity										
Current Portion of LTD	$639	$7	$7	$7	$7	$7	$7	$7	$7	$7
Short Term Borrowings	$48	$25	$200	$550	$730	$730	$830	$910	$910	$910
Accounts Payable	$327	$302	$357	$357	$357	$357	$357	$357	$357	$357
Other	$337	$283	$429	$429	$429	$429	$429	$429	$429	$429
Total Current Liabilities	$1,350	$618	$993	$1,343	$1,523	$1,523	$1,623	$1,703	$1,703	$1,703
Long Term Debt	$3,213	$3,158	$3,212	$3,212	$3,212	$3,212	$3,212	$3,212	$3,212	$3,212
Other	$1,070	$972	$1,021	$1,021	$1,021	$1,021	$1,021	$1,021	$1,021	$1,021
Total Liabilities	$5,633	$4,748	$5,226	$5,576	$5,756	$5,756	$5,856	$5,936	$5,936	$5,936
Preferred Stock	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Shareholder's Equity	$1,729	$2,017	$2,036	$2,138	$2,266	$2,385	$2,497	$2,584	$2,667	$2,759
Total Liabilities and OE	$7,362	$6,765	$7,262	$7,713	$8,022	$8,141	$8,353	$8,520	$8,603	$8,695

Source: Company data, Macquarie Capital (USA), September 2008

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >5% in excess of benchmark return (>2.5% in excess for listed property trusts)
Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts)
Underperform – return >5% below benchmark return (>2.5% below for listed property trusts)

Macquarie - Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of benchmark return
Neutral (Hold) – return within 5% of benchmark return
Underperform (Sell) – return >5% below benchmark return

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility Index definition*
This is calculated from the volatility of historic price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
*Applicable to Australian/NZ stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / ePowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit / average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 June 2008

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	41.68%	66.96%	66.13%	50.82%	71.01%	43.00%	(for US coverage by MCUSA, 0.0% of stocks followed are investment banking clients)
Neutral	42.96%	16.30%	22.58%	44.26%	24.64%	48.00%	(for US coverage by MCUSA, 3.7% of stocks followed are investment banking clients)
Underperform	15.16%	16.74%	11.29%	4.92%	4.35%	9.00%	(for US coverage by MCUSA, 0.0% of stocks followed are investment banking clients)

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TECO Energy Inc

Downgrading to Underperform on coal outlook

Rating Change **UNDERPERFORM**



Lowering rating to Underperform on revised coal outlook

We are lowering our rating on TE to Underperform from Buy on a weaker outlook for TECO Coal. We upgraded TE in May on our expectations for significantly higher earnings from the coal mining subsidiary, but no longer expect the same level of earnings due to weaker pricing and production cost inflation. In particular, we no longer expect TECO Coal to price its remaining, unhedged 2009 metallurgical and PCI volumes at $200/ton even though management suggested that this would be possible as recently as late October. We now expect a price closer to $125/ton due to the recent and steep drop in demand for metallurgical coal from global steel producers.

Now 30%+ below 2010 consensus on reduced coal prices

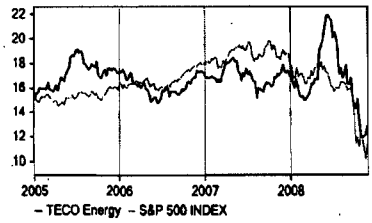
We are lowering our 2009 and 2010 EPS estimates to $1.25 and $1.00 from $1.55 and $1.30, respectively, reflecting lower earnings projections for TECO Coal. Our 2009 and 2010 estimates are now below consensus by $0.12/sh (9%) and $0.51/sh (34%), respectively. We expect TECO Coal to contribute $0.50/sh and $0.15/sh in 2009 and 2010 versus $0.82/sh and $0.45/sh previously. Our forecasts for Tampa Electric and TECO Guatemala are unchanged.

Cutting price target to $11 from $14

Our new price target of $11 is based on a hybrid sum-of-the-parts analysis. We attribute $10 to the electric and gas utilities based on our 2010E of $0.98 and a 10.6x multiple. We value TECO Coal at $2 based on a 2010E of $0.15 and a multiple of 15.0x. Using 2010 EPS estimate of $0.17 and a multiple of 7.0x, we value TECO Guatemala at about $1/sh. We then add $1/sh to reflect the company's NOL position and AMT carry forwards. Parent drag is valued at $(3). After applying a 5 percent conglomerate discount, we get to our $11 price objective, which implies downside of 6.9% or zero total return potential.

Stock Data

Price	US$11.82
Price Objective	US$14.00 to US$11.00
Date Established	2-Dec-2008
Investment Opinion	B-1-7 to B-3-7
Volatility Risk	MEDIUM
52-Week Range	US$10.59-21.99
Mrkt Val / Shares Out (mn)	US$2,513 / 212.6
ML Symbol / Exchange	TE / NYS
Bloomberg / Reuters	TE US / TE.N
ROE (2008E)	8.8%
Total Dbt to Cap (Sep-2008A)	61.5%
Est. 5-Yr EPS / DPS Growth	10.0% / 3.0%



Estimates (Dec)

(US$)	2006A	2007A	2008E	2009E	2010E
EPS	0.97	1.07	0.85	1.25	1.00
GAAP EPS	1.19	1.97	0.85	1.25	1.00
EPS Change (YoY)	-20.8%	10.0%	-20.2%	47.5%	-20.4%
Consensus EPS (Bloomberg)			0.84	1.36	1.51
Dividend Rate	0.76	0.78	0.80	0.82	0.84

Quarterly Earnings Estimates

	2007	2008
Q1	0.21A	0.15A
Q2	0.25A	0.24A
Q3	0.38A	0.27A
Q4	0.23A	0.19E

Valuation (Dec)

	2006A	2007A	2008E	2009E	2010E
P/E	12.2x	11.1x	13.9x	9.4x	11.8x
GAAP P/E	10.0x	6.0x	13.9x	9.4x	11.8x
Dividend Yield	6.4%	6.6%	6.8%	6.9%	7.1%
EV / EBITDA*	9.3x	10.0x	10.3x	8.5x	9.2x
Free Cash Flow Yield*	4.4%	3.3%	-8.8%	4.8%	-3.4%

* For full definitions of *IQmethod℠* measures, see page 10.

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iQprofile℠ TECO Energy Inc

iQmethod℠ – Bus Performance*

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Return on Capital Employed	4.2%	3.7%	4.2%	5.4%	4.4%
Return on Equity	12.1%	11.9%	8.8%	11.8%	8.5%
Operating Margin	12.9%	11.3%	11.6%	13.9%	12.2%
Free Cash Flow	111	82	(220)	121	(86)

iQmethod℠ – Quality of Earnings*

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Cash Realization Ratio	2.8x	2.6x	2.3x	2.9x	2.6x
Asset Replacement Ratio	1.6x	1.8x	2.4x	2.4x	2.3x
Tax Rate	38.0%	40.7%	33.0%	33.0%	33.2%
Net Debt-to-Equity Ratio	200.0%	150.1%	158.0%	136.4%	138.3%
Interest Cover	1.6x	1.6x	1.7x	2.3x	1.9x

Income Statement Data (Dec)

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Sales	3,448	3,536	3,384	3,783	3,802
% Change	14.6%	2.6%	-4.3%	11.8%	0.5%
Gross Profit	2,058	2,020	1,783	2,194	2,197
% Change	6.7%	-1.9%	-11.7%	23.0%	0.2%
EBITDA	727	679	657	802	740
% Change	13.2%	-6.6%	-3.3%	22.1%	-7.8%
Net Interest & Other Income	(120)	(73)	(122)	(128)	(143)
Net Income (Adjusted)	**202**	**224**	**180**	**267**	**213**
% Change	**-20.9%**	**11.0%**	**-19.5%**	**48.2%**	**-20.0%**

Free Cash Flow Data (Dec)

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Net Income from Cont Operations (GAAP)	202	224	180	267	213
Depreciation & Amortization	282	279	266	276	277
Change in Working Capital	(55)	117	0	0	0
Deferred Taxation Charge	112	185	99	131	106
Other Adjustments, Net	26	(228)	(134)	97	(33)
Capital Expenditure	(456)	(494)	(631)	(650)	(650)
Free Cash Flow	**111**	**82**	**-220**	**121**	**-86**
% Change	**NM**	**-26.2%**	**NM**	**NM**	**NM**

Balance Sheet Data (Dec)

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Cash & Equivalents	442	163	15	91	54
Trade Receivables	338	374	374	374	374
Other Current Assets	506	253	253	253	253
Property, Plant & Equipment	4,767	4,888	5,246	5,621	5,994
Other Non-Current Assets	1,309	1,087	1,087	1,087	1,087
Total Assets	**7,362**	**6,765**	**6,976**	**7,426**	**7,762**
Short-Term Debt	48	25	125	125	125
Other Current Liabilities	663	586	586	586	586
Long-Term Debt	3,852	3,166	3,199	3,299	3,499
Other Non-Current Liabilities	1,070	972	972	972	972
Total Liabilities	**5,633**	**4,748**	**4,881**	**4,981**	**5,181**
Total Equity	**1,729**	**2,017**	**2,094**	**2,444**	**2,580**
Total Equity & Liabilities	**7,362**	**6,765**	**6,976**	**7,426**	**7,762**

* For full definitions of *iQmethod*℠ measures, see page 10.

Company Description

TECO Energy is a holding company for Tampa Electric (an electric and natural gas utility servicing West Central Florida), TECO Coal (a Kentucky coal mining business), and TECO Guatemala (a power generation and distribution business in Guatemala). The utilities have historically provided the largest percentage of net income.

Investment Thesis

TECO Energy couples a regulated electric and gas utility in FL with a non-regulated coal business, which sells both steam and met coal. The company also has interests in two power plants and a distribution utility in Guatemala, but this comprises a small percentage of overall earnings power. We believe lower-than-expected earnings from TECO Coal will negatively impact the company's stock price near-term.

Stock Data

Average Daily Volume	2,727,615

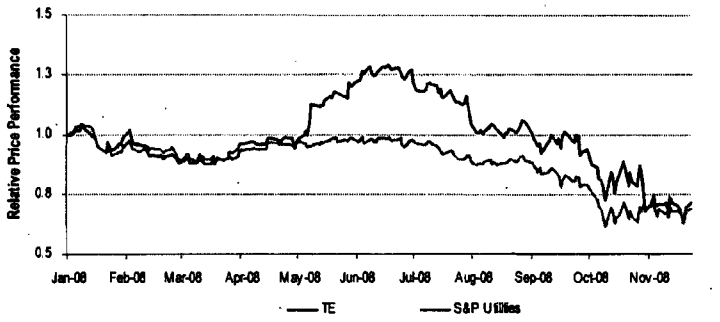
Downgrading to Underperform

Upside from coal mining business no longer apparent

While TE has given back earlier outperformance we believe the coal outlook has worsened further

We are downgrading TECO Energy to Underperform from Buy given our revised outlook for the company's coal mining subsidiary. After clearly outperforming the S&P Utilities from May to late June, TE underperformed from mid-summer to the present. Despite recent underperformance, we believe the outlook has worsened for the coal sector and that consensus does not properly reflect the downside to earnings in 2010. Our Buy rating was supported by our expectations for significant earnings improvement at the coal mining subsidiary. This was premised upon our expectation that the company would be able to hedge its unpriced steam and met coal production at significantly higher prices in 2009 and 2010 than we now think is possible given a weaker global economy and a sharp decline in steel production.

Chart 1: 2008 Relative Price Performance of TE versus the S&P Utilities Index



Source: Reuters

Coal market dynamics point to lower pricing

Weak global economy expected to hamper coal consumption

Recently, our commodity strategist, Francisco Blanch, wrote that a weaker global economy and weaker emerging markets economies, in particular, would lead to lower demand for coal. He attributes most of the growth in global coal consumption over the past few years to demand from non-OECD countries (e.g., China and India), but these economies are slowing. While his team still projects annual coal demand growth of 2.2% in 2009, this is substantially slower than the 5.7% annual rate seen from 2002 to 2007. (Link to report: Global Energy Weekly, 14 November 2008.)

Lower demand from steel producers is negative for met coal prices

Weaker demand from steel producers, in particular, is likely to negatively impact the price that metallurgical coal producers, like TECO Coal, will realize. US spot steel prices have fallen 30%+ from their mid-summer peaks due to weaker demand from the automotive and construction industries. In addition to cutting back output, global steel producers are also putting pressure on their raw material suppliers to renegotiate contracts, including delaying shipments or lowering prices, according to an article published in *The Wall Street Journal* on November 18.

Table 1: TECO Coal Model

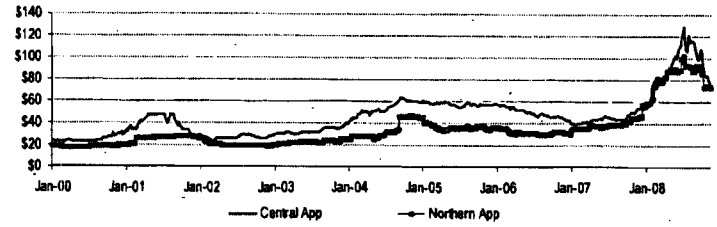
Coal production (million tons)	2008	2009	2010
Steam coal	6.3	7.0	7.3
Met and PCI coal	3.2	3.5	3.7
Total coal production	**9.5**	**10.5**	**11.0**
Hedged steam production	6.3	7.0	5.0
Hedged metallurgical & PCI	3.2	2.2	0.7
Hedged production	**9.5**	**9.2**	**5.7**
Hedged Percentage	*100%*	*88%*	*52%*
Unhedged steam production	-	-	2.3
Unhedged metallurgical & PCI	-	1.3	2.9
Unhedged production	**-**	**1.3**	**5.3**
Unhedged Percentage	*0%*	*12%*	*48%*

Coal prices and costs ($/ton)	2008	2009	2010
Steam coal	45	48	53
Met and PCI coal	87	153	117
Realized average coal price	**59**	**83**	**74**
Hedged steam price	45	48	48
Hedged met & PCI price	87	169	185
Hedged price	**59**	**77**	**65**
Unhedged steam price	-	-	65
Unhedged met & PCI price	-	125	100
Unhedged price	**-**	**125**	**85**
Operating costs	51	64	65
% Change		*25%*	*2%*
Depreciation and allocated interest	5	5	5
% Change		*5%*	*2%*

Model summary ($ in millions)	2008	2009	2010
Revenue	561	869	817
Operating costs	485	672	716
Depreciation & allocated interest	48	55	59
Operating income	29	142	42
Tax Rate	*20%*	*25%*	*25%*
Income Taxes	6	35	10
Post tax earnings	**23**	**106**	**31**
Common shares outstanding	*212*	*213*	*214*
Total EPS	**$ 0.11**	**$ 0.50**	**$ 0.15**

Source: Merrill Lynch

Chart 2: Historical US Central and Northern Appalachia Coal Spot Prices ($/ton)



Source: Argus - Coal Daily

Reducing 2009 and 2010 estimates

We are lowering our 2009E to $1.25 from $1.55 and our 2010E to $1.00 from $1.30. We expect the coal mining subsidiary to contribute $0.50/sh in 2009 and $0.15/sh in 2010 versus $0.82/sh and $0.45/sh based on lower coal prices than previously forecast. Our forecasts for the utilities and TECO Guatemala remain unchanged.

The downside from our previous 2009 coal estimate is driven by unhedged met and PCI volumes representing about 12% of the company's expected production. The company implied as recently as in late October that it could fetch $200/ton for its unhedged 2009 met and PCI coal, but we now expect TE to realize closer to $125/ton on this production for an average overall met and PCI price of about $155/ton.

The downside from our previous 2010 estimate is also driven by lower pricing assumptions for both met/PCI and steam coal. About 50% of the company's 2010 production remains unhedged. While our prior forecasts had assumed that the company would be able to lock-in an average price of $85/ton, we now expect an average price of $74/ton. Our new 2010E incorporates an average steam coal price of $53/ton versus $57/ton previously and an average met and PCI price of $117/ton versus $140/ton previously. We assume per ton production costs will remain relatively flat from 2009 to 2010 since we believe the economic environment will weigh on production cost creep.

Maintaining utility EPS forecasts

We are maintaining our forecasts for Tampa Electric and TECO Guatemala for 2009 and 2010. Our estimates assume rate relief for both Tampa Electric and Peoples Gas in mid-2009. We also assume earnings at TECO Guatemala trend down in 2009 due to a planned outage at the San Jose power station and a full year of lower rates at EEGSA. In 2010, we expect earnings growth at both Tampa Electric and Peoples Gas driven by a full year of higher rates as well as a return to more normalized sales growth. We also assume higher earnings at TECO Guatemala with no outages planned for either the San José or Albaroda power stations.

Table 2: New ML EPS Forecasts by Segment

	2008		2009		2010	
	New	Old	New	Old	New	Old
Tampa Electric	0.84	0.84	0.89	0.89	0.98	0.98
TECO Coal	0.11	0.11	0.50	0.82	0.15	0.45
TECO Guatemala	0.19	0.19	0.14	0.14	0.17	0.17
Parent/Other	(0.29)	(0.29)	(0.27)	(0.29)	(0.29)	(0.29)
TECO Energy	0.85	0.85	1.26	1.56	1.00	1.30

Source: Merrill Lynch

Increasing financing needs but still relatively minor

We are increasing our projections for debt issuance in 2009 and 2010 given lower operating cash flow from the coal business. We now expect TE to issue net long-term debt of $300M over the next two years versus $200M previously. We continue to model $20M of new equity a year through dividend reinvestment and employee stock plans. We continue to expect higher rates, a favorable tax position, and additional cash from the coal business in 2009 to ease the company's financing needs.

Guidance for 2009 not expected until mid-year

TE to issue 2009 EPS guidance later than normal

TE has indicated that it will not issue 2009 guidance until after the conclusion of the Tampa Electric and Peoples Gas rate cases in late spring. Typically, TE issues earnings and capital spending guidance on its year-end earnings conference call, but will wait given the wide range of possible outcomes and earnings impact from the rate cases.

Regulatory update

Rate cases underway at Tampa Electric and Peoples Gas

Staff testimony in Tampa Electric case expected this week

Staff testimony in the Tampa Electric case is due this week on December 3. In the Peoples Gas case, intervenor testimony is due on December 18 and Staff testimony is due on January 16. New rates are expected in May for Tampa Electric and in June for Peoples Gas.

For reference, Tampa Electric is seeking a revenue increase of $228.2M based upon a 12% ROE and 55% equity ratio. Peoples Gas is seeking a $26.5M increase based upon an 11.5% ROE and 54.7% equity ratio. Tampa Electric and Peoples Gas are currently authorized ROEs of 10.75-12.75% and 10.25-12.25%, respectively. Peoples Gas was already granted an interim rate increase of $2.4M effective November 1.

Appeal of VAD rate decision in Guatemala

VAD rate decision appeal ongoing

TE is pursuing an appeal of the Guatemalan National Electric Energy Commission's decision on new rates for Empresa Eléctrica de Guatemala (EEGSA), a company that TECO owns a 24% interest in through a joint venture with Iberdrola and Electricidade de Portugal. EEGSA had expected that the commission would approve higher distribution rates for the utility, in line with recommendations from a panel of experts involved in the case. However, the commission ignored the panel's recommendations and set new rates significantly below the prior level. According to TE, the new rate agreement, which will last for five years unless the appeal is successful, puts all of EEGSA's earnings of about $10M or $0.05/sh per year at risk. TE management expects its appeal to be successful but the timing of a potential resolution is unclear. We have already adjusted our forecasts to account for lower earnings from TECO Guatemala going forward, and don't expect it to be that material.

Table 3: TECO Sum-of-the-parts Valuation

	2010E	Multiple	Value
Utility	0.98	10.6x	10.36
Coal	0.15	15.0x	2.19
Guatemala	0.17	7.0x	1.18
Parent Drag	(0.29)	10.6x	(3.10)
NOL NPV			1.29
SOTP Value			**11.92**
Conglomerate Discount			5%
Price Target			**11.00**
Current Price			11.82
Downside/Upside			-6.9%
Dividend Yield			6.9%
Total Return Potential			**0.0%**

Source: Merrill Lynch

Cutting price objective to $11 from $14

New price target supported by sum-of-the-parts valuation

We calculate fair value for TE at $11 based on a sum-of-the-parts valuation on our 2010 estimates and the net present value of the company's NOLs and AMT carry forwards. We value the utilities at $10 using a 10.6x multiple on our 2010E of $0.98. This multiple is in line with the regulated utility group average. We value TECO Coal at $2 based on our revised 2010E of $0.15 and a 15.0x multiple. We value TECO Guatemala at $1, using a multiple of 7.0x on our 2010E of $0.17. We then subtract $3 for parent drag, and add $1 to reflect the company's NOL position and AMT carry forward. Finally, we apply a 5% conglomerate discount to get to our $11 price objective.

Table 4: TE Income Statement

	2006A	2007A	2008E	2009E	2010E
Operating Revenues	3,448	3,536	3,384	3,783	3,802
Energy & Fuel Costs	(1,390)	(1,517)	(1,600)	(1,589)	(1,605)
Other O&M Costs	(1,114)	(1,122)	(906)	(1,163)	(1,217)
Other Expenses (other taxes)	(218)	(218)	(220)	(229)	(241)
EBITDA	**727**	**679**	**657**	**802**	**740**
Depreciation & Amortization	(282)	(279)	(266)	(276)	(277)
Operating Profit	**445**	**400**	**391**	**527**	**463**
Other Income	159	185	105	103	105
EBIT	**603**	**585**	**496**	**630**	**568**
Interest Expense	(278)	(258)	(227)	(231)	(248)
Pre-Tax Income	**325**	**328**	**269**	**398**	**320**
Income Taxes	(124)	(134)	(89)	(131)	(106)
Earnings Before Special Items	**202**	**224**	**180**	**267**	**213**
Special Items, Net	45	189			
Reported GAAP Income	**247**	**413**	**180**	**267**	**213**
Average Shares	208	210	212	213	214
Operating EPS	0.97	1.07	0.85	1.25	1.00
GAAP Reported EPS	1.19	1.97	0.85	1.25	1.00
CFPS	2.99	2.08	1.94	3.62	2.64
DPS (Year-End)	0.76	0.78	0.80	0.82	0.84

Source: Merrill Lynch and company reports

Table 5: TE Cash Flow Statement

	2006A	2007A	2008E	2009E	2010E
Net Income	247	413	180	267	213
Depreciation & Amortization	282	279	266	276	277
Deferred Taxes	112	185	99	166	140
Other Operating Cash	(19)	(417)	(134)	62	(67)
Gross Operating Cash	**622**	**459**	**411**	**771**	**564**
Common Stock Dividends	(159)	(163)	(168)	(173)	(178)
Working Capital	(55)	117	0	0	0
Operating Cash After Divs.	**408**	**413**	**242**	**598**	**385**
Capital Expenditure	(456)	(494)	(631)	(650)	(650)
Other Investment Cash	103	410	8	8	8
Investing Cash Flow	**(353)**	**(84)**	**(623)**	**(642)**	**(642)**
Change in Net Debt	(39)	(738)	133	100	200
Stock Issuance (Buyback)	13	14	22	20	20
Other Financing Cash Flow	68	139	76	0	(0)
Financing Cash Flow	**42**	**(584)**	**231**	**120**	**220**
Net Change in Cash	**97**	**(255)**	**(150)**	**76**	**(37)**

Source: Merrill Lynch and company reports

Table 6: TE Balance Sheet

	2006A	2007A	2008E	2009E	2010E
Cash & Equivalents	442	163	15	91	54
Accounts Receivable	338	374	374	374	374
Other Current Assets	506	253	253	253	253
Current Assets	**1,286**	**790**	**642**	**718**	**681**
Net PP&E	4,767	4,888	5,246	5,621	5,994
Goodwill	59	59	59	59	59
Investments	293	276	276	276	276
Other L-T Assets	957	752	752	752	752
Total Assets	**7,362**	**6,765**	**6,976**	**7,426**	**7,762**
S-T Debt	48	25	125	125	125
Accounts Payable	327	302	302	302	302
Other Current Liabilities	337	283	283	283	283
Current Liabilities	**711**	**611**	**711**	**711**	**711**
L-T Debt	3,852	3,166	3,199	3,299	3,499
Other L-T Liabilities	1,070	972	972	972	972
Preferred Equity	0	0	0	0	0
Shareholders' Equity	1,729	2,017	2,094	2,444	2,580
Total Liabilities & Equity	**7,362**	**6,765**	**6,976**	**7,426**	**7,762**

Source: Merrill Lynch

Price objective basis & risk

TECO Energy (TE)

Our price objective of $11 is based on a sum of the parts analysis. We attribute $10/sh to Tampa Electric and Peoples Gas based on our '10 utility EPS forecast of $0.98 and an average regulated utility multiple. We value TECO Coal at $2/sh based on a 2010E of $0.15 and a multiple of 15.0x. Using 2010 EPS estimate of $0.17 and a multiple of 7.0x, we value TECO Guatemala at about $1/sh. We then add $1/sh to reflect the company's NOL position and AMT carry forwards. Parent drag is valued at $(3). The risks to our price objective are future regulatory outcomes, coal pricing and production costs, interest rates, and economic conditions in Florida.

Analyst Certification

I, Jonathan Arnold, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US-Utilities Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
BUY				
	Amer Elec Power	AEP	AEP US	Elizabeth A. Parrella, CFA
	American Water Works Company, Inc.	AWK	AWK US	Elizabeth A. Parrella, CFA
	CMS Energy	CMS	CMS US	Jonathan Arnold
	Exelon Corp.	EXC	EXC US	Jonathan Arnold
	FirstEnergy Corp	FE	FE US	Jonathan Arnold
	Northeast Util	NU	NU US	Jonathan Arnold
	NV Energy	NVE	NVE US	Jonathan Arnold
	PG&E Corp.	PCG	PCG US	Jonathan Arnold
	PPL Corp.	PPL	PPL US	Jonathan Arnold
	Progress Energy	PGN	PGN US	Jonathan Arnold
	Wisconsin Energy	WEC	WEC US	Alex Kania
	Xcel Energy	XEL	XEL US	Jonathan Arnold
NEUTRAL				
	Alliant Energy	LNT	LNT US	Jonathan Arnold
	FPL Group	FPL	FPL US	Jonathan Arnold
	Great Plains	GXP	GXP US	Jonathan Arnold
	NiSource	NI	NI US	Jonathan Arnold
	NStar	NST	NST US	Jonathan Arnold
	Pepco Holdings	POM	POM US	Jonathan Arnold
	Pinnacle West	PNW	PNW US	Jonathan Arnold
	PNM Resources	PNM	PNM US	Jonathan Arnold
	SCANA Corp	SCG	SCG US	Jonathan Arnold
	Southern Company	SO	SO US	Jonathan Arnold
UNDERPERFORM				
	Ameren Corp	AEE	AEE US	Jonathan Arnold
	Consol Edison	ED	ED US	Jonathan Arnold
	Dominion Resourc	D	D US	Jonathan Arnold
	DPL Inc.	DPL	DPL US	Jonathan Arnold
	DTE Energy	DTE	DTE US	Jonathan Arnold
	Duke Energy	DUK	DUK US	Jonathan Arnold
	Edison Intl	EIX	EIX US	Jonathan Arnold
	Entergy	ETR	ETR US	Jonathan Arnold
	Hawaiian Elec	HE	HE US	Jonathan Arnold
	TECO Energy	TE	TE US	Jonathan Arnold

iQmethod℠ **Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

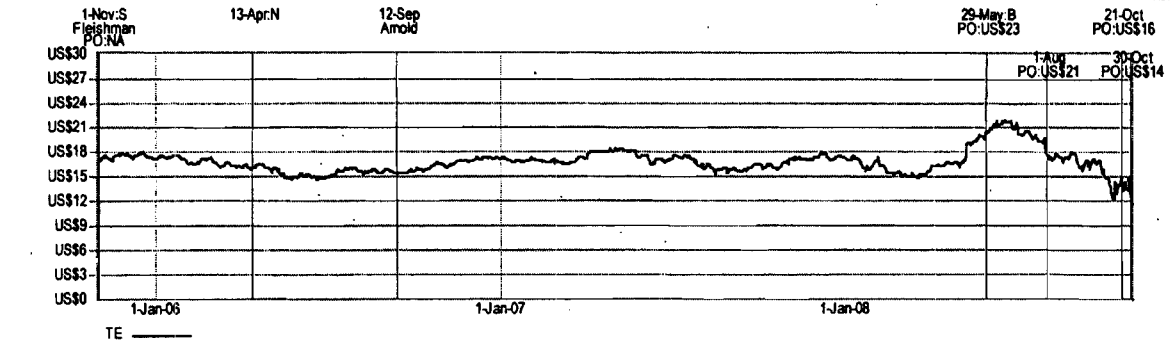
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Important Disclosures

TE Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of October 31, 2008 or such later date as indicated.

Investment Rating Distribution: Utilities Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	80	44.94%	Buy	31	42.47%
Neutral	41	23.03%	Neutral	19	50.00%
Sell	57	32.02%	Sell	17	34.00%

Investment Rating Distribution: Global Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1647	45.31%	Buy	429	28.83%
Neutral	858	23.60%	Neutral	240	31.41%
Sell	1130	31.09%	Sell	227	22.02%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
SUPPLEMENTAL: DECEMBER 31, 2008

TECO Energy Inc

Outlook disappoints

Price Objective Change BUY



Q3 in line with ML estimates but slightly below consensus

TE reported operating EPS of $0.27 vs. our $0.27E and $0.29 consensus. Earnings declined versus last year (-$0.11/sh) on lower utility and coal segment earnings, and the sale of TECO transport. Lower parent company interest expense and higher earnings at TECO Guatemala were offsetting.

Maintaining 2008, but reducing 2009 and 2010

We are maintaining our 2008E of $0.85 and initiating a Q4 estimate of $0.19. This is in line with the company's current guidance range and our assumptions that coal and utility earnings will continue to decline YOY. We are lowering our 2009E and 2010E to $1.55 and $1.30, respectively, largely on a weaker coal outlook. While TECO Coal has been able to hedge some of its 2009 projected PCI volumes at attractive prices (likely in the $185-190/ton range), production costs are increasing at a more rapid pace than we previously expected. In addition, we now expect lower prices for unhedged steam volumes in 2010. We also have lowered our utility estimates reflecting slower sales growth.

Reducing PO to $14 from $16 but reiterate Buy

We are reducing our PO to $14 from $16 on lower 2009 estimates, but reiterate our Buy rating in light of yesterday's sell-off. Our new PO implies total return potential of 15%, including a 6% yield. We base our target on a discounted sum-of-the-parts valuation that attributes $10 to the utilities, $6 to TECO Coal, $1 to TECO Guatemala, $(3) to parent drag, and $2 to the NOL/AMT carry-forwards. We then apply a 5% discount to the SOTP value of $15 to get to our target. A discount is warranted, in our view, since TECO's segments would likely command a higher value on a standalone basis.

Estimates (Dec)

(US$)	2006A	2007A	2008E	2009E	2010E
EPS	0.97	1.07	0.85	1.55	1.30
GAAP EPS	1.19	1.97	0.85	1.55	1.30
EPS Change (YoY)	-20.8%	10.0%	-20.2%	82.2%	-16.0%
Consensus EPS (Bloomberg)			0.86	1.45	1.78
Dividend Rate	0.76	0.78	0.80	0.82	0.84

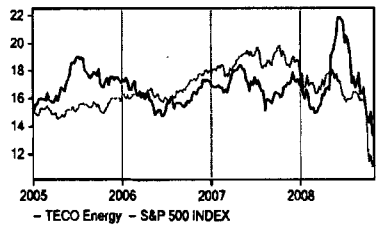
Valuation (Dec)

	2006A	2007A	2008E	2009E	2010E
P/E	13.3x	12.1x	15.1x	8.3x	9.9x
GAAP P/E	10.9x	6.5x	15.1x	8.3x	9.9x
Dividend Yield	5.9%	6.0%	6.2%	6.4%	6.5%
EV / EBITDA*	9.6x	10.3x	10.7x	7.8x	8.4x
Free Cash Flow Yield*	4.1%	3.0%	-8.1%	7.9%	-0.3%

* For full definitions of *iQmethod*℠ measures, see page 8.

Stock Data

Price	US$12.88
Price Objective	US$16.00 to US$14.00
Date Established	30-Oct-2008
Investment Opinion	B-1-7
Volatility Risk	MEDIUM
52-Week Range	US$11.30-21.99
Mrkt Val / Shares Out (mn)	US$2,731 / 212.0
ML Symbol / Exchange	TE / NYS
Bloomberg / Reuters	TE US / TE.N
ROE (2008E)	8.8%
Total Dbt to Cap (Sep-2008A)	61.5%
Est. 5-Yr EPS / DPS Growth	10.0% / 3.0%



Quarterly Earnings Estimates

	2007	2008
Q1	0.21A	0.15A
Q2	0.25A	0.24A
Q3	0.38A	0.27A
Q4	0.23A	0.19E

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iQprofile℠ TECO Energy Inc

iQmethod℠ – Bus Performance*

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Return on Capital Employed	4.2%	3.7%	4.2%	6.2%	5.3%
Return on Equity	12.1%	11.9%	8.8%	14.2%	10.5%
Operating Margin	12.9%	11.3%	11.6%	16.0%	14.2%
Free Cash Flow	111	82	(220)	216	(9)

iQmethod℠ – Quality of Earnings*

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Cash Realization Ratio	2.8x	2.6x	2.3x	2.6x	2.4x
Asset Replacement Ratio	1.6x	1.8x	2.4x	2.4x	2.4x
Tax Rate	38.0%	40.7%	33.0%	33.5%	33.5%
Net Debt-to-Equity Ratio	200.0%	150.1%	158.0%	127.4%	122.3%
Interest Cover	1.6x	1.6x	1.7x	2.7x	2.3x

Income Statement Data (Dec)

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Sales	3,448	3,536	3,384	3,882	3,921
% Change	14.6%	2.6%	-4.3%	14.7%	1.0%
Gross Profit	2,058	2,020	1,783	2,292	2,316
% Change	6.7%	-1.9%	-11.7%	28.6%	1.0%
EBITDA	727	679	657	893	831
% Change	13.2%	-6.6%	-3.3%	36.0%	-7.0%
Net Interest & Other Income	(120)	(73)	(122)	(124)	(138)
Net Income (Adjusted)	**202**	**224**	**180**	**330**	**278**
% Change	**-20.9%**	**11.0%**	**-19.5%**	**83.1%**	**-15.6%**

Free Cash Flow Data (Dec)

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Net Income from Cont Operations (GAAP)	202	224	180	330	278
Depreciation & Amortization	282	279	266	273	273
Change in Working Capital	(55)	117	0	0	0
Deferred Taxation Charge	112	185	99	166	140
Other Adjustments, Net	26	(228)	(134)	97	(33)
Capital Expenditure	(456)	(494)	(631)	(650)	(668)
Free Cash Flow	**111**	**82**	**-220**	**216**	**-9**
% Change	**NM**	**-26.2%**	**NM**	**NM**	**NM**

Balance Sheet Data (Dec)

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Cash & Equivalents	442	163	15	186	126
Trade Receivables	338	374	374	374	374
Other Current Assets	506	253	253	253	253
Property, Plant & Equipment	4,767	4,888	5,246	5,623	6,018
Other Non-Current Assets	1,309	1,087	1,087	1,087	1,087
Total Assets	**7,362**	**6,765**	**6,976**	**7,523**	**7,859**
Short-Term Debt	48	25	125	125	125
Other Current Liabilities	663	586	586	586	586
Long-Term Debt	3,852	3,166	3,199	3,299	3,399
Other Non-Current Liabilities	1,070	972	972	972	972
Total Liabilities	**5,633**	**4,748**	**4,881**	**4,981**	**5,081**
Total Equity	**1,729**	**2,017**	**2,094**	**2,542**	**2,778**
Total Equity & Liabilities	**7,362**	**6,765**	**6,976**	**7,523**	**7,859**

* For full definitions of *iQmethod*℠ measures, see page 8.

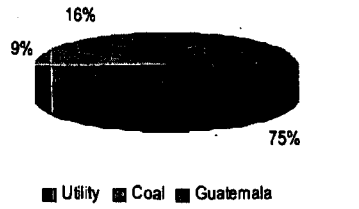
Company Description

TECO Energy is a holding company for Tampa Electric (an electric and natural gas utility servicing West Central Florida), TECO Coal (a Kentucky coal mining business), and TECO Guatemala (a power generation and distribution business in Guatemala). The utilities have historically provided the largest percentage of net income, but the coal mining business should be a larger contributor in the next few years.

Investment Thesis

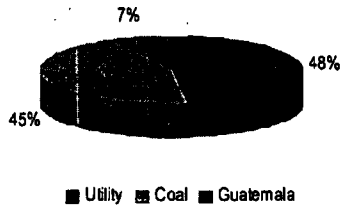
TECO Energy couples a regulated electric and gas utility in FL with a non-regulated coal business, which sells both steam and met coal. The company also has interests in two power plants and a distribution utility in Guatemala, but this comprises a small percentage of overall earnings power. We expect the coal business to drive TECO's earnings and stock price near-term. TE also offers an attractive total return with an above average dividend yield.

Chart 1: 2008 EPS Breakdown by Segment



Source: Merrill Lynch

Chart 2: 2009 EPS Breakdown by Segment



Source: Merrill Lynch

Stock Data

Average Daily Volume	2,284,643

Revised outlook weighs on stock

Management commentary more negative on economic outlook in Florida

TE fell 10% today following management's comments on the Q3 earnings call. Management's tone on the economic environment in Tampa was more negative than during the Q2 call. Tighter credit markets, the Florida economy, and the housing market are more severely impacting customer growth than they previously expected. Economic recovery is now expected in the second half of 2010 instead of in 2009.

Production cost creep to continue to weigh on TECO coal earnings

The outlook for TECO Coal also disappointed with all-in production costs now expected to be up 16%-34% in 2009 largely on higher labor costs. Management does not expect the economic slowdown to translate to lower demand for coal miners or lower labor costs in 2009.

Total return potential significant with 6% dividend yield

While we are reducing our estimates to reflect lower earnings growth at both TECO Coal and Tampa Electric, we believe today's sell off was overdone. We reiterate our Buy rating on total return potential of 15%, including a 6% dividend yield.

Q3 results meet our expectations

Earnings Review
Third Quarter 2008
Reported $0.27 vs. $0.44
Operating $0.27 vs. $0.38
12 Months Ended September 2008
Reported $1.49 vs. $1.37
Operating $0.89 vs. $1.02

TE reported Q3 EPS of $0.27, in line with our forecast but $0.02 below consensus. Operating EPS were down $0.11 vs. Q3-07 on lower utility and coal earnings. Stronger results at TECO Guatemala and lower costs at the parent company were somewhat offsetting.

Earnings at Tampa Electric were down $14.2M on 7% lower sales, and higher O&M, D&A, and net interest expense. Milder summer weather and negative customer growth contributed to the decline in sales. For the first time that TE can remember, Tampa Electric saw negative net customer growth during the quarter as disconnections more than offset hook-ups. Earnings at Peoples Gas were down $1.2M on lower margins on off-system sales and higher expenses.

At TECO Coal, operating earnings decreased $3.7M vs. last year, despite a $2.6M benefit from a contract settlement related to future coal sales. We had expected earnings to be down but not as significantly. Higher realized pricing (+10%) was not sufficient to offset rapidly increasing production costs (+16%). In addition, production volumes came in slightly below expectations due to a roof collapse that temporarily halted production.

Results were unexpectedly higher at TECO Guatemala (+$1.5M) as higher energy sales at EEGSA and the San Jose Power Station offset the negative impact from the August 1 VAD reset. Meanwhile parent company results improved $4.1M on debt reduction efforts.

Maintaining 2008 but lowering 2009 and 2010

We are maintaining our 2008E of $0.85 and are initiating a Q4 estimate of $0.19. Our Q4 estimate assumes that earnings at the utilities will be negatively impacted by higher operating costs and flattish customer growth. We assume that the utilities earn below their allowed ROE ranges until new rates take effect in May at Tampa Electric and in June at Peoples Gas. We also expect negative YOY growth at TECO Coal as higher production costs will offset higher realized pricing.

We are lowering our 2009E to $1.55 from $1.60 and our 2010E to $1.30 from $1.45, primarily on lower earnings estimates at TECO Coal. We now expect the coal mining subsidiary to contribute $0.82/sh in 2009 and $0.45/sh in 2010. We have also reduced our projections for Tampa Electric reflecting lower sales growth assumptions (0% in 2009 and 1.25% in 2010). Our forecasts for TECO Guatemala remain unchanged. (See Table 2.)

Table 1: ML TECO Coal Assumptions

	2008	2009	2010
Coal production (mmtons)			
Steam coal	6.3	7.0	7.3
Met and PCI coal	3.2	3.5	3.7
Total coal production	**9.5**	**10.5**	**11.0**
Coal prices ($/ton)			
Steam	45.00	47.26	57.64
Met and PCI	87.00	182.00	140.00
Average price	**59.00**	**92.17**	**85.09**
Per ton operating costs			
Cash costs	51.00	64.75	67.99
DD&A and allocated interest	5.00	5.25	5.51
All-in	**56.00**	**70.00**	**73.50**
Pre-tax per ton margin	3.0	22.2	11.6
EPS	**0.11**	**0.82**	**0.45**

Source: Merrill Lynch

The $0.07 decline from our previous 2009 coal estimate is driven by higher production costs and lower production volumes. We now forecast all-in per ton production costs of $70/ton vs. $66/ton previously and production volumes of 10.5 million tons vs. 10.75 million tons previously. Higher met and PCI pricing will somewhat offset the negative impact of higher costs and lower production. Our estimates are based on an average realized coal price of $92/ton in 2009, which assumes that TE's remaining unhedged PCI and Met coal volumes are priced at $200/ton. Its hedged volumes, which include both steam and PCI/Met have been priced at $77/ton on average.

Our new 2010 TECO Coal estimate is down $0.14 largely on a lower price assumption for unhedged steam volumes. We forecast an average realized coal price of $85/ton vs. $88/ton previously. Our production forecast is unchanged at 11 million tons.

Table 2: New ML EPS Forecasts by Segment

	2008		2009		2010	
	New	Old	New	Old	New	Old
Tampa Electric	0.84	0.84	0.89	0.90	0.98	1.02
TECO Coal	0.11	0.11	0.82	0.89	0.45	0.58
TECO Guatemala	0.19	0.19	0.14	0.14	0.17	0.17
Parent/Other	(0.29)	(0.30)	(0.29)	(0.33)	(0.29)	(0.32)
TECO Energy	**0.85**	**0.85**	**1.55**	**1.60**	**1.30**	**1.45**

Source: Merrill Lynch

Financing needs minimal through 2010

Our forecasts through 2010 assume minimal financing needs. We expect TE to issue about $20M of common equity per year through dividend reinvestment plans and about $100M of debt per year. We expect NOL and AMT carry forwards, 2009 fuel cost recoveries, and higher coal earnings to help fund our current capex forecasts of $650M in 2009 and $668M in 2010. The company also has ample liquidity ($748M available in cash and credit facilities on September 30) to meet financing needs should it decide to put off long-term debt issuance.

Table 3: TECO Sum-of-the-parts Valuation

	2009E	Multiple	Value
Utility	0.89	11.0x	9.76
Coal	0.82	7.0x	5.75
Guatemala	0.14	8.0x	1.09
Parent Drag	(0.29)	11.0x	(3.23)
NOL NPV			1.72
SOTP Value			**15.09**
Conglomerate Discount			5%
Price Target			**14.00**
Current Price			12.88
Upside			8.7%
Dividend Yield			6.3%
Total Return Potential			**15.0%**

Source: Merrill Lynch

Price target implies total return of 15%

We calculate fair value for TE of $15 based on a sum-of-the-parts valuation on our 2009 estimates and the net present value of the company's NOLs and AMT carry forwards. We value the utilities at $10 using a 11.0x multiple on our 2009E of $0.89. This multiple is in line with the regulated utility group average. We value TECO Coal at $6 based on our revised 2009E of $0.82 and a 7.0x multiple, and TECO Guatemala at $1, using a multiple of 8.0x our 2009E of $0.14. We then subtract $3 for parent drag, and add $2 to reflect the company's NOL position and AMT carry forward. We then apply a 5% conglomerate discount to get to our $14 price objective.

Table 4: TE Income Statement

	2006A	2007A	2008E	2009E	2010E
Operating Revenues	3,448	3,536	3,384	3,882	3,921
Energy & Fuel Costs	(1,390)	(1,517)	(1,600)	(1,589)	(1,605)
Other O&M Costs	(1,114)	(1,122)	(906)	(1,170)	(1,247)
Other Expenses (other taxes)	(218)	(218)	(220)	(229)	(238)
EBITDA	**727**	**679**	**657**	**893**	**831**
Depreciation & Amortization	(282)	(279)	(266)	(273)	(273)
Operating Profit	**445**	**400**	**391**	**620**	**557**
Other Income	159	185	105	103	103
EBIT	**603**	**585**	**496**	**723**	**660**
Interest Expense	(278)	(258)	(227)	(227)	(241)
Pre-Tax Income	**325**	**328**	**269**	**496**	**419**
Income Taxes	(124)	(134)	(89)	(166)	(140)
Earnings Before Special Items	**202**	**224**	**180**	**330**	**278**
Special Items, Net	45	189			
Reported GAAP Income	**247**	**413**	**180**	**330**	**278**
Average Shares	208	210	212	213	214
Operating EPS	0.97	1.07	0.85	1.55	1.30
GAAP Reported EPS	1.19	1.97	0.85	1.55	1.30
CFPS	2.99	2.08	1.94	4.07	3.08
DPS (Year-End)	0.76	0.78	0.80	0.82	0.84

Source: Merrill Lynch and company reports

Table 5: TE Cash Flow Statement

	2006A	2007A	2008E	2009E	2010E
Net Income	247	413	180	330	278
Depreciation & Amortization	282	279	266	273	273
Deferred Taxes	112	185	99	166	140
Other Operating Cash	(19)	(417)	(134)	97	(33)
Gross Operating Cash	**622**	**459**	**411**	**866**	**659**
Common Stock Dividends	(159)	(163)	(168)	(173)	(178)
Working Capital	(55)	117	0	0	0
Operating Cash After Divs.	**408**	**413**	**242**	**693**	**481**
Capital Expenditure	(456)	(494)	(631)	(650)	(668)
Other Investment Cash	103	410	8	8	8
Investing Cash Flow	**(353)**	**(84)**	**(623)**	**(642)**	**(660)**
Change in Net Debt	(39)	(738)	133	100	100
Stock Issuance (Buyback)	13	14	22	20	20
Other Financing Cash Flow	68	139	76	0	(0)
Financing Cash Flow	**42**	**(584)**	**231**	**120**	**120**
Net Change in Cash	**97**	**(255)**	**(150)**	**171**	**(59)**

Source: Merrill Lynch and company reports

Table 6: TE Balance Sheet

	2006A	2007A	2008E	2009E	2010E
Cash & Equivalents	442	163	15	186	126
Accounts Receivable	338	374	374	374	374
Other Current Assets	506	253	253	253	253
Current Assets	**1,286**	**790**	**642**	**813**	**754**
Net PP&E	4,767	4,888	5,246	5,623	6,018
Goodwill	59	59	59	59	59
Investments	293	276	276	276	276
Other L-T Assets	957	752	752	752	752
Total Assets	**7,362**	**6,765**	**6,976**	**7,523**	**7,859**
S-T Debt	48	25	125	125	125
Accounts Payable	327	302	302	302	302
Other Current Liabilities	337	283	283	283	283
Current Liabilities	**711**	**611**	**711**	**711**	**711**
L-T Debt	3,852	3,166	3,199	3,299	3,399
Other L-T Liabilities	1,070	972	972	972	972
Preferred Equity	0	0	0	0	0
Shareholders' Equity	1,729	2,017	2,094	2,542	2,778
Total Liabilities & Equity	**7,362**	**6,765**	**6,976**	**7,523**	**7,859**

Source: Merrill Lynch and company reports

Price objective basis & risk

TECO Energy (TE)

Our price objective of $14 is based on a sum of the parts analysis. We attribute $10/sh to Tampa Electric and Peoples Gas based on our '09 utility EPS forecast of $0.89 and an average regulated utility multiple. We value TECO Coal at $6/sh based on a 2009E of $0.82 and a multiple of 7x, based on relevant comparables. Using 2009 EPS of $0.14 and a multiple of 8x, we value TECO Guatemalá at about $1/sh. We then add $2/sh to reflect the company's NOL position and AMT carry forwards. Parent drag is valued at $(3). The risks to our price objective are unfavorable future regulatory outcomes, coal pricing and production costs, higher interest rates, and a deteriorating economy in Florida.

Analyst Certification

I, Jonathan Arnold, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US-Utilities Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
BUY				
	Amer Elec Power	AEP	AEP US	Elizabeth A. Parrella, CFA
	American Water Works Company, Inc.	AWK	AWK US	Elizabeth A. Parrella, CFA
	CMS Energy	CMS	CMS US	Jonathan Arnold
	Exelon Corp.	EXC	EXC US	Jonathan Arnold
	FirstEnergy Corp	FE	FE US	Jonathan Arnold
	Northeast Util	NU	NU US	Jonathan Arnold
	PPL Corp.	PPL	PPL US	Jonathan Arnold
	Progress Energy	PGN	PGN US	Jonathan Arnold
	Sierra Pacific	SRP	SRP US	Jonathan Arnold
	TECO Energy	TE	TE US	Jonathan Arnold
	Wisconsin Energy	WEC	WEC US	Alex Kania
	Xcel Energy	XEL	XEL US	Jonathan Arnold
NEUTRAL				
	Alliant Energy	LNT	LNT US	Jonathan Arnold
	FPL Group	FPL	FPL US	Jonathan Arnold
	Great Plains	GXP	GXP US	Jonathan Arnold
	NiSource	NI	NI US	Jonathan Arnold
	NStar	NST	NST US	Jonathan Arnold
	PG&E Corp.	PCG	PCG US	Jonathan Arnold
	Pinnacle West	PNW	PNW US	Jonathan Arnold
	PNM Resources	PNM	PNM US	Jonathan Arnold
	SCANA Corp	SCG	SCG US	Jonathan Arnold
	Southern Company	SO	SO US	Jonathan Arnold
UNDERPERFORM				
	Ameren Corp	AEE	AEE US	Jonathan Arnold
	Consol Edison	ED	ED US	Jonathan Arnold
	Dominion Resourc	D	D US	Jonathan Arnold
	DPL Inc.	DPL	DPL US	Jonathan Arnold
	DTE Energy	DTE	DTE US	Jonathan Arnold
	Duke Energy	DUK	DUK US	Jonathan Arnold
	Edison Intl	EIX	EIX US	Jonathan Arnold
	Entergy	ETR	ETR US	Jonathan Arnold
	Hawaiian Elec	HE	HE US	Jonathan Arnold
	Pepco Holdings	POM	POM US	Jonathan Arnold

iQmethod℠ Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

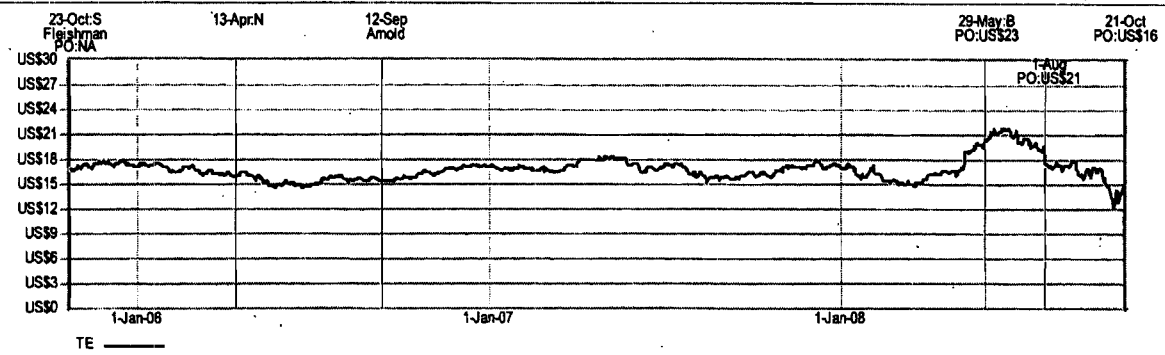
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Important Disclosures

TE Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of September 30, 2008 or such later date as indicated.

Investment Rating Distribution: Utilities Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	80	44.94%	Buy	31	42.47%
Neutral	41	23.03%	Neutral	19	50.00%
Sell	57	32.02%	Sell	17	34.00%

Investment Rating Distribution: Global Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1647	45.31%	Buy	429	28.83%
Neutral	858	23.60%	Neutral	240	31.41%
Sell	1130	31.09%	Sell	227	22.02%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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Electric Utilities & IPPs

ML Power & Gas Leaders Conference highlights

Industry Overview



Still early in Ohio rate plan negotiations

Although AEP, DPL, and FE addressed the new state energy law and Electric Security Plans, none could give an update on the state of negotiations as intervenor and staff testimony were not yet filed. They did note the potential for negotiations to slip into next year, though this is not considered a major problem.

Late legislative push in Pennsylvania

EXC, FE, and PPL noted that the PA state Senate was in the late stages of preparing a bill implementing energy efficiency and generation service procurement. The companies have objections over smart meter requirements and no means to be made whole for demand reductions. Given the tight calendar it may be challenging for a bill to be passed in this session.

NRG: Stock buyback the best available investment

The decline in gas prices during Q3 likely will lead to MTM gains on hedges and an increase in the RP basket. This will enable NRG to buy back more stock at a low price. Expecting an additional repurchase authorization by late October.

IPPs: Still bullish on tighter supply/demand longer term

DYN, MIR, NRG are in relative agreement that demand is unlikely to slow materially and that any negative impact should be relatively temporary and attributable only to a weak economy. They do not see any material change in consumer behavior that would result in significantly weaker demand growth. Thus, all three remain optimistic about tighter power markets over the long term.

IPPs: "Outside-in" crisis, not an "inside-out" crisis

The IPP group is off 41% since June 30. The last time IPPs were under this much pressure was 2002, but the two periods are very dissimilar. NRG's CEO put it best when he characterized 2002 as an "inside-out" crisis (power-sector specific; the companies were carrying too much debt and too little liquidity, as well as facing regulatory and legal challenges; power markets were oversupplied) and the current situation as an "outside-in" crisis (financial market distress and economic weakness, but companies have substantial liquidity and virtually no near-term debt maturities; power markets are likely to tighten over the next few years, though perhaps a bit more slowly due to the weaker economy).

MLCI presentation relatively bearish on gas and power

Negative factors dominate MLCI's near-term / long-term outlook for gas, including significant U.S. production increases, a weaker economy, lower gas generation demand and increasing renewables / power technology. Their bearish outlook for lower market heat rates near term / medium term is a function of a weaker economy, slowing demand growth, increased renewables and transmission expansion.

Table 1: Companies Mentioned

Company	Ticker	Rating	Price
AES Corporation	AES	C-3-9	12.58
Amer Elec Power	AEP	B-1-7	37.16
CMS Energy	CMS	B-1-7	12.92
Covanta	CVA	C-2-9	24.50
Dominion Resourc	D	B-2-7	43.40
DPL Inc.	DPL	B-3-7	25.34
Dynegy	DYN	C-1-9	3.99
FirstEnergy Corp	FE	B-1-7	68.64
Great Plains	GXP	B-2-7	22.45
Mirant Corp	MIR	C-3-9	20.99
NRG Energy, Inc.	NRG	C-1-9	26.41
PPL Corp.	PPL	B-1-7	37.60
TECO Energy	TE	B-1-7	16.84

Source: ML; Reuters

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Ohio - in the midst of negotiations

- **American Electric Power, DPL Inc, and FirstEnergy gave updates on the implementation of the new state energy legislation.** AEP and FE have each filed Electric Security Plans, while DPL will be waiting until later in the fall before filing an extension of their current plan. Because PUCO Staff and intervenor testimony has not yet been filed, the companies did not have major updates on the progress of the approval processes.

- **Decisions could slip into next year.** The utilities expressed some concern that PUCO decisions on ESPs could take longer than the 150 day statutory limit. Procedural schedules have already been delayed by two weeks. Despite this, negotiations should be able to continue past the deadline subject to consent from all parties. Moreover, both AEP and FE have offered rate compromises in the event that the current rates expire without new rates. FE has offered a short-term ESP that would serve as an interim measure pending a decision on the longer-term ESP. AEP would continue current rates with the expectation that the final ESP rates would be retroactive to the beginning of the year.

- **Utilities remain in strong negotiating positions.** The companies noted that structurally the utilities remain in a reasonable position in the ESP negotiations. They have the right to reject any PUCO-determined changes to their ESP, and the statutory test requires an ESP to be more favorable in the aggregate than a market plan. As such, the PUCO will be required to weigh all the components of each plan and not simply the price. This could lead to rates defaulting to a position of the Market Rate Option, which if adopted would preclude ever returning to the ESP. Given the law's strong incentives for ESPs from both the utility and regulator standpoints, we believe that the ESPs will ultimately be adopted in a constructive manner.

Pennsylvania - crunch time in the legislature

- **Legislature meeting in Harrisburg for a limited time.** The presenting companies with significant exposure to Pennsylvania - Exelon, FirstEnergy, and PPL – all noted that the state legislature is considering energy efficiency legislation that includes provider-of-last-resort (POLR) service procurement. However, the Senate is only in session for three days in early October, leaving a tight window for committees to assemble final legislative amendments and put a bill to a vote on the Senate floor.

- **Energy efficiency bill seems most likely to pass, but flawed.** The Senate is currently considering HB 2200, which sets an energy efficiency mandate, requires the installation of smart meters, and sets the POLR procurement mechanism. As originally written, the utilities were generally supportive of the bill. However, amended versions of the legislation preclude companies from being made whole for lost demand and require that smart meters be installed without recovery of associated costs. The utilities view these amendments as legally questionable and would likely challenge them in the event they make the final legislation.

- **POLR transition issues appear more likely to be resolved next year.** Given the tight legislative schedule and issues with the legislation, the companies did not have high conviction that a comprehensive solution would be reached. Moreover, one of the politicians most vocally seeking significant mitigation funds from the utilities, Sen. Vincent Fumo, is playing a larger than

expected role. His trial over fraud allegations was delayed due to sickness of a judge which has allowed him to return to participate on this legislation. Finally, because the rate increases do not go into effect for more than a year, a legislative outcome addressing POLR rate transitions is not immediately necessary. Meanwhile, the state regulators at the PA PUC could perfectly well continue to address POLR procurement and rate mitigation measures for FE and EXC. On this front, on September 25 FE filed a pre-pay rate mitigation offer similar to the plan PPL has begun to offer.

American Electric Power (AEP)

- **Transmission another key driver of long-term earnings growth**: Although AEP's presentation focused on the Ohio rate plan (see our discussion in the Ohio section of this note), which is the most important driver of earnings growth through 2011, the company also is continuing to pursue other strategies and investments that should add to earnings over the next several years. These include several large transmission projects in PJM, SPP, MISO, Texas and Michigan. These are in various stages of development but could add to earnings beginning in 2012. AEP noted in its presentation that notwithstanding the outcome of the presidential election, it expected that the Federal Energy Regulatory Commission (FERC) will continue to grant incentive ROEs to critical transmission projects as well as those projects that utilize new transmission technologies.
- **Pursuing role in Texas transmission build-out**: This past summer the Public Utility Commission of Texas (PUCT) authorized $4.9B of new transmission investment designed to facilitate 18,000 MW of new wind build in west Texas, some of which will supply the higher load areas of Dallas and Houston. The PUCT has received several applications to build this transmission as well as an application from a coalition of major transmission providers including AEP that have negotiated an allocation of projects among them. AEP's joint venture with MidAmerican Energy, Electric Transmission Texas (ETT), would be allocated about $1.8B. The coalition approach was urged by Chairman Smitherman and it seems the more likely outcome. A decision by the PUCT is possible in the first half of next year. Permitting in Texas is relatively expedited and assuming about two years for construction, the new lines could be in service as early as 2012.
- **Key upcoming dates in Ohio filing**: Intervenor testimony is due October 31, Staff testimony November 7 and the hearings commence on November 17.
- **Well hedged on coal supply needs through at least 2010**: AEP has committed coal supply for 99% of its 2008 forecasted burn, 94% of 2009 and 88% of 2010. Transportation arrangements do not reopen during this period. The average delivered cost in 2008 is expected to be about $44/ton, up about 20% from $36.58/ton in 2007. This would still be well below $2.00/mmbtu on a delivered basis, so the company's coal plants remain very competitive.

AES Corporation (AES)

- **Limited exposure to commodity volatility**: Company's EPS guidance for this year is $1.16. In a new disclosure, AES indicated that approximately $0.27 is from regulated utilities, $0.49 from generation with passthrough arrangements contained in long-term contracts, $0.13 from hydro generation under short-term contracts and $0.27 (23%) from generation with commodity risk. Of this $0.27 with commodity risk, 90% is already hedged on a short-term basis for 2008 and 50% for 2009.

- **Debt mostly matched; some exposure to foreign currencies:** Parent debt of $5B is denominated in U.S. dollars. Of the $14B of nonrecourse operating company debt, approximately 35% is local debt (mostly Brazilian reais and euros), 39% is in U.S. dollars and associated with U.S. assets, and the remaining approximately 26% or $4.9B is denominated in U.S. dollars but associated with non-U.S. assets. A 10% move in the company's major currencies over the course of a year equates to a $0.06-$0.07 change in EPS.
- **Parent debt maturities modest near term**: 2009 maturities are only $154M, 2010 $261M and 2011 $500M. The company has another $1.7B maturing in 2013-2015.
- **Modest EPS growth even without the pipeline**: There has been considerable investor skepticism about the company's ability to achieve its targeted capacity expansion goals, and certainly the stock is incorporating little to no credit for the growth targets. AES noted that EPS growth through 2012 would average 6% annually from the existing portfolio plus 1,800 MW of the current 3,000 MW under construction. This would translate to 2012 EPS of about $1.35.
- **No update on share repurchase**: AES indicated that it would provide an update on the $400M buyback authorization on its Q3 earnings call.
- **Timing of Brasiliana auction still uncertain**: At this point it is more likely to be a 2009 event, however. AES noted that it is possible that there will have to be another independent valuation of the assets, as Brazilian stock prices have fallen approximately 20% since the last one was conducted (which set the minimum bid for the BNDES stake at slightly higher than $1.6B). AES has a $1B nonrecourse committed line of credit in Brazil for the transaction should it exercise its right of first refusal.
- **Changes to strategy or structure appear unlikely**: Company still is very comfortable with its strategy, and noted that development still appears attractive relative to acquisitions. In response to a question about whether a different structure might be considered to enhance value, management indicated that it was not the right time to be considering such alternatives and that it continued to believe there was value in the current structure (global power company, with some of its major businesses also listed as separate public companies). Company did note that it continues to regularly review all assets; recent history (Kazakhstan) supports the view that asset sales are being given much more of a role in the strategy.

CMS Energy (CMS)

- **Michigan energy legislation:** During his presentation, David Joos, CMS' CEO, was very optimistic that Michigan's Governor Granholm will sign two new energy-related bills into law in the near future. The bills, HB 5524 and SB 213, which were passed on September 18 by the legislature, would reform the state's utility regulatory framework, establish renewable portfolio standards, and provide incentives for investments in energy efficiency. The laws would support CMS' $6.4B capital plan and 6-8% annual EPS growth target.
- **Settlement possible in gas rate case:** Joos indicated that a settlement would be possible in the gas rate case. While there is a $55M difference between the Staff's recommended rate increase of $36M and the company's request for $91M, CMS thinks that some of the differences are negotiable. In addition, the company settled its last gas case even though, according to the CEO, it was more complicated than the current one.

- **Balanced Energy Initiative:** Joos noted that its Balanced Energy Initiative, essentially an IRP, would need to be adjusted to reflect somewhat slower load growth than the assumed 1% annual rate. Slower load growth in its service territory will be driven by the implementation of energy efficiency programs that will be spurred by the passage of new energy legislation. Later in the day, CMS published a press release, indicating that it would file a revised Balanced Energy Initiative with the Michigan Public Service Commission on the impending passage of new legislation.

Covanta Holding (CVA)

- **Clarification on energy exposure**. CVA clarified its comments from its Q2 earnings call in July by emphasizing that it expects 50% of its energy capacity, not its energy revenues, to be open to market pricing in 2010. The company also indicated that it had hedged a fair amount of its energy exposure for 2009 when prices rose in Q2 of this year, leaving only 5%-10% of 2009 energy revenues subject to market pricing at this time. CVA has not hedged any of its energy exposure for 2010 that is subject to market pricing.
- **$30M share repurchase authorization**. The authorization was put into place in order to provide the company with the flexibility to repurchase stock during future periods of market volatility in which the stock price may decline to a level where buying back stock results in a higher return on capital than growth opportunities.
- **Equity commitments to new projects**. CVA confirmed that it expects the proposed Dublin waste-to-energy (WTE) plant (COD – late 2011) to cost 300M euros, and that it expects to finance $100-$125M of the project cost with cash. The company disclosed that it expects the proposed Vancouver WTE plant to require at least $125M of cash financing.
- **Net operating losses (NOL)**. CVA stated that it believes it will be able to increase the value of its NOLs at the end of this year, and now hopes to incur only the alternative minimum tax (AMT) of about $30M/year through 2010.

Dominion Resources (D)

- **Selling less Marcellus acreage to Antero for a higher price:** On the second day of the conference Dominion announced a change to its pending Marcellus Shale E&P acreage monetization deal with Antero Resources. This was first announced at the end of June with Dominion assigning some 205,000 out its total 600,000-800,000 Marcellus Shale drilling rights for gross proceeds of $552M ($2,693/acre) or $325M after-tax ($1,585/acre). D would also receive a royalty of 7.5% on future production and retain drilling rights in the traditional formations both above and below the Marcellus Shale. In the end Antero had difficulties securing financing and approached Dominion about downsizing the scope of their original transaction.
- **Lower transaction price but higher acreage valuation:** The amended Antero transaction is for 114,259 acres for $347M pre-tax or $3,037 per acre. After-tax proceeds are expected to be around $205M with the sale expected to close on September 30. While Dominion's gross proceeds from this specific transaction will be 37% lower, the price per acre improved by 13%. If we apply this higher per acre valuation to the remaining acreage the implied total pre-tax value of Dominion's Marcellus position would be $1.8B to $2.4B versus $1.6B to $2.2B previously. Assuming a similar tax rate the after-tax value would be $1.1B to $1.4B. This is a modest increase, but still

consistent with the $3/sh valuation range we have been using for Dominion's Marcellus Shale position in our valuation work.

- **Absent another sale 2009 equity increase ~$125M.** Dominion indicated that the amended Marcellus transaction with Antero would not have any effect on 2008 EPS guidance or their 2009 outlook. That being said, the net proceeds are expected to offset equity issuance needs, which D has been targeting at $800M in both 2009 and 2010. With DRIP expected to provide around $200M each year, the effective external requirements for 2009 may now be around $400M versus $275M previously. Needs for outside equity would be further reduced by additional Marcellus transactions, which D has previously indicated might be forthcoming before year-end. No specific comments were made on this front at the conference, although Dominion did indicate that the acres not being farmed out to Antero would be included in the next tranche to be sold.

Dynegy (DYN)

- **Low production costs**. DYN emphasized that the cost to produce power from its baseload coal plants in the Midwest (including fuel and operating costs) is only about $25/MWh as the plants all burn low-cost PRB coal and the company has a below-market fixed-price rail contract that runs through 2013 (delivered cost of $1.39/mmBTU this year, increasing to $1.50 next year). Thus, despite the recent decline in Midwest power prices (currently $51/MWh around-the-clock for 2009), DYN stressed that it still earns a significant margin on its coal-fired generation.

- **Not hurt materially by rising eastern coal prices**. The majority of DYN's coal supply is hedged through 2010. Additionally, DYN's Midwest coal fleet (90% of total coal-fired capacity) burns only PRB coal which has not been affected by international demand and has experienced relative price stability. The one exception is the Danskammer coal plant in NY (10% of DYN's total coal-fired capacity) that burns South American coal.

- **Minimal counterparty risk**. DYN's total uncollateralized exposure to banks is currently about $85M. This amount is spread over 7-8 banks, with no bank accounting for more than $20M of exposure. The company's exposure to Lehman is less than $2M.

- **Addressing basis risk**. The company has limited its hedging activities at the PJM-West hub following the basis spread blowout in Q2 (see our August 12th Comment). DYN indicated that its commercial operations team must now receive approval prior to trading at PJM-West. Most of the company's hedging activity is being done at the Cinergy hub (less basis spread risk than PJM-West).

Exelon (EXC)

Please refer to our note published on September 24 for comments on EXC's presentation at the conference. Exelon Corporation, 24 September 2008

Edison International (EIX) and FPL Energy (FPL)

Renewable opportunity in current environment

- **Weak credit environment and lack of tax equity financing hurting small wind developers**. Both companies commented that smaller, less credit-worthy developers have faced much more difficulty in securing financing for

wind projects. This has given the larger companies the opportunity to either buy land or partially developed projects at favorable prices.

- **Supply chain favors stronger players**. In addition to opportunities to buy partially developed projects, the companies see the potential for better prices for equipment through the supply chain. They believe that the turbine manufacturers will see more value in selling equipment to large developers with strong credit profiles. This may allow companies such as FPL and EIX to strike deals at more favorable prices.

- **FPL appearing more supportive of federal RPS.** FPL noted that while a state-by-state approach to renewable portfolio standards has been effective, they have become more supportive of a federal RPS than before. A nationally tradable renewable energy credit market would be a necessary precondition for the federal standard, however.

- **Solar construction at $3,500/kW remains possible.** The two companies also suggested that solar can be developed at scale at $3,500/kW. This is the specific average installed cost targeted in Southern California Edison's Solar Rooftop program. The loss of feed-in tariffs in Europe has led to less development overseas, which puts solar manufacturers under higher pressure to clear production backlog. When coupled with the scale of projects that both companies are capable of, but sounded optimistic that solar can be developed at more reasonable costs.

Great Plains Energy (GXP)

- **2009 guidance and longer-term drivers:** GXP has stated in the past that it expects to issue 2009 EPS guidance when it reports Q3 earnings. At our conference, GXP's CFO, Terry Bassham, confirmed their 2009 guidance plans and indicated that they also plan to provide earnings drivers for 2010 and 2011. Our current 2009 and 2010 estimates are $1.80 and $2.00, with consensus of $1.80 and $2.01.

- **Timing of equity issuance:** GXP also suggested that they could delay their planned 2008 equity issuance. They are considering one large offering in 2009 instead of two smaller issuances in both years as previously planned. Near-term capital needs can be met through short-term debt and their credit facility. They also have more flexibility on the timing of an issuance since the company will not have to reach its target equity ratio until April 30, 2009, the current true-up date of its utilities' recently filed rate cases. Our current estimates assume issuance of $200M in Q4-08 and $350M in mid-year 2009. A more likely scenario might be the issuance of $550M in H1-09.

Mirant (MIR)

- **Suspension of share repurchase program**. MIR announced on September 22 that it was suspending its $4.6B share repurchase program after having repurchased $3.86B of stock since November 2007 (see our September 22nd Note for details). At the conference, MIR indicated that the primary reason for the suspension of the program was the increased possibility of winning PG&E's request for offers (RFO) to build additional capacity in California by 2012 (see discussion below). MIR stated that it would resume the buyback program if it were not selected in the RFO. We are skeptical about MIR's explanation and believe that it is more likely that MIR is exercising caution in the face of uncertainty around its future earning power due to the uncertain outlook for

forward dark spreads. We estimate that MIR will have about $2B of cash on its balance sheet at YE 2008, significantly higher than necessary, in our opinion, even in a period of financial uncertainty. Furthermore, we estimate that a 1,200-MW repowering project (the maximum amount possible under the terms of the RFO) would require no more than $720M in cash financing, spread over the next four years (assuming $1,200/kW and 50% debt financing). We would expect that growth capex for this project could be funded out of MIR's recurring cash flow.

- **Success in PG&E repowering bid seems likely**. MIR has made more than one repowering proposal in PG&E's RFO, likely at its Contra Costa and Pittsburg sites in the San Francisco area. We believe that MIR has a competitive advantage in the RFO and likely will achieve some success due to the site value of its existing plants. A shortlist of bidders in the RFO is scheduled to be announced in the latter part of October.

- **M&A seen as likely over next two years**. MIR thinks there is a high probability that it will be involved in M&A activity over the next two years.

- **Conducting cost/benefit analysis on potential for blending coal-types**. MIR indicated that it has started to analyze the potential for blending non-eastern coal-types into its predominantly eastern coal burn. The company emphasized that any switching or blending of non-eastern coals likely would require large capital expenditures and potential derates of capacity to the plants, and thus may not be an economic alternative.

NRG Energy (NRG)

Please see our separate note, "NRG: Highlights from ML Power & Gas Conference", published September 26. NRG Energy, Inc., 26 September 2008

- **Stock buyback the best available investment**. Management emphasized that it views NRG stock as significantly undervalued and as the company's most attractive investment opportunity at this time. We expect NRG to announce an additional repurchase authorization by late October.

- **Decline in gas prices during Q3 has increased the RP basket**. NRG's ability to return cash to shareholders is limited by the restricted payments (RP) basket. The growth of the RP basket is tied to net income rather than free cash flow. Net income in Q3 is likely to be substantially helped by unrealized mark-to-market (MTM) gains on NRG's gas hedges as forward gas prices have declined from $12.47/mmBTU at 6/30/08 to $8.64 at present (2009 forwards). Thus, we expect a meaningful increase in the RP basket that will enable NRG to quickly repurchase shares at a weak stock price.

- **Expressing more interest in M&A**. NRG believes that consolidation is needed in the industry and expressed some interest in pursuing M&A activity, either with other IPPs or through the acquisition of individual power plants. If such a transaction was at least partially paid for with NRG stock, such a stock issuance would lead to an increase in the RP basket on a dollar-for-dollar basis.

- **Counterparty risk not a big concern; liquidity ample**. NRG's counterparty exposure is reasonably diversified and the company has no uncollateralized exposure to any counterparty. Liquidity remains strong (now $2.9B, up from $2.6B at the end of June).

TECO Energy (TE)

- **Coal pricing update expected in Q3 or at EEI:** As noted at our conference, TE expects to provide an update on 2009 coal prices for TECO Coal during the Q3 conference call or at the EEI Financial Conference. The company currently has 80% of its expected 2009 production of about 10.5-11 million tons contracted and priced, unchanged from its July update. When questioned about the price that they could expect for the remaining, unpriced Met and PCI coal volumes, Sherrill Hudson, TE's CEO, noted that they could reasonably expect $200-$250/t for Met and $150/t for PCI. Our current estimates assume that TECO Coal receives an average price of $185/t on its remaining unpriced Met and PCI volumes in 2009. This could prove to be conservative if they are able to price their Met coal at the top-end of the range.

- **EEGSA VAD reset:** In the past, TECO has indicated that EEGSA contributes about $10M to overall consolidated net income and that the recent rate decision puts virtually all of EEGSA's earnings at risk. At yesterday's presentation, management noted that EEGSA would have been expected to contribute a minimum of $10M annually. This business should breakeven in the near-term unless they are able to get the recent decision reversed.

Merrill Lynch Commodities (MLCI)

Presentations by our MLCI colleagues on the gas and power markets had a relatively bearish tone for both commodities. Their comments were based on an analysis of macro and micro factors affecting both markets; they did not forecast actual commodity prices. Highlights of their presentations are as follows:

- **Getting more bearish on gas near term and long term.** As recently as June the mix of drivers appeared supportive for even higher prices with a year-on-year storage deficit and lagging LNG imports. Since late summer, however, negative factors appear to dominate the near-term and long-term outlooks, including significant U.S. production increases (from shale gas and other unconventional plays), a weaker economic outlook (possible recession), lower demand over the summer (weather-adjusted) and the increasing role of renewables and power technology (which could reduce the demand for incremental gas-fired generation, especially longer term).

- **North America's capacity to regasify LNG continues to grow well beyond actual or likely imports.** With U.S. gas prices for this winter expected to be well below $10/mmbtu vs. $16-$19 in Europe and Asia, no incremental LNG deliveries are likely this winter. 2009 and 2010 will need to be watched closely to see if the new global liquefaction is soaked up by historic markets and the rapidly emerging South American and Middle Eastern markets.

- **Growth in domestic production at best rate since 1960s.** This year to date, year-over-year increases are averaging about 2.5 BCF/day. This should offset a lower level of LNG deliveries this year and steadily eroding Canadian supplies. The growth in production is coming from the Rockies, Independence Hub and various shale plays, including Barnett and such newer plays as Haynesville and Fayetteville. New plays like Marcellus also continue to loom large post 2010.

- **Gas-fired power demand weakened in August**. For most of this year to date, demand from gas-fired generators has been flat with or up slightly from last year, but this trend diverged in August, when demand was approximately 2 BCF/day lower than a year ago. However, cooling degree days in August were 24% below the level of a year ago, which would have been a major reason for the decline.

- **U.S. could become self-sufficient in gas past 2010**. Shale gas resources are large and geographically diverse, and have the potential to be a "game changer", with economic analysis suggesting that breakeven prices are significantly below current market prices. Shale gas may look like harvesting while conventional plays will bear the brunt of marginal investment decisions based upon volatile forward prices. On the demand side, power generation demand remains the key driver at the margin, but here the outlook is for a slowing of demand growth in the residential and commercial sector although this may be partly offset by higher industrial demand. Energy efficiency, demand-side management and renewable technologies are all negative for gas generation demand.

- **Decline in combined-cycle capacity factors**. This is in part attributable to 2007 being a very strong year, reflecting a warm summer and a warmer than normal autumn. Load growth in 2008 has decelerated, even on a weather-normalized basis (see next bullet point). Other factors include some transmission improvements that have reduced congestion in certain regions (southern PJM), increased imports from Canada (New England) and increased hydro generation during summer months (New England and California). Combined-cycle capacity factors in ERCOT were only slightly lower in the first half of the year but on a year-to-date basis are down more noticeably due to the drop-off in demand following Hurricane Ike.

- **Load growth slowing**. Weather-normalized peak demand growth has declined in such key markets as California (steepest decline, and has been occurring for the past 10 months), PJM (declines since June 2008) and New England (flat to slightly down for past 18 months). MLCI's view is that this performance has more do to do with underlying economic conditions than the impact of energy efficiency and conservation investments. Longer term, those factors are expected to play more of a role.

- **Bearish on heat rates near to medium term**. Slowing demand growth, the steady drip of renewable capacity additions and some congestion relief through transmission expansion are the key factors supporting our colleagues' relatively bearish view on most power markets. Midwestern markets and PJM's WestHub could see a boost in gas heat rates to account for the possibility of coal-to-gas switching especially during shoulder months (see discussion in next bullet point).

- **Convergence of gas to coal pricing seems unlikely to be sustained**. Coal plants appear to be at virtual pricing parity with gas combined-cycle plants using the prompt-month gas price (weak). But forward prices in PJM imply that gas combined-cycle will return to a more typical premium against coal in the current winter and beyond. This forward premium could be eroded if recent shale production performance continues into 2009. Very little coal to gas switching appears to be in evidence in the market, in part because the region with the largest amount of underutilized gas capacity (the Southeast) is dominated by regulated utilities with very competitive coal costs

under contract and limited incentives to facilitate the coal to gas switch. Most companies asked about this at the conference have noted only limited switching to date. More switching should be seen as the incentive grows (i.e. should gas pricing invert below market coal prices).

- **Retirement of smaller, older coal plants looms as long-term bullish factor**. Prior to the court's dismissal of CAIR and CAMR emission rules some smaller, older coal plants appeared to be on their deathbed. Longer term these plants will again be increasingly challenged by environmental rules and are at risk of retirement; this would improve the outlook for gas-fired generation.

- **Capacity prices in key markets may trend lower**. Although current levels are well below new-entrant economics in PJM-West, New England and ERCOT, not much new capacity may be needed due to slowing demand growth, renewables additions, planned capacity uprates, energy efficiency and new transmission. If that proves correct, the markets should clear well below new-entrant economics.

- **Carbon legislation likely to slip beyond 2009**. Many other participants in the conference share the view that the economic crisis is likely to dominate the early part of the next administration. Although legislation may pass Congress, implementation is likely to lag passage by at least three years.

- **No meaningful impact on liquidity in past few weeks**. Although there were some disruptions earlier this year with the exit of Bear Stearns, developments of the past few weeks (Constellation Energy, the financial players) do not seem to have had an impact on power market liquidity. (This view was shared by several other market participants during the conference.)

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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Electric Utilities

Friday earnings flash

Price Objective Change

Equity | United States | Electric Utilities
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Merrill Lynch

Jonathan Arnold +1 212 449 4673
Research Analyst
MLPF&S
jonathan.arnold@ml.com

Elizabeth A. Parrella, CFA +1 212 449 5996
Research Analyst
MLPF&S
elizabeth.parrella@ml.com

Alex Kania +1 212 449 7908
Research Analyst
MLPF&S
alex_kania@ml.com

Jared Weil, CFA +1 212 449 8815
Research Analyst
MLPF&S
jared_weil@ml.com

Caroline Bone, CFA +1 212 449 6970
Research Analyst
MLPF&S
caroline.bone@ml.com

Keeping up with the utilities earnings deluge

With around ten utilities reporting earnings yesterday and the main Ohio names also filing their new ESP plans, we have combined outstanding earnings reviews, estimate updates and price objective changes in this note.

AEP: EPS of $0.70 beat consensus by $0.02 but fell short of our $0.73 estimate. More importantly, AEP filed an ESP in Ohio that would phase in higher coal costs while limiting rate increases in 2009-2011 to 15%/yr. Company still expects earning power during this period to be within targeted guidance ranges. Our new PO of $42 is based on an industry average multiple of about 11x on 2011E earning power of about $3.80.

Dominion: D came in at $0.50, a penny below our $0.51E and consensus. Management raised the low end of 2008 guidance by $0.05 and added $0.05 to their 2009 range (now $3.30-$3.45). We are raising our 2009E by $0.05 to $3.35 and setting $3.50 as our initial 2010E. We have also lowered our PO from $49 to $46 reflecting lower valuations on hybrid utility peers over the past month.

DTE: DTE reported operating EPS of $0.16 missing our $0.33E and consensus of $0.43. We are maintaining our Underperform rating and reducing our price objective to $42 from $43 reflecting a 2009 utility multiple of 12.7x versus 13.1x previously. This accounts for regulated utility sector multiple contraction.

FPL: FPL came in at $0.93, just below our estimate but in line with consensus. We are trimming our 2009E/2010E to $4.20/$4.65 from $4.25/$4.70 to reflect moderated gross margin expectations for FPL's Texas hedged wind. We are also reducing our price objective to $66 from $72 to reflect lower sector multiples.

TE: TE reported Q2 operating EPS of $0.24, a penny below our $0.25E and a penny ahead of consensus. While Q2 results were in line, TE lowered its 2008 earnings guidance to $0.80-$0.90 from $0.95-$1.10, and revised its 2009 preliminary outlook. We are reducing our PO to $21 on revised estimates and multiple contraction but are reiterating our Buy-rating.

WEC: Wisconsin Energy reported Q2 EPS of $0.49, ahead of our $0.46 estimate and $0.48 consensus. While the company noted that its first Power the Future coal plant would be delayed by three months, it has now settled the remaining outstanding legal challenges, eliminating a significant overhang. We are reducing our 2009E to $3.15 from $3.25 to reflect the delay. Our price objective is now $49, down from $52 to reflect lower sector multiples.

XEL: Xcel Energy Q2 came in at $0.24, below our $0.29 estimate and the $0.33 consensus. Q2 came in below expectations mainly due to higher levels of plant maintenance, though electric demand remained resilient. We are maintaining estimates but trimming our PO to $21 from $22 due to sector multiple contraction.

Q2 earnings reviews included for the following companies:

American Electric Power (AEP)
Dominion Resources (D)
DTE Energy (DTE)
FPL Group (FPL)
TECO Energy (TE)
Wisconsin Energy (WEC)
Xcel Energy (XEL)

Table 1: Price Objective Changes

Ticker	Old	New
AEP	46	42
D	49	46
DTE	43	42
FPL	72	66
TE	23	21
WEC	52	49
XEL	22	21

Source: ML estimates

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Table 2: Q2 2008 Earnings Review and Estimate/PO Changes

		Q2 2008			Q2 2007	2008E		2009E		2010E		Price Objective	
	Report	Actual	ML Est.	Cons.	Actual	Old	New	Old	New	Old	New	Old	New
AEP	31-Aug	0.70	0.73	0.68	0.64	3.05		NA		NA		46	42
AYE	31-Aug	0.45	NA	0.45	0.45	NA		NA		NA		NA	NA
CEG	31-Aug	1.82	NA	0.86	0.64	NA		NA		NA		NA	NA
D	31-Aug	0.50	0.51	0.51	0.44	3.10		3.25	3.35	NA	3.50	49	46
DTE	30-Aug	0.16	0.33	0.43	0.38	3.05	2.95	3.35		3.45		43	42
FPL	31-Aug	0.93	0.95	0.93	0.86	3.85		4.25	4.20	4.70	4.65	72	66
TE	31-Aug	0.24	0.25	0.23	0.25	1.05	0.85	1.85	1.65	1.80	1.50	23	21
WEC	31-Aug	0.49	0.46	0.48	0.41	2.85		3.25	3.15	3.80		52	49
XEL	31-Aug	0.24	0.29	0.33	0.29	1.50		1.60		1.70		22	21

Source: Merrill Lynch estimates, First Call, and company reports

American Electric Power (AEP)

Q2 beat consensus, but fell short of our est.

AEP reported $0.70 vs. $0.64 a year ago, better than the $0.68 consensus but modestly below our $0.73 estimate. Table 3 provides a breakout of results by segment. First-half EPS of $1.72 vs. $1.33 puts AEP on a pace to earn toward the upper end of its guidance, in our view ($3.10-$3.30).

Table 3: AEP Q2 and YTD EPS

	Q2-08	Q2-07	6M-08	6M-07	FY-07
Utility	0.66	0.60	1.67	1.24	2.72
Generation/Marketing	0.06	0.03	0.07	0.03	0.09
MEMCO	0.01	0.02	0.03	0.06	0.15
Parent	-0.03	-0.01	-0.05	0.00	0.04
Total	**0.70**	**0.64**	**1.72**	**1.33**	**3.00**

Source: AEP earnings release

Rate increases, higher offsystem sales drove utility EPS

The improvement in utility earnings was driven by rate increases ($77M pretax), modest load growth ($23M) and increased offsystem sales margins ($40M), partly offset by higher unrecovered coal costs in the Ohio jurisdiction ($67M, though distorted by a coal contract amendment that increased costs), higher operation and maintenance expense ($70M) and less favorable weather than last year ($20M, although in line with normal weather). Of note, retail load growth decelerated to about 1% from about 2% in Q1 due to slowing economic activity, although AEP indicated this was in line with expectations.

AEP is seeing some signs of improved northbound traffic that may bode well for better 2H results for MEMCO

MEMCO conditions still challenging, but expect better 2H

Nonregulated businesses include Generation & Marketing (mostly in ERCOT) and MEMCO (barging). G&M was surprisingly strong as a result of favorable marketing contracts, higher gross margins at the Oklaunion plant in Texas and improved results from AEP's wind farms. MEMCO's results declined due to difficult river conditions (Midwest flooding), reduced northbound loadings (although there are signs that steel traffic may be picking up) and higher operating costs. Parent expenses increased because of higher debt balances.

Capex reductions in 2009-2010 mostly attributable to lower transmission and distribution expenditures

Reduced 2009-2010 capex forecasts by a total of $600M

AEP is still forecasting $3.8B of capex for 2008 but has lowered its 2009 budget $416M to $3.3B from $3.75B and its 2010 budget $184M to $3.4B from $3.6B. Increases for existing generation facilities and environmental expenditures were more than offset by lower projected outlays for transmission, distribution and new generation (including IGCC, which proposals have stalled out for the time being due to inability to obtain regulatory approvals).

Only $22M of incremental rate relief remaining to be secured for 2008

Targeted rate relief for this year mostly in place

AEP has secured $496M of its $518M targeted incremental rate relief for 2008. The remaining $22M is mostly associated with interim rates that the company expects to begin collecting in its Virginia base rate case in October and to a lesser degree to transmission cost recovery filings for its Texas wires companies.

Filed long-awaited rate plan for Ohio

Bigger rate increase requested, but off a lower base

AEP's ESP would phase in higher coal costs as needed in order to limit rate increases to 15% annually in 2009-2011

Also yesterday, AEP filed its Electric Security Plan (ESP) for its Ohio subsidiaries, Columbus Southern Power (CSP) and Ohio Power (OP). The ESP would cap rate increases in 2009-2011 at 15% annually. Note that while this is a larger rate increase than that proposed by either Duke Energy or FirstEnergy, AEP's rates are considerably lower – its Ohio subsidiaries have the lowest retail rates in the state.

Coal cost pressures driving the need for rate relief

AEP's delivered coal cost this year is expected to be only about $44/ton, well below spot market levels of north of $100. Although the company's coal supply is well hedged in the next few years (95% in 2008, 90% in 2009 and 80% in 2010), it is evident that costs are rising and will continue to pressure earnings unless offset by rate increases. Furthermore, while the company has received generation rate increases under the Rate Stabilization Plans (RSPs), there has been no explicit fuel adjustment clause. AEP has estimated that its Ohio generation rates currently embed a fuel cost of only $26 per MWh for CSP and $18 per MWh for OP. The company is proposing increasing these amounts in 2009 to $36 and $30, respectively.

Unrecovered coal costs would be deferred for future recovery

AEP believes that securitization language may have to be amended

The ESP would phase in these coal cost increases in order to keep the annual rate increase to 15%. Unrecovered costs would be deferred under regulatory accounting (including carrying charges) and recovered in no more than 10 years. AEP indicated that securitization of these deferrals could reduce the impact on consumers, but believes that some "tweaking" of the legislative language concerning recoverability would be necessary.

Still expects meaningful earnings growth under this plan

Some of the annual rate increases will go to support rate base growth and resulting higher earnings

AEP indicated that it believes the plan is consistent with the earnings guidance ranges for 2009-2010 that it provided to investors last fall (which translate to 5%-9% average annual EPS growth). Although the company did not provide a breakdown, it noted that part of the 15% annual rate increase will go to support investments in renewables, energy conservation and gridSMART initiatives. These should result in rate base growth on which the company will be able to earn a return. In addition, coal cost increases are pressuring current results and rate increases to offset these will also benefit earnings (whereas rate increases to offset future coal cost increases would be mostly a wash).

Still a Buy, but lowered PO to $42

Lower PO a function of lower multiples for comps – now assuming a P/E multiple of 11x 2011 estimated earning power

Our PO of $42 is based on an industry average multiple of about 11x 2011 estimated earning power of about $3.80. Our previous PO of $46 had reflected a group multiple of 12x, but valuations for the utilities sector have come in since early June. We believe that AEP could warrant a premium to the group average if it is able to successfully negotiate a rate outcome in Ohio that results in stronger earnings growth than we currently assume (5% annually). Implied annual total return at current levels is about 10.5%, including a 4.1% annualized dividend yield.

Dominion Resources (D)

Slight Q2 miss, modest guidance increase

Q2 Operating: $0.50 vs. $0.44
Q2 GAAP: $0.51 vs. $(0.76)
12M Operating: $2.89 vs. $2.51
12M GAAP: $6.05 vs. $0.86

D posted Q2 operating income of $0.50 which was $0.01 less than our $0.51E and consensus. The result came in the middle of the $0.47-$0.52 Q2 guidance range although segment components differed somewhat. Versus Q2 last year the quarter was up $0.06 (+14%) with improved results from Generation (+$0.23) offsetting the decline at Corporate (-$0.20) which largely reflected exclusion of the Peoples and Hope gas LDCs which are in the process of being sold. Weather was a benefit of $0.01 versus normal in Q2 and is negative $0.02 through H1.

Disappointing NEPOOL margin reflected extended Millstone outage

The main positive at Generation was absence of Virginia fuel under-recovery (+$0.18), the final quarter where this will be a major factor. Merchant generation margins were also positive (+$0.04) although we note that NEPOOL margins fell short of plan due to a Millstone refueling outage running 12 days over schedule. Offsetting this the regulated generation business saw some unexpected benefits including favorable FTRs, ancillary services and capacity expenses.

Table 4: Dominion Resources — Q2 and Annual Operating Earnings

	Q2 2008	Q2 2007	12m 6/08	Yr. 2007
Dominion Virginia Power	0.13	0.14	0.64	0.64
Dominion Energy	0.13	0.09	0.73	0.59
Dominion Generation	0.35	0.12	1.81	1.15
Capital, Corporate, Other	(0.11)	0.09	(0.29)	0.18
Operating Earnings	**0.50**	**0.44**	**2.89**	**2.56**
Adjustments	0.01	(1.20)	3.16	1.32
Reported Earnings	**0.51**	**(0.76)**	**6.05**	**3.88**

Source: Dominion and Merrill Lynch.

Guidance increases include several moving parts, positives and negatives

Raising 2009E, initiating 2010E, lowering PO

We are leaving our 2008E unchanged at $3.10 while raising 2009E by $0.10 to $3.35/sh. We are also initiating our 2010E at $3.50/sh. Management raised the low end of their 2008 guidance range by $0.05 (now $3.10-$3.15) and raised the 2009 range by $0.05 (now $3.30-$3.45). These increases were relatively modest considering the strong hedged position on the northeast generation fleet and the recent Marcellus shale transaction – which should bring royalty income and lower equity issuance needs. That said, D noted that there are several moving parts offsetting the positives – including additional capital spending needs. ***In terms of valuation we are adjusting our price objective from $49 to $46 reflecting lower comparable valuations for hybrid utilities over the past month.***

New hedges in NEPOOL, some coal below market

New baseload hedges were added in the NEPOOL generation book during Q2 and average pricing on 2010 hedges was also given for the first time ($80/MWh). Nuclear hedges increased for 2009 (85% to 91%) and coal unit hedges are up for 2009 – and 2010 (80% to 89% and 31% to 39%). Aggregate hedging for 2009 is now 90% at $80/MWh versus 83% at $78/MWh at the Q1 stage. If we take this in isolation the $2/MWh increase on the 83% of sales that were previously locked down is worth some $40M pre-tax or $0.04/sh of bottom line earnings. On the call management were asked why they were adding hedges to coal units given recent compression in market dark spreads. Interestingly, D noted that they have been able to lock in some coal at prices below the current market forwards, in particular for contracts of one to two years.

Table 5: D — NEPOOL Baseload Hedging

July 31	MWs	2008	2009	2010
Nuclear	1,951	93%	91%	29%
Coal	1,436	100%	89%	39%
Combined	**3,387**	**96%**	**90%**	**33%**
Hedge Price		**$76.19**	**$80.18**	**$80.03**
Coal Hedged		100%	86%	39%

Source: Dominion and Merrill Lynch.

DTE Energy (DTE)

Big Q2 miss, lowering '08 outlook

DTE reported operating EPS of $0.16 missing our $0.33E and consensus of $0.43. The main variance from our projections was lower than expected income from energy trading. We had anticipated energy trading to do much better based on management's commentary on the July 3rd mid-year update conference call; however, energy trading actually recorded a loss of $0.07/sh due to timing-related mark-to-market losses. We have detailed segment variance below in Table 6.

Earnings Review
Second Quarter 2008
Reported $0.17 vs. $1.19
Operating $0.16 vs. $0.38
12 Months Ended June 2008
Reported $4.22 vs. $5.21
Operating $2.77 vs. $3.20

Table 6: Segment Operating Earnings Variance ($ in millions)

Q2-07 DTE Energy Net Income	64
Detroit Edison	(13)
MichCon	(8)
Gas Midstream	-
Unconventional Gas Production	(2)
Power & Industrial	(15)
Energy Trading	(18)
Corporate & Other	18
Q2-08 DTE Energy Net Income	26

Source: Company reports

Lowering 2008E on lackluster first half

We are lowering our 2008E to $2.95 from $3.05, reflecting year-to-date results. Our estimate is still within the range of the company's earnings guidance of $2.80-$3.20. We are maintaining our 2009E and 2010E of $3.35 and $3.45.

Reducing PO to $42; maintaining Underperform rating

We are maintaining our Underperform rating and reducing our price objective to $42 from $43. Our valuation is largely unchanged from the last time we published on DTE in early July. We have only adjusted the multiple we apply to 2009 utility EPS to 12.7x from 13.1x to reflect regulated utility sector multiple contraction.

Our price target is based on a sum of the parts analysis that implies value of $44, which we then discount by 5%. We apply a discount because we believe DTE's non-regulated businesses would be worth more on a standalone basis. We value the utilities at $38 based on our 2009E of $2.96 and a regulated utility multiple of 12.7x. This is $1 less than our most recent update, reflecting lower regulated utility multiples. We value the coal and gas midstream business at $5 applying a multiple of 17x on our 2009E of $0.31. We attribute value of $2 to the unconventional gas business, which is based on 2P reserves of 336Bcfe valued at $1.15/Mcfe. We value the energy trading business at $2 using a 7.5x multiple on our 2009E of $0.28. Finally, we subtract $6 for parent drag based on a utility multiple and our 2009E of -$0.47.

Table 7: DTE SOTP Analysis

	2009
Utilities	
Total Utility Net Income	483
Average Diluted Shares Outstanding	163.3
EPS	2.96
P/E	12.7x
Utility Valuation	37.54
Coal and Gas Midstream	
EPS	0.31
P/E	17.0x
Coal and Gas Midstream Valuation	5.21
Power and Industrial	
EPS	0.28
P/E	10.5x
Power and Industrial Valuation	2.89
Unconventional Gas	
2P Reserves (Bcfe)	336
$/Mcfe	1.15
Net Value of E&P	386
Unconventional Gas Valuation	2.37
Energy Trading	
EPS	0.28
P/E	7.5x
Energy Trading Valuation	2.07
Corporate & Other	
EPS	(0.47)
P/E	12.7x
Corporate and Other	(6.03)
Consolidated Value of DTE	44.00
Conglomerate Discount	5%
Price Objective	42.00
Current Price	40.98
Upside/Downside	2.5%
Dividend Yield	5.2%
Total Return	7.7%

Source: Merrill Lynch

FPL Group (FPL)

Weather offsets weak economy in Q2

FPL reported Q2 EPS of $0.93 vs. $0.86 last year, just under our $0.95 estimate but in line with the consensus. Utility EPS improved to $0.54 vs. $0.53 mainly due to hot weather and modest customer growth. Offsets were negative underlying growth, higher O&M, depreciation and other costs. FPL expects the slow regional economy to weigh on growth patterns over the rest of the year. EPS at FPL Energy rose to $0.42 vs. $0.36 driven by new wind investments, favorable wind conditions and the purchase of Point Beach. Negatives were the Seabrook outage, lower asset optimization income, and other costs.

Earnings Review

Second Quarter 2008
Reported $0.52 vs. $1.01
Operating $0.93 vs. $0.86

Twelve Months Ended June 2008
Reported $3.01 vs. $3.38
Operating $3.61 vs. $3.34

Table 8: FPL Q2 earnings drivers

FPL Group Q2-07		**$ 0.86**
FP&L Q2-07	**0.53**	
Customer growth		0.01
Weather		0.06
Underlying growth		-0.02
O&M		-0.01
D&A		-0.01
Other		-0.02
FP&L Q2-08	**0.54**	
FPL Energy Q2-07	**0.36**	
New investment		0.11
Existing assets		0.10
Seabrook outage		-0.10
Asset optimization		-0.04
Other		-0.01
FPL Energy Q2-08	**0.42**	
FPL Group Q2-08		**$ 0.93**

Source: FPL

Focus on Texas wind as questions emerge

There were several developments in the Texas renewables markets during the second quarter. First, highly variable wind conditions in West Texas contributed to reliability issues in Texas in the quarter. Moreover, the wind conditions led to high volatility in power prices as the large amount of wind capacity in West Texas, along with the lack of transmission to other areas of the state, led to depressed prices when the wind blew and much higher prices when the wind died down. In partial response to this, the PUC of Texas approved nearly $5B of spending on transmission. Specific projects were not ruled on, but we expect FPL to play an active part in developing the transmission. On the other hand, FPL suggested may moderate new wind investment in West Texas until the transmission development moves along. According to management, there are enough other opportunities for FPL to continue to develop wind in the 1,500 MW/year level in other parts of the state and country, so this should not affect FPL's growth aspirations.

Trimming 2009E/2010E on lower TX gross margin

We are reducing our 2009E/2010E by $0.05/sh, to $4.20/$4.65. This reflects the expectation of lower gross margins from the ERCOT wind assets, partially offset by earnings from the Canada wind asset acquisition. We believe that the volatility in the West Texas power markets could make hedging the wind assets relatively more difficult going forward, hence the relatively more cautious outlook. A partial hedge could be FPL's gas assets, which could benefit from swings in power prices.

Table 9: FPL segment valuation

	$M	per share
FP&L equity value	12,499	31.09
FPL Wind EV	12,573	
FPLE (non-wind) EV	10,539	
FPLE total net debt - 2008	9,200	
FPL Energy equity value	13,913	34.61
Total FPL equity value	**26,412**	**$ 65.70**

Source: Merrill Lynch

Reducing price objective to $66

Since our last price objective update, utility P/E and generation EV/EBITDA multiples have each declined about one turn. We now use a base 2009 utility multiple of 12.7x 2009 EPS and a generation 2009 EBTIDA multiple of 7x. We also use an 11x EBITDA multiple on 2009 wind EBITDA (excluding PTCs) to reflect better growth prospects from the renewables operation. This is in line with where the European renewables operations currently trade. We now value the utility at about $31/sh, based on 2009 EPS of $2.20 and a 14x P/E multiple. We continue to use a 10% premium on FPL's utility operations given the segment's strong geographic footprint, constructive regulatory environment and above-average rate base investment potential. We value the unregulated operations at just under $36/sh, using a 7x multiple on FPL's non-wind generation EBITDA in 2009 of $1.35B, coming to an EV of $10.5B. We value the renewable segment at $12B using and an 11x multiple on wind EBITDA of $700M (excluding PTCs) and a $4.8B NPV of production tax credits and accelerated depreciation. We remain Neutral on FPL.

TECO Energy (TE)

Lowering price objective, but upside remains

Q2 results in line, but outlook disappoints

TE reported Q2 operating EPS of $0.24, a penny below our $0.25E and a penny ahead of consensus. Operating results were down $0.01 versus Q2-07. Earnings at Tampa Electric's electric utility improved on hotter weather (15% more CDDs than Q2-07) and lower depreciation expense. The gas utility's earnings were essentially flat with the prior year period, as higher sales were offset by higher expenses. Earnings at TECO Coal were down 57% YOY as higher realized prices (+10%) were more than offset by higher operating costs (+20%) and lower-than-expected production. TECO Guatemala results improved 16% YOY with higher revenues on spot sales from the San Jose Power Station. Parent company drag decreased on lower interest expense.

While TE's Q2 results were largely in line with expectations, the company lowered its 2008 earnings guidance to $0.80-$0.90 from $0.95-$1.10 on weaker TECO Coal and Tampa Electric forecasts. Specifically, TE lowered its production forecasts at TECO Coal from 10.5 million tons to 10 million tons and increased per ton operating cost estimates by 6.25%. At Tampa Electric, management expects a cool July and a weaker-than-expected economy in Florida to weigh on sales.

Earnings Review
Second Quarter 2008
Reported $0.24 vs. $0.35
Operating $0.24 vs. $0.25
12 Months Ended June 2008
Reported $1.66 vs. $1.31
Operating $1.00 vs. $0.95

Lowering 2008 - 2010 estimates mostly on coal

We are lowering our 2008 – 2010 EPS forecasts to $0.85/$1.65/$1.50 from $1.05/$1.85/$1.80 on revised forecasts for TECO Coal and Tampa Electric. We are reducing our TECO Coal forecasts on higher costs, and lower production and pricing projections. A lower tax rate assumption (25% vs. 35%) will somewhat offset these negative impacts. We have also lowered our Tampa Electric estimates on reduced sales growth and margins.

Table 10: ML EPS Forecasts

	2008		2009		2010	
	New	Old	New	Old	New	Old
Tampa Electric	0.80	0.85	0.89	0.95	0.98	1.05
TECO Coal	0.11	0.20	0.89	0.98	0.58	0.81
TECO Guatemala	0.20	0.20	0.18	0.21	0.22	0.22
Parent/Other	(0.27)	(0.19)	(0.31)	(0.29)	(0.28)	(0.28)
TECO Energy	0.85	1.05	1.65	1.85	1.80	1.80

Source: Merrill Lynch

Lowering price objective to $21 and reiterating Buy

We are lowering our price objective to $21 from $23, largely on lower estimates and a lower regulated utility average multiple, but are reiterating our Buy rating. Our new price objective is based on a sum-of-the-parts valuation and the net present value of the company's NOLs and AMT carry forwards. We value the utilities at $11 using a regulated utility group average multiple on our 2009E of $0.89. We value TECO Coal at $10 based on our revised 2010E of $0.89 and an 11.0x multiple, which Merrill Lynch's coal analyst, David Lipschitz, believes is appropriate. We value TECO Guatemala at $2, using a multiple of 11.5x on our 2009E of $0.18. We then subtract $4 for parent drag, and add $2 to reflect the company's NOL position and AMT carry forward. We then apply a 5% conglomerate discount to get to our $21 price objective.

Table 11: TECO Sum-of-the-parts Valuation

	2009E	Multiple	Value
Utility	0.89	12.7x	11.27
Coal	0.89	11.0x	9.78
Guatemala	0.18	11.5x	2.11
Parent Drag	(0.31)	12.7x	(3.91)
NOL NPV			2.41
SOTP Value			21.66
Conglomerate Discount			5%
Price Target			21.00
Current Price			18.55
Upside			13.2%
Dividend Yield			4.3%
Total Return Potential			17.5%

Source: Merrill Lynch and company reports

Wisconsin Energy (WEC)

Resolving the coal uncertainty

WEC reported Q2 operating EPS of $0.49 vs. $0.41 last year, beating our $0.46 estimate and the $0.48 consensus. Earnings rose year-over-year due to the contribution of new Power the Future assets, higher electric rates and lower interest expense. Partial offsets were higher operating and fuel costs, the impact of the Point Beach nuclear plant sale and a contraction in sales stemming from weather and a weaker economy.

Earnings Review

Second Quarter 2008
Reported $0.49 vs. $0.48
Operating $0.49 vs. $0.41
Twelve Months Ended June 2008
Reported $3.03 vs. $2.58
Operating $3.03 vs. $2.46

Table 12: WEC Q2 EPS drivers

Q2-07	**0.41**
Higher rates	0.22
Weather	(0.09)
Point Beach sale	(0.05)
O&M	(0.05)
Other	(0.03)
Power the Future	0.05
Interest	0.04
Q2-08	**0.49**

Source: WEC

Good news on coal plant overshadows delay

WEC announced two major developments on the two coal units currently under construction. First, the company was informed by the builder that because of the 100+ inches of snowfall during the winter, the first unit's in-service date would be three months later than the guarantee date of 9/30/09. WEC estimates that the delay will impact earnings by $0.03/sh per month, for a total of $0.09/sh in 2009. However, WEC will continue to collect a cash carry on the asset, so there will be no cash flow drag. The builder noted that it was likely that the second unit will be ready for service one month early, which should be a $0.02/sh benefit to earnings in 2010.

Coal plant pollutant discharge permit resolved

In a more significant development, WEC reached a settlement with Clean Air Wisconsin, who will halt legal challenges over the pollutant discharge permit. While the specific terms of the settlement will not be known until next week, the settlement resolves the final legal obstacle in the construction of the two coal units. With the last legal overhang resolved, WEC can continue to use the one-through water intake structure and avoid the potential necessity and cost of building a cooling tower.

Reducing 2009E on plant delay

Based on the expected three month delay of the first coal unit, we are reducing our 2009E by $0.10, to $3.15. EPS in 2009 should benefit from a full year of operation of the second natural gas Power the Future unit (+$0.07), lower fuel underrecoveries, growth at ATC, and the Blue Sky wind capacity additions. Our 2010E remains $3.80, assuming the first coal unit goes into service at the beginning of the year and the second begins operation in the late summer.

Reducing PO but reiterating Buy; dividend coming early?

While we are reiterating our Buy rating, we are reducing our price objective on WEC to $49 from $52 to reflect contracting multiples across the sector over the last month. Our view of WEC's fundamental earnings power is unchanged, and the coal delay does not affect our valuation as the impact is limited to 2009 and WEC will still be collecting a cash carry on the plant. We now use a 12.4x multiple on 2010 earnings of $3.80, which is a 5% premium to the sector average and add another $2 to account for the upside associated with Power the Future. We believe that a premium is warranted for WEC due to the company's constructive regulatory environment, greater certainty on Power the Future, and pipeline of future rate base investment opportunities. Furthermore, WEC announced that the board would be considering a change of dividend policy later in 2008 for action in 2009. This is about a year earlier than previously suggested by the company.

Table 13: WEC valuation

Core utility EPS - 2010E	3.80
Group Multiple	11.7x
Target Premium (Discount)	5%
Target Multiple	12.4x
Core Utility Valuation	**$47.06**
Value of 2011 PtF Earnings	2.00
P/E Based Target	**$49.06**

Source: Merrill Lynch

Xcel Energy (XEL)

Q2 misses estimate on costs

XEL reported Q2 operating EPS of $0.24, below our $0.29E and $0.33 consensus. Year ago results were $0.29, including the impact of the now discontinued COLI program. Earnings decreased due to higher O&M (-$0.04), lower electric margins (-$0.01), higher conservation/DSM costs (-$0.01), and higher financing costs (-$0.01). These negatives were partially offset by higher gas margins (+$0.02) and AFUDC equity earnings (+$0.01). The increase in O&M was mostly due to higher generation and labor costs. The decrease in electric margins were mostly due to much milder weather during the quarter, which more than offset retail rate increases in Wisconsin and North Dakota.

Earnings Review

Second Quarter 2008
Reported $0.24 vs. $0.18
Operating $0.24 vs. $0.29
Twelve Months Ended June 2008
Reported $1.48 vs. $1.22
Operating $1.46 vs. $1.33

Table 14: Q2 Earnings Drivers

Q2-07 Operating EPS - adjusted for COLI	**0.27**
Higher natural gas margins	0.02
Higher AFUDC - equity	0.01
Higher O&M	(0.04)
Lower base electric margins	(0.01)
Higher conservation/DSM costs	(0.01)
Higher financing costs	(0.01)
Other	0.01
Q2-08 Operating EPS	**0.24**

Source: XEL

Regulatory developments in several states

In Minnesota, XEL is waiting for a ruling on its request to defer and amortize nuclear refueling outage costs, which would smooth out the cost of a refueling outage over the 18 month fuel cycle rather than when the outage occurs. A decision is expected in September. In North Dakota, XEL is waiting for a ruling on its $17.9M rate increase, expected this fall. The company is currently collecting $17M annually on an interim basis. A rate case is underway in New Mexico, with a hearing examiner recommending a $12.6M increase compared to the company request of $16.6M. A decision is expected in August. Finally, in June, XEL filed a $61M rate case in Texas. XEL will be filing an electric rate case in Colorado, but the specific timing is not yet known.

Maintaining estimates but reducing price objective

While the quarter came in short of estimate, we are maintaining our 2008E of $1.50, the midpoint of the company's guidance range. Our 2009E/2010E remain $1.60/$1.70, respectively. However, we are reducing our price objective to $21 from $22 to account for the decline in sector multiples over the last month. Our target P/E multiple is now 12.4x 2010 EPS, which is a 5% premium to the regulated group average. We believe that this premium is warranted given the company's geographically diverse service territories, constructive regulation in most of its states, above-average growth prospects and solid management.

Price objective basis & risk

Amer Elec Power (AEP)

For AEP, our PO of $42 is based on an industry average multiple of about 11x on 2011 earning power of about $3.80. A premium to the average could be warranted if the company is able to successfully negotiate a rate outcome in Ohio that results in stronger earnings growth potential than we currently assume (5 percent/year). Other drivers would include the outcome of pending rate cases in other jurisdictions such as Indiana, Oklahoma and Virginia, and the degree of success that AEP realizes on its more "discretionary" capex plans, including new transmission JVs and distribution initiatives. Risks to our PO are 1) regulatory treatment, including inadequate or less than timely rate relief, and implications for earnings and cash flow: 2) rate pressures resulting from carbon legislation, as we expect these costs to be mostly if not entirely passed through to ratepayers: 3) challenges in managing environmental capex and new investments in generation and transmission: 4) major unexpected plant outages or other operating issues, and 5) lower valuations for comparable companies.

Dominion Resourc (D)

Our price objective of $46 comprises a base value of $43 plus $3 for Dominion's estimated 0.6-0.8 million acres in the emerging Marcellus Shale E&P play. Our base value of $43 applies a multiple of 11.4x estimated 2011 earnings power in the $3.75/sh range. This number implies CAGR of 6-7 percent over our 2008E, which is consistent with D's growth outlook of "6 percent or more". Our assumed multiple includes a premium of 5 percent versus other diversified peers reflecting favorable Virginia regulation passed in 2007. While D could in theory command a higher valuation versus regulated peers, this seems inappropriate to us given significant ongoing earnings contributions from both non-regulated operations comprising 44 percent of 2008 guidance (mainly merchant and retained Appalachian E&P). Risks to our price objective are commodity prices, delays with rate base investments, and the ROE outcome in the upcoming VA rate case.

DTE Energy (DTE)

Our price objective of $42 is based on a sum of the parts valuation that implies value of $44, which we then discount by 5 percent. We believe a discount is warranted since DTE's non-regulated businesses would likely be worth more on a standalone basis. We attribute value of $38 to the utilities based on our 2009E of $2.96 and a regulated utility peer multiple. We value the coal and gas midstream business at $5 per share applying a multiple of 17x our 2009E of $0.31. The unconventional gas business is valued at $2 per share based on 2P reserves of 336Bcfe valued at $1.15/Mcfe. We then value the energy trading business at $2 using a 7.5x multiple applied to our 2009E of $0.28. We subtract $6 for parent drag, which we calculate by applying a regulated utility multiple to our 2009E of -$0.47. Risks to our price objective are inability to earn allowed ROEs at the regulated utilities, future rate case outcomes, the passage of new energy legislation in Michigan, and cost inflation. We would also note higher market interest rates as a risk given DTE's high yield for a diversified utility. Upside risks are more favorable legislation and higher E&P valuations.

FPL Group (FPL)

Our $66 price objective is premised on a sum-of-parts analysis of FPL's utility and generation companies. We value the utility at $31.00, using a 12.7x multiple to 2009 utility earnings of $2.25. This is a 10 percent premium to group averages given FPL's high-growth service territory and above average management and

regulatory environment. We value the wind generation and the remaining assets at FPL Energy separately. For FPL's growing wind portfolio, we come to an enterprise value of $11.9B, based on an 11x multiple to core (non-tax credit) EBITDA, plus a DCF valuation of future production tax credit and accelerated depreciation cash benefits of $4.9B. We value the remaining FPLE assets at 7x 2009 EBTIDA, implying a $10.5B enterprise value. We also add $1/sh from upside related to carbon at FPL's Seabrook and Duane Arnold nuclear units. We do not explicitly account for the value of carbon pricing on the wind assets as much of that upside could be captured in the PTC cash flow that the company currently enjoys, which presumably would phase out as carbon is regulated. After subtracting $9B of anticipated debt at FPLE at the end of 2008, the total value of FPL comes to $66. Risks to our PO are the extension of the federal production tax credit, wind turbine reliability, and execution on utility rate base growth opportunities.

TECO Energy (TE)

Our price objective of $21 is based on a sum of the parts analysis. We attribute $11/sh to Tampa Electric and Peoples Gas based on our '09 utility EPS forecast of $0.89 and an average regulated utility multiple. We value TECO Coal at $10/sh based on a 2009E of $0.89 and a multiple of 11x, based on relevant comparables. Using 2009 EPS of $0.18 and a multiple of 11.5x, we value TECO Guatemala at about $2/sh. We then add $2/sh to reflect the company's NOL position and AMT carry forwards. Parent drag is valued at $(4). The risks to our price objective are unfavorable future regulatory outcomes, coal pricing and production costs, higher interest rates, and a deteriorating economy in Florida.

Wisconsin Energy (WEC)

WEC is a well-run utility with a high rate of earnings growth and operates under a constructive regulatory environment. Our price objective for WEC is $49. We value the core utility plus the first three PtF units based on a 5 percent premium to the group average multiple. We believe that this is warranted given the company's constructive regulatory environment and continued rate base growth opportunities beyond the Power the Future plants, including new wind and transmission investment. We also add $2 of value to account for the 2011 addition of the second coal plant. Risks to our price objective are construction risk on the Power the Future generation, regulatory risk, and operating cost control. While WEC currently has a below-average yield (mid-2 percent) we expect the company to revisit its dividend level once it is through with the Power the Future spending, potentially putting it on a path to move closer to sector averages.

Xcel Energy (XEL)

Our price objective for XEL is $21, based on a modest premium over the peer multiple to our 2010E of $1.70. We believe that a modest 5 percent premium is warranted for XEL given its solid management, constructive regulatory environments in Colorado, Wisconsin, and Minnesota, and solid 5-7 percent earnings growth. Moreover, much of the growth comes through automatic riders rather than traditional rate cases, reducing regulatory risk. XEL's dividend yield in the mid-4 percent range is in line with group averages, and we expect it to grow about in line with EPS growth. Risks to our price objective are continued constructive regulatory outcomes and the ability to execute on capital investment plans.

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We, Jonathan Arnold, Elizabeth A. Parrella, CFA and Alex Kania, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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TECO Energy Inc

Utility coal play

Rating Change BUY



Raising opinion to Buy with $23 price objective

TE has outperformed the S&P Utilities by 18% YTD, largely due to its exposure to the booming coal markets through its coal mining subsidiary. Meanwhile Central Appalachian steam coal prices are up approximately 80% YTD while market talk suggests metallurgical (met) coal contracts are now pricing in the range of $200-300/t versus $65-75/t at YE07. Despite TE's recent performance, we see additional upside based on our revised coal forecasts and are raising our opinion to Buy from Neutral.

Increasing 2009E and 2010E on improved coal outlook

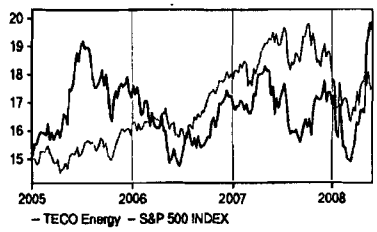
We are increasing our 2009E to $1.85 from $1.30 and our 2010E to $1.80 from $1.40. Our new estimates incorporate higher earnings at TECO Coal driven by higher met and PCI (pulverized coal injection) coal prices. We now assume coal earnings of $0.98/sh in '09 and $0.81/sh in '10 versus $0.41/sh and $0.43/sh previously. We also believe our forecasts, which include average met and PCI prices of $155/t in '09 and $130/t in '10, could be conservative if coal pricing remains around current levels. Our estimates also incorporate fairly substantial per ton operating cost increases of 15% in '09 and 12% in '10.

Sum-of-the-parts valuation supports price target

Our price objective of $23 is based on a sum-of-the-parts analysis. We attribute $13 to the electric and gas utilities based on our 2009E of $0.95 and a 13.5x multiple. We value TECO Coal at $11 based on a 2009E of $0.98 and a multiple of 11x, which our coal analyst, David Lipschitz, believes is appropriate. Using 2009 EPS of $0.21 and a multiple of 11.5x, we value TECO Guatemala at about $2/sh. We then add $2/sh to reflect the company's NOL position and AMT carry forward. Parent drag is valued at $(4). After applying a 5 percent conglomerate discount, we get to our $23 price objective.

Stock Data

Price	US$19.49
Price Objective	US$23.00
Date Established	29-May-2008
Investment Opinion	B-2-7 to B-1-7
Volatility Risk	MEDIUM
52-Week Range	US$14.48-20.21
Mrkt Val / Shares Out (mn)	US$4,093 / 210.0
ML Symbol / Exchange	TE / NYS
Bloomberg / Reuters	TE US / TE.N
ROE (2008E)	10.5%
Total Dbt to Cap (Mar-2008A)	60.8%
Est. 5-Yr EPS / DPS Growth	10.0% / 3.0%



Estimates (Dec)

(US$)	2006A	2007A	2008E	2009E	2010E
EPS	0.97	1.07	1.05	1.85	1.80
GAAP EPS	1.19	1.97	1.05	1.85	1.80
EPS Change (YoY)	-20.8%	10.2%	-1.7%	75.8%	-2.6%
Consensus EPS (Bloomberg)			1.00	1.31	1.38
Dividend Rate	0.76	0.78	0.80	0.82	0.84

Valuation (Dec)

	2006A	2007A	2008E	2009E	2010E
P/E	20.1x	18.2x	18.6x	10.6x	10.8x
GAAP P/E	16.4x	9.9x	18.6x	10.6x	10.8x
Dividend Yield	3.9%	4.0%	4.1%	4.2%	4.3%
EV / EBITDA*	11.4x	12.2x	13.0x	8.6x	8.7x
Free Cash Flow Yield*	2.7%	1.4%	-3.1%	0.8%	2.9%

* For full definitions of *iQmethod*℠ measures, see page 7.

Quarterly Earnings Estimates

	2007	2008
Q1	0.21A	0.15A
Q2	0.25A	NA
Q3	0.38A	NA
Q4	0.23A	NA

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Refer to important disclosures on page 8 to 9. Analyst Certification on Page 7. Price Objective Basis/Risk on page 7.
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iQprofile℠ TECO Energy Inc

iQmethod℠ – Bus Performance*

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Return on Capital Employed	4.2%	4.1%	3.7%	6.2%	5.7%
Return on Equity	12.1%	12.0%	10.5%	16.3%	13.6%
Operating Margin	12.9%	12.1%	11.0%	17.0%	15.9%
Free Cash Flow	111	58	(126)	34	119

iQmethod℠ – Quality of Earnings*

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Cash Realization Ratio	2.8x	2.5x	2.3x	2.0x	2.1x
Asset Replacement Ratio	1.6x	1.9x	2.4x	2.5x	2.2x
Tax Rate	38.0%	38.0%	38.5%	38.5%	38.5%
Net Debt-to-Equity Ratio	200.0%	150.1%	146.3%	123.8%	105.6%
Interest Cover	1.6x	1.7x	1.8x	3.3x	3.2x

Income Statement Data (Dec)

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Sales	3,448	3,535	3,404	3,927	4,072
% Change	14.6%	2.5%	-3.7%	15.4%	3.7%
Gross Profit	2,058	2,019	1,840	2,345	2,459
% Change	6.7%	-1.9%	-8.8%	27.4%	4.9%
EBITDA	727	680	636	967	956
% Change	13.2%	-6.5%	-6.5%	52.0%	-1.1%
Net Interest & Other Income	(120)	(65)	(15)	(30)	(26)
Net Income (Adjusted)	**202**	**224**	**222**	**392**	**383**
% Change	**-20.9%**	**11.3%**	**-1.1%**	**76.7%**	**-2.2%**

Free Cash Flow Data (Dec)

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Net Income from Cont Operations (GAAP)	202	224	222	392	383
Depreciation & Amortization	282	254	261	300	307
Change in Working Capital	(55)	117	0	0	0
Deferred Taxation Charge	112	185	149	245	240
Other Adjustments, Net	26	(228)	(126)	(143)	(143)
Capital Expenditure	(456)	(494)	(631)	(760)	(668)
Free Cash Flow	**111**	**58**	**-126**	**34**	**119**
% Change	**NM**	**-48.1%**	**NM**	**NM**	**244.7%**

Balance Sheet Data (Dec)

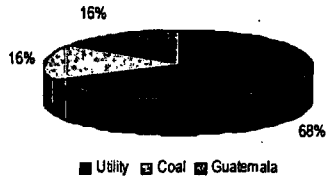
(US$ Millions)'	2006A	2007A	2008E	2009E	2010E
Cash & Equivalents	442	163	69	38	-87
Trade Receivables	338	374	374	374	374
Other Current Assets	506	253	253	253	253
Property, Plant & Equipment	4,767	4,888	5,251	5,711	6,072
Other Non-Current Assets	1,309	1,087	1,087	1,087	1,087
Total Assets	**7,362**	**6,765**	**7,035**	**7,464**	**7,874**
Short-Term Debt	48	25	25	25	25
Other Current Liabilities	663	586	586	586	586
Long-Term Debt	3,852	3,166	3,256	3,256	3,256
Other Non-Current Liabilities	1,070	972	972	972	972
Total Liabilities	**5,633**	**4,748**	**4,838**	**4,838**	**4,838**
Total Equity	**1,729**	**2,017**	**2,196**	**2,620**	**3,023**
Total Equity & Liabilities	**7,362**	**6,765**	**7,034**	**7,458**	**7,861**

* For full definitions of iQmethod℠ measures, see page 7.

Company Description

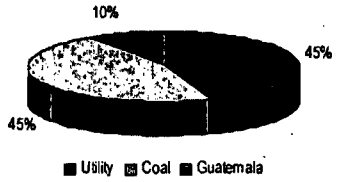
TECO Energy is a holding company for Tampa Electric (an electric and natural gas utility servicing West Central Florida), TECO Coal (a Kentucky coal mining business), and TECO Guatemala (a power generation and distribution business in Guatemala). The utilities have historically provided the largest percentage of net income, but the coal mining business should be a larger contributor in the next few years.

Chart 1: 2008 EPS Breakdown by Subsidiary



Source: Merrill Lynch

Chart 2: 2009 EPS Breakdown by Subsidiary



Source: Merrill Lynch

Stock Data

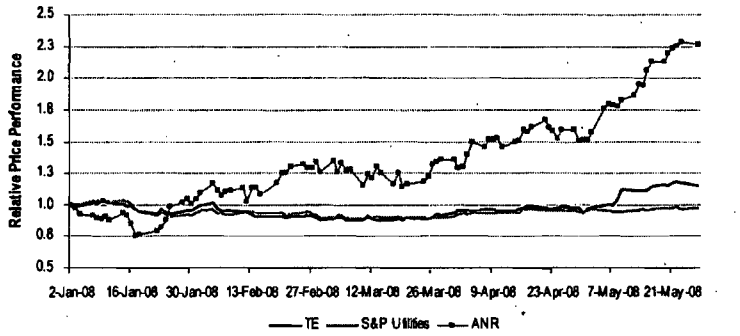
Average Daily Volume	2,720,783

Attractive coal upside remains

Upgrading to Buy with $23 price objective

We are upgrading TE to Buy from Neutral on higher earnings estimates for TECO Coal and favorable valuation. In the chart below, we compare the price performance of TE with Alpha Natural Resources (ANR), a leading Central Appalachian coal producer, and the S&P Utilities. While the shares have already outperformed the S&P Utilities by 18% YTD, mostly in the last month, we see additional upside based on our revised 2009 and 2010 coal outlook.

Chart 3: Relative Price Performance TE vs. S&P Utilities and ANR



Note: Share prices at 1/2/08: TE = $16.97; S&P Utilities = $218.73; ANR = $32.07
Source: Reuters

Raising 2009E and 2010E on higher coal prices

We expect 2008 to be a challenging year for TE. The utilities will see higher operating costs and flattish customer growth amid a softening housing market in Florida. Management has noted that both utilities could earn below their allowed ROE ranges (10.75-12.75% at Tampa Electric and 10.25-12.25% at Peoples Gas). TECO Coal will also struggle as it faces higher production costs for diesel and labor and below market coal prices since it hedged almost 100% of expected production over a year ago. However, we expect to see substantial earnings growth in 2009 and 2010 driven by rate relief at the utilities and higher realized prices at TECO Coal.

We are raising our 2009E EPS to $1.85 from $1.30 and our 2010E EPS to $1.80 from $1.40. We expect the coal mining subsidiary to contribute $0.98/sh in 2009 and $0.81/sh in 2010 based on higher average coal prices that will be somewhat offset by higher production costs. Our forecasts for the utilities and TECO Guatemala remain unchanged.

The upside from our previous 2009 coal estimate is driven by unhedged met and PCI volumes. TECO Coal has already hedged 100% of its steam coal production for 2009 but will likely not hedge met and PCI coal volumes (roughly 33%-40% of annual production) until Q4-08 and Q1-09. Our new forecast incorporates a realized price of $155/t for met and steam coal, which we believe is conservative given recent spot transactions for met in the range of $200-$300/t; however, we would expect TE to receive a discount to these spot transactions, especially since its met coal is high volatile and therefore lower quality than low volatile met coal.

Table 1: ML TECO Coal Assumptions

	2008	2009	2010
Coal production (mmtons)			
Steam coal	6.9	7.9	7.8
Met and PCI coal	3.6	3.4	3.9
Total coal production	**10.5**	**11.3**	**11.7**
Coal prices ($/ton)			
Steam	45.00	60.00	70.00
Met and PCI	85.00	155.00	130.00
Average price	**58.60**	**88.50**	**89.80**
Per ton operating costs			
Cash costs	47.85	55.03	61.63
DD&A and allocated interest	5.00	5.25	5.51
Pre-tax per ton margin	6.1	28.2	22.7
EPS	0.20	0.98	0.81

Source: Merrill Lynch Estimates

The upside from our previous 2010 estimate is driven by the opportunity for both higher steam and met coal pricing. TECO has only contracted and priced about 40% of total production or about 60% of steam coal production. Our 2010E incorporates an average steam coal price of $70/t, which is up $10/t from our 2009E. This is lower than current 2010 NYMEX Central Appalachian futures prices of $104/t. We project an average met and PCI coal price of $130/t, which assumes prices decline from current levels but remain above 2007 prices, and is in line with our coal analyst's current assumptions.

Leaving utility forecasts unchanged

Utility forecasts assume rate relief in 2009 and 2010

Our EPS forecasts for the utilities remain $0.95 in 2009 and $1.05 in 2010. These assume rate relief at Peoples Gas in 2009 and at Tampa Electric in late 2009 or early 2010, and rate base growth driven by investments in environmental retrofits and new peaking units at Tampa Electric.

We expect TE to file for new rates at Peoples Gas by YE08, with new rates expected to take effect eight months later though it is possible they could seek an interim rate increase. Tampa Electric should file for new rates in the next 12 months. While initiating two rate cases could expose the company to regulatory risk, the Florida commission has a history of making more balanced regulatory decisions than other state commissions. That being said, we would not be surprised to see a slight reduction in the allowed ROE, in line with the national trend.

Table 2: New vs. Old Estimates by Segment

	2009		2010	
	New	Old	New	Old
Utility	0.95	0.95	1.05	1.05
Coal	0.98	0.42	0.81	0.43
Guatemala	0.21	0.21	0.22	0.22
Parent Drag	(0.29)	(0.28)	(0.28)	(0.30)
Total	1.85	1.30	1.80	1.40

Source: Merrill Lynch estimates

Financing needs minimal through 2010

Our forecasts through 2010 assume minimal financing needs. We expect TE to issue $20M of common equity per year through dividend reinvestment plans. In 2008, we assume long-term debt issuance of $150M in addition to debt issued for refinancing, and expect the company to avoid long-term debt issuance in 2009 and 2010 with higher cash flow from the coal business.

Price target of $23 implies total return of 20%+

We calculate fair value for TE of $23 based on a sum-of-the-parts valuation on our 2009 estimates and the net present value of the company's NOLs and AMT carry forwards. We value the utilities at $13 using a 13.5x multiple on our 2009E of $0.95. This multiple is in line with the regulated utility group average. We value TECO Coal at $11 based on our revised 2010E of $0.95 and an 11.0x multiple, which Merrill Lynch's coal analyst, David Lipschitz, believes is appropriate. Our prior SOTP valued TECO Coal at only $5 based on a lower earnings estimate of about $0.40. We value TECO Guatemala at $2, using a multiple of 11.5x on our 2009E of $0.21. We then subtract $4 for parent drag, and add $2 to reflect the company's NOL position and AMT carry forward. We then apply a 5% conglomerate discount to get to our $23 price objective.

Table 3: TECO Sum-of-the-parts Valuation

	2009E	Multiple	Value
Utility	0.95	13.5x	12.87
Coal	0.98	11.0x	10.75
Guatemala	0.21	11.5x	2.38
Parent Drag	(0.29)	13.5x	(3.93)
NOL NPV			2.33
SOTP Value			24.40
Conglomerate Discount			5%
Price Target			23.00
Current Price			19.49
Upside			18.0%
Dividend Yield			4.1%
Total Return Potential			22.1%

Source: Merrill Lynch Estimates

Table 4: TE Income Statement

	2006A	2007A	2008E	2009E	2010E
Operating Revenues	3,448	3,535	3,404	3,927	4,072
Energy & Fuel Costs	(1,390)	(1,517)	(1,563)	(1,582)	(1,613)
Other O&M Costs	(1,114)	(1,120)	(979)	(1,146)	(1,261)
Other Expenses (other taxes)	(218)	(218)	(225)	(232)	(242)
EBITDA	**727**	**680**	**636**	**967**	**956**
Depreciation & Amortization	(282)	(254)	(261)	(300)	(307)
Operating Profit	**445**	**427**	**375**	**667**	**649**
Other Income	159	193	190	175	178
EBIT	**603**	**620**	**566**	**842**	**828**
Interest Expense	(278)	(258)	(205)	(205)	(204)
Pre-Tax Income	**325**	**362**	**361**	**637**	**623**
Income Taxes	(124)	(137)	(139)	(245)	(240)
Earnings Before Special Items	**202**	**224**	**222**	**392**	**383**
Special Items, Net	45	189			
Reported GAAP Income	**247**	**414**	**222**	**392**	**383**
Average Shares	208	210	211	212	213
Operating EPS	0.97	1.07	1.05	1.85	1.80
GAAP Reported EPS	1.19	1.97	1.05	1.85	1.80
CFPS	2.99	2.08	2.39	3.74	3.69
DPS (Year-End)	0.76	0.78	0.80	0.82	0.84

Source: Merrill Lynch estimates and company reports

Table 5: TE Cash Flow Statement

	2006A	2007A	2008E	2009E	2010E
Net Income	247	414	222	392	383
Depreciation & Amortization	282	254	261	300	307
Deferred Taxes	112	185	148	172	187
Other Operating Cash	(19)	(417)	(125)	(69)	(91)
Gross Operating Cash	**622**	**435**	**505**	**794**	**787**
Common Stock Dividends	(159)	(163)	(168)	(173)	(178)
Working Capital	(55)	117	0	0	0
Operating Cash After Divs.	**408**	**389**	**337**	**622**	**609**
Capital Expenditure	(456)	(494)	(631)	(760)	(668)
Other Investment Cash	103	410	8	8	8
Investing Cash Flow	**(353)**	**(84)**	**(623)**	**(752)**	**(660)**
Change in Net Debt	(39)	(738)	90	0	0
Stock Issuance (Buyback)	13	14	20	20	20
Other Financing Cash Flow	68	139	80	80	80
Financing Cash Flow	**42**	**(584)**	**190**	**100**	**100**
Net Change in Cash	**97**	**(280)**	**(96)**	**(30)**	**49**

Source: Merrill Lynch estimates and company reports

Table 6: TE Balance Sheet

	2006A	2007A	2008E	2009E	2010E
Cash & Equivalents	442	163	69	38	87
Accounts Receivable	338	374	374	374	374
Other Current Assets	506	253	253	253	253
Current Assets	1,286	790	696	665	714
Net PP&E	4,767	4,888	5,251	5,711	6,072
Goodwill	59	59	59	59	59
Investments	293	276	276	276	276
Other L-T Assets	957	752	752	752	752
Total Assets	7,362	6,765	7,035	7,464	7,874
S-T Debt	48	25	25	25	25
Accounts Payable	327	302	302	302	302
Other Current Liabilities	337	283	283	283	283
Current Liabilities	711	611	611	611	611
L-T Debt	3,852	3,166	3,256	3,256	3,256
Other L-T Liabilities	1,070	972	972	972	972
Preferred Equity	0	0	0	0	0
Shareholders' Equity	1,729	2,017	2,196	2,626	3,036
Total Liabilities & Equity	7,362	6,765	7,034	7,464	7,874

Source: Merrill Lynch estimates and company reports

Price objective basis & risk

TECO Energy (TE)

Our price objective of $23 is based on a sum of the parts analysis. We attribute $13/sh to Tampa Electric and Peoples Gas based on our '09 utility EPS forecast of $0.95 and an average regulated utility multiple. We value TECO Coal at $11/sh based on a 2009E of $0.98 and a multiple of 11x, based on relevant comparables. Using 2009 EPS of $0.21 and a multiple of 11.5x, we value TECO Guatemala at about $2/sh. We then add $2/sh to reflect the company's NOL position and AMT carry forwards. Parent drag is valued at $(4).

The risks to our price objective are unfavorable future regulatory outcomes, coal pricing and production costs, higher interest rates, and a deteriorating economy in Florida.

Analyst Certification

I, Jonathan Arnold, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

iQmethod℠ **Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

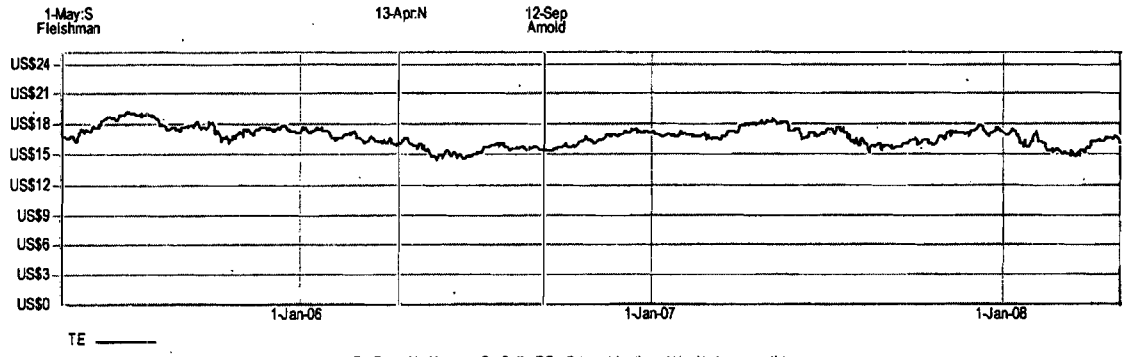
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Important Disclosures

TE Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of April 30, 2008 or such later date as indicated.

Investment Rating Distribution: Utilities Group (as of 01 Apr 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	71	42.01%	Buy	26	41.94%
Neutral	80	47.34%	Neutral	32	46.38%
Sell	18	10.65%	Sell	3	16.67%

Investment Rating Distribution: Global Group (as of 01 Apr 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1696	46.36%	Buy	420	27.80%
Neutral	1600	43.74%	Neutral	417	28.92%
Sell	362	9.90%	Sell	79	23.80%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months.

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TECO Energy Inc

Disappointing Q1

Earnings Review **NEUTRAL**



Earnings miss on disappointing coal and utility results

Operating EPS of $0.15 missed our $0.20E and consensus of $0.21 due largely to lower-than-anticipated earnings at TECO Coal (earnings at the coal business were negatively impacted by a delay in met coal shipments into Q2). We had projected earnings at TECO Coal to increase about $6M versus Q1-07, but operating earnings actually decreased by about $4M. Lower-than-expected earnings at Tampa Electric and Peoples Gas, due largely to milder weather and slower customer growth, also contributed to the miss. Results at the parent company and TECO Guatemala were relatively in line with expectations. Versus 1Q07, EPS were down $0.06 due largely to the same factors mentioned above.

Leaving '08 unchanged; weather could make up difference

Despite a disappointing Q1 we are leaving our 2008E of $1.05 unchanged. While management noted on the call that the housing market and economy in Florida were weaker in Q1 than expected, they also reaffirmed guidance ($0.95-$1.10). The range apparently accounts for weaker-than-expected growth, but the high end will depend on favorable summer weather. Our 2009E and 2010E remain $1.30 and $1.40, respectively, reflecting a significant benefit from higher net income at TECO Coal. We also assume rate relief at Peoples Gas and Tampa Electric in 2009 and 2010, respectively.

Plans to build new generation could be delayed

TE is now evaluating the timing and configuration of its planned generation additions given revised customer and economic growth trends. Customer growth at Tampa Electric in 1Q-08 was 0.6%, and while TE expects FY08 customer growth to trend higher, they do not expect to return to more normal growth of about 2% until 2010. They could now delay their plans to construct new peaking units (previously slated to come online in 2011/2012 period) and a combined cycle plant (planned for early 2013) by about a year.

Maintaining Neutral; SOTP implies modest upside

Based on a sum-of-the-parts analysis, we believe theoretical fair value for TE is in the $17 range, and we are maintaining our Neutral rating. We attribute approximately $13 to the regulated utilities, $5 to TECO Coal, $3 to TECO Guatemala, ($6) to net parent debt, and $3 to NOL balances and AMT carry forwards. Versus our update in late March, our valuation reflects higher multiples on the Florida utilities and TECO Guatemala. With a current dividend yield of 4.8%, this would imply total return potential in the 8% range.

Stock Data

Price	US$16.66
Investment Opinion	B-2-7
Volatility Risk	MEDIUM
ML Symbol / Exchange	TE / NYS
Bloomberg / Reuters	TE US / TE.N

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Refer to important disclosures on page 3 to 4. Analyst Certification on page 2.
10719627

Specific timing on rate case filings uncertain

Management did not specify when they will file for rate increases at Tampa Electric and Peoples Gas; however, they reiterated a statement made on the Q4 call that they plan to file sometime in '08 for new rates at Peoples Gas in '09 and that Tampa Electric will need a rate increase in '09. The company also noted that it takes about 8 months to litigate a case.

TECO Coal outlook relatively unchanged from Analyst Day

The outlook for the coal business for 2008 and 2009 was relatively unchanged from the late March update at TE's analyst meeting. Our impression is that Q1 was mainly a timing issue related to the delayed shipment of higher margin met coal. For 2009, they have not contracted any more production and plan to hedge the remaining open positions, which are mostly met coal, later this year. According to their analyst day presentation, approximately 70% of their 2009 production is contracted and priced, while the remainder is uncontracted or contracted and unpriced. 2009 net income is still expected to double on higher pricing and production.

SOTP analysis implies modest upside

Based on a sum-of-the-parts analysis, we believe theoretical fair value for TE is in the $17 range, implying total return potential of about 8%. We attribute $13/sh to Tampa Electric and Peoples Gas based on our '09 utility EPS forecast of $0.95 and a multiple of 13.4x, the average 2009 regulated utility multiple. We value TECO Coal at $5/sh based on a 2009E of $0.40 and a multiple of 12.5x, based on relevant comparables. We value TECO Guatemala at about $3/sh based on 2009 EPS of $0.21 and a multiple of 12.0x. We then add value of $3/sh to reflect the company's NOL position and AMT carry forward discounted at 7%. Net parent debt is valued at $(6)/sh based on our estimated '08 parent debt balance less cash.

Table 1: TECO Sum-of-the-parts Valuation

	2009E	Multiple	Value
Utility	0.95	13.4x	12.73
Coal	0.40	12.5x	5.00
Guatemala	0.21	12.0x	2.52
Net Parent Debt			(5.89)
NOL NPV			2.84
SOTP Value			**17.20**
Current Price			16.66
Upside			3.2%
Current Dividend			4.8%
Total Return Potential			**8.0%**

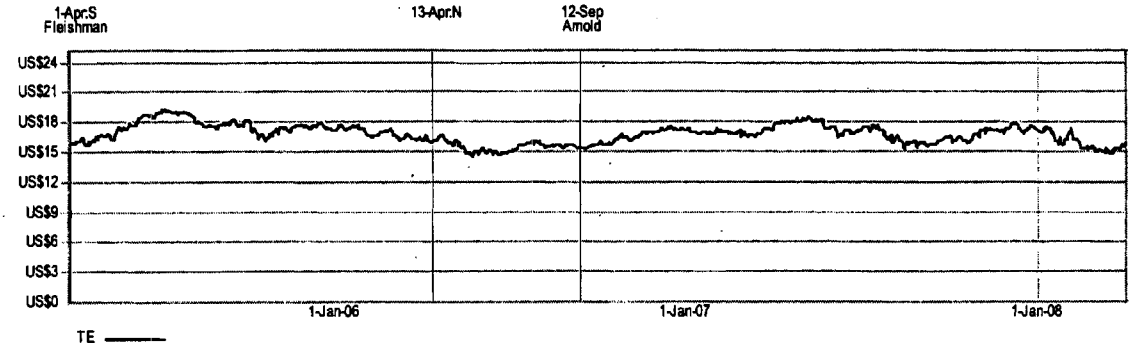
Source: Merrill Lynch

Analyst Certification

I, Jonathan Arnold, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Important Disclosures

TE Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

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Investment Rating Distribution: Utilities Group (as of 01 Apr 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	71	42.01%	Buy	26	41.94%
Neutral	80	47.34%	Neutral	32	46.38%
Sell	18	10.65%	Sell	3	16.67%

Investment Rating Distribution: Global Group (as of 01 Apr 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1696	46.36%	Buy	420	27.80%
Neutral	1600	43.74%	Neutral	417	28.92%
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TECO Energy Inc

Raising estimates on higher coal price outlook

Estimate Change **NEUTRAL**



Analyst meeting held in NY to update financial outlook

TECO Energy held a breakfast meeting in NY yesterday, providing investors with an updated financial outlook. The company's management team addressed the five-year capital expenditure forecast, their plan to file for new rates at both utilities within the next year, and new projections for TECO Coal.

Coal update better than expected; raising '09E and '10E

We are raising our 2009 and 2010 EPS estimates by $0.15/sh each to $1.30 and $1.40, reflecting expectations for higher coal prices and production. On the Q4-07 conference call, TE indicated that its coal business could benefit from locking in contracts for '09 at prices above '08. Yesterday, management confirmed that it expects coal prices to be up $7-$10 per ton over '08 prices of $58/ton (it has already contracted and priced over 70% of production). They also announced a 2009 production forecast of 11.0-11.5 million tons. We are raising our '09 TECO Coal estimate to $0.40/sh, which assumes production of 11.25 million tons at an average price of $66.50/ton, from our prior $0.25/sh estimate that was based on production of 9.8 million tons and average prices of $59/ton. We are also raising our 2010E by $0.15/sh to $0.40/sh.

Maintaining Neutral on sum-of-the-parts

Based on a sum-of-the-parts analysis, we believe fair value for TE is in the $16 range, and we are maintaining our Neutral rating. We attribute approximately $11 to the regulated utilities, $5 to TECO Coal, $3 to TECO Guatemala, ($6) to net parent debt, and $3 to NOL balances and AMT carry forwards. Versus our update in February, our valuation reflects a higher value for TECO Coal offset by a lower NOL value based on updated disclosure from the company.

Estimates (Dec)

(US$)	2006A	2007A	2008E	2009E	2010E
EPS	0.97	1.07	1.05	1.30	1.40
GAAP EPS	1.19	1.97	1.05	1.30	1.40
EPS Change (YoY)	-20.8%	10.5%	-2.4%	24.0%	8.2%
Consensus EPS (First Call: 17-mar-2008)			1.05	1.18	1.30
Dividend Rate	0.76	0.78	0.80	0.82	0.84

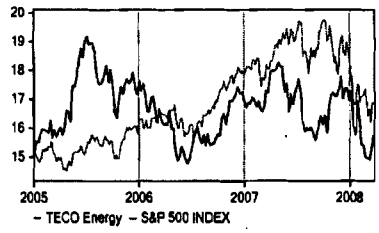
Valuation (Dec)

	2006A	2007A	2008E	2009E	2010E
P/E	16.2x	14.7x	15.1x	12.1x	11.2x
GAAP P/E	13.3x	8.0x	15.1x	12.1x	11.2x
Dividend Yield	4.8%	4.9%	5.1%	5.2%	5.3%
EV / EBITDA*	9.9x	10.6x	11.2x	9.3x	8.8x
Free Cash Flow Yield*	3.4%	1.8%	-3.6%	-4.7%	-0.7%

* For full definitions of *iQmethod*℠ measures, see page 6.

Stock Data

Price	US$15.74
Investment Opinion	B-2-7
Volatility Risk	MEDIUM
52-Week Range	US$14.48-18.58
Mrkt Val / Shares Out (mn)	US$3,305 / 210.0
ML Symbol / Exchange	TE / NYS
Bloomberg / Reuters	TE US / TE.N
ROE (2008E)	9.8%
Total Dbt to Cap (Dec-2007A)	61.0%
Est. 5-Yr EPS / DPS Growth	5.0% / 3.0%



Quarterly Earnings Estimates

	2007	2008
Q1	0.21A	NA
Q2	0.25A	NA
Q3	0.38A	NA
Q4	0.23A	NA

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iQprofile℠ TECO Energy Inc

iQmethod℠ – Bus Performance*

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Return on Capital Employed	4.2%	4.1%	3.7%	4.6%	4.5%
Return on Equity	12.1%	12.0%	9.8%	10.9%	11.3%
Operating Margin	12.9%	12.1%	11.0%	13.2%	13.5%
Free Cash Flow	111	58	(118)	(157)	(23)

iQmethod℠ – Quality of Earnings*

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Cash Realization Ratio	2.8x	2.5x	2.3x	2.2x	2.2x
Asset Replacement Ratio	1.6x	1.9x	2.4x	2.7x	2.3x
Tax Rate	38.0%	38.0%	38.5%	38.5%	38.5%
Net Debt-to-Equity Ratio	200.0%	150.0%	126.9%	129.6%	126.4%
Interest Cover	1.6x	1.7x	1.8x	2.4x	2.5x

Income Statement Data (Dec)

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Sales	3,448	3,535	3,434	3,716	3,835
% Change	14.6%	2.5%	-2.9%	8.2%	3.2%
Gross Profit	2,058	2,019	1,832	2,084	2,153
% Change	6.7%	-1.9%	-9.3%	13.8%	3.3%
EBITDA	727	680	644	776	816
% Change	13.2%	-6.5%	-5.3%	20.5%	5.1%
Net Interest & Other Income	(120)	(64)	(20)	(45)	(33)
Net Income (Adjusted)	**202**	**225**	**220**	**275**	**299**
% Change	**-20.9%**	**11.6%**	**-2.0%**	**24.7%**	**8.8%**

Free Cash Flow Data (Dec)

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Net Income from Cont Operations (GAAP)	202	225	220	275	299
Depreciation & Amortization	282	254	266	284	297
Change in Working Capital	(55)	117	0	0	0
Deferred Taxation Charge	112	185	148	172	187
Other Adjustments, Net	26	(228)	(121)	(128)	(137)
Capital Expenditure	(456)	(494)	(631)	(760)	(670)
Free Cash Flow	**111**	**58**	**-118**	**-157**	**-23**
% Change	**NM**	**-47.5%**	**NM**	**-32.7%**	**85.0%**

Balance Sheet Data (Dec)

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Cash & Equivalents	442	165	61	88	138
Trade Receivables	338	374	374	374	374
Other Current Assets	506	253	253	253	253
Property, Plant & Equipment	4,767	4,888	5,246	5,722	6,095
Other Non-Current Assets	1,309	1,087	1,087	1,087	1,087
Total Assets	**7,362**	**6,767**	**7,021**	**7,525**	**7,947**
Short-Term Debt	48	25	25	25	25
Other Current Liabilities	663	586	586	586	586
Long-Term Debt	3,852	3,166	3,166	3,416	3,560
Other Non-Current Liabilities	1,070	972	772	877	987
Total Liabilities	**5,633**	**4,748**	**4,548**	**4,903**	**5,157**
Total Equity	**1,729**	**2,018**	**2,466**	**2,587**	**2,727**
Total Equity & Liabilities	**7,362**	**6,766**	**7,014**	**7,489**	**7,884**

* For full definitions of iQmethod℠ measures, see page 6.

Company Description

TECO Energy's principal subsidiary, Tampa Electric Company, provides retail electric service to over 612,000 customers in West Central Florida. TECO also distributes natural gas in Florida through its Peoples Gas unit (300,000 customers). Other operations include coal mining and a Guatemalan power generation and distribution business.

Stock Data

Average Daily Volume	1,761,273
Brokers Covered (FirstCall)	13

Improving fundamentals for coal

Increasing 2009 and 2010 estimates on improved coal outlook

We are raising our 2009 and 2010 EPS estimates by $0.15/sh each to $1.30 and $1.40, reflecting expectations for higher coal prices and production. Yesterday, management disclosed that it expects coal prices to be up $7-$10 per ton over '08 prices of $58/ton, and production to be in the range of 11.0-11.5 million tons. We are raising our '09 estimate for TECO Coal to $0.40/sh from $0.25/sh. We are also raising our 2010 estimate to by $0.15/sh to $0.40/sh.

For 2008, TECO expects cash and earnings margins at TECO Coal consistent with prior forecasts despite experiencing rising operating costs, which should hurt margins since they have already hedged 100% of their production. They are offsetting the effects of rising costs by increasing their coal production. We are maintaining our 2008E of $1.05, in line with company guidance of $0.95-$1.10.

Leaving estimates for electric and gas utility unchanged

We are leaving our EPS estimates for Tampa Electric and Peoples Gas unchanged since we have already reflected slower customer growth and the inability to earn their allowed ROE in our forecasts for 2008. Our forecasts assume Peoples Gas and Tampa Electric receive rate relief in 2009 and 2010, respectively.

SOTP implies theoretical fair value at current stock price

Table 1: TECO Sum-of-the-parts Valuation

	2009E	Multiple	Value
Utility	0.95	12.0x	11.40
Coal	0.40	12.5x	5.00
Guatemala	0.21	12.0x	2.52
Net Parent Debt			(5.89)
NOL NPV			3.06
Total			16.08

Source: Merrill Lynch

Based on a sum-of-the-parts analysis, we believe theoretical fair value for TE is in the $16 range. We now attribute more value to TECO Coal based on higher-than-previously forecast earnings and less value to NOLs and AMT carry forwards due to a lower NOL balance at YE07.

We attribute $11/sh to Tampa Electric and Peoples Gas based on our '09 utility EPS forecast of $0.95 and a multiple of 12.0x, based on an average 2009 P/E multiple of its regulated utility peers. TECO Coal is valued at $5/sh based on a 2009E of $0.40 and a multiple of 12.5x, which we decided to apply after consultation with Merrill Lynch's coal analyst. We value TECO Guatemala at approximately $3/sh based on 2009 EPS of $0.21 and a multiple of 12.0x.

Our new estimate of the NOL value reflects updated disclosure by TECO, indicating that as of the end of '07 the company had a $508M NOL position and a $197M AMT carry forward. We employ a DCF model using a discount rate of 6% to calculate an approximate value of $3/sh. The value we attribute to net parent debt of $6/sh is based on our estimated '08 parent debt balance less cash.

TECO to pursue rate relief at both utilities in next year

Both utilities expected to earn below allowed ROE in 2008

Both utilities are expected to earn ROEs in the 9% range, well below their allowed ranges of 10.25-12.25% at Peoples Gas and 10.75-12.75% at Tampa Electric, as higher operating and capital costs are expected to offset revenue growth. TECO will therefore need to file for rate relief at both utilities within the next year likely in 2008 or early 2009. The statutory process will take about 9 months and prior cases have typically ended in settlement. Our current forecasts assume rate relief at Peoples in 2009 and at Tampa Electric in 2010.

Capital expenditure forecast up for Tampa Electric

Five-year capital budget includes significant investment in generation

Management addressed an updated capital expenditures forecast of $2.9B for Tampa Electric for 2008-2012 that includes approximately $300M for transmission, $660M for distribution, $450M on existing generation, $1.1B new generation, and $371M on other/environmental projects. This compares to their prior forecast of $2.5B for the 2007-2011 period. Forecasts to build new generation include additions that they have not yet committed to, such as the proposals to build a combined-cycle natural gas plant for $555M in 2013 and additional peaking capacity in 2011 and 2012 for $320M.

Table 2: TE Income Statement ($ in Millions)

	2006A	2007A	2008E	2009E	2010E
Operating Revenues	3,448	3,535	3,434	3,716	3,835
Energy & Fuel Costs	(1,390)	(1,517)	(1,602)	(1,632)	(1,683)
Other O&M Costs	(1,114)	(1,120)	(963)	(1,076)	(1,099)
Other Expenses (other taxes)	(218)	(218)	(225)	(232)	(238)
EBITDA	**727**	**680**	**644**	**776**	**816**
Depreciation & Amortization	(282)	(254)	(266)	(284)	(297)
Operating Profit	**445**	**427**	**378**	**491**	**519**
Other Income	159	194	185	160	172
EBIT	**603**	**621**	**564**	**651**	**691**
Interest Expense	(278)	(258)	(205)	(205)	(204)
Pre-Tax Income	**325**	**363**	**358**	**447**	**486**
Income Taxes	(124)	(138)	(138)	(172)	(187)
Earnings Before Special Items	**202**	**225**	**220**	**275**	**299**
Special Items, Net	52	189	0	0	0
Reported GAAP Income	**254**	**414**	**220**	**275**	**299**
Average Shares	208	210	211	212	213
Operating EPS	0.97	1.07	1.05	1.30	1.40
GAAP Reported EPS	1.19	1.97	1.05	1.30	1.40
CFPS					
DPS (Year-End)	0.76	0.78	0.80	0.82	0.84

Source: Merrill Lynch

Table 3: TE Cash Flow Statement ($ in Millions)

	2006A	2007A	2008E	2009E	2010E
Net Income	254	414	220	275	299
Depreciation & Amortization	282	254	266	284	297
Deferred Taxes	112	185	148	172	187
Other Operating Cash	(26)	(417)	(121)	(128)	(137)
Gross Operating Cash	**622**	**435**	**513**	**603**	**647**
Common Stock Dividends	(159)	(163)	(169)	(174)	(179)
Working Capital	(55)	117	0	0	0
Operating Cash After Divs.	**408**	**389**	**344**	**429**	**467**
Capital Expenditure	(456)	(494)	(631)	(760)	(670)
Other Investment Cash	103	410	88	8	8
Investing Cash Flow	**(353)**	**(84)**	**(543)**	**(752)**	**(662)**
Change in Net Debt	(39)	(738)	0	250	144
Stock Issuance (Buyback)	13	14	15	20	20
Other Financing Cash Flow	68	139	80	80	80
Financing Cash Flow	**42**	**(584)**	**95**	**350**	**244**
Net Change in Cash	**97**	**(279)**	**(104)**	**27**	**49**

Source: Merrill Lynch

Table 4: TE Balance Sheet ($ in Millions)

	2006A	2007A	2008E	2009E	2010E
Cash & Equivalents	442	165	61	88	138
Accounts Receivable	338	374	374	374	374
Other Current Assets	506	253	253	253	253
Current Assets	**1,286**	**792**	**688**	**715**	**765**
Net PP&E	4,767	4,888	5,246	5,722	6,095
Goodwill	59	59	59	59	59
Investments	293	276	276	276	276
Other L-T Assets	957	752	752	752	752
Total Assets	**7,362**	**6,767**	**7,021**	**7,525**	**7,947**
S-T Debt	48	25	25	25	25
Accounts Payable	327	302	302	302	302
Other Current Liabilities	337	283	283	283	283
Current Liabilities	**711**	**611**	**611**	**611**	**611**
L-T Debt	3,852	3,166	3,166	3,416	3,560
Reserves	0	0	0	0	0
Other L-T Liabilities	1,070	972	772	877	987
Preferred Equity	0	0	0	0	0
Shareholders' Equity	1,729	2,018	2,466	2,587	2,727
Total Liabilities & Equity	**7,362**	**6,766**	**7,014**	**7,489**	**7,884**

Source: Merrill Lynch

Analyst Certification

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iQmethod℠ Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

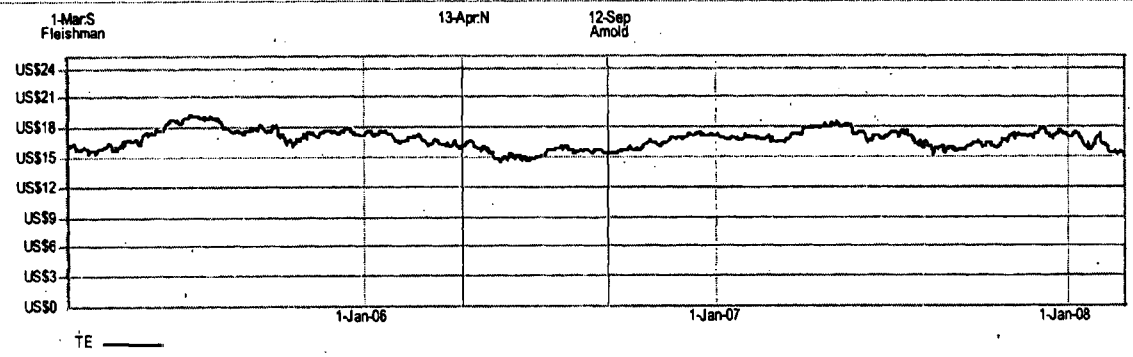
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TE Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of February 29, 2008 or such later date as indicated.

Investment Rating Distribution: Utilities Group (as of 01 Jan 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	67	40.12%	Buy	21	36.21%
Neutral	80	47.90%	Neutral	31	44.93%
Sell	20	11.98%	Sell	3	15.79%

Investment Rating Distribution: Global Group (as of 01 Jan 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1714	46.25%	Buy	445	29.10%
Neutral	1653	44.60%	Neutral	454	30.55%
Sell	339	9.15%	Sell	67	21.82%

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TECO Energy Inc

Q4 results beat Street but 2008 outlook disappoints

Earnings Review **NEUTRAL**



Solid Q4 driven by Tampa Electric and debt retirement

Operating EPS of $0.23 excluding a penny of loss related to synfuels came in ahead of our $0.16 estimate and consensus of $0.19. We attribute the beat to better than expected results at Tampa Electric driven mostly by more favorable weather and lower parent interest expense. Full year operating EPS of $1.07 came in at the high-end of company guidance of $0.97 - $1.07 despite 1H07 results that suggested the company would earn at the low end of the range.

Reducing 2008E on lower outlook for utilities

We are reducing our 2008E by a dime to $1.05, mostly on lower utility earnings expectations. We now assume that Tampa Electric and People's Gas earnings will be flat with 2007 versus our prior expectations for 9% growth. On the conference call, TE highlighted that utility ROEs would be below their allowed returns and that both utilities would pursue base rate increases in the next two years. We are also lowering our 2009E to $1.15 to reflect lower earnings at Tampa Electric offset by slightly higher earnings at TECO Coal and rate relief at People's Gas. We could see upside to our 2009E if TECO Coal is able to contract its unhedged production at prices closer to the current spot price of $68/ton (our current forecast assumes an average '09 price of $59/ton). Our new 2010E of $1.25 assumes rate relief at both utilities, and flat earnings growth at the non-regulated businesses.

Stock fairly valued off of SOTP; maintain Neutral

Based on a sum-of-the-parts analysis, we believe fair value for TE is in the $16 range, and we are maintaining our Neutral rating. We attribute approximately $13 to the regulated utilities, $3 to TECO Coal, $3 to TECO Guatemala, ($7) to net parent debt, and $4 to NOL balances and AMT carry forwards.

Estimates (Dec)

(US$)	2006A	2007A	2008E	2009E	2010E
EPS	0.97	1.07	1.05	1.15	1.25
GAAP EPS	1.19	1.97	1.05	1.15	1.25
EPS Change (YoY)	-20.8%	10.5%	-2.0%	9.9%	8.6%
Consensus EPS (First Call: 16-jan-2008)			1.12	1.22	1.32
Dividend Rate	0.76	0.78	0.80	0.82	0.84

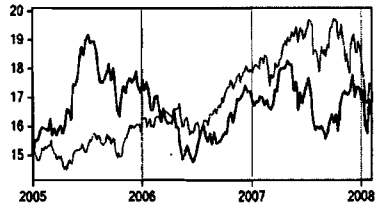
Valuation (Dec)

	2006A	2007A	2008E	2009E	2010E
P/E	17.0x	15.3x	15.6x	14.2x	13.1x
GAAP P/E	13.9x	8.3x	15.6x	14.2x	13.1x
Dividend Yield	4.6%	4.7%	4.9%	5.0%	5.1%
EV / EBITDA*	10.1x	10.8x	11.4x	10.1x	9.6x
Free Cash Flow Yield*	3.2%	1.7%	-3.1%	1.6%	2.7%

* For full definitions of *IQmethod*℠ measures, see page 7.

Stock Data

Price	US$16.43
Investment Opinion	B-2-7
Volatility Risk	MEDIUM
52-Week Range	US$14.84-18.58
Mrkt Val / Shares Out (mn)	US$3,450 / 210.0
ML Symbol / Exchange	TE / NYS
Bloomberg / Reuters	TE US / TE.N
ROE (2008E)	9.9%
Total Dbt to Cap (Dec-2007A)	61.0%
Est. 5-Yr EPS / DPS Growth	5.0% / 3.0%



Quarterly Earnings Estimates

	2007	2008
Q1	0.21A	NA
Q2	0.25A	NA
Q3	0.38A	NA
Q4	0.23A	NA

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iQprofile℠ TECO Energy Inc

iQmethod℠ – Bus Performance*

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Return on Capital Employed	4.2%	4.1%	3.7%	4.2%	4.3%
Return on Equity	12.1%	12.0%	9.9%	9.7%	10.2%
Operating Margin	12.9%	12.1%	11.3%	12.4%	12.7%
Free Cash Flow	111	58	(106)	54	94

iQmethod℠ – Quality of Earnings*

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Cash Realization Ratio	2.8x	2.5x	2.3x	2.3x	2.2x
Asset Replacement Ratio	1.6x	1.9x	2.3x	1.8x	1.7x
Tax Rate	38.0%	38.0%	38.5%	38.5%	38.5%
Net Debt-to-Equity Ratio	200.0%	150.0%	127.2%	123.4%	117.8%
Interest Cover	1.6x	1.7x	1.8x	2.2x	2.3x

Income Statement Data (Dec)

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Sales	3,448	3,535	3,369	3,559	3,672
% Change	14.6%	2.5%	-4.7%	5.6%	3.2%
Gross Profit	2,058	2,019	1,778	1,927	1,989
% Change	6.7%	-1.9%	-11.9%	8.4%	3.2%
EBITDA	727	680	645	726	763
% Change	13.2%	-6.5%	-5.1%	12.6%	5.1%
Net Interest & Other Income	(120)	(64)	(20)	(45)	(33)
Net Income (Adjusted)	**202**	**225**	**221**	**244**	**267**
% Change	**-20.9%**	**11.6%**	**-1.7%**	**10.5%**	**9.2%**

Free Cash Flow Data (Dec)

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Net Income from Cont Operations (GAAP)	202	225	221	244	267
Depreciation & Amortization	282	254	266	284	297
Change in Working Capital	(55)	116	0	0	0
Deferred Taxation Charge	112	185	148	153	167
Other Adjustments, Net	26	(228)	(121)	(128)	(137)
Capital Expenditure	(456)	(494)	(620)	(500)	(500)
Free Cash Flow	**111**	**58**	**-106**	**54**	**94**
% Change	**NM**	**-48.3%**	**NM**	**NM**	**75.3%**

Balance Sheet Data (Dec)

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Cash & Equivalents	442	164	60	40	56
Trade Receivables	338	374	374	374	374
Other Current Assets	506	253	253	253	253
Property, Plant & Equipment	4,767	4,888	5,235	5,451	5,654
Other Non-Current Assets	1,309	1,087	1,087	1,087	1,087
Total Assets	**7,362**	**6,767**	**7,010**	**7,205**	**7,424**
Short-Term Debt	48	25	25	25	25
Other Current Liabilities	663	586	586	586	586
Long-Term Debt	3,852	3,166	3,166	3,166	3,166
Other Non-Current Liabilities	1,070	972	772	877	987
Total Liabilities	**5,633**	**4,748**	**4,548**	**4,653**	**4,763**
Total Equity	**1,729**	**2,018**	**2,462**	**2,552**	**2,660**
Total Equity & Liabilities	**7,362**	**6,766**	**7,010**	**7,205**	**7,423**

* For full definitions of *iQmethod*℠ measures, see page 7.

Company Description

TECO Energy's principal subsidiary, Tampa Electric Company, provides retail electric service to over 612,000 customers in West Central Florida. TECO also distributes natural gas in Florida through its Peoples Gas unit (300,000 customers). Other operations include coal mining and a Guatemalan power generation and distribution business.

Stock Data

Average Daily Volume	1,537,207
Brokers Covered (FirstCall)	11

Earnings Review
Fourth Quarter 2007
Reported $0.83 vs. $0.23
Operating $0.23 vs. $0.18
Year Ended December 2007
Reported $1.98 vs. $1.19
Operating $1.07 vs. $0.97

Warmer weather and debt retirement drive Q4

TECO reported Q4 EPS of $0.23 excluding ($0.01) of synfuels earnings, ahead of our $0.16 estimate and consensus of $0.19. Reported EPS of $0.83 included $146.1M of an after-tax gain related to the sale of TECO transport and $20.2M of after-tax charges related to debt retirement. Versus Q4-06, earnings were up $0.05/sh due to higher net income at Tampa Electric, which experienced higher sales due to hotter than normal weather and despite sluggish customer growth associated with the slowdown in the housing market in Florida. We had not factored in a significant impact from weather and we also underestimated the full impact of debt retirement on parent company expenses during Q4.

The company's full year operating EPS of $1.07 were at the high-end of their guidance range despite warnings from the company that it would be unable to meet the high-end due to unfavorable weather conditions in the first half.

Softer utility outlook for 2008 and 2009

Our new 2008 and 2009 estimates reflect slower earnings growth at the utilities

We are reducing our 2008 estimates by $0.10/sh to $1.05. Our new estimate reflects slower earnings growth at TECO's regulated utilities, Tampa Electric and People's Gas. According to TECO's management, both utilities will have to file for base rate increases in the next two years since higher costs, slower sales growth, and higher capital investment will prohibit the utilities from earning within their allowed ROE ranges.

Our new 2008 estimate may be too high if a recession materializes

We would also note that our 2008E may be too aggressive if the macro environment deteriorates further. The company's 2008 guidance range of $0.95 - $1.10 is purposefully wide in an attempt to capture the impact of a weak economy in Florida. However, the company noted that it didn't factor in the impact of a full recession.

We are also reducing our 2009E by $0.05/sh to $1.15, reflecting a weaker growth outlook at both utilities, despite our assumption for rate relief at People's Gas in early 2009, and higher earnings at TECO Coal. We forecast earnings at TECO Coal to improve on the assumption that TE will contract its 2009 production at a higher price than its 2008 production. Currently, TE has only hedged 40% of 2009 production, leaving open the possibility that the company will be able to hedge some production at prices closer to the current spot of $68/ton. Our model assumes $59/ton.

We are initiating a 2010E of $1.25 which assumes rate relief at Tampa Electric and People's Gas and flat earnings at the non-regulated businesses.

Could see further upside with capital investments

Our current estimates do not incorporate the potential for earnings growth at either Tampa Electric or TECO Guatemala stemming from major capital investments in generation projects. Tampa Electric will need new baseload generating capacity in 2013, and it is possible that the company will construct a natural gas-fired combined cycle plant to meet its capacity needs. In Guatemala, TE has announced that it will submit a bid to build a 200MW coal-fired power plant, which it would fund with non-recourse project financing and its offshore cash balance.

Merrill Lynch

06 February 2008

TECO Energy Inc

Table 1: TECO Sum-of-the-parts Valuation

	2009E	Multiple	Value
Utility	0.95	13.5	13.00
Coal	0.26	12.5	3.00
Guatemala	0.21	13.0	3.00
Net Parent Debt			(7.00)
NOL NPV			4.00
Total			16.00

Source: Merrill Lynch

Stock remains fairy valued; maintain Neutral

On a sum of the parts basis, we believe that fair value for TE is in the $16 range. This is slightly below our previous assumption due to lower regulated utility earnings multiples. We use a 13.5x multiple on utility earnings, which is in line with the average regulated utility multiple. For the unregulated operations, our estimate for coal earnings in 2009 is $0.26, which assumes coal prices of $59/ton and modest cost increases, along with 9.8M tons of coal production. We attribute value of $3/sh to TECO Coal based upon a 12.5x multiple. Our 2009E at TECO Guatemala is $0.21/sh and implies value of $3/sh based upon a 13x multiple. Finally, we assume that parent drag is worth $7/sh, and that the NPV of the NOL cash tax benefits adds about $4/sh of value. We don't see material downside to our $16 valuation, especially given the potential for upside to our estimates at TECO Coal. We also note the attractive 4.8% dividend yield.

Table 2: TE Income Statement

	2006A	2007A	2008E	2009E	2010E
Operating Revenues	3,448	3,535	3,369	3,559	3,672
Energy & Fuel Costs	(1,390)	(1,517)	(1,591)	(1,632)	(1,683)
Other O&M Costs	(1,114)	(1,120)	(908)	(969)	(987)
Other Expenses (other taxes)	(218)	(218)	(225)	(232)	(239)
EBITDA	**727**	**680**	**645**	**726**	**763**
Depreciation & Amortization	(282)	(254)	(266)	(284)	(297)
Operating Profit	**445**	**427**	**379**	**442**	**467**
Other Income	159	194	185	160	172
EBIT	**603**	**621**	**565**	**602**	**638**
Interest Expense	(278)	(258)	(205)	(205)	(204)
Pre-Tax Income	**325**	**363**	**360**	**397**	**434**
Income Taxes	(124)	(138)	(138)	(153)	(167)
Earnings Before Special Items	**202**	**225**	**221**	**244**	**267**
Special Items, Net	52	189	0	0	0
Reported GAAP Income	**254**	**414**	**221**	**244**	**267**
Average Shares	*208*	*210*	*211*	*212*	*213*
Operating EPS	0.97	1.07	1.05	1.15	1.25
GAAP Reported EPS	1.19	1.97	1.05	1.15	1.25
DPS (Year-End)	0.76	0.78	0.80	0.82	0.84

Source: Merrill Lynch

Table 3: TE Cash Flow Statement

	2006A	2007A	2008E	2009E	2010E
Net Income	254	414	221	244	267
Depreciation & Amortization	282	254	266	284	297
Deferred Taxes	112	185	148	153	167
Other Operating Cash	(26)	(417)	(121)	(128)	(137)
Gross Operating Cash	**622**	**435**	**514**	**554**	**594**
Common Stock Dividends	(159)	(163)	(168)	(174)	(179)
Working Capital	(55)	116	0	0	0
Operating Cash After Divs.	**408**	**389**	**346**	**380**	**415**
Capital Expenditure	(456)	(494)	(620)	(500)	(500)
Other Investment Cash	103	410	80	0	0
Investing Cash Flow	**(353)**	**(84)**	**(540)**	**(500)**	**(500)**
Change in Net Debt	(39)	(738)	0	0	0
Stock Issuance (Buyback)	13	14	10	20	20
Other Financing Cash Flow	68	139	80	80	80
Financing Cash Flow	**42**	**(585)**	**90**	**100**	**100**
Net Change in Cash	**97**	**(280)**	**(104)**	**(20)**	**15**

Source: Merrill Lynch

Table 4: TE Balance Sheet

	2006A	2007A	2008E	2009E	2010E
Cash & Equivalents	442	164	62	45	63
Accounts Receivable	338	374	374	374	374
Other Current Assets	506	253	253	253	253
Current Assets	**1,286**	**792**	**689**	**673**	**690**
Net PP&E	4,767	4,888	5,235	5,451	5,654
Goodwill	59	59	59	59	59
Investments	293	276	276	276	276
Other L-T Assets	957	752	752	752	752
Total Assets	**7,362**	**6,767**	**7,012**	**7,211**	**7,431**
S-T Debt	48	25	25	25	25
Accounts Payable	327	302	302	302	302
Other Current Liabilities	337	283	283	283	283
Current Liabilities	**711**	**611**	**611**	**611**	**611**
L-T Debt	3,852	3,166	3,166	3,166	3,166
Reserves	0	0	0	0	0
Other L-T Liabilities	1,070	972	771	876	987
Minority Interest	0	0	0	0	0
Preferred Equity	0	0	0	0	0
Shareholders' Equity	1,729	2,018	2,464	2,558	2,668
Total Liabilities & Equity	**7,362**	**6,767**	**7,012**	**7,211**	**7,431**

Source: Merrill Lynch

Analyst Certification

I, Jonathan Arnold, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

iQmethod℠ **Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

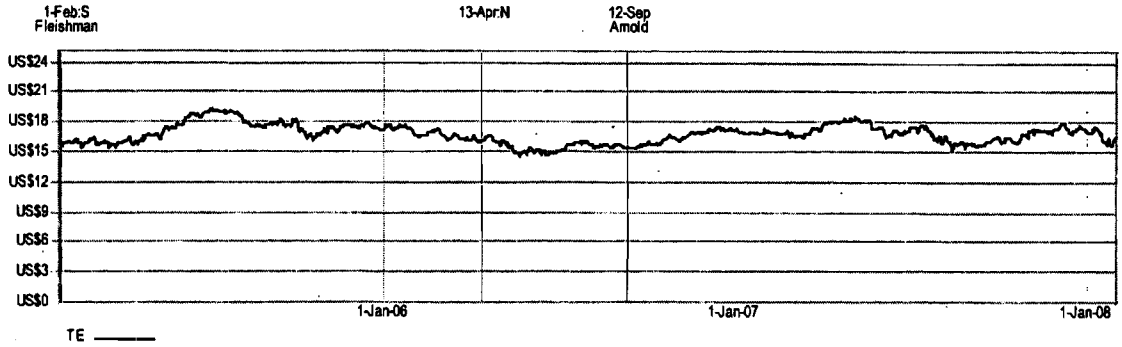
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Important Disclosures

TE Price Chart



B : Buy, N : Neutral, S): Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of January 31, 2008 or such later date as indicated.

Investment Rating Distribution: Utilities Group (as of 01 Jan 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	67	40.12%	Buy	21	36.21%
Neutral	80	47.90%	Neutral	31	44.93%
Sell	20	11.98%	Sell	3	15.79%

Investment Rating Distribution: Global Group (as of 01 Jan 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1714	46.25%	Buy	445	29.10%
Neutral	1653	44.60%	Neutral	454	30.55%
Sell	339	9.15%	Sell	67	21.82%

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TECO Energy TE [NYSE]

Morningstar Rating	Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat	Stewardship Grade	Industry	Sector
★★★	20.15	18.00	13.50	23.40	Medium	Narrow	B	Electric Utilities	Utilities

Per share prices in USD

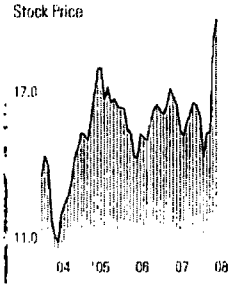
Housing market woes could temper this utility's aggressive growth targets.

by Travis Miller
Stock Analyst
Analysts covering this company do not own its stock.

Report updated on July 03, 2008.
Data and Rating updated as of July 08, 2008.

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Stock Price



Thesis Jul. 03, 2008

Several key steps remain in TECO's decade-long turnaround, but if the company clears those hurdles, we think investors could be rewarded with significant long-term earnings and dividend growth. Among those hurdles are a 2008 rate case at Tampa Electric, huge capital investment goals at both utilities, a sinking housing market and volatile returns at its remaining nonregulated operations.

Since the early part of this decade, TECO has been trying to climb out of the financial hole it dug when it ventured into the merchant energy markets in the late 1990s. As the deregulation movement fizzled and natural-gas prices tanked, TECO was left with some $4 billion of underwater investments.

The company divested its last merchant plant in 2006 after selling several at deep losses. It sold its long-held water transportation unit in late 2007. By 2010, it plans to have paid off 25% of its 2006 debt load. With that freed-up capital, management plans to invest nearly $3 billion in its regulated utilities, Tampa Electric and Peoples Gas. Florida's favorable regulatory structures, the region's above-average energy demand growth, and government infrastructure requirements make this an attractive area for investment.

This investment could spur strong earnings growth, but first the housing markets must stabilize and regulators must approve higher customer rates in 2009. The utility's investment plans assume 2%-3% annual long-term energy usage growth. But since the housing market collapsed in mid-2007, TECO has seen a decline in usage. If this persists, the company might have a harder time justifying new investments to regulators. Additionally, the utility must receive a favorable ruling to account for rapid cost inflation in materials and labor. Earned returns in 2008 could fall as much as 200 basis points below the 11.75% target allowed return on equity due to steep commodity price increases.

In the short term, TECO's nonutility investments should be strong growth drivers. The company's coal mines plan to increase production 20% in the next two years to take advantage of skyrocketing coal prices worldwide. Its Guatemalan utility also should perform well as retail prices reset for the first time in five years and rising energy demand makes existing generation more valuable.

Until we get more certainty on TECO's long-term regulatory rates and investment needs, we think Florida's larger utilities, Florida Power & Light and Progress Energy, could make superior investments. All three utilities face similar demographic trends and regulatory structures, but FPL and Progress have superior capital flexibility that could help them sustain a prolonged downturn better than TECO.

Valuation

We are maintaining our $18 fair value estimate. We continue to forecast a slight decline in regulated net revenues in 2008 followed by 6% average annual growth through 2012 as a result of the 2009 rate case ruling. In the unregulated segments, we continue to assume a 50% rise in coal prices in 2008 and a 20% increase in the company's 2008 and 2009 production. The full earnings impact from these rising prices will not come until 2009 and 2010 when TECO's forward sales contracts roll over. Offsetting revenue growth, we incorporated higher capital expenditure forecasts and operating costs through 2012 as a result of higher prices for metals, labor, and components. If energy demand growth continues at current levels and requires more infrastructure, a scenario with $1 billion of incremental investment could add $2 to our fair value estimate, assuming fair regulatory treatment. We use a 10% cost of equity and a 7.5% cost of capital. A 50-basis-point change in our cost of equity changes our fair value estimate by $2.

[redacted] 31, 2008

TECO Energy TE [NYSE]

Morningstar Rating	Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat	Stewardship Grade	Industry	Sector
★★★	20.15	18.00	13.50	23.40	Medium	Narrow	B	Electric Utilities	Utilities

Per share prices in USD

Close Competitors	Currency(Mil)	Market Cap	TTM Sales	Oper Income	Net Income
TECO Energy	USD	4,247	3,507	636	371
FPL Group	USD	26,936	15,622	2,428	1,411
Duke Energy Corporation	USD	22,105	13,022	2,656	1,608
Progress Energy, Inc.	USD	10,910	9,147	1,560	438

Morningstar data as of July 08, 2008.

Risk

With liquidity and bankruptcy risk reduced, the primary uncertainty surrounding TECO's value is regulation and investment. Like all regulated utilities, TECO must convince regulators that infrastructure investments justify higher utility bills. If customer growth slows because of depressed housing conditions, and if regulators do not approve higher utility bills, shareholder returns could suffer.

Bulls Say

- Tampa's 3.5% annual population growth since 2000 has helped Tampa Electric maintain regulated returns on equity above 11%, among the highest in the U.S.
- Both of TECO's regulated utilities can earn up to 12.75% returns on equity before sharing any upside profits with ratepayers.
- TECO's Polk Power Station, which runs on coal-derived syngas, was one of the first of its kind in the world and produces some of the cleanest coal-fueled power in North America.
- After four years without a dividend increase, TECO has raised it the last two years, to $0.80 per share in 2008. Prior to 2003, it had raised its dividend for 43 consecutive years.

Bears Say

- The housing market collapse and a recession could slow infrastructure investment, which drives earnings growth at the utilities.
- Residential electric rates for TECO customers are higher than the average rates for FP&L or Progress Energy customers, which could precipitate a TECO rate cut.
- Aggressive debt-reduction requirements could jeopardize dividend growth if profits sag.
- Unless TECO receives approval to build new power plants, rate base growth could dip below 2% in 2012 and beyond.

Financial Overview

Growth: Income, cash flow, and dividends could increase at double-digit rates the next couple of years if the coal operations take advantage of current market conditions and regulators readjust rates to support investment.

Profitability: All of TECO's divisions are consistently profitable, but the regulated Tampa Electric business has the best opportunity to expand its margins if it can maximize its regulated investments.

Financial Health: TECO reduced its financial risk substantially during 2006 and 2007, paying back $550 million of debt and lowering its debt to 58% of its capital structure. It has plans to pay back another $500 million by 2010, which would bring its leverage in line with most regulated utilities.

Company Overview

Profile: TECO Energy is a diversified utility holding company. Its regulated electric and gas utilities provide electric service to customers in western Florida and distribute and market gas to customers throughout Florida. The company's other subsidiaries include TECO Coal, which mines coal in the eastern United States; and TECO Guatemala, which owns merchant power plants and a regulated utility in Guatemala.

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[redacted] 31, 2008

TECO Energy TE [NYSE]

Morningstar Rating	Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat	Stewardship Grade	Industry	Sector
★★★	20.15	18.00	13.50	23.40	Medium	Narrow	B	Electric Utilities	Utilities

Per share prices in USD

Strategy: The 180-degree strategy reversal from a diversified energy company to a fully regulated utility is nearly complete. TECO has shed $4 billion of assets since 2003 and used the cash to restore its credit profile while investing in regulated utility projects with attractive returns. The regulated utilities now account for about 70% of TECO's earnings.

Management: CEO and chairman Sherrill Hudson, a retired partner at Deloitte & Touche, joined the TECO board in 2003 and assumed CEO duties in 2004. He has led the company's shift back to focusing on its regulated operations. Charles Black, who started as an engineer at Tampa Electric in 1973, heads the utility and oversaw design and construction of the state-of-the-art Polk Power Station in 1996. We think he could help revive Tampa Electric's innovation leadership. We give TECO a B Stewardship Grade. Most of all, we like the more robust disclosures that help investors more easily interpret TECO's complex and fluid financial structure. We also like that executive compensation is tied, in part, to return on equity and cash flow. This helps align management and shareholder interests. Directors have held firm with their compensation policies in recent years and did not reward executives during periods in which the company and the stock underperformed. Hudson's 2007 total compensation of $4 million is in line with industry levels and, given TECO's performance for the year, in our view appropriate. We are concerned that Hudson lives in Miami, 280 miles from the Tampa headquarters and outside Tampa Electric's service area, and he receives a $5,000 monthly commuting allowance.

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TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
SUPPLEMENTAL: DECEMBER 31, 2008

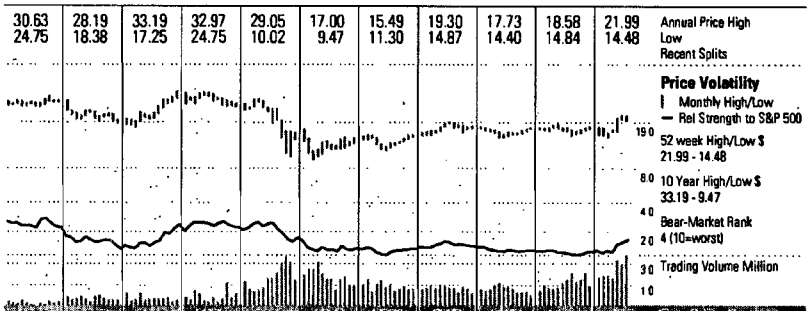
TECO Energy TE

Sales Mil	Mkt Cap Mil	Industry	Sector
$3,507	$4,247	Electric Utilities	Utilities

Morningstar Rating	Last Price	Fair Value	Uncertainty	Economic Moat	Stewardship Grade
★★★	$20.15	$18.00	Medium	Narrow	B

TECO Energy is a diversified utility holding company. Its regulated electric and gas utilities provide electric service to customers in western Florida and distribute and market gas to customers throughout Florida. The company's other subsidiaries include TECO Coal, which mines coal in the eastern United States; and TECO Guatemala, which owns merchant power plants and a regulated utility in Guatemala.

702 N. Franklin Street
Tampa, FL 33602
Phone: 1 813 228-1111Website: http://www.tecoenergy.com



Growth Rates (Compound Annual)

Grade: C	1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	2.5	9.8	5.7	6.6
Operating Income %	52.2	—	10.4	4.4
Earnings/Share %	62.4	—	-0.5	1.7
Dividends %	2.0	0.7	-11.3	-4.0
Book Value/Share %	15.8	14.2	-8.4	-2.9
Stock Total Return %	21.1	6.4	16.6	3.3
+/- Industry	14.5	-6.3	-2.8	-10.8
+/- Market	37.9	4.7	11.8	2.1

Profitability Analysis

Grade: F	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	18.6	-4.7	17.7	21.4
Return on Assets %	5.5	-0.5	4.4	8.5
Fixed Asset Turns	0.7	0.6	0.8	6.6
Inventory Turns	12.4	9.1	12.6	12.5
Revenue/Employee $K	815.5	695.9*	1221.7	978.4
Gross Margin %	48.0	54.8	52.2	34.3
Operating Margin %	18.1	5.1	19.2	18.9
Net Margin %	10.6	-5.2	11.9	9.5
Free Cash Flow/Rev %	1.5	—	5.5	0.1
R&D/Rev %	—	—	—	9.4

Financial Position

Grade: B	12-07 $Mil	03-08 $Mil
Cash	163	118
Inventories	154	147
Receivables	375	311
Current Assets	790	735
Fixed Assets	4888	4952
Intangibles	59	59
Total Assets	6765	6742
Payables	335	317
Short-Term Debt	32	25
Current Liabilities	618	683
Long-Term Debt	3158	3062
Total Liabilities	4748	4749
Total Equity	2017	1993

Valuation Analysis

	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	11.9	—	15.1	19.3
Forward P/E	13.9	—	14.3	13.7
Price/Cash Flow	7.7	12.4	8.7	12.5
Price/Free Cash Flow	82.6	—	-62.5	20.7
Dividend Yield %	3.9	—	3.3	2.6
Price/Book	2.1	2.0	2.0	3.9
Price/Sales	1.2	1.1	1.3	2.7
PEG Ratio	1.6	—	1.9	1.3

*3Yr Avg data is displayed in place of 5Yr Avg

Stock Performance

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	TTM	
5.0	-30.2	84.8	-15.0	-37.0	0.5	12.7	17.0	5.1	4.5	19.8	Total Return %
-21.7	-49.7	94.9	-2.0	-13.6	-25.9	3.7	14.0	-8.5	1.0	33.1	+/- Market
-14.9	-14.4	27.4	-7.8	-24.3	-34.2	-15.9	-0.7	-18.2	-15.2	21.8	+/- Industry
4.3	6.9	4.1	5.2	9.1	6.4	5.0	4.4	4.4	4.5	3.9	Dividend Yield %
3709	2450	4077	3662	2717	2706	3065	3576	3605	3626	4247	Market Cap $Mil

Financials

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	TTM	
1958	1983	2295	2649	2676	2740	2669	3010	3448	3536	3507	Revenue $Mil
47.4	46.9	42.4	39.1	65.0	63.1	55.3	55.1	51.2	49.2	48.0	Gross Margin %
396	424	414	423	389	20	-457	357	418	637	636	Oper Income $Mil
20.2	21.4	18.0	16.0	14.5	0.7	-17.1	11.9	12.1	18.0	18.1	Operating Margin %
207	186	251	304	330	-909	-552	275	246	413	371	Net Income $Mil
1.57	1.42	1.97	2.24	2.15	-5.05	-2.87	1.31	1.18	1.97	1.77	Earnings Per Share $
1.23	1.29	1.33	1.37	1.41	0.93	0.76	0.76	0.76	0.78	0.78	Dividends $
131	131	125	135	153	179	192	208	208	209	210	Shares Mil
11.93	11.16	12.38	14.45	14.87	8.93	6.43	7.65	8.26	8.87	9.46	Book Value Per Share $
490	381	381	513	656	329	140	174	567	554	548	Oper Cash Flow $Mil
-296	-426	-688	-966	-1065	-591	-273	-295	-456	-494	-497	Cap Spending $Mil
194	-45	-307	-453	-410	-262	-134	-121	111	60	51	Free Cash Flow $Mil

Profitability

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	TTM	
5.1	4.2	4.8	4.9	4.3	-9.5	-5.5	3.3	3.4	5.8	5.5	Return on Assets %
13.4	12.2	16.6	17.0	14.3	-42.4	-37.3	19.1	14.8	22.1	18.6	Return on Equity %
10.5	9.4	10.9	11.5	12.3	-33.2	-20.7	9.1	7.1	11.7	10.6	Net Margin %
0.48	0.45	0.44	0.43	0.35	0.29	0.27	0.36	0.47	0.50	0.52	Asset Turnover
2.7	3.2	3.6	3.3	3.3	6.2	7.4	4.5	4.3	3.4	3.4	Financial Leverage

Financial Health

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	03-08	
-242	-790	-1050	-1146	214	-1377	-1485	346	-65	172	52	Working Capital $Mil
1280	1208	1375	1843	3324	4393	3880	3709	3213	3158	3062	Long-Term Debt $Mil
1569	1473	1560	2016	3261	1678	1284	1592	1729	2017	1993	Total Equity $Mil
0.82	0.82	0.88	0.91	1.27	2.62	3.02	2.33	1.86	1.57	1.54	Debt/Equity

Valuation

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	TTM	
18.6	12.1	16.4	11.7	7.9	—	—	17.2	14.7	13.3	11.9	Price/Earnings
—	0.4	0.7	0.5	0.4	—	—	1.0	0.9	0.8	0.6	P/E vs. Market
1.9	1.2	1.9	1.3	0.9	0.9	1.1	1.1	1.0	1.0	1.2	Price/Sales
2.4	1.7	2.6	1.8	1.0	1.6	2.4	2.3	2.1	1.9	2.1	Price/Book
7.6	6.4	11.1	6.9	3.6	7.9	21.2	19.0	16.3	7.8	7.7	Price/Cash Flow

Quarterly Results

Revenue $Mil	Jun 07	Sep 07	Dec 07	Mar 08
Most Recent Period	866.5	990.0	858.3	791.7
Prior Year Period	862.6	922.9	826.2	821.3
Rev Growth %	**Jun 07**	**Sep 07**	**Dec 07**	**Mar 08**
Most Recent Period	0.5	7.3	3.9	-3.6
Prior Year Period	20.0	10.3	7.3	-1.8
Earnings Per Share $	**Jun 07**	**Sep 07**	**Dec 07**	**Mar 08**
Most Recent Period	0.35	0.44	0.83	0.15
Prior Year Period	0.30	0.38	0.23	0.35

Industry Peers by Market Cap

	Mkt Cap $Mil	Rev $Mil	P/E	ROE%
TECO Energy	4247	3507	11.9	18.6
FPL Group	26936	15622	18.8	13.2
Duke Energy Corporat	22105	13022	13.4	7.5

Major Fund Holders

	% of shares
BlackRock Index Equity Instl	6.92
Franklin Income A	4.52
T. Rowe Price Mid-Cap Value	2.99

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Morningstar's Approach to Rating Stocks

Our Key Investing Concepts
- Economic Moat
- Discounted Cash Flow
- Discount Rate
- Fair Value
- Uncertainty
- Margin of Safety
- Consider Buying/Consider Selling
- Stewardship Grades

At Morningstar, we evaluate stocks as pieces of a business, not as pieces of paper. We think that purchasing shares of superior businesses at discounts to their intrinsic value and allowing them to compound their value over long periods of time is the surest way to create wealth in the stock market.

We rate stocks 1 through 5 stars, with 5 the best and 1 the worst. Our star rating is based on our analyst's estimate of how much a company's business is worth per share. Our analysts arrive at this "fair value estimate" by forecasting how much excess cash--or "free cash flow"--the firm will generate in the future, and then adjusting the total for timing and risk. Cash generated next year is worth more than cash generated several years down the road, and cash from a stable and consistently profitable business is worth more than cash from a cyclical or unsteady business.

Stocks trading at meaningful discounts to our fair value estimates will receive high star ratings. For high-quality businesses, we require a smaller discount than for mediocre ones, for a simple reason: We have more confidence in our cash-flow forecasts for strong companies, and thus in our value estimates. If a stock's market price is significantly above our fair value estimate, it will receive a low star rating, no matter how wonderful we think the business is. Even the best company is a bad deal if an investor overpays for its shares.

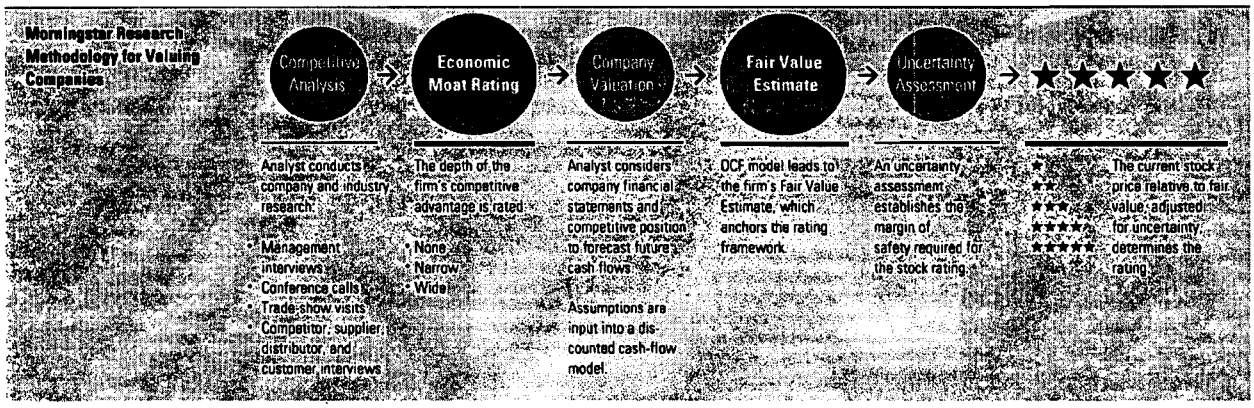
Our fair value estimates don't change very often, but market prices do. So, a stock may gain or lose stars based just on movement in the share price. If we think a stock's fair value is $50, and the shares decline to $40 without much change in the value of the business, the star rating will go up. Our estimate of what the business is worth hasn't changed, but the shares are more attractive as an investment at $40 than they were at $50.

Because we focus on the long-term value of businesses, rather than short-term movements in stock prices, at times we may appear out of step with the overall stock market. When stocks are high, relatively few will receive our highest rating of 5 stars. But when the market tumbles, many more will likely garner 5 stars. Although you might expect to see more 5-star stocks as the market rises, we find assets more attractive when they're cheap.

We calculate our star ratings nightly after the markets close, and issue them the following business day, which is why the rating date on our reports will always be the previous business day. We update the text of our reports as new information becomes available, usually about once or twice per quarter. That is why you'll see two dates on every Morningstar stock report. Of course, we monitor market events and all of our stocks every business day, so our ratings always reflect our analyst's current opinion.

Economic Moat

This is our assessment of a firm's ability to earn returns consistently above its cost of capital in the future, usually by virtue of some competitive advantage. Competition tends to drive down such economic profits, but companies



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Morningstar's Approach to Rating Stocks (continued)

that can earn them for an extended time by creating a competitive advantage possess an economic moat. We see these companies as superior investments.

We're big fans of companies that are low-cost producers, create high switching costs for their customers, or have strong brands or long-lasting patents, because all of these characteristics allow companies to protect their competitive position. For example, Tiffany is far more profitable than a run-of-the-mill jewelry chain because it has a strong brand that creates a moat around its business, allowing it to charge more than competitors.

Discounted Cash Flow
This is a method for valuing companies that involves projecting the amount of cash a business will generate in the future, subtracting the amount of cash that the company will need to reinvest in its business, and using the result to calculate the worth of the firm. We use this technique to value nearly all of the companies we cover.

Discount Rate
We use this number to adjust the value of our forecasted cash flows for the risk that they may not materialize. For a profitable company in a steady line of business, we'll use a lower discount rate, also known as "cost of capital," than for a firm in a cyclical business with fierce competition, since there's less risk clouding the firm's future.

Fair Value
This is the output of our discounted cash-flow valuation models, and is our per-share estimate of a company's intrinsic worth. We adjust our fair values for off-balance sheet liabilities or assets that a firm might have--for example, we deduct from a company's fair value if it has issued a lot of stock options or has an under-funded pension plan. Our fair value estimate differs from a "target price" in two ways. First, it's an estimate of what the business is worth, whereas a price target typically reflects what other investors may pay for the stock. Second, it's a long-term estimate, whereas price targets generally focus on the next two to 12 months.

Uncertainty
To generate the Morningstar Uncertainty Rating, analysts consider factors such as sales predictability, operating leverage, and financial leverage. Analysts then classify their ability to bound the fair value estimate for the stock into one of several uncertainty levels: Low, Medium, High, Very High, or Extreme. The greater the level of uncertainty, the greater the discount to fair value required before a stock can earn 5 stars, and the greater the premium to fair value before a stock earns a 1-star rating.

Margin of Safety
This is the discount to fair value we would require before recommending a stock. We think it's always prudent to buy stocks for less than they're worth.The margin of safety is like an insurance policy that protects investors from bad news or overly optimistic fair value estimates. We require larger margins of safety for less predictable stocks, and smaller margins of safety for more predictable stocks.

Consider Buying/Consider Selling
The consider buying price is the price at which a stock would be rated 5 stars, and thus the point at which we would consider the stock an extremely attractive purchase. Conversely, consider selling is the price at which a stock would have a 1 star rating, at which point we'd consider the stock overvalued, with low expected returns relative to its risk.

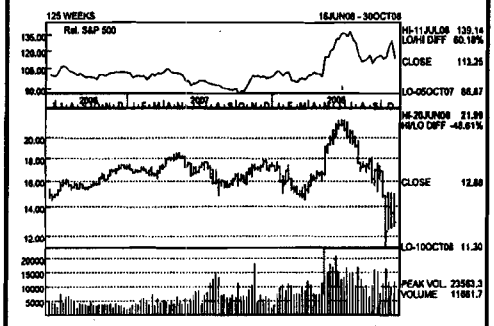
Stewardship Grades
We evaluate the commitment to shareholders demonstrated by each firm's board and management team by assessing transparency, shareholder friendliness, incentives, and ownership. We aim to identify firms that provide investors with insufficient or potentially misleading financial information, seek to limit the power of minority shareholders, allow management to abuse its position, or which have management incentives that are not aligned with the interests of long-term shareholders. The grades are assigned on an absolute scale--not relative to peers--and can be interpreted as follows: A means "Excellent," B means "Good," C means "Fair," D means "Poor," and F means "Very Poor."

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RBC Capital Markets

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RBC Capital Markets Corp.

Lasan Johong (Analyst)
(212) 428-6462; lasan.johong@rbccm.com

Emily Christy (Associate)
(212) 428-6970; emily.christy@rbccm.com

Ella Vuernick (Associate)
(212) 428-6492; ella.vuernick@rbccm.com

FY Dec	2007A	2008E	2009E	2010E
EPS (Op) - FD	1.07	0.83	1.16	1.22
Prev.		0.89	1.41	
P/E	12.0x	15.5x	11.1x	10.6x
EBITDA/Share - FD	3.24	3.54	4.23	4.45
Prev.		3.63	4.57	
CFPS	2.69	1.84	2.88	2.99
Prev.		2.07	3.12	
P/CFPS	4.8x	7.0x	4.5x	4.3x
FCFPS - FD	4.49	0.45	(0.04)	0.56
Prev.		0.78	0.14	
P/FCF	2.9x	28.6x	NM	23.0x
EPS (Op) - FD	Q1	Q2	Q3	Q4
2007	0.20A	0.25A	0.39A	0.22A
2008	0.15A	0.24A	0.27A	0.17E
Prev.			0.32E	0.19E
EBITDA/Share - FD				
2007	0.72A	0.74A	0.96A	0.82A
2008	0.79A	0.92A	0.99A	0.84E
Prev.			1.06E	0.86E
CFPS				
2007	0.60A	0.54A	1.18A	0.37A
2008	0.54A	0.19A	0.53A	0.59E
Prev.			0.73E	0.61E

All values in USD unless otherwise noted.

RATINGS REVISION | COMMENT

OCTOBER 31, 2008

TECO Energy, Inc. (NYSE: TE)

Weak FL Economy, Rising Coal Challenges Lead to Downgrade for TE

Underperform (prev: Sector Perform)
Above Average Risk

Price:	12.88	Price Target:	17.00 ↓ 18.00
		Implied All-In Return:	38%
Shares O/S (MM):	209.0	Market Cap (MM):	2,692
Dividend:	0.78	Yield:	6.1%

Downgrading TE to Underperform from Sector Perform; Lowering Target to $17 from $18

The poor market fundamentals in FL continue to drag on TE's results and the outlook for 2009 looks bleak

Although on an earnings basis the contracted coal business should offset weakness at the utilities during 2009, we believe the temporary nature of this coal boost will become increasingly evident throughout the year. Therefore, despite the strong dividend yield, we believe investors may start to look towards utilities with stronger demographics and rate base growth projects, particularly as the capital markets open. We are thus downgrading TE to Underperform and lowering our CNAV to $18 from $21 and our target price to $17 from $18.

Decline of coal consumption, production issues overshadow short-term price spikes in coal sector

Coal fundamentals appear to be weakening in 2009 and into 2010. Therefore, despite virtually locked-in margins in 2009, the longer-term outlook for coal does not bode well for TE. Also, increased climate change pressures do not bode well for coal. We expect weakening coal fundamentals to put pressure on near-term coal prices, too. Furthermore, TE continues to lower expectations for coal production as the company faces an industry-wide labor shortage and operational issues at its underground mines.

Rate case timing is abysmal

Although TE is clearly in need of rate increases in order to support its current operations and infrastructure improvement projects, we believe the timing of this rate case may prevent the company from achieving a satisfactory outcome. With unemployment numbers rising in Tampa, on top of the last few years of general economic weakness due to the degradation of the housing sector, we believe there will be tremendous pressure on regulators to keep utility bills as low as possible. Additionally, since the last TE rate case was more than a decade ago, there is little precedent for regulatory support of the utility on this scale.

Lowering estimates for 2008 and 2009; introducing estimates for 2010.
For 2008, to $0.83 from $0.89; for 2009, to $$1.16 from $1.41; for 2010, introducing $1.22.

We recognize that the stock price is still undervalued by the market due to macroeconomic factors and reiterate that our rating reflects a relative Underperform within our coverage universe.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Disclosures, please see Page 6.

Details

3Q08 results reflect worsening economic conditions

During the quarter, customer growth was -0.1% for Tampa Electric and 0.2% for Peoples Gas. Compounding these trends were mild weather and a soggy July. Additionally, higher coal production costs offset any boon from price increases in this segment.

Table 1. Quarterly Segment Results

Segment	3Q08	3Q07	% Change	Notes
Tampa Electric				
Adjusted Net Income ($MM)	$50.6	$64.8	-21.9%	-Low customer growth
Customers (MM)	666	667	-0.1%	-Lower cooling degree days and wet weather
kWh Sales (MM)	5,453	5,845	-6.7%	
Peoples Gas				
Adjusted Net Income ($MM)	$2.6	$3.8	-31.6%	-Low sales to housing market industrial participants
Customers (MM)	334	333	0.2%	
Therm Sales (MM)	371	402	-7.8%	
TECO Coal				
Adjusted Net Income ($MM)*	$3.7	$7.4	-50.0%	-Higher coal expenses
Production (MM tons)	2.2	2.4	-8.3%	-Lower production due to mining difficulties
*Excludes synfuel operations				
TECO Guatemala				
Adjusted Net Income ($MM)	$11.7	$10.2	14.7%	+Solid customer growth, high spot prices
				-Offset by tariff reduction

Source: RBC Capital Markets and Company Data

FL economy forecasted as weak throughout 2009

Unemployment numbers rose again in Tampa to 7.0% for the month of September – its highest rate in 13 years. While these figures are largely influenced by the house construction industry, the financial crisis has now spread across most industries. On the bright side, bargain-hunting home buyers may have begun to enter the market last month; however, working through the enormous glut of inventory will take some time. Since electricity and gas demand typically lag housing activity, TE does not believe its previous estimate of 1.2% customer growth is now likely for 2009.

Teco Coal: Get out while the getting's good

Despite the fact that favorable pricing in 2009 will mask FL economic weakness in the short term, we do not believe TE should be in the coal business. Already facing rising material costs, out-of-the money diesel hedges for 2009, and a labor shortage, we believe that TE is better served by exiting the business before the forecasted decline in coal consumption worldwide takes shape. The commodity and operational risks of the coal segment simply do not fit with a regulated utility, in our view. We would prefer the cash to be used to further reduce debt, to invest in legislatively-friendly carbon-offsetting projects and regulatory-friendly efficiency programs such as smart meters, or to make acquisitions, if possible. Further out, investments in new generation capacity will also be needed.

If coal fundamentals continue to weaken, investor won't/shouldn't care about TE Coal's hedge position

In the near term, if coal fundamentals continue to weaken, all that coal hedges will accomplish will be to lock-in margins for one year, which means come 2010, TE would be at risk of exposure to deteriorating coal fundamentals. We don't think investors will be pleased to participate in flat coal earnings from January 2009 to December 2009 at the risk of seeing 2010 margins shrink back to more historical levels. Therefore, high 2009 coal margin locked-in through hedging is unlikely to impress, unless investors believe that these margins are sustainable well into the future. However, as we've said, we do not believe that this is the case much beyond 2009. Adding to the conundrum is the fact that a global recession is likely to spell slackening demand in coal, particularly on the metallurgical and PCI side.

If global recession triggers reduced steel consumption, PCI prices may be the most vulnerable

Our basic understanding of the coal markets indicates that PCI (pulverized coal injection) is being used in many cases as a short-term substitute for metallurgical coal in steel mills. However, if steel consumption is reduced due to a global recession, and this in turns slackens demand for metallurgical coal, then it is our opinion that PCI will suffer larger price decreases than metallurgical coal. It is our understanding that PCI has achieved price increases because it is used as a substitute for metallurgical coal, when metallurgical

coal became scarce. Therefore, as steel demand decreases, metallurgical coal prices should fall, which would likely decrease PCI demand even more. This should then trigger a steeper decline in PCI prices that reflects PCI use as a traditional high-grade steam coal rather than a metallurgical coal substitute. Eastern steam coal in the US is currently being priced at about $77-$79/ST on a spot basis. Therefore, we estimate that PCI would drop to near these levels from the current $175-$200/ST level.

Tampa Electric rate case summary

The company has requested a $228.2MM annual revenue increase on a rate base of $3.657B with an ROE of 12%. Currently, the company's approved ROE is a range of 10.75% - 12.75%, although recently TE has struggled to earn the minimum allowed ROE of 10.75%. The net effect on an average customer's monthly bill, if approved in full, would be an 8% increase. The majority of the requested increase reflects customer and infrastructure growth at the utility since the last rate case 16 years ago. Since 1992, 200,000 customers have been added and there is 50% more power produced by TE plants. Hearings for the rate case begin in January, with an expected decision in April.

Peoples Gas rate case summary

The company has requested a $26.5MM annual revenue increase on a rate base of $563.6MM with an ROE of 11.5%. Currently the company's approved ROE is a range of 10.25% - 12.25%. If approved, the average customer bill will increase 10%. The rate request is mainly driven by higher costs for labor and materials as well as customer growth. Hearings for the gas rate case should begin in March, with a decision expected by June

Valuation

Our calculated net-asset-value (CNAV) is $18 and our target price is $17. We determine our CNAV based on a full discounted cash flow model using an average of Free Cash Flow to the Firm and Free Cash Flow to Equity after the sale of Transport. We apply a multistage growth rate with a terminal multiple of about 12.3x based on a dynamic WACC with an initial rate of 6.95%. The terminal value is calculated approximately 25 years forward.

As a regulated electric utility, TE should produce consistent earnings and steady dividends for years to come. Although the coal business and Guatemala investment steal managerial attention from the growing utility, the company's recent sale of its transport business reduced the risk profile for the company. This sale, combined with the company's accelerated debt repayment plan, strengthened the balance sheet and led to upgrades from credit agencies in 2007. However, going forward, given the severe disconnect in the Tampa economy stemming from the housing crisis, and TE's continued involvement in coal, we believe that the near-term risk to the stock is higher than its longer-term outlook, which accounts for our modest target price discount to our CNAV.

Price Target Impediment

Commodity prices, weather, regulatory risk, access to capital markets, construction cost overruns, the FL economy, and potential environmental legislation are among the possible impediments to reaching our price target.

Company Description

TECO Energy, Inc. is a holding company operating through its subsidiaries, Tampa Electric, Peoples Gas, TECO Coal, and TECO Guatemala. Tampa Electric provides electric utility service to 668,000 customers in West Central Florida and distributes natural gas to 334,000 customers via the Peoples Gas System. TECO Coal produces 9-10 million tons of metallurgic and steam coal annually through its 41 Central Appalachian mines. TECO Guatemala owns an interest in an electric utility and operates two power plants that are contracted long-term.

Ticker Symbol	TE
Assumptions	**Rate**
DCF Start Year	2008
DCF Start Month	10
Current Beta of Company	0.90
Static or Variable Beta (S/V)	V
Normalized Long-Term Risk-free Rate	5.00%
Market Return	12.00%
Current Equity Discount Rate	11.30%
Current Cost of Preferred Stock	0.00%
Current Cost of Debt Capital	6.87%
Current WACC	6.95%
Basic Shares Outstanding (MM)	211.2
Diluted Shares Outstanding (MM)	212.6
Assumed Tax Rate	39%
Assumed Inflation Rate	3.50%
Minimum Cash Balance Required	$100
Revolver Overflow Alert	
Current Stock Price of TE ($/Sh.)	$12.88
Current Book Value per Share	$9.60
Current Price-to-Book Ratio	1.3 x
Current Market Cap ($MM)	$2,720.3
Current Market Ent. Value ($MM)	$5,933.8
Current Market Ent. Value Per Sh.	$28.10
Current Book Ent. Value ($MM)	$5,255.2
Current Book Ent. Value Per Sh.	$24.88

Names of Regions	Name
Region 1	Tampa Electric
Region 2	Peoples Gas (PGS)
Region 3	Coal
Region 4	Transport
Region 5	Guatemala
Region 6	Corporate/Other

Per Share Estimates

Year	Quarter	EPS	Oper. CF	EBITDA	FCF	EFCF
2007	1	$0.20	$0.60	$0.72	$0.38	($0.02)
2007	2	$0.25	$0.54	$0.74	$0.20	($0.34)
2007	3	$0.39	$1.18	$0.96	$0.82	($0.21)
2007	4	$0.22	$0.37	$0.82	$3.08	$1.30
	Total	$1.07	$2.69	$3.24	$4.49	$0.73
2008	1	$0.15	$0.54	$0.79	$0.64	($0.02)
2008	2	$0.24	$0.19	$0.92	($0.03)	$0.36
2008	3	$0.27	$0.53	$0.99	($0.17)	($0.36)
2008E	4	$0.17	$0.59	$0.84	$0.01	$0.41
	Total	$0.83	$1.84	$3.54	$0.45	$0.40
2009E						
	Total	$1.16	$2.88	$4.23	($0.04)	$0.78
2010E						
	Total	$1.22	$2.99	$4.45	$0.56	$0.78

Estimated Ratios

Year	P/E	P/Oper. CF	EV/EBITDA	EV/FCF	P/EFCF
2007	12.1 x	4.8 x	8.7 x	6.3 x	17.7 x
2008E	15.5 x	7.0 x	7.9 x	62.6 x	32.5 x
2009E	11.1 x	4.5 x	6.6 x	N/M	16.4 x
2010E	10.6 x	4.3 x	6.3 x	50.4 x	16.4 x

Capital Structure

Capital Type	Amount	%
09/2008	($MM)	
Equity Capital	$2,041.7	39%
Preferred Stock	$0.0	0%
Total Debt	$3,213.5	61%
Total	$5,255.2	100%

Cost of Capital

Type	% of Total
Equity	4.39%
Preferred	0.00%
Debt	2.56%
WACC	6.95%
	157.39%

Net Asset Value Cash Flow Valuation

Terminal Value	Multiple
Multiple of FCF	12.3 x
Term. Val. in Months	291

Category	Valuation
09/2008	
Calc. Ent. Value	$6,670.3
Preferred Stock	$0.0
Total Debt	($3,213.5)
Equity Value	$3,456.8

Shares	NAV	Average
Basic	$16.37	$17.98
Diluted	$16.26	$17.86

Ratios	P/NAV	P/NAV
Basic	0.8 x	0.7 x
Diluted	0.8 x	0.7 x

Ratios	P/Book
Basic	1.3 x

Terminal Value	Multiple
Multiple of EFCF	12.0 x
Term. Val. in Months	291

Category	Valuation
Equity FCF Value	$4,046.7
Cash Balance @ Start of Valuation	$92.5
Equity Value	$4,139.2

Shares	NAV
Basic	$19.60
Diluted	$19.47

Ratios	P/NAV
Basic	0.7 x
Diluted	0.7 x

Criteria	Multiple	2009E	Multiple Analysis
Net Debt per Share	N/A	$21.15	N/A
Basic Shares Out	N/A	211.2	N/A
P/E	14.7 x	$1.16	$17.00
P/CF	5.9 x	$2.88	$17.00
EV/EBITDA	9.0 x	$4.23	$17.00
Average			$17.00

Sources: Company reports; RBC Capital Markets estimates; Lasan Johong (212) 428-6462 lasan.johong@rbccm.com; Emily Christy (212) 428-6970; Ella Vuernick (212) 428-6492.

TE			2007					2008				
SUMMARY FINANCIALS ($ Millions)	Q1A	Q2A	Q3A	Q4A	2007	Q1A	Q2A	Q3A	Q4E	2008E	2009E	2010E
GENERATION (MWh)	4,556.6	5,030.8	6,025.6	5,312.4	20,925.4	4,585.9	5,597.2	5,945.7	4,992.8	21,121.6	20,715.5	21,322.1
INCOME STATEMENT												
TOTAL NET REVENUE	$821.3	$866.5	$990.0	$858.3	$3,536.1	$791.7	$887.2	$926.1	$796.7	$3,401.7	$3,339.6	$3,259.8
DOC (Incl. Cost of Fuel and Plant O&M)	$511.4	$539.2	$607.5	$495.9	$2,154.0	$519.7	$590.3	$615.9	$516.1	$2,242.1	$2,102.8	$1,955.2
Other Direct Operating Costs	$159.9	$172.8	$181.0	$189.4	$703.1	$129.4	$129.6	$127.8	$136.2	$522.1	$440.7	$476.0
General & Administrative Expenses	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
DIRECT OPERATING COSTS	$671.3	$712.0	$788.5	$685.3	$2,857.1	$649.1	$719.9	$742.9	$652.3	$2,764.2	$2,543.4	$2,431.2
GROSS PROFIT	$150.0	$154.5	$201.5	$173.0	$679.0	$142.6	$167.3	$183.2	$144.4	$637.5	$796.2	$828.6
Depreciation, Amortization and Expl. Exp.	$71.6	$66.8	$59.8	$65.5	$263.7	$65.0	$64.9	$66.7	$66.9	$263.5	$270.3	$278.8
Other Operating Costs	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
TOTAL OPERATING COSTS	$742.9	$778.8	$848.3	$750.8	$3,120.8	$714.1	$784.8	$809.6	$719.2	$3,027.7	$2,813.8	$2,710.0
OPERATING INCOME	$78.4	$87.7	$141.7	$107.5	$415.3	$77.6	$102.4	$116.5	$77.5	$374.0	$525.9	$549.9
Non-Operating Expenses	($69.8)	($42.4)	($41.8)	($219.4)	($373.4)	($24.0)	($27.3)	($27.7)	($33.6)	($112.6)	($103.0)	($117.6)
EARNINGS BEFORE INTEREST & TAXES	$148.2	$130.1	$183.5	$326.9	$788.7	$101.6	$129.7	$144.2	$111.2	$486.7	$628.8	$667.5
Net Interest Expense, Incl. TCP Dividend	$67.1	$65.7	$63.9	$61.1	$257.8	$57.7	$55.9	$57.4	$52.7	$223.7	$225.5	$244.0
PRE-TAX INCOME	$81.1	$64.4	$119.6	$265.8	$530.9	$43.9	$73.8	$86.8	$58.5	$263.0	$403.3	$423.5
Income Tax Expense	$31.8	$25.3	$47.6	$109.5	$214.2	$13.1	$22.4	$28.6	$22.8	$86.9	$157.3	$165.2
Minority Interest, Pref. Dividend & Other	($23.5)	($20.3)	($20.8)	($17.6)	($82.2)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
NET INCOME PRE-X-ITEMS	$42.1	$53.1	$82.0	$46.9	$224.1	$30.8	$51.4	$58.2	$35.7	$176.1	$246.0	$258.3
Extraordinary Items & Other	($30.7)	($11.0)	($10.8)	($127.0)	($179.5)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
NET INCOME	$72.8	$73.7	$92.8	$173.9	$413.2	$30.8	$51.4	$58.2	$35.7	$176.1	$246.0	$258.3
NET INCOME PRE-X-ITEMS PER SHARE	$0.20	$0.25	$0.39	$0.22	$1.07	$0.15	$0.24	$0.27	$0.17	$0.83	$1.16	$1.22
Extraordinary Items & Other	($0.15)	($0.05)	($0.05)	($0.61)	($0.86)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
NET INCOME PER SHARE	$0.35	$0.35	$0.44	$0.83	$1.97	$0.15	$0.24	$0.27	$0.17	$0.83	$1.16	$1.22
CASH FLOW STATEMENT												
Adjustments to Revenue and Income	$4.8	($18.7)	$6.6	($10.7)	($18.0)	$14.8	($21.6)	($18.5)	($0.9)	($26.2)	($3.6)	($3.8)
Depreciation, Amortization and Expl. Exp.	$71.6	$66.8	$59.8	$65.5	$263.7	$65.0	$64.9	$66.7	$66.9	$263.5	$270.3	$278.8
Deferred Income Taxes	$29.3	$8.1	$53.0	$94.2	$184.8	$15.5	$24.2	$29.8	$23.8	$93.3	$98.6	$102.0
Other Operating Cash Flow Items	($53.6)	($17.0)	$35.2	($244.7)	($280.1)	($12.0)	($79.4)	($24.5)	$0.0	($115.9)	$0.0	$0.0
Changes in Working Capital	$34.0	($38.3)	($66.9)	$61.6	($9.6)	$38.9	$46.0	($24.5)	$0.0	$60.4	$0.0	$0.0
OPERATING CASH FLOW	$158.9	$74.8	$180.5	$139.8	$554.0	$153.0	$85.5	$87.2	$125.4	$451.1	$611.2	$635.3
Cap. Ex., Acquisitions, Investments	($154.7)	($146.8)	($55.6)	($75.8)	($432.9)	($46.1)	($127.2)	($110.8)	($123.8)	($407.9)	($651.7)	($643.2)
Proceeds from Sales	$0.0	$45.5	$15.3	$344.4	$405.2	($7.3)	$0.0	$0.0	$0.0	($7.3)	$0.0	$0.0
Other Investing Cash Flow Items	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	($45.0)	($32.0)	($77.0)	($108.3)	($24.8)
INVESTING CASH FLOW	($154.7)	($101.3)	($40.3)	$268.6	($27.7)	($53.4)	($127.2)	($155.8)	($155.8)	($492.1)	($760.0)	($668.0)
Net Equity Financing	$53.6	$4.8	$1.4	$4.2	$14.0	$1.3	$18.7	$0.0	$0.0	$20.0	$0.0	$0.0
Net Debt Capital & Other Financing	($69.8)	($103.0)	($196.4)	($345.2)	($716.4)	($104.3)	$119.1	($6.4)	$117.9	$126.3	$317.7	$201.7
Financing Costs	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Common and Preferred Dividends	($39.8)	($41.0)	($41.1)	($41.1)	($163.0)	($41.1)	($42.4)	($42.2)	($42.2)	($168.0)	($169.0)	($169.0)
Other Financing Cash Flow Items	$21.8	$26.0	$12.1	$0.2	$60.1	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
FINANCING CASH FLOW	($84.2)	($115.2)	($224.0)	($381.9)	($805.3)	($144.1)	$95.4	($48.6)	$75.7	($21.7)	$148.8	$32.7
CHANGE IN CASH	($80.0)	($141.7)	($83.8)	$26.5	($279.0)	($44.5)	$53.7	($117.2)	$45.3	($62.6)	($0.0)	($0.0)
OP. CF BEFORE W/C PER SHARE	$0.60	$0.54	$1.18	$0.37	$2.69	$0.54	$0.19	$0.53	$0.59	$1.84	$2.88	$2.99
BALANCE SHEET												
Cash and Equivalents	$398.9	$257.3	$173.5	$170.0	$170.0	$125.6	$179.3	$100.0	$107.5	$107.5	$107.5	$107.5
Accounts Receivables	$310.2	$297.2	$356.0	$374.4	$374.4	$309.9	$330.8	$340.5	$340.5	$340.5	$340.5	$340.5
Inventory, Fuels and Materials	$189.7	$212.5	$179.1	$154.0	$154.0	$146.8	$161.9	$163.2	$163.2	$163.2	$163.2	$163.2
Other Current Assets	$309.8	$317.5	$293.9	$91.4	$91.4	$152.4	$309.0	$252.3	$252.3	$252.3	$252.3	$252.3
TOTAL CURRENT ASSETS	$1,208.6	$1,084.5	$1,002.5	$789.8	$789.8	$734.7	$981.0	$856.0	$863.5	$863.5	$863.5	$863.5
TOTAL PP&E	$4,694.5	$4,755.8	$4,815.4	$4,888.2	$4,888.2	$4,952.3	$5,009.3	$5,083.2	$5,172.1	$5,172.1	$5,661.7	$6,051.0
Other Long-term Assets	$1,395.8	$1,418.4	$1,347.3	$1,087.2	$1,087.2	$1,055.4	$1,063.3	$1,035.9	$1,036.8	$1,036.8	$1,040.5	$1,044.3
TOTAL ASSETS	$7,298.9	$7,258.7	$7,165.2	$6,765.2	$6,765.2	$6,742.4	$7,053.6	$6,975.1	$7,072.4	$7,072.4	$7,565.7	$7,958.8
Accounts Payables	$318.6	$259.9	$332.7	$327.1	$327.1	$300.2	$356.6	$306.2	$306.2	$306.2	$306.2	$306.2
Short-term Debt & Current Portions	$457.4	$157.5	$7.1	$7.1	$7.1	$7.1	$7.1	$6.9	($19.6)	($19.6)	$81.8	$341.5
Other Current Liabilities	$445.9	$460.3	$402.1	$283.4	$283.4	$375.5	$429.1	$394.6	$394.6	$394.6	$394.6	$394.6
TOTAL CURRENT LIABILITIES	$1,221.9	$877.7	$741.9	$617.6	$617.6	$682.8	$792.8	$707.7	$681.2	$681.2	$782.6	$1,042.3
Long-term Debt and Other Obligations	$3,211.3	$3,460.1	$3,454.4	$3,158.4	$3,158.4	$3,062.1	$3,212.1	$3,206.6	$3,179.8	$3,179.8	$3,396.2	$3,338.1
Deferred Income Taxes	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$23.8	$23.8	$122.4	$224.4
Other Long-term Liabilities	$1,096.5	$1,104.4	$1,099.5	$972.2	$972.2	$1,004.5	$1,021.0	$1,019.1	$1,152.4	$1,152.4	$1,152.4	$1,152.4
TOTAL LONG-TERM LIABILITIES	$4,307.8	$4,564.5	$4,553.9	$4,130.6	$4,130.6	$4,066.6	$4,233.1	$4,225.7	$4,356.1	$4,356.1	$4,671.0	$4,714.9
Long-term Financings	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
TOTAL LIABILITIES	$5,529.7	$5,442.2	$5,295.8	$4,748.2	$4,748.2	$4,749.4	$5,025.9	$4,933.4	$5,037.3	$5,037.3	$5,453.5	$5,757.2
Equity and Additional Paid-in Capital	$1,680.5	$1,691.0	$1,694.7	$1,700.1	$1,700.1	$1,703.8	$1,725.6	$1,728.4	$1,728.4	$1,728.4	$1,728.4	$1,728.4
Retained Earnings	$116.9	$149.6	$201.4	$334.1	$334.1	$323.8	$332.9	$348.5	$341.9	$341.9	$419.0	$508.4
Other Stockholders' Equity	($28.2)	($24.1)	($26.7)	($17.2)	($17.2)	($34.6)	($30.8)	($35.2)	($35.2)	($35.2)	($35.2)	($35.2)
TOTAL STOCKHOLDERS' EQUITY	$1,769.2	$1,816.5	$1,869.4	$2,017.0	$2,017.0	$1,993.0	$2,027.7	$2,041.7	$2,035.1	$2,035.1	$2,112.2	$2,201.6
TOTAL LIABILITIES & EQUITY	$7,298.9	$7,258.7	$7,165.2	$6,765.2	$6,765.2	$6,742.4	$7,053.6	$6,975.1	$7,072.4	$7,072.4	$7,565.7	$7,958.8

Sources: Company reports; RBC Capital Markets estimates. Lasan Johong - (212) 428-6462; lasan.johong@rbccm.com

Actuals

Required Disclosures

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Ratings

Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

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Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

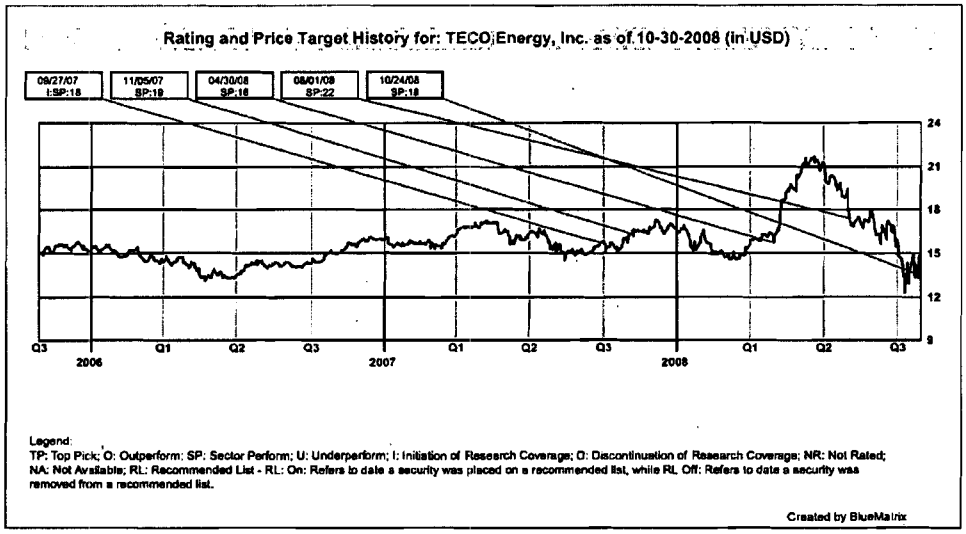
Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

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Distribution of Ratings/IB Services
RBC Capital Markets

			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY[TP/O]	538	45.98	161	29.93
HOLD[SP]	540	46.15	121	22.41
SELL[U]	92	7.86	21	22.83



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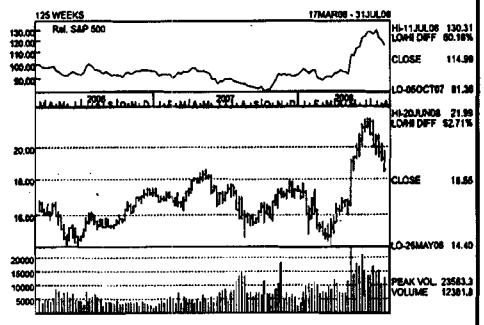
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RBC Capital Markets

EQUITY | RESEARCH



RBC Capital Markets Corp.

Lasan Johong (Analyst)
(212) 428-6462; lasan.johong@rbccm.com

Emily Christy (Associate)
(212) 428-6970; emily.christy@rbccm.com

Ella Faynzilberg (Associate)
(212) 428-6492; ella.faynzilberg@rbccm.com

FY Dec	2007A	2008E	2009E	
EPS (Op) - FD	1.07	0.86	1.34	
Prev.		0.95	1.26	
P/E	17.3x	21.6x	13.8x	
EBITDA/Share - FD	3.24	3.58	4.50	
Prev.		3.62	4.07	
CFPS	2.69	2.04	3.05	
Prev.		2.60	2.98	
P/CFPS	6.9x	9.1x	6.1x	
FCFPS - FD	4.49	0.75	0.11	
Prev.		0.95	0.01	
P/FCF	4.1x	24.7x	NM	
EPS (Op) - FD	Q1	Q2	Q3	Q4
2007	0.20A	0.25A	0.39A	0.22A
2008	0.15A	0.24A	0.29E	0.18E
Prev.		0.21E	0.37E	0.24E
EBITDA/Share - FD				
2007	0.72A	0.74A	0.96A	0.82A
2008	0.79A	0.92A	1.02E	0.85E
Prev.	0.76A		1.04E	0.91E
CFPS				
2007	0.60A	0.54A	1.18A	0.37A
2008	0.54A	0.19A	0.71E	0.60E
Prev.		0.60E	0.79E	0.67E

All values in USD unless otherwise noted.

PRICE TARGET REVISION | COMMENT

AUGUST 1, 2008

TECO Energy, Inc. (NYSE: TE)

Florida weakness continues; coal bright spot, but for how long?

Sector Perform
Above Average Risk

Price:	18.55	Price Target:	22.00 ↑ 18.00
		Implied All-In Return:	23%
Shares O/S (MM):	209.0	Market Cap (MM):	3,877
Dividend:	0.78	Yield:	4.2%

2Q08 adjusted EPS $0.24 vs. our $0.21 estimate and $0.23 consensus; lowering guidance

We are increasing our CNAV to $22 from $20, target price to $22 from $18, but leaving our Sector Perform, while lowering 2008 estimates, but increasing 2009 due to coal

Economic impact in Tampa continues, particularly in the housing sector, which led to conservation measures, but it isn't quantifiable. Utility results reflected anemic customer growth of 0.2%, but were helped by warmer than normal weather. Going forward however, July had cooler than normal weather and the housing markets aren't expected to recover until 2009.

Poor housing, economy, summer weather to date, and decreased coal output drives lower guidance

2008E EPS guidance lowered to $0.80-$0.90 from $0.95-$1.10. Contributing factors include lower than expected coal production due to difficulties opening up new mine, increasing labor costs, availability of labor itself, cost escalation of materials, Florida economy, Tampa housing and cooler than normal July. Accordingly, we have decreased 2008E EPS to $0.86 from $0.95, but increased 2009 to $1.34 from $1.26 due to coal.

Coal presenting challenges for today and tomorrow

Increasing labor and materials costs including diesel and steel, difficulty in even securing skilled labor, and more difficult than anticipated geology diminished TE's expected production.. Targets reduced to 10MM tons from 10.5MM in 2008 and 10.5-11.0MM from 10.5-11.5MM tons in 2009. Hedged 80% of production at an average of $66/ton, implying 40% of 2009 contracted at about $70-$80/ton. Company's guidance would suggest that cash margins would be about 50%-100% higher in 2009 than in 2008, but we would not expect this to last.

Tampa Electric expected to under-earn target ROE of 10.75% in 2008; rate case to be filed

The company plans to file for a rate increase by August 2008 with a target effective date of May 2009. We expect this process to be contentious.

Conclusion: We believe there is too much reliance on the coal business to drive stock price appreciation. And, we would prefer that TE sell the coal business and redeploy the capital into new projects – including but not limited to buying a piece of a nuclear project, building a new CCGT plant, installing smart meter, reducing leverage or returning cash to shareholders.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Disclosures, please see Page 6.

Details

Our thesis on TE remains unchanged:

Lost momentum due to weak FL economy is likely to keep a lid on investor interest, while a strong dividend yield and coal fundamentals make up for lack of utility performance through 2009.

Weak FL economy weighs down utility for now, but 2009 looks brighter

At some point in 2009, we believe that the Tampa housing market is likely to turn the corner and start a slow and steady comeback. The resumption of economic growth should then support strong utility fundamentals and continued rate base investments. In addition to these fundamentals, and perhaps overriding them in the near-term, should be the expected rate increases at both Tampa Electric and Peoples Gas. The company expects to file the rate cases in early August, with new rates anticipated in May 2009. Although we await the actual case filing for confirmation of the requested rates, until then, we have modeled the potential increase on a conservative basis, for now.

On the flip side, Coal fundamentals look strong, but for how long?

We are concerned that coal margins may not stay strong for long as foreign mines that were temporarily shut down due to issues of mine collapse, flooding, lack of infrastructure or maintenance work start coming back either later this year or in the early part of 2009. The US alone is estimated to have 250 years worth of coal supplies and, like TECO, due to the abundance of the resource, it is not difficult to raise production to take "advantage" of high prices. When potential supply far outweighs potential demand, volatility in commodity prices tend to get corrected quickly. We believe that signs of increased coal supply could be evident sometime by late 2008 to early 2009.

As shown in the table below, TE's 2009 coal hedges lock in relatively tight expected trading range, assuming production levels are within the target range. The current estimated blended price is $155/ton for Met and Steam coal on the uncontracted portion. We believe, however, that even if increased coal supply does not affect earnings until 2010, trading effects on the stock price could materialize some time in 2009. Accordingly, our target price of $22 falls towards the lower end of this scale.

Table 1.

Coal Margins Sensitivity Analysis for 2009

	Earnings/ton		
Uncontracted (20%) Price:			
Met Coal	$150	$200	$250
Steam Coal	$80	$130	$180
Blended average Price:	$105	$155	$205
Contracted (80%) Price:	$66	$66	$66
Net Price:	$69	$79	$89
Cash Cost*:	$61	$61	$61
Cash Margin:	$8	$18	$28
DD&A and allocated interest:	$5	$5	$5
Pretax margin:	$3	$13	$23
Associated CNAV**:	$21	$23	$24

*Reflects anticipated 20% increase over 2008.

**Assumes production of 10.75 MM tons.

Source: RBC Capital Markets and Company Data.

Ride the coal wave past FL difficulties, and then get out of the business

If TE coal operations can ramp up production to meet its revised targets in the near-term, the coal segment may lead TECO through much of 2009. Ideally, the coal business will carry TECO beyond the FL economic weakness until new rates can take effect. At that point, we believe that it is in the interests of shareholders of the company to sell the coal business and focus its efforts on core utility operations and growth.

Table 2. Quarterly Segment Results

Segment	2Q08	2Q07	% Change	Notes
Tampa Electric				
Adjusted Net Income ($MM)	$40.2	$34.7	15.9%	-Low customer growth (0.2%)
Customers (MM)	668	666	0.2%	-Higher average cooling degree days
kWh Sales (MM)	5,034	4,899	2.8%	
Peoples Gas				
Adjusted Net Income ($MM)	$5.3	$5.4	-1.9%	-Low sales to housing market industrial participants
Customers (MM)	336	335	0.3%	+Higher therm sales due to one large new customer
Therm Sales (MM)	374	338	10.7%	
TECO Coal*				
Adjusted Net Income ($MM)	$4.2	$9.8	-57.1%	-Higher coal expenses
Production (MM tons)	2.4	2.2	9.1%	-Lower production due to mining difficulties
*Excludes synfuel operations				
TECO Guatemala				
Adjusted Net Income ($MM)	$14.9	$12.8	16.4%	+Solid customer growth
				+Lower interest expense

Source: RBC Capital Markets and Company Data

Valuation

Our calculated net-asset-value (CNAV) and target price is $22. We determine our CNAV based on a full discounted cash flow model using an average of Free Cash Flow to the Firm and Free Cash Flow to Equity after the sale of Transport. We apply a multistage growth rate with a terminal multiple of about 12.3x based on a dynamic WACC with an initial rate of 6.99%. The terminal value is calculated approximately 25 years forward.

As a regulated electric utility TE should produce consistent earnings and steady dividends for years to come. Although the coal business and Guatemala investment steals managerial attention from the growing utility, the company's recent sale of its transport business reduced the risk profile for the company. This sale combined with the company's accelerated debt repayment plan strengthened the balance sheet and led to upgrades from credit agencies in 2007.

Price Target Impediment

Commodity prices, weather, regulatory risk, access to capital markets, construction cost overruns, FL economy, and potential environmental legislation.

Company Description

TECO Energy, Inc. is a holding company operating through its subsidiaries, Tampa Electric, Peoples Gas, TECO Coal, and TECO Guatemala. Tampa Electric provides electric utility service to 668,000 customers in West Central Florida and distributes natural gas to 334,000 customers via the Peoples Gas System. TECO Coal produces 9-10 million tons of metallurgic and steam coal annually through its 41 Central Appalachian mines. TECO Guatemala owns an interest in an electric utility and operates two power plants that are contracted long-term.

August 1, 2008

TECO Energy, Inc.

Ticker Symbol	TE
Assumptions	**Rate**
DCF Start Year	2008
DCF Start Month	7
Current Beta of Company	0.90
Static or Variable Beta (S/V)	V
Normalized Long-Term Risk-free Rate	5.00%
Market Return	12.00%
Current Equity Discount Rate	11.30%
Current Cost of Preferred Stock	0.00%
Current Cost of Debt Capital	6.87%
Current WACC	6.94%
Basic Shares Outstanding (MM)	210.4
Diluted Shares Outstanding (MM)	212.1
Assumed Tax Rate	39%
Assumed Inflation Rate	3.50%
Minimum Cash Balance Required	$100
Revolver Overflow Alert	
Current Stock Price of TE ($/Sh.)	$18.55
Current Book Value per Share	$9.56
Current Price-to-Book Ratio	1.9 x
Current Market Cap ($MM)	$3,902.9
Current Market Ent. Value ($MM)	$7,122.1
Current Market Ent. Value Per Sh.	$33.85
Current Book Ent. Value ($MM)	$5,246.9
Current Book Ent. Value Per Sh.	$24.94

Names of Regions	Name
Region 1	Tampa Electric
Region 2	Peoples Gas (PGS)
Region 3	Coal
Region 4	Transport
Region 5	Guatemala
Region 6	Corporate/Other

Per Share Estimates

Year	Quarter	EPS	Oper. CF	EBITDA	FCF	EFCF
2007	1	$0.20	$0.60	$0.72	$0.38	($0.02)
2007	2	$0.25	$0.54	$0.74	$0.20	($0.34)
2007	3	$0.39	$1.18	$0.96	$0.82	($0.21)
2007	4	$0.22	$0.37	$0.82	$3.08	$1.30
Total		$1.07	$2.69	$3.24	$4.49	$0.73
2008	1	$0.15	$0.54	$0.79	$0.64	($0.02)
2008	2	$0.24	$0.19	$0.92	($0.03)	$0.36
2008E	3	$0.29	$0.71	$1.02	$0.12	($0.06)
2008E	4	$0.18	$0.60	$0.85	$0.02	$0.11
Total		$0.86	$2.04	$3.58	$0.75	$0.39
2009E						
Total		$1.34	$3.05	$4.50	$0.11	$0.78

Estimated Ratios

Year	P/E	P/Oper. CF	EV/EBITDA	EV/FCF	P/EFCF
2007	17.4 x	6.9 x	10.5 x	7.5 x	25.4 x
2008E	21.6 x	9.1 x	9.5 x	45.3 x	47.3 x
2009E	13.8 x	6.1 x	7.5 x	N/M	23.7 x

Capital Structure

Capital Type	Amount	%
06/2008	($MM)	
Equity Capital	$2,027.7	39%
Preferred Stock	$0.0	0%
Total Debt	$3,219.2	61%
Total	$5,246.9	100%

Cost of Capital

Type	% of Total
Equity	4.37%
Preferred	0.00%
Debt	2.57%
WACC	6.94%
	158.76%

Net Asset Value Cash Flow Valuation

Terminal Value	Multiple
Multiple of FCF	12.3 x
Term. Val. in Months	297

Category	Valuation
06/2008	
Calc. Ent. Value	$7,584.1
Preferred Stock	$0.0
Total Debt	($3,219.2)
Equity Value	$4,364.9

Shares	NAV	Average
Basic	$20.75	$21.82
Diluted	$20.58	$21.64

Ratios	P/NAV	P/NAV
Basic	0.9 x	0.9 x
Diluted	0.9 x	0.9 x

Ratios	P/Book
Basic	1.9 x

Terminal Value	Multiple
Multiple of EFCF	12.1 x
Term. Val. in Months	297

Category	Valuation
Equity FCF Value	$4,643.7
Cash Balance @ Start of Valuation	$171.8
Equity Value	$4,815.5

Shares	NAV
Basic	$22.89
Diluted	$22.70

Ratios	P/NAV
Basic	0.8 x
Diluted	0.8 x

Criteria	Multiple	2009E	Multiple Analysis
Net Debt per Share	N/A	$21.12	N/A
Basic Shares Out	N/A	210.4	N/A
P/E	16.4 x	$1.34	$22.00
P/CF	7.2 x	$3.05	$22.00
EV/EBITDA	9.6 x	$4.50	$22.00
Average			$22.00

Sources: Company reports; RBC Capital Markets estimates; Lasan Johong (212) 428-6462 lasan.johong@rbccm.com; Emily Christy (212) 428-6970; Ella Faynzilberg (212) 428-6492.

TE				2007					2008			
SUMMARY FINANCIALS ($ Millions)	2006	Q1A	Q2A	Q3A	Q4A	2007	Q1A	Q2A	Q3E	Q4E	2008E	2009E
GENERATION (MWh)	20,051.7	4,556.6	5,030.8	6,025.6	5,312.4	20,925.4	4,585.9	5,597.2	5,945.7	4,992.8	21,121.6	20,715.5
INCOME STATEMENT												
TOTAL NET REVENUE	$3,469.3	$821.3	$866.5	$990.0	$858.3	$3,536.1	$791.7	$887.2	$860.3	$799.8	$3,339.0	$3,732.3
DOC (incl. Cost of Fuel and Plant O&M)	$2,015.0	$511.4	$539.2	$607.5	$495.9	$2,154.0	$519.7	$590.3	$553.3	$511.5	$2,174.9	$2,438.6
Other Direct Operating Costs	$732.7	$159.9	$172.8	$181.0	$189.4	$703.1	$129.4	$129.6	$131.3	$136.9	$527.2	$474.2
General & Administrative Expenses	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
DIRECT OPERATING COSTS	$2,747.7	$671.3	$712.0	$788.5	$685.3	$2,857.1	$649.1	$719.9	$684.6	$648.4	$2,702.0	$2,912.8
GROSS PROFIT	$721.6	$150.0	$154.5	$201.5	$173.0	$679.0	$142.6	$167.3	$175.7	$151.4	$637.0	$819.5
Depreciation, Amortization and Expl. Exp.	$282.2	$71.6	$66.8	$59.8	$65.5	$263.7	$65.0	$64.9	$64.9	$66.9	$261.7	$268.5
Other Operating Costs	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
TOTAL OPERATING COSTS	$3,029.9	$742.9	$778.8	$848.3	$750.8	$3,120.8	$714.1	$784.8	$749.5	$715.3	$2,963.7	$3,181.3
OPERATING INCOME	$439.4	$78.4	$87.7	$141.7	$107.5	$415.3	$77.6	$102.4	$110.8	$84.5	$375.3	$551.1
Non-Operating Expenses	($153.6)	($69.8)	($42.4)	($41.8)	($219.4)	($373.4)	($24.0)	($27.3)	($41.2)	($28.6)	($121.2)	($134.3)
EARNINGS BEFORE INTEREST & TAXES	$593.0	$148.2	$130.1	$183.5	$326.9	$788.7	$101.6	$129.7	$152.1	$113.1	$496.5	$685.4
Net Interest Expense, Incl. TCP Dividend	$278.3	$67.1	$65.7	$63.9	$61.1	$257.8	$57.7	$55.9	$50.4	$51.4	$215.4	$219.4
PRE-TAX INCOME	$314.7	$81.1	$64.4	$119.6	$265.8	$530.9	$43.9	$73.8	$101.7	$61.7	$281.1	$466.0
Income Tax Expense	$118.7	$31.8	$25.3	$47.6	$109.5	$214.2	$13.1	$22.4	$39.7	$24.1	$99.2	$181.7
Minority Interest, Pref. Dividend & Other	($69.6)	($23.5)	($20.3)	($20.8)	($17.6)	($82.2)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
NET INCOME PRE-X-ITEMS	$234.9	$42.1	$53.1	$82.0	$46.9	$224.1	$30.8	$51.4	$62.0	$37.6	$181.9	$284.2
Extraordinary Items & Other	($32.1)	($30.7)	($11.0)	($10.8)	($127.0)	($179.5)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
NET INCOME	$267.5	$72.8	$73.7	$92.8	$173.9	$413.2	$30.8	$51.4	$62.0	$37.6	$181.9	$284.2
NET INCOME PRE-X-ITEMS PER SHARE	$1.13	$0.20	$0.25	$0.39	$0.22	$1.07	$0.15	$0.24	$0.29	$0.18	$0.86	$1.34
Extraordinary Items & Other	($0.15)	($0.15)	($0.05)	($0.05)	($0.61)	($0.86)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
NET INCOME PER SHARE	$1.28	$0.35	$0.35	$0.44	$0.83	$1.97	$0.15	$0.24	$0.29	$0.18	$0.86	$1.34
CASH FLOW STATEMENT												
Adjustments to Revenue and Income	($3.4)	$4.8	($18.7)	$6.6	($10.7)	($18.0)	$14.8	($21.6)	($0.8)	($0.9)	($8.5)	($3.9)
Depreciation, Amortization and Expl. Exp.	$293.7	$71.6	$66.8	$59.8	$65.5	$263.7	$65.0	$64.9	$64.9	$66.9	$261.7	$268.5
Deferred Income Taxes	$112.5	$29.3	$8.3	$53.0	$94.2	$184.8	$15.5	$24.2	$23.8	$23.8	$87.3	$98.6
Other Operating Cash Flow Items	($86.0)	($53.6)	($17.0)	$35.2	($244.7)	($280.1)	($12.0)	($79.4)	$0.0	$0.0	($91.4)	$0.0
Changes in Working Capital	$3.8	$34.0	($38.3)	($66.9)	$61.6	($9.6)	$38.9	$46.0	$0.0	$0.0	$84.9	$0.0
OPERATING CASH FLOW	$588.1	$138.9	$74.8	$180.5	$139.8	$554.0	$153.0	$85.5	$149.9	$127.4	$515.8	$647.4
Cap. Ex., Acquisitions, Investments	($452.1)	($154.7)	($146.8)	($55.6)	($75.8)	($432.9)	($46.1)	($127.2)	($110.8)	($123.8)	($407.9)	($651.7)
Proceeds from Sales	$100.4	$0.0	$45.5	$15.3	$344.4	$405.2	($7.3)	$0.0	$0.0	$0.0	($7.3)	$0.0
Other Investing Cash Flow Items	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	($45.0)	($32.0)	($77.0)	($108.3)
INVESTING CASH FLOW	($351.7)	($154.7)	($101.3)	($40.3)	$268.6	($27.7)	($53.4)	($127.2)	($155.8)	($155.8)	($492.1)	($760.0)
Net Equity Financing	$12.5	$3.6	$4.8	$1.4	$4.2	$14.0	$1.3	$18.7	$0.0	$0.0	$20.0	$0.0
Net Debt Capital & Other Financing	$71.8	($69.8)	($105.0)	($196.4)	($345.2)	($716.4)	($104.3)	$119.1	($6.4)	$52.9	$61.3	$281.0
Financing Costs	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Common and Preferred Dividends	($158.7)	($39.8)	($41.0)	($41.1)	($41.1)	($163.0)	($41.1)	($42.4)	($42.1)	($42.1)	($167.7)	($168.3)
Other Financing Cash Flow Items	$65.7	$21.8	$26.0	$12.1	$0.2	$60.1	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
FINANCING CASH FLOW	($8.7)	($84.2)	($115.2)	($224.0)	($381.9)	($805.3)	($144.1)	$95.4	($48.5)	$10.8	($86.3)	$112.6
CHANGE IN CASH	$206.5	($80.0)	($141.7)	($83.8)	$26.5	($279.0)	($44.5)	$53.7	($54.3)	($17.5)	($62.6)	($0.0)
OP. CF BEFORE W/C PER SHARE	$2.70	$0.60	$0.54	$1.18	$0.37	$2.69	$0.54	$0.19	$0.71	$0.60	$2.04	$3.05
BALANCE SHEET												
Cash and Equivalents	$478.9	$398.9	$257.3	$173.5	$170.0	$170.0	$125.6	$179.3	$125.0	$107.5	$107.5	$107.5
Accounts Receivables	$338.3	$310.2	$297.2	$356.0	$374.4	$374.4	$309.9	$330.8	$330.8	$330.8	$330.8	$330.8
Inventory, Fuels and Materials	$159.6	$189.7	$212.5	$179.1	$154.0	$154.0	$146.8	$161.9	$161.9	$161.9	$161.9	$161.9
Other Current Assets	$308.9	$309.8	$317.5	$293.9	$91.4	$91.4	$152.4	$309.0	$309.0	$309.0	$309.0	$309.0
TOTAL CURRENT ASSETS	$1,285.7	$1,208.6	$1,084.5	$1,002.5	$789.8	$789.8	$734.7	$981.0	$926.7	$909.2	$909.2	$909.2
TOTAL PP&E	$4,766.9	$4,694.5	$4,755.8	$4,815.4	$4,888.2	$4,888.2	$4,952.3	$5,009.3	$5,100.2	$5,189.0	$5,189.0	$5,680.6
Other Long-term Assets	$1,309.2	$1,395.8	$1,418.4	$1,347.3	$1,087.2	$1,087.2	$1,055.4	$1,063.3	$1,064.1	$1,065.0	$1,065.0	$1,068.9
TOTAL ASSETS	$7,361.8	$7,298.9	$7,258.7	$7,165.2	$6,765.2	$6,765.2	$6,742.4	$7,053.6	$7,091.0	$7,163.3	$7,163.3	$7,658.7
Accounts Payables	$374.5	$318.6	$259.9	$332.7	$327.1	$327.1	$300.2	$356.6	$356.6	$356.6	$356.6	$356.6
Short-term Debt & Current Portions	$639.4	$457.4	$157.5	$7.1	$7.1	$7.1	$7.1	$7.1	($19.6)	($19.6)	($19.6)	$81.8
Other Current Liabilities	$336.5	$445.9	$460.3	$402.1	$283.4	$283.4	$375.5	$429.1	$429.1	$429.1	$429.1	$429.1
TOTAL CURRENT LIABILITIES	$1,350.4	$1,221.9	$877.7	$741.9	$617.6	$617.6	$682.8	$792.8	$766.1	$766.1	$766.1	$867.5
Long-term Debt and Other Obligations	$3,212.6	$3,211.3	$3,460.1	$3,454.4	$3,158.4	$3,158.4	$3,062.1	$3,212.1	$3,061.9	$3,114.8	$3,114.8	$3,294.4
Deferred Income Taxes	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$23.8	$47.6	$47.6	$146.2
Other Long-term Liabilities	$1,069.8	$1,096.5	$1,104.4	$1,099.5	$972.2	$972.2	$1,004.5	$1,021.0	$1,191.5	$1,191.5	$1,191.5	$1,191.5
TOTAL LONG-TERM LIABILITIES	$4,282.4	$4,307.8	$4,564.5	$4,553.9	$4,130.6	$4,130.6	$4,066.6	$4,233.1	$4,277.3	$4,354.0	$4,354.0	$4,632.1
Long-term Financings	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
TOTAL LIABILITIES	$5,632.8	$5,529.7	$5,442.2	$5,295.8	$4,748.2	$4,748.2	$4,749.4	$5,025.9	$5,043.4	$5,120.1	$5,120.1	$5,499.6
Equity and Additional Paid-in Capital	$1,675.8	$1,680.5	$1,691.0	$1,694.7	$1,700.1	$1,700.1	$1,703.8	$1,725.6	$1,725.6	$1,725.6	$1,725.6	$1,725.6
Retained Earnings	$83.7	$116.9	$149.6	$201.4	$334.1	$334.1	$323.8	$332.9	$352.8	$348.4	$348.4	$464.3
Other Stockholders' Equity	($30.5)	($28.2)	($24.1)	($26.7)	($17.2)	($17.2)	($34.6)	($30.8)	($30.8)	($30.8)	($30.8)	($30.8)
TOTAL STOCKHOLDERS' EQUITY	$1,729.0	$1,769.2	$1,816.5	$1,869.4	$2,017.0	$2,017.0	$1,993.0	$2,027.7	$2,047.6	$2,043.2	$2,043.2	$2,159.1
TOTAL LIABILITIES & EQUITY	$7,361.8	$7,298.9	$7,258.7	$7,165.2	$6,765.2	$6,765.2	$6,742.4	$7,053.6	$7,091.0	$7,163.3	$7,163.3	$7,658.7

Sources: Company reports; RBC Capital Markets estimates. Lasan Johong - (212) 428-6462; lasan.johong@rbccm.com

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Ratings

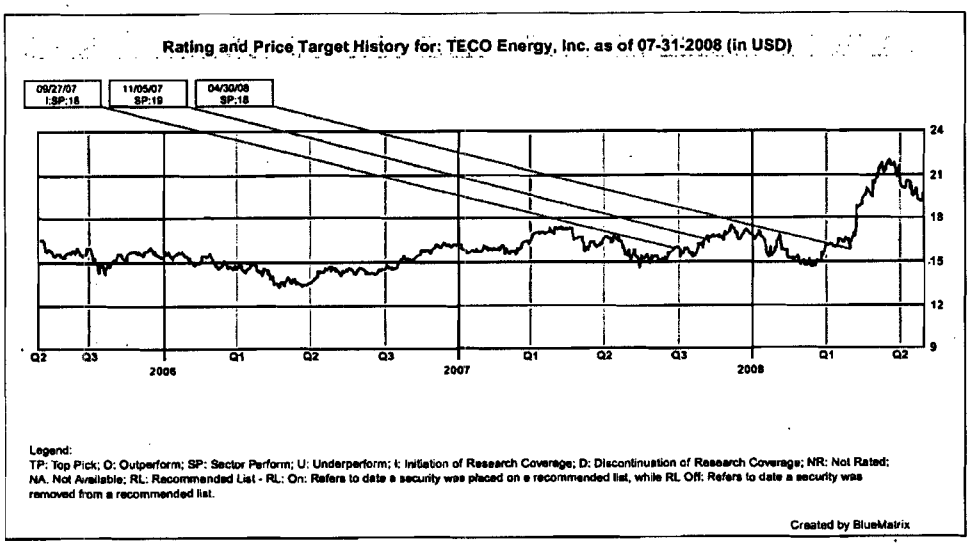
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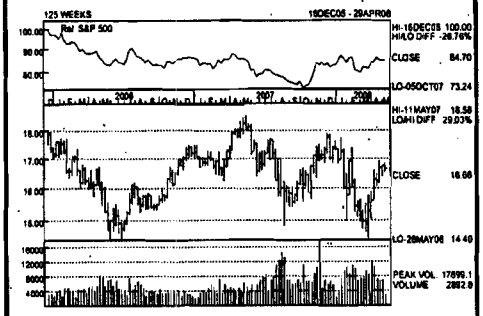
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RBC Capital Markets Corp.

Lasan Johong (Analyst)
(212) 428-6462; lasan.johong@rbccm.com

Emily Christy (Associate)
(212) 428-6970; emily.christy@rbccm.com

Ella Faynzilberg (Associate)
(212) 428-6492; ella.faynzilberg@rbccm.com

FY Dec	2007A	2008E	2009E	
EPS (Op) - FD	1.07	0.95	1.26	
Prev.		1.02	1.12	
P/E	15.6x	17.5x	13.2x	
EBITDA/Share - FD	3.24	3.62	4.07	
Prev.	3.38	3.44	3.62	
CFPS	2.69	2.60	2.98	
Prev.	2.79	2.70	2.85	
P/CFPS	6.2x	6.4x	5.6x	
FCFPS - FD	4.49	0.95	0.01	
Prev.	4.50	0.05	0.46	
P/FCF	3.7x	17.5x	NM	
EPS (Op) - FD	**Q1**	**Q2**	**Q3**	**Q4**
2007	0.20A	0.25A	0.39A	0.22A
Prev.				0.23A
2008	0.15A	0.21E	0.37E	0.24E
EBITDA/Share - FD				
2007	0.72A	0.74A	0.96A	0.82A
Prev.				0.96A
2008	0.76A	0.92E	1.04E	0.91E
CFPS				
2007	0.60A	0.54A	1.18A	0.37A
Prev.				0.48A
2008	0.54A	0.60E	0.79E	0.67E

All values in USD unless otherwise noted.

PRICE TARGET REVISION | COMMENT

APRIL 30, 2008

TECO Energy, Inc. (NYSE: TE)

Weak 1Q08 results reflect poor FL economy and mild weather

Sector Perform
Above Average Risk

Price:	16.66	Price Target:	18.00 ↓ 19.00
		Implied All-In Return:	12.7%
Shares O/S (MM):	209.0	Market Cap (MM):	3,482
Dividend:	0.78	Yield:	4.7%

TE reported 1Q08 adjusted EPS of $0.15 vs. our $0.19 estimate and consensus of $0.21

We are maintaining our CNAV of $20 and Sector Perform rating, while lowering target price to $18

After keeping its head above water in 2007 amidst the FL economic weakness, TE faced the music in 1Q08, as expected. Utility results reflected customer growth of less than 1%, worsened by mild weather. Although we expect this trend to continue throughout 2008, higher coal production and spot market sales should mitigate these results to some degree. Thus, we maintain Sector Perform due to the strong dividend yield and increased coal production.

Lowering EPS estimate for 2008

After adjusting for lower 2008 growth rates, we decreased our 2008E EPS to $0.95 from $1.02 or at the low end of guidance of $0.95 - $1.10.

Upside from coal in 2009 increases in our estimates to $1.26 from $1.12

Although coal output is mostly hedged in 2008 at an average price of $58/ton, TE intends to ramp production to 10.5-11.5 MM tons in order to capture the benefits of the robust spot market. For 2009 TE is 40% hedged, leaving room for favorable pricing fundamentals to hit the books.

Low utility ROEs should prompt regulatory relief and growth beyond 2009

Without strong customer growth to offset higher O&M costs, TE should earn at the low end or below its approved ROEs at both Tampa Electric (10.75%-12.75%) and Peoples Gas (10.25%-12.25%). Accordingly, TE expects to file rate cases in 2008/2009, with rates taking effect approximately 8 months after filing. Since the last rate case at Tampa Electric took place 16 years ago in 1992, we expect this process to be relatively drawn out with extensive public input. We believe the end result will be mildly favorable to TE, but if rates are not in place until 2010 the company may have to endure lean years at Tampa Electric in the meanwhile.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Disclosures, please see Page 6.

Details

Our thesis on TE: Lost momentum due to mortgage debacle is likely to keep a lid on investor interest, while a strong dividend yield and coal fundamentals make up for lack of utility performance through end of 2009.

This is the cornerstone of our Sector Perform rating and $18 target. Beyond the next 18 months, we believe that the Tampa housing market is likely to make a comeback, which should support strong utility fundamentals. This strength should be augmented by rate increases at both Tampa Electric and Peoples Gas, and continued rate based investments that should help to grow earnings. However, as with any cyclical commodity businesses, we are concerned that coal fundamentals will quickly weaken in the face of high commodity prices (there's no better cure for high prices than high prices, and there's no better cure for low prices than low prices), recovery of foreign coal mines that were temporarily shut-down due to multiple issues, and, in the long-run, compounded by the negativity towards the "dirty" nature of coal. Therefore, we believe that while the going is good and the commodity is in the height of the up-cycle that management should look to unload the coal business. However, we understand the practical consequences of unloading coal at this time, given the weakness in the utilities businesses, so we believe that the disposition of the coal business will have to wait at least until late 2009. We can only hope that the coal fundamentals remain strong through late 2009. However, we do not believe that this is likely.

Longer-term there are worse concerns: Increasing power prices could trigger regulatory ire

If the power market continues on its fundamental march, we believe that power prices will escalate sharply and could double or triple from here. This introduces a new danger: Regulatory interference leading to price "mitigation plans" that destroy utility fundamentals. This is particularly true if natural gas prices and construction prices for power plants continue to strengthen, and no solution to clean coal is made ready in time to avoid ever escalating power prices. In fact, the only help we may get on power price relief may be falling natural gas prices due to LNG starting in 2010 through 2013.

Main risks in the near-term depend much on weather and economy

Perhaps this is no different than pointing to the fact that practically everyone has a brain, but how consumers use their tax rebate checks, whether we have a cool, normal or warm summer, what's in store for the economy, consequences of fed action, impact on housing markets and return of the capital markets are no easy matters to decipher going forward. Some interesting combinations and unanticipated consequences could have a strong bearing on utility results, in general. In our opinion, this is particularly accentuated for TECO by the fact that the Florida housing market is one of the worse performing markets in the country. Therefore, we believe that the effect of the obvious drivers will have a bit more effect on TECO than other names.

Possible delay of peakers and new plant investments not a concern

Given reduced growth in FL, the need for new generation may be pushed out by a year or so. We do not believe that this delay in the timing of new gas-fired peaking and intermediate plants coming on-line is of any serious consequence. In fact the delay may prove to be fortuitous for TECO as the investment decision may be made easier.

Near-term coal fundamentals aren't likely to stick around for ever

We are concerned that coal margins may not stay strong for long as foreign mines that were temporarily shut down due to issues of mine collapse, flooding, lack of infrastructure or maintenance work start coming back mid-to-late this year through the early part of 2009. The US alone is estimated to have 250 years worth of coal supplies and, like TECO, due to the abundance of the resource, it is not difficult to raise production to take "advantage" of high prices. When potential supply far outweighs potential demand, volatility in commodity prices tend to get corrected quickly.

China to shut down heavily polluting plants for at least two months around the time of the Olympics

Concerned about air quality, China is ordering the closure of many highly polluting sources in the industrial sector, including coal-fire power plants, for two months leading up to and through the Beijing Olympics. We are not certain what the full impact of this order will be, but China has been cited as one of the largest contributing factors for increasing coal prices, particularly that of metallurgical coal, which TECO produces more of than steam coal. Also, given that the only likely recourse for Chinese coal producers during that time is to either shut-down coal mines or continue mining the coal, but export it, we believe that Chinese miners will choose to export, which should have a material effect on coal prices at least temporarily. Given that China is the number 1 or number 2 producer and consumer of coal in the world, we believe that the impact is not going to be small.

Table 1. Quarterly Segment Results

Segment	1Q08	1Q07	% Change	Notes
Tampa Electric				
Adjusted Net Income ($MM)	$15.9	$21.8	-27.1%	-Low customer growth (0.6%)
Customers (MM)	669	665	0.6%	-10% below average degree days
kWh Sales (MM)	4,215	4,305	-2.1%	-Higher O&M from planned outages
Peoples Gas				
Adjusted Net Income ($MM)	$10.0	$11.0	-9.1%	-Low customer growth (0.3%)
Customers (MM)	336	335	0.3%	-Low sales to housing market industrial participants
Therm Sales (MM)	367	316	16.0%	+Higher sales to power generation due to coal outages
TECO Coal*				
Adjusted Net Income ($MM)	$6.9	$11.7	-41.0%	-Higher mix of steam coal vs. metallurgic
Production (MM tons)	2.4	0.8	200.0%	-Hedges in place mitigate high coal prices for 2008
*Excludes synfuel operations				
TECO Guatemala				
Adjusted Net Income ($MM)	$10.5	$10.3	1.9%	+Solid customer growth
				+Lower interest expense

Source: RBC Capital Markets and Company Data

Valuation

Our calculated net-asset-value (CNAV) is $20. Our target price is $18, a 10% discount to the CNAV. We apply the discount due to the weak FL economy and continued housing slump. We determine our CNAV based on a full discounted cash flow model using an average of Free Cash Flow to the Firm and Free Cash Flow to Equity after the sale of Transport. We apply a multistage growth rate with a terminal multiple of about 12.3x based on a dynamic WACC with an initial rate of 6.95%. The terminal value is calculated approximately 25 years forward.

As a regulated electric utility TE should produce consistent earnings and steady dividends for years to come. Although the coal business and Guatemala investment steals managerial attention from the growing utility, the company's recent sale of its transport business reduced the risk profile for the company. This sale combined with the company's accelerated debt repayment plan strengthened the balance sheet and led to upgrades from credit agencies in 2007.

Price Target Impediment

Commodity prices, weather, regulatory risk, access to capital markets, construction cost overruns, and potential environmental legislation.

Company Description

TECO Energy, Inc. is a holding company operating through its subsidiaries, Tampa Electric, Peoples Gas, TECO Coal, and TECO Guatemala. Tampa Electric provides electric utility service to 668,000 customers in West Central Florida and distributes natural gas to 334,000 customers via the Peoples Gas System. TECO Coal produces 9-10 million tons of metallurgic and steam coal annually through its 41 Central Appalachian mines. TECO Guatemala owns an interest in an electric utility and operates two power plants that are contracted long-term.

TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
SUPPLEMENTAL: DECEMBER 31, 2008

Ticker Symbol	TE
Assumptions	**Rate**
DCF Start Year	2008
DCF Start Month	4
Current Beta of Company	0.90
Static or Variable Beta (S/V)	V
Normalized Long-Term Risk-free Rate	5.00%
Market Return	12.00%
Current Equity Discount Rate	11.30%
Current Cost of Preferred Stock	0.00%
Current Cost of Debt Capital	6.76%
Current WACC	6.95%
Basic Shares Outstanding (MM)	209.7
Diluted Shares Outstanding (MM)	210.6
Assumed Tax Rate	39%
Assumed Inflation Rate	3.50%
Minimum Cash Balance Required	$100
Revolver Overflow Alert	
Current Stock Price of TE ($/Sh.)	**$16.66**
Current Book Value per Share	**$9.46**
Current Price-to-Book Ratio	**1.8 x**
Current Market Cap ($MM)	**$3,493.6**
Current Market Ent. Value ($MM)	**$6,562.8**
Current Market Ent. Value Per Sh.	**$31.30**
Current Book Ent. Value ($MM)	**$5,062.2**
Current Book Ent. Value Per Sh.	**$24.14**

Names of Regions	Name
Region 1	Tampa Electric
Region 2	Peoples Gas (PGS)
Region 3	Coal
Region 4	Transport
Region 5	Guatemala
Region 6	Corporate/Other

		Per Share Estimates				
Year	Quarter	EPS	Oper. CF	EBITDA	FCF	EFCF
2007	1	$0.20	$0.60	$0.72	$0.38	($0.02)
2007	2	$0.25	$0.54	$0.74	$0.20	($0.34)
2007	3	$0.39	$1.18	$0.96	$0.82	($0.21)
2007	4	$0.22	$0.37	$0.82	$3.08	$1.30
	Total	$1.07	$2.69	$3.24	$4.49	$0.73
2008	1	$0.15	$0.54	$0.76	$0.64	($0.02)
2008	2	$0.21	$0.60	$0.92	$0.02	($0.09)
2008	3	$0.37	$0.79	$1.04	$0.20	($0.00)
2008	4	$0.24	$0.67	$0.91	$0.08	($0.00)
	Total	$0.95	$2.60	$3.62	$0.95	($0.11)
2009						
	Total	$1.26	$2.98	$4.07	$0.01	($0.01)

	Estimated Ratios				
Year	P/E	P/Oper. CF	EV/EBITDA	EV/FCF	P/EFCF
2007	15.6 x	6.2 x	9.7 x	7.0 x	22.9 x
2008	17.5 x	6.4 x	8.6 x	33.1 x	N/M
2009	13.2 x	5.6 x	7.7 x	N/M	N/M

Capital Structure		
Capital Type	Amount	%
03/2008	($MM)	
Equity Capital	$1,993.0	39%
Preferred Stock	$0.0	0%
Total Debt	$3,069.2	61%
Total	$5,062.2	100%

Cost of Capital	
Type	% of Total
Equity	4.45%
Preferred	0.00%
Debt	2.50%
WACC	6.95%
	154.00%

Net Asset Value Cash Flow Valuation

Terminal Value	Multiple
Multiple of FCF	12.3 x
Term. Val. in Months	297

Category	Valuation
03/2008	
Calc. Ent. Value	$7,282.1
Preferred Stock	$0.0
Total Debt	($3,069.2)
Equity Value	$4,212.9

Shares	NAV	Average
Basic	$20.09	$19.57
Diluted	$20.00	$19.49

Ratios	P/NAV	P/NAV
Basic	0.8 x	0.9 x
Diluted	0.8 x	0.9 x

Ratios	P/Book
Basic	1.8 x

Terminal Value	Multiple
Multiple of EFCF	12.0 x
Term. Val. in Months	297

Category	Valuation
Equity FCF Value	$3,876.4
Cash Balance @ Start of Valuation	$118.1
Equity Value	$3,994.5

Shares	NAV
Basic	$19.05
Diluted	$18.97

Ratios	P/NAV
Basic	0.9 x
Diluted	0.9 x

Criteria	Multiple	2009E	Multiple Analysis
Net Debt per Share	N/A	$21.30	N/A
Basic Shares Out	N/A	209.7	N/A
P/E	14.3 x	$1.26	$18.00
P/CF	6.0 x	$2.98	$18.00
EV/EBITDA	9.7 x	$4.07	$18.00
Average			$18.00

Sources: Company reports; RBC Capital Markets estimates; Lasan Johong (212) 428-6462 lasan.johong@rbccm.com; Emily Christy (212) 428-6970; Ella Faynzilberg (212) 428-6492.

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TE				2007					2008			
SUMMARY FINANCIALS ($ Millions)	2006	Q1A	Q2A	Q3A	Q4E	2007	Q1E	Q2E	Q3E	Q4E	2008	2009
GENERATION (MWh)	20,051.7	4,556.6	5,030.8	6,025.6	5,312.4	20,925.4	4,585.9	5,096.6	5,945.7	4,992.8	20,621.0	20,715.5
INCOME STATEMENT												
TOTAL NET REVENUE	$3,469.3	$821.3	$866.5	$990.0	$858.3	$3,536.1	$791.7	$729.2	$926.8	$825.2	$3,272.9	$3,699.2
DOC (Incl. Cost of Fuel and Plant O&M)	$2,015.0	$511.4	$539.2	$607.5	$495.9	$2,154.0	$519.7	$453.8	$591.9	$522.2	$2,087.6	$2,415.0
Other Direct Operating Costs	$732.7	$159.9	$172.8	$181.0	$189.4	$703.1	$129.4	$101.8	$132.4	$131.1	$494.7	$502.5
General & Administrative Expenses	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
DIRECT OPERATING COSTS	$2,747.7	$671.3	$712.0	$788.5	$685.3	$2,857.1	$649.1	$555.6	$724.3	$653.3	$2,582.3	$2,917.5
GROSS PROFIT	$721.6	$150.0	$154.5	$201.5	$173.0	$679.0	$142.6	$173.6	$202.5	$172.0	$690.7	$781.6
Depreciation, Amortization and Expl. Exp.	$282.2	$71.6	$66.8	$59.8	$65.5	$263.7	$65.0	$59.9	$64.9	$66.9	$256.6	$263.3
Other Operating Costs	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
TOTAL OPERATING COSTS	$3,029.9	$742.9	$778.8	$848.3	$750.8	$3,120.8	$714.1	$615.5	$789.2	$720.1	$2,838.9	$3,180.8
OPERATING INCOME	$439.4	$78.4	$87.7	$141.7	$107.5	$415.3	$77.6	$113.7	$137.6	$105.1	$434.0	$518.4
Non-Operating Expenses	($153.6)	($69.8)	($42.4)	($41.8)	($219.4)	($373.4)	($24.0)	($9.4)	($41.2)	($28.6)	($103.2)	($131.9)
EARNINGS BEFORE INTEREST & TAXES	$593.0	$148.2	$130.1	$183.5	$326.9	$788.7	$101.6	$123.1	$178.9	$133.7	$537.3	$650.3
Net Interest Expense, Incl. TCP Dividend	$278.3	$67.1	$65.7	$63.9	$61.1	$257.8	$57.7	$52.2	$52.4	$52.4	$214.7	$216.1
PRE-TAX INCOME	$314.7	$81.1	$64.4	$119.6	$265.8	$530.9	$43.9	$70.9	$126.5	$81.3	$322.6	$434.2
Income Tax Expense	$118.7	$31.8	$25.3	$47.6	$109.5	$214.2	$13.1	$27.6	$49.3	$31.7	$121.8	$169.4
Minority Interest, Pref. Dividend & Other	($69.6)	($23.5)	($20.3)	($20.8)	($17.6)	($82.2)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
NET INCOME PRE-X-ITEMS	$234.9	$42.1	$33.1	$82.0	$46.9	$224.1	$30.8	$43.2	$77.1	$49.6	$200.8	$264.9
Extraordinary Items & Other	($32.1)	($30.7)	($11.0)	($10.8)	($127.0)	($179.5)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
NET INCOME	$267.5	$72.8	$73.7	$92.8	$173.9	$413.2	$30.8	$43.2	$77.1	$49.6	$200.8	$264.9
NET INCOME PRE-X-ITEMS PER SHARE	$1.13	$0.20	$0.25	$0.39	$0.22	$1.07	$0.15	$0.21	$0.37	$0.24	$0.95	$1.26
Extraordinary Items & Other	($0.15)	($0.15)	($0.05)	($0.05)	($0.61)	($0.86)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
NET INCOME PER SHARE	$1.28	$0.35	$0.35	$0.44	$0.83	$1.97	$0.15	$0.21	$0.37	$0.24	$0.95	$1.26
CASH FLOW STATEMENT												
Adjustments to Revenue and Income	($3.4)	$4.8	($18.7)	$6.6	($10.7)	($18.0)	$14.8	($1.0)	($0.8)	($0.9)	$12.1	($3.8)
Depreciation, Amortization and Expl. Exp.	$293.7	$71.6	$66.8	$59.8	$65.5	$263.7	$65.0	$59.9	$64.9	$66.9	$256.6	$263.3
Deferred Income Taxes	$112.5	$29.3	$8.3	$53.0	$94.2	$184.8	$15.5	$24.8	$24.8	$24.8	$90.0	$102.8
Other Operating Cash Flow Items	($86.0)	($53.6)	($17.0)	$35.2	($244.7)	($280.1)	($12.0)	$0.0	$0.0	$0.0	($12.0)	$0.0
Changes in Working Capital	$3.8	$34.0	($38.3)	($66.9)	$61.6	($9.6)	$38.9	$0.0	$0.0	$0.0	$38.9	$0.0
OPERATING CASH FLOW	$588.1	$158.9	$74.8	$180.5	$139.8	$554.0	$153.0	$127.0	$166.1	$140.4	$586.4	$627.2
Cap. Ex., Acquisitions, Investments	($452.1)	($154.7)	($146.8)	($55.6)	($75.8)	($432.9)	($46.1)	($122.8)	($110.8)	($123.8)	($403.4)	($651.7)
Proceeds from Sales	$100.4	$0.0	$45.5	$15.3	$344.4	$405.2	($7.3)	$0.0	$0.0	$0.0	($7.3)	$0.0
Other Investing Cash Flow Items	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	($33.0)	($45.0)	($32.0)	($110.0)	($108.3)
INVESTING CASH FLOW	($351.7)	($154.7)	($101.3)	($40.3)	$268.6	($27.7)	($53.4)	($155.8)	($155.8)	($155.8)	($520.7)	($760.0)
Net Equity Financing	$12.5	$3.6	$4.8	$1.4	$4.2	$14.0	$1.3	$0.0	$0.0	$0.0	$1.3	$0.0
Net Debt Capital & Other Financing	$71.8	($69.8)	($105.0)	($196.4)	($345.2)	($716.4)	($104.3)	$10.6	($10.3)	$15.4	($88.6)	$132.8
Financing Costs	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Common and Preferred Dividends	($158.7)	($39.8)	($41.0)	($41.1)	($41.1)	($163.0)	($41.1)	$0.0	$0.0	$0.0	($41.1)	$0.0
Other Financing Cash Flow Items	$65.7	$21.8	$26.0	$12.1	$0.2	$60.1	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
FINANCING CASH FLOW	($8.7)	($84.2)	($115.2)	($224.0)	($381.9)	($805.3)	($144.1)	$10.6	($10.3)	$15.4	($128.4)	$132.8
CHANGE IN CASH	$206.5	($80.0)	($141.7)	($83.8)	$26.5	($279.0)	($44.5)	($18.1)	$0.0	$0.0	($62.6)	($0.0)
OP. CF BEFORE W/C PER SHARE	$2.70	$0.60	$0.54	$1.18	$0.37	$2.69	$0.54	$0.60	$0.79	$0.67	$2.60	$2.98
BALANCE SHEET												
Cash and Equivalents	$478.9	$398.9	$257.3	$173.5	$170.0	$170.0	$125.6	$107.5	$107.5	$107.5	$107.5	$107.5
Accounts Receivables	$338.3	$310.2	$297.2	$356.0	$374.4	$374.4	$309.9	$309.9	$309.9	$309.9	$309.9	$309.9
Inventory, Fuels and Materials	$159.6	$189.7	$212.5	$179.1	$154.0	$154.0	$146.8	$146.8	$146.8	$146.8	$146.8	$146.8
Other Current Assets	$308.9	$309.8	$317.5	$293.9	$91.4	$91.4	$152.4	$152.4	$152.4	$152.4	$152.4	$152.4
TOTAL CURRENT ASSETS	$1,285.7	$1,208.6	$1,084.5	$1,002.5	$789.8	$789.8	$734.7	$716.6	$716.6	$716.6	$716.6	$716.6
TOTAL PP&E	$4,766.9	$4,694.5	$4,755.8	$4,815.4	$4,888.2	$4,888.2	$4,952.3	$5,048.2	$5,139.0	$5,227.9	$5,227.9	$5,724.6
Other Long-term Assets	$1,309.2	$1,395.8	$1,418.4	$1,347.3	$1,087.2	$1,087.2	$1,055.4	$1,056.4	$1,057.2	$1,058.1	$1,058.1	$1,061.9
TOTAL ASSETS	$7,361.8	$7,298.9	$7,258.7	$7,165.2	$6,765.2	$6,765.2	$6,742.4	$6,821.1	$6,912.8	$7,002.6	$7,002.6	$7,503.1
Accounts Payables	$374.5	$318.6	$259.9	$332.7	$327.1	$327.1	$300.2	$300.2	$300.2	$300.2	$300.2	$300.2
Short-term Debt & Current Portions	$639.4	$457.4	$157.5	$7.1	$7.1	$7.1	$7.1	$3.3	($1.6)	($1.6)	($1.6)	$107.9
Other Current Liabilities	$336.5	$445.9	$460.3	$402.1	$283.4	$283.4	$375.5	$375.5	$375.5	$375.5	$375.5	$375.5
TOTAL CURRENT LIABILITIES	$1,350.4	$1,221.9	$877.7	$741.9	$617.6	$617.6	$682.8	$679.0	$674.1	$674.1	$674.1	$783.6
Long-term Debt and Other Obligations	$3,212.6	$3,211.3	$3,460.1	$3,454.4	$3,158.4	$3,158.4	$3,062.1	$3,165.8	$3,160.4	$3,175.8	$3,175.8	$3,199.0
Deferred Income Taxes	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$24.8	$49.7	$74.5	$74.5	$177.4
Other Long-term Liabilities	$1,069.8	$1,096.5	$1,104.4	$1,099.5	$972.2	$972.2	$1,004.5	$956.1	$997.0	$1,037.9	$1,037.9	$1,201.5
TOTAL LONG-TERM LIABILITIES	$4,282.4	$4,307.8	$4,564.5	$4,553.9	$4,130.6	$4,130.6	$4,066.6	$4,146.8	$4,207.1	$4,288.2	$4,288.2	$4,577.9
Long-term Financings	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
TOTAL LIABILITIES	$5,632.8	$5,529.7	$5,442.2	$5,295.8	$4,748.2	$4,748.2	$4,749.4	$4,825.8	$4,881.2	$4,962.3	$4,962.3	$5,361.5
Equity and Additional Paid-in Capital	$1,675.8	$1,680.5	$1,691.0	$1,694.7	$1,700.1	$1,700.1	$1,703.8	$1,703.8	$1,703.8	$1,703.8	$1,703.8	$1,703.8
Retained Earnings	$83.7	$116.9	$149.6	$201.4	$334.1	$334.1	$323.8	$326.1	$362.4	$371.1	$371.1	$472.4
Other Stockholders' Equity	($30.5)	($28.2)	($24.1)	($26.7)	($17.2)	($17.2)	($34.6)	($34.6)	($34.6)	($34.6)	($34.6)	($34.6)
TOTAL STOCKHOLDERS' EQUITY	$1,729.0	$1,769.2	$1,816.5	$1,869.4	$2,017.0	$2,017.0	$1,993.0	$1,995.3	$2,031.6	$2,040.3	$2,040.3	$2,141.6
TOTAL LIABILITIES & EQUITY	$7,361.8	$7,298.9	$7,258.7	$7,165.2	$6,765.2	$6,765.2	$6,742.4	$6,821.1	$6,912.8	$7,002.6	$7,002.6	$7,503.1

Sources: Company reports; RBC Capital Markets estimates. Lasan Johong - (212) 428-6462; lasan.johong@rbccm.com

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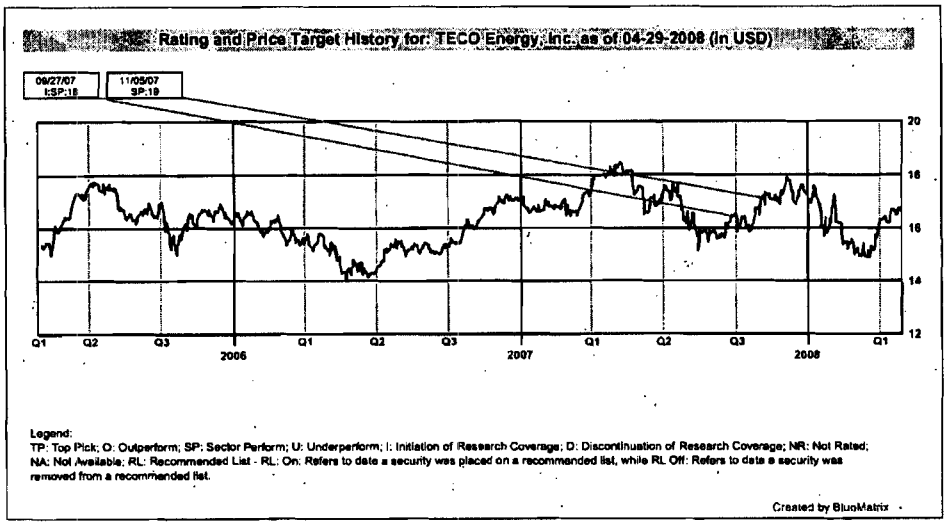
Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.
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Sector Perform (SP): Returns expected to be in line with sector average over 12 months.
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			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY[TP/O]	512	46.42	201	39.26
HOLD[SP]	496	44.97	125	25.20
SELL[U]	95	8.61	19	20.00



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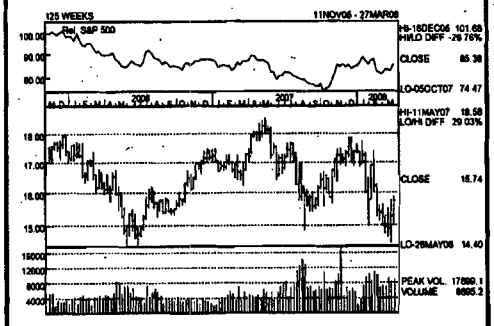
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RBC Capital Markets Corp.

Lasan Johong (Analyst)
(212) 428-6462; lasan.johong@rbccm.com

Emily Christy (Associate)
(212) 428-6970; emily.christy@rbccm.com

Ella Faynzilberg (Associate)
(212) 428-6492; ella.faynzilberg@rbccm.com

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FIRST GLANCE | COMMENT
MARCH 28, 2008

TECO Energy, Inc. (NYSE: TE; 15.74)

Coal segment should mitigate slower growth at utes, but not for long

Sector Perform
Above Average Risk

Neutral: Short-term lift from coal projections, but neutral overall performance

Coal leads the way for TECO in 2008. TE increased coal output guidance to 10.5 MM tons for 2008 from 9.5-10 MM tons and to 11.5 in 2009, with favorable pricing of $58/ton in 2008. This should partially offset expected 9% ROE at utilities this year. TECO is currently 70% price-hedged for 2009, expects its average price to increase by $7-$10/ton and coal net income to double, despite oil price expectations at $100. However, we feel that marginal price of coal and supply/demand fundamentals would dictate lower prices and margins in 2009 and beyond.

Economy continues to weigh on results. TE does not expect housing markets to turn until 2009/2010 and hedged its expectations for 2008, citing the 40% drop in housing starts in 2007. Also, demographics expected at 1.0%-1.5% growth vs. average historical 2%+ rate.

Capital expenditures continue to add to rate base. Despite FL economy weakness, TE's growth projects continue, since many programs are necessary for reliability and are state mandated. Expected $2.9B in capex through 2012 includes peaker builds, T&D hardening and environmental upgrades.

TE expects to file for rate relief in early-2009. As TE projects ROE's of 9% at the gas (authorized 10.25-12.25%) and electric utilities (authorized 10.75-12.75%), it plans to file a rate case in early-2009. We are concerned that the profitable coal business and lower interest rate environment may catch regulatory scrutiny; however, Commission has generally put utility's financial health first. We assume no incremental earnings at this early stage.

Longer-term baseload needs remain question mark. Beyond planned peakers in 2009-2010 and possible 2013 CCGT, TE expects growing power gap to necessitate major capacity addition in next decade. With carbon issues looming and limited renewable resources, we believe nuclear may make sense. TE could invest in a shared plant.

Coal assets ripe for sale? TE is open to sell, but only at right price. However, given current strong fundamentals, timing may be ripe to redeploy capital in coal business to its core operations.

Conclusion: We see TE's stock price rising from current levels driven by 5% dividend-yield, coal business and expected rate-based investments, but not enough to outperform peers.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Disclosures, please see Page 3.

Company Description

TECO Energy, Inc. is a holding company operating through its subsidiaries, Tampa Electric, Peoples Gas, TECO Coal, and TECO Guatemala. Tampa Electric provides electric utility service to 668,000 customers in West Central Florida and distributes natural gas to 334,000 customers via the Peoples Gas System. TECO Coal produces 9-10 million tons of metallurgic and steam coal annually through its 41 Central Appalachian mines. TECO Guatemala owns an interest in an electric utility and operates two power plants that are contracted long-term.

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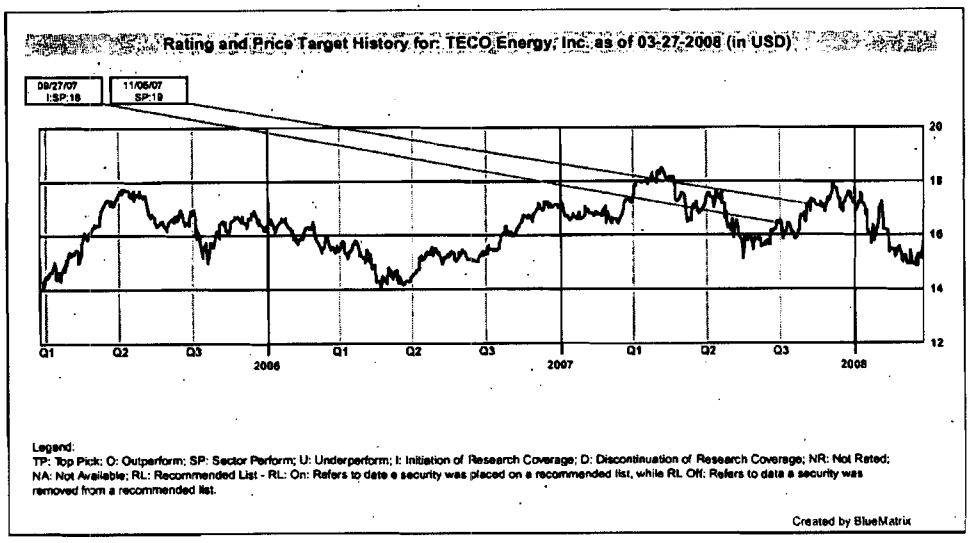
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			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY[TP/O]	517	46.88	217	41.97
HOLD[SP]	496	44.97	131	26.41
SELL[U]	90	8.16	19	21.11



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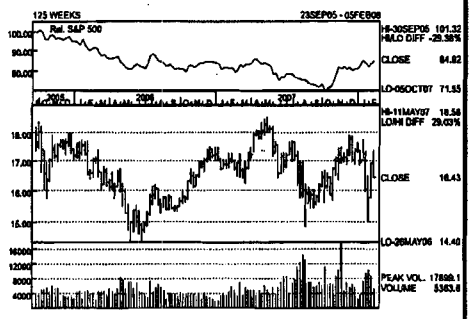
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RBC Capital Markets Corp.

Lasan Johong (Analyst)
(212) 428-6462; lasan.johong@rbccm.com

Emily Christy (Associate)
(212) 428-6970; emily.christy@rbccm.com

Ella Faynzilberg (Associate)
(212) 428-6492; ella.faynzilberg@rbccm.com

FY Dec	2006A	2007A	2008E	2009E
EPS (Op) - FD	1.13	1.07	1.02	1.12
Prev.		1.03	1.15	1.27
P/E	14.5x	15.4x	16.1x	14.7x
EBITDA/Share - FD	3.46	3.38	3.44	3.62
Prev.		3.03	3.54	
CFPS	2.70	2.79	2.70	2.85
Prev.		2.81	2.77	2.93
P/CFPS	6.1x	5.9x	6.1x	5.8x
FCFPS - FD	2.08	4.50	0.05	0.46
Prev.		1.67	2.84	1.35
P/FCF	7.9x	3.7x	NM	35.7x
EPS (Op) - FD	Q1	Q2	Q3	Q4
2006	0.23A	0.26A	0.40A	0.24A
2007	0.20A	0.25A	0.39A	0.23A
Prev.			0.38A	0.20E
EBITDA/Share - FD				
2006	0.75A	0.91A	1.04A	0.76A
2007	0.72A	0.74A	0.96A	0.96A
Prev.				0.62E
CFPS				
2006	0.81A	0.34A	1.15A	0.40A
2007	0.60A	0.54A	1.18A	0.48A
Prev.			1.07A	0.60E

All values in USD unless otherwise noted.

COMPANY UPDATE | COMMENT

FEBRUARY 6, 2008

TECO Energy, Inc. (NYSE: TE)

Solid fourth quarter and year overshadowed by weak 2008 guidance

Sector Perform
Above Average Risk

Price:	16.43	Price Target:	19.00
		Implied All-In Return:	20.4%
Shares O/S (MM):	209.0	Market Cap (MM):	3,434
Dividend:	0.78	Yield:	4.7%

TE reported 4Q07 adjusted EPS of $0.23 vs. our $0.20 estimate and consensus of $0.19

We are decreasing our CNAV to $20 from $22, while maintaining our target price of $19 and Sector Perform rating. Teco reported strong results in 2007, both strategically and operationally, and seems to have survived the weakened FL economy thus far. However, we believe the slow decline will be more apparent in 2008 results where one-time measures such as the sale of TECO Transport and the debt reduction plan do not take center stage. At this time we maintain our Sector Perform rating due to the strong dividend yield, lower interest expense and moderate rate-based growth at Tampa Electric, but we will keep a close eye out on economic conditions in FL, capex spending program, and regulatory developments.

2007 results marked by strong strategic execution. TE reported adjusted EPS of $1.07 vs. our estimate of $1.03 and consensus of $1.02. Overshadowing the solid operations in 2007 were the positive strategic signals and execution from Teco including the sale of TECO Transport, $765MM reduction in debt, upgrade to investment grade by Moody's and S&P, and the cancellation of the expensive and unintentionally misleading IGCC project. For Q4, strong results at Tampa Electric and Guatemala were slightly offset by weakness at Peoples Gas. A full segment breakdown is located in the Details section below.

Guidance of $0.95 - $1.10 for 2008 reflects weak expectations across all segments, largely due to poor economic conditions in Florida. Accordingly, we are lowering our 2008 and 2009 estimates to $1.02 and $1.12 from $1.15 and $1.27. Despite strong progress made by TE in 2007 on many strategic levels, we believe that factors largely beyond the company's control will hinder results over the next year or two. Obstacles include slowed growth at Tampa Electric and Peoples Gas, rising O&M costs, lagging regulatory rate relief, and scheduled maintenance outages in Guatemala.

Upside growth potential could return beyond 2008. If TE can keep its head above water in 2008, ongoing growth potential beyond 2008 includes possible rate increases at the utilities, $400MM in expected annual rate-base growth at Tampa Electric, potentially greater exposure to positive coal fundamentals for 2009, and perhaps a new 200MW coal plant in Guatemala.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Disclosures, please see Page 7.

Details

Key 2007 Strategic Events

- **The company successfully completed the sale of TECO Transport for $405MM gross.**

We believe that selling this segment allows Teco to focus on its core utility businesses and reduces the overall risk profile of the company. This deal exemplifies solid execution of a strategically favorable decision.

- **TE retired $765MM in debt.**

With a balance sheet that had been damaged by previous strategic blunders, such as the entry into the merchant power business, Teco outlined this debt retirement plan as a key objective for 2007. In addition to lowering the interest expense going forward, this move helped to garner investment grade ratings from Moody's and S&P. The balance sheet is a fading concern for the company and TE should now be able to focus on growth opportunities with a relatively clean slate.

- **TE canceled plans for an IGCC plant.**

Teco cited rising costs and uncertainty surrounding carbon capture and sequestration technologies as reasons for the cancellation, despite support from the state legislature for the project. We do not believe IGCC plants are economical and therefore fully supported this decision.

Table 1. Quarterly Segment Results

Segment	4Q07	4Q06	% Change	Notes
Tampa Electric				
Adjusted Net Income ($MM)	$29.0	$19.4	49.5%	+Low O&M and property tax expenses
Customers (MM)	668	659	1.3%	+Positive weather effects
kWh Sales (MM)	4,707	4,585	2.7%	-Low customer growth
Peoples Gas				
Adjusted Net Income ($MM)	$6.3	$7.0	-10.0%	-Low customer growth
Customers (MM)	334	331	0.8%	-Low sales to housing market industrial participants
Therm Sales (MM)	346	287	20.6%	-Negative weather effects
TECO Coal*				
Adjusted Net Income ($MM)	$9.4	$10.3	-8.7%	-Higher cost of production
Production (MM tons)	1.0	0.9	11.1%	+Higher selling price, but mostly hedged
*Results exclude effects of synthetic fuel.				
TECO Guatemala				
Adjusted Net Income ($MM)	$11.4	$11.0	3.6%	+Solid customer growth
				+Higher pricing
				+Strong capacity factor at San Jose
TECO Transport				
Adjusted Net Income ($MM)*	$7.0	$7.8	-10%	-Low water conditions
*2007 results through close of sale on December 3, 2007.				

Source: RBC Capital Markets and Company Data

TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
SUPPLEMENTAL: DECEMBER 31, 2008

Table 2. Yearly Segment Results

Segment	2007	2006	% Change	Notes
Tampa Electric				
Adjusted Net Income (MM)	$150.3	$135.9	10.6%	+Higher retail energy sales
Customers (MM)	666	654	1.9%	+Lower depreciation and property tax
kWh Sales (MM)	20,438	19,887	2.8%	-Higher O&M expense
Peoples Gas				
Adjusted Net Income (MM)	$26.5	$29.7	-10.8%	-Negative weather effects
Customers (MM)	334	329	1.6%	-Poor sales to housing market participants
Therm Sales (MM)	1403	1301	7.8%	
TECO Coal*				
Adjusted Net Income (MM)	$38.3	$46.7	-18.0%	-Higher cost of production
Production (MM tons)	3.2	4.5	-28.9%	
*Results exclude effects of synthetic fuel.				
TECO Guatemala				
Adjusted Net Income ($MM)	$44.7	$37.6	18.9%	+Strong results at San Jose Station +Strong customer growth and higher prices
TECO Transport				
Adjusted Net Income ($MM)*	$34.0	$22.8	49%	
*2007 results through close of sale on December 3, 2007.				

Source: RBC Capital Markets and Company Data

Outlook for 2008

- **We expect the FL housing slump to negatively affect results at both utilities.**

Teco expects 2% customer growth at Tampa Electric, compared to its previously normal rate of 3% and the most recent estimate in 3Q07 of 2.3%. At Peoples Gas negative effects are felt to a greater extent due to lower industrial sales to existing housing sector customers as well as slowed customer growth. In 4Q07 the gas utility recorded only 0.8% growth and estimates for 2008 are 1%, compared to estimates of 2.5% annual growth from as late as September 2007.

- **Higher O&M costs may bring down utility ROEs.**

Without strong customer growth to offset higher O&M costs, TE expects to earn at the low end or below its approved ROEs at both Tampa Electric (10.75%-12.75%) and Peoples Gas (10.25%-12.25%). The company expects to file a rate case for Peoples Gas in 2008, with rates likely to take effect in 2009. For Tampa Electric, TE does not expect to file a rate case until 2009. Since the last rate case took place in 1992, we expect this process to be relatively drawn out with extensive public input. We believe the end result will be mildly favorable to TE, but if rates are not in place until 2010 the company may have to endure lean years at Tampa Electric in the meanwhile. In addition, as the federal reserve continues to cut rates, we question just how generous Florida's regulators would be in the light of escalating electricity and natural gas prices.

- **Planned outages at TECO Guatemala may impact earnings.**

A bright spot in 2007, results at TECO Guatemala in 2008 are expected to be reduced due to scheduled maintenance at the top-performing San Jose Power Station.

- **Favorable coal markets may represent slight upside at TECO Coal.**

Although the company's expected output is 100% hedged in 2008 at an average price of $58/ton, TE intends to ramp production to 9.5-10 MM tons in order to capture the benefits of the robust spot market. For 2009 TE is 40% hedged, leaving room for favorable pricing fundamentals to hit the books.

- **Potential 200MW coal plant in Guatemala has neutral effect for now.**

TE submitted a proposal for a 200MW coal plant in response to an RFP in Guatemala. Although the company currently operates two

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plants in the region, we believe that further exposure in this market increases the company's risk profile. Whether or not the project adds more value than risk can only be determined when and if the project is approved and terms are disclosed.

Valuation

Our calculated net-asset-value (CNAV) is $20. Our target price is $19, a 5% discount to the CNAV. We apply the discount due to the weak FL economy and continued housing slump. We determine our CNAV based on a full discounted cash flow model using an average of Free Cash Flow to the Firm and Free Cash Flow to Equity after the sale of Transport. We apply a multistage growth rate with a terminal multiple of about 12.4x based on a dynamic WACC with an initial rate of 6.9%. The terminal value is calculated approximately 25 years forward.

As a regulated electric utility operating in a region of above-average growth, TE should produce consistent earnings and steady dividends for years to come. Although the coal business and Guatemala investment steals managerial attention from the growing utility, the company's recent sale of its transport business reduced the risk profile for the company. This sale combined with the company's accelerated debt repayment plan strengthened the balance sheet and lead to upgrades from credit agencies in 2007.

Price Target Impediment

Commodity prices, weather, regulatory risk, access to capital markets, construction cost overruns, and potential environmental legislation.

Company Description

TECO Energy, Inc. is a holding company operating through its subsidiaries, Tampa Electric, Peoples Gas, TECO Coal, and TECO Guatemala. Tampa Electric provides electric utility service to 668,000 customers in West Central Florida and distributes natural gas to 334,000 customers via the Peoples Gas System. TECO Coal produces 9-10 million tons of metallurgic and steam coal annually through its 41 Central Appalachian mines. TECO Guatemala owns an interest in an electric utility and operates two power plants that are contracted long-term.

February 6, 2008

TECO Energy, Inc.

Ticker Symbol	TE
Assumptions	**Rate**
DCF Start Year	2008
DCF Start Month	4
Current Beta of Company	0.90
Static or Variable Beta (S/V)	V
Normalized Long-Term Risk-free Rate	5.00%
Market Return	12.00%
Current Equity Discount Rate	11.30%
Current Cost of Preferred Stock	0.00%
Current Cost of Debt Capital	6.86%
Current WACC	6.90%
Basic Shares Outstanding (MM)	209.4
Diluted Shares Outstanding (MM)	210.2
Assumed Tax Rate	39%
Assumed Inflation Rate	3.50%
Minimum Cash Balance Required	$100
Revolver Overflow Alert	
Current Stock Price of TE ($/Sh.)	$16.43
Current Book Value per Share	$9.60
Current Price-to-Book Ratio	1.7 x
Current Market Cap ($MM)	$3,440.4
Current Market Ent. Value ($MM)	$6,715.6
Current Market Ent. Value Per Sh.	$32.07
Current Book Ent. Value ($MM)	$5,292.2
Current Book Ent. Value Per Sh.	$25.27

Names of Regions	Name
Region 1	Tampa Electric
Region 2	Peoples Gas (PGS)
Region 3	Coal
Region 4	Transport
Region 5	Guatemala
Region 6	Corporate/Other

		Per Share Estimates				
Year	Quarter	EPS	Oper. CF	EBITDA	FCF	EFCF
2006	1	$0.23	$0.81	$0.75	$0.89	$0.56
2006	2	$0.26	$0.34	$0.91	$0.23	$1.83
2006	3	$0.40	$1.15	$1.04	$0.88	($0.44)
2006	4	$0.24	$0.40	$0.76	$0.07	$0.28
	Total	$1.13	$2.70	$3.46	$2.08	$2.23
2007	1	$0.20	$0.60	$0.72	$0.38	($0.02)
2007	2	$0.25	$0.54	$0.74	$0.20	($0.34)
2007	3	$0.39	$1.18	$0.96	$0.82	($0.21)
2007	4	$0.23	$0.48	$0.96	$3.10	$1.30
	Total	$1.07	$2.79	$3.38	$4.50	$0.73
2008	1	$0.19	$0.62	$0.84	($0.05)	($0.22)
2008	2	$0.23	$0.62	$0.82	($0.01)	($0.09)
2008	3	$0.37	$0.79	$0.96	$0.11	($0.00)
2008	4	$0.23	$0.66	$0.82	($0.01)	($0.00)
	Total	$1.02	$2.70	$3.44	$0.05	($0.31)
2009						
	Total	$1.12	$2.85	$3.62	$0.46	$0.09

	Estimated Ratios				
Year	P/E	P/Oper. CF	EV/EBITDA	EV/FCF	P/EFCF
2006	14.6 x	6.1 x	9.3 x	15.4 x	7.4 x
2007	15.3 x	5.9 x	9.5 x	7.1 x	22.5 x
2008	16.1 x	6.1 x	9.3 x	N/M	N/M
2009	14.6 x	5.8 x	8.9 x	69.2 x	180.4 x

	Capital Structure	
Capital Type	Amount ($MM)	%
03/2008		
Equity Capital	$2,017.0	38%
Preferred Stock	$0.0	0%
Total Debt	$3,275.2	62%
Total	$5,292.2	100%

Cost of Capital	
Type	% of Total
Equity	4.31%
Preferred	0.00%
Debt	2.59%
WACC	6.90%
	162.38%

Net Asset Value Cash Flow Valuation

Terminal Value	Multiple
Multiple of FCF	12.4 x
Term. Val. in Months	297

Category	Valuation
03/2008	
Calc. Ent. Value	$7,512.5
Preferred Stock	$0.0
Total Debt	($3,275.2)
Equity Value	$4,237.3

Shares	NAV	Average
Basic	$20.24	$19.77
Diluted	$20.16	$19.69

Ratios	P/NAV	P/NAV
Basic	0.8 x	0.8 x
Diluted	0.8 x	0.8 x

Ratios	P/Book
Basic	1.7 x

Terminal Value	Multiple
Multiple of EFCF	12.1 x
Term. Val. in Months	297

Category	Valuation
Equity FCF Value	$3,923.4
Cash Balance @ Start of Valuation	$118.2
Equity Value	$4,041.6

Shares	NAV
Basic	$19.30
Diluted	$19.23

Ratios	P/NAV
Basic	0.9 x
Diluted	0.9 x

Criteria	Multiple	2008E	Multiple Analysis
Net Debt per Share	N/A	$20.30	N/A
Basic Shares Out	N/A	209.4	N/A
P/E	18.6 x	$1.02	$19.00
P/CF	7.0 x	$2.70	$19.00
EV/EBITDA	11.4 x	$3.44	$19.00
Average			$19.00

Sources: Company reports; RBC Capital Markets estimates; Lasan Johong (212) 428-6462 lasan.johong@rbccm.com; Emily Christy (212) 428-6970; Ella Faynzilberg (212) 428-6492.

TE	2006					2007						
SUMMARY FINANCIALS ($ Millions)	Q1A	Q2A	Q3A	Q4A	2006	Q1A	Q2A	Q3A	Q4E	2007	2008	2009
GENERATION (MWh)	4,437.1	4,798.1	5,481.2	4,850.9	19,567.2	4,437.1	4,907.3	5,895.2	5,182.1	20,421.6	20,420.1	20,877.2
INCOME STATEMENT												
TOTAL NET REVENUE	$836.4	$862.6	$934.8	$835.5	$3,469.3	$821.3	$866.5	$990.0	$858.3	$3,536.1	$3,125.9	$3,422.4
DOC (Incl. Cost of Fuel and Plant O&M)	$393.9	$506.6	$533.3	$581.1	$2,014.8	$511.4	$539.1	$607.5	$542.3	$2,200.3	$1,958.3	$2,202.9
Other Direct Operating Costs	$286.0	$167.1	$184.2	$95.5	$732.9	$159.9	$172.9	$181.0	$113.3	$627.1	$443.5	$459.0
General & Administrative Expenses	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
DIRECT OPERATING COSTS	$679.9	$673.7	$717.5	$676.6	$2,747.7	$671.3	$712.0	$788.5	$655.6	$2,827.4	$2,401.8	$2,661.9
GROSS PROFIT	$156.5	$188.9	$217.3	$158.9	$721.6	$150.0	$154.5	$201.5	$202.7	$708.7	$724.1	$760.5
Depreciation, Amortization and Expl. Exp.	$70.3	$70.6	$70.1	$71.2	$282.2	$71.6	$66.8	$59.8	$65.5	$263.7	$257.5	$264.2
Other Operating Costs	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
TOTAL OPERATING COSTS	$750.2	$744.3	$787.6	$747.8	$3,029.9	$742.9	$778.8	$848.3	$721.1	$3,091.1	$2,659.3	$2,926.1
OPERATING INCOME	$86.2	$118.3	$147.2	$87.7	$439.4	$78.4	$87.7	$141.7	$137.2	$445.0	$466.6	$496.3
Non-Operating Expenses	($38.8)	($21.1)	($51.2)	($42.5)	($153.6)	($69.8)	($42.4)	($41.8)	($189.7)	($343.7)	($105.9)	($119.3)
EARNINGS BEFORE INTEREST & TAXES	$125.0	$139.4	$198.4	$130.2	$593.0	$148.2	$130.1	$183.5	$326.9	$788.7	$572.5	$615.7
Net Interest Expense, Incl. TCP Dividend	$69.0	$70.0	$70.1	$69.2	$278.3	$67.1	$65.7	$63.9	$61.1	$257.8	$220.8	$228.9
PRE-TAX INCOME	$56.0	$69.4	$128.3	$61.0	$314.7	$81.1	$64.4	$119.6	$265.8	$530.9	$351.7	$386.8
Income Tax Expense	$22.7	$27.3	$42.7	$26.0	$118.7	$31.8	$25.3	$47.6	$109.5	$214.2	$137.2	$150.8
Minority Interest, Pref. Dividend & Other	($21.9)	($19.0)	($6.0)	($22.7)	($69.6)	($23.5)	($20.3)	($20.8)	($17.6)	($82.2)	$0.0	$0.0
NET INCOME PRE-X-ITEMS	$47.2	$54.5	$83.6	$49.7	$234.9	$42.1	$53.1	$82.0	$47.7	$224.9	$214.5	$235.9
Extraordinary Items & Other	($8.0)	($8.0)	($8.0)	($8.0)	($32.1)	($30.7)	($11.0)	($10.8)	($126.2)	($178.7)	$0.0	$0.0
NET INCOME	$55.2	$61.1	$91.6	$59.6	$267.5	$72.8	$73.7	$92.8	$173.9	$413.2	$214.5	$235.9
NET INCOME PRE-X-ITEMS PER SHARE	$0.23	$0.26	$0.40	$0.24	$1.13	$0.20	$0.25	$0.39	$0.23	$1.07	$1.02	$1.12
Extraordinary Items & Other	($0.04)	($0.04)	($0.04)	($0.04)	($0.15)	($0.15)	($0.05)	($0.05)	($0.60)	($0.85)	$0.00	$0.00
NET INCOME PER SHARE	$0.26	$0.29	$0.44	$0.29	$1.28	$0.35	$0.35	$0.44	$0.83	$1.97	$1.02	$1.12
CASH FLOW STATEMENT												
Adjustments to Revenue and Income	$0.0	($3.6)	$11.7	($11.5)	($3.4)	$4.8	($18.7)	$6.6	($10.7)	($18.0)	($3.5)	($3.7)
Depreciation, Amortization and Expl. Exp.	$70.3	$70.6	$70.1	$82.7	$293.7	$71.6	$66.8	$59.8	$65.5	$263.7	$257.5	$264.2
Deferred Income Taxes	$21.7	$22.0	$45.9	$22.9	$112.5	$29.3	$8.3	$53.0	$94.2	$184.8	$99.4	$102.8
Other Operating Cash Flow Rems	$21.9	($78.9)	$31.0	($60.0)	($86.0)	($53.6)	($17.0)	$35.2	($222.2)	($257.6)	$0.0	$0.0
Changes in Working Capital	$20.2	$18.3	($0.1)	($34.6)	$3.8	$34.0	($38.3)	($66.9)	$39.1	($32.1)	$0.0	$0.0
OPERATING CASH FLOW	$189.3	$89.5	$250.2	$59.1	$588.1	$158.9	$74.8	$180.5	$139.8	$554.0	$567.9	$599.2
Cap. Ex., Acquisitions, Investments	($77.5)	($100.5)	($120.3)	($153.8)	($452.1)	($154.7)	($146.8)	($55.6)	($75.8)	($432.9)	($535.0)	($471.3)
Proceeds from Sales	$17.9	$10.1	$13.7	$58.7	$100.4	$0.0	$45.5	$15.3	$344.4	$405.2	$0.0	$0.0
Other Investing Cash Flow Items	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	($161.0)	($172.6)
INVESTING CASH FLOW	($59.6)	($90.4)	($106.6)	($95.1)	($351.7)	($154.7)	($101.3)	($40.3)	$268.6	($27.7)	($696.0)	($643.9)
Net Equity Financing	$1.6	$2.2	$2.5	$6.2	$12.5	$3.6	$4.8	$1.4	$4.2	$14.0	$0.0	$0.0
Net Debt Capital & Other Financing	($68.8)	$340.2	($252.0)	$52.4	$71.8	($69.8)	($105.0)	($196.4)	($345.2)	($716.4)	$65.5	$66.4
Financing Costs	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Common and Preferred Dividends	($39.6)	($39.7)	($39.7)	($39.7)	($158.7)	($39.8)	($41.0)	($41.1)	($41.1)	($163.0)	$0.0	$0.0
Other Financing Cash Flow Items	$24.9	$18.1	$4.5	$18.2	$65.7	$21.8	$26.0	$12.1	$0.2	$60.1	$0.0	$0.0
FINANCING CASH FLOW	($81.9)	$320.8	($284.7)	$37.1	($8.7)	($84.2)	($115.2)	($224.0)	($381.9)	($805.3)	$65.5	$66.4
CHANGE IN CASH	$47.8	$319.9	($151.6)	($9.6)	$206.5	($80.0)	($141.7)	($83.8)	$26.5	($279.0)	($62.6)	$21.7
OP. CF BEFORE W/C PER SHARE	$0.81	$0.34	$1.15	$0.40	$2.70	$0.60	$0.54	$1.18	$0.48	$2.79	$2.70	$2.85
BALANCE SHEET												
Cash and Equivalents	$430.7	$504.6	$599.1	$478.9	$478.9	$398.9	$257.3	$173.5	$170.0	$170.0	$107.4	$129.1
Accounts Receivables	$323.4	$333.5	$363.6	$338.3	$338.3	$310.2	$297.2	$356.0	$374.4	$374.4	$374.4	$374.4
Inventory, Fuels and Materials	$149.3	$164.2	$162.3	$159.6	$159.6	$189.7	$212.5	$179.1	$154.0	$154.0	$154.0	$154.0
Other Current Assets	$287.8	$319.3	$327.4	$308.9	$308.9	$309.8	$317.5	$293.9	$91.4	$91.4	$91.4	$91.4
TOTAL CURRENT ASSETS	$1,191.2	$1,321.6	$1,452.4	$1,285.7	$1,285.7	$1,208.6	$1,084.5	$1,002.5	$789.8	$789.8	$727.2	$748.9
TOTAL PP&E	$4,584.3	$4,620.2	$4,679.4	$4,766.9	$4,766.9	$4,694.5	$4,755.8	$4,815.4	$4,888.2	$4,888.2	$5,326.7	$5,706.5
Other Long-term Assets	$1,324.3	$1,304.6	$1,266.6	$1,309.2	$1,309.2	$1,395.8	$1,418.4	$1,347.3	$1,087.2	$1,087.2	$1,090.7	$1,094.5
TOTAL ASSETS	$7,099.8	$7,246.4	$7,398.4	$7,361.8	$7,361.8	$7,298.9	$7,258.7	$7,165.2	$6,765.2	$6,765.2	$7,144.7	$7,549.8
Accounts Payables	$412.7	$414.4	$299.0	$374.5	$374.5	$318.6	$259.9	$332.7	$327.1	$327.1	$327.1	$327.1
Short-term Debt & Current Portions	$7.2	$7.2	$639.4	$639.4	$639.4	$457.4	$157.5	$7.1	$7.1	$7.1	$5.1	$415.3
Other Current Liabilities	$405.0	$278.5	$484.1	$336.5	$336.5	$445.9	$460.3	$402.1	$283.4	$283.4	$283.4	$283.4
TOTAL CURRENT LIABILITIES	$824.9	$700.1	$1,422.5	$1,350.4	$1,350.4	$1,221.9	$877.7	$741.9	$617.6	$617.6	$615.6	$1,025.8
Long-term Debt and Other Obligations	$3,708.0	$3,956.6	$3,318.7	$3,212.6	$3,212.6	$3,211.3	$3,460.1	$3,454.4	$3,158.4	$3,158.4	$3,335.6	$2,991.7
Deferred Income Taxes	$385.4	$372.3	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$99.4	$202.2
Other Long-term Liabilities	$564.3	$570.9	$967.1	$1,069.8	$1,069.8	$1,096.5	$1,104.4	$1,099.5	$972.2	$972.2	$1,025.9	$1,189.2
TOTAL LONG-TERM LIABILITIES	$4,657.7	$4,899.8	$4,285.8	$4,282.4	$4,282.4	$4,307.8	$4,564.5	$4,553.9	$4,130.6	$4,130.6	$4,460.8	$4,383.1
Long-term Financings	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
TOTAL LIABILITIES	$5,482.6	$5,599.9	$5,708.3	$5,632.8	$5,632.8	$5,529.7	$5,442.2	$5,295.8	$4,748.2	$4,748.2	$5,076.4	$5,409.0
Equity and Additional Paid-In Capital	$1,695.8	$1,662.0	$1,666.9	$1,675.8	$1,675.8	$1,680.5	$1,691.0	$1,694.7	$1,700.1	$1,700.1	$1,700.1	$1,700.1
Retained Earnings	($27.9)	$34.5	$74.6	$83.7	$83.7	$116.9	$149.6	$201.4	$334.1	$334.1	$385.3	$457.9
Other Stockholders' Equity	($50.7)	($50.0)	($51.4)	($30.5)	($30.5)	($28.2)	($24.1)	($26.7)	($17.2)	($17.2)	($17.2)	($17.2)
TOTAL STOCKHOLDERS' EQUITY	$1,617.2	$1,646.5	$1,690.1	$1,729.0	$1,729.0	$1,769.2	$1,816.5	$1,869.4	$2,017.0	$2,017.0	$2,068.2	$2,140.8
TOTAL LIABILITIES & EQUITY	$7,099.8	$7,246.4	$7,398.4	$7,361.8	$7,361.8	$7,298.9	$7,258.7	$7,165.2	$6,765.2	$6,765.2	$7,144.7	$7,549.8

Sources: Company reports; RBC Capital Markets estimates. Lasan Johong - (212) 428-6462; lasan.johong@rbccm.com

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Ratings

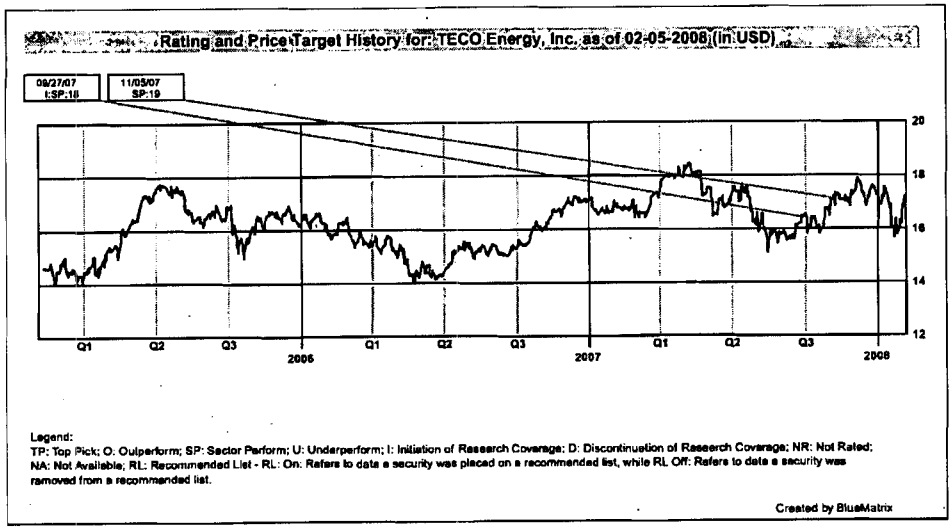
Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.
Outperform (O): Expected to materially outperform sector average over 12 months.
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Underperform (U): Returns expected to be materially below sector average over 12 months.
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			Investment Banking Serv./Past 12 Mos.	
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Regulatory Research Associates

UTILITY FOCUS

March 7, 2008

TECO ENERGY (TE)

Overview

TE continues to focus on its domestic and international utilities and conventional coal production business. The latest step in implementing this strategy was the December 2007 sale of TECO Transport (TECO-T) for $405 million. In addition, TE exited the synfuel business coincident with the expiration at year-end 2007 of federal tax credits for synfuel production. These initiatives follow TE's 2005 exit from a significant and ill-fated venture into merchant power generation.

TE's remaining businesses consist of Florida utilities Tampa Electric (TEC) and Peoples Gas System, TECO Coal, and a power generation and distribution subsidiary in Guatemala. In 2007, TEC filed for authorization to build a 632-MW integrated coal gasification combined-cycle (IGCC) plant in Florida, to be completed in 2013. However, complications regarding anticipated CO_2 regulations (carbon capture and sequestration) and possible cost overruns, prompted the company to defer the project. TEC now plans to utilize combined-cycle gas-fired facilities to meet expected baseload generation needs in 2013. TE's EPS in 2008 is forecast to decline, reflecting the loss of profits from the divested TECO-T and discontinuation of synfuel operations. Given our expectations for rate base expansion at TE's utilities and modest growth at its coal business, as well as lower interest expense from debt reduction, we expect the company to realize average annual EPS growth of 4% beginning in 2009.

Utility Businesses

TEC is TE's largest subsidiary, representing 62% of 2007 consolidated revenues and 72% of assets. TEC owns more than 4,600 MW of generating capacity, of which roughly 40% is coal-fired, with the remainder being natural gas and/or oil-fired. The utility's retail service territory is one of the faster growing in the U.S., with annual customer and weather-normalized sales growth having been in the 2.5-3% range over the last several years. However, due to the nationwide economic slowdown and the softening of the housing market in Florida, customer and sales growth are expected to total 2% for 2008. The company's customer mix produces relatively stable usage, as 43% and 32% of 2007 kWh sales

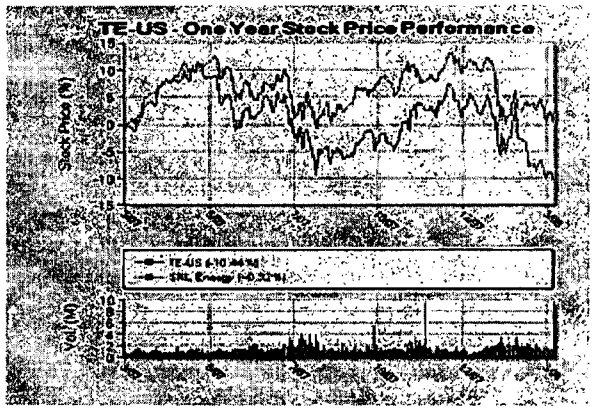
Pricing Information	
Closing Price	$14.93
Date of Closing Price	03/06/08
Shares Outstanding (Shares)	210,915,193
Outstanding as of:	02/25/08
Market Capitalization ($M)	3,148.96
Total Enterprise Value ($M)	6,176.90
Market/Book	156%
Return on Equity	15.30%

Credit Ratings	
S&P Senior Unsecured Rating	BB+
S&P Senior Unsecured Date	11/20/2007
Moody's Senior Unsecured Rating	Baa3
Moody's Senior Unsecured Date	12/05/2007
Fitch Senior Unsecured Rating	BB+
Fitch Senior Unsecured Date	10/30/2007

Year	* EPS	P/E Ratios
2006	$1.12	--
2007	$1.37	10.9x
2008E	$1.10	13.6x
2009E	$1.20	12.5x

Dividend		
Rate	Yield	Payout
$0.78	5.22%	57%

* EPS Adjustments shown on last page.



30 Montgomery Street, Jersey City, NJ 07302 • Phone 201.433.5507 • Fax 201.433.6138 • rra@snl.com

were derived from residential and commercial customers, respectively; a comparatively modest 12% was derived from industrial customers. (Other retail sales and wholesale sales constituted the remaining 13%)

Like virtually all states in the Southeast, Florida has not restructured its electric industry, given the state's competitive rates, low percentage of industrial customers, and peninsula geography with limited transmission interconnections to the north. Historically, Florida has had a constructive regulatory environment, and despite the election of a new governor in November 2006 and the appointment of two new Public Service Commission (PSC) members in 2007, we see no indication that this situation will change significantly. TEC's last full rate case was decided in 1992, and there has been little major regulatory activity involving the company over the past few years. Upon the expiration of various non-traditional regulatory mechanisms that were in effect during the 1990's, TEC has been subject to traditional ROE-based regulation in recent years. The company is currently authorized an 11.75% ROE, the mid-point of an allowed range of 10.75% to 12.75% that was established in 2000. Earnings above the 12.75% equity return could trigger a PSC earnings review, but over the last few years the utility's earnings have fallen within the allowed range. Along with Florida's other electric utilities, TEC utilizes adjustment clauses that permit timely recovery of prudently incurred expenses for: fuel and purchased power; conservation; and, environmental requirements. TEC anticipates filing for a base rate increase to be effective in 2009 to offset the effects of system investment, higher operating and maintenance expenses, and possibly lower usage per residential customer. In Florida, final decisions are required within eight months of filing, and interim increases, when requested by utilities that can show underearnings, are generally granted about three months after the filing, subject to refund, with interest.

During 2007, two 180-MW gas-fired peaking units, Polk Units 4 and 5, were placed in service at a total cost of $65 million. TEC expects sales growth to require 120-130 MW of new peaking capacity per year. The company plans to purchase (as opposed to build) the capacity needed for 2009 and 2010 and has not made a decision whether to build or purchase the peaking capacity required for 2011 and 2012.

In 2013, TEC plans to add new baseload capacity. In July 2007, the company filed for PSC approval to construct Polk Unit 6, a 632-MW IGCC facility. However, during the permitting process, TEC decided to defer the project based on continued uncertainty related to CO_2 regulations, particularly carbon capture and sequestration issues, and the potential for related cost increases. TEC had initially estimated that the cost for Polk 6 would approximate $2 billion ($3.2 million/MW). While the project has been deferred, we note that TEC has operational experience with IGCC technology. TEC's 260-MW Polk Unit 1 IGCC facility has been in operation since 1996, and over the past five-years has achieved an 80% capacity factor. The company now expects to utilize combined-cycle natural gas-fired facilities to meet the expected need for its 2013 baseload generation needs.

Regarding IGCC, state legislation was enacted in 2007 that authorizes deferred accounting for the preconstruction costs of IGCC plants, and these costs are to accrue a carrying charge equal to the utility's allowance for fund used during construction (AFUDC). All prudently incurred preconstruction costs are recoverable through the utility's capacity cost recovery clause (CCRC). A current return on construction work in progress (CWIP) is also allowed through the CCRC. If a utility does not complete the construction of the IGCC plant, it would be permitted to recover all prudent preconstruction and construction costs. The unrecovered balance would earn a return equal to the utility's overall rate of return. We note that Florida has a similar statute pertaining to nuclear plant construction costs.

Peoples Gas System

Peoples Gas System (PGS) is Florida's largest natural gas utility, serving 335,000 customers in the state's major metropolitan areas. In 2007, PGS accounted for 17% of consolidated revenue and 11% of assets. Natural gas has not made significant inroads in Florida; the penetration rate for the state's households is below 10%. Given the slower housing market in the state, customer and sales growth are forecasted at a 1% annual rate for 2008, below the 2.5% growth rate of recent years. As established by a 2003 PSC decision, the company is authorized an 11.25% equity return, the mid-point of a 10.25% to 12.25% authorized range, a 50.92% equity component of capital, and an 8.83% return on a $505.4 million rate base. PGS intends to file a new rate case later in 2008, with final rates expected to be effective in early 2009.

Non-Utility Businesses

TECO Coal (TECO-C) owns or operates coal mines and coal processing and loading facilities in Kentucky, Tennessee, and Virginia, and accounted for 15% of 2007 consolidated revenues and 7% of assets. Major customers include domestic utilities and the U.S. and European steel industries. TECO-C also owned significant synfuel production facilities, but this business ceased operations on Dec. 31, 2007, with the expiration of federal tax credits. Synfuels accounted for 5.3 million of TECO-C's 9.8 million ton output in 2006, and 6 million of the 9.2 million ton output in 2007. To replace the loss of synfuel production, TECO-C

has pursued increased conventional coal sales opportunities, and expects 2008 sales of between 9.5 and 10 million tons of conventional coal (virtually 100% is contracted and priced). For similar conventional sales projections in 2009, almost 40% of output is contracted and priced. We note that overall coal demand and pricing in early-2008, especially in the spot market, has improved relative to 2007.

TECO Guatemala (TECO-G) generates and distributes electricity, and represented 11% of 2007 consolidated net income from continuing operations and 6% of assets. The company owns two power plants with long-term power purchase agreements: the 120-MW, coal-fired San José Power Station, and the 78-MW, oil-fired Alborada Power Station, a peaking facility. Operations also include a 30% interest in a consortium that owns 80.9% of Empresa Electrica de Guatemala, Guatemala's largest electric distribution utility.

The December 2007 sale of *TECO-T* to an unaffiliated investment group for $405 million in cash resulted in a net after-tax gain of $133.1 million. In 2007, TECO-T had accounted for 8% of consolidated revenues. The sale has improved TE's credit profile by lowering business risk, enabling the company to retire a total of $765 million of debt in 2007, and better enabling TE to utilize internal cash generation in the 2008-2012 time frame to fund cap ex at TEC.

Earnings and Finances

Operating EPS of $1.37 in 2007 were 22% above the results for 2006. EPS for 2007 and 2006 include 25¢ and 16¢, respectively, of synfuel earnings. Last year's results also included improved earnings at TEC and TECO-G, partially offset by a modest decline in net income at PGS. In 2008, EPS will reflect the loss of earnings from synfuel operations (25¢) and TECO-T (12¢), and as a result, we expect EPS to decline to $1.10. TE has partially replaced the lost synfuel earnings with profits from higher conventional coal production, and has partially offset the earnings loss from the TECO-T sale with lower interest expense from the debt retirement. Results at TEC and PGS in 2008 are expected to be similar to those in 2007. Beginning in 2009, rate base growth at TEC and to a lesser extent at PGS, as well as modest earnings growth at TECO-C, should enable the company to increase EPS at a 4% average annual rate.

Over the years 2008 through 2012, TE's cap ex are projected to total $3.4 billion -- an average annual rate of $680 million. For comparison, 2007 cap ex totaled $488 million. TE forecasts capital expenditures of $630 million in 2008, $760 million in 2009, and $2 billion from 2010 through 2012. Of the $3.4 billion, $2.9 billion (85%) is targeted for TEC, while $300 million and $170 million are targeted for PGS and TECO-C, respectively. At TEC, in addition to the ongoing need for peaking units, other factors driving cap ex include environmental compliance (selective catalytic reduction) at certain coal-fired generating plants, transmission and distribution (T&D) reinforcement for anticipated storm exposure, T&D system expansion and reliability upgrades to support customer growth, transmission system upgrades in Central Florida, and combustion turbine replacement and refurbishment. The company has made significant progress toward reducing leverage, lowering total debt by nearly $2 billion over four years to $3.182 billion as of Dec. 31, 2007. As a result, TE's equity ratio has improved, rising from 25% at year-end 2003 to 39% at year-end 2007. TE's targeted equity ratio is 40-45%. TE plans to reduce debt by an additional $100 million during 2008. Reflecting the company's improved financials, in late 2007 both Standard & Poor's and Moody's raised certain holding company debt ratings to investment grade; TEC's debt was already investment grade. Due to the financial difficulties from its merchant generation operations, TE cut its dividend by almost 50% in 2003 to $0.76. In May 2007, reflecting strengthening financials, in particular the significant debt retirement, TE raised the dividend to $0.78. We expect another 2¢ annual increase in the second quarter of 2008.

RRA Evaluation: TE has made major strides over the past several years to improve its financials and earnings from the low point resulting from its ill-fated foray into merchant power generation. Through year-end 2007, the company's earnings have increased, and its improved financial position has prompted two of the major ratings agencies to award investment grade ratings to holding company securities. Despite these improvements, 2008 will see a significant decline in EPS due to the loss of earnings from the synfuel business and TECO-T. We believe the company's focus on the opportunities at its utilities, especially TEC, and at TECO-C represents a reasonable strategy for achieving long-term growth. Beginning in 2009, we project that TE will post average annual EPS growth of 4%. Based on our 2008 EPS estimate of $1.10, the TE shares are trading at a P/E of 13.6x, about a 5% discount to the RRA Index. Given our modest EPS growth expectation, we believe this valuation is reasonable and, therefore, are maintaining a "Hold" recommendation on the TE shares. (Previous Report: 7/27/07)

Dennis Sperduto

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Table I **RRA ELECTRIC UTILITY MARKET DATA**

	Company	March 7, 2008 Price	Price Change (%) Week	YTD	12 Months Earnings Per Share * 2006Y	2007Y	Period ending	2007E	2008E	2009E	Price/Earnings 2007E	2008E	2009E	Curr	Market/Book	Book Value	Book Value as of	ROE (Avg)	Dividend Rate	Yield	Payout	Moody's/ S&P Ratings Senior Unsec	Ticker
		$	%	%	$	$		$	$	$	x	x	x	x	%	$		%	$	%	%		
1	ALLEGHENY ENERGY	49.25	-4	-22	1.86	2.43	2007Q4	2.43	2.60	3.20	20.2	18.9	15.4	20.2	338	14.57	2007Q3	17.5	0.60	1.22	25	B1 / BB+	AYE
2	ALLIANT ENERGY	34.47	-4	-15	2.03	2.55	2007Q4	2.55	2.65	2.85	13.5	13.0	12.1	13.5	142	24.30	2007Q4	10.8	1.40	4.06	55	Baa1 / BBB	LNT
3	AMEREN CORPORATION	41.49	-4	-23	2.66	2.98	2007Q4	2.98	3.50	3.65	13.9	11.9	11.4	13.9	128	32.41	2007Q4	9.3	2.54	6.12	85	Baa2 / BB+	AEE
4	AMERICAN ELECTRIC POWER	40.64	-2	-12	2.73	2.31	2007Q4	2.31	3.15	3.40	17.6	12.9	12.0	17.6	161	25.17	2007Q4	9.5	1.64	4.04	71	Baa2 / BBB	AEP
5	CENTERPOINT ENERGY, INC.	14.20	-7	-17	1.29	1.16	2007Q4	1.16	1.20	1.35	12.2	11.8	10.5	12.2	253	5.61	2007Q4	22.3	0.73	5.14	63	Ba1 / BBB-	CNP
6	CMS ENERGY CORPORATION	13.76	-7	-20	0.57	-0.12	2007Q4	-0.12	1.20	1.35	n.m	11.5	10.2	n.m	145	9.46	2007Q4	n.m	0.36	2.62	n.m	Ba1 / BB+	CMS
7	CONSOLIDATED EDISON, INC.	40.85	-1	-16	2.95	3.46	2007Q4	3.46	3.25	3.35	11.8	12.6	12.2	11.8	122	33.36	2007Q4	10.8	2.34	5.73	68	A2 / A-	ED
8	CONSTELLATION ENERGY	86.78	-4	-15	4.17	4.36	2007Q4	4.36	5.50	6.45	19.9	15.8	13.5	19.9	290	29.93	2007Q4	15.7	1.91	2.20	44	Baa1 / BBB+	CEG
9	DOMINION RESOURCES, INC.	39.10	-5	-17	2.22	0.29	2007Q4	0.29	3.10	3.30	n.m	12.6	11.8	n.m	240	16.30	2007Q4	1.7	1.58	4.04	n.m	Baa2 / BBB	D
10	DPL INC.	24.97	-4	-16	1.40	1.63	2007Q4	1.63	1.90	2.25	15.3	13.1	11.1	15.3	325	7.69	2007Q4	23.6	1.10	4.41	67	Baa3 / BBB-	DPL
11	DTE ENERGY COMPANY	39.52	-4	-10	2.81	1.15	2007Q4	1.15	3.00	3.25	34.3	13.2	12.2	34.3	110	36.08	2007Q4	3.4	2.12	5.36	n.m	Baa2 / BBB-	DTE
12	DUKE ENERGY	17.14	-4	3	0.66	1.20	2007Q4	1.20	1.25	1.35	14.2	13.7	12.7	14.2	102	16.81	2007Q4	6.4	0.88	5.13	73	Baa2 / BBB+	DUK
13	EDISON INTERNATIONAL	49.65	-1	-7	3.59	3.82	2007Q4	3.82	3.75	4.35	13.0	13.2	11.4	13.0	192	25.92	2007Q4	15.6	1.22	2.46	32	B1 / BB-	EIX
14	ENERGY EAST CORPORATION	26.64	-1	-2	1.76	1.62	2007Q4	1.62	1.50	1.45	16.4	17.8	18.4	16.4	132	20.12	2007Q3	8.6	1.24	4.65	77	Baa2 / BBB	EAS
15	ENTERGY CORPORATION	105.48	2	-11	5.36	5.60	2007Q4	5.60	6.80	7.85	18.8	15.5	13.4	18.8	259	40.71	2007Q4	13.8	3.00	2.84	54	Baa3 / BBB	ETR
16	EXELON CORPORATION	77.99	1	-4	3.00	4.01	2007Q4	4.01	4.40	4.85	19.4	17.7	16.1	19.4	508	15.34	2007Q4	26.5	2.00	2.56	50	Baa2 / BBB	EXC
17	FIRSTENERGY CORP.	68.42	-2	-5	3.85	4.22	2007Q4	4.22	4.25	5.10	16.2	16.1	13.4	16.2	232	29.45	2007Q4	14.7	2.20	3.22	52	Baa3 / BBB-	FE
18	FPL GROUP, INC.	60.29	-4	-11	3.52	3.28	2007Q4	3.28	3.85	4.20	18.4	15.7	14.4	18.4	229	26.35	2007Q4	13.2	1.78	2.95	54	A2 / A-	FPL
19	NISOURCE INC.	17.28	-3	-9	1.16	1.29	2007Q4	1.29	1.30	1.40	13.4	13.3	12.3	13.4	93	18.55	2007Q4	7.0	0.92	5.32	71	Baa2 / BBB	NI
20	NORTHEAST UTILITIES	24.76	-4	-21	0.85	1.59	2007Q4	1.59	1.75	2.00	15.6	14.1	12.4	15.6	132	18.79	2007Q4	9.2	0.80	3.23	50	Baa2 / BBB-	NU
21	NSTAR	29.87	-6	-18	1.87	2.07	2007Q4	2.07	2.20	2.35	14.4	13.6	12.7	14.4	187	15.95	2007Q4	13.4	1.40	4.69	68	A2 / A	NST
22	OGE ENERGY CORP.	31.59	-6	-13	2.46	2.64	2007Q4	2.64	2.30	2.55	11.9	13.7	12.4	11.9	173	18.31	2007Q4	14.9	1.39	4.40	53	Baa1 / BBB	OGE
23	PEPCO HOLDINGS, INC.	24.38	-5	-16	1.36	1.61	2007Q4	1.61	2.00	2.30	15.1	12.2	10.6	15.1	122	20.04	2007Q4	8.4	1.08	4.43	67	Baa3 / BBB-	POM
24	PG&E CORPORATION	37.85	-4	-13	2.84	2.85	2007Q4	2.85	2.95	3.20	13.3	12.8	11.8	13.3	165	22.91	2007Q4	13.0	1.56	4.12	55	Baa1 / BBB+	PCG
25	PINNACLE WEST	34.74	-6	-18	3.10	2.98	2007Q4	2.98	2.65	2.70	11.7	13.1	12.9	11.7	99	35.15	2007Q4	8.6	2.10	6.04	71	Baa3 / BB+	PNW
26	PPL CORPORATION	45.33	-2	-13	2.13	2.59	2007Q4	2.59	2.45	2.60	17.5	18.5	17.4	17.5	305	14.88	2007Q4	18.3	1.34	2.96	52	Baa2 / BBB	PPL
27	PROGRESS ENERGY, INC.	41.54	-4	-14	2.38	2.69	2007Q4	2.69	3.05	3.15	15.5	13.6	13.2	15.5	127	32.66	2007Q4	8.2	2.46	5.92	92	Baa2 / BBB	PGN
28	PUBLIC SERVICE ENTERPRISE	44.94	-2	-8	1.89	2.66	2007Q4	2.66	3.05	3.40	16.9	14.7	13.2	16.9	310	14.51	2007Q4	18.4	1.29	2.69	48	Baa2 / BBB-	PEG
29	PUGET ENERGY, INC.	26.39	-1	-4	1.52	1.59	2007Q3	1.60	1.65	1.70	16.5	16.0	15.5	16.6	143	18.45	2007Q3	8.7	1.00	3.79	63	Ba1 / BBB-	PSD
30	SCANA CORPORATION	37.10	-4	-12	2.71	2.69	2007Q4	2.69	2.95	3.05	13.8	12.6	12.2	13.8	148	25.11	2007Q3	10.9	1.84	4.96	68	A3 / BBB+	SCG
31	SEMPRA ENERGY	52.10	-5	-16	4.33	4.45	2007Q4	4.45	3.95	4.60	11.7	13.2	11.3	11.7	163	31.93	2007Q4	15.0	1.24	2.38	28	Baa1 / BBB+	SRE
32	SOUTHERN COMPANY	34.29	-2	-11	2.12	2.28	2007Q4	2.28	2.30	2.40	15.0	14.9	14.3	15.0	211	16.23	2007Q4	14.5	1.61	4.70	71	A3 / A-	SO
33	TECO ENERGY, INC.	14.96	-3	-13	1.12	1.37	2007Q4	1.37	1.10	1.20	11.0	13.6	12.5	11.0	156	9.57	2007Q4	15.3	0.78	5.21	57	Ba1 / BB	TE
34	WESTAR ENERGY, INC.	22.25	-5	-15	1.87	1.86	2007Q3	1.86	1.45	2.00	12.0	15.3	11.1	12.0	117	19.03	2007Q3	10.2	1.16	5.21	63	Baa3 / BB+	WR
35	WISCONSIN ENERGY	43.40	-1	-11	2.62	2.74	2007Q4	2.74	2.85	3.30	15.8	15.2	13.2	15.8	164	26.50	2007Q4	10.9	1.08	2.49	39	A3 / BBB+	WEC
36	XCEL ENERGY, INC.	19.72	-3	-13	1.31	1.32	2007Q4	1.32	1.50	1.65	14.9	13.1	12.0	14.9	134	14.70	2007Q4	9.2	0.92	4.67	70	Baa1 / BBB-	XEL
	Average		**-3.4**	**-12.7**				**2.42**	**2.73**	**3.03**	**15.6**	**14.2**	**12.9**	**15.6**	**190**			**13**		**4.05**	**59**		

Table I (cont'd) **RRA ELECTRIC UTILITY MARKET DATA**

	Company	March 7, 2008 Price	Price Change (%) Week	YTD	12 Months Earnings per share * 2006Y	2007Y	Period ending	2004Y	2005Y	Curr P/E	Market/ Book	Book Value	Book Value as of	ROE (Avg)	Dividend Rate	Yield	Payout	Moody's/ S&P Ratings Senior Unsec	Ticker
		$	%	%	$	$		$	$	x	%	$		%	$	%	%		
37	ALLETE, INC.	35.02	-5	-11	2.77	3.08	2007Q4	1.35	0.64	11.4	145	24.11	2007Q4	13.8	1.72	4.91	56	Baa2 / BBB+	ALE
38	AVISTA CORPORATION	18.15	-4	-16	1.46	0.77	2007Q4	0.67	0.92	23.7	105	17.27	2007Q4	4.5	0.66	3.64	86	Ba1 / BB+	AVA
39	CH ENERGY GROUP, INC.	35.32	-4	-21	2.73	2.70	2007Q4	2.69	2.81	13.1	106	33.19	2007Q4	8.2	2.16	6.12	80	A2 / A	CHG
40	CLECO CORPORATION	21.97	-6	-21	1.31	2.52	2007Q4	1.32	1.42	8.7	130	16.85	2007Q4	15.7	0.90	4.10	36	Baa3 / BBB-	CNL
41	GREAT PLAINS ENERGY, INC.	24.66	-5	-16	1.69	1.78	2007Q4	2.44	2.16	13.9	136	18.18	2007Q4	10.2	1.66	6.73	93	Baa2 / BBB-	GXP
42	HAWAIIAN ELECTRIC	22.84	-1	0	1.33	1.03	2007Q4	1.36	1.58	22.2	149	15.29	2007Q4	7.1	1.24	5.43	n.m	Baa2 / BBB	HE
43	IDACORP, INC.	29.68	-4	-17	2.17	1.80	2007Q4	1.90	1.50	16.5	111	26.85	2007Q3	6.9	1.20	4.04	67	Baa2 / BBB	IDA
44	INTEGRYS ENERGY GROUP	44.88	-6	-13	3.50	2.48	2007Q4	4.07	4.07	18.1	105	42.58	2007Q4	6.3	2.68	5.97	n.m	A3 / BBB+	TEG
45	PNM RESOURCES, INC.	9.33	-7	-47	1.69	0.62	2007Q4	1.43	1.56	15.0	42	22.03	2007Q4	3.0	0.92	9.86	148	Baa3 / BBB-	PNM
46	SIERRA PACIFIC RESOURCES	12.26	-7	-27	1.02	0.80	2007Q4	0.33	0.63	15.4	96	12.82	2007Q4	6.5	0.32	2.61	40	B1 / B	SRP
47	UNISOURCE ENERGY	21.66	-14	-30	1.75	1.38	2007Q3	1.27	1.30	15.7	113	19.17	2007Q3	7.3	0.96	4.43	70	- / B+	UNS
48	UIL HOLDINGS CORPORATION	29.40	-1	-20	1.84	1.85	2007Q4	1.35	1.28	15.9	158	18.55	2007Q4	9.5	1.73	5.88	94	Baa3 / -	UIL
49	VECTREN CORPORATION	25.95	-3	-12	1.43	1.67	2007Q4	1.42	1.80	15.6	160	16.17	2007Q4	10.6	1.30	5.01	78	Baa1 / A-	VVC
	Average									15.7	172			11		4.38	64		

Note:
*** Earnings are from ongoing operations and exclude one-time items, some of which were removed subjectively- Refer to Appendix A,B and C for details**

For the companies listed below, senior unsecured debt of the holding company is not available - subsidiary credit ratings are shown.

Holding company	Subsidiary
Allegheny	Allegheny Energy Supply
Alliant Energy Corporation	Alliant Energy Resources Inc.
Duke	Cinergy Corp.
Edison International	Edison Mission Energy
NiSource	Northern Indiana Public Service Co
FPL Group Inc	FPL Group Capital, Inc
PG&E Corporation	Pacific Gas and Electric Company
PPL Corporation	PPL Energy Supply
Pinnacle West	Arizona Public Service Company
Vectren corporation	Vectren Utility Holdings Inc.

Neither Puget Sound Energy nor its subsidiaries have senior unsecured credit ratings- long- term holding company issuer ratings are shown.
For Allete and UniSource Energy, unsecured debt ratings were unavailable for the holding company or subsidiaries - long-term holding company issuer ratings are shown.
For Ameren,sufficient unsecured debt ratings was unavailable for the holding company or subsidiaries- long-term holding company issuer ratings is shown

* In an effort to display results from Ongoing Operations on a consistent basis, we have excluded many one-time items from our earnings calculations as follows: *Discontinued Opertions - income/loss; Changes in Accouting Principles; Early Retirement of Debt; Asset Writedowns; and, Other Non-Recurring Revenues/Expenses*. Effective 9/07, RRA earnings may not reflect some subjective adjustments that had been incorporated in earnings shown in prior reports. Note that "most recent available" trailing 12-month earnings (LTM) as shown have been derived as a summation of earnings for the prior four-

Appendix A

CALCULATION OF ADJUSTED NET INCOME FOR 12 MONTHS ENDING DECEMBER 2006

Company	Ticker	Net income available to common share holders	Discontinued operations income	Changes in Accounting principles	Other extra items	Early retmt of debt	Final tax rate	After tax asset writedowns	After tax Other non recurring expenses	After tax Other non recurring revenues	RRA Adjusted Net Income	Average Diluted shares	Adjusted EPS
Alleg Energy	AYE	319,321	586	0	0	0	35	0	0	4,826	313,909	168,679,383	1.86
Allete	ALE	76,400	-900	0	0	0	36	0	0	0	77,300	27,900,000	2.77
Alliant	LNT	315,700	-22,600	0	0	0	36	0	57,885	158,164	238,021	117,190,000	2.03
Ameren Corp	AEE	547,000	0	0	0	0	33	0	0	0	547,000	205,600,000	2.66
American El Power	AEP	1,002,000	10,000	0	0	0	33	140,657	0	48,456	1,084,201	396,483,464	2.73
Avista	AVA	73,133	0	0	0	0	37	0	0	48	73,085	49,897,000	1.46
CenterPoint	CNP	432,000	0	0	0	0	13	0	0	12,243	419,757	324,778,000	1.29
CH Energy	CHG	43,084	0	0	0	0	35	0	0	0	43,084	15,779,000	2.73
Cleco Corp	CNL	71,948	-79	0	0	0	36	0	0	45	71,982	55,028,211	1.31
CMS Energy	CMS	(90,000)	43,000	0	0	0	33	307,530	3,350	53,600	124,280	219,857,000	0.57
Con Edison	ED	737,000	-1,000	0	0	0	34	0	0	0	738,000	250,300,000	2.95
Constellation	CEG	936,400	187,800	0	0	0	32	0	78,113	70,172	756,541	181,400,000	4.17
Domin Resources	D	1,380,000	-183,000	0	0	0	37	0	0	0	1,563,000	703,200,000	2.22
DPL Inc	DPL	139,600	14,000	0	0	0	36	45,639	0	0	171,239	121,900,000	1.40
DTE Energy	DTE	433,000	-5,000	1,000	0	0	42	0	0	-61,760	500,760	178,000,000	2.81
Duke Energy	DUK	1,863,000	780,000	0	0	0	28	0	0	296,225	786,775	1,188,000,000	0.66
Edison Intl	EIX	1,181,000	97,000	1,000	0	0	31	0	100,200	1,373	1,183,627	330,000,000	3.59
Energy East	EAS	259,832	0	0	0	0	37	0	0	-574	260,406	147,717,000	1.76
Entergy	ETR	1,132,602	-496	0	0	0	28	0	0	0	1,133,098	211,452,455	5.36
Exelon	EXC	1,592,000	2,000	0	0	0	43	441,777	0	1,708	2,030,069	676,000,000	3.00
FirstEnergy	FE	1,254,000	-4,000	0	0	0	39	0	0	0	1,258,000	327,000,000	3.85
FPL Group	FPL	1,281,000	0	0	0	0	24	80,157	57,255	22,139	1,396,273	396,500,000	3.52
Great Plains	GXP	125,984	0	0	0	0	27	0	6,872	411	132,445	78,170,000	1.69
Hawaiian Elec	HE	108,001	0	0	0	0	36	0	0	0	108,001	81,373,000	1.33
IDACORP	IDA	107,403	7,328	0	0	0	13	0	0	7,157	92,918	42,874,000	2.17
Integrys Energy	TEG	155,800	7,300	0	0	0	23	0	0	0	148,500	42,400,000	3.50
NiSource	NI	282,200	-31,700	400	0	0	35	2,657	454	NA	317,411	273,360,000	1.16
No'east Utilities	NU	470,578	344,428	0	0	0	33	6,901	737	2,077	131,711	154,146,669	0.85
NSTAR	NST	206,774	0	0	0	0	38	0	0	5,995	200,779	107,125,000	1.87
OGE Energy	OGE	262,100	36,000	0	0	0	35	196	0	0	226,296	92,100,000	2.46
Pepco Holdings	POM	247,500	0	0	0	0	39	12,569	0	486	259,583	191,100,000	1.36
PG&E Corp	PCG	991,000	0	0	0	0	36	0	0	0	991,000	349,000,000	2.84
Pinnacle West	PNW	327,255	10,112	0	0	0	33	0	0	7,543	309,600	100,010,108	3.10
PNM Resources	PNM	120,818	0	0	0	0	35	0	3,129	4,579	119,368	70,636,000	1.69
PPL Corp	PPL	865,000	22,000	0	0	0	24	6,072	0	26,565	822,507	386,769,000	2.13
Progress Energy	PGN	571,000	57,000	0	0	0	28	65,465	42,445	25,898	596,012	250,800,000	2.38
PS Ent Group	PEG	739,000	-13,000	0	0	0	38	206,809	0	3,749	955,060	504,628,000	1.89
Puget Energy	PSD	219,216	51,903	89	0	0	36	0	9,659	0	177,061	116,457,000	1.52
SCANA Corp	SCG	310,000	0	6,000	0	0	28	0	0	2,170	313,830	115,795,000	2.71
Sempra Energy	SRE	1,406,000	315,000	0	0	0	37	5,688	35,392	632	1,131,448	261,368,000	4.33
Sierra Pac R	SRP	277,451	0	0	0	0	34	0	0	63,381	214,070	209,020,896	1.02
Southern Co	SO	1,573,000	-1,000	0	0	0	33	10,770	0	0	1,584,770	747,885,000	2.12
TECO Energy	TE	246,300	1,900	0	0	0	40	0	1,489	12,329	233,560	208,700,000	1.12
TXU	TXU	2,552,000	87,000	0	0	0	34	133,562	27,109	74,054	2,551,617	467,300,000	5.46
UIL Holdings	UIL	(65,164)	-123,782	0	0	0	31	0	0	13,069	45,549	24,812,000	1.84
UniSource	UNS	67,447	-1,796	0	0	0	39	0	661	0	69,904	39,865,000	1.75
Vectren	VVC	108,800	0	0	0	0	22	0	8,918	-469	108,800	76,200,000	1.43
Westar Energy	WR	164,339	0	0	0	0	25	0	0	0	164,339	88,099,940	1.87
Wisc Energy	WEC	316,400	3,900	0	0	0	36	0	0	1,797	310,703	118,400,000	2.62
Xcel Energy	XEL	567,513	3,073	0	0	0	24	0	0	0	564,440	429,605,000	1.31

Appendix B

CALCULATION OF ADJUSTED NET INCOME FOR 12 MONTHS ENDING SEPTEMBER 2007

Company	Ticker	Net income available to common share holders	Discontinued operations income	Changes in Accouting principles	Other extra items	Early retmt of debt	Final tax rate	After tax asset writedowns	After tax Other non recurring expenses	After tax Other non recurring revenues	RRA Adjusted Net income	Average Diluted shares	Adjusted EPS
Allegheny Energy	AYE	366,401	2,789	0	0	0	39	0	NA	5,428	358,184	169,259,495	2.12
ALLETE	ALE	88,000	-400	0	0	0	35	0	NA	0	88,400	28,225,000	3.13
Alliant Energy	LNT	425,200	7,500	0	0	0	37	0	NA	162,132	255,568	114,016,750	2.24
Ameren	AEE	571,000	0	0	0	0	32	0	NA	0	571,000	206,900,000	2.76
American Electric Power	AEP	1,039,000	6,000	0	-79,000	0	32	0	NA	19,633	934,367	399,284,231	2.34
Avista	AVA	42,431	0	0	0	0	38	0	2,369	47	44,753	52,537,500	0.85
CenterPoint Energy	CNP	358,000	0	0	0	0	35	0	NA	7,173	350,827	339,866,250	1.03
CH Energy	CHG	40,962	0	0	0	0	33	0	NA	0	40,962	15,785,250	2.59
Cleco	CNL	150,221	75	0	0	0	31	0	NA	0	150,146	59,351,536	2.53
CMS Energy	CMS	(132,000)	-70,000	0	0	0	33	NA	NA	NA	(62,000)	226,505,498	-0.27
Consolidated Edison	ED	923,000	0	0	0	0	32	0	NA	0	923,000	263,850,000	3.50
Constellation Energy	CEG	968,400	137,500	0	0	0	31	0	70,411	106,720	794,590	182,750,000	4.35
Dominion Resources	D	2,271,000	-179,000	-158,000	0	0	40	0	NA	2,169,477	122,523	686,750,000	0.18
DPL	DPL	182,800	13,000	0	0	0	37	44,936	NA	19,620	195,116	117,925,000	1.65
DTE Energy	DTE	858,000	-2,000	0	0	0	37	0	NA	645,790	214,210	174,000,000	1.23
Duke Energy	DUK	1,644,000	NA	NA	NA	NA	33	NA	NA	NA	1,644,000	1,266,250,000	1.30
Edison International	EIX	1,175,000	23,000	0	0	0	25	NA	182,317	0	1,334,317	330,000,000	4.04
Energy East	EAS	255,121	0	0	0	0	33	0	NA	-617	255,738	153,154,000	1.67
Entergy	ETR	1,209,245	-10,326	0	0	0	28	0	NA	0	1,219,571	205,176,286	5.94
Exelon	EXC	2,765,000	9,000	0	0	0	33	0	NA	16,650	2,739,350	678,000,000	4.04
FirstEnergy	FE	1,315,000	0	0	0	0	40	0	NA	0	1,315,000	313,000,000	4.20
FPL	FPL	1,356,000	0	0	0	0	22	82,299	NA	18,811	1,419,488	400,000,000	3.55
Great Plains Energy	GXP	143,978	0	0	0	0	28	0	-4,672	-11	139,317	83,889,500	1.66
Hawaiian Electric	HE	60,311	0	0	0	0	34	0	NA	0	60,311	82,016,000	0.74
IDA	IDA	90,124	194	0	0	0	2	0	NA	2,687	87,243	43,891,750	1.99
Integrys Energy	TEG	187,500	79,000	0	0	0	24	0	NA	NA	108,500	63,475,000	1.71
NiSource	NI	316,900	-22,600	0	0	0	36	6,565	NA	NA	346,065	274,596,500	1.26
Northeast Utilities	NU	520,764	318,286	0	0	0	28	502	NA	0	202,980	155,073,190	1.31
NSTAR	NST	222,474	0	0	0	0	38	0	NA	4,745	217,729	107,141,750	2.03
OGE Energy	OGE	228,700	0	0	0	0	31	343	NA	0	229,043	92,525,000	2.48
Pepco	POM	312,100	0	0	0	0	35	2,096	NA	22,139	292,057	192,879,503	1.51
PG&E	PCG	955,000	0	0	0	0	35	0	NA	0	955,000	351,500,000	2.72
Pinnacle West Capital	PNW	322,711	16,893	0	0	0	32	0	NA	111	305,707	100,676,000	3.04
PNM Resources	PNM	93,592	0	0	0	0	17	11,523	10,534	9,797	105,852	76,927,500	1.38
PPL	PPL	1,048,000	73,000	0	0	0	33	NA	NA	15,410	959,590	387,990,500	2.47
Progress Energy	PGN	655,000	-142,000	0	0	0	18	0	48,327	15,563	829,764	254,800,000	3.26
Public Service Enterprise	PEG	1,063,000	-238,000	0	0	0	38	14,177	NA	0	1,315,177	507,350,000	2.59
Puget Energy	PSD	186,223	-212	0	0	0	30	0	NA	0	186,435	117,076,250	1.59
SCANA	SCG	298,000	0	0	0	0	28	0	NA	2,880	295,120	116,650,000	2.53
Sempra Energy	SRE	935,000	-31,000	0	0	0	35	3,912	46,944	1,304	1,015,552	264,166,750	3.84
Sierra Pacific Resources	SRP	219,710	0	0	0	0	33	0	NA	66,891	152,819	221,835,213	0.69
Southern	SO	1,717,837	0	0	0	0	33	0	NA	0	1,717,837	755,647,500	2.27
TECO Energy	TE	288,200	14,800	0	0	0	41	0	13,921	2,937	284,384	209,700,000	1.36
UIL	UIL	(6,033)	-45,810	0	0	0	37	0	NA	0	39,777	25,188,750	1.58
UniSource Energy	UNS	54,590	873	0	0	0	38	0	NA	0	53,717	39,043,250	1.38
Vectren	VVC	138,100	0	0	0	0	30	0	7,933	-418	146,451	76,425,000	1.92
Westar Energy	WR	166,694	0	0	0	0	26	0	NA	0	166,694	89,833,055	1.86
Wisconsin Energy	WEC	318,300	-1,200	0	0	0	37	0	NA	1,761	317,739	118,525,000	2.68
Xcel Energy	XEL	536,783	3,336	0	0	0	33	0	NA	0	533,447	432,364,500	1.23

Appendix C

CALCULATION OF ADJUSTED NET INCOME FOR 12 MONTHS ENDING DECEMBER 2007

Company	Ticker	Net income available to common share holders	Discontinued operations income	Changes in Accouting principles	Other extra items	Early retmt of debt	asset writedowns	Other non recurring exp	Other non recurring revenue	Effective tax rate	Final tax rate	After tax asset writedowns	After tax Other non recurring expenses	After tax Other non recurring revenues	RRA Adjusted Net Income	Average Diluted shares	Adjusted EPS
Allegheny Energy	AYE	412,214	0	0	0	0	0	0	8,900	37.61	38	0	NA	5,553	412,214	169,467,738	2.43
ALLETE	ALE	87,600	0	0	0	0	0	0	0	34.77	35	0	NA	0	87,600	28,400,000	3.08
Alliant Energy	LNT	426,200	600	0	0	0	NA	NA	218,800	36.50	37	NA	NA	138,938	286,662	112,521,000	2.55
Ameren	AEE	618,000	0	0	0	0	0	0	0	33.47	33	0	NA	0	618,000	207,400,000	2.98
American Electric Powe	AEP	1,089,000	24,000	0	-79,000	0	0	0	88,000	30.97	31	0	NA	60,746	925,254	400,198,799	2.31
Avista	AVA	38,475	0	0	0	0	0	3,850	0	38.74	39	0	2,359	0	40,834	53,263,000	0.77
CenterPoint Energy	CNP	399,000	0	0	0	0	0	0	2,000	32.83	33	0	NA	1,343	397,657	342,507,000	1.16
CH Energy	CHG	42,636	0	0	0	0	0	0	0	33.49	33	0	NA	0	42,636	15,779,000	2.70
Cleco	CNL	150,633	0	0	0	0	0	0	-15	31.80	32	0	NA	-10	150,643	59,717,528	2.52
CMS Energy	CMS	-227,000	-89,000	0	0	0	204,000	22,000	21,000	46.15	46	109,854	11,847	11,309	(27,608)	222,600,000	-0.12
Consolidated Edison	ED	929,000	4,000	0	0	0	0	0	0	31.83	32	0	NA	0	925,000	267,300,000	3.46
Constellation Energy	CEG	821,500	-900	0	0	0	0	22,500	63,300	33.89	34	0	14,875	41,848	795,427	182,500,000	4.36
Dominion Resources	D	2,539,000	-8,000	-158,000	0	0	0	0	3,635,000	39.53	40	0	NA	2,198,085	190,916	655,200,000	0.29
DPL	DPL	221,800	10,000	0	0	0	0	0	31,000	36.64	37	0	NA	19,642	192,158	117,800,000	1.63
DTE Energy	DTE	971,000	184,000	0	0	0	0	0	863,000	31.52	32	0	NA	590,982	196,018	170,000,000	1.15
Duke Energy	DUK	1,500,000	-22,000	0	0	0	0	0	-5,000	31.84	32	0	NA	-3,408	1,525,408	1,266,000,000	1.20
Edison International	EIX	1,086,000	-2,000	0	0	0	0	241,000	-3,000	27.35	27	0	175,087	-2,180	1,265,266	331,000,000	3.82
Entergy	ETR	1,134,849	0	0	0	0	0	0	0	30.72	31	0	NA	0	1,134,849	202,780,283	5.60
Exelon	EXC	2,736,000	10,000	0	0	0	0	0	23,000	34.63	35	0	NA	15,035	2,710,965	676,000,000	4.01
FirstEnergy	FE	1,309,000	0	0	0	0	0	0	0	40.28	40	0	NA	0	1,309,000	310,000,000	4.22
FPL	FPL	1,312,000	0	0	0	0	4,000	0	2,000	21.90	22	3,124	NA	1,562	1,313,562	400,600,000	3.28
Great Plains Energy	GXP	157,600	0	0	0	0	0	-8,900	0	30.99	31	0	-6,142	0	151,458	85,200,000	1.78
Hawaiian Electric	HE	84,779	0	0	0	0	0	0	0	34.81	35	0	NA	0	84,779	82,419,000	1.03
IDA	IDA	82,339	67	0	0	0	0	0	2,754	14.30	14	0	NA	2,360	79,912	44,291,000	1.80
Integrys Energy	TEG	251,300	73,300	0	0	0	0	0	0	32.21	32	0	NA	0	178,000	71,800,000	2.48
NiSource	NI	331,400	9,400	0	0	0	10,800	40,600	NA	35.73	36	6,941	26,094	NA	355,035	274,700,000	1.29
Northeast Utilities	NU	246,483	587	0	0	0	656	0	0	30.32	30	457	NA	0	246,353	155,304,361	1.59
NSTAR	NST	221,515	0	0	0	0	0	0	0	37.38	37	0	NA	0	221,515	107,122,000	2.07
OGE Energy	OGE	244,200	0	0	0	0	500	0	0	32.34	32	338	NA	0	244,538	92,500,000	2.64
Pepco	POM	333,600	0	0	0	0	2,000	0	34,100	35.97	36	1,281	NA	21,834	313,046	194,500,000	1.61
PG&E	PCG	1,006,000	0	0	0	0	0	0	0	34.89	35	0	NA	0	1,006,000	353,000,000	2.85
Pinnacle West Capital	PNW	307,143	8,363	0	0	0	0	0	-2,339	33.56	34	0	NA	-1,554	300,334	100,834,871	2.98
PNM Resources	PNM	74,874	15,516	0	0	0	0	0	11,599	5.11	5	0	NA	11,006	48,352	77,927,851	0.62
PPL	PPL	1,288,000	275,000	0	0	0	4,000	0	23,000	20.71	21	3,172	NA	18,237	997,935	385,111,000	2.59
Progress Energy	PGN	504,000	-189,000	0	0	0	0	0	5,000	32.24	32	0	NA	3,388	689,612	256,700,000	2.69
Public Service Enterpri	PEG	1,335,000	16,000	0	0	0	16,000	47,000	1,000	44.48	44	8,883	26,094	555	1,353,422	508,813,000	2.66
SCANA	SCG	320,000	0	0	0	0	0	0	9,000	29.98	30	0	NA	6,302	313,698	116,700,000	2.69
Sempra Energy	SRE	1,099,000	-26,000	0	0	0	5,000	73,000	6,000	31.59	32	3,421	49,939	4,105	1,174,255	264,004,000	4.45
Sierra Pacific Resource	SRP	197,295	0	0	0	0	0	0	28,525	30.74	31	0	NA	19,756	177,539	222,554,024	0.80
Southern	SO	1,734,000	0	0	0	0	0	NA	0	31.91	32	0	NA	0	1,734,000	761,016,000	2.28
TECO Energy	TE	413,200	14,300	0	0	0	0	32,900	221,300	40.35	40	0	19,625	132,005	286,519	209,900,000	1.37
UIL	UIL	44,697	-1,996	0	0	0	0	0	0	39.52	40	0	NA	0	46,693	25,299,000	1.85
Vectren	VVC	143,100	0	0	0	0	0	-23,400	0	34.67	35	0	-15,287	0	127,813	76,600,000	1.67
Wisconsin Energy	WEC	335,600	-900	0	0	0	0	0	19,600	39.05	39	0	NA	11,946	324,554	118,500,000	2.74
Xcel Energy	XEL	573,107	1,449	0	0	0	0	0	0	33.86	34	0	NA	0	571,658	433,131,000	1.32

Smith, Moore & Co.
Established 1913

Equity Analysis
SM Research & Perspective
Natural Resources

TECO Energy (TE: $16.09 - Market Perform)

April 30, 2008

	2006A	2007A	2008E	2009E	2010E
EPS*	$1.00	$1.07	$1.00	$1.10	$1.25
P/E		15.0x	16.1x	14.6x	12.8x
ROE*	14.5%	12.0%	10.3%	11.0%	12.0%

(* Excludes items Smith, Moore believes to be non-recurring)

Florida Economy and Lower Customer Growth Hamper TECO First Quarter Results.

- **First quarter results lower-than-expected.** On April 27, TECO Energy reported first quarter 2008 diluted ongoing EPS of $0.15 (excludes non-recurring items), below the consensus estimate of $0.21, vs. $0.21 (excludes non-recurring items and synfuel contributions) for the same period last year.

- **Weak Florida economy and slowed customer growth.** Tampa Electric reported $0.08 vs. $0.10 for the same period last year. Lower results were driven by a slow-down in customer growth to 0.6%, mild weather, increased bad debt expense and higher operating and maintenance expense. Notably, customer growth declined from 1.3% growth in the fourth quarter of 2007 and is significantly below management's original 2008 forecast of 2.0%.

  Coal contribution hampered by legacy contracts. TECO Coal's contribution declined to $0.04 vs. $0.06 (excludes synfuel royalties) on total sales of 2.4 million tons vs. 2.1 million tons, which included 1.3 million tons of synfuel production. Average net selling prices were comparable in both periods. TE had contracted a significant portion of the quarter's production at 2006-2007 selling prices, which are significantly lower than current spot prices, and were negatively impacted by higher production costs.

- **Our 2008-2010 EPS estimates unchanged.** Our 2008, 2009 and 2010 EPS estimates are $1.00, $1.10 and $1.25, respectively. TE maintained its 2008 EPS outlook of $0.95-to-$1.10. The mid-point of this range, $1.03, is modestly below 2007 results of $1.07.

- **2009-2010 outlook dependent upon rate relief and future coal prices.** We expect EPS growth in 2009 and 2010 driven by expected rate relief at both Tampa Electric and Peoples Gas. In addition, TECO should benefit from higher realized coal prices as older contracts roll-off and are replaced with contracts at today's prices.

Fundamental Data	
Est. 3 year CAGR	5.3%
Book Value Per Share (3/08)	$9.46
Common Equity Total Capital	39%
S&P Debt Rating	BB+
Current Annual Dividend	$0.80
Current Yield	5.0%
Payout Ratio	80%

Market Data	
Shares Outstanding (millions)	210.9
Market Capitalization (millions)	$3,508
Avg. daily share volume (000)	1,750
52-Week Range	$14-19
Institutional Ownership	55%
Short Interest	3%

Valuation Data	
Price/Book	170%
Relative/PE	95%

Contacts

Analyst
Timothy M. Winter, CFA
314-446-1617
twinter@smithmoore.com

Sales / Trading
George F. Grimes
314-446-1663
ggrimes@smithmoore.com

Disclosure / Certification found in Page 6

Investment Summary

On April 27, TECO Energy reported first quarter 2008 diluted ongoing EPS of $0.15 (excludes non-recurring items), consensus was $0.21, vs. $0.21 (excludes non-recurring items and synfuel contributions) for the same period last year. EPS contributions by segment are listed below:

TE reported 1st quarter 2008 diluted ongoing EPS of $0.15, below consensus of $0.21, vs. $0.21 for the same period last year.

TECO Energy EPS By Segment		
	First Quarter	
	2008	2007
Tampa Electric	$0.08	$0.10
People's Gas	0.05	0.05
TECO Coal	0.04	0.06
TECO Guatemala	0.05	0.05
TECO Transport	0.00	0.03
Parent	(0.06)	(0.09)
EPS	$0.15	$0.21

Figures exclude items SM believes to be non-recurring

Lower results were driven by a slow-down in customer growth to 0.6%, mild weather, increased bad debt expense and higher operating and maintenance expense.

Tampa Electric reported $0.08 vs. $0.10 for the same period last year. Lower results were driven by a slow-down in customer growth to 0.6%, mild weather, increased bad debt expense and higher operating and maintenance expense. Notably, customer growth declined from 1.3% growth in the fourth quarter of 2007 and is significantly below management's original 2008 forecast of 2.0%. Total energy sales decreased 2.1% and sales to weather-sensitive residential customers declined 4.5%. Total degree days were 10% below normal and 11% below the same period last year. In addition, some high-volume phosphate customers had outages at their production facilities, which further reduced retail sales. O&M expenses increased $4.5 million, or $0.02 per share, driven primarily by a $1.9 million after-tax expense related to a planned outage. Depreciation and property tax expenses both declined modestly while interest expense rose $1.6 million after-tax.

Peoples Gas' contribution was $0.05 vs. $0.05 for the same period last year. A modest $1.0 million decline in net income was due to modest customer growth of 0.3% and lower sales to residential customers caused by mild winter weather. Sales to commercial and industrial customers declined modestly due to a weak economy.

TECO Coal's contribution declined to $0.04 vs. $0.06 (excludes synfuel royalties) on total sales of 2.4 million tons vs. 2.1 million tons, which included 1.3 million tons of synfuel production. Average net selling prices were comparable in both periods. TE had contracted a significant portion of the quarter's production at 2006-2007 selling prices, which are significantly weaker than current spot prices, and were negatively impacted by higher production costs.

TECO Guatemala contributed $0.04 for the period vs. $0.04 for the same period last year reflecting a rate adjustment at the San Jose Power station, higher interest income, lower interest expense, customer growth and higher energy sales offset by higher operating expenses.

Holding company expense moderated to ($0.06) vs. ($0.09) driven by a $6.8 million lower interest expense partially offset by $1.9 million in lower after-tax interest income on lower cash balances.

EPS Outlook

Our 2008, 2009 and 2010 EPS estimates remain $1.00, $1.10, and $1.25.

Our 2008, 2009 and 2010 EPS estimates are $1.00, $1.10 and $1.25, respectively. TE maintained its 2008 EPS outlook of $0.95-to-$1.10. The mid-point of this range, $1.03, is modestly below 2007 results of $1.07.

The flat-to-modestly lower expected results in 2008 and early 2009 are primarily related to the need for rate relief at Tampa Electric (TEC). The combination of slowed customer growth, higher operating and maintenance expenses and infrastructure spending will continue to squeeze TEC's profit levels and result in earned ROE's declining to below the bottom of the 10.75%-12.75% authorized range by 2009 absent rate relief. Tampa Electric's 2009 outlook is highly dependent upon the timing and level of a needed rate increase. Management has not publicly-stated its intended schedule for filing. We continue to expect a constructive rate settlement with new rates in effect by mid-2009, but note that the longer the delay in filing--the later in 2009 that a rate increase and EPS boost will occur.

In addition, the slowed customer growth of 0.6% in the quarter is well-below TE's original estimate of

2.0% growth and an extended weak economy and housing market would negatively impact top-line growth. TE stated in its release that it now expects 2008 customer growth to be modestly above first quarter growth, but expects growth to eventually return to 2.0% per annum by 2010.

Slowed customer growth of 0.6% in the quarter is well-below TE's original estimate of 2.0% growth and an extended weak economy and housing market would negatively impact top-line growth.

TEC's year-end 2007 rate base was roughly $3.0 billion with a roughly 50/50 capital structure and the addition of new peaking and base-load capacity, environmental equipment and improved transmission/distribution system will further expand rate base. In addition to the general rate case, Tampa Electric receives annual rate recognition and return on investment for environmental improvements through the Florida's environmental cost recovery mechanism (ECRC).

Over the longer-term, we expect TE's regulated Florida utilities to deliver solid EPS growth driven by customer and sales growth, increasing natural gas usage and, most importantly, rate recognition of infrastructure investment. We expect Tampa Electric's rate base to further expand to $3.7 billion in 2009 and to over $4.0 billion by 2011 when new base-load capacity is in operation. Assuming constructive rate treatment (an 11.0% ROE on a 50% capital structure), we project TEC 2011 EPS power of $1.06, which results in a 10.2% compound annual growth rate from 2007 results of $0.72. In addition, we expect 5-to-7% annual EPS growth at PGS following flat results in 2008 and a constructive general rate case decision in early 2009.

TECO Energy EPS By Segment

	2006A	2007A	2008E	2009E	2010E
Tampa Electric	$0.65	$0.72	$0.66	$0.70	$0.85
People's Gas	0.14	0.13	0.14	0.15	0.16
TECO Coal	0.22	0.18	0.20	0.31	0.32
TECO Guatemala	0.18	0.21	0.20	0.20	0.20
TECO Transport	0.11	0.16	0.00	0.00	0.00
Parent	(0.34)	(0.34)	(0.20)	(0.26)	(0.28)
EPS	**$0.97**	**$1.07**	**$1.00**	**$1.10**	**$1.25**

Smith, Moore estimates. Figures exclude items SM believes to be non-recurring.

TECO Coal expects to produce 10.5 million tons in 2008, which is above its 9.5-10.0 million tons late February 2008 projection.

TECO Coal expects to produce 10.5 million tons in 2008, which is above its 9.5-10.0 million ton late February 2008 projection. Projected volumes reflect an improved coal market driven by supply and demand in the international coal market and the expectation of more normal inventory levels at U.S. utilities.

TECO Coal sells almost all of its annual production under either multi-year contracts or contracts that are finalized late in the previous year or early in the delivery year. The company currently has a significant portion of its planned 2008 sales under contracts that were signed primarily in 2006 and 2007 before the significant price increases late in 2007. The multi-year approach to contracting reduced the impact of the weaker coal markets in 2006 and 2007, but is limiting the upside from the very strong coal markets in 2008. For 2009, TECO Coal currently has 70% of its expected sales contracted, primarily utility steam coal.

Our 2008, 2009 and 2010 coal estimates are $0.20, $0.31 and $0.32, respectively.

Higher selling prices for the additional sales are expected to offset the effects of higher production costs related to higher diesel and petroleum-related products and result in a 2008 after-tax margin of $4 per ton. TECO Coal expects its 2008 EPS contribution to increase from its 2007 $0.18 contribution, and its 2009 net income will double vs. 2008. Our 2008, 2009 and 2010 coal estimates are $0.20, $0.31 and $0.32, respectively.

TECO Guatemala's results will be dependent upon the rate-resetting at its distribution utility in mid-2008, but we regard this earnings stream as stable with modest growth potential. In 2008, increased scheduled maintenance is expected to reduce the availability and capacity factors, which will result in lower spot energy sales and increased costs. Important factors to influence results in 2008 and beyond include: (1) EEGSA expects a rate-resetting to occur in mid-summer 2008 and (2) TEG is considering an RFP for a 200 MW coal-fired plant for Union Fenosa.

Important factors to influence results in Guatemala include: (1) EEGSA expects a rate-resetting to occur in mid-summer 2008 and (2) TEG is considering an RFP for a 200 MW coal-fired plant for Union Fenosa.

The Comisión Nacional de Energia Eléctrica (CNEE) was created under the General Electricity Law of 1996 as a branch of the Ministry of Energy and Mines in Guatemala and regulates the energy sector in Guatemala. EEGSA is undergoing a new rate setting process to determine the Value Added Distribution (VAD) charge applicable in the tariffs, leading to new rates effective in the summer of 2008. The new VAD rates that EEGSA can charge its customers for the use of its distribution lines will be set for a term of five years. The current VAD rates were established in May 2003.

The two distribution companies serving rural Guatemala, DEOCSA and DEORSA, which are owned and operated by the Spanish utility, Union Fenosa, have issued a combined request for proposals for a 200-megawatt base-load coal-fired unit to be constructed in Guatemala with commercial operation expected in 2012. TEG is evaluating this opportunity and expects to submit a bid in the spring of 2008, either individually or in a partnership with others, to build, own and operate the plant. If successful, TECO Guatemala would expect to sign a 15-year power sales agreement with DEOCSA and DEORSA. The plant would be constructed to meet World Bank and Guatemala Environmental Guidelines and is expected to be financed with non-recourse project debt, similar to the existing TECO Guatemala plants. The company has $50 million of offshore cash and would finance with non-recourse project financing. We would prefer to see TE not participate in the plant construction and use cash to fund utility rate base expansion.

The significant parent loss, which was ($0.34) in both 2007 and 2006, is expected to moderate in 2008 due to significant debt-paydown over the past few years. However, we expect the loss to increase in 2009 and 2010 related to the increased capital budget and financing needs.

Capital Expenditures/Cash Flow and Balance Sheet Projections

We consider TE's cash situation adequate to fund its electric and gas utility rate base expansion over the forecast period without the need for the issuance of common equity.

We consider TE's cash situation adequate to fund its electric and gas utility rate base expansion over the forecast period without the need for the issuance of common equity. Our forecast assumes constructive rate treatment for Tampa Electric and People's Gas in 2009 and that the parent does not participate in financing/construction of a new coal-fired plant in Guatemala.

TECO Energy's capital expenditure budget totals $631 million in 2008 and approximately $2.8 billion for the 2009-2012 period. The budget includes $543 million for Tampa Electric in 2008 and $2.4 billion over the 2009-2012 period, including the natural gas-fired combined cycle base-load generating capacity addition and new natural gas-fired combustion turbines to meet peak load generating capacity requirements. Roughly $320 million of the 2008 budget is related to system growth and generation reliability.

Capital expenditures for PGS are expected to be about $59 million in 2008 and $241 million during the 2009 – 2012 period. The gas utility projects roughly $40 million annually associated with customer growth and system expansion. The remainder represents capital expenditures for ongoing renewal, replacement and system safety. TECO Coal expects to invest $26 million in 2008 and $145 million during the 2009 – 2012 period. Included in these amounts is normal renewal and replacement capital, including coal mining equipment.

TE had $162 million in cash at year-end 2007. We estimate operating cash flow of roughly $650-660 million in 2008 with lower fuel recoveries offset by oil prices hedges. Our operating cash flow projections for 2009 and 2010 are $690 million and $737 million, respectively. TE's cash flow situation is materially aided by its deferred income tax assets, which were $926.7 million at year-end 2007. The balance is primarily related to net operating loss (NOL) carry-forwards from the disposition of merchant power assets. TE expects future income tax cash payments of roughly 10% of the Alternative Minimum (AMT) through 2011. Beyond 2011 TE expects to use $200 million of AMT carry-forwards to limit future tax cash payments to the level of the AMT. TE projects cash tax payments of under $10 million annually over the 2008-2011 period.

TECO's 2008 cash priorities include (1) a $190 million equity contribution to Tampa Electric and (2) $100 million parent floating rate debt retirement. A major component of TE's strategic plan has been to reduce its significant debt load. The company has made significant progress in this area, reducing total debt from $5,160 million (a 25% equity ratio) at year-end 2003 to $3,158 million (a 39% equity ratio) as of December 30, 2007. Based on our cash flow projections, we estimate TE will issue roughly $500 million of long-term debt over the 2008-2010 period while maintaining a common equity ratio of roughly 38-40% common equity at the parent and modestly above 50% at Tampa Electric.

Balance Sheet Has Improved

We would prefer to see further improvement in TE's balance sheet and credit profile particularly

considering the company's potential profile as a high quality, low-risk premier traditional regulated electric utility. In our opinion, such a profile would garner a premium valuation multiple, but cannot be achieved without a BBB+ credit rating. TE's senior unsecured debt is rated at Baa3 with a stable outlook by Moody's Investor's Services (Moody's), but below investment grade by Standard & Poor's (S&P) at BB+ with a stable outlook, and by Fitch Ratings (Fitch) at BB+ on Rating Watch Positive. As of march 31, 2008, the common equity ratio had improved to 39% common equity and credit ratings had returned to investment grade.

Smith, Moore Compliance Disclosure

Disclosures:

I certify that:
1) The views expressed in this research report accurately reflect my personal views about the subject security; and
2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

Chief risks to (TECO Energy/TE) shares include potential adverse regulatory decisions, undertaking unprofitable growth ventures, and deterioration in its premium to the industry multiple.

In addition:
1) Neither the analyst nor Smith, Moore & Co owns any shares of the above mentioned security.
2) Smith, Moore & Co does not make a market in the subject security.
3) Neither the analyst nor member knows or has reason to know of any material conflict of interest regarding the subject security.
4) Neither the analyst nor any member of the analyst's household is an officer, director or advisory board member of the subject company.

And finally:
1) Smith, Moore & Co. does not compensate its research analysts based on specific investment banking transactions. Smith, Moore & Co research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm, which includes, but is not limited to investment banking revenue, and
2) Smith, Moore & Co has not received compensation for any investment banking services from the subject security or any affiliated entities of the subject security during the past 12 months, including no involvement as either a manager or co-manager of a public offering of equity or equity related securities during the same period of time.

Security/Stock Rating Definitions:

O = Outperform:SM Research & Perspective expects the risk-adjusted return of the security to exceed the risk-adjusted return of its peer group over the next 12 to 18 months.
M = Market Perform:SM Research & Perspective expects the risk-adjusted return of the security to be in-line with the risk-adjusted return of its peer group over the next 12 to 18 months.
U = Underperform:SM Research & Perspective expects the risk-adjusted return of the security to be less than the risk-adjusted return of its peer group over the next 12 to 18 months.
TB = Trading Buy:SM Research & Perspective expects a near-term identifiable catalyst to potentially cause the select security to exhibit abnormal upside price movement over the near term.
TS = Trading Sell:SM Research & Perspective expects a near-term identifiable catalyst to potentially cause the select security to exhibit abnormal downside price movement over the near term.

As of (date of publication)
(83%) of companies covered by SM Research & Perspective are rated Outperform.
(17%) of companies covered by SM Research & Perspective are rated Market Perform.
(0%) of companies covered by SM Research & Perspective are rated Underperform.

Smith, Moore & Co. has provided investment banking services for 0% of all companies under current research coverage.

TECO Energy (TE: $14.90 - Market Perform)

March 15, 2008

	2006A	2007A	2008E	2009E	2010E
EPS*	$1.16	$1.07	$1.00	$1.10	$1.25
P/E		13.9x	14.9x	13.5x	11.9x
ROE*	14.5%	12.0%	10.3%	11.0%	12.0%

(* Excludes items Smith, Moore believes to be non-recurring)

Solid Florida Utility; Rate Base Growth to Lead to Tampa Electric's First General Rate Case Since 1992

- **Market Perform Rating.** We have initiated coverage of TECO Energy with a "Market Perform" rating. TE's corporate strategy has simplified and its risk profile diminished following the 2005 exodus from its unsuccessful foray into the merchant power business and several years of non-core asset divestitures and balance sheet repair.

- **Back-to-Basics reformation complete.** TE's primary value and future earnings power is dependent upon its growing core Florida electric and gas utilities, which are expected to generate roughly 80% of 2008 consolidated EPS. The utilities serve premier franchise territories, operate in a constructive regulatory environment and have significant rate base expansion opportunity, but EPS results in 2008 and the first-half 2009 will likely be flat-to-down given the need for rate relief.

- **Adding generation in a Green World.** Tampa Electric, TE's primary subsidiary, faces the challenges of adding and financing new generation to serve its growing customer load, meeting stricter environmental regulations and spending on system reliability; all the while keeping electric bills reasonable. In mid-2008, we expect Tampa Electric to file for its first general rate increase since 1992 with new rates effective by mid-2009. Given Tampa Electric and People's Gas growing customer and rate bases, we expect reasonable rate-treatment to lead to solid EPS growth in 2009 and beyond.

- **EPS Hiccup in 2008; Growth thereafter.** Our 2008, 2009 and 2010 EPS estimates are $1.00, $1.10 and $1.25, respectively. TE management has set a 2008 EPS guidance range of $0.95-to-$1.10. The mid-point of this range, $1.03, is modestly below 2007 results of $1.07. The flat-to-modestly lower expected results in 2008 and early 2009 are primarily related to the need for rate relief at Tampa Electric.

Fundamental Data	
Est. 3 year CAGR	5.3%
Book Value Per Share (12/07)	$9.56
Common Equity Total Capital	39%
S&P Debt Rating	BB+
Current Annual Dividend	$0.78
Current Yield	5.2%
Payout Ratio	71%

Market Data	
Shares Outstanding (millions)	210.9
Market Capitalization (millions)	$3,142
Avg. daily share volume (000)	1,986
52-Week Range	$15-19
Institutional Ownership	65%
Short Interest	13%

Valuation Data	
Price/Book	156%
Relative/PE	108%

Contacts

Analyst
Timothy M. Winter, CFA
314-446-1617
twinter@smithmoore.com

Sales / Trading
George F. Grimes
314-446-1663
ggrimes@smithmoore.com

Disclosure / Certification found in Page 15

Investment Summary

We have initiated coverage of TECO Energy (TE-14.90-Market Perform) with a "Market Perform" rating. TE's corporate strategy has simplified and its risk profile diminished following the 2005 exodus from its unsuccessful foray into the merchant power business and several years of non-core asset divestitures and balance sheet repair. TE's primary value and future earnings power is dependent upon its growing core Florida electric and gas utilities, which are expected to generate roughly 80% of 2008 consolidated EPS. The utilities serve premier franchise territories, operate in a constructive regulatory environment and have significant rate base expansion opportunity, but EPS results in 2008 and the first-half 2009 will likely be flat-to-down given the need for rate relief.

TE's corporate strategy has simplified and its risk profile diminished following the 2005 exodus from its unsuccessful foray into the merchant power business.

Tampa Electric, TE's primary subsidiary, faces the challenges of adding and financing new generation to serve its growing customer load, meeting stricter environmental regulations and spending on system reliability, all the while keeping electric bills reasonable. These challenges are rather typical for a traditional regulated electric utility and the constructive management of such activities, particularly receipt of constructive rate treatment, could be potentially rewarding for shareholders. In mid-2008, we expect Tampa Electric to file for its first general rate increase since 1992 with new rates effective by mid-2009. Given Tampa Electric and People's Gas growing customer and rate bases, we expect reasonable rate-treatment to lead to solid EPS growth in 2009 and beyond.

TE's primary value and future earnings power is dependent upon its growing core Florida electric and gas utilities.

As of year-end 2007, the balance sheet and credit profile were much improved, but still relatively weak for a traditional regulated utility, with a 39% common equity and a Standard & Poor's (S&P) Senior Unsecured credit rating of BB+ with a stable outlook. Write-offs and losses associated with failed investments in roughly 7,000 megawatts of merchant generation made during the years 2000-2003 had left the balance sheet at roughly 25% common equity and credit ratings below investment grade. Debt pay-down over the 2005-2007 period was materially aided by significant earnings and cash flow generation from TECO Coal, specifically tax-credited synthetic coal production, a dividend reduction and the recent (12/07) sale of TECO Transport for $405 million. The Transport sale and expiration of synthetic coal production reduced TE's overall business risk and result in a simpler, cleaner investment story. The only remaining non-regulated businesses are TECO Coal and TECO Guatemala, which combined contribute 20% of consolidated EPS results.

Our longer-term enthusiasm for TECO Energy is tempered over the near-term by a heavy capital expenditure budget with a modestly-leveraged balance sheet, rate relief needed from a somewhat 'untested regulatory commission' and a flat near-term EPS outlook. We believe the current 5.2% yield on the $0.78 annual dividend, which we consider secure, will support the share price until rate relief can be granted.

Recent Share Price Performance and Valuation

TE shares have materially under-performed the electric utility group and general market over the past few years.

TE shares have materially under-performed the electric utility group and general market over the past few years.

Price Performance (%)			
	Year-to-date	2007	3-Year
TECO Energy	(13)	0	(5)
S&P Electrics	(11)	16	30
S&P 500	(12)	4	7

Source: Baseline

We attribute the under-performance to a weak balance sheet, lack of EPS growth relative to the electric power sector and uncertainty over its credit profile as the sale of the Transport business was pending and the generation of synthetic coal tax credits was tied to fluctuating oil prices. The weak year-to-date performance for TE, the electric group and the S&P 500 is related to overall weakness in the economy and credit challenges facing lenders.

TE shares currently trade at 13.5X our 2009 EPS estimate of $1.10 and 156% of book value, which compares to its peer group of 12.8X and 177% of book value. We believe shares are fairly valued as the premium characteristics such as a premier Florida utility franchise and rate base growth potential are offset by the weak balance sheet and below investment grade credit rating.

Based on our dividend discount model and assuming a 3.75% risk premium, a 3.5% long-term growth rate and a 4.5% 30-year Treasury bond yield, our fair price estimate is $16 per share.

Finally, we consider TE to be a potential takeover candidate given its leveraged balance sheet and prized

utility franchise. The Chairman and CEO, Sherrill Hudson, is 65 years old.

TECO Description

TECO Energy's four business units include Tampa Electric, a regulated electric utility serving nearly 670,000 customers in West Central Florida; Peoples Gas System, Florida's largest natural gas distribution utility; TECO Coal, producer of coal in Kentucky and Virginia; and TECO Guatemala, owner of two power plants and an interest in Guatemala's largest distribution utility.

The Florida utilities, Tampa Electric (TEC) and Peoples Gas (PGS), represent the majority of TE's operations, accounting in total for 78% and 79% of consolidated revenues and ongoing EPS in 2007. An EPS break-down by segment is listed below:

TECO Energy EPS By Segment

	2006A	2007A	2008E	2009E	2010E
Tampa Electric	$0.65	$0.72	$0.70	$0.75	$0.90
People's Gas	0.14	0.13	0.13	0.15	0.17
TECO Coal	0.22	0.18	0.20	0.22	0.22
TECO Guatemala	0.18	0.21	0.19	0.20	0.20
TECO Transport	0.11	0.16	0.00	0.00	0.00
Parent	(0.34)	(0.34)	(0.22)	(0.22)	(0.24)
EPS	**$0.97**	**$1.07**	**$1.00**	**$1.10**	**$1.25**

Smith, Moore estimates. Figures exclude items SM believes to be non-recurring.

EPS Outlook

Our 2008, 2009 and 2010 EPS estimates are $1.00, $1.10, and $1.25.

Our 2008, 2009 and 2010 EPS estimates are $1.00, $1.10, and $1.25, respectively. TE management has set a 2008 EPS guidance range of $0.95-to-$1.10. The mid-point of this range, $1.03, is modestly below 2007 results of $1.07. The flat-to-modestly lower expected results in 2008 and early 2009 are primarily related to the need for rate relief at Tampa Electric. The combination of modestly slowed customer growth, higher operating and maintenance expenses and infrastructure spending will likely squeeze TEC's profit levels and result in earned ROE's declining to below the bottom of the 10.75%-12.75% authorized range by 2009 absent rate relief. Tampa Electric's 2009 outlook is highly dependent upon an expected general rate case to be filed "sometime" in 2008. We expect a constructive rate settlement with new rates in effect by mid-2009.

Assuming constructive rate treatment (an 11.0% ROE on a 50% capital structure), we project TEC 2011 EPS power of $1.06, which results in a 10.2% compound annual growth rate from 2007 results of $0.72.

TEC's year-end 2007 rate base was roughly $3.0 billion with a roughly 50/50 capital structure and the addition of new peaking and base-load capacity, environmental equipment and improved transmission/distribution system will further expand rate base. In addition to the general rate case, Tampa Electric receives annual rate recognition and return on investment for environmental improvements through the Florida's environmental cost recovery mechanism (ECRC). Over the longer-term, we expect TE's regulated Florida utilities to deliver solid EPS growth driven by customer and sales growth, increasing natural gas usage and, most importantly, rate recognition of infrastructure investment. We expect Tampa Electric's rate base to further expand to $3.7 billion in 2009 and to over $4.0 billion by 2011 when new base-load capacity is in operation. Assuming constructive rate treatment (an 11.0% ROE on a 50% capital structure), we project TEC 2011 EPS power of $1.06, which results in a 10.2% compound annual growth rate from 2007 results of $0.72. In addition, we expect 5-to-7% annual EPS growth at PGS following flat results in 2008 and a constructive general rate case decision in early 2009.

Hypothetical Tampa Electric Rate Base Growth At 11.0% ROE					
($ millions)	2007A	2008E	2009E	2010E	2011E
Beginning rate base	2,850	3,000	3,313	3,733	4,080
Depreciation	(219)	(230)	(241)	(253)	(266)
Capital expenditures	369	543	661	600	600
Year-end rate base	3,000	3,313	3,733	4,080	4,414
Average rate base	2,925	3,157	3,523	3,907	4,247
Capital structure	50%	50%	50%	50%	50%
Earned ROE	11.40%	11.00%	11.00%	11.00%	11.00%
Earnings	162	165	182	205	224
Shares outstanding	209	211	212	212	212
EPS	**$0.72**	**$0.78**	**$0.86**	**$0.97**	**$1.06**
Smith, Moore EPS	**$0.72**	**$0.70**	**$0.75**	**$0.90**	

Source: Smith, Moore estimates, Company documents.

We expect the non-regulated businesses to generate modest growth in 2008 and beyond. TECO Coal plans to replace lost synthetic coal production with conventional steam coal sales and will likely continue to benefit from strong domestic and international coal demand. TECO Guatemala's results will be dependent upon the rate-resetting at its distribution utility in mid-2008, but we regard this earnings stream as stable with modest growth potential. The significant parent loss, which was ($0.34) in both 2007 and 2006, is expected to moderate due to significant debt-paydown over the past few years. Our EPS projections by segment are listed in figure #2 and a more detailed of each subsidiary's outlook can be found later in this report.

Capital Expenditures/Cash Flow and Balance Sheet Projections

We consider TE's cash situation adequate to fund its electric and gas utility rate base expansion over the forecast period without the need for the issuance of common equity.

We consider TE's cash situation adequate to fund its electric and gas utility rate base expansion over the forecast period without the need for the issuance of common equity. Our forecast assumes constructive rate treatment for Tampa Electric and People's Gas in 2009 and that the parent does not participate in financing/construction of a new coal-fired plant in Guatemala.

TECO Energy's capital expenditure budget totals $631 million in 2008 and approximately $2.8 billion for the 2009-2012 period. The budget includes $543 million for Tampa Electric in 2008 and $2.4 billion over the 2009-2012 period, including the natural gas-fired combined cycle base-load generating capacity addition and new natural gas-fired combustion turbines to meet peak load generating capacity requirements. Roughly $320 million of the 2008 budget is related to system growth and generation reliability.

Capital expenditures for PGS are expected to be about $59 million in 2008 and $241 million during the 2009 – 2012 period. The gas utility projects roughly $40 million annually associated with customer growth and system expansion. The remainder represents capital expenditures for ongoing renewal, replacement and system safety. TECO Coal expects to invest $26 million in 2008 and $145 million during the 2009 – 2012 period. Included in these amounts is normal renewal and replacement capital, including coal mining equipment.

TECO Energy Capital Expenditure Budget *($ millions)*					
Tampa Electric	**2007A**	**2008**	**2009**	**2010-2012**	**2008-2012 Total**
Peoples Gas	48	59	61	180	300
TECO Coal	44	26	34	111	171
TECO Transport	25	0	0	0	0
TECo Guatemala	2	1	4	5	10
Other	0	2	0	1	3
Total	**488**	**631**	**760**	**2,004**	**3,395**

Source: TECO Energy 2007 10K

In 2007, operating cash flow was $554 million, which included $124 million of recovery of un-recovered 2005 and 2006 fuel costs. TE had $162 million in cash at year-end 2007. We estimate operating cash

flow of roughly $650-660 million in 2008 with lower fuel recoveries offset by oil prices hedges. Our operating cash flow projections for 2009 and 2010 are $690 million and $737 million, respectively. TE's cash flow situation is materially aided by its deferred income tax assets, which were $926.7 million at year-end 2007. The balance is primarily related to net operating loss (NOL) carry-forwards from the disposition of merchant power assets. TE expects future income tax cash payments of roughly 10% of the Alternative Minimum (AMT) through 2011. Beyond 2011 TE expects to use $200 million of AMT carry-forwards to limit future tax cash payments to the level of the AMT. TE projects cash tax payments of under $10 million annually over the 2008-2011 period.

TECO Energy Cash Flow and Balance Sheet Projections
($ millions)

	2007A	2008	2009	2010
Operating cash flow	554	657	691	737
Capital expenditures	(488)	(631)	(760)	(677)
Common dividends	(163)	(169)	(174)	(178)
Free cash flow	(97)	(144)	(243)	(118)
Total long-term debt	3,158	3,258	3,408	3,508
Balnace sheet ratios	**2007A**	**2008**	**2009**	**2010**
Common equity ratio	38.7%	38.7%	38.4%	38.9%
Short-term debt	0.6%	0.6%	0.6%	0.6%
Long-term debt	60.7%	60.7%	61.0%	60.6%

Source: Smith, Moore estimates

TECO's 2008 cash priorities include (1) a $190 million equity contribution to Tampa Electric and (2) $100 million parent floating rate debt retirement. A major component of TE's strategic plan has been to reduce its significant debt load. The company has made significant progress in this area, reducing total debt from $5,160 million (a 25% equity ratio) at year-end 2003 to $3,158 million (a 39% equity ratio) as of December 30, 2007. Based on our cash flow projections, we estimate TE will issue roughly $500 million of long-term debt over the 2008-2010 period while maintaining a common equity ratio of roughly 38-40% common equity at the parent and modestly above 50% at Tampa Electric.

A major component of TE's strategic plan has been to reduce its significant debt load. The company has made significant progress in this area, reducing total debt from $5,160 million (a 25% equity ratio) at year-end 2003 to $3,158 million (a 39% equity ratio) as of December 30, 2007.

Balance Sheet Has Improved

We would prefer to see further improvement in TE's balance sheet and credit profile particularly considering the company's potential "utility" profile as a high quality, low-risk premier traditional regulated electric utility. In our opinion, such a profile would garner a premium valuation multiple, but cannot be achieved without a BBB+ credit rating. TE's senior unsecured debt is rated at Baa3 with a stable outlook by Moody's Investor's Services (Moody's), but below investment grade by Standard & Poor's (S&P) at BB+ with a stable outlook, and by Fitch Ratings (Fitch) at BB+ on Rating Watch Positive. As of year-end 2007, the common equity ratio had improved to 39% common equity and credit ratings had returned to investment grade.

Dividend Policy

We consider TE's $0.78 annual dividend to be secure and anticipate modest annual dividend growth. The annual $0.78 rate results in a 78% payout ratio of our 2008 EPS estimate of $1.00. Due to the financial difficulties resulting from its merchant generation operations, TE cut its dividend by almost 50% in 2003 to $0.76. In May 2007, reflecting strengthening company finances, in particular significant debt retirement, TE increased its annual dividend by 2.6% to $0.78. We expect another 2¢ annual increase in the second quarter of 2008.

We consider TE's $0.78 annual dividend to be secure and anticipate modest annual dividend growth.

Tampa Electric

Tampa Electric (TEC), TE's largest subsidiary, serves over 668,000 electric customers in West Central Florida, including the city of Tampa and the surrounding bay area. The service area covers 2,000 square miles, including all of Hillsborough County and parts of Polk, Pasco and Pinellas counties. During 2007, TEC contributed $0.72 to consolidated EPS of $1.07 and accounted for 66% of ongoing consolidated EPS and 62% of revenues. The utility's retail service territory has been one of the faster growing in the U.S. and annual customer and weather-normalized sales growth has averaged above 2.5% over the last several years.

Service Area Economy

TEC experienced 1.9% customer growth and 2.7% sales growth in 2007. According to TE, the service area economy continued to grow in 2007, albeit at a slower pace than 2006, aided by continued population growth in Florida and the region's relatively low labor costs. According to the most recent U.S. Census Bureau data, Florida added 194,000 new residents in 2007, and while this is the first time this decade that growth in new residents was less than 200,000 in a given year, it still represents very substantial growth. The local Tampa area unemployment rate increased to 4.7% at year-end 2007, compared with 3.0% in December 2006, and 3.2% in December 2005. These rates are similar to the 4.7% unemployment rate for the State of Florida but lower than the 5.0% for the nation at Dec. 31, 2007.

The housing market in Tampa Electric's service area remained weak in 2007 after an initial slowdown in 2006 following significant growth in 2004 and 2005. Florida is often cited in economic reports as one of the states experiencing the most overbuilding during the housing boom and experiencing the most significant downturn. Residential building permit activity declined by more than 40% in 2007, compared to 2006, which is expected to reduce the excess inventory over time. Economists and real estate associations indicate that the housing market is expected to remain weak throughout 2008 and into 2009, depending on the absorption of excess inventory.

TEC's customer mix is more stable than that of many electric utilities as 46% and 30% of 2007 electric revenues were derived from less economically-sensitive residential and commercial customers

TEC's customer mix is more stable than that of many electric utilities as 46% and 30% of 2007 electric revenues were derived from less economically-sensitive residential and commercial customers, while a modest 9% was derived from industrial customers. Usage is not highly seasonal, but winter peak loads are experienced due to electric space heating, fewer daylight hours and colder temperatures, and summer peak loads are experienced due to the use of air conditioning and other cooling equipment. In August of 2007, Tampa Electric set an all-time peak demand of 4,265 megawatts which broke the August 2006 demand record of 4,233 megawatts. Tampa Electric's forecasts indicate that summer retail peak demand growth is expected to average 110 megawatts per year for the next five years. These growth projections assume continued local area economic growth, normal weather, a recovery in the housing market over time, and a continuation of the current energy market structure.

TEC expects average annual customer and weather-normalized average retail energy sales growth of 2.1% and 2.3%, respectively, over the next five years.

In addition, average energy usage per Tampa Electric and PGS' residential customer declined in 2006 and 2007. TEC attributes this to mild weather, higher energy prices reflected both through the fuel charge on bills and for higher energy prices in general, increased appliance efficiency, and to changes in residential construction patterns in Tampa Electric's service area. In addition, the current slowdown in the Florida housing market has increased the number of vacant residences which have active meters but minimal energy consumption. We note that TEC's upcoming rate filing will likely reflect an updated customer mix and growth profile.

In 2008, TEC expects 2% customer and sales growth, but we note that an extended depressed housing market or a further weakening of local, state or national economic conditions would likely result in even slower growth. Based on projected growth from continued population increases and business expansion, TEC expects average annual customer and weather-normalized average retail energy sales growth of 2.1% and 2.3%, respectively, over the next five years. This energy sales growth projection is lower than previous projections, reflecting changes in usage patterns and changes in population trends.

Generation

TEC owns more than 4,600 MW of generating capacity, of which roughly 40% is coal-fired, with the remainder being natural gas and/or oil-fired. The company's generation portfolio is listed below:

Tampa Electric Generating Portfolio

Plant Name	Nameplate Capacity	Type	In-Service Date
Bid Bend	1,823 megawatts	Coal	1970
Big Bend CT	174	CT-Gas	1969
H.L.Culbreath Bayside	2,014	CC-Gas	2003
Polk CT	352	CT-Gas	2000
Polk IGCC	326	CC-Coal	1996
Polk Unit 4 & 5	352	ST-Gas	2007

Source: Company documents

Customer growth drives the need for 130-150 MW of additional capacity per year.

Approximately 59% of Tampa Electric's generation of electricity for 2007 was coal-fired, with natural gas representing approximately 40% and oil representing approximately 1%. Tampa Electric used its generating units to meet approximately 85% of the total system load requirements, with the remaining 15% coming from purchased power. In April 2007, two 160-MW gas-fired peaking units, Polk Units 4

and 5, were placed into service at a total cost of $70 million. Construction of the new simple-cycle combustion turbines took about eight months and the investment is being offset through customer and sales growth.

New Generation Needed

Customer growth drives a need for 130-150 MW of additional capacity per year, and TEC anticipates the need for several hundred MWs of peaking capacity over the 2009-2012 time-frame. The company faces the challenges of adding new generation to serve its growing customer load, meeting stricter environmental regulations and spending on system reliability, all the while keeping electric bills reasonable. The construction of new base load generation is an expensive lengthy undertaking and complicated by uncertain emissions rules, rising nuclear and coal plant construction costs, high and volatile natural gas prices and significant political opposition to most new construction.

TEC plans to construct five peaking capacity combustion turbines in 2008 and 2009 at the Bayside and Big Bend power stations with an expected total cost of $236 million, excluding AFUDC. These units will meet the expected peak demand requirements in 2009 and 2010, and several will be configured to meet NERC system reliability requirements. TEC expects to need additional combustion turbines to meet peak load demand in 2011 and 2012. The total cost for these units is estimated to be $320 million.

Tampa Electric currently plans to meet its expected 2013 base-load capacity need with a combined-cycle natural gas-fired plant.

The company currently plans to meet its expected 2013 base-load capacity need with a combined-cycle natural gas-fired plant, which together with associated transmission system improvements is expected to cost approximately $555 million. In October 2007, Tampa Electric canceled plans to build a $2 billion 630-megawatt coal- and petroleum coke-fueled Integrated Gasification Combined Cycle (IGCC) unit. The cancellation was due to uncertainty related to carbon dioxide (CO2) regulations, particularly capture and sequestration issues, and the potential for related project cost increases.

Environmental Compliance

In 2004, TEC began plans to install selective catalytic reduction equipment (SCR's) for NOx control on Big Bend Unit 4 and SCR technology on Big Bend Units 1, 2, and 3. The SCR project is part of a 10-year, $1.5 billion Tampa Electric program that was the centerpiece of an agreement with the U.S. Environmental Protection Agency and Florida's Department of Environmental Protection to dramatically reduce overall emissions from its power plants. The $330 million emissions control project will make Big Bend one of the cleanest coal-fired power stations in the nation. The project is scheduled to be completed in three more phases: Big Bend Unit 4 was the first to receive the new equipment and went into service in mid-2007. Unit 3 is scheduled for May 1, 2008; Unit 2 for May 1, 2009; and Unit 1 for May 1, 2010. When completed in late 2010, the project will reduce NOx emissions at Big Bend by about 85% from 1998 levels.

The FPSC has determined that it is appropriate for TEC to recover the operating costs of and earn a return on the investment in the SCR's to be installed on all four of the units at the Big Bend Station.

The FPSC has determined that it is appropriate for TEC to recover the operating costs of and earn a return on the investment in the SCR's to be installed on all four of the units at the Big Bend Station and pre-SCR projects on Big bend Units 1-3 (which are early plant improvements to reduce NOx emissions prior to installing the SCRs) through the Environmental Cost Recovery Clause (ECRC). Recovery of the first SCR (Big Bend Unit 4) was approved in late 2007.

As part of that program, the company earlier this decade converted its Gannon coal plant into the gas-fired H.L. Culbreath Bayside plant.

Hurricane Storm Hardening

Due to extensive storm damage to utility facilities during the 2004 and 2005 hurricane seasons, the FPSC ordered all utilities to implement a 10-point storm plan. TEC's plan results in an average incremental non-fuel O&M expense of approximately $15 million annually and increased capital expenditures. In 2008, Tampa Electric expects to invest approximately $22 million of capital for higher levels of transmission and distribution pole replacement, improvements to circuits serving critical infrastructure and the completion of the global information system required under the storm hardening program. Future capital expenditures required under the storm hardening program are expected to average approximately $19 million annually for the foreseeable.

TEC Capital Expenditures

Tampa Electric's 2008-2012 capital expenditure budget totals roughly $2.9 billion, including $543 million in 2008. The company's budget totaled $369 million in 2007. The budget breakdown is as follows:

Tampa Electric Capital Expenditure Budget ($ millions)					
	2007A	2008	2009	2010-2012	2008-2012 Total
Tampa Electric					
Transmission	19	55	70	187	312
Distribution	112	134	127	399	660
Existing generation	130	84	127	239	450
Committed new generation	12	108	118	7	233
Proposed new generation		11	124	741	876
New generation	12	119	242	748	1,109
Other	30	47	35	96	178
NOX control projects	79	72	52	13	137
Other environmental	27	23	8	25	56
Net impact accruals & retentions	(40)	9			9
Total	369	543	661	1,707	2,911

Source: TECO Energy 2007 10K

Tampa Electric's total capital expenditures over the 2009 – 2012 period are projected to be about $2.4 billion, including its next baseload generating capacity addition and new natural gas-fired combustion turbines to meet peak load generating capacity requirements in the 2009 – 2012 period. Tampa Electric expects to spend approximately $320 million annually to support normal system growth and reliability. This level of ongoing capital expenditures reflects the generally higher costs for materials and contractors, new long-term regulatory requirements for storm hardening, and an active program of transmission and distribution system upgrades which will occur over the forecast period.

In addition to the $320 million of ongoing average annual capital expenditures, Tampa Electric expects to spend $65 million for compliance with the Environmental Consent Decree for the remaining SCR equipment and $33 million for other required environmental capital expenditures in the 2009 – 2012 period. The Environmental Consent Decree compliance expenditures are eligible for recovery of depreciation and a return on investment through the Environmental Cost Recovery Clause.

Regulation

We have historically viewed the Florida Public Service Commission (FPSC) and Florida regulation as constructive from an investor viewpoint.

We have historically viewed the Florida Public Service Commission (FPSC) and Florida regulation as constructive from an investor viewpoint. Electric and gas utilities remain regulated on a rate base-rate of return methodology and the FPSC has adopted several constructive mechanisms in dealing with electric utility issues. The November 2006 election of a new governor resulted in some controversy regarding two PSC commissioner appointments (Argenziano and Skop) and there has been minimal electric rate activity recently. Commissioners and term expirations are listed below:

Commissioners

Nancy Argenziano (R)	January 1, 2011.
Nathan Skop	January 1, 2011.
Chairman Lisa Polak Edgar (R),	January 2009.
Matthew Carter II (R),	January 2010.
Katrina Tew (R),	January 2010.

Over the last several years, authorized returns on common equity (ROE's) PSC were slightly above the industry averages nationwide, and the FPSC has generally permitted a 200 basis point-dead band around the authorized return. Constructive regulatory mechanisms recognize changes for fuel, conservation, environmental compliance and other costs on a timely basis. Legislation enacted in 2006 contains provisions that should streamline the approval process for new generating plants in the state. The FPSC has also established an Environmental Cost Recovery Clause (ECRC) that enables utilities to recover, between general rate cases, expenditures made to comply with new environmental laws or mandates. The clause is reviewed annually and permits recovery of environmental compliance costs and a return on capital investments. In addition, the PSC has authorized the utilities to recover the large majority of restoration costs incurred as a result of the major hurricanes that impacted Florida in 2004 and 2005.

Recent Rate Activity

For several years, the state's two largest electric utilities, Florida Power & Light (FPL-61.44-Not Rated) and Progress Energy Florida (subsidiary of Progress Energy), have operated under incentive rate plans

that contain no equity return for earnings monitoring purposes and provide for revenue sharing with ratepayers when base revenues exceed certain thresholds. In our opinion, Florida electric utilities have earned returns near authorized levels without the need for material general rate increases due to strong customer growth, low inflation rates as well as minimal need for new base-load generation. There has been little major regulatory activity involving TEC over the past few years and the company's last rate case was in 1992 where the authorized ROE range was set at 10.75%-to-12.75%. The authorized ROE was affirmed in 2000. Increases in expenses for fuel and purchased power, capacity costs, conservation costs and environmental costs have been recovered through FPSC permitted recovery adjustment clauses.

In November 2007, the FPSC approved Tampa Electric's requested rate adjustments, including the proceeds from the actual and projected sale of excess sulfur dioxide (SO_2) emissions allowances in 2007 and 2008 and the operating cost for and a return on the capital invested on the selective catalytic reduction (SCR) projects to enter service on Big Bend Units 3 and 4 as well as the operating and maintenance (O&M) costs associated with the Big Bend Units 1 and 2 pre- SCR projects, which are required by the Environmental Protection Agency (EPA) Consent Decree and Florida Department of Environmental Protection (FDEP) Consent Final Judgment. This rate proceeding was initiated in September of 2007 when Tampa Electric filed with the FPSC for approval of fuel and purchased power, capacity, environmental and conservation cost recovery rates for the period January 2008 through December 2008.

The company's forecasted ROE is expected to decline to levels below the bottom of its allowed range for the full year 2008.

The combination of slowed customer growth, lower usage-per-customer, rising operating and maintenance expenses, as well as increases in other employee-related costs has resulted in declining earned returns on common equity. The company's forecasted ROE is expected to decline to levels below the bottom of its allowed range for the full year 2008. After dropping to the bottom (10.75%) of its allowed ROE range in the middle of 2007, the 13-month moving average regulatory ROE was 11.4% resulting from the positive impact of favorable weather in the second half of 2007.

As mentioned, Tampa Electric has not sought a base rate increase since 1992. Since that last rate proceeding, the company has added more than 200,000 customers or roughly 50% since 1992 and made significant investments in facilities and infrastructure, including base-load and peaking generating capacity additions to reliably serve the growing customer base. In addition, the capital expenditure budget has materially increased and we expect and higher levels of non-fuel operations and maintenance expenditures. This is expected to cause a need for base rate relief for Tampa Electric in 2009.

We expect Tampa Electric's 2008 results to be flat compared with 2007 results of $0.72 per share.

We expect Tampa Electric to file for rate relief in mid-2008 with new rates effective by the spring of 2009. Year-end 2007 rate base is estimated at $3.0 billion with a roughly 50/50 capital structure. We expect Tampa Electric's rate base to further expand to $3.7 billion in 2009 and to over $4.0 billion by 2011. We estimate TEC requires roughly a $180 million annual rate increase, or 8%, to achieve an 11.5% earned ROE in the twelve-month period beginning in mid-2009. Assuming constructive rate treatment (an 11.75% ROE on a 50% capital structure), we project TEC 2011 EPS power of $1.06, which results in a 10.2% compound annual growth rate from 2007 results of $0.72.

Tampa Electric Earnings Outlook (2008)

We expect Tampa Electric to file for rate relief in mid-2008 with new rates effective by the spring of 2009.

We expect Tampa Electric's 2008 results to be flat compared with 2007 results of $0.72 per share. The benefit of 2% customer and weather-normalized sales growth will be offset by higher non-fuel operation and maintenance (O&M) expense, depreciation expense, and interest expense associated with normal increases in rate base. We note that further economic weakness and/or a recession would likely lead to lower customer and sales growth. We expect Environmental Cost Recovery related earnings due to the second NOx control project to be completed, which is expected to enter service in May 2008 on Big Bend Unit 3.

Management forecasts operations and maintenance expenses, excluding those costs recovered through FPSC-approved cost recovery clauses, to increase at a more than 6% rate in 2008 after 1.9% growth in 2007 and significant growth in 2006. Higher costs are expected for copper and steel products and subcontracted labor, major generating unit outages during the installation of NO_x control equipment, and higher employee benefits costs.

Depreciation expense is projected to increase in 2008, due to routine plant additions to serve Tampa Electric's growing customer base and maintain system reliability, a partial year of additional depreciation on two combustion turbines placed in service in May 2007 and a partial year of depreciation on the second NO_x control project to be completed on Big Bend Unit 3, which is expected to enter service in May 2008.

We expect non-cash AFUDC earnings to increase in 2008 related to the installation of combustion turbines to meet peak load capacity needs, the initial spending on base-load capacity and for NO_x control at Tampa Electric's Big Bend Station. Interest income is expected to decrease due to lower un-recovered FPSC approved clause balances and lower parent company cash balances.

For 2008, TE expects the effective tax rate to be in the range of 30% to 35%, but estimated cash income tax payments in 2008 is approximately $8 million and $2 million to $4 million annually over the 2009-2011 period.

For 2008, TE expects the effective tax rate to be in the range of 30% to 35%, but estimated cash income tax payments in 2008 is approximately $8 million and $2 million to $4 million annually over the 2009-2011 period.

Peoples Gas

Peoples Gas (PGS), Florida's largest natural gas utility serving 335,000 customers, was acquired by TECO Energy in 1997. With a presence in most of Florida's major metropolitan areas, and many of Florida's fastest growing markets including Southwest Florida and the Ocala region, Peoples Gas has added 140,000 new customers since 1997. Natural gas has not made significant inroads in Florida; the penetration rate for the state's households is less than 10%. Given the slower housing market in the state, customer and sales growth are forecasted at a 1% rate in 2008, below the growth rate of recent years. During 2007, the company accounted for 12% of ongoing EPS and 17% of revenues.

People's Gas contribution, which was $0.13 in 2007, is also expected to be unchanged in 2008. Customer growth is expected to slow to 1% given the slow-down in new construction. Benefits of customer growth and a return to normal weather following a generally-mild 2007 will be offset by higher O&M and depreciation expense. People's Gas earned below its authorized range in 2007 and expects to file for rate relief in mid-2008 with new rates effective in early 2009. Year-end rate base at People's Gas was roughly $500 million with a 55% common equity capital structure. The company is authorized an 11.25% equity return, the mid-point of a 10.25% to 12.25% authorized range that was established by the PSC in 2003.

Non-Utility Businesses; Coal and Guatemala

TECO Coal

TECO Coal operates surface and underground mines and related coal processing facilities in eastern Kentucky, Tennessee and southwestern Virginia producing metallurgical-grade and high quality steam coals. Its primary customers include the U.S. and European steel industries, as well as domestic utilities and industrial customers. As of Dec. 31, 2007, the TECO Coal operating companies had a combined estimated 277.1 million tons of proven and probable recoverable reserves.

TE projects total 2008 sales in a range between 9.5 million and 10 million tons with no synthetic fuel production, compared to 9.2 million tons in 2007.

TE projects total 2008 sales in a range between 9.5 million and 10 million tons with no synthetic fuel production, compared to 9.2 million tons in 2007. Synfuels accounted for 6.0 million of the 9.2 million tons of output in 2007, 5.3 million of the 9.8 million ton output in 2006, and 6.4 million tons of the total 9.7 million ton output in 2005. Synfuel production was a highly profitable earnings and cash flow generator for TE over the past few years due to a federal tax credit generated by chemically altering coal dust/waste into usable briquettes. Synfuel production generated $80 million of net cash and $53 million in net income in 2007. However, the tax credit permanently expired at year-end 2007 and 67% of the credit phased out in 2007 (35% in 2006) due to high oil prices above permitted levels.

TECO Coal expects to replace lost synthetic coal production with increased sales of conventional steam coal. Projected volumes reflect an improved coal market driven by supply and demand in the international coal market and the expectation of more normal inventory levels at U.S. utilities. Due to the signing of steam coal contracts for 2008 delivery during periods of lower prices in 2006 and 2007 and its metallurgical coal contracts early in the renewal cycle, TECO Coal expects its average realized price per ton in 2008 to be higher than in 2007, but lower than the current market prices. While the average selling price for all products is expected to increase in 2008, the cost of production is expected to increase at a higher rate. Fully-loaded cash margins per ton in 2008 are expected to be about $10 per ton, and after-tax margins are expected to be about $4 per ton. TECO Coal sells almost all of its annual production under either multi-year contracts or contracts that are finalized late in the previous year or early in the delivery year.

TECO Coal expects its 2008 EPS contribution to increase from its 2007 $0.18 contribution. Our 2008, 2009 and 2010 coal estimates are $0.20, $0.22 and $0.23, respectively.

In 2007, TECO Coal benefited from contracts, which included some multi-year contracts, signed in the stronger 2005 price environment. It currently has 100% of its planned 2008 sales under contracts that were signed primarily in 2006 and 2007 before the significant price increases late in 2007. The multi-year approach to contracting reduced the impact of the weaker coal markets in 2006 and 2007, but is limiting the upside from the very strong coal markets in 2008. For 2009, TECO Coal currently has 40% of its expected sales contracted, primarily utility steam coal.

TECO Coal expects its 2008 EPS contribution to increase from its 2007 $0.18 contribution. Our 2008, 2009 and 2010 coal estimates are $0.20, $0.22 and $0.23, respectively.

Given TE's recent history of divesting non-core assets, focus on balance sheet improvement, and the heavy projected capital budget at Tampa Electric, we would not be surprised should TECO divest its coal subsidiary. Assuming a reasonable sales price, we would view such a transaction positively. We place a higher value on the regulated Florida electric and gas utility business and believe considerable investment opportunity exists in the state of Florida. In addition, we believe the cyclical coal market could be at the higher-end of a range.

TECO Guatemala

TECO Guatemala's (TEG) operations include two power plants, the 120-megawatt San José Power Station and the 78-megawatt Alborada Power Station, and a 24 percent interest in the largest electric distribution utility in Central America, Empresa Electrica de Guatemala, S.A. (EEGSA). TEG contributed $0.21, or 20%, of 2007 consolidated EPS. The contribution consisted of roughly $0.10, or 50%, contributed by the San Jose power station, $0.03, or 15%, by the Alborada power station, and $0.07, or 35%, from DECAII (45% from EEGSA and 55% from affiliated companies and earnings on off-shore cash).

The San José facility is a pulverized coal-fired baseload plant located about 75 km south of Guatemala City near the Pacific coast. The Alborada station is a simple-cycle facility located in Escuintla, Guatemala. Both power plants operate under long-term power agreements. EEGSA serves more than 618,000 electric distribution customers, including the major metropolitan market area in Guatemala. Demand has grown at a rate of approximately eight percent annually.

TECO Guatemala expects 2008 net income to decrease from 2007 levels due partially to a challenging comparison.

TECO Guatemala expects 2008 net income to decrease from 2007 levels due partially to a challenging comparison. 2007 results benefited from outstanding performance from of the San Jose Power Station with extremely high availability and capacity factors. In addition, the absence of a $1.9 million after-tax benefit related to an adjustment to previously estimated results recorded in 2007 will negatively impact comparisons. In 2008, increased scheduled maintenance is expected to reduce the availability and capacity factors, which will result in lower spot energy sales and increased costs. Important factors to influence results in 2008 and beyond include: (1) EEGSA expects a rate-resetting to occur in mid-summer 2008 and (2) TEG is considering an RFP for a 200 MW coal-fired plant for Union Fenosa. Bids are due in April of 2008.

The Comisión Nacional de Energia Eléctrica (CNEE) was created under the General Electricity Law of 1996 as a branch of the Ministry of Energy and Mines in Guatemala and regulates the energy sector in Guatemala. EEGSA is undergoing a new rate setting process to determine the Value Added Distribution (VAD) charge applicable in the tariffs, leading to new rates effective in the summer of 2008. The new VAD rates that EEGSA can charge its customers for the use of its distribution lines will be set for a term of five years. The current VAD rates were established in May 2003.

The two distribution companies serving rural Guatemala, DEOCSA and DEORSA, which are owned and operated by the Spanish utility, Union Fenosa, have issued a combined request for proposals for a 200-megawatt base-load coal-fired unit to be constructed in Guatemala with commercial operation expected in 2012. TEG is evaluating this opportunity and expects to submit a bid in the spring of 2008, either individually or in a partnership with others, to build, own and operate the plant. If successful, TECO Guatemala would expect to sign a 15-year power sales agreement with DEOCSA and DEORSA. The plant would be constructed to meet World Bank and Guatemala Environmental Guidelines and is expected to be financed with non-recourse project debt, similar to the existing TECO Guatemala plants. The company has $50 million of offshore cash and would finance with non-recourse project financing. We would prefer to see TE not participate in the plant construction and use cash to fund utility rate base expansion.

TECO Transport Sold; Proceeds Used To Pay-down Debt

On December, 2007, TE sold its TECO Transport (TET) subsidiary to Green-street Equity Partners, L.P., a Miami-based private equity firm, for $405 million. TET consists of three major subsidiaries that operate an ocean-going fleet, a river barge fleet on the U.S. inland waterways and a dry-bulk commodity deep-water transfer and storage terminal. During 2006, this business segment accounted for 9% of consolidated revenues and 5% of total assets. TET had been profitable for many years, with significant multi-year contracts serving as the basis for stable earnings.

Net proceeds from the sale, taking into consideration estimated transaction-related costs and state and federal taxes, were approximately $375million. TECO Energy recorded an after-tax book gain in the fourth quarter of $149 million. We view this transaction positively given that it lowers TE's risk profile, generated cash to pay-down debt and allows management to focus on the core regulated utility business in Florida.

Recent Earnings

TE reported 2007 ongoing EPS of $1.07 (excludes non-recurring items and synfuel contributions), which was the high-end of the projected $0.97-$1.07 range, vs. $0.97 (excludes non-recurring items and synfuel contributions) for the same period last year.

On February 5, TE reported 2007 ongoing EPS of $1.07 (excludes non-recurring items and synfuel contributions), which was the high-end of the projected $0.97-$1.07 range, vs. $0.97 (excludes non-recurring items and synfuel contributions) for the same period last year. Fundamental highlights of the year included the sale of TECO Transport and continued material balance sheet improvement. The company paid down roughly $700 million in debt in 2007 and common equity increased roughly $290 million, which resulted in a common equity ratio of nearly 39%. Standard and Poor's upgraded credit ratings to investment grade.

The major factor driving higher results was a $0.72 contribution from Tampa Electric vs. $0.65 for the same period last year. Higher results were primarily driven by lower depreciation and property tax expense and higher retail energy sales, partially offset by higher operations and maintenance and interest expense. TEC benefited from $5.1 million of lower-after-tax depreciation expenses and $2.4 million of lower after-tax property tax expense due to tax law changes and an updated depreciation audit. AFUDC rose significantly to $4.5 million related to construction of new peaking units that entered service in April 2007 and the installation of NOx control equipment compared to $2.7 million in 2006.

Retail energy sales rose 2.7% and off-system sales rose 5.0% reflecting the positive effects of 1.9% average retail customer growth. In addition, total heating and cooling degree days were more than 2% above normal and 5% above 2006 total degree days. These positives were partially offset by changes in residential customers' consumption patterns due to a higher percentage of smaller, more energy-efficient, multi-family residences, and voluntary conservation due to higher prices for all forms of energy.

Excluding all FPSC-approved cost recovery clause-related expenses, operations and maintenance expense increased by $3.6 million after-tax, compared to 2006, primarily due to higher employee-related costs, additional spending on the distribution system to comply with storm-hardening requirements and planned outage requirements on generating units partially. 2007 results also reflect a $2.1 million after-tax benefit for the wholesale component of the sale of sulfur dioxide emissions credits compared to a $1.4 million benefit in 2006.

The People's Gas 2007 ongoing EPS contribution fell to $0.13 vs. $0.14 in 2006. Results reflect 1.6% average customer growth, mild winter weather and lower industrial sales due to the Florida housing construction slow-down.

The TECO Coal 2007 ongoing EPS contribution was $0.18 (excludes $0.25 of non-recurring synthetic fuel contribution) vs. $0.22 (excludes $0.15 of non-recurring synfuel contribution) for the same period last year. Total sales were 9.2 million tons, including 6.0 million tons of synfuel, compared to 9.8 million tons, including 5.3 million of synthetic fuel, in 2006. 2007 results reflect a (1%) lower average net selling price per ton excluding transportation allowances and a less-than 0.5% increase in the cash production cost. The $52.6 million of benefits from the production of synthetic fuel in 2007 reflect a $91.1 million after-tax reduction in earnings benefits due to the estimated 67% phase-out compared to the 35% phase-out and $36.7 million after-tax reduction in 2006. The results also reflect a $53.8 million after-tax benefit from adjusting to market the valuation of the oil price hedges placed to protect the 2007 synthetic fuel benefits against high oil prices. The synthetic fuel 2007 EPS contribution, which we exclude from our definition of operating EPS, was $0.25 per share vs. $0.15 for the same period last year.

TECO Guatemala reported a 2007 ongoing EPS contribution of $0.21 vs. $0.18 in 2006. Higher results reflect customer growth and higher energy sales at EEGSA and higher earnings from EEGSA-affiliated companies, which provide transmission services, wholesale power sales, engineering services and telecommunications services.

Parent and other loss was unchanged at ($0.34) in 2007 and 2006.

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TECO Energy
Financial Statements (2005-2010)
(In $ millions unless otherwise noted)

	2005A	2006A	2007A	2008E	2009E	2010E
Operating revenues	**3,010**	**3,448**	**3,536**	**3,477**	**3,639**	**3,826**
Operating expense						
Fuel and purchased power	731	1,025	1,127	1,250	1,281	1,312
Cost of natural gas	350	365	390	402	414	426
Other	270	294	280	294	308	324
Operation other expense						
Mining and related costs	413	450	435	464	494	526
Waterborne transporation costs	192	218	206			
Other	49	16	17	10	10	10
Maintenance	168	183	184	152	162	172
Depreciation and amortization	282	282	264	270	283	297
Gain on sale	3	(21)	(221)			
Taxes other than income	195	218	218	200	207	216
Total operating expenses	**2,653**	**3,030**	**2,900**	**3,040**	**3,159**	**3,283**
Operating income	**357**	**418**	**637**	**437**	**480**	**543**
Other income	**158**	**154**	**152**	**82**	**82**	**82**
Interest expense	**289**	**278**	**258**	**192**	**204**	**218**
Pre-tax income	**226**	**294**	**531**	**326**	**358**	**408**
Income tax	102	119	214	114	125	143
Minority interest	87	70	82			
GAAP net income	211	244	399	212	233	265
Net income, excl. non-recurring	**254**	**241**	**224**	**212**	**233**	**265**
Avg. shares out.	208	208	209	211	212	212
EPS, excl. non-recurring	**1.22**	**1.16**	**1.07**	**1.00**	**1.10**	**1.25**
Cash Flow Statement	**2005A**	**2006A**	**2007A**	**2008E**	**2009E**	**2010E**
Net income	275	246	413	212	233	265
Depreciation	282	282	264	270	283	297
Deferred income taxes	111	113	185	175	175	175
Other	(490)	(74)	(308)	0	0	0
Operating cash flow	**177**	**567**	**554**	**657**	**691**	**737**
Capital expenditures	(295)	(456)	(494)	(537)	(654)	(593)
Asset sales	278	100	405			
Other				80	0	0
Other subsidiaries	51	4	62	(85)	(85)	(85)
Investing cash flow	**34**	**(352)**	**(28)**	**(542)**	**(739)**	**(678)**
Equity issuance	16	13	14	15	15	15
Common dividends	(158)	(159)	(163)	(169)	(174)	(178)
Other	179	27	(656)	(90)	150	100
Financing cash flow	**38**	**(119)**	**(805)**	**(244)**	**(9)**	**(63)**
Balance Sheet						
Common equity	**1,592**	**1,729**	**2,017**	**2,075**	**2,149**	**2,251**
% of total capitalization	0.0%	31.1%	38.7%	38.7%	38.4%	38.9%
Short-term debt	0	616	32	32	32	32
Long-term debt	0	3,213	3,158	3,258	3,408	3,508
Total capitalization	**0**	**5,558**	**5,208**	**5,365**	**5,590**	**5,792**
Book Value per Share-year-end	**7.72**	**8.25**	**9.56**	**9.79**	**10.14**	**10.63**
Return on Average Equity	**17.3%**	**14.5%**	**12.0%**	**10.3%**	**11.0%**	**12.0%**

Smith, Moore Disclosure Statement

Disclosures:

I certify that:
1) The views expressed in this research report accurately reflect my personal views about the subject security; and
2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

Chief risks to (TECO Energy/TE) shares include potential adverse regulatory decisions, undertaking unprofitable growth ventures, and deterioration in its premium to the industry multiple.

In addition:
1) Neither the analyst nor Smith, Moore & Co owns any shares of the above mentioned security.
2) Smith, Moore & Co does not make a market in the subject security.
3) Neither the analyst nor member knows or has reason to know of any material conflict of interest regarding the subject security.
4) Neither the analyst nor any member of the analyst's household is an officer, director or advisory board member of the subject company.

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2) Smith, Moore & Co has not received compensation for any investment banking services from the subject security or any affiliated entities of the subject security during the past 12 months, including no involvement as either a manager or co-manager of a public offering of equity or equity related securities during the same period of time.

Security/Stock Rating Definitions:

O = Outperform:SM Research & Perspective expects the risk-adjusted return of the security to exceed the risk-adjusted return of its peer group over the next 12 to 18 months.
M = Market Perform:SM Research & Perspective expects the risk-adjusted return of the security to be in-line with the risk-adjusted return of its peer group over the next 12 to 18 months.
U = Underperform:SM Research & Perspective expects the risk-adjusted return of the security to be less than the risk-adjusted return of its peer group over the next 12 to 18 months.
TB = Trading Buy:SM Research & Perspective expects a near-term identifiable catalyst to potentially cause the select security to exhibit abnormal upside price movement over the near term.
TS = Trading Sell:SM Research & Perspective expects a near-term identifiable catalyst to potentially cause the select security to exhibit abnormal downside price movement over the near term.

As of (date of publication)
(80%) of companies covered by SM Research & Perspective are rated Outperform.
(20%) of companies covered by SM Research & Perspective are rated Market Perform.
(0%) of companies covered by SM Research & Perspective are rated Underperform.

Smith, Moore & Co. has provided investment banking services for 0% of all companies under current research coverage.



SHIELDS & COMPANY

MEMBER NEW YORK STOCK EXCHANGE

Electric & Natural Gas Utility Research

140 BROADWAY NEW YORK, NY 10005

CHRISTOPHER R. ELLINGHAUS chris.ellinghaus@shieldsandco.com (212) 320-2015
IDA S. WOZNIAK ida.wozniak@shieldsandco.com (212) 320-3531
TRADING DESK (212) 320-3001

TECO Energy, Inc. (NYSE: TE)

December 5, 2008

Rating:	Strong Buy
Price:	$11.21
Market Cap ($MM):	$2,385
Target Price:	$16.00
Indicated Dividend:	$0.80
Ind. Dividend Yield:	7.14%
Div. Payout:	74.6%
Debt/Total Capital:	61.2%
LT EPS Growth:	6%
52 Week High/Low:	$21.99/$10.59
Avg. Daily Volume:	2,652,000

		Q1	Q2	Q3	Q4	Year
2006	Actual	$0.26A	$0.25A	$0.31A	$0.18A	$1.00A
2007	Actual	$0.21A	$0.25A	$0.38A	$0.23A	$1.07A
2008	Current	$0.15A	$0.24A	$0.27A	$0.19E	$0.86E
	Prior					
2009	Current	$0.22E	$0.35E	$0.44E	$0.35E	$1.36E
	Prior					
2010	Current	$0.32E	$0.40E	$0.43E	$0.34E	$1.49E
	Prior					
2011	Current					$1.65E
	Prior					

Notes:

	2005A	2006A	2007A	2008E	2009E	2010E	2011E
P/E	14.1x	17.2x	16.1x	13.0x	8.2x	7.5x	6.8x
Div. Payout	62.3%	76.0%	72.7%	74.6%			

Initiating Coverage

SUMMARY

- We initiate coverage of TECO Energy, Inc. (NYSE: TE) with a Strong Buy investment rating and a $16 target price on December 5, 2008 at a price of $11.21. Our target valuation is only a meager 10.7x our 2010 estimate.
- TECO's 2009 recurring EPS should benefit greatly from new electric and gas base rate increases, the absence of a regulatory disallowance, higher coal production and significantly higher realized coal prices (closer to $80/realized ton).
- Trading at 7.5x our 2010 EPS estimate and sporting a current dividend yield of 7.14%, we believe that TE shares are one of the better values in the sector and certainly pose limited downside risk, in our view.
- The only reason we do not have a higher target price on TE shares higher is the uncertainty related to longer-term realizable coal prices and earnings from the company's TECO Coal subsidiary.
- Despite our reservations about long-term coal results, in our view, utility growth will supplement TECO Coal growth and should yield sustainable EPS that easily support our target price.
- We see material upside to our target price to closer to historical valuation norms on the stock should the coal uncertainty and/or if the market's malaise should be lifted.

Please see pages 2-6 for Analyst Certification and Important Disclosure/ Disclaimer Information.

Analyst Certification:

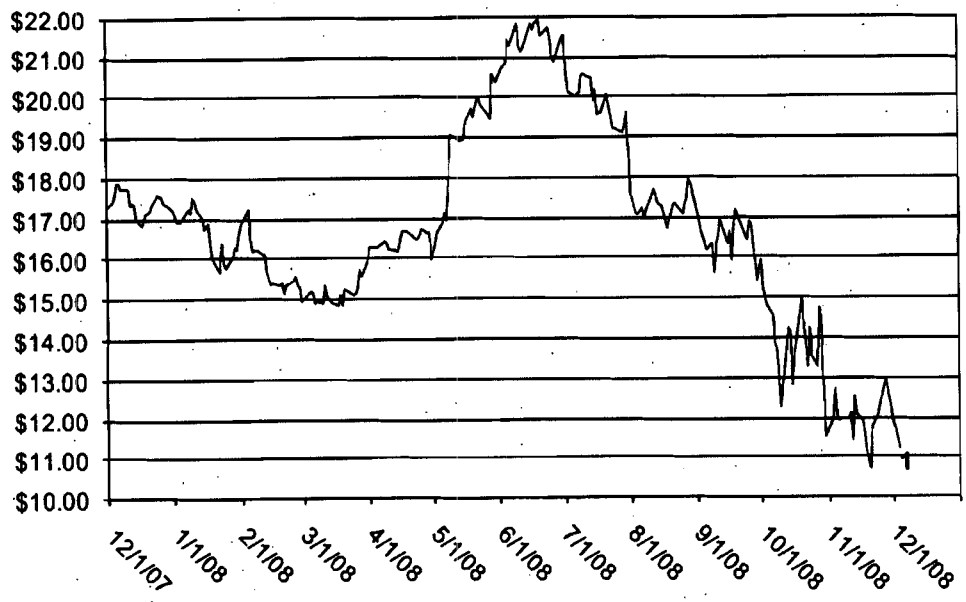
I Christopher R. Ellinghaus certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report.

Important Disclosure/ Disclaimer Information

Analyst Stock Recommendation Record

#	Company Name	Ticker	Date	Action	Prior Rating	Current Rating	Price	Target Price
1	TECO Energy, Inc.	TE	12-05-08	Initiation of Coverage	None	Strong Buy	$11.21	$16.00

Price Performance Chart



Source: Yahoo Finance

Valuation Methodology

Our target price is based on our 2009-2010 fundamental estimates. We see fair value for TE shares of $16.00 being achievable over the next 12-months as the stock is valued more directly on 2009 and 2010 earnings and cash flow expectations, the company completes major capital projects, TECO Coal achieves the expected substantial earnings uplift, and with some alleviation of a depressed valuation that is currently apparent in the stock, in our view.

We value TE shares based on multiple valuation methodologies including: Price-to-Earnings (P/E), Dividend Yield, Enterprise Value-to-EBITDA, Price-to-Cash Flow, and Price-to-Book. Our target price is a blend of all of these methodologies. With the stock trading at 8.2x our 2009 recurring EPS estimate and 7.5x our 2010 estimate, TE shares appear extremely attractive relative to comparable utilities and certainly relative to the company's likely considerable EPS growth, in our view. Our target price implies a P/E of 11.8x our 2009 recurring EPS estimate and 10.7x our 2010 estimate. While we expect considerable capital appreciation potential in TE shares over the next 12 months, we have restricted our valuation on the stock to well below what we would consider normal levels due to longer-term coal commodity uncertainty and current market conditions. Should either of these conditions be lifted, we see further upside potential in the stock beyond our current target price.

In our view, our valuation of TE shares is in-line or better with prospective comparable peer group multiples, yet at a significant discount to historical norms for the stock itself. However, we note that we are not valuing TE shares on P/E alone. In our view, the stock is a dramatic value based on book value, cash flow and EBITDA valuations as well. TE's median recurring year-end P/E ratio over the past 10 years has been roughly 14.0x and the median dividend yield has been roughly 4.5%. We note that historical valuations were based on more perceived risk with less earnings stability and lower prospective EPS growth. The dividend tax rate was also cut in May 2003, implying a considerable lift to utility valuations relative to historic norms. Therefore, we believe our target price reflects some conservatism. We really like TECO's prospects and the stock is uber attractive at this price, in our opinion.

Risks which may impede the achievement of our Price Target

In our view, TECO's shares represent a risk level that we believe is inherent in an average publicly traded stock/company. For TECO, we worry most about regulation/legislation, interest rates and commodity energy costs. While do not expect them to be a near-term issue, rising interest rates could affect not only the company's interest expenses, but could also affect the value of dividends and the valuations for utility stocks. Commodity price volatility always poses a risk to TECO's earnings potential. Rising commodity energy costs can affect profit margins and retail customer demand elasticity. With coal prices high and the economy faltering, our assumptions about realizable coal prices at TECO Coal could prove unrealistic. However, we have already reduced our expectations for coal sales considerably, mitigating some potential risk.

As in all electric utilities, regulatory decisions are critical. The company faces a number of critical regulatory decisions over the next several years that will help shape the fundamental outlook for the company. Achieving a reasonable outcome from the current GRCs is critical and we have significantly discounted TECO's revenue requests. These three critical factors should primarily determine whether TE shares can achieve the earnings, cash flow, and equity value we expect. Changes in Washington, D.C. are also coming. Any adverse changes to federal capital gains and/or dividend taxes through 2010 could affect the valuations for stocks and utility stocks in particular.

Important Disclosures

Guide to Investment Ratings and Target Prices:

Strong Buy ("1"). The stock's total return is expected to exceed significantly the average total return of the analyst's industry coverage universe over the next 12 months.
Buy ("2"). The stock's total return is expected to exceed the average total return of the analyst's industry coverage universe over the next 12 months.
Hold (Neutral) ("3"). The stock's total return is expected to equal the average total return of the analyst's industry coverage universe over the next 12 months.
Sell ("4"). The stock's total return is expected to be below the average total return of the analyst's industry coverage universe over the next 12 months.

Analyst's Ratings Distribution

		% Investment Banking
Buy*	58.8%	0%
Hold	17.7%	0%
Sell	23.5%	0%

*Includes companies rated "Strong Buy" and "Buy."

Unless otherwise specified, the time frame for price targets included in this report is 12 months.

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Power Insights

Equity Research
Company Update
Estimates Change
Target Price Change

TECO Energy
TE, $16.53, Hold
CEO Discusses TECO's Challenges During Investor Presentation

September 24, 2008

Maurice E. May
508-636-9934
maurymay@power-insights.com

Sales and Research
1-800-447-4318

Trading
1-800-569-2407
www.soleilgroup.com

Ticker	TE
Market Cap (M)	$3,515.9
Price	$16.53
52-Wk. Range	$22–$14
Rating	Hold
Price Target	$16.50
Shares Out (M)	212.7
Dividend	$0.80
Yield	4.8%
Trading Volume (M)	2.640
Market	NYSE

Sector Opinion:
Ongoing volatility in both the general market and the utility sector creates buying opportunities, in our opinion. Our group of 36 small to midcap electric utilities is now trading at about 12.7x 2009 estimates, down from multiples of 15x-16x forward earnings 1-2 years ago. Is the favorable macro of rate base growth over? Not in our opinion. We see the electric utility industry continuing its expansion through any economic slowdown because of its ongoing strategy of investing in its core regulated businesses of distribution, transmission, and in some cases generation. Moreover, environmental compliance and renewable portfolio standards are driving industry investment. Is there some pushback by regulators from higher rates? Yes---some---showing up mostly in modestly lower ROEs rather than CAPEX rejections. Regulators still want the cleaner generation, improved reliability and reduced congestion offered by infrastructure investment. Moreover, we see this largely recession-proof rate base growth producing higher earnings, dividends, and hopefully share prices. At this time, we focus on **El Paso Electric** (EE-$20.50-Buy), **Pepco Holdings** (POM-22.85-Buy), **PNM Resources** (PNM-$11.15-Buy) and **UniSource Energy** (UNS-$29.97-Buy), while accumulating **Northeast Utilities** (NU-$25.28-Buy) and **Wisconsin Energy** (WEC-$43.65-Buy) for the longer term.

Action

Maintain Hold. Earlier today, CEO Sherrill Hudson presented the TECO story to investors at a NYC conference. He focused his discussion largely on the various challenges these operations current face: (1) the Florida economy is so soft that customer growth at core utility Tampa Electric was only 0.4% during 1H 2008, (2) general rate cases filed for both electric and gas, (3) Guatemala regulators produced a shocker with latest decision eliminating earnings at EEGSA, and (4) management hopes for uncontracted met coal prompts us to raise our '09 estimate a dime, which goes to $1.51/shr. Our overall valuation declines seventy-five cents to $16.50/shr, however, as multiples for both small to midcap utility and coal shares have declined. We maintain our Hold rating.

Fiscal Year Dec		Fiscal Year			Calendar Year			Curr. Qtr.	Next Qtr.	Yr. Ago Qtr.
	$	F07A	F08E	F09E	C07A	C08E	C	3Q08E	4Q08E	3Q07A
Revenue	Current									
	Previous	—	—	—	—	—	—	—	—	—
EPS	Current	1.07	0.86	1.51	1.07	0.86	1.51	0.30	0.18	0.38
	Previous	1.07	0.86	1.41	1.07	0.86	1.41	0.30	0.18	0.38
Dividend	Current				0.70	0.80				
P/E	Current	15.4	19.2	10.9	15.4	19.2	10.9	—	—	—

Revenues in millions, except when noted.

- **TECO - presentation.** Earlier today, CEO Sherrill Hudson presented the TECO story to investors at a NYC conference. He focused his discussion largely on four challenges the company currently faces.
- **Florida economy – very soft.** Florida's unemployment rate is now above the national average due to lost construction jobs. Tampa Electric customer growth fell to 0.4% in 1H 2008.
- **Rate cases – early in proceedings.** TECO filed both electric and gas general rate cases in August. In the Tampa Electric filing, staff testimony is due in November, hearings in January, and a final decision in April for new rates in May. Gas follows electric with a 1-2 month lag.
- **Guatemala – shocker.** In July, new rates for the EEGSA distribution company will lower earnings from about $10 million per year to zero. Management is working through the U.S. government attempting a change.
- **Coal update – positive.** Working through the numbers provided, we are raising our 2009 net income number for TECO Coal from $95 million to $115 million. We are following management targets in met coal pricing.
- **Estimates – one change.** While we maintain our 2008E at $0.86/shr, we raise our 2009E from $1.41/shr to $1.51, reflecting increased anticipations for met coal pricing.
- **Valuation – updated.** Despite the higher 2009E, we lower our price target seventy-five cents to $16.50/shr, reflecting lower multiples for both small to midcap utility and coal shares.
- **Summary & recommendation – Hold.** As the stock is trading very near our new price target of $16.50 per share, we maintain our Hold rating.

Important disclosure information is contained on pages 5 - 6 of this report. The recipient of this report is directed to read these disclosures.

Earlier today, CEO Sherrill Hudson presented the **TECO Energy (TE-Hold)** story to investors at a NYC conference. He started with an overview of the company's four businesses, Tampa Electric, Peoples Gas, TECO Coal, and TECO Guatemala. He then focused his discussion largely on the various challenges these operations currently face.

Florida economy – very soft. TECO's two operating utilities, Tampa Electric and Peoples Gas, have traditionally experienced annual customer growth of 2%-plus, but not in the current weak economic environment. Florida has been particularly hard hit by the downtown in housing, with lost construction jobs pushing state unemployment above the national average. Tampa Electric's customer growth in the first half of this year has been revised downward to 0.4%, a number which reflects some disconnecting of meters in vacant houses. The company now projects customer growth at 0.8% in 2008, 1.2% in 2009, and 2.0% in 2010. Forecasters referenced by management — two universities, Moody's, and Wachovia — predict the upswing in housing will not begin until late-2009 or 2010.

Rate cases – early in proceedings. Both Tampa Electric and Peoples Gas filed general rate cases with Florida regulators in August. Tampa seeks $228.2 million in new rates, based upon an average rate base of $3.657 million, 55.3% financial equity, and a 12.0% ROE. Peoples filed for $26.5 million in new rates, based upon an average $563.6 million rate base, 54.7% financial equity, and an 11.5% ROE. Both filed for a partially forecast, 2009 test year. Tampa expects staff testimony in November, hearings in January 2009, decision in April, and new rates in May. The Peoples schedule lags Tampa by a month or two. We expect the balanced Florida commission to render a largely fair decision.

Guatemala – shocker. TECO Guatemala had an unusually good year last year, earning $44.7 million from its interests in two power plants and the EEGSA distribution company. In late July (as reported during TECO's 2Q conference call) came a shocker — regulators threw out the recommendation by the panel of experts and imposed rates that eliminates $10 million in EEGSA income. Management is working through the U.S. government (Departments of State & Commerce) attempting to rectify the problem, and we assume majority owner Iberdrola is also taking action.

Coal outlook – remains positive. Management said that while 2008 is a "tough year" in the coal business, 2009 holds "considerable upside." This is no surprise, as management has discussed this before. TECO Coal's 2009 outlook is as follows:

- Production estimated at 10.5-11.0 million tons;
- Steam coal to be 2/3 of production, with met coal 1/3;
- 80% of 2009 production is contracted at an average of $66/ton;
- Steam coal is 100% contracted;
- Unpriced tons are 35% quality met coal, and 65% PCI met coal.

Our bottom line on this coal equation is that about 2.1 million tons of overall met coal — incorporating 735,000 tons of quality met coal and 1.365 million tons of PCI — remains unpriced. Management hopes to contract out quality met at $200-$250/ton, and PCI at $150-plus/ton, and we have incorporated the low ends into our model. Also, we include revenues from 8.4 million tons of contracted steam and met coal at $66/ton. See attached model.

Estimates – changes. We reflected both the Florida utility rate cases and the TECO Guatemala

shocker in our models published August 18, 2008. Today, we incorporate updated TECO Coal information, and increase our 2009 estimate from $95 million to $115 million. Accordingly, we raise our 2009E from $1.41 per share to $1.51. See attached model.

Valuation – down. Despite raising our estimate, we lower our valuation. Reasons: the average valuation growth of 36 small-to-midcap utility companies has fallen from 13.5x since our last valuation on August 18th to 12.7x, and the average valuation of 11 coal mining companies has fallen from 8.0x to 6.4x. Thus, our valuation and price target falls from $17.25 per share to $16.50.

Summary & recommendation – Hold. As the stock is trading very near our new price target of $16.50 per share, we maintain our Hold rating.

RISKS

- **Valuation risk.** Price targets are based upon earnings projections and the capitalization of those projections by the stock market. If we are wrong on either our estimates or valuation there may be price risk in the stock.
- **Interest rate risk.** Utility stocks are often viewed as yield vehicles. As such, they are susceptible to changes in interest rates, and a rising interest rate environment will put downward pressure on utility shares, including TECO Energy.
- **Cyclical risk.** The strong historic customer growth rates at TECO's two Florida utilities are closely tied to the construction of new housing units. Management believes the current downturn is cyclical and that housing will rebound. If it does not, investment in new peaking and baseload capacity may not be needed, and rate base and earnings may not grow as expected.
- **Regulatory risk.** Regulators at the Florida PSC have traditionally been fair with utilities operating in the state, including core-utility Tampa Electric. However, there are aberrations, such as the TECO Transport penalty; moreover, the current commission is relatively inexperienced. With virtually all of TECO's utility revenues regulated by the FPSC, any changes from the historic regulatory climate in the state would be a major negative for the stock. Also, Guatemalan regulators can be unpredictable.
- **Commodity risk.** TECO Coal sells its production mostly under contracts of one-year or more. Current high pricing is not falling to the bottom line because of these contracts; however, they will be renegotiated over the next couple of years. Coal pricing is currently caught up in the commodity pricing boom; coal prices may decline substantially before contract renegotiations begin, leading to disappointing earnings projections and price risk in the stock.
- **Unregulated risk.** TECO Energy has a material unregulated coal mining business with a higher risk profile that its utility operations. Thus, this business can experience greater earnings volatility and potentially damage the price of the stock.

TECO Energy - Earnings Estimates and Valuations

(In $ millions, except per share figures and percentages)

2008E

Utility businesses	Rate Base	% Equity	$ Equity	ROE	Income
Tampa Electric - ongoing	$ 3,200	51.5%	$ 1,648	9.0%	$ 148.3
- Transport disallowance (taxed)	$ -		$ (15.0)	40.0%	$ (9.0)
Peoples Gas	$ 550	51.5%	$ 283	9.0%	$ 25.5
TECO Guatemala					$ 34.0
Total Utility Income	$ 3,750		$ 1,931		$ 198.8
+ TECO Transport - sold					$ -
+ TECO Coal - synfuel - ended					$ -
+ TECO Coal - conventional					$ 20.0
Total Unregulated Income					$ 20.0
Total Operating Cos					$ 218.8
- Holdco - interest expense	$ 956	6.97%	$ (66.6)	40.0%	$ (40.0)
- Holdco - interest income	$ 50	2.0%	$ 1.0	40.0%	$ 0.6
- Holdco - internally allocated interest			$ 10.0	40.0%	$ 6.0
- Holdco - other parent expenses			$ (5.0)	40.0%	$ (3.0)
Holding company impact					$ (36.4)
Net Income					$ 182.4
Earnings per Share					$ 0.86
Avg. Diluted Shares Outstanding					212.7

Valuation	
Utility earnings ($ mils)	$ 198.8
less share of holdco interest	$ (9.1)
Net utility earnings	$ 189.7
Utility EPS	$ 0.89
Assigned multiple	15.9x
Utility value per share	$ 14.18
Unregulated earnings ($ mils)	$ 20.0
less share of holdco impact	$ (27.3)
Net unregulated earnings ($ mils)	$ (7.3)
Unregulated EPS	$ (0.03)
Assigned multiple	8.4x
Unregulated value per share	$ (0.22)
Sum-of-the-Parts Valuation	$ 13.96

2009E

Utility businesses	Rate Base	% Equity	$ Equity	ROE	Inc
Tampa Electric	$ 3,300	54.0%	$ 1,782	10.3%	$ 182.7
Peoples Gas	$ 565	54.0%	$ 305	10.3%	$ 31.3
TECO Guatemala					$ 28.0
Total Utility Income	$ 3,865		$ 2,087		$ 241.9
+ TECO Coal - conventional					$ 115.0
+ Other - n/a					$ -
Total Unregulated Income					$ 115.0
Total Operating Cos					$ 356.9
- Holdco - interest expense	$ 956	6.57%	$ (62.8)	40.0%	$ (37.7)
- Holdco - interest income	$ 50	2.0%	$ 1.0	40.0%	$ 0.6
- Holdco - internally allocated interest			$ 10.0	40.0%	$ 6.0
- Holdco - other parent expenses			$ (5.0)	40.0%	$ (3.0)
Holding company impact					$ (34.1)
Net Income					$ 322.8
Earnings per Share					$ 1.51
Avg. Diluted Shares Outstanding					214.5

Valuation	
Utility earnings ($ mils)	$ 241.9
less share of holdco interest	$ (8.5)
Net utility earnings	$ 233.4
Utility EPS	$ 1.09
Assigned multiple	12.7x
Utility value per share	$ 13.82
TECO Coal ($ mils)	$ 115.0
less share of holdco impact	$ (25.6)
Net unregulated earnings ($ mils)	$ 89.4
Unregulated EPS	$ 0.42
Assigned coal multiple	6.5x
Unregulated value per share	$ 2.71
Sum-of-the-Parts Valuation	$ 16.53

2010E - Preliminary

Utility businesses	Rate Base	% Equity	$ Equity	ROE	Inc
Tampa Electric	$ 3,500	55%	$ 1,925	11.0%	$ 211.8
Peoples Gas	$ 585	55%	$ 322	11.0%	$ 35.4
TECO Guatemala					$ 30.0
Total Utility Income	$ 4,085		$ 2,247		$ 247.1
+ TECO Coal - conventional					$ 145.0
+ Other - n/a					$ -
Total Unregulated Income					$ 145.0
Total Operating Cos					$ 392.1
- Holdco - interest expense	$ 956	7.60%	$ (72.7)	40.0%	$ (43.6)
- Holdco - interest income	$ 50	2.0%	$ 1.0	40.0%	$ 0.6
- Holdco - internally allocated interest			$ 10.0	40.0%	$ 6.0
- Holdco - other parent expenses			$ (5.0)	40.0%	$ (3.0)
Holding company impact					$ (40.0)
Net Income					$ 352.1
Earnings per Share					$ 1.63
Avg. Diluted Shares Outstanding					216.5

Valuation	
Utility earnings ($ mils)	$ 247.1
less share of holdco interest	$ (10.0)
Net utility earnings	$ 237.1
Utility EPS	$ 1.10
Assigned multiple	12.7x
Utility value per share	$ 13.91
TECO Coal ($ mils)	$ 145.0
less share of holdco impact	$ (30.0)
Net unregulated earnings ($ mils)	$ 115.0
Unregulated EPS	$ 0.53
Assigned coal multiple	6.5x
Unregulated value per share	$ 3.48
Sum-of-the-Parts Valuation	$ 17.39
Disc. Target (8% x 1 yr)	$ 16.06

2011E - Preliminary

Utility businesses	Rate Base	% Equity	$ Equity	ROE	Inc
Tampa Electric - ongoing	$ 3,700	55%	$ 2,035	10.0%	$ 203.5
Peoples Gas	$ 600	55%	$ 330	10.0%	$ 33.0
TECO Guatemala					$ 30.0
Total Utility Income	$ 4,300		$ 2,365		$ 236.5
+ TECO Coal - conventional					$ 140.0
+ Other - n/a					$ -
Total Unregulated Income					$ 140.0
Total Operating Cos					$ 376.5
- Holdco - interest expense	$ 700	7.12%	$ (49.9)	40.0%	$ (29.9)
- Holdco - interest income	$ 100	2.0%	$ 2.0	40.0%	$ 1.2
- Holdco - internally allocated interest			$ 10.0	40.0%	$ 6.0
- Holdco - other parent expenses			$ (5.0)	40.0%	$ (3.0)
Holding company impact					$ (25.7)
Net Income					$ 350.6
Earnings per Share					$ 1.61
Avg. Diluted Shares Outstanding					218.5

Valuation	
Utility earnings ($ mils)	$ 236.5
less share of holdco interest	$ (8.4)
Net utility earnings	$ 230.1
Utility EPS	$ 1.05
Assigned multiple	12.7x
Utility value per share	$ 13.37
TECO Coal ($ mils)	$ 140.0
less share of holdco impact	$ (19.3)
Net unregulated earnings ($ mils)	$ 120.7
Unregulated EPS	$ 0.55
Assigned coal multiple	6.5x
Unregulated value per share	$ 3.59
Sum-of-the-Parts Valuation	$ 16.96
Disc. Target (8% x 2 yrs)	$ 14.82

Sources: company documents, management comments, and analyst calculations.
Maurice E. May - Power Insights/Soleil - 508-636-9934
Updated - September 24, 2008.

Regulatory Required Disclosures

The author of this report is the trustee and remainderman of a family trust that is long shares of Integrys Energy Group (TEG).

The analyst of this report or a member of the research analyst's household holds a long position in the securities of UniSource Energy.

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I hereby certify that the views expressed in the foregoing research report accurately reflect my personal views about the subject securities and issuer(s) as of the date of this report. I further certify that no part of my compensation was, is, or will be directly, or indirectly, related to the specific recommendations or views contained in this research report. By: Maurice E. May

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Buy: In the analyst's opinion, the stock will outperform the general market over the next 12 months.
Hold: In the analyst's opinion, the stock will be inline with the general market over the next 12 months.
Sell: In the analyst's opinion, the stock will underperform the general market over the next 12 months.

Soleil Securities Distribution of Ratings/IB Services Firmwide and by Sector

			IB Serv/Past 12 Mos.		Utilities			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
BUY[BUY]	151	53.55	0	0	BUY[BUY]	7	58.33	0	0
HOLD[HOLD]	117	41.49	1	0.85	HOLD[HOLD]	4	33.33	0	0
SELL[SELL]	14	4.96	0	0	SELL[SELL]	1	8.33	0	0

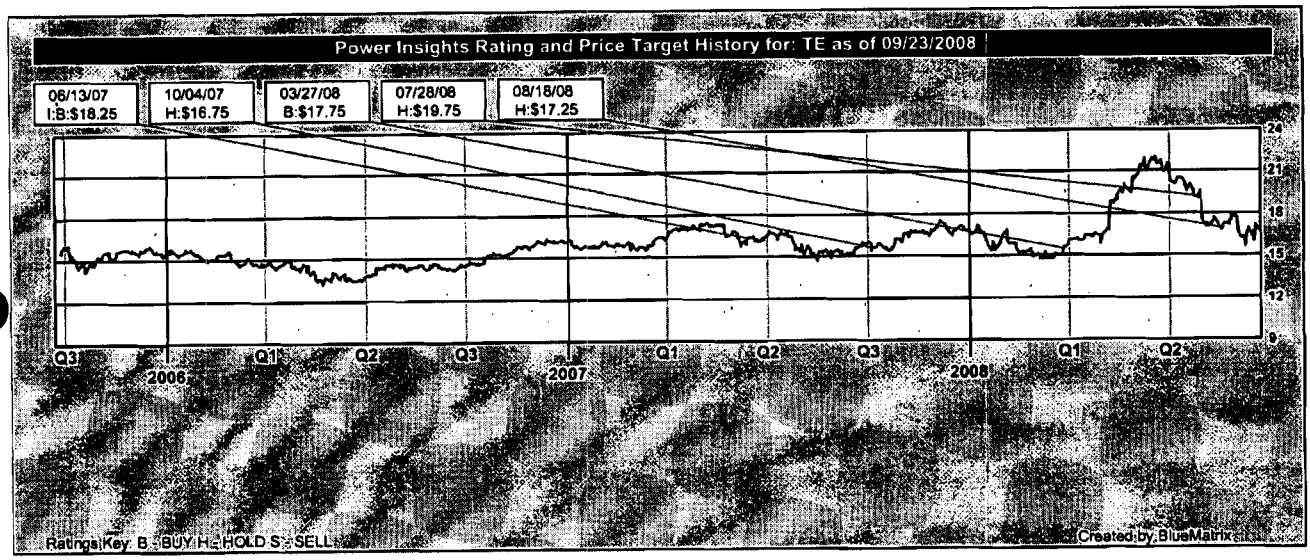
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For further discussions of risks and valuations pertaining to the above-mentioned rated companies with price targets, please see our latest reports on these individual companies, available by contacting the analyst at the address/phone number above.

Companies Mentioned
El Paso Electric (EE, $20.98, Buy , NYSE)
Integrys Energy Group (TEG, $51.34, Buy , NYSE)
Pepco Holdings (POM, $22.52, Buy , NYSE)
PNM Resources (PNM, $11.41, Buy , NYSE)
TECO Energy (TE, $16.53, Hold , NYSE)
UniSource Energy (UNS, $29.78, Buy , NYSE)



Additional Disclosures

Power Insights: Rating Key: Buy: total return potential of +12% or more over the next 12 months, Hold: total return potential between +12% and –12% over the next 12 months, Sell: total return potential of -12% or more over the next 12 months.

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Power Insights

Equity Research
Earnings Release
Estimates Change
Target Price Change

TECO Energy

TE, $11.54, Hold

3Q Results Near Estimates; Coal Costs Disappoint

November 3, 2008

Maurice E. May
508-636-9934
maurymay@power-insights.com

Sales and Research
1-800-447-4318

Trading
1-800-569-2407
www.soleilgroup.com

Ticker	TE
Market Cap (M)	$2,455.7
Price	$11.54
52-Wk. Range	$22–$11
Rating	Hold
Price Target	$12.00
Shares Out (M)	212.8
Dividend	$0.80
Yield	6.9%
Trading Volume (M)	2.435
Market	NYSE

Sector Opinion:
Ongoing turmoil in financial markets creates buying opportunities, in our opinion. Our group of 36 small to midcap electric utilities is now trading at about 10.9x 2009 estimates, down from multiples of 15x-16x forward earnings just 18-24 months ago. Is the favorable macro of rate base growth over? Not in our opinion. We see the electric utility industry continuing its expansion through economic slowdown because of its ongoing strategy of investing in its core regulated businesses of distribution, transmission, and in some cases generation. Moreover, environmental compliance and renewable portfolio standards are driving industry investment. Financing concerns, however, have emerged. On the debt side, utilities generally have substantial lines of credit outstanding and have been able to sell first mortgage bonds through currently tough financial conditions. On the equity side, however, some shares have fallen below book value, making equity financing unattractive. However, we focus on tangible book value rather than stated book for dilution. At this time, we like **El Paso Electric** (EE-$18.52-Buy), **Pepco Holdings** (POM-$20.65-Buy) and **UniSource Energy** (UNS-$27.58-Buy), while accumulating **Northeast Utilities** (NU-$22.56-Buy) and **Wisconsin Energy** (WEC-$43.50-Buy) for the longer term.

Action

Hold. TECO shares were hit late last week following a mildly disappointing 3Q earnings report, which was accompanied by negative production and cost estimates for TECO Coal, its Central Appalachian coal unit. TECO Energy is very exposed to current economic volatility---the coal business to declining commodity prices and the utilities to the Florida housing slump. The current stock price adequately reflects these weakness, in our opinion, and we maintain our Hold rating.

Fiscal Year Dec		Fiscal Year			Calendar Year			Curr. Qtr.	Next Qtr.	Yr. Ago Qtr.
$		F08E	F09E	F10E	C08E	C09E	C	4Q08E	1Q09E	4Q07A
Revenue	Current									
	Previous	—	—	—	—	—	—	—	—	—
EPS	Current	0.84	1.32	1.27	0.84	1.32	1.27	0.17	0.23	
	Previous	0.86	1.51	—	0.86	1.51	—	0.18	—	0.23
Dividend	Current				0.80	0.80				
P/E	Current	13.7	8.7	9.1	13.7	8.7	9.1	—	—	—

Revenues in millions, except when noted.

- **Stock hit – coal worries.** TECO shares were hit late last week following its 3Q earnings report, which included an update on TECO Coal, its Central Appalachian coal unit. Prospects for utilities also subdued.
- **Coal – the negatives.** Management lowered its 2008 production target a million tons to 9.5 million, citing difficult conditions. This casts doubt upon ability to meet future targets. Also, 2009 all-in operating expenses were given as $735 million, up $70 million by our estimate.
- **Coal – the result.** Given management's new and higher cost estimate, coupled with expected world-wide slowdown, we lower coal earnings going forward.
- **Florida utilities – also far from rosy.** Florida has one of the worst-hit economies in the country, as a very weak housing market is resulting in zero customer growth. New rate case decisions---expected next April & May for Tampa Electric & Peoples Gas, respectively---should bolster utility earnings.
- **3Q results – a bit light.** Last week, TECO reported 3Q results of $0.28/shr, a penny below consensus and two cents below our ***Power Insights*** estimate.
- **Estimates – going down.** We lower our '08E two cents to $0.84/shr reflecting the two-cent 3Q shortfall. It remains within management's unchanged guidance range of $0.80-$0.90/shr. We lower our '09E from $1.51/shr to $1.34 largely reflecting lower margins in the coal business. We also lower our 2010E from preliminary $1.61/shr to $1.27 due to coal pricing.
- **New valuation – $12/shr.** We lower our valuation from $16.50/shr to $12.00 reflecting a combination of lower market multiples and reduced coal estimates. The new valuation is based upon capitalizing our new 2010E of $1.27 at 10.9x, and discounting back one year at 7%.
- **Summary & recommendation – Hold.** TECO Energy is very exposed to current economic volatility---the coal business to declining commodity prices and the utilities to the Florida housing slump. The current stock price adequately reflects these weaknesses, however, and we maintain our Hold rating.

Important disclosure information is contained on pages 8 - 10 of this report. The recipient of this report is directed to read these disclosures.

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TECO Energy
TE, $11.54, Hold ; 3Q Results Near Estimates; Coal Costs Disappoint

The shares of **TECO Energy** (TE-Hold) have been weak in the last two trading days. We believe it has to do with the prospects of TECO Coal, the company's ten million-ton Appalachian coal mining operation. Last Thursday, TECO released 3Q results, which included a somewhat negative update on its coal business. At the same time, investors are becoming increasingly aware of the negative impact that recent financial-market turmoil will likely have on international economic activity. This bodes poorly for commodity prices, including TECO Coal. Thus, in light of this combination of micro and macro developments, we understand the weakness.

Micro – two primary negatives. Investors received two disappointing inputs on the coal business along with the 3Q report conference call last Thursday.

- **Production problems – reducing output.** Production problems, relating to contract labor and difficult conditions, have lowered TECO's 2008 output projection from 10.0 million tons to 9.5 million. This casts doubt upon the company's ability to reach the current 10.5 million ton 2009 target, which itself is the bottom of a previous 10.5-11.0 million projection. Management says part of the problem relates to contract workers; the solution, they say, is to raise the number of in-house employees from 50% to two-thirds of the total work force.
- **Production costs – rising faster than expected.** The all-in cost of 10.5 million tons of production in 2009, including depreciation and amortization, is now estimated at $735 million. Previous guidance---implied by earlier comments of increased cash costs of production based upon 20% annual increases over actual 2007 levels, excluding SG&A and D&A---was $665 million by our calculation. We see two possible reasons here: (1) new hires usually need extensive training and can be unproductive for a while; and (2) management admitted that some of its diesel-fuel hedges are now above market.

Macro – the world has changed. As we see it, TECO Coal has missed much of the coal boom, with legacy pricing holding down profitability in 2008, and rising costs shrinking margins despite improved contract prices in 2009. Moving into 2010, we subscribe to the macro concept that "the world has changed," and that the destruction of trillions of dollars of capital is leading to a serious decline in domestic and international economies. This obviously has major implications for commodity prices, including those received by TECO for its coal production.

2009E – the inputs. So, what of coal earnings? TECO management doesn't make projections; however, they provide inputs for analysts to plug into their models, at least for 2009.

- **Production target – 10.5 million tons.** We accept management's volume projection because it will have a higher percentage of employees, which should enhance the reliability of production. We note this number is at the lower end of previous 10.5-11.0 ton range.
- **Costs - $735 million all-in production cost.** As noted above, we think this $70 million or 10% increase from previous indications is due to training costs for new employees and diesel fuel hedging at above-market prices.
- **Pricing - $77/ton.** Management says it has sold 88% of '09 production forward at $77 per ton. Thus, 88% of 10.5 million tons sold at this price produces revenues of $711 million---below the $735 million operating cost. Profitability, therefore, depends entirely upon the 12%---comprising 60% quality met coal and 40% PCI coal---that has not yet been priced! And while we have little evidence---Allete (ALE-NR) said Friday that two taconite mines on the Masabi Iron Range of Northern Minnesota had reduced power nominations---our hunch is that the worldwide demand for steel, and therefore the price of TECO's coking coal, is going down.

Our met/PCI estimate – $140/ton. We think TECO Coal's timing is not good. As we understand it, the season to contract coking coal is right now---4Q through 1Q. TECO has obviously signed some good contracts: on September 24th management told a competitor's conference that it had sold 80% of 2009 production at $66/ton, while last Thursday, October 30th those numbers has risen to 88% at $77/ton. The difference was 840,000 tons of met/PCI coal at an average of $187/ton, by our calculation. This number gels with company comments on the conference call that met coal is selling in the $225-$245/ton range and PCI about $175/ton.

Thus, management has some reason for optimism that it can contract unsold met/PCI coal at continuing buoyant prices, and we wish them well. However, economic conditions are changing rapidly and commodity prices are falling. Also, we can remember really bad coal markets when quality met coal was ***simply dumped into the steam coal market*** due to lack of steel demand. While this may have been before China and India became major players in international steel, this specter still looms over the met coal market, in our opinion. Thus, we price TECO Coal's yet-to-be contracted 2009 met/PCI coal production at $140/ton---about halfway between its recent $187/ton met/PCI sales and our rough $100/ton proxy for "Central App" steam coal. The result is $75 million of net income.

2010 – working assumptions. It is virtually impossible to predict 2010 coal earnings, but we have to make at least an educated guess based upon certain assumptions. Thus, we assume 10.5 million tons of production, flat operating costs of $735 million, and pricing of $100 per ton of met/PCI coal, and $75 per ton of steam coal. The result is $65 million of net income.

Utilities – also far from rosy. Perhaps not all TE stock weakness can be attributed to conditions in the coal business, as the company faces substantial challenges on the utility front as well. Don't misunderstand us---we consider Tampa Electric to be one of the highest-quality electric utilities in the country. A combination of relatively fair Florida regulation, coupled with excellent, long-term customer growth, has made it a long-time favorite of ours.

However, Florida has one of the worst-hit economies in the nation. The once-solid 2%+ customer growth at Tampa Electric has now dropped to zero, as hookups to any new housing construction are being offset by disconnects on vacant or foreclosed properties. TECO management now says there is no Florida recovery in sight until 2010.

Both of TECO's Florida utilities---Tampa Electric and Peoples Gas---have filed general rate cases. Management was questioned on the conference call about its ability to update the case records as to changes in retail sales prospects. Management said it had ample opportunity to do so in dispositions and rebuttal filings to update numbers. Unrealistic sales forecasts baked into new rates can hamper a utility's ability to earn its authorized ROEs. A mitigating factor is Florida's traditional ROE range with an above-average midpoint.

We continue to view Tampa Electric as an excellent electric utility, possibly one deserving an above-average multiple once TECO's overall balance sheet improves and economic activity stabilizes in both Florida and the world.

3Q results – a bit light. Last week, TECO reported 3Q results of $0.28 per share, a penny below consensus (in a $0.26-$0.32 per share range) and two cents below our ***Power Insights*** estimate. The result was well below last year's $0.44/shr due to the sale of TECO Transport and the end of Section 29 tax credits in the coal business, which together reduced earnings

$0.11/shr.

- **Tampa Electric – hit by mild weather.** In 3Q, net income at the core utility fell 22% due to mild weather (CDD's 7% below normal) that reduced A/C load, lower industrial sales (mainly to phosphate industry), and higher depreciation expenses. The weak Florida economy and housing markets held the customer count to "essentially unchanged."
- **Peoples Gas – down.** While volumes were slightly higher due to two new customers, they were more than offset by higher O&M, depreciation, and interest expenses in this seasonally insignificant quarter.
- **TECO Coal – results plummeted.** Coal earnings fell to nearly breakeven on higher O&M, loss of tax credits, and an 8% production decline to 2.2 million tons. According to management, operations in one underground were particularly difficult,
- **TECO Guatemala – up.** Income rose 15% as higher spot market power sales and lower interest expenses more than offset the restrictive new EEGSA rates that became effective August 1st.
- **Parent/Other segment – drag shrunk.** on lower interest expenses, and the seasonally insignificant results at Peoples Gas were down. As of 9/30, consolidated TECO cash was $94.9 million and total liquidity was $748.4 million; tax-loss carryforwards and AMTs should augment TECO cash flow through 2011. 2008 guidance maintained at $0.80-$0.90/shr, and preliminary outlook for 2009 indicates much-improved TECO Coal results and new rates at Tampa Electric and Peoples Gas.

Estimates – going down. Given the two-cent 3Q shortfall to our estimate, we lower our 2008E from $0.86 per share to $0.84, which is in the lower half of management unchanged guidance range of $0.80-$0.90 per share. We also lower our 2009E from $1.51 per share to $1.34 reflecting weakness in the coal business, where we reduce earnings from $115 million to $75 million. We also lower our 2010E from a preliminary $1.61 per share to $1.27, which incorporates lower coal earnings of $65 million, down from $145 million in our former preliminary estimate.

New valuation – $12/shr. We lower our valuation from $16.50 per share to $12.00 reflecting a combination of lower market multiples and reduced coal estimates. The new valuation is based upon capitalizing our new 2010E of $1.27 at 10.9x, and then discounting back one year at 7%.

Summary & recommendation – Hold. TECO Energy is one of the most exposed utilities to current economic volatility. Its utilities are hit by the very deep Florida housing slump, and its coal business faces uncertain future commodity pricing. The stock has been weak recently and we would like to be more bullish, but we cannot. Thus, we maintain our Hold rating on the stock.

RISKS

- **Valuation risk.** Price targets are based upon earnings projections and the capitalization of those projections by the stock market. If we are wrong on either our estimates or valuation there may be price risk in the stock.
- **Interest rate risk.** Utility stocks are often viewed as yield vehicles. As such, they are susceptible to changes in interest rates, and a rising interest rate environment will put downward pressure on utility shares, including TECO Energy.
- **Cyclical risk.** The strong historic customer growth rates at TECO's two Florida utilities are closely tied to the construction of new housing units. Management believes the current

downturn is cyclical and that housing will rebound. If it does not, investment in new peaking and baseload capacity may not be needed, and rate base and earnings may not grow as expected.

- **Regulatory risk.** Regulators at the Florida PSC have traditionally been fair with utilities operating in the state, including core-utility Tampa Electric. However, there are aberrations, such as the TECO Transport penalty; moreover, the current commission is relatively inexperienced. With virtually all of TECO's utility revenues regulated by the FPSC, any changes from the historic regulatory climate in the state would be a major negative for the stock. Also, Guatemalan regulators can be unpredictable.
- **Commodity risk.** TECO Coal sells its production mostly under contracts of one-year or more. Current high pricing is not falling to the bottom line because of these contracts; however, they will be renegotiated over the next couple of years. Coal pricing is currently caught up in the commodity pricing boom; coal prices may decline substantially before contract renegotiation begin, leading to disappointing earnings projections and price risk in the stock.
- **Unregulated risk.** TECO Energy has a material unregulated coal mining business with a higher risk profile that its utility operations. Thus, this business can experience greater earnings volatility and potentially damage the price of the stock.

TECO Energy - Earnings Estimates and Valuations

(In $ millions, except per share figures and percentages)

2008E

Utility businesses	Rate Base	% Equity	$ Equity	ROE	Income
Tampa Electric - ongoing	$ 3,200	51.5%	$ 1,648	8.9%	$ 146.7
- Transport disallowance (taxed)	$ -		$ (15.0)	40.0%	$ (9.0)
Peoples Gas	$ 550	51.5%	$ 283	9.0%	$ 25.5
TECO Guatemala					$ 34.0
Total Utility Income	$ 3,750		$ 1,931		$ 197.2
+ TECO Transport - sold					$ -
+ TECO Coal - synfuel - ended					$ -
+ TECO Coal - conventional					$ 18.0
Total Unregulated Income					$ 18.0
Total Operating Cos					$ 215.2
- Holdco - interest expense	$ 956	6.97%	$ (66.6)	40.0%	$ (40.0)
- Holdco - interest income	$ 50	2.0%	$ 1.0	40.0%	$ 0.6
- Holdco - internally allocated interest			$ 10.0	40.0%	$ 6.0
- Holdco - other parent expenses			$ (5.0)	40.0%	$ (3.0)
Holding company impact					$ (36.4)
Net income					$ 178.8
Earnings per Share					$ 0.84
Avg. Diluted Shares Outstanding					*212.7*

Valuation	
Utility earnings ($ mils)	$ 197.2
less share of holdco interest	$ (18.2)
Net utility earnings	$ 179.0
Utility EPS	$ 0.84
Assigned multiple	13.9x
Utility value per share	$ 11.76
Unregulated earnings ($ mils)	$ 18.0
less share of holdco impact	$ (18.2)
Net unregulated earnings ($ mils)	$ (0.2)
Unregulated EPS	$ (0.00)
Assigned multiple	11.0x
Unregulated value per share	$ (0.01)
Sum-of-the-Parts Valuation	$ 11.89

2009E

Utility businesses	Rate Base	% Equity	$ Equity	ROE	Inc
Tampa Electric	$ 3,300	54.0%	$ 1,782	10.25%	$ 182.7
Peoples Gas	$ 585	54.0%	$ 306	10.25%	$ 31.3
TECO Guatemala					$ 28.0
Total Utility Income	$ 3,885		$ 2,087		$ 241.9
+ TECO Coal - conventional					$ 75.0
+ Other - none					$ -
Total Unregulated Income					$ 75.0
Total Operating Cos					$ 316.9
- Holdco - interest expense	$ 956	6.57%	$ (62.8)	40.0%	$ (37.7)
- Holdco - interest income	$ 50	2.0%	$ 1.0	40.0%	$ 0.6
- Holdco - internally allocated interest			$ 10.0	40.0%	$ 6.0
- Holdco - other parent expenses			$ (5.0)	40.0%	$ (3.0)
Holding company impact					$ (34.1)
Net income					$ 282.8
Earnings per Share					$ 1.32
Avg. Diluted Shares Outstanding					*214.5*

Valuation	
Utility earnings ($ mils)	$ 241.9
less share of holdco interest	$ (17.0)
Net utility earnings	$ 224.9
Utility EPS	$ 1.05
Assigned multiple	10.9x
Utility value per share	$ 11.43
TECO Coal ($ mils)	$ 75.0
less share of holdco impact	$ (17.0)
Net unregulated earnings ($ mils)	$ 58.0
Unregulated EPS	$ 0.27
Assigned coal multiple	5.8x
Unregulated value per share	$ 1.57
Sum-of-the-Parts Valuation	$ 12.99

2010E

Utility businesses	Rate Base	% Equity	$ Equity	ROE	Inc
Tampa Electric	$ 3,500	55%	$ 1,925	11.0%	$ 211.8
Peoples Gas	$ 585	55%	$ 322	11.0%	$ 35.4
TECO Guatemala					$ 30.0
Total Utility Income	$ 4,085		$ 2,247		$ 247.1
+ TECO Coal - conventional					$ 65.0
+ Other - none					$ -
Total Unregulated Income					$ 65.0
Total Operating Cos					$ 312.1
- Holdco - interest expense	$ 956	6.97%	$ (66.6)	40.0%	$ (40.0)
- Holdco - interest income	$ 50	2.0%	$ 1.0	40.0%	$ 0.6
- Holdco - internally allocated interest			$ 10.0	40.0%	$ 6.0
- Holdco - other parent expenses			$ (5.0)	40.0%	$ (3.0)
Holding company impact					$ (36.4)
Net income					$ 275.8
Earnings per Share					$ 1.27
Avg. Diluted Shares Outstanding					*216.5*

Valuation	
Utility earnings ($ mils)	$ 247.1
less share of holdco interest	$ (18.2)
Net utility earnings	$ 229.0
Utility EPS	$ 1.06
Assigned multiple	10.9x
Utility value per share	$ 11.53
TECO Coal ($ mils)	$ 65.0
less share of holdco impact	$ (18.2)
Net unregulated earnings ($ mils)	$ 46.8
Unregulated EPS	$ 0.22
Assigned coal multiple	5.8x
Unregulated value per share	$ 1.25
Sum-of-the-Parts Valuation	$ 12.78
Disc. Target (7% x 1 yr)	$ 11.94

2011E - Preliminary

Utility businesses	Rate Base	% Equity	$ Equity	ROE	Inc
Tampa Electric - ongoing	$ 3,700	55%	$ 2,035	11.0%	$ 223.9
Peoples Gas	$ 800	55%	$ 330	11.0%	$ 36.3
TECO Guatemala					$ 30.0
Total Utility Income	$ 4,300		$ 2,365		$ 260.2
+ TECO Coal - conventional					$ 65.0
+ Other - n/a					$ -
Total Unregulated Income					$ 65.0
Total Operating Cos					$ 325.2
- Holdco - interest expense	$ 700	7.12%	$ (49.9)	40.0%	$ (29.9)
- Holdco - interest income	$ 100	2.0%	$ 2.0	40.0%	$ 1.2
- Holdco - internally allocated interest			$ 10.0	40.0%	$ 6.0
- Holdco - other parent expenses			$ (5.0)	40.0%	$ (3.0)
Holding company impact					$ (25.7)
Net income					$ 299.4
Earnings per Share					$ 1.37
Avg. Diluted Shares Outstanding					*218.5*

Valuation	
Utility earnings ($ mils)	$ 260.2
less share of holdco interest	$ (8.4)
Net utility earnings	$ 253.7
Utility EPS	$ 1.16
Assigned multiple	10.9x
Utility value per share	$ 12.66
TECO Coal ($ mils)	$ 65.0
less share of holdco impact	$ (19.3)
Net unregulated earnings ($ mils)	$ 45.7
Unregulated EPS	$ 0.21
Assigned coal multiple	5.8x
Unregulated value per share	$ 1.21
Sum-of-the-Parts Valuation	$ 13.87
Disc. Target (7% x 2 yrs)	$ 12.17

Sources: company documents, management comments, and analyst calculations.

Maurice E. May - Power Insights/Soleil - 508-636-9934

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TECO Energy
TECO Coal

FY December	2006A	2007A	2008E	2009E	2010E	2011E
Revenues						
Total tons produced (mils)	9.81	9.10	10.00	10.50	10.75	11.00
Steam coal - tons	n/a	6.07	6.00	7.00	7.17	7.33
Steam coal -% of production		*66.7%*	*60%*	*67%*	*67%*	*67%*
Steam coal price per ton	n/a	$ 49.50	$ 52.25	$ 62.00	$ 75.00	$ 75.00
Steam coal revs ($ mils)	n/a	$ 300.3	$ 313.5	$ 434.0	$ 537.4	$ 549.9
Met coal - tons	n/a	3.03	4.00	3.50	3.58	3.66
Met coal -% of production		*33.3%*	*40%*	*33%*	*33%*	*33%*
Met coal price per ton	n/a	$ 75.00	$ 70.25	$ 125.00	$ 125.00	$ 125.00
Met coal revs ($ mils)	n/a	$ 227.5	$ 281.0	$ 437.1	$ 447.5	$ 457.9
Revenues ($ mils)	$ 574.9	$ 527.8	$ 594.5	$ 871.0	$ 984.9	$ 1,007.8
Avg. price per ton	*$ 58.60*	*$ 58.00*	*$ 59.45*	*$ 82.95*	*$ 91.62*	*$ 91.62*
Expenses						
Operating expenses - cash costs	$ 451.3	$ 417.7	$ 509.6	$ 611.5	$ 672.6	$ 706.3
Cash cost per tons	$ 46.0	$ 45.9	$ 51.0	$ 58.2	$ 62.6	$ 64.2
Operating income - cash margin	$ 123.6	$ 110.1	$ 84.9	$ 259.5	$ 312.3	$ 301.5
Operating margin	*21.5%*	*20.9%*	*14.3%*	*29.8%*	*31.7%*	*29.9%*
SG&A	$ 9.8	$ 9.1	$ 9.5	$ 10.5	$ 10.8	$ 11.0
Depreciation	$ 39.1	$ 35.5	$ 40.0	$ 42.5	$ 43.8	$ 45.0
Total operating expenses	$ 500.1	$ 462.3	$ 559.1	$ 735.0	$ 727.1	$ 762.3
Operating income	$ 74.8	$ 65.5	$ 35.4	$ 136.0	$ 257.8	$ 245.5
Interest (allocated)	$ 10.0	$ 10.0	$ 10.0	$ 10.0	$ 10.0	$ 10.0
Pre-tax income	$ 64.8	$ 55.5	$ 25.4	$ 126.0	$ 247.8	$ 235.5
Margin per ton	*$ 6.60*	*$ 6.10*	*$ 2.54*	*$ 12.00*	*$ 23.05*	*$ 21.41*
Income taxes - 40%	$ 25.9	$ 22.2	$ 5.1	$ 50.4	$ 99.1	$ 94.2
Net income	$ 38.9	$ 33.3	$ 20.3	$ 75.6	$ 148.7	$ 141.3

** conventional only; no synfuel economics included.*
Sources: company documents, management comments, and analyst calculations.
Maurice E. May - Power Insights/Soleil - 508-636-9934
Model reviewed - September 24, 2008.

Regulatory Required Disclosures

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By: Maurice E. May

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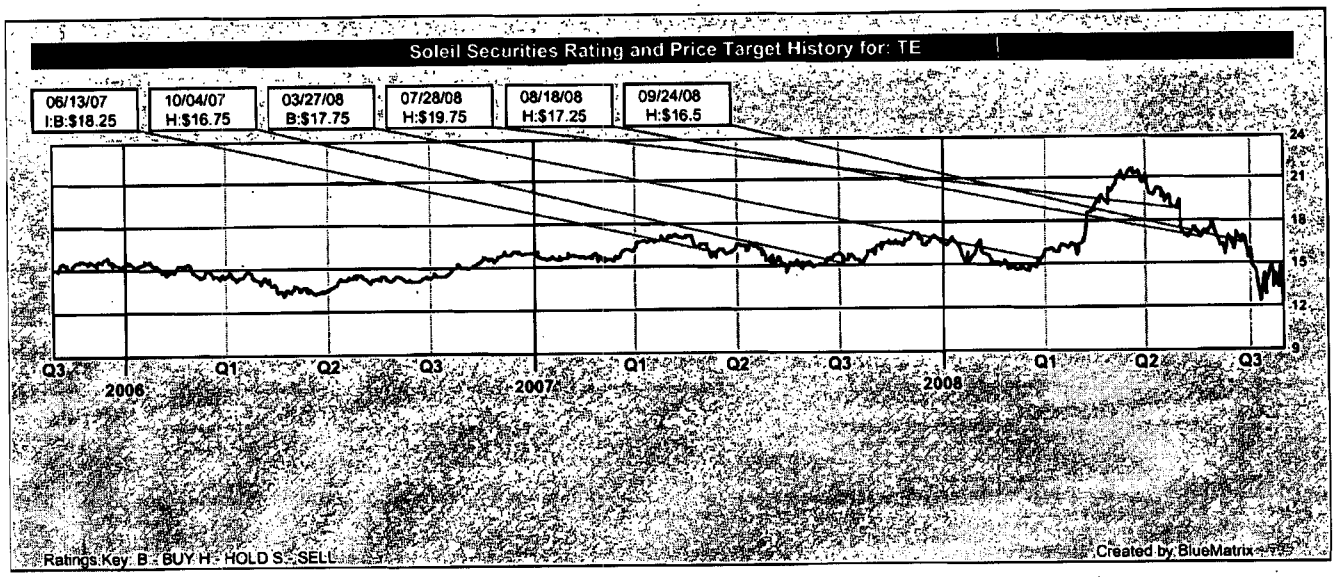
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SELL[SELL]	11	3.77	0	0

Utilities

			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY[BUY]	6	50.00	0	0
HOLD[HOLD]	5	41.67	0	0
SELL[SELL]	1	8.33	0	0



ADDITIONAL DISCLOSURES INFORMATION

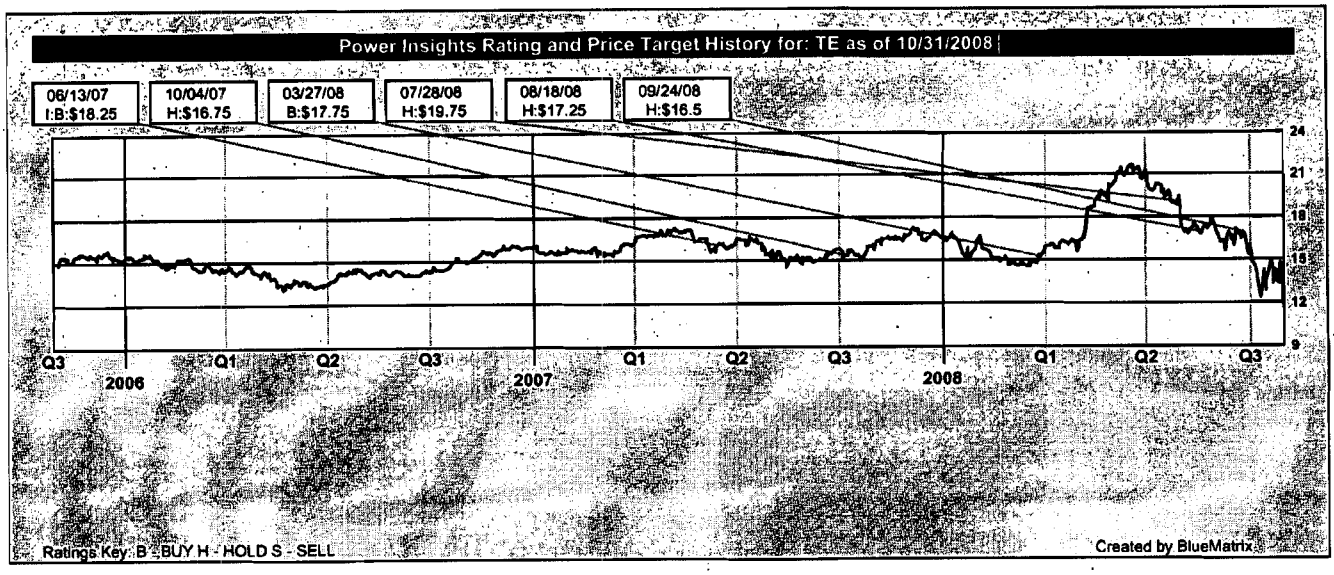
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Companies Mentioned

TECO Energy (TE, $11.54, Hold , NYSE)

SOLEIL

TECO Energy
TE, $11.54, Hold ; 3Q Results Near Estimates; Coal Costs Disappoint



Additional Disclosures

Power Insights: Rating Key: Buy: total return potential of +12% or more over the next 12 months, Hold: total return potential between +12% and –12% over the next 12 months, Sell: total return potential of -12% or more over the next 12 months.

SOLEIL

Power Insights

Equity Research
Company Update
Estimates Change
Target Price Change

August 18, 2008

TECO Energy
TE, $17.28, Hold
Update; Estimates Down; Maintain Hold Rating

Maurice E. May
508-636-9934
maurymay@power-insights.com

Sales and Research
1-800-447-4318

Trading
1-800-569-2407
www.soleilgroup.com

Ticker	TE
Market Cap (M)	$3,675.5
Price	$17.28
52-Wk. Range	$22–$14
Rating	Hold
Price Target	$17.25
Shares Out (M)	212.7
Dividend	$0.80
Yield	4.6%
Trading Volume (M)	3.034
Market	NYSE

Sector Opinion:
Ongoing volatility in both the general market and the utility sector creates buying opportunities, in our opinion. Our group of small to midcap electric utilities is now trading at about 13.4x 2009 estimates, down from multiples of 15x-16x forward earnings over the past couple of years. Is the favorable macro of rate base growth over? Not in our opinion. We see the electric utility industry continuing its expansion through any economic slowdown because of its ongoing strategy of investing in its core regulated businesses of distribution, transmission, and in some cases generation. Moreover, environmental compliance and renewable portfolio standards are driving industry investment. Is there some pushback by regulators from higher rates? Yes---some---showing up mostly in modestly lower ROEs rather than CAPEX rejections. Regulators still want the cleaner generation, improved reliability and reduced congestion offered by infrastructure investment. Moreover, we see this largely recession-proof rate base growth producing higher earnings, dividends, and hopefully share prices. At this time, we focus on **El Paso Electric** (EE-$21.60-Buy), **Pepco Holdings** (POM-24.73-Buy), and **UniSource Energy** (UNS-$32.49-Buy), while accumulating **Northeast Utilities** (NU-$26.86-Buy) and **Wisconsin Energy** (WEC-$46.57-Buy) for the longer term.

Action

Maintain Hold. TE shares fell following the 7/28 earnings conference call that forecast lower coal production volumes and higher coal production costs. Also, the 8/15 announcement of an adverse regulatory development for Guatemalan utility operations is bad. As a result, we reduce estimates and lower our price target to $17.25/shr, but maintain our Hold rating on the stock.

Fiscal Year Dec		Fiscal Year			Calendar Year			Curr. Qtr.	Next Qtr.	Yr. Ago Qtr.
$		F07A	F08E	F09E	C07A	C08E	C	3Q08E	4Q08E	3Q07A
Revenue	Current	[illegible]	—	[illegible]	[illegible]	—	[illegible]	[illegible]	[illegible]	[illegible]
	Previous	—	—	—	—	—	—	—	—	—
EPS	Current	1.07	0.86	1.41	1.07	0.86	1.41	0.30	0.18	0.38
	Previous	1.07	0.98	1.70	1.07	0.98	1.70	0.36	0.24	0.38
Dividend	Current	[illegible]	—	[illegible]	0.78	0.80	[illegible]	[illegible]	[illegible]	[illegible]
P/E	Current	16.1	20.1	12.3	16.1	20.1	12.3	—	—	—

Revenues in millions, except when noted.

- **2QA - on target.** On 7/31 TECO reported 2Q results of $0.24/shr, a penny ahead of both consensus and our estimate. The bad news came on TECO Coal, where management forecast rising operating costs and lower production volumes.
- **SeaCoast Gas - new pipeline formed.** On 8/4, TE announced a new intrastate gas pipeline to serve the Jacksonville municipal electric authority. Prospective rate base investment not disclosed.
- **Utilities - rate cases.** On 8/11, TE filed two rate cases with Florida regulators. For Tampa Electric, $228.2 million on 11-13% ROE; for Peoples Gas, $26.5 million on 10.5-12.5% ROE. Decision expected 5/09.
- **Guatemala - bad news.** On 8/15, TE filed an 8-K reporting that regulators governing EEGSA disbanded a panel of experts hearing rate case and imposed new, lower rates that "puts all of EEGSA's earnings at risk." Ugh!
- **Estimates - down.** Guatemalan regulatory damage could be about $(0.05)/shr annually. New TECO Coal production and expense forecasts more so. Thus, we lower our '08E from $0.98/shr to $0.86; we lower '09 from $1.70/shr to $1.41.
- **Valuation - down.** Using multiples of 13.5x for utilities earnings and 8.0x for coal, we have a new valuation of $17.25/shr, down two bucks.
- **Summary & recommendation - Hold.** We leave our rating unchanged at Hold, given that TE is currently trading near our new valuation.

Important disclosure information is contained on pages 4 - 6 of this report. The recipient of this report is directed to read these disclosures.

RISKS

- **Valuation risk.** Price targets are based upon earnings projections and the capitalization of those projections by the stock market. If we are wrong on either our estimates or valuation there may be price risk in the stock.
- **Interest rate risk.** Utility stocks are often viewed as yield vehicles. As such, they are susceptible to changes in interest rates, and a rising interest rate environment will put downward pressure on utility shares, including TECO Energy.
- **Cyclical risk.** The strong historic customer growth rates at TECO's two Florida utilities are closely tied to the construction of new housing units. Management believes the current downturn is cyclical and that housing will rebound. If it does not, investment in new peaking and baseload capacity may not be needed, and rate base and earnings may not grow as expected.
- **Regulatory risk.** Regulators at the Florida PSC have traditionally been fair with utilities operating in the state, including core-utility Tampa Electric. However, there are aberrations, such as the TECO Transport penalty; moreover, the current commission is relatively inexperienced. With virtually all of TECO's utility revenues regulated by the FPSC, any changes from the historic regulatory climate in the state would be a major negative for the stock. Also, Guatemalan regulators can be unpredictable.
- **Commodity risk.** TECO Coal sells its production mostly under contracts of one-year or more. Current high pricing is not falling to the bottom line because of these contracts; however, they will be renegotiated over the next couple of years. Coal pricing is currently caught up in the commodity pricing boom; coal prices may decline substantially before contract renegotiation begin, leading to disappointing earnings projections and price risk in the stock.
- **Unregulated risk.** TECO Energy has a material unregulated coal mining business with a higher risk profile that its utility operations. Thus, this business can experience greater earnings volatility and potentially damage the price of the stock.

TECO Energy - Earnings Estimates and Valuations

(In $ millions, except per share figures and percentages)

2008E

Utility businesses	Rate Base	% Equity	$ Equity	ROE	Income
Tampa Electric - ongoing	$ 3,200	51.5%	$ 1,648	9.0%	$ 148.3
- Transport disallowance (tax)	$ -		$ (15.0)	40.0%	$ (9.0)
Peoples Gas	$ 560	51.5%	$ 283	9.0%	$ 25.5
Guatemala operations					$ 34.0
Total Utility Income	$ 3,750		$ 1,931		$ 198.8
+ TECO Transport - sold					$ -
+ TECO Coal - synfuel - ended					$ -
+ TECO Coal - conventional					$ 20.0
Total Unregulated Income					$ 20.0
Total Operating Cos					$ 218.8
- Holdco - interest expense	$ 956	6.97%	$ (66.6)	40.0%	$ (40.0)
- Holdco - interest income	$ 50	2.0%	$ 1.0	40.0%	$ 0.6
- Holdco - internally allocated interest			$ 10.0	40.0%	$ 6.0
- Holdco - other parent expenses			$ (5.0)	40.0%	$ (3.0)
Holding company impact					$ (36.4)
Net income					$ 182.4
Earnings per Share					$ 0.86
Avg. Diluted Shares Outstanding					212.7

Valuation	
Utility earnings ($ mils)	$ 198.8
less share of holdco interest	$ (9.1)
Net utility earnings	$ 189.7
Utility EPS	$ 0.89
Assigned multiple	16.5x
Utility value per share	$ 14.72
Unregulated earnings ($ mils)	$ 20.0
less share of holdco impact	$ (27.3)
Net unregulated earnings ($ mils)	$ (7.3)
Unregulated EPS	$ (0.03)
Assigned multiple	6.0x
Unregulated value per share	$ (0.21)
Sum-of-the-Parts Valuation	$ 14.51

2009E

Utility businesses	Rate Base	% Equity	$ Equity	ROE	Inc
Tampa Electric - ongoing	$ 3,300	54.0%	$ 1,782	10.3%	$ 182.7
Peoples Gas	$ 565	54.0%	$ 305	10.3%	$ 31.3
Guatemala operations					$ 28.0
Total Utility Income	$ 3,865		$ 2,087		$ 241.9
+ TECO Coal - conventional					$ 95.0
+ Other - n/a					$ -
Total Unregulated Income					$ 95.0
Total Operating Cos					$ 336.9
- Holdco - interest expense	$ 956	6.57%	$ (62.8)	40.0%	$ (37.7)
- Holdco - interest income	$ 50	2.0%	$ 1.0	40.0%	$ 0.6
- Holdco - internally allocated interest			$ 10.0	40.0%	$ 6.0
- Holdco - other parent expenses			$ (5.0)	40.0%	$ (3.0)
Holding company impact					$ (34.1)
Net income					$ 302.8
Earnings per Share					$ 1.41
Avg. Diluted Shares Outstanding					214.5

Valuation	
Utility earnings ($ mils)	$ 241.9
less share of holdco interest	$ (8.5)
Net utility earnings	$ 233.4
Utility EPS	$ 1.09
Assigned multiple	13.5x
Utility value per share	$ 14.69
TECO Coal ($ mils)	$ 95.0
less share of holdco impact	$ (25.6)
Net unregulated earnings ($ mils)	$ 69.4
Unregulated EPS	$ 0.32
Assigned coal multiple	8.0x
Unregulated value per share	$ 2.59
Sum-of-the-Parts Valuation	$ 17.28

2010E - Preliminary

Utility businesses	Rate Base	% Equity	$ Equity	ROE	Inc
Tampa Electric - ongoing	$ 3,500	55%	$ 1,925	11.0%	$ 211.8
Peoples Gas	$ 585	55%	$ 322	11.0%	$ 35.4
Guatemala operations					$ 30.0
Total Utility Income	$ 4,085		$ 2,247		$ 247.1
+ TECO Coal - conventional					$ 195.0
+ Other - n/a					$ -
Total Unregulated Income					$ 195.0
Total Operating Cos					$ 442.1
- Holdco - interest expense	$ 958	7.60%	$ (72.7)	40.0%	$ (43.6)
- Holdco - interest income	$ 50	2.0%	$ 1.0	40.0%	$ 0.6
- Holdco - internally allocated interest			$ 10.0	40.0%	$ 6.0
- Holdco - other parent expenses			$ (5.0)	40.0%	$ (3.0)
Holding company impact					$ (40.0)
Net income					$ 402.1
Earnings per Share					$ 1.96
Avg. Diluted Shares Outstanding					216.5

Valuation	
Utility earnings ($ mils)	$ 247.1
less share of holdco interest	$ (10.0)
Net utility earnings	$ 237.1
Utility EPS	$ 1.10
Assigned multiple	13.5x
Utility value per share	$ 14.79
TECO Coal ($ mils)	$ 195.0
less share of holdco impact	$ (30.0)
Net unregulated earnings ($ mils)	$ 165.0
Unregulated EPS	$ 0.76
Assigned coal multiple	8.0x
Unregulated value per share	$ 6.10
Sum-of-the-Parts Valuation	$ 20.88
Disc. Target (8% x 1 yr)	$ 19.34

2011E - Preliminary

Utility businesses	Rate Base	% Equity	$ Equity	ROE	Inc
Tampa Electric - ongoing	$ 3,700	55%	$ 2,035	10.0%	$ 203.5
Peoples Gas	$ 600	55%	$ 330	10.0%	$ 33.0
Guatemala operations					$ 30.0
Total Utility Income	$ 4,300		$ 2,365		$ 236.5
+ TECO Coal - conventional					$ 189.9
+ Other - n/a					$ -
Total Unregulated Income					$ 189.9
Total Operating Cos					$ 426.4
- Holdco - interest expense	$ 700	7.12%	$ (49.9)	40.0%	$ (29.9)
- Holdco - interest income	$ 100	2.0%	$ 2.0	40.0%	$ 1.2
- Holdco - internally allocated interest			$ 10.0	40.0%	$ 6.0
- Holdco - other parent expenses			$ (5.0)	40.0%	$ (3.0)
Holding company impact					$ (25.7)
Net income					$ 400.7
Earnings per Share					$ 1.83
Avg. Diluted Shares Outstanding					218.9

Valuation	
Utility earnings ($ mils)	$ 236.5
less share of holdco interest	$ (6.4)
Net utility earnings	$ 230.1
Utility EPS	$ 1.05
Assigned multiple	13.5x
Utility value per share	$ 14.22
TECO Coal ($ mils)	$ 189.9
less share of holdco impact	$ (19.3)
Net unregulated earnings ($ mils)	$ 170.6
Unregulated EPS	$ 0.78
Assigned coal multiple	8.0x
Unregulated value per share	$ 6.26
Sum-of-the-Parts Valuation	$ 20.48
Disc. Target (8% x 2 yrs)	$ 17.64

Sources: company documents, management comments, and analyst calculations.
Maurice E. May - Power Insights/Soleil - 508-636-9934
Updated - August 18, 2008.

Regulatory Required Disclosures

Analyst Certification

I hereby certify that the views expressed in the foregoing research report accurately reflect my personal views about the subject securities and issuer(s) as of the date of this report. I further certify that no part of my compensation was, is, or will be directly, or indirectly, related to the specific recommendations or views contained in this research report. By: Maurice E. May

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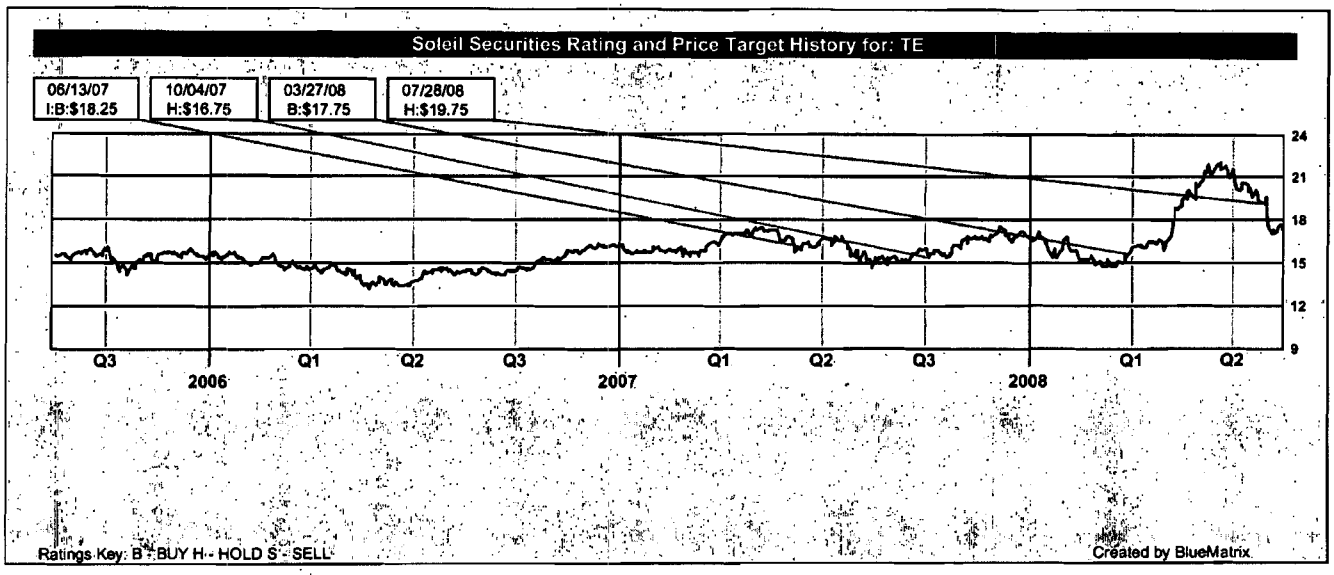
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Soleil does act as a block positioner.

Soleil Rating Key:
Buy: In the analyst's opinion, the stock will outperform the general market over the next 12 months.
Hold: In the analyst's opinion, the stock will be inline with the general market over the next 12 months.
Sell: In the analyst's opinion, the stock will underperform the general market over the next 12 months.

Soleil Securities Distribution of Ratings/IB Services Firmwide and by Sector

					Utilities				
			IB Serv/Past 12 Mos.					IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
BUY[BUY]	149	53.02	0	0	BUY[BUY]	7	58.33	0	0
HOLD[HOLD]	118	41.99	1	0.85	HOLD[HOLD]	4	33.33	0	0
SELL[SELL]	14	4.98	0	0	SELL[SELL]	1	8.33	0	0



ADDITIONAL DISCLOSURES INFORMATION

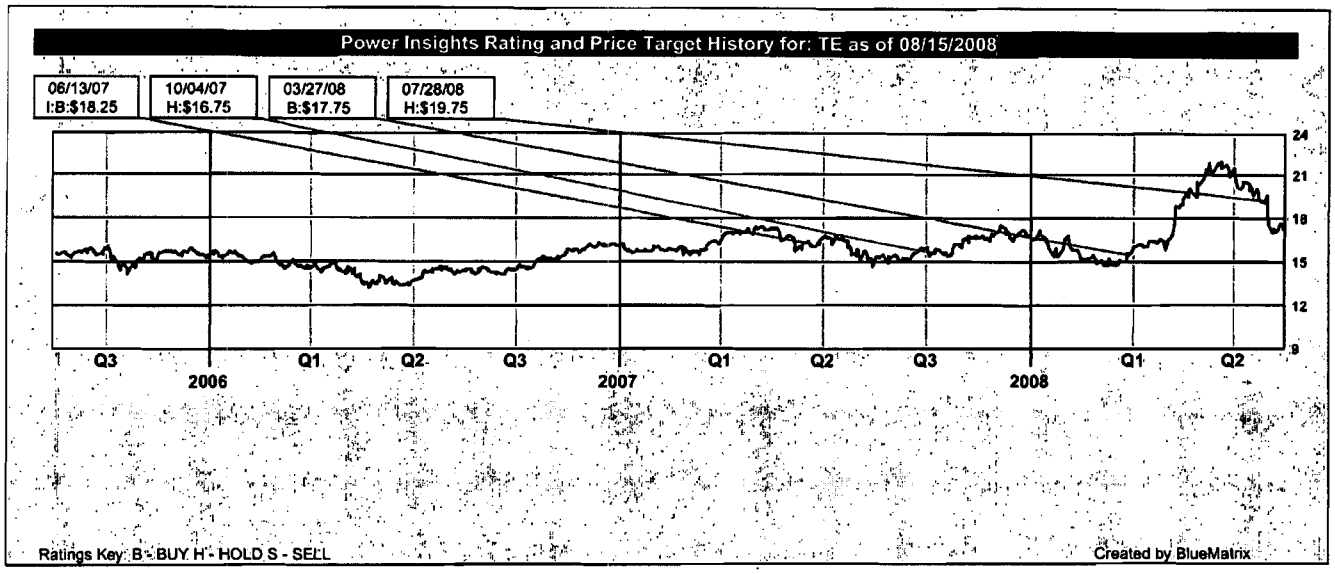
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Companies Mentioned

TECO Energy (TE, $17.28, Hold , NYSE)

SOLEIL

TECO Energy
TE: $17.28. Hold : Update; Estimates Down; Maintain Hold Rating



Additional Disclosures

Power Insights: Rating Key: Buy: total return potential of +12% or more over the next 12 months, Hold: total return potential between +12% and –12% over the next 12 months, Sell: total return potential of -12% or more over the next 12 months.

TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
SUPPLEMENTAL: DECEMBER 31, 2008

SOLEIL

Power Insights

Equity Research
Company Update
Estimates Change
Rating Change
Target Price Change

July 28, 2008

TECO Energy
TE, $19.22, Hold
TECO Energy Update; Downgrade to Hold

Maurice E. May
508-636-9934
maurymay@power-insights.com

Sales and Research
1-800-447-4318

Trading
1-800-569-2407
www.solcilgroup.com

Ticker	TE
Market Cap (M)	$4,051.6
Price	$19.22
52-Wk. Range	$22–$14
Rating	Hold
Price Target	$19.75
Shares Out (M)	210.8
Dividend	$0.80
Yield	4.2%
Trading Volume (M)	3.164
Market	NYSE

Sector Opinion:
Ongoing volatility in both the general market and the utility sector creates buying opportunities, in our opinion. Our group of small to midcap electric utilities is now trading at about 13.0x 2009 estimates, down from multiples of 15x-16x forward earnings over the past couple of years. Is the favorable macro of rate base growth over? Not in our opinion. We see the electric utility industry continuing its expansion through any economic slowdown because of its ongoing strategy of investing in its core regulated businesses of distribution, transmission, and in some cases generation. Moreover, environmental compliance and renewable portfolio standards are driving industry investment. Is there some pushback by regulators from higher rates? Yes---some---showing up mostly in modestly lower ROEs rather than CAPEX rejections. Regulators still want the cleaner generation, improved reliability and reduced congestion offered by infrastructure investment. Moreover, we see this largely recession-proof rate base growth producing higher earnings, dividends, and hopefully share prices. At this time, we focus on **Cleco. Corp.** (CNL-$24.46-Buy), **El Paso Electric** (EE-$20.13-Buy), **Integrys Energy** (TEG-$49.68-Buy), **Pepco Holdings** (POM-$24.64-Buy), and **UniSource Energy** (UNS-$30.86-Buy), while accumulating **Northeast Utilities** (NU-$24.80-Buy) and **Wisconsin Energy** (WEC-$43.14-Buy) for the longer term.

Action

Downgrade to Hold. We expect TECO's core utility, Tampa Electric, to file its long-anticipated rate case on or about 8/11. Ditto for Peoples Gas. New rates expected 5/09 at Tampa; Peoples requesting interim rates. Coal prices are booming, but TECO Coal does not benefit until 2009 (some) and 2010 (more). Thus, TECO Energy has an improving earnings picture from both utilities and coal going forward. However, the stock reflects this improvement, and we downgrade TE from a Buy to a Hold.

Fiscal Year Dec		Fiscal Year			Calendar Year			Curr. Qtr.	Next Qtr.	Yr. Ago Qtr.
	$	F07A	F08E	F09E	C07E	C08E	C	2Q08E	3Q08E	2Q07A
Revenue	Current									
	Previous	—		—	—		—	—	—	—
EPS	Current	1.07	0.98	1.70	1.07	0.98	1.70	0.23	0.36	0.23
	Previous	1.07	0.98	1.32	1.07	0.98	1.32	0.23	0.36	0.25
Dividend	Current				0.80	0.80				
P/E	Current	18.0	19.6	11.3	18.0	19.6	11.3	—	—	—

Revenues in millions, except when noted.

- **Utilities – rate cases coming.** TE plans to file both electric and gas rate cases on or about 8/11, with new rates expected in May 2009. Rising general expenses, coupled with slowing customer growth and the need to rate base some major items, are the main reasons. We expect fair treatment from Florida regulators, who have a history of balanced regulation in the state.
- **TECO Coal – delayed beneficiary of high prices.** TE will see little benefit from higher coal prices this year; however, 30% of production gets new pricing in 2009, and more than 60% in 2010. While projections are very difficult in today's volatile pricing environment, we use $56/ton for steam coal and $100 for met coal in 2009.
- **2008E – unchanged.** We leave our '08E of $0.98/shr unchanged. We also leave our 2QE of $0.23 unchanged. Management will report 2Q on 7/31, and hold a conference call with investors at 11:00 am (ET) that morning.
- **2009E – up.** We raise our '09E from $1.32/shr to $1.70, reflecting an increase in both utility earnings (higher estimated equity and higher ROE) and coal earnings (higher estimated pricing).
- **Valuation – two earnings streams.** Given emerging size of coal earnings, we must segment their value. We capitalize utility earnings (incl. Guatemala) at 13.0x, the average of our small to midcap group. We capitalize coal at 9.0x 2009 earnings, the average of a dozen coal-company stocks. This valuation produces a new price target of $19.75/shr, up two points from our previous one.
- **Summary & recommendation – Downgrade to Hold.** Although TECO Energy has improving utility and coal earnings pictures going forward, the stock reflects this improvement. Thus, we downgrade TE from Buy to Hold.

Important disclosure information is contained on pages 6 - 8 of this report. The recipient of this report is directed to read these disclosures.

As part of a ***Power Insights'*** electric utility industry update, we are updating all 12 of our small to midcap electric utility stocks. TECO Energy (TE-Hold) is one of the 12 we want to update. In this note, we focus on two aspects of the company: TECO Coal earnings and upcoming Tampa Electric and Peoples Gas rate cases. We also introduce new earnings estimates and valuations.

Utilities – upcoming rate cases. By letters dated June 12, 2009, the company gave the required notice to regulators at the Florida Public Service Commission (FPSC) of its intention file general rate cases for both core-utility Tampa Electric and Peoples Gas. It will be Tampa's first rate case since 1992 and Peoples since 2002. Management has been talking about the projected need for rate relief at both utilities for some time, so investors were anticipating them. The utilities can make their filings as early as 60 days following notification, or August 11th.

Several major items of management's intentions were included in the Tampa Electric letter. First, Tampa expects to file using a forecast 2009 test year. Second, it estimates rate base at $3.4 billion by yearend 2009. Third, it expects to request $225-$235 million in rate relief. As arguments for the rate increase, management notes the following: (1) rising operating expenses that are expected to increase $90 million (+14.8%) in just two years alone (2007-09), and (2) five units at Polk and the Gannon to Bayside re-powering are not in rate base.

We suspect part of the request results from the slowing growth of the Florida economy. We have seen "Is Florida Over"-type articles in the press that discuss a possible end to the long-term 2-3% annual population growth enjoyed by the Sunshine State due to high-priced real estate, general over-crowding, and other reasons. For Tampa Electric, customer growth meant revenues growth, with economic hookups offsetting cost increases. That dynamic now appears over, at least for a while. Many current and projected cost increases are not revenue producing, such as reliability spending (transmission and storm hardening), and general cost inflation. As we see it, Tampa is getting hit by this double whammy of customer growth down and non-economic expenses up.

Rate case – should go well. On the brighter side, we view regulation as practiced by the FPSC as balanced and above average nationwide. We view three of the commissioners (Lisa Polak Edgar, Katrina McMurrian and Nathan Skop) as solid professionals and the current chairman (Matthew Carter) as a political balancer. We expect the commission to approve the use of a partially forecast test year, ROEs in the 11-plus range, equity approaching 55%, and a substantial amount of the requested dollar amount.

Timing – 11-month process. Rate cases in Florida are structured to run 11 months, with two months of notice to the FPSC, eight months of deliberation, and one month of notice to customers. Starting with the June 12th letters of notification to the commission, we could see new rates in effect by mid-May 2009. The decision could come sooner, as there is a tradition of settlements in Florida, or later, if extra time is needed. Also, Peoples Gas will request interim rates, which may indicate some earlier increase.

TECO Coal – 2009-10 beneficiary of higher prices. Virtually all the 10.5 million tons of estimated 2008 production at TECO Coal (up from 9.2 million last year) is contracted and priced; thus, the subsidiary will not benefit from today's high prices this year. That may change in 2009, when about 30% of the projected production of 11.0-11.5 million tons is either un-contracted or contracted but un-priced. That improves further in 2010, as only about 38% is currently contracted and priced, ***leaving more than 60% of production available for newer, supposedly higher pricing.***

TECO Coal produces relatively low-sulfur, Central Appalachian coal with about 24-25 million Btu's per ton. Production is a combination of steam coal for power generation (e.g., Detroit Edison, Duke Power, South Carolina E&G, Georgia Power) and metallurgical ("met") coal for steel making. Some of the latter is exported, primarily to Europe. Met coal is expected to comprise about 40% of total production in 2008, dropping to around 35% in 2009 on higher overall production, and about one-third in 2010. Coal reserves totaled 277.1 million tons as of December 31, 2007.

Coal pricing – reflects commodity pricing boom. Recent coal pricing has been caught up in the world-wide boom in commodity pricing. The steam coal market is somewhat transparent, while the met coal market is not. The spot market for "Central App" coal is currently about $120-$130 per ton, and we understand multi-year contracts are more in the $110-$120 per ton range. As for met coal, we have heard of prices in the $200-$300 per ton range recently, which were for premium Low Volatile A coal; TECO's lower quality High Volatile C met coal sells at a discount to that.

TECO's sells most of its coal under one-year or multi-year contract, and its first re-pricing opportunity comes in the met coal market. Its four million-ton production will largely be re-priced to the current market in 4Q 2008 and 1Q 2009. Steam coal opportunities come first in 2009 but primarily in 2010, as current contracts roll off. We are highly suspicious of current coal prices. They are obviously caught up in the world-wide explosion of commodity prices, especially in the energy area. The recent steam and met coal price peaks were achieved amidst $140/bbl oil and $14/mcf gas. Those two commodities have highly transparent pricing, and are already off their highs. We suspect they may decline further as general economic conditions---both domestically and worldwide---soften.

Modeling – estimates. We are highly skeptical that TECO Coal can achieve today's high coal prices once it begins to re-contract or re-price existing contracts later this year and throughout 2009. We also believe that production is a function of price, with 11 million-plus tons possible in a buoyant market and 9.0-9.5 million tons in a softer market.

- **Production.** We are assuming production of 10.5 tons this year, and 11.25 tons in 2009 (the mid-point in management's 11.0-11.5 million ton range).
- **Steam coal pricing.** We assume it moves from an estimated $51.50 this year to $56.00 in 2009.
- **Met coal pricing.** We assume it moves from an estimated $70 per ton this year to $100 per ton in 2009.
- **Production costs.** Cost of production in is expected to increase "significantly" in 2008 due to the price of fuel and materials; for modeling purposes we use +10%.
- **Coal earnings.** Based upon very uncertain projections due to the volatility of commodity pricing, we estimate coal earnings at $77.6 million this year and $144.1 million next.

Estimate – raising 2009. We are raising our '09E from $1.32 per share to $1.70, reflecting an increase in both utility earnings (higher estimated equity and higher ROE) and coal earnings (higher estimated pricing). On the latter, we are pricing steam coal at $60 per ton and met coal at $100 per ton. We leave our 2008E of $0.98 per share unchanged.

Valuation – two earnings streams. Given the emerging size of the coal earnings, we must value TECO Energy's two earnings streams at different multiples. Thus, we value the utility earnings stream (including Guatemalan assets) at 13.0x, which is the average multiple of '09

earnings at which our group of 37 small to midcap utilities currently trades. We value the coal earnings at 9.0x 2009 earnings, the average multiple at which a dozen coal-company stocks currently trade. Our valuation of these two earnings streams produces a price target of $19.75 per share.

Summary & recommendation – Downgrade to Hold. Given that TE is trading at only a slight discount to our new price target of $19.75 per share, we downgrade the stock from a Buy to a Hold.

RISKS

- **Valuation risk.** Price targets are based upon earnings projections and the capitalization of those projections by the stock market. If we are wrong on either our estimates or valuation there may be price risk in the stock.
- **Interest rate risk.** Utility stocks are often viewed as yield vehicles. As such, they are susceptible to changes in interest rates, and a rising interest rate environment will put downward pressure on utility shares, including TECO Energy.
- **Cyclical risk.** The strong historic customer growth rates at TECO's two Florida utilities are closely tied to the construction of new housing units. Management has said the current downturn is cyclical and that housing will rebound. If it does not, investment in new peaking and baseload capacity may not be needed, and rate base and earnings may not grow as expected.
- **Regulatory risk.** Regulators at the Florida PSC have traditionally been fair with utilities operating in the state, including core-utility Tampa Electric. However, there are aberrations, such as the TECO Transport penalty; moreover, the current commission is relatively inexperienced. With virtually all of TECO's utility revenues regulated by the FPSC, any changes from the historic regulatory climate in the state would be a major negative for the stock.
- **Commodity risk.** TECO Coal sells its production mostly under contracts of one-year or more. Current high pricing is not falling to the bottom line because of these contracts; however, they will be renegotiated over the next couple of years. Coal pricing is currently caught up in the commodity pricing boom; coal prices may decline substantially before contract renegotiation begin, leading to disappointing earnings projections and price risk in the stock.
- **Unregulated risk.** TECO Energy has a material unregulated coal mining business with a higher risk profile that its utility operations. Thus, this business can experience greater earnings volatility and potentially damage the price of the stock.

TECO Energy - Earnings Estimates and Valuations

(in $ millions, except per share figures and percentages)

2008E

Utility businesses	Rate Base	% Equity	$ Equity	ROE	Income
Tampa Electric - ongoing	$ 3,200	51.5%	$ 1,648	9.0%	$ 148.3
- Transport disallowance (tax)	$ -		$ (15.0)	40.0%	$ (9.0)
Peoples Gas	$ 550	51.5%	$ 283	9.0%	$ 25.5
Guatemala operations					$ 38.0
Total Utility Income	$ 3,750		$ 1,931		$ 202.8
+ TECO Transport - sold					$ -
+ TECO Coal - synfuel - ended					$ -
+ TECO Coal - conventional					$ 42.0
Total Unregulated Income					$ 42.0
Total Operating Cos					$ 244.8
- Holdco - interest expense	$ 956	6.97%	$ (66.6)	40.0%	$ (40.0)
- Holdco - interest income	$ 50	2.0%	$ 1.0	40.0%	$ 0.6
- Holdco - internally allocated interest			$ 10.0	40.0%	$ 6.0
- Holdco - other parent expenses			$ (5.0)	40.0%	$ (3.0)
Holding company impact					$ (36.4)
Net Income					$ 208.4
Earnings per Share					$ 0.98
Avg. Diluted Shares Outstanding					*212.0*

Valuation	
Utility earnings ($ mils)	$ 202.8
less share of holdco interest	$ (9.1)
Net utility earnings	$ 193.7
Utility EPS	$ 0.91
Assigned multiple	13.0x
Utility value per share	**$ 11.88**
Unregulated earnings ($ mils)	$ 42.0
less share of holdco impact	$ (27.3)
Net unregulated earnings ($ mils)	$ 14.7
Unregulated EPS	$ 0.07
Assigned multiple	13.0x
Unregulated value per share	**$ 0.90**
Sum-of-the-Parts Valuation	**$ 12.78**

2009E

Utility businesses	Rate Base	% Equity	$ Equity	ROE	Inc
Tampa Electric - ongoing	$ 3,300	54.0%	$ 1,782	10.3%	$ 182.7
Peoples Gas	$ 565	54.0%	$ 305	10.3%	$ 31.3
Guatemala operations					$ 38.0
Total Utility Income	$ 3,865		$ 2,087		$ 251.9
+ TECO Coal - conventional					$ 145.0
+ Other - n/a					$ -
Total Unregulated Income					$ 145.0
Total Operating Cos					$ 396.9
- Holdco - interest expense	$ 956	6.57%	$ (62.8)	40.0%	$ (37.7)
- Holdco - interest income	$ 50	2.0%	$ 1.0	40.0%	$ 0.6
- Holdco - internally allocated interest			$ 10.0	40.0%	$ 6.0
- Holdco - other parent expenses			$ (5.0)	40.0%	$ (3.0)
Holding company impact					$ (34.1)
Net Income					$ 362.8
Earnings per Share					$ 1.70
Avg. Diluted Shares Outstanding					*214.0*

Valuation	
Utility earnings ($ mils)	$ 251.9
less share of holdco interest	$ (8.5)
Net utility earnings	$ 243.4
Utility EPS	$ 1.14
Assigned multiple	13.0x
Utility value per share	**$ 14.79**
Unregulated earnings ($ mils)	$ 145.0
less share of holdco impact	$ (25.6)
Net unregulated earnings ($ mils)	$ 119.4
Unregulated EPS	$ 0.56
Assigned multiple	9.0x
Unregulated value per share	**$ 5.02**
Sum-of-the-Parts Valuation	**$ 19.81**

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By: Maurice E. May

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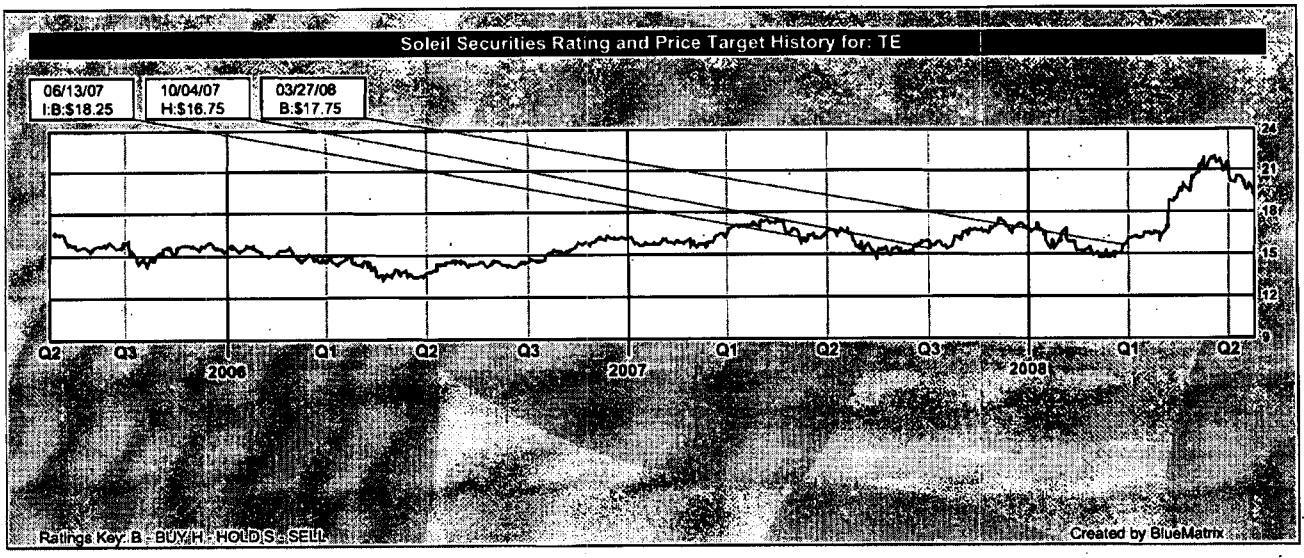
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					Utilities				
			IB Serv/Past 12 Mos.					IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
BUY[BUY]	148	52.48	0	0	BUY[BUY]	8	66.67	0	0
HOLD[HOLD]	120	42.55	1	0.83	HOLD[HOLD]	3	25.00	0	0
SELL[SELL]	14	4.96	0	0	SELL[SELL]	1	8.33	0	0

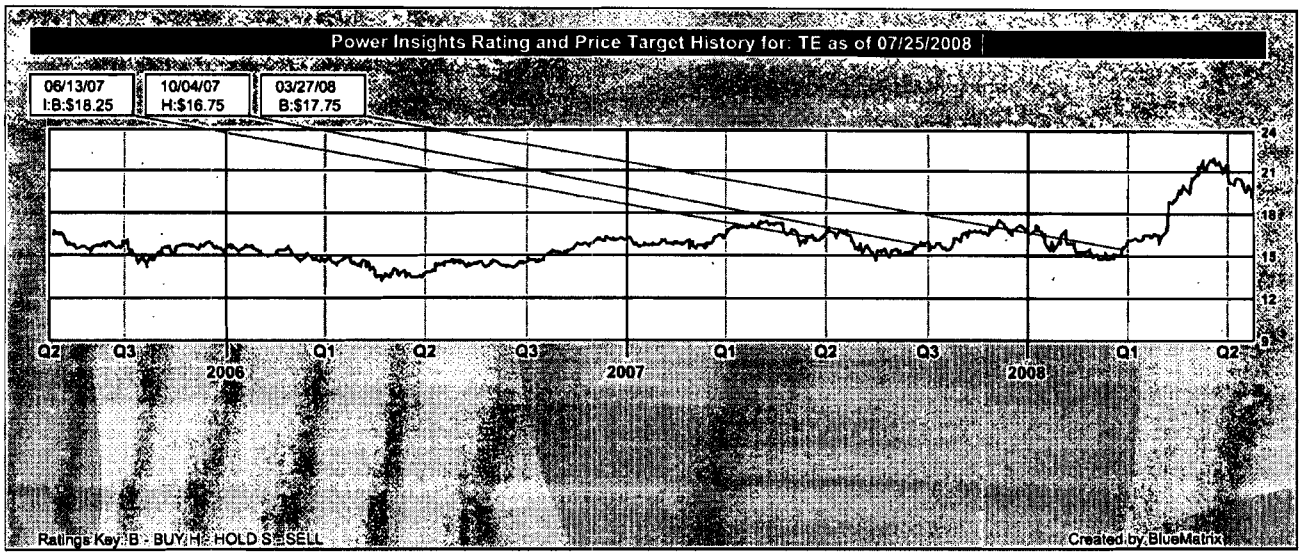


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Companies Mentioned

TECO Energy (TE, $19.22, Hold , NYSE)



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12:36pm EDT 30-Apr-08 Soleil - Power Insights (Maurice E. May) TE PNM POM TEG
Soleil: TE: 1Q Disappointing; Buy Rating Maintained

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Equity Research

Power Insights
April 30, 2008

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Earnings Release

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Maurice E. May
508-636-9934, maurymay@power-insights.com

1Q Disappointing; Buy Rating Maintained
TECO Energy TE, $16.18, Buy

ACTION
Maintain Buy. TE reported a weak 1Q late yesterday of $0.15/shr that was below our $0.20E and consensus at $0.21E. The main reason was milder than normal weather in the service territories of TE's Florida utilities, but higher production costs at TECO Coal also hurt. A major concern in our view is housing-related customer growth---well off the 2%-plus historic norm at just 0.6% in 1Q---because slower customer growth may reduce the need for investment in peaking & baseload capacity that drives rate base and earnings growth. We shave two cents off our '08E to $0.98/shr, and nine cents off our '09E to $1.32. However, when this new '09E is capitalized at the average 13.4x multiple of our 37-utility SMID universe, we can maintain both our $17.75/shr price target and Buy rating.

Fiscal Year	Fiscal Year			Calendar Year		Curr. Qtr.	Next Qtr.	Yr. Ago Qtr.
Dec								
	F07A	F08E	F09E	C07E	C08E	C 2Q08E	3Q08E	2Q07A
Rev(Curr.$)								
--	--	--	--	--	--	-- --	--	
Rev(Prev.$)								
--	--	--	--	--	--	-- --	--	
EPS(Curr.$)								
1.07	0.98	1.32	1.07	0.98	1.32	0.23 0.36	0.25	
EPS(Prev.$)								
1.07	1.00	1.41	1.07	1.00	1.41	0.23 0.35	0.25	
P/S(Curr.$)								
NM	NM	NM	NM	NM	NM	-- --	--	
P/E(Curr.$)								
15.1	16.5	12.3	15.1	16.5	12.3	-- --	--	

(Revenues in millions, except when noted.)

* 1QA - disappointing. Late yesterday, TECO reported 1Q of $0.15/shr, well below our $0.20/shr estimate and consensus at $0.21. Milder weather at the utilities and higher coal production costs were the main culprits.
* Major concern - utility customer growth. Tampa's historic 2%-plus customer growth rate plummeted to 0.6% in 1Q. Management views it as housing related and cyclical, with a rebound in '09 and more normal levels in 2010. Without customer growth, rate base expansion from new capacity is jeopardized.
* Minor concern - coal earnings in 2009. Management now sees not so much as a doubling of margin per ton as a doubling of earnings. Thus we reduce our TECO coal earnings for 2009.
* Dividend - 2.6% boost. This morning, the Board boosted the quarterly dividend rate a half-penny from $0.195/shr to $0.20, for an annual rate of $0.80/shr.

* Guidance - unchanged. Despite weak 1Q, manage- ment left unchanged its rather wide '08 guidance range of $0.95-$1.10/shr. Management says that the 1Q weather-related earnings weakness could be offset by more positive weather later in the year.
* Estimates - reductions. We lower our '08E by two cents to $0.98/shr reflecting 1Q weather weakness, partially offset by increasing coal earnings later in the year. We also reduce '09E from $1.41/shr to $1.32, reflecting further utility weakness and reduced coal expectations. The utility weakness includes reducing rate base growth expectations by $100 million.
* Valuation - unchanged. We maintain our $17.75/shr target because, despite our '09 estimate reduction, the avg multiple of our group of 37 SMID utilities has risen to 13.4x '09Es. Thus, by valuing our new $1.32/shr estimate at 13.4x we continue our $17.75/shr valuation.
* Summary & recommendation - Buy. TE sold off on weak 1Q report & near-term customer growth outlook. The weakness allows us to maintain our Buy rating.

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Companies Mentioned
TECO Energy (TE, $16.18, Buy, NYSE)

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EON

Soleil: TE: Management Boosts CAPEX & Coal Projections; Upgrade to Buy

Soleil Securities Group
Equity Research

Power Insights
March 27, 2008

Company Update
Earnings Release
Rating Change
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Maurice E. May
508-636-9934, maurymay@power-insights.com

Management Boosts CAPEX & Coal Projections; Upgrade to Buy
TECO Energy TE, $15.31, Buy

ACTION
Upgrade to Buy. Management presented its annual update to the NYC financial community this morning and gave some bullish projections. Utility CAPEX should rise 45% from $2.0 billion in 2007-2011 to $2.9 billion in 2008-2012, which should grow rate base. Coal production and margins are rising, from 10.5 million tons in 2008 on $4/ton after-tax margin, to 11.0-11.5 million tons in '09 on double the margin. As a result, we raised our '09E from $1.24/shr to $1.41, which when capitalized at our average multiple of 12.5x produces a new price target of $17.75/shr, and we upgrade to Buy.

Fiscal Year Dec	Fiscal Year			Calendar Year		Curr. Qtr.	Next Qtr.	Yr. Ago Qtr.
	F07A	F08E	F09E	C07E	C08E	C 1Q08E	2Q08E	1Q07A
Rev(Curr.$)								
--	--	--	--	--	--	-- --	--	
Rev(Prev.$)								
--	--	--	--	--	--	-- --	--	
EPS(Curr.$)								
1.07	1.00	1.41	1.07	1.00	1.41	0.20	0.23	0.21
EPS(Prev.$)								
1.07	1.07	1.24	1.07	1.07	1.24	0.22	0.26	0.21
P/S(Curr.$)								
NM	NM	NM	NM	NM	NM	--	--	--
P/E(Curr.$)								
14.3	15.3	10.9	14.3	15.3	10.9	--	--	--

(Revenues in millions, except when noted.)

* CAPEX & Coal projections - up. This morning, management gave its annual presentation to the NYC financial community. Five-year CAPEX at core-utility Tampa Electric was increased, as were coal production and margin projections.
* Utility CAPEX - +45%. New projection for CAPEX at Tampa increased from $2.0 billion in 2007-2011 to $2.9 billion in 2008-2012. These levels of CAPEX should grow rate base substantially, given the traditionally supportive Florida regulatory environment.
* Coal - margin doubling. Even more importantly, management projected coal production of 11.0-11.5 million tons in 2009, with double the $4/ton after-tax margin projected for 2008 on 10.5 million tons.
* 2008E - going down. Management's indication that utility earnings were declining toward 9% ROE prompts us to lower our '08E from $1.07/shr to $1.00. We adjust quarters accordingly. Tampa will file for rate relief sometime in 2008.
* 2009E - going up. The near-doubling of our coal profit expectations from $47 million to $90 million, coupled with sharply rising utility earnings from higher rate base, new rates and higher equity, prompts us to raise our '09E from $1.24/shr to $1.41.

* Valuation - up a buck. We increase our valuation and price target from $16.75/shr to $17.75 based upon capitalizing our new $1.41/shr estimate at our average 12.5x multiple.
* Returning - to "TECO Classic." That is management's term, but we know exactly what they mean---Tampa/TECO was a Wall Street favorite for literally decades before the IPP debacle, and they see that status returning. With debt down to 61%, earnings growth in '09, and dividends growing again---we agree. TECO's not there yet, however, and we continue to value with our average multiple.
* Summary & recommendation - upgrade to Buy. Given our new $17.75/shr price target, we see TE as more than two points undervalued, and upgrade to Buy.

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Maurice E. May

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Companies Mentioned
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Integrys Energy Group (TEG, $45.91, Buy, NYSE)
Northeast Utilities (NU, $24.07, Buy, NYSE)
TECO Energy (TE, $15.31, Buy, NYSE)
UniSource Energy (UNS, $22.95, Buy, NYSE)

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Soleil: TE: '07 Results Beat Estimates; Moving Valuation to '09E; Maintain Hold

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February 6, 2008

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Earnings Release
Earnings Release

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508-636-9934, maurymay@power-insights.com

'07 Results Beat Estimates; Moving Valuation to '09E; Maintain Hold
TECO Energy TE, $16.43, Hold

ACTION
Hold. TECO reported good 4Q/2007 results yesterday, but the 2008 forecast has come in below expectations. The 4Q was $0.23/shr (ahead of our $0.21/shr and consensus of $0.19), and the year was $1.07 (vs. $1.01 consensus). Management's '08 outlook for 2008 is not as bright due to low-priced coal hedges, rising utility costs, difficult Guatemala comparison, and sale of Transport. Guidance was issued at $0.95-$1.10/shr, below both Power Insights and consensus estimates of $1.12/shr. Despite the '08 disappointment, we move our valuation ahead to our newly introduced '09E of $1.24/shr and capitalize it at our average 13.5x multiple. The result is an unchanged $16.75/shr price target and maintenance of our Hold recommendation.

Fiscal Year C	Fiscal Year F07A	F08E	F09E	Calendar Year C07E	C08E	C	Curr. Qtr. 1Q08E	Next Qtr. 2Q08E	Yr. Ago Qtr. 1Q07A
Rev(Curr.$)	--	--	--	--	--	--	--	--	
Rev(Prev.$)	--	--	--	--	--	--	--	--	
EPS(Curr.$)	1.07	1.07	1.24	1.07	1.07	1.24	0.22	0.26	0.21
EPS(Prev.$)	1.01	1.12	1.25	1.01	1.12	1.25	0.25	0.27	0.21
P/S(Curr.$)	NM	NM	NM	NM	NM	NM	--	--	--
P/E(Curr.$)	15.4	15.4	13.2	15.4	15.4	13.2	--	--	--

(Revenues in millions, except when noted.)

* 4Q/2007 results " ahead of estimates. TECO reported good 4Q/yearend results yesterday. In the quarter, operating EPS were $0.23/shr vs. $0.18 last year. 4Q came in well ahead of both our Power Insights estimate of $0.21 and consensus at $0.19. Two non-recurring items---a gain on sale of TECO Transport partially offset by debt refinancing expenses---brought GAAP results to $0.83/shr. For 2007, TECO reported operating results of $1.07/shr vs. $0.97 last year. '07A was also above our $1.01/shr estimate and consensus at $1.02.
* 2008 guidance " below estimates. Management has introduced '08 guidance at $0.95-$1.10/shr---below both Power Insights and consensus estimates of $1.12. This obvious disappointment reflects lower rising utility costs, lower-priced coal hedges, a tough Guatemala comparison, and sale of Transport.
* 2008E " dropping to $1.07/shr. Given the above scenario, we lower our '08E to $1.07/shr---flat with '07 results.
* 2009E " introducing at $1.24/shr. There are several reasons for the

anticipated '09 improvement: (1) we expect new rates at Peoples Gas for the full year, and at Tampa Electric for part of the year; (2) we see the recent rise in coal prices improving TECO Coal profitability; and (3) the 5-year, $15 million/year TECO Transport disallowance goes away.

* Valuation " unchanged at $16.75/shr. We move our valuation ahead one year, and now base it on our new '09E of $1.24/shr. We capitalize that estimate at the current '09 average valuation of 13.5x. Thus, our new TE valuation is $16.75/shr---unchanged from the previous one.
* Summary & recommendation " Hold. Given that the TE shares are trading at an insignificant discount to our $16.75/shr price target, we maintain our Hold rating on the stock.

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Companies Mentioned
TECO Energy (TE, $16.43, Hold, NYSE)

Additional Disclosures

Power Insights: Rating Key: Buy: total return potential of +12% or more over the next 12 months, Hold: total return potential between +12% and "-12% over the next 12 months, Sell: total return potential of -12% or more over the next 12 months.
Thomson Financial
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TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
SUPPLEMENTAL: DECEMBER 31, 2008

UBS

Global Equity Research

Americas

Electric Utilities

UBS Investment Research

TECO Energy Inc.

12-month rating	Neutral *Unchanged*
12m price target	US$12.50 *Prior:US$15.50*
Price	US$11.95
RIC: TE.N BBG: TE US	

18 December 2008

Trading data	
52-wk range	US$21.96-10.72
Market cap.	US$2.50bn
Shares o/s	209m (COM)
Free float	99%
Avg. daily volume ('000)	934
Avg. daily value (US$m)	12.5

Balance sheet data 12/08E	
Shareholders' equity	US$2.04bn
P/BV (UBS)	1.2x
Net Cash (debt)	(US$3.15bn)

Forecast returns	
Forecast price appreciation	+4.6%
Forecast dividend yield	6.6%
Forecast stock return	+11.2%
Market return assumption	5.8%
Forecast excess return	+5.4%

Coming Full Circle on TECO

■ **UBS lowered its coal forecasts for both met and thermal products**

UBS lowered its coal price forecast for CAPP to $55/ton and $60/ton, from $70/ton and $65/ton, respectively for '09 and '10. UBS also lowered its Met coal forecast for both PCI and semi-soft coking coal products. For PCI, the forecast has been lowered to $75/$105 from $140/$120 in '09/'10, respectively; for Semi-soft the forecast has been revised to $70/$95, from $130/$110 in '09/'10, respectively.

■ **Coal revisions premised on slower growth and lower forecasted exports**

The downward revision to the met coal forecast can be primarily attributed to our recently revised US GDP growth forecast in '09 of -1.2% (from -0.6% previously) as well as a 7% decline in steel demand. The lower US thermal coal forecast can be primarily attributed to declining US net exports and marginal low-quality met tons entering thermal markets, as well as the negative US GDP '09 growth forecast.

■ **Adjusting our EPS estimates to reflect weakened TECO Coal outlook**

We are lowering our '09/'10/'11/'12 EPS est. to $1.10/1.07/1.60/1.45, respectively (from $1.25/1.20/1.65/1.50, previously). The declines primarily reflect the revised TECO Coal outlook as well as further weakness at both FL utilities. A rate decision for the utilities in April/May should provide some relief in the near term.

■ **Lowering our price target to $12.50, on back of weaker outlook**

We value TECO using an EV/EBITDA-based SOP model and apply a 6.0x to both TECO Coal and Peoples Gas; with a premium 6.5x multiple for Tampa Electric. We ascribe a 5.5x multiple to its Guatemalan assets. Our revised PT reflects continued EBITDA compression across both TECO Coal and the utilities.

EPS (UBS, US$)

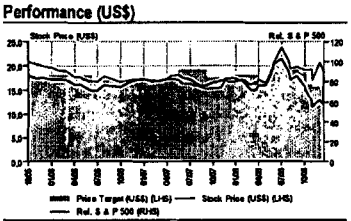
	12/08E From	12/08E To	12/08E Cons.	12/07 Actual
Q1	0.15	0.15	0.15	0.21
Q2	0.24	0.24	0.24	0.25
Q3	0.27	0.27	0.27	0.38
Q4E	0.18	0.18	0.17	0.22
12/08E	0.85	0.85	*0.85*	
12/09E	1.25	1.10	*1.32*	

Highlights (US$m)	12/06	12/07	12/08E	12/09E	12/10E
Revenues	3,448	3,536	3,663	3,769	3,864
EBIT (UBS)	398	415	340	774	791
Net income (UBS)	234	224	180	230	228
EPS (UBS, US$)	1.12	1.07	0.85	1.10	1.07
Net DPS (UBS, US$)	0.76	0.78	0.79	0.81	0.83

Profitability & Valuation	5-yr hist av.	12/07	12/08E	12/09E	12/10E
EBIT margin %	11.6	11.7	9.3	20.5	20.5
ROIC (EBIT) %	10.2	10.4	8.0	16.4	15.3
EV/EBITDA (core) x	10.1	9.6	8.4	5.2	5.1
PE (UBS) x	13.8	15.8	14.1	10.9	11.2
Net dividend yield %	5.5	4.6	6.6	6.8	7.0

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.
Valuations: based on an average share price that year, (E): based on a share price of US$11.95 on 17 Dec 2008 19:39 EST

Performance (US$)



Source: UBS

www.ubs.com/investmentresearch

Ronald J. Barone
Analyst
ronald.barone@ubs.com
+1-212-713 3848

Julien Dumoulin-Smith
Associate Analyst
julien.dumoulin-smith@ubs.com
+1 212 -713 9848

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Table 1 provides a summary of our estimates for TECO Coal's margins, production, and Net Income. Please feel free to contact us for our working TECO Coal model.

Table 1: Summary of TECO Coal Margins

	2007A	2008E	2009E	2010E	2011E	2012E	2013E
Margin ($/ton)	4.2	2.3	4.6	3.0	12.2	8.3	9.2
Production (Mn Tons)	9.2	9.5	10.5	11.0	11.0	11.0	11.0
Net Income ($ Mn)	**38.3**	**21.9**	**48.1**	**32.5**	**133.8**	**91.7**	**101.6**

Source: Company and UBS estimates.

A full summary of the changes to the UBS coal forecast prices for Met and Thermal coal products is provided in Tables 2 and 3, respectively.

Table 2: Met Coal Forecast Adjustments

Coal Grade	2009E		2010E		2011E	2012E	LT Normalized
	New	Former	New	Former	Unchanged	Unchanged	Unchanged
Hard Coking	$85.00/t	$180.00/t	$115.00/t	$130.00/t	$160.00/t	$160.00/t	$160.00/t
PCI	$75.00/t	$140.00/t	$105.00/t	$120.00/t	$150.00/t	$150.00/t	$150.00/t
Semi-soft Coking	$70.00/t	$130.00/t	$95.00/t	$110.00/t	$135.00/t	$135.00/t	$135.00/t

Source: UBS estimates
Note: "t" refers to a metric ton (~2,205 lbs.)

Table 3: US Thermal Coal Forecast Adjustments

Coal Grade	2009E		2010E		2011E	2012E	LT Normalized
	New	Former	New	Former	Unchanged	Unchanged	Unchanged
CAPP	$55.00/st	$70.00/st	$60.00/st	$65.00/st	$95.00/st	$100.00/st	$75.00/st
NAPP	$55.00/st	$70.00/st	$60.00/st	$65.00/st	$95.00/st	$100.00/st	$75.00/st
Midwest (2lb)	$37.00/st	$45.00/st	$40.00/st	$40.00/st	$50.00/st	$60.00/st	$45.00/st
PRB 8800	$11.50/st	$12.00/st	$11.75/st	$12.00/st	$13.00/st	$16.00/st	$17.00/st
PRB 8400	$9.50/st	$10.00/st	$9.75/st	$10.00/st	$10.75/st	$13.25/st	$14.00/st

Source: UBS estimates
Note: "st" refers to a short ton (2,000 lbs.)

■ **TECO Energy Inc.**

TECO Energy, headquartered in Tampa, Florida, supplies electricity and natural gas in west-central Florida as part of its regulated businesses; transports, stores, and transfers coal; operates underground and surface coal mines; and produces synthetic fuels.

■ **Statement of Risk**

The key risks include high debt to capital ratio; higher O&M costs at Tampa Electric to meet reliability requirements, adverse weather conditions; changes in general economic conditions; regulatory environment; commodity prices; environmental matters; and interest rates.

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UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	Buy	56%	36%
Neutral	Hold/Neutral	35%	33%
Sell	Sell	8%	27%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	Buy	less than 1%	32%
Sell	Sell	less than 1%	14%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2008.

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UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
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Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

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Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
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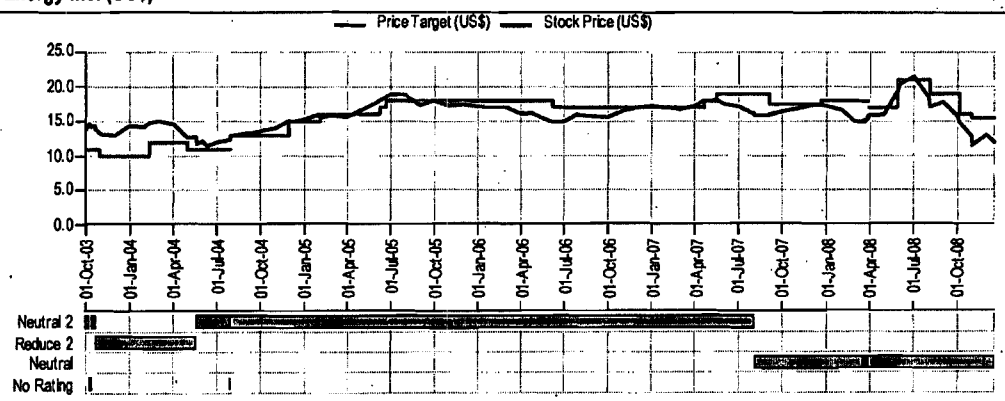
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
TECO Energy Inc.[2, 4, 5, 6, 7, 16]	TE.N	Neutral (UR)	N/A	US$11.95	17 Dec 2008

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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TECO Energy Inc. (US$)



Source: UBS; as of 17 Dec 2008

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
SUPPLEMENTAL: DECEMBER 31, 2008

UBS

Global Equity Research

Americas

Electric Utilities

UBS Investment Research

TECO Energy Inc.

12-month rating	Neutral *Unchanged*
12m price target	US$15.50 *Prior:US$16.00*
Price	US$12.84

RIC: TE.N BBG: TE US

30 October 2008

Bleaker Outlook All Around

■ **UBS updated its coal price forecast for Met and Thermal Coal today**

UBS brought down its '09/'10/'11/'12 and Normalized coal price assumptions for both Thermal and Met Coal products. In particular, CAPP was reduced to $70/65/95 for '09/'10/'11, respectively, and PCI to $140/120/150/150 for '09/'10/'11/'12, respectively. To account for these changes as well as TE's updated coal contract hedges (88% in '09 at an average price of $77/ton), we are reducing our EPS estimates for TE to $0.85/1.25/1.20/1.65/1.50 for '08/'09/'10/'11/'12.

■ **TE posted 3Q results mildly shy of our estimates**

TE posted a $0.10 decline in 3Q recurring EPS, to $0.28 from $0.38 in 3Q07. This is just shy of our estimate of $0.30 and the Street consensus of $0.29. The primary drivers of the YoY decline included the sale of TECO Transport, higher coal production costs, and mild weather at the utilities. Partial offsets included improved coal pricing and improved results at Guatemala.

■ **Utility continues to face flagging customer growth as slowdown hits homes**

Tampa Electric and Peoples Gas both continued to see flat net customer growth YoY as foreclosures and vacancies offset new connections. Partially offsetting the decline in '09 are rate cases at both utilities as well as a pending fuel clause adjustment before the FL PSC, removing a $10 Mn disallowance for transport.

■ **Reducing our 12-month price target to $15.5 from $16**

Our reduced price target reflects lower '09E EBITDA at TECO Coal reflecting our reduced price deck and cost assumptions and a 6.0x EV/EBITDA multiple, similar to those implied on pure play coal companies. Our PT is derived using SOP.

Trading data	
52-wk range	US$21.96-12.30
Market cap.	US$2.69bn
Shares o/s	209m (COM)
Free float	99%
Avg. daily volume ('000)	835
Avg. daily value (US$m)	13.2

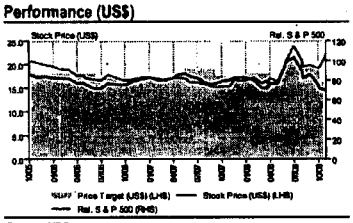
Balance sheet data 12/08E	
Shareholders' equity	US$2.04bn
P/BV (UBS)	1.3x
Net Cash (debt)	(US$3.15bn)

Forecast returns	
Forecast price appreciation	+20.7%
Forecast dividend yield	6.2%
Forecast stock return	+26.9%
Market return assumption	6.5%
Forecast excess return	+20.4%

EPS (UBS, US$)

	12/08E			12/07
	From	To	Cons.	Actual
Q1	0.15	0.15	0.15	0.21
Q2	0.24	0.24	0.24	0.25
Q3	0.30	0.27	0.29	0.38
Q4E	0.20	0.18	0.18	0.22
12/08E	0.90	0.85	*0.87*	
12/09E	1.30	1.25	*1.44*	

Performance (US$)



Source: UBS

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Highlights (US$m)	12/06	12/07	12/08E	12/09E	12/10E
Revenues	3,448	3,536	3,663	3,769	3,864
EBIT (UBS)	398	415	340	774	791
Net Income (UBS)	234	224	180	262	256
EPS (UBS, US$)	1.12	1.07	0.85	1.25	1.20
Net DPS (UBS, US$)	0.76	0.78	0.79	0.81	0.83

Profitability & Valuation	5-yr hist av.	12/07	12/08E	12/09E	12/10E
EBIT margin %	11.6	11.7	9.3	20.5	20.5
ROIC (EBIT) %	10.2	10.4	8.0	16.4	15.3
EV/EBITDA (core) x	10.1	9.6	8.7	5.4	5.3
PE (UBS) x	13.8	15.8	15.2	10.3	10.7
Net dividend yield %	5.5	4.6	6.2	6.3	6.5

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year. (E): based on a share price of US$12.84 on 30 Oct 2008 15:53 EDT

Ronald J. Barone
Analyst
ronald.barone@ubs.com
+1-212-713 3848

Julien Dumoulin-Smith
Associate Analyst
julien.dumoulin-smith@ubs.com
+1 212 -713 9848

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We have included in Table 1 our most recent changes to our coal deck.

Table 1: New UBS Coal Price Deck, 2008-2012E and Normalized

	2009E		2010E		2011E		2012E		LT Normalized	
Coal Grade	New	Former	New	Former	New	Former	New	Former	New	Former
CAPP	$70.00/st	$100.00/st	$65.00/st	$95.00/st	$95.00/st	$100.00/st	$100.00/st	$100.00/st	$75.00/st	$85.00/st
NAPP	$70.00/st	$100.00/st	$65.00/st	$95.00/st	$95.00/st	$100.00/st	$100.00/st	$100.00/st	$75.00/st	$85.00/st
Midwest (2lb)	$45.00/st	$55.00/st	$40.00/st	$50.00/st	$50.00/st	$55.00/st	$60.00/st	$60.00/st	$45.00/st	$48.00/st
PRB 8800	$12.00/st	$13.00/st	$12.00/st	$13.75/st	$13.00/st	$15.00/st	$16.00/st	$16.50/st	$17.00/st	$18.00/st
PRB 8400	$10.00/st	$10.75/st	$10.00/st	$11.00/st	$10.75/st	$12.00/st	$13.25/st	$13.50/st	$14.00/st	$15.00/st
Hard Coking	$180.00/t	$250.00/t	$130.00/t	$230.00/t	$160.00/t	$275.00/t	$160.00/t	$275.00/t	$160.00/t	$160.00/t
PCI	$140.00/t	$210.00/t	$120.00/t	$200.00/t	$150.00/t	$250.00/t	$150.00/t	$250.00/t	$150.00/t	$140.00/t
Semi-soft Coking	$130.00/t	$200.00/t	$110.00/t	$180.00/t	$135.00/t	$225.00/t	$135.00/t	$225.00/t	$135.00/t	$130.00/t

Source: UBS estimates

■ TECO Energy Inc.

TECO Energy, headquartered in Tampa, Florida, supplies electricity and natural gas in west-central Florida as part of its regulated businesses; transports, stores, and transfers coal; operates underground and surface coal mines; and produces synthetic fuels.

■ Statement of Risk

The key risks include high debt to capital ratio; higher O&M costs at Tampa Electric to meet reliability requirements, adverse weather conditions; changes in general economic conditions; regulatory environment; commodity prices; environmental matters; and interest rates.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	Buy	56%	36%
Neutral	Hold/Neutral	35%	33%
Sell	Sell	8%	27%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	Buy	less than 1%	32%
Sell	Sell	less than 1%	14%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2008.

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Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
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KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
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Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.
Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

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Company Disclosures

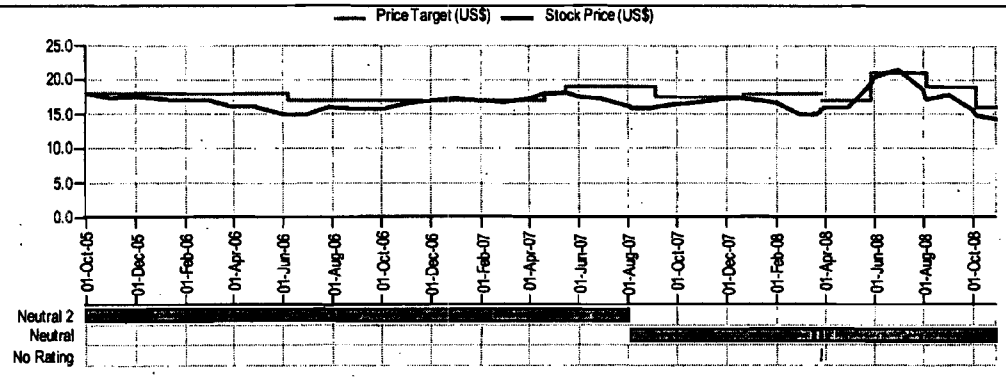
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
TECO Energy Inc.[2, 4, 5, 6, 7, 16]	TE.N	Neutral	N/A	US$14.32	29 Oct 2008

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

TECO Energy Inc. (US$)



Source: UBS; as of 29 Oct 2008

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
SUPPLEMENTAL: DECEMBER 31, 2008

UBS

Global Equity Research

Americas

Electric Utilities

UBS Investment Research

TECO Energy Inc.

12-month rating	Neutral *Unchanged*
12m price target	US$16.00 *Prior:US$19.00*
Price	US$14.82

RIC: TE.N BBG: TE US

6 October 2008

Lowering EPS on Dimmed Coal Outlook

■ **UBS lowered its U.S. thermal and met coal forecast for '09/'10/'11**

UBS lowered its U.S. thermal and met coal forecast for '09-'11 today, reducing its CAPP coal assumptions by $5/ton for '10/'11 and PCI met coal by $40/ton in '09 and $25/ton in '10. The lower forecast reflects: 1) slowing global demand for steel products; and 2) a weaker demand for seaborne thermal coal market, which eases export demand for CAPP.

■ **We are lowering our EPS estimates for TECO for '09-'11**

To reflect the lower coal price forecast and the dimmer economic outlook in Florida, we are lowering our '09-'11 EPS estimates to $1.30/$1.60/$1.90, from $1.60/1.90/1.95, respectively. We are maintaining our current '08 EPS estimate of $0.90 given TECO Coal's highly hedged position and having factored in a dramatic slowdown at the utility already.

■ **Utility recovery beyond '08 grows bleaker as UBS lowers U.S. GDP growth**

Our lowered EPS estimates also reflect UBS' recent cut to its '09 U.S. GDP growth estimate to 0.3%, from 1.2% previously. We believe the high incidence of foreclosures in Florida will have a disproportionately harsher impact on the utility's earnings as compared to prior economic recessions. Please see our companion sector note for further analysis of the economic slowdown.

■ **Lowering our 12-month price target to $16.50, from $19**

Our lower price target reflects a reduction in '09E EBITDA for TECO coal, which we value using a 6.0x multiple. Our valuation is derived using EV/EBITDA-based SOP analysis and implies a 10.3x P/E on our '09 EPS estimate.

Trading data	
52-wk range	US$21.96-14.82
Market cap.	US$3.10bn
Shares o/s	209m (COM)
Free float	99%
Avg. daily volume ('000)	852
Avg. daily value (US$m)	15.1

Balance sheet data 12/08E	
Shareholders' equity	US$2.05bn
P/BV (UBS)	1.5x
Net Cash (debt)	(US$3.13bn)

Forecast returns	
Forecast price appreciation	+8.0%
Forecast dividend yield	5.3%
Forecast stock return	+13.3%
Market return assumption	6.6%
Forecast excess return	+6.7%

EPS (UBS, US$)

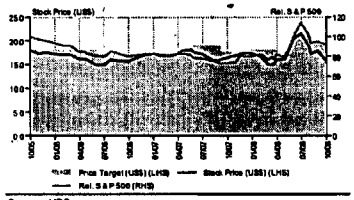
	12/08E			12/07
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Highlights (US$m)	12/06	12/07	12/08E	12/09E	12/10E
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PE (UBS) x	13.8	15.8	16.4	11.4	9.3
Net dividend yield %	5.5	4.6	5.4	5.5	5.6

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Valuations: based on an average share price that year. (E): based on a share price of US$14.82 on 03 Oct 2008 17:26 EDT

Performance (US$)



Source: UBS

www.ubs.com/investmentresearch

Ronald J. Barone
Analyst
ronald.barone@ubs.com
+1-212-713 3848

Shalini Mahajan, CFA
Analyst
shalini.mahajan@ubs.com
+1-212-713 2491

Julien Dumoulin-Smith
Associate Analyst
julien.dumoulin-smith@ubs.com
+1 212 -713 9848

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Sell	Sell	8%	27%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	Buy	less than 1%	32%
Sell	Sell	less than 1%	14%

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3:Percentage of companies under coverage globally within the Short-Term rating category.
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Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
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Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.
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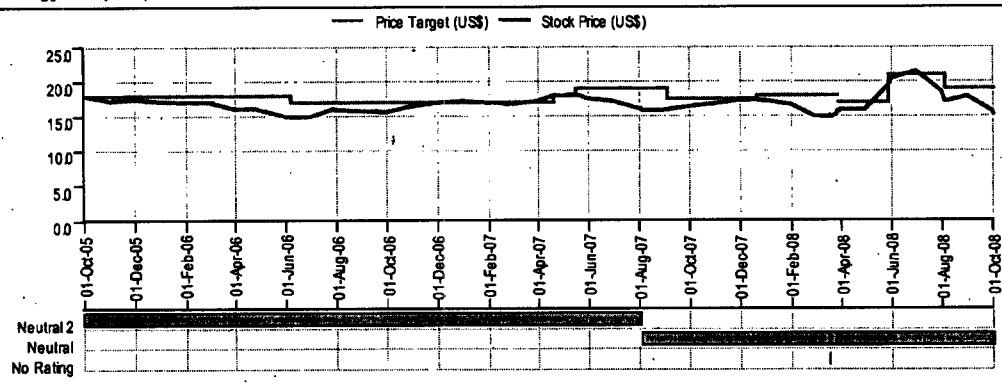
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
TECO Energy Inc.[2, 4, 5, 6, 7, 16]	TE.N	Neutral	N/A	US$15.25	02 Oct 2008

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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TECO Energy Inc. (US$)



Source: UBS; as of 02 Oct 2008

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
SUPPLEMENTAL: DECEMBER 31, 2008

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Global Equity Research

Americas

Electric Utilities

UBS Investment Research

TECO Energy Inc.

12-month rating	Neutral *Unchanged*
12m price target	US$19.00 *Prior:US$21.00*
Price	US$17.59
RIC: TE.N BBG: TE US	

4 August 2008

Lowering 2008-10E EPS and Price Target

■ **TE posts inline 2Q EPS results**

TE posted a $0.01 decline in 2Q recurring EPS, to $0.24 from $0.25 in 2Q07, marginally exceeding our and the consensus est. of $0.23. The YoY decline can be primarily attributed to higher costs at TECO Coal and higher O&M at Tampa Electric and Peoples Gas. Partial offsets included favorable weather, lower interest expense, and stronger results at TECO Guatemala.

■ **Pressure on Coal/ Utilities; Mgmt lowers 2008 guidance and 2009 outlook**

TECO lowered 2008 EPS guidance to $0.80 – 0.90, from $0.95 – 1.10. This reflects higher than expected cost pressures and lower production at TECO Coal and the continuation of the housing slowdown in Florida that is impacting results at the two utilities.

■ **Lowering our expectations for TECO Coal**

We have updated our model to reflect updated hedge positions, lower production guidance for 2008 and 2009 as well as a reduction in realizable margins. TE has contracted 80% of its 2009 production at $66/ton, implying prices shy of market prices quoted by other CAPP coal competitors. We are lowering 2008/2009/2010 EPS estimates to $0.90/$1.60/$1.90 from $1.02/$2.05/$2.15, respectively.

■ **Lowering 12-month price target to $19 from $21**

This reflects our lower 2009 EBITDA expectations for TECO Coal. We are applying a higher 5.5x EV/EBITDA multiple for TECO Coal, versus our prior 4.5x, to reflect ~4.5x peak earnings, now deferred until '10. Our price target is derived from an EV/EBITDA based SOP model.

Trading data	
52-wk range	US$21.96-14.88
Market cap.	US$3.68bn
Shares o/s	209m (COM)
Free float	99%
Avg. daily volume ('000)	1,139
Avg. daily value (US$m)	22.8

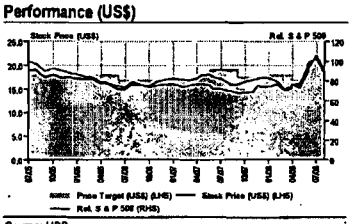
Balance sheet data 12/08E	
Shareholders' equity	US$2.05bn.
P/BV (UBS)	1.8x
Net Cash (debt)	(US$3.12bn)

Forecast returns	
Forecast price appreciation	+8.0%
Forecast dividend yield	4.5%
Forecast stock return	+12.5%
Market return assumption	7.5%
Forecast excess return	+5.0%

EPS (UBS, US$)

	12/08E From	12/08E To	12/08E Cons.	12/07 Actual
Q1	0.15	0.15	0.15	0.21
Q2	0.23	0.24	0.23	0.25
Q3E	0.38	0.30	0.37	0.38
Q4E	0.25	0.20	0.25	0.22
12/08E	1.02	0.90	*1.00*	
12/09E	2.05	1.60	*1.50*	

Performance (US$)



Source: UBS

www.ubs.com/investmentresearch

Highlights (US$m)	12/06	12/07	12/08E	12/09E	12/10E
Revenues	3,448	3,536	3,665	3,737	3,831
EBIT (UBS)	398	415	342	743	759
Net Income (UBS)	234	224	189	336	398
EPS (UBS, US$)	1.12	1.07	0.90	1.60	1.90
Net DPS (UBS, US$)	0.76	0.78	0.79	0.81	0.83

Profitability & Valuation	5-yr hist av.	12/07	12/08E	12/09E	12/10E
EBIT margin %	11.6	11.7	9.3	19.9	19.8
ROIC (EBIT) %	10.2	10.4	8.1	15.8	14.7
EV/EBITDA (core) x	10.1	9.6	10.2	6.6	6.4
PE (UBS) x	13.8	15.8	19.5	11.0	9.3
Net dividend yield %	5.5	4.6	4.5	4.6	4.7

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US$17.59 on 01 Aug 2008 19:38 EDT

Ronald J. Barone
Analyst
ronald.barone@ubs.com
+1-212-713 3848

Shalini Mahajan, CFA
Analyst
shalini.mahajan@ubs.com
+1-212-713 2491

Julien Dumoulin-Smith
Associate Analyst
julien.dumoulin-smith@ubs.com
+1 212-713 9848

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■ **TECO Energy Inc.**

TECO Energy, headquartered in Tampa, Florida, supplies electricity and natural gas in west-central Florida as part of its regulated businesses; transports, stores, and transfers coal; operates underground and surface coal mines; and produces synthetic fuels.

■ **Statement of Risk**

The key risks include high debt to capital ratio; higher O&M costs at Tampa Electric to meet reliability requirements, adverse weather conditions; changes in general economic conditions; regulatory environment; commodity prices; environmental matters; and interest rates.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	Buy	57%	38%
Neutral	Hold/Neutral	36%	35%
Sell	Sell	8%	29%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	Buy	less than 1%	31%
Sell	Sell	less than 1%	38%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 June 2008.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is >6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

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Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).
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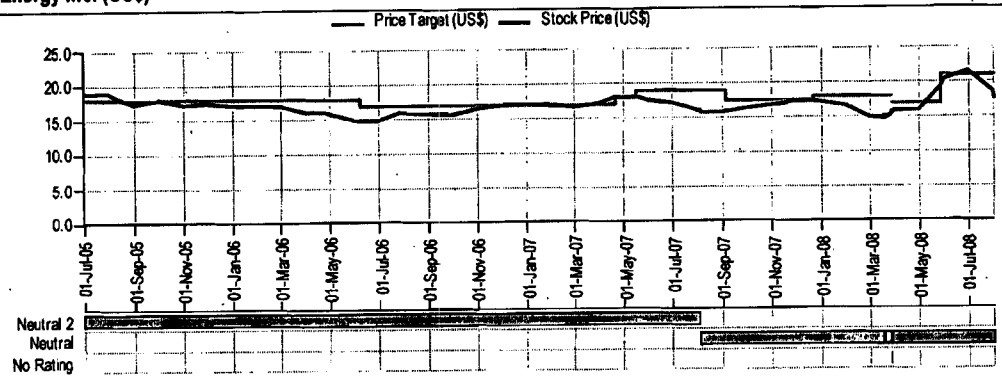
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TECO Energy Inc.[2, 4, 5, 6, 7, 16]	TE.N	Neutral	N/A	US$17.59	01 Aug 2008

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TECO Energy Inc. (US$)



Source: UBS; as of 01 Aug 2008

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TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
SUPPLEMENTAL: DECEMBER 31, 2008

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TECO Energy Inc.

12-month rating	Neutral *Unchanged*
12m price target	US$21.00 *Prior:US$17.00*
Price	US$19.60

RIC: TE.N BBG: TE US

28 May 2008

Reassessing the Value of TECO Coal

■ **Raising EPS ests. and PT to reflect recently updated UBS coal forecasts**

We are significantly increasing our EPS estimates and price target for TECO to reflect our reassessment of TECO Coal following changes to UBS' coal forecast. Yesterday, UBS raised its coking and thermal coal forecasts for 2009, 2010 and long term normalized price (see tables 1 & 2 on page 2). With 30% and 60% of its production uncontracted or unpriced for 2009 and 2010, respectively, we believe TECO Coal should be able to materially increase its earnings.

■ **New '09/'10/'11 EPS ests. are $2.05/$2.15/$1.75 vs. prior $1.25/1.35/$1.45**

This primarily reflects higher margins for TECO Coal's uncontracted and unpriced met and steam coal production, partially offset by rising costs of production. Our forecasts reflect a net margin of $25/ton for both 2009 and 2010 versus our prior $9/ton assumption. For 2011, we use our long-term normalized met and steam coal forecast that yields a net margin of $16/ton.

■ **The two utilities pose downside risks as concerns over FL economy remain**

While TECO Coal stands to provide a substantial uplift to earnings, we continue to remain sceptical of growth at Tampa Electric and Peoples Gas. We expect the continued economic downturn, coupled with upcoming rate case filings at each of the two utilities, to be an overhang for the stock.

■ **Raising our 12-month PT to $21 from $17, Maintaining Neutral rating**

This reflects a higher value for TECO Coal in our EV/EBITDA based on our SOP analysis.

Trading data	
52-wk range	US$20.04-14.88
Market cap.	US$4.10bn
Shares o/s	209m (COM)
Free float	99%
Avg. daily volume ('000)	887
Avg. daily value (US$m)	14.9

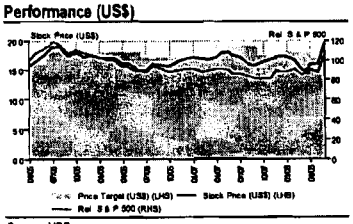
Balance sheet data 12/08E	
Shareholders' equity	US$2.08bn
P/BV (UBS)	2.0x
Net Cash (debt)	(US$3.09bn)

Forecast returns	
Forecast price appreciation	+7.1%
Forecast dividend yield	4.0%
Forecast stock return	+11.1%
Market return assumption	7.5%
Forecast excess return	+3.6%

EPS (UBS, US$)

	12/08E			12/07
	From	To	Cons.	Actual
Q1	0.15	0.15	0.15	0.21
Q2E	0.23	0.23	0.23	0.25
Q3E	0.38	0.38	0.36	0.38
Q4E	0.25	0.25	0.24	0.22
12/08E	1.02	1.02	*1.00*	
12/09E	1.25	2.05	*1.29*	

Performance (US$)



Source: UBS

www.ubs.com/investmentresearch

Highlights (US$m)	12/06	12/07	12/08E	12/09E	12/10E
Revenues	3,448	3,536	3,715	3,788	3,883
EBIT (UBS)	398	415	364	761	777
Net income (UBS)	234	224	213	430	451
EPS (UBS, US$)	1.12	1.07	1.02	2.05	2.15
Net DPS (UBS, US$)	0.76	0.78	0.79	0.81	0.83

Profitability & Valuation	5-yr hist av.	12/07	12/08E	12/09E	12/10E
EBIT margin %	11.6	11.7	9.8	20.1	20.0
ROIC (EBIT) %	10.2	10.4	8.6	16.2	15.1
EV/EBITDA (core) x	10.1	9.6	10.5	6.9	6.6
PE (UBS) x	13.8	15.8	19.2	9.6	9.1
Net dividend yield %	5.5	4.6	4.1	4.2	4.3

Source: Company accounts, Thomson Financial, UBS estimates (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US$19.60 on 27 May 2008 19:44 EDT

Ronald J. Barone
Analyst
ronald.barone@ubs.com
+1-212-713 3848

Shalini Mahajan, CFA
Analyst
shalini.mahajan@ubs.com
+1-212-713 2491

Julien Dumoulin-Smith
Associate Analyst
julien.dumoulin-smith@ubs.com
+1 212 -713 9848

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Raising EPS Estimates to Reflect Updated UBS Coal Price Forecast

Yesterday, UBS raised its 2009, 2010 and long term price forecast for both met and thermal coal. These are indicated in Tables 1 and 2 below.

Table 1: Global Coking Coal Forecasts

Coal Product	2008E	2009E		2010E		LT Normalized	
	(unchanged)	New	Former	New	Former	New	Former
Hard Coking	$305.00/t	$300.00/t	$200.00/t	$275.00/t	$175.00/t	$160.00/t	$150.00/t
PCI	$200.00/t	$250.00/t	$175.00/t	$225.00/t	$165.00/t	$140.00/t	$130.00/t
Semi-soft Coking	$200.00/t	$240.00/t	$170.00/t	$215.00/t	$150.00/t	$130.00/t	$120.00/t

Source: UBS estimates

Table 2: US Thermal Coal Forecasts

	2008E	2009E		2010E		LT Normalized	
	(unchanged)	New	Former	New	Former	New	Former
CAPP	$72.00/st	$88.00/st	$74.00/st	$90.00/st	$72.00/st	$80.00/st	$75.00/st
NAPP	$72.00/st	$93.00/st	$74.00/st	$95.00/st	$72.00/st	$80.00/st	$75.00/st
Midwest (2lb)	$33.50/st	$52.00/st	$34.50/st	$55.00/st	$35.00/st	$45.00/st	$43.00/st
PRB 8800	$12.00/st	$13.75/st	$13.50/st	$14.75/st	$14.25/st	$18.00/st	$18.00/st

Source: UBS estimates

As can be seen in Table 1, the changes to UBS' forecasts for met and thermal coal are material. With roughly 30% and 60% of its 2009 and 2010 production uncontracted or unpriced (that is largely PCI coal), TECO Coal stands to see a significant uplift in earnings. Even adjusting for higher cost of production (10-15% annually), we see a significant jump in net margin from $4.5/ton in 2008 to $25/ton in both 2009 and 2010. Using our long-term normalized price forecast, we arrive at a net margin of $16/ton for 2011. Please call us for further details regarding our pricing assumptions. In addition, we use a production estimate of 11 million tons for 2009 and 11.5 million tons for 2010 and beyond. These assumptions underpin our higher EPS forecasts for TECO, which are $2.05 for 2009 (from $1.25), $2.15 in 2010 (from $1.35) and $1.75 in 2011 (from $1.45).

Raising 12-month Price Target to $21 from $17

This reflects a higher value for TECO Coal in our EV/EBITDA based sum-of-the-parts analysis. This is shown in Table 3.

Table 3: SOP Valuation for TECO

($ million except per share value)	2009E EBITDA	EV/EBITDA Multiple	Enterprise Value
Tampa Electric	545	7.0x	3,817
Peoples Gas System	95	7.0x	664
Total Utility Value			**4,481**
TECO Coal	470	4.5x	2,115
TECO Guatemala & Other Non-Regulated	75	6.5x	488
Total Non-Regulated Value			**2,603**
Total 2009 Enterprise Value			**7,084**
Less: Total Net Debt			3,093
Equity Value			**3,991**
Equity Value per Share			**19.1**
Plus: Present Value of NOLs and Synfuel Tax Credits			2.3
Total Equity Value per Share			**$21.4**

Source: UBS estimates

We ascribe an EV/EBITDA multiple of 7.0x to both Tampa Electric and Peoples Gas, which is a modest discount to other regulated integrated utilities. This reflects a persistent slowdown in Florida's economy, which is leading to muted customer growth and declining customer usage. In addition, proposed rate case filings at both utilities increases the regulatory risk, especially given that Tampa Electric has not filed a rate case since 1992 and Peoples Gas since 2002.

We ascribe a 4.5x EV/EBITDA multiple to TECO Coal that adjusts for the peak earnings the business will earn in 2009 and is in line with current valuation for Alpha Natural Resources (Neutral, PT: $76), which we believe is closest to TECO Coal in terms of location and production mix. We have included in Table 4, a comparables table for pure play coal companies. On a normalized basis, our valuation for TECO Coal reflects a 6.0x EV/EBITDA multiple on normalized EBITDA (in 2011) plus the incremental margins earned in 2009 and 2010.

Finally, we ascribe a 6.5x multiple to other non-regulated businesses, which is largely TECO Guatemala.

Using the above methodology, we arrive at a $19/share value for TECO's business segments to which we add roughly $2/share of NPV of NOLs and accumulated synfuel tax credits to arrive at our price target of $21/share for the consolidated entity.

Table 4: US Coal Company Comps

Ticker	Price	Price Target	Rating	2008E EBITDA	2009E EBITDA	2008E Cost/Ton	2008E Price/Ton	Gross Margin	2008E % Con	2009E % Con	Imp Res Life	Enterprise Value	2008E EV/EBITDA	2009E EV/EBITDA	2008E P/E	2009E P/E	2008E Debt/Cap	2009E Debt/Cap
ACI	$61.43	$67.00	Neutral	$771	$1,347	$13.44	$19.90	44%	92%	44%	12.0	$9,354	12.1	6.9	25.3	11.2	47%	32%
ANR	$73.54	$76.00	Neutral	$400	$1,173	$54.40	$71.49	31%	98%	56%	21.6	$5,623	14.1	4.8	33.0	7.5	30%	19%
BTU	$71.95	$86.00	Buy	$1,613	$3,138	$18.26	$25.63	40%	89%	58%	29.7	$22,136	13.7	7.1	29.5	10.9	52%	31%
CNX	$94.68	$125.00	Buy	$1,330	$2,847	$30.64	$47.89	56%	98%	62%	22.2	$20,849	15.7	7.3	31.2	11.2	68%	54%
FCL	$61.42	$69.00	Neutral	$337	$644	$16.07	$21.39	33%	96%	79%	22.8	$2,812	8.3	4.4	53.4	9.9	77%	62%
ICO	$9.24	$14.00	Buy	$139	$358	$42.80	$51.01	19%	95%	75%	36.9	$1,916	13.8	5.4	NM	9.4	41%	33%
JRCC	$35.48	$42.00	Buy	$58	$225	$42.06	$49.39	17%	92%	49%	10.9	$1,057	18.2	4.7	NM	8.9	65%	33%
MEE	$62.07	$63.00	Neutral	$654	$1,082	$46.60	$63.14	35%	93%	80%	25.1	$5,819	8.9	5.4	18.9	10.3	53%	24%
AVG				**$663**	**$1,352**	**$33.04**	**$43.65**	**32%**	**94%**	**63%**	**23.6**	**$8,696**	**13.1**	**5.7**	**31.9**	**9.9**	**54%**	**36%**

Note: Price as of 1:30pm on 5.27.08.
Source: Reuters and UBS estimates

■ TECO Energy Inc.

TECO Energy, headquartered in Tampa, Florida, supplies electricity and natural gas in west-central Florida as part of its regulated businesses; transports, stores, and transfers coal; operates underground and surface coal mines; and produces synthetic fuels.

■ Statement of Risk

The key risks include high debt to capital ratio; higher O&M costs at Tampa Electric to meet reliability requirements; adverse weather conditions; changes in general economic conditions; regulatory environment; commodity prices; environmental matters; and interest rates.

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Sell	Sell	7%	26%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	Buy	less than 1%	67%
Sell	Sell	less than 1%	25%

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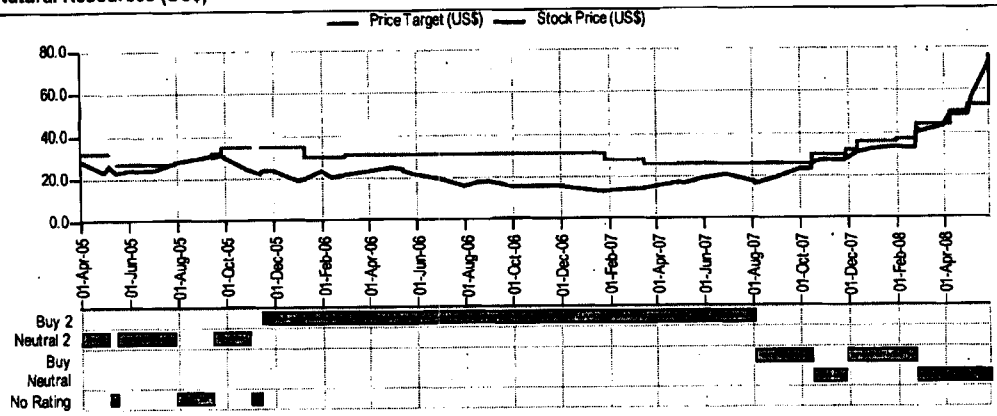
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Alpha Natural Resources[2a, 4, 5, 6a, 16]	ANR.N	Neutral	N/A	US$72.73	27 May 2008
TECO Energy Inc.[2b, 4, 5, 6b, 7, 16]	TE.N	Neutral	N/A	US$19.60	27 May 2008

Source: UBS. All prices as of local market close.
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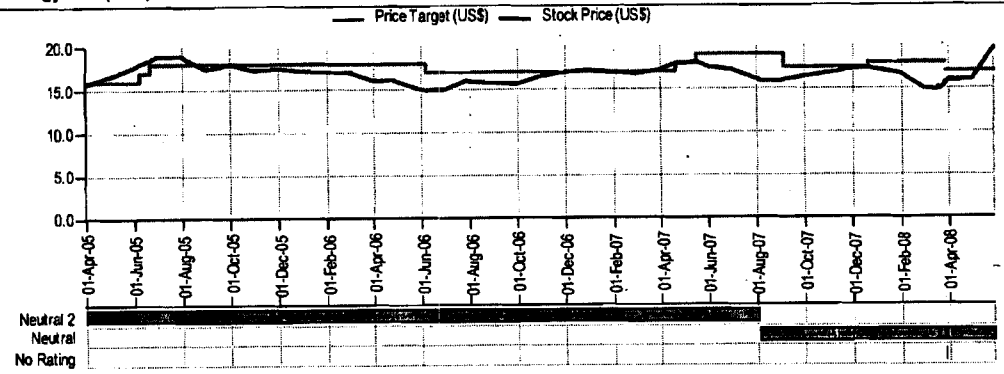
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Alpha Natural Resources (US$)



Source: UBS; as of 27 May 2008

TECO Energy Inc. (US$)



Source: UBS; as of 27 May 2008

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Additional Prices: Arch Coal, Inc., US$61.61 (27 May 2008); CONSOL Energy, Inc., US$94.69 (27 May 2008); Foundation Coal Holdings Inc., US$62.01 (27 May 2008); International Coal Group, Inc, US$9.13 (27 May 2008); James River Coal Company, US$34.53 (27 May 2008); Massey Energy Company, US$62.07 (27 May 2008); Peabody Energy Corp., US$71.92 (27 May 2008); Source: UBS. All prices as of local market close.

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Global Equity Research

Americas

Electric Utilities

UBS Investment Research

TECO Energy Inc.

12-month rating	Neutral *Unchanged*
12m price target	US$17.00 *Unchanged*
Price	US$16.66
RIC: TE.N BBG: TE US	
	30 April 2008

Trading data	
52-wk range	US$18.50-14.88
Market cap.	US$3.49bn
Shares o/s	209m (COM)
Free float	99%
Avg. daily volume ('000)	808
Avg. daily value (US$m)	12.8

Balance sheet data 12/08E	
Shareholders' equity	US$2.08bn
P/BV (UBS)	1.7x
Net Cash (debt)	(US$3.09bn)

Forecast returns	
Forecast price appreciation	+2.0%
Forecast dividend yield	4.7%
Forecast stock return	+6.7%
Market return assumption	7.4%
Forecast excess return	-0.7%

Further Signs of Weakness at the Utility

■ **1Q08 results disappoint**

TE posted a 29% drop in recurring EPS, to $0.15 from $0.21 in 1Q07. Results missed our est. of $0.20 (and the Street consensus of $0.21) due to lower earnings at the utilities led by mild weather and slower customer growth. Earnings at TECO Coal fell YoY, contrary to our expectations, driven by rising costs.

■ **A deeper and extended FL slowdown**

Mgmt maintained its 2008 EPS guidance at $0.95 - $1.10 but noted that its outlook for Tampa Electric and Peoples Gas for 2008-09 has diminished over the last month given the severity of the housing slowdown in FL. Customer growth is expected to average 0.6% in 2008 and revive to 2% growth only in 2010. This might even push out the need for generation additions by a year or two impacting the long term growth outlook at Tampa Electric.

■ **Lowering 2008 EPS estimate; Rate relief remains key**

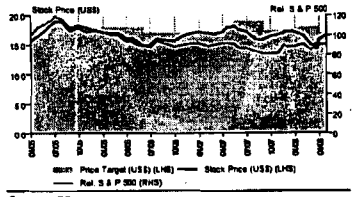
We are lowering our 2008 EPS est. to $1.02, from $1.07, as we believe TECO Coal may not be able to make up the earnings shortfall at the utilities given the rising cost pressures. We are leaving our 2009-10 EPS ests. intact and continue to monitor the timing of rate case filings at both Tampa Electric and Peoples Gas.

■ **Maintaining our $17 12-month price target and Neutral rating**

We derive our price target using an EV/EBITDA based sum-of-the-parts analysis, which implies a 13.6x PE on our 2009E EPS.

EPS (UBS, US$)	12/08E			12/07
	From	To	Cons.	Actual
Q1	0.20	0.15	0.15	0.21
Q2E	0.26	0.23	0.24	0.25
Q3E	0.40	0.38	0.36	0.38
Q4E	0.20	0.25	0.22	0.22
12/08E	1.07	1.02	*1.06*	
12/09E	1.25	1.25	*1.18*	

Performance (US$)



Source: UBS

www.ubs.com/investmentresearch

Highlights (US$m)	12/06	12/07	12/08E	12/09E	12/10E
Revenues	3,448	3,536	3,715	3,831	3,926
EBIT (UBS)	398	415	364	396	413
Net income (UBS)	234	224	213	263	283
EPS (UBS, US$)	1.12	1.07	1.02	1.25	1.35
Net DPS (UBS, US$)	0.76	0.78	0.79	0.81	0.83

Profitability & Valuation	5-yr hist av.	12/07	12/08E	12/09E	12/10E
EBIT margin %	11.6	11.7	9.8	10.3	10.5
ROIC (EBIT) %	10.2	10.4	8.6	8.5	8.2
EV/EBITDA (core) x	10.1	9.6	9.6	8.9	8.5
PE (UBS) x	13.8	15.8	16.3	13.3	12.4
Net dividend yield %	5.5	4.6	4.8	4.9	5.0

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year. (E): based on a share price of US$16.66 on 29 Apr 2008 19:53 EDT

Ronald J. Barone
Analyst
ronald.barone@ubs.com
+1-212-713 3848

Shalini Mahajan, CFA
Analyst
shalini.mahajan@ubs.com
+1-212-713 2491

Julien Dumoulin-Smith
Associate Analyst
julien.dumoulin-smith@ubs.com
+1 212 -713 9848

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TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
SUPPLEMENTAL: DECEMBER 31, 2008

■ TECO Energy Inc.

TECO Energy, headquartered in Tampa, Florida, supplies electricity and natural gas in west-central Florida as part of its regulated businesses; transports, stores, and transfers coal; operates underground and surface coal mines; and produces synthetic fuels.

■ Statement of Risk

The key risks include high debt to capital ratio; higher O&M costs at Tampa Electric to meet reliability requirements, adverse weather conditions; changes in general economic conditions; regulatory environment; commodity prices; environmental matters; and interest rates.

■ Analyst Certification

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	Buy	59%	38%
Neutral	Hold/Neutral	34%	35%
Sell	Sell	7%	26%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	Buy	less than 1%	67%
Sell	Sell	less than 1%	25%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 March 2008.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).
Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.
Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are :
Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.
Core Banding Exceptions (CBE) : Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

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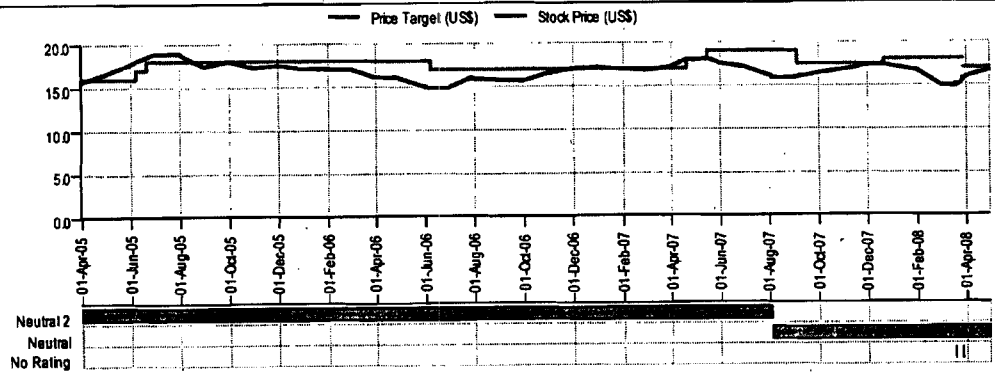
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
TECO Energy Inc.[2, 4, 5, 6, 7, 16]	TE.N	Neutral	N/A	US$16.66	29 Apr 2008

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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TECO Energy Inc. (US$)



Source: UBS; as of 29 Apr 2008

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
SUPPLEMENTAL: DECEMBER 31, 2008

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Electric Utilities

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TECO Energy Inc.

12-month rating	**Neutral** *Unchanged*
12m price target	US$17.00 *Prior:US$18.00*
Price	US$15.77

RIC: TE.N BBG: TE US

27 March 2008

Analyst Day Delivers Mixed Bag

■ **Presentation shows utilities' slowdown partially offset by TECO Coal**

TECO presented this morning to analysts in NY presenting a generally positive tone with coal and LT growth at Tampa Elec. Mgmt upped coal production for '08 and '09 to 10.5 and 11.0-.5 Mn tons, respectively, and confirmed our expected doubling of margins in '09. However, near term results are tempered by continued lower customer usage and growth resulting from a prolonged economic downturn in FL, and a delay in regulatory relief until 1H09.

■ **We are lowering our PT to $17 from $18; Maintaining estimates**

Our reduced PT represents a discount to the peer group to account for volatile coal margins, higher regulatory risk, uncertainty over the timing and amount of capital investments, and our increased concern with the FL economy.

■ **Rate cases and capital investments are key to utility growth**

Going into rates cases at Tampa Electric, People's Gas, and TECO Guatemala, we believe regulatory risk will provide a material overhang to valuation. A resolution to TECO Guatemala is expected mid-summer. TECO is planning to file an RFP for a 520MW (est ~$555 Mn.) baseload CC unit this year, pursuant to FL law. Further potential investments include new peakers for 2011-12 (est. at ~$320 Mn).

■ **Valuation: Reduced PT reflects discount to peer group**

Our new price target implies a PE of 13.6x on our 2009E EPS and is derived using an EV/EBITDA SOP model; this compares against our regulated group's average implied PE of ~15.0x.

Trading data	
52-wk range	US$18.50-14.88
Market cap.	US$3.30bn
Shares o/s	209m (COM)
Free float	99%
Avg. daily volume ('000)	834
Avg. daily value (US$m)	13.3

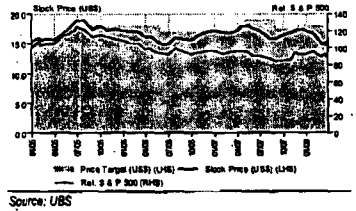
Balance sheet data 12/08E	
Shareholders' equity	US$2.09bn
P/BV (UBS)	1.6x
Net Cash (debt)	(US$3.08bn)

Forecast returns	
Forecast price appreciation	+7.8%
Forecast dividend yield	5.0%
Forecast stock return	+12.8%
Market return assumption	6.6%
Forecast excess return	+6.2%

EPS (UBS, US$)

	12/08E			12/07
	From	To	Cons.	Actual
Q1E	0.21	0.21	0.21	0.21
Q2E	0.26	0.26	0.25	0.25
Q3E	0.40	0.40	0.37	0.38
Q4E	0.20	0.20	0.22	0.22
12/08E	1.07	1.07	*1.06*	
12/09E	1.25	1.25	*1.18*	

Performance (US$)



Source: UBS

www.ubs.com/investmentresearch

Highlights (US$m)	12/06	12/07	12/08E	12/09E	12/10E
Revenues	3,448	3,536	3,725	3,841	3,931
EBIT (UBS)	398	415	373	406	418
Net income (UBS)	234	224	223	263	282
EPS (UBS, US$)	1.12	1.07	1.07	1.25	1.35
Net DPS (UBS, US$)	0.76	0.78	0.79	0.81	0.83
Profitability & Valuation	**5-yr hist av.**	**12/07**	**12/08E**	**12/09E**	**12/10E**
EBIT margin %	11.6	11.7	10.0	10.6	10.6
ROIC (EBIT) %	10.2	10.4	8.8	8.7	8.3
EV/EBITDA (core) x	10.1	9.6	9.2	8.5	8.2
PE (UBS) x	13.8	15.8	14.8	12.6	11.7
Net dividend yield %	5.5	4.6	5.0	5.2	5.3

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year. (E): based on a share price of US$15.77 on 27 Mar 2008 15:58 EDT

Ronald J. Barone
Analyst
ronald.barone@ubs.com
+1-212-713 3848

Shalini Mahajan, CFA
Analyst
Shalini.Mahajan@ubs.com
+1-212-713 2491

Julien Dumoulin-Smith
Associate Analyst
julien.dumoulin-smith@ubs.com
+1 212 -713 9848

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The key risks include high debt to capital ratio; higher O&M costs at Tampa Electric to meet reliability requirements, adverse weather conditions; changes in general economic conditions; regulatory environment; commodity prices; environmental matters; and interest rates.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	Buy	55%	39%
Neutral	Hold/Neutral	36%	36%
Sell	Sell	8%	20%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	Buy	less than 1%	25%
Sell	Sell	less than 1%	50%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
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Source: UBS. Rating allocations are as of 31 December 2007.

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Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

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Company Disclosures

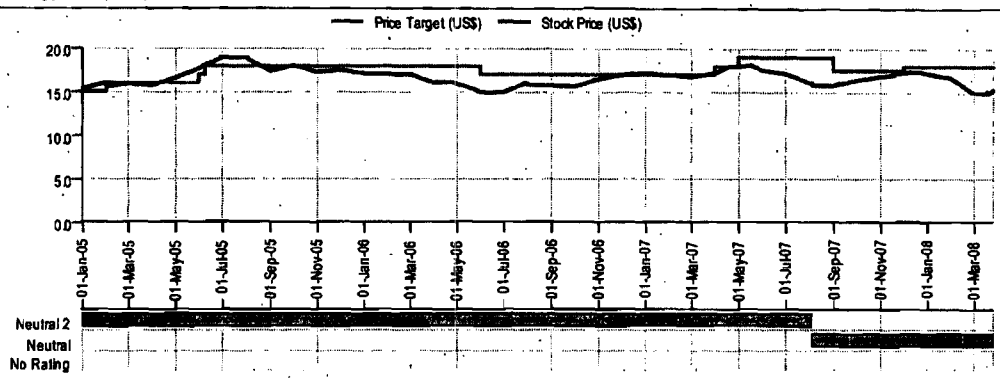
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
TECO Energy Inc.[2, 4, 5, 6, 7, 16]	TE.N	Neutral (UR)	N/A	US$15.31	26 Mar 2008

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

TECO Energy Inc. (US$)



Source: UBS; as of 26 Mar 2008

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
SUPPLEMENTAL: DECEMBER 31, 2008

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UBS

Global Equity Research

Americas

Electric Utilities

UBS Investment Research

TECO Energy Inc.

12-month rating	Neutral *Unchanged*
12m price target	US$18.00 *Unchanged*
Price	US$16.43
RIC: TE.N BBG: TE US	

5 February 2008

2008 EPS Guidance Misses Street's Ests.

■ **TE posts strong 4Q07 results**

TECO realized a 28% increase in 4Q EPS (excl. synfuel), to $0.23 from $0.18 in 4Q06, beating our $0.20 est. and $0.19 consensus est. Lower interest expense led by debt reduction and higher earnings at Tampa Electric due to higher electric sales and lower property taxes, O&M and depreciation aided the quarter. Partial offsets included modestly lower results at Peoples Gas and TECO Coal. For 2007, TE posted a 10% increase in EPS, to $1.07 from $0.97 in 2006.

■ **2008 EPS guidance of $0.95 - $1.10 misses consensus estimate of $1.12**

The guidance reflects unchanged results at the two utilities; lower interest expense, and marginally higher results at TECO Coal (since a majority of the output was contracted prior to the recent spike in coal prices). Offsets include lower results at TECO Guatemala and the absence of TECO Transport earnings. Note, the guidance does not reflect an extended housing slowdown or recession. We are keeping our 2008/09 EPS ests. at $1.07/$1.25 and introducing 2010 est. at $1.35.

■ **Post 2008 outlook tied to coal prices and rate relief at the utilities**

Post a flat 2008, the EPS growth in 2009 (and beyond) depends largely on coal prices given ~60% of expected coal production in is still uncontracted. The rate relief at Tampa Electric and Peoples Gas will also be key; mgmt. has indicated it intends to file rate cases for both but the timing of that is still uncertain.

■ **Valuation: Maintaining 12-Month Price Target of $18**

We derive our price target using an EV/EBITDA based sum-of-the-parts analysis. This implies a 16.8x PE on our 2008E EPS and a 14.4x PE on our 2009E EPS.

Trading data	
52-wk range	US$18.50-15.13
Market cap.	US$3.44bn
Shares o/s	209m (COM)
Free float	99%
Avg. daily volume ('000)	718
Avg. daily value (US$m)	12.2

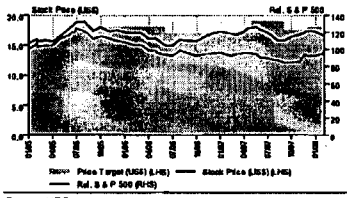
Balance sheet data 12/08E	
Shareholders' equity	US$1.88bn
P/BV (UBS)	1.8x
Net Cash (debt)	(US$3.40bn)

Forecast returns	
Forecast price appreciation	+9.6%
Forecast dividend yield	4.8%
Forecast stock return	+14.4%
Market return assumption	7.1%
Forecast excess return	+7.3%

EPS (UBS, US$)

	12/08E			12/07
	From	To	Cons.	Actual
Q1E	0.21	0.21	0.21	0.21
Q2E	0.26	0.26	0.26	0.25
Q3E	0.40	0.40	0.40	0.38
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Valuations: based on an average share price that year, (E): based on a share price of US$16.43 on 05 Feb 2008 18:21 EST

Ronald J. Barone
Analyst
ronald.barone@ubs.com
+1-212-713 3848

Shalini Mahajan, CFA
Analyst
Shalini.Mahajan@ubs.com
+1-212-713 2491

Julien Dumoulin-Smith
Associate Analyst
julien.dumoulin-smith@ubs.com
+1 212 -713 9848

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4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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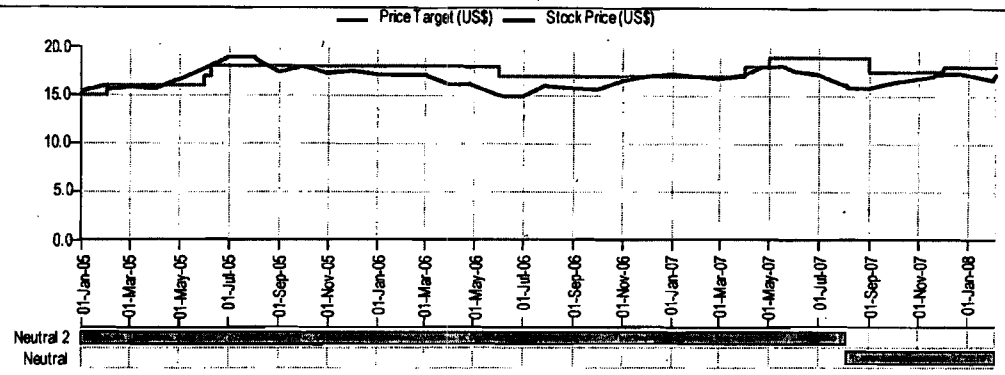
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
TECO Energy Inc.[2, 4, 5, 6, 7, 16]	TE.N	Neutral	N/A	US$17.25	04 Feb 2008

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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TECO Energy Inc. (US$)



Source: UBS; as of 04 Feb 2008

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TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008
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ValuEngine™ DETAILED RESEARCH REPORT

TECO ENERGY INC(TE)

Nov. 07, 2008

VALUENGINE RECOMMENDATION & BASIC INFORMATION

RECOMMENDATION		
negative	neutral	positive
SELL	HOLD	BUY

VALUENGINE RATING

VVV

RECOMMENDATION FACTORS	Value	Rank
Overall Rank		top 18%
Fair Value	$19.71	btm 43%
1Yr Target Price	$13.19	top 27%
P/E Ratio	13.28	top 44%
Last 1-Y Return	-27.77%	top 29%
Market Cap(bil)	$2.53	top 13%

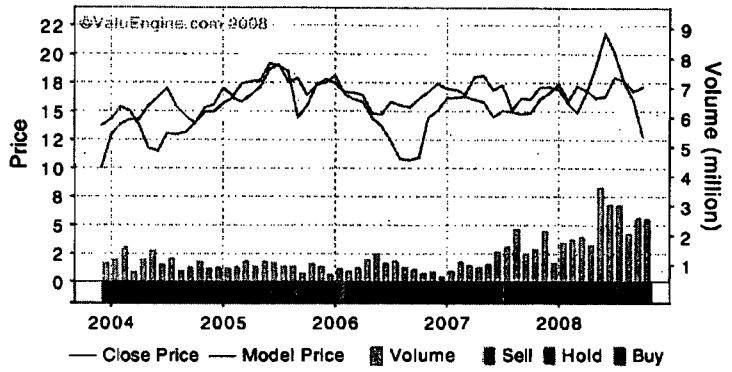
BASIC INFORMATION	
Last Trade	$11.91
Trade Date	11/06/08
Market Cap(bil)	$2.53371
Trailing P/E	13.28
Forward P/E	8.48
PEG Ratio	0.23
P/S Ratio	0.73
M/B Ratio	1.24
Sharpe Ratio	-0.05
5-Y Avg Ann Return	-1.21%
Volatility	25.40%
EPS Growth	56.63%
Annual Dividend	$0.80
Dividend Yield	6.72%
LT Debt/Equity	1.57
Beta	0.88

VALUATION ANALYSIS	
TE	Today's Fair value: $19.71 39.57% undervalued
Industry	Electrical Utilities 31.41% undervalued
Sector	Public Utilities 33.05% undervalued

FORECAST ANALYSIS	Target Price	Exp Return
1-Month	$12.02	0.93%
3-Month	$12.14	1.94%
6-Month	$12.47	4.69%
1-Year	$13.19	10.73%
2-Year	$13.61	14.30%
3-Year	$13.97	17.28%

Contact ValuEngine:

ValuEngine, Inc.
100 Overlook Center, 2nd Floor
Princeton, NJ 08540, U.S.A.
(800) 381-5576 (T)
support@ValuEngine.com
www.ValuEngine.com



VALUENGINE RECOMMENDATION

ValuEngine has issued a HOLD recommendation for TECO ENERGY INC on Nov. 07, 2008. Based on the information we have gathered and our resulting research, we feel that TECO ENERGY INC has the probability to ROUGHLY MATCH average market performance for the next year. The company exhibits ATTRACTIVE volatility and company size, but UNATTRACTIVE market/book ratio and market valuation.

RATING OVERVIEW

The ValuEngine Rating is an overall assessment of a stock's attractiveness. It combines the following five factors:

1. Fair market valuation
2. 1 year forecasted returns
3. Price/Earnings ratio
4. Momentum
5. Market capitalization

Only two percent of the over 4,000 stocks that we cover receive the highest 5 rating. The ratings are the result of the cumulative of the above factors. As such, stocks with relatively poor results for any one of the five variables can still be attractive if the other four factors are strong enough. Top 5 rated stocks can be expected to outperform the overall market by 15% or more, with average annualized returns from Jan. 2000 through Jan. 2006 of over 30% per year.

FAIR MARKET VALUATION PRICE

Based on available data as of Nov. 07, 2008, we believe that TE should be trading at $19.71. This makes TE 39.57% undervalued. Fair Value indicates what we believe the stock should be trading at today if the stock market were perfectly efficient and everything traded at its true worth. For TE, we base this on actual earnings per share (EPS) for the previous four quarters of $0.90, forecasted EPS for the next four quarters of $1.40, and correlations to the 30-year Treasury bond yield of 4.20%. There are an additional 10 firm specific and interest rate related parameters, each playing a role in the valuation analysis.

FORECASTED TARGET PRICES

The predictive variables used in Valuengine's forecast target price models include both proprietary and well-established forecasting variables derived from credible financial research studies and publications. Our forecasting models capture, among other things, several important tendencies that stock prices consistently exhibit: Short-term price reversals, Intermediate-term momentum continuation, and Long-term price reversals. We use a distinct forecasting model for each time horizon and for every industry. We then apply the most advanced statistical/econometric techniques to ensure that our stock return forecasts are as reliable as possible.

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ValuEngine™ DETAILED RESEARCH REPORT
TECO ENERGY INC(TE)

DATA SUMMARY & MARKET RATIO BASED VALUATION

OPTIMAL BUY-SELL

Based solely on the Historical Mispricing of TE, the best time to buy would be below $18.33 (or valuation below -7.00%). The best time to sell would be above $26.21 (or valuation above 33.00%).

EVALUATION & RANKINGS

	Value	Rank
Valuation	-39.57%	43
12-Month Return	-27.77%	72
5-Y Avg Ann Rtn	-1.21%	64
Volatility	25.40%	89
EPS Growth	56.63%	76
Market Cap(bill)	2.53	88
Sharpe Ratio	-0.05	64
P/S Ratio	0.73	57
M/B Ratio	1.24	38
P/E Ratio	13.28	57

EVALUATION & RANKINGS SUMMARY

Just as important as the percentages shown for our ten predictive variables for each stock is the way they are ranked against the 7000 plus stocks in our database. This is sometimes confusing to newcomers to ValuEngine. Each of these quantitative measurements is ranked on a scale of 1 to 100. Generally the higher the ranking, the more positive the influence each measurement has on the overall attractiveness of the stock. In other words a high rank is always better. Let's take them one by one:

- Valuation rank 43: 57% of stocks are more undervalued
- Momentum rank 72: 28% of stocks have higher momentum
- Sharpe Ratio rank 64: 36% of stocks have a higher Sharpe Ratio
- 5-Year Average Annual Return 64: 36% of stocks have higher average annual return
- Volatility rank 89: 11% of stocks have less volatility
- EPS growth rank 76: 24% of stocks have greater projected EPS growth
- Size rank 88: 12% of companies have higher market capitalization
- P/E rank 57: 43% of stocks have lower P/E ratios
- Price/Sales rank 57: 43% of stocks have lower price/sales ratios
- Market/Book rank 38: 62% of stocks have lower market/book value ratios

MARKET RATIO BASED VALUATION

Portfolio managers and professionals traditionally rely on market ratios to gauge whether a stock is fair valued or overvalued. On this page, we present such a valuation based on one of three market ratios: PEG (price to trailing 4 quarter earnings ratio, divided by the consensus analyst forecasted next year EPS growth), P/E (price to forward 4 quarter earnings ratio), and P/S ratio (price to trailing 4 quarter sales). Among the three, PEG is the most informative as it reflects both the price/earnings ratio and expected future EPS growth, while P/E is better than P/S. For each given stock, we apply the PEG to give a fair value assessment if both its trailing 4 quarter EPS and forecasted EPS growth rate are positive. If its forecasted EPS growth is negative but its forward 4 quarter EPS is positive, we apply the P/E to give a fair value for the stock as of today. Otherwise, we resort to the P/S to assess its fair value.

To establish a valuation standard, we use both (i) the average historical market ratio of the stock over the past 10 years (or however long there is data available for the stock), and (ii) the average market ratio today of five comparable stocks in the same sector and from companies of similar size. These two alternative perspectives should give you a good idea about where this stock's valuation stands today.

1. Valuation Based on TE's Past PEG

Over the past 10 years, TE's average PEG is 1.91. TE earned $0.90 per share in its recent 4 quarters. The analyst consensus estimate is $1.40 for its 4 quarter forward EPS. TE's current sales per share is 0.73. The following assessment is based on multiplying the historical PEG with recent 4 quarter EPS and the forecasted EPS growth rate over the next 4 quarters for TE.

Fair Value	
Historical Average PEG	1.91
PEG-Based Fair Value	$96.95

2. Valuation Based on Comparables' PEG

TE's comparables are CMS, DPL, HE, OGE and RWEOY. The current PEG average of these comparables is 1.64. TE earned $0.90 per share in its recent 4 quarters. The analyst consensus estimate is $1.40 for its 4-quarter-forward EPS. TE's current sales per share is 0.73. The following assessment is based on multiplying comparable stocks' average PEG today with TE's recent 4 quarter EPS and the forecasted EPS growth rate over the next 4 quarters .

Comparables' PEG

Comparables	Current PEG
CMS	0.63
DPL	1.44
HE	n/a
OGE	4.08
RWEOY	0.41

Fair Value	
Comparable Stocks' Avg PEG	1.64
Comparable PEG-Based Fair Value	$83.52

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ValuEngine™ DETAILED RESEARCH REPORT
TECO ENERGY INC(TE)

COMPANY ANALYSIS

TECO Energy, Inc., through its subsidiaries, engages in the generation, purchase, transmission, distribution and sale of electric energy.

The company's subsidiary, Tampa Electric Company, has two business segments: Tampa Electric division and Peoples Gas System.

Tampa Electric division
Tampa Electric division (Tampa Electric) provides retail electric service to approximately 668,000 customers in West Central Florida with a net winter system generating capability of 4,602 megawatts (MW).

The retail territory served comprises an area of approximately 2,000 square miles in West Central Florida, including Hillsborough County and parts of Polk, Pasco and Pinellas Counties. The principal communities served are Tampa, Winter Haven, Plant City and Dade City. In addition, Tampa Electric engages in wholesale sales to utilities and other resellers of electricity. It has three electric generating stations in or near Tampa, one electric generating station in southwestern Polk County, Florida and one electric generating station located near Sebring, a city located in Highlands County in South Central Florida.

Peoples Gas System
Peoples Gas System (PGS), the gas division of Tampa Electric Company, engages in the purchase, distribution and sale of natural gas for residential, commercial, industrial and electric power generation customers in Florida. With approximately 334,000 customers, PGS has operations in Florida's major metropolitan areas. Annual natural gas throughput in 2007 was 1.4 billion therms.

TECO Coal Corporation
TECO Coal Corporation (TECO Coal) has 13 subsidiaries, located in Eastern Kentucky, Tennessee and Virginia. These entities own interests in coal processing and loading facilities, mineral rights, own or operate surface and underground mines, and owned synthetic fuel production facilities.

TECO Coal subsidiaries operate 23 underground mines which employ the room and pillar mining method and 14 surface mines. In 2007, TECO Coal subsidiaries sold 9.2 million tons of coal. As of December 31, 2007, the TECO Coal operating companies had a combined estimated 277.1 million tons of proven and probable recoverable reserves.

TECO Coal has four mining complexes, all operating in Kentucky with a portion of Clintwood Elkhorn Mining Company operating in Virginia. Its projects include Perry County Coal, Premier Elkhorn Coal, and Premier Elkhorn Coal.

TECO Guatemala
TECO Guatemala, Inc. (TECO Guatemala) has investments in unconsolidated subsidiaries that participate in two long-term contracted power plants and has an ownership interest in Distribucion Electrica CentroAmericana II, S.A. (DECA II), which has an ownership interest in Guatemala's distribution utility, Empresa Electrica de Guatemala, S.A. (EEGSA) and affiliated energy-related companies.

TECO Guatemala indirectly owns 100% of Central Generadora Electrica San Jose, Limitada (CGESJ), the owner of a project located in Guatemala, which consists of a single-unit pulverized-coal baseload facility (the San Jose Power Station).

Tampa Centro Americana de Electricidad, Limitada (TCAE), an entity 96.06% owned by TPS Guatemala One, Inc., a subsidiary of TECO Guatemala, and the owner of a natural gas-powered facility (the Alborada Power Station).

Discontinued operations
In December 2007, the company sold TECO Transport Corporation (TECO Transport), a Florida corporation.

Significant Events
TECO Energy, Inc., in July 2008, announced the formation of a new subsidiary, SeaCoast Gas Transmission, LLC, to develop and own a high-volume Florida intrastate natural gas transmission pipeline.

History
TECO Energy, Inc. was founded in 1899.

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TECO ENERGY INC(TE)

VALUENGINE RANKINGS

Just as important as the percentages shown for our ten predictive variables for each stock is the way they are ranked against the 7000 plus stocks in our database. Each of these quantitative measurements is ranked on a scale of 1 to 100. Generally the higher the ranking, the more positive the influence each measurement has on the overall attractiveness of the stock. In other words a high rank is always better. The below data points show how the rank for each data point for TE relates to the overall industry, sector, and S&P 500 averages.

Valuation		Rank
TE	-39.57%	43
Industry	-31.41%	35
Sector	-33.05%	39
S&P 500	-32.74%	33

The ValuEngine Valuation Rank measures the relationship between a company's stock price and its Fair Value. The higher the Valuation rank, the more undervalued the stock. With a Valuation Rank of 43, TE is in line with the average of its industry group, which carries a Valuation Rank of 35.

12-Month Return		Rank
TE	-27.77%	72
Industry	-32.33%	64
Sector	-37.91%	57
S&P 500	-40.48%	57

The ValuEngine 12-Month Return Rank reflects the relative stock performance of a stock over the recent 12 months. On a scale of 1 to 100, a higher 12-Month Return rank indicates a stronger performance. With a 12-Month Return Rank of 72, TE is in line with the industry's rank score of 64.

5-Y Avg Ann Rtn		Rank
TE	-1.21%	64
Industry	4.02%	71
Sector	-1.27%	64
S&P 500	-2.83%	60

The ValuEngine 5-Years Average Return Rank reflects a stock's average annual return over the last 5 years, in comparison with the coverage universe. A higher rank indicates a better return performance. With a rank of 64, TE is in line with the industry, which has a rank of 71.

Volatility		Rank
TE	25.40%	89
Industry	36.80%	77
Sector	43.53%	69
S&P 500	16.65%	99

The ValuEngine Volatility Rank reflects the volatility associated with the stock. A higher Volatility Rank indicates a lower volatile percentile of stocks. TE has a Volatility Rank of 89, which is slightly higher than the industry Rank of 77.

EPS Growth		Rank
TE	56.63%	76
Industry	21.16%	41
Sector	22.52%	42
S&P 500	10.61%	39

The ValuEngine EPS Growth Rank indicates a stock's expected EPS growth rate. A high rank indicates a high growth rate expectation. TE has an EPS Growth Rank of 76.This is significantly higher than the industry rank of 41.

Market Cap(bil)		Rank
TE	2.53	88
Industry	5.8	79
Sector	7.05	74
S&P 500	n/a	n/a

The ValuEngine Size rank signifies the company's size in terms of market capitalization. A higher rank denotes a larger market capitalization within ValuEngine's stock universe. With a Size rank of 88, TE is in line with the industry, which has a rank of 79.

Sharpe Ratio		Rank
TE	-0.05	64
Industry	0.13	72
Sector	0.01	65
S&P 500	-0.17	55

The ValuEngine Sharpe Ratio Rank measures the risk return tradeoff offered by a stock. Sharpe ratio is the stock's average annual return (over the last five years) divided by its annualized volatility over the same 5 years. With a rank of 64, TE is in line with the industry, which has a rank of 72.

P/S Ratio		Rank
TE	0.73	57
Industry	1.03	54
Sector	1.31	54
S&P 500	n/a	n/a

The ValuEngine Price/Sales rank signifies the relative position of the company based on its P/S ratio. Stocks with the lowest P/S ratio are assigned a rank of 100 while stocks with the highest P/S ratio are ranked 1. At a Price/Sales rank of 57, TE is in line with the industry rank of 54.

M/B Ratio		Rank
TE	1.24	38
Industry	1.45	42
Sector	1.88	42
S&P 500	n/a	n/a

The Market/Book Rank is a measure of a stock's market to book ratio relative to the stock universe. A higher rank corresponds to a lower market book value. TE has a Market/Book rank of 38, which is in line with the industry rank of 42.

P/E Ratio		Rank
TE	13.28	57
Industry	12.62	59
Sector	13.8	57
S&P 500	11.79	62

The ValuEngine P/E Rank signifies the relative standing of a company on its P/E ratio, relative to the universe. Stocks in the top P/E percentile are each assigned a rank of 1(highest P/E stocks) while those in the bottom P/E percentile are assigned a rank of 100 (traditional value stocks). With a P/E rank of 57, TE is in line with the industry P/E rank of 59.

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TECO ENERGY INC(TE)

COMPARISON OF SIMILAR STOCKS* & RISK ASSESSMENT

Valuation		Rank
TE	-39.57%	43
DPL	-29.05%	28
RWEOY	-37.46%	40
OGE	-31.70%	31
CMS	-42.15%	46

12-Month Return		Rank
TE	-27.77%	72
DPL	-27.43%	72
RWEOY	-38.00%	61
OGE	-27.14%	73
CMS	-39.64%	59

5-Y Avg Ann Rtn		Rank
TE	-1.21%	64
DPL	1.95%	70
RWEOY	16.72%	93
OGE	1.86%	70
CMS	4.93%	77

Volatility		Rank
TE	25.40%	89
DPL	17.63%	99
RWEOY	30.75%	80
OGE	23.28%	93
CMS	27.59%	85

EPS Growth		Rank
TE	0.57	76
DPL	0.07	32
RWEOY	0.22	56
OGE	0.02	25
CMS	0.13	44

Market Cap(bill)		Rank
TE	2.53	88
DPL	2.39	88
RWEOY	2.68	89
OGE	2.36	88
CMS	2.22	87

Sharpe Ratio		Rank
TE	-0.05	64
DPL	0.11	76
RWEOY	0.54	95
OGE	0.08	73
CMS	0.18	80

P/S Ratio		Rank
TE	0.73	57
DPL	1.51	37
RWEOY	0.04	97
OGE	0.54	65
CMS	0.34	76

M/B Ratio		Rank
TE	1.24	38
DPL	2.47	16
RWEOY	0.16	96
OGE	1.28	37
CMS	0.85	54

P/E Ratio		Rank
TE	13.28	57
DPL	10.19	68
RWEOY	9.02	73
OGE	9.98	69
CMS	8.43	76

FORECAST COMPARISONS

RETURN FORECAST: EXPECTED RETURN

	CMS	DPL	OGE	RWEOY	TE
One-Month	1.28%	0.91%	0.96%	0.23%	0.93%
Three-Month	4.25%	3.08%	3.10%	2.17%	1.94%
Six-Month	9.79%	7.31%	7.73%	8.60%	4.69%
One-Year	20.66%	15.40%	16.39%	20.82%	10.73%
Two-Year	27.85%	22.05%	22.61%	26.18%	14.30%
Three-Year	37.17%	27.59%	24.31%	23.78%	17.28%

RISK ASSESSMENT: CHANCE OF GAIN

	CMS	DPL	OGE	RWEOY	TE
One-Month	56.37%	57.12%	55.68%	51.04%	55.04%
Three-Month	62.09%	63.66%	60.51%	55.61%	56.08%
Six-Month	69.22%	72.11%	68.06%	65.38%	60.30%
One-Year	77.30%	80.88%	75.92%	75.08%	66.37%
Two-Year	76.23%	81.17%	75.39%	72.64%	65.47%
Three-Year	78.17%	81.69%	72.67%	67.24%	65.28%

RISK ASSESSMENT: CHANCE OF LOSS

	CMS	DPL	OGE	RWEOY	TE
One-Month	43.63%	42.88%	44.32%	48.96%	44.96%
Three-Month	37.91%	36.34%	39.49%	44.39%	43.92%
Six-Month	30.78%	27.89%	31.94%	34.62%	39.70%
One-Year	22.70%	19.12%	24.08%	24.92%	33.63%
Two-Year	23.77%	18.83%	24.61%	27.36%	34.53%
Three-Year	21.83%	18.31%	27.33%	32.76%	34.72%

*** Comparables are companies in the same Sector and Industry and of approximately similar market capitalization value.**

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TECO ENERGY INC(TE)

ANNUAL FINANCIALS - BALANCE SHEET (millions)

	2007-12	2006-12	2005-12	2004-12	2003-12	2002-12	2001-12	2000-12
Cash and Equivalents	162.6	441.6	345.7	96.7	108.2	411.1	120.2	99.6
TOTAL CASH & SHORT TERM INVEST	**162.6**	**441.6**	**345.7**	**96.7**	**108.2**	**411.1**	**120.2**	**99.6**
Accounts Receivable	295.9	338.3	323.3	286.8	280.4	422.7	348.1	360.3
Other Receivables	0.7	--	--	--	--	--	--	--
Notes Receivable	--	--	--	--	--	235.1	92.7	223.1
TOTAL RECEIVABLES	**296.6**	**338.3**	**323.3**	**286.8**	**280.4**	**657.8**	**440.8**	**583.4**
INVENTORIES	**154**	**159.6**	**153.8**	**120.8**	**170.7**	**209.8**	**170.5**	**144.5**
Prepaid Expenses	23	46.1	51.5	43.6	68.6	42.9	44.4	22.4
Other Current Assets	153.6	300.1	397.9	189.7	241.9	1.6	--	--
TOTAL CURRENT ASSETS	**789.8**	**1285.7**	**1272.2**	**737.6**	**869.8**	**1323.2**	**775.9**	**849.9**
Gross Property Plant and Equip	6893.8	7084.1	6754.5	6723.4	8040.2	8215.3	7543.5	6560.4
Accumulated Depreciation	-2005.6	-2317.2	-2187.6	-2065.5	-2361.2	-2751.3	-2705.2	-2590.3
NET PROPERTY, PLANT AND EQUIP	**4888.2**	**4766.9**	**4566.9**	**4657.9**	**5679**	**5464**	**4838.3**	**3970.1**
Long-term Investments	298.4	300.9	305.1	271	360	994.5	383.3	378.8
Goodwill	59.4	59.4	59.4	59.4	71.2	193.7	165.8	--
Deferred Tax Assets, LT	424.9	630.2	735.7	1379.1	1051.5	340.2	242	116.3
Deferred Charges, LT	302.6	318.6	217.9	312.4	353.4	322.2	316.8	361.1
Other Long Term Assets	1.9	0.1	12.9	2059.1	2077.4	--	--	--
TOTAL ASSETS	**6765.2**	**7361.8**	**7170.1**	**9476.5**	**10462.3**	**8637.8**	**6722.1**	**5676.2**
Accounts Payable	302.1	326.5	354.7	257.8	313.8	377.4	267.4	274.8
Accrued Expenses	65.9	75.8	84.9	86.9	206.5	145.7	107.3	96.4
Short-term Borrowings	25	48	215	115	37.5	360.5	638.9	1208.9
Other Current Liabilities	217.5	260.7	264.1	1749.1	1657.8	98.5	119.8	82.4
TOTAL CURRENT LIABILITIES	**617.6**	**1350.4**	**925.9**	**2222.4**	**2247.2**	**1109.2**	**1922.2**	**1899.8**
Long Term Debt	3158.4	3212.6	3709.2	3880	4392.6	3973.4	2042.5	1574.6
Minority Interest	--	--	--	2.9	1.9	--	--	--
Deferred Tax Liability Non-Current	12.2	--	--	504.1	498	495	498.7	445.2
Other Non-Current Liabilities	960	1069.8	943.3	1583.2	1644.9	448.5	287.1	249.7
TOTAL LIABILITIES	**4748.2**	**5632.8**	**5578.4**	**8192.6**	**8784.6**	**6026.1**	**4750.5**	**4169.3**
Common Stock	210.9	209.5	208.2	199.7	187.8	175.8	139.6	133.3
Additional Paid In Capital	1489.2	1466.3	1527	1489.4	1220.8	1094.5	600.7	397.3
Retained Earnings	334.1	83.7	-83.1	-357.6	339.5	1413.7	1298	1177.1
Treasury Stock	--	--	--	--	--	--	--	144.7
Comprehensive Income and Other	-17.2	-30.5	-60.4	-47.6	-70.4	-72.3	-66.7	-56.1
TOTAL COMMON EQUITY	**2017**	**1729**	**1591.7**	**1283.9**	**1677.7**	**2611.7**	**1971.6**	**1506.9**
TOTAL EQUITY	**2017**	**1729**	**1591.7**	**1283.9**	**1677.7**	**2611.7**	**1971.6**	**1506.9**
TOTAL LIABILITIES AND EQUITY	**6765.2**	**7361.8**	**7170.1**	**9476.5**	**10462.3**	**8637.8**	**6722.1**	**5676.2**

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TECO ENERGY INC(TE)

ANNUAL FINANCIALS - INCOME STATEMENT (millions)

	2007-12	2006-12	2005-12	2004-12	2003-12	2002-12	2001-12	2000-12
Revenues	3536.1	3448.1	3010.1	2669.1	2740	2675.8	2648.6	2295.1
TOTAL REVENUES	**3536.1**	**3448.1**	**3010.1**	**2669.1**	**2740**	**2675.8**	**2648.6**	**2295.1**
Cost Of Goods Sold	2845.5	2768.4	2368	2124.4	2101.5	1983.4	1928.1	1613.3
GROSS PROFIT	**690.6**	**679.7**	**642.1**	**544.7**	**638.5**	**692.4**	**720.5**	**681.8**
Stock-Based Compensation	11.6	--	--	--	--	--	--	--
Depr. and Amortization	263.7	282.2	282.2	282.3	289.4	303.4	298	268.2
OPERATING INCOME	**415.3**	**397.5**	**359.9**	**262.4**	**349.1**	**389**	**422.5**	**413.6**
Interest Expense	-259.5	-279.4	-288.7	-321.9	-328.3	-186	-183.4	-167.6
NET INTEREST EXP.	**-259.5**	**-279.4**	**-288.7**	**-321.9**	**-328.3**	**-186**	**-183.4**	**-167.6**
Income/(Loss) from Affiliates	**68.5**	**58.9**	**60.4**	**36.1**	**-0.4**	**-6**	**6.7**	**--**
Other Non-Oper. Inc. (Exp.)	118.2	3.8	--	52.1	141.9	106.3	57.7	12.5
EBT EXCL. UNUSUAL ITEMS	**342.5**	**275.3**	**303.2**	**-30.7**	**162.3**	**293.9**	**293.6**	**264**
Restructuring Charges	--	--	--	-1.2	-24.6	--	--	--
Gain (Loss) On Sale Of Invest.	--	--	--	-152.3	--	-9.4	-9.9	5.5
Gain (Loss) On Sale Of Assets	221.3	20.7	--	--	--	--	--	--
Asset Writedown	--	--	-3.2	-713.5	-181.7	--	--	--
Insurance Settlements	--	--	--	--	--	--	--	5.4
Legal Settlements	--	--	--	5.6	-32	--	--	--
Other Unusual Items	-32.9	2.5	-74.2	-9.2	-122.7	-34.1	--	--
EBT INCL. UNUSUAL ITEMS	**530.9**	**293.5**	**225.8**	**-749**	**-198.7**	**259.8**	**293.6**	**269.4**
Income Tax Expense	214.2	118.7	101.9	-265.1	-135.2	-38.4	-10.1	18.5
Minority Int. in Earnings	82.2	69.6	87.1	79.5	48.8	--	--	--
EARNINGS FROM CONTINUING	**398.9**	**244.4**	**211**	**-404.4**	**-14.7**	**298.2**	**303.7**	**250.9**
Earnings Of Discontinued Oper.	14.3	1.9	63.5	-147.6	-890.4	31.9	--	--
NET INCOME	**413.2**	**246.3**	**274.5**	**-552**	**-909.4**	**330.1**	**303.7**	**250.9**
NI TO COMMON INCL EXTRA ITEMS	**413.2**	**246.3**	**274.5**	**-552**	**-909.4**	**330.1**	**303.7**	**250.9**
Basic EPS	2	1.2	1.3	-2.9	-5.1	2.2	2.3	2
Basic EPS Excl. Extra Items	1.9	1.2	1	-2.1	-0.1	2	2.3	2
Weighted Avg. Basic Shares Out.	209.1	207.9	206.3	192.6	179.9	153.2	134.5	125.9
Diluted EPS	2	1.2	1.3	-2.9	-5.1	2.2	2.2	2
Diluted EPS Excl Extra Items	1.9	1.2	1	-2.1	-0.1	2	2.2	2
Weighted Avg. Diluted Shares Out.	209.9	208.7	208.2	192.6	179.9	153.3	135.4	126.3

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TECO ENERGY INC(TE)

ANNUAL FINANCIALS - CASH FLOW STATEMENT (millions)

	2007-12	2006-12	2005-12	2004-12	2003-12	2002-12	2001-12	2000-12
Net Income	413.2	246.3	274.5	-552	-909.4	330.1	303.7	250.9
Depreciation and Amortization	263.7	282.2	282.2	289.6	382	303.4	298	268.2
DEPRECIATION AND AMORT. TOTAL	**263.7**	**282.2**	**282.2**	**289.6**	**382**	**303.4**	**298**	**268.2**
(Gain) Loss From Sale Of Asset	-246.1	-67	-261.6	-92.9	-147.5	-15.1	--	-13.6
(Gain) Loss On Sale Of Invest.	--	--	--	--	153.9	--	--	--
Asset Writedown and Restruct. Costs	--	--	3.2	893.3	1453.5	14.1	11.1	14.2
(Income) Loss On Equity Investments	-18	-3.4	-35.9	-34.3	13.8	15.3	-3.1	-6.7
Stock-Based Compensation	11.6	--	--	--	18.3	13.9	9.7	9.2
Minority Interest in Earnings	-82.2	-69.6	-87.1	-79.5	-48.8	--	--	--
Other Operating Activities	39.1	64.7	-129	27.2	-15.6	62.2	13.5	-59.7
Change In Accounts Receivable	51	-26	-56.7	32.1	96.4	-64.1	52	-92.1
Change In Inventories	-9.6	-5.8	-38.1	41.9	7	-39.4	-22.8	7.5
Change In Accounts Payable	-71.9	-18	119	-69.2	-17.5	98.3	-51.3	42.6
Change In Income Taxes	26.6	-17	-17.4	-82	34.5	24.1	16.4	17.6
Change In Deferred Taxes	182.3	109.9	108.1	-358.2	714.1	-101.3	-107.8	-82.4
Change In Other Working Capital	-5.7	70.6	12.7	123.6	22.1	14.2	-6.3	25.5
CASH FROM OPERATIONS	**554**	**566.9**	**173.9**	**139.6**	**328.6**	**655.7**	**513.1**	**381.2**
Capital Expenditure	-489.9	-453	-295.3	-272.2	-563.2	-1030.7	-956.7	-686.1
Sale of Prop., Plant, and Equip.	--	--	25	--	--	103.3	43.2	61.3
Cash Acquisitions	--	--	--	--	--	-9.9	-315.8	-78.8
Divestitures	405.2	60.4	278.3	326.8	296.5	--	--	--
Sale (Purchase) of Real Estate prop.	--	15	--	--	--	--	--	--
Invest. in Marketable and Eqty Securities	-0.4	0.6	6.9	70.1	-63	-723.2	123.3	-341.1
Other Investing Activities	57.4	0.3	47.6	-34.3	-63.5	--	--	--
CASH FLOW FROM INVESTING	**-27.7**	**-351.7**	**37.5**	**90.4**	**-393.2**	**-1660.5**	**-1106**	**-1044.7**
Short-Term Debt Issued	--	--	100	77.5	--	--	--	395.3
Long-Term Debt Issued	444.1	327.5	311.9	--	655.1	2194	1255.9	594.9
TOTAL DEBT ISSUED	**444.1**	**327.5**	**411.9**	**77.5**	**655.1**	**2194**	**1255.9**	**990.2**
Short-Term Debt Repaid	-23	-167	--	--	-323	-278.4	-570.1	--
Long-Term Debt Repaid	-1137.5	-199.3	-494.1	-225	-526.5	-949.7	-236.5	-145.6
TOTAL DEBT REPAID	**-1160.5**	**-366.3**	**-494.1**	**-225**	**-849.5**	**-1228.1**	**-806.6**	**-145.6**
TOTAL DIVIDENDS PAID	**-163**	**-158.7**	**-157.7**	**-145.2**	**-165.2**	**-215.8**	**-184.2**	**-167.4**
Other Financing Activities	60.1	65.7	81.1	58.7	-15.3	-15.3	--	--
CASH FROM FINANCING	**-805.3**	**-119.3**	**37.6**	**-241.5**	**-238.3**	**1307.4**	**613.5**	**665.6**
NET CHANGE IN CASH	**-279**	**95.9**	**249**	**-11.5**	**-302.9**	**302.6**	**20.6**	**2.1**
Cash Interest Paid	262.1	259.4	288.9	372.1	493.1	160.2	178.1	166.7
Cash Taxes Paid	-10.5	10.4	27.4	22.4	58.8	71.9	52.4	83.9
Net Debt Issued	-716.4	-38.8	-82.2	-147.5	-194.4	965.9	449.3	844.6

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TECO ENERGY INC(TE)

QUARTERLY FINANCIALS - BALANCE SHEET (millions)

	2008-06	2008-03	2007-12	2007-09	2007-06	2007-03	2006-12	2006-09
Cash and Equivalents	171.8	118.1	162.6	136.1	219.9	361.6	441.6	561.8
Short Term Investments	2.4	2.3	--	--	18.4	18.2	--	--
TOTAL CASH & SHORT TERM INVEST	**174.2**	**120.4**	**162.6**	**136.1**	**238.3**	**379.8**	**441.6**	**561.8**
Accounts Receivable	330.8	309.9	295.9	356	297.2	310.2	338.3	363.6
Other Receivables	0.2	0.7	0.7	2.1	--	--	--	--
TOTAL RECEIVABLES	**331**	**310.6**	**296.6**	**358.1**	**297.2**	**310.2**	**338.3**	**363.6**
INVENTORIES	**161.9**	**146.8**	**154**	**179.1**	**212.5**	**189.7**	**159.6**	**162.3**
Prepaid Expenses	25.1	21.9	23	25	32.1	28.2	46.1	42.2
Other Current Assets	288.8	135	153.6	304.2	304.4	300.7	300.1	322.5
TOTAL CURRENT ASSETS	**981**	**734.7**	**789.8**	**1002.5**	**1084.5**	**1208.6**	**1285.7**	**1462.4**
Gross Property Plant and Equip	7037.9	6954.1	6893.8	6810	6740	6629	7084.1	6960.5
Accumulated Depreciation	-2028.6	-2001.8	-2005.6	-1994.6	-1984.2	-1934.5	-2317.2	-2281.1
NET PROPERTY, PLANT AND EQUIP	**5009.3**	**4952.3**	**4888.2**	**4815.4**	**4755.8**	**4694.5**	**4766.9**	**4679.4**
Long-term Investments	291.2	268	298.4	274	294.3	274.8	300.9	295.6
Goodwill	59.4	59.4	59.4	59.4	59.4	59.4	59.4	59.4
Deferred Tax Assets, LT	384.8	416.3	424.9	526.8	574	580.2	630.2	703.4
Deferred Charges, LT	303.1	303.3	302.6	319	326.5	325.1	318.6	208
Other Long Term Assets	24.8	8.4	1.9	168.1	164.2	156.3	0.1	0.2
TOTAL ASSETS	**7053.6**	**6742.4**	**6765.2**	**7165.2**	**7258.7**	**7298.9**	**7361.8**	**7398.4**
Accounts Payable	356.6	282.2	302.1	259.7	259.9	267.6	326.5	299
Accrued Expenses	96.1	99.9	65.9	143.2	105.1	128.1	75.8	169.1
Short-term Borrowings	--	18	25	73	--	51	48	--
Other Current Liabilities	333	275.6	217.5	258.9	355.2	317.8	260.7	315
TOTAL CURRENT LIABILITIES	**792.8**	**682.8**	**617.6**	**741.9**	**877.7**	**1221.9**	**1350.4**	**1422.5**
Long Term Debt	3212.1	3062.1	3158.4	3454.4	3460.1	3211.3	3212.6	3318.7
Deferred Tax Liability Non-Current	11.2	11.4	12.2	12.7	13.4	--	--	--
Other Non-Current Liabilities	1009.8	993.1	960	1086.8	1091	1096.5	1069.8	967.1
TOTAL LIABILITIES	**5025.9**	**4749.4**	**4748.2**	**5295.8**	**5442.2**	**5529.7**	**5632.8**	**5708.3**
Common Stock	212.7	210.7	210.9	210.6	210.6	209.6	209.5	209.1
Additional Paid In Capital	1512.9	1493.1	1489.2	1484.1	1480.4	1470.9	1466.3	1457.8
Retained Earnings	332.9	323.8	334.1	201.4	149.6	116.9	83.7	74.6
Comprehensive Income and Other	-30.8	-34.6	-17.2	-26.7	-24.1	-28.2	-30.5	-51.4
TOTAL COMMON EQUITY	**2027.7**	**1993**	**2017**	**1869.4**	**1816.5**	**1769.2**	**1729**	**1690.1**
TOTAL EQUITY	**2027.7**	**1993**	**2017**	**1869.4**	**1816.5**	**1769.2**	**1729**	**1690.1**
TOTAL LIABILITIES AND EQUITY	**7053.6**	**6742.4**	**6765.2**	**7165.2**	**7258.7**	**7298.9**	**7361.8**	**7398.4**

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TECO ENERGY INC(TE)

QUARTERLY FINANCIALS - INCOME STATEMENT (millions)

	2008-03	2008-00	2007-12	2007-09	2007-06	2007-03	2006-12	2006-09
Revenues	887.2	791.7	858.3	990	866.5	821.3	826.2	922.9
TOTAL REVENUES	**887.2**	**791.7**	**858.3**	**990**	**866.5**	**821.3**	**826.2**	**922.9**
Cost Of Goods Sold	719.9	648.2	706.5	783.6	698.5	668.5	681.6	722.5
GROSS PROFIT	**167.3**	**143.5**	**151.8**	**206.4**	**168**	**152.8**	**144.6**	**200.4**
Depr. and Amortization	64.9	65	65.5	59.8	66.8	71.6	71.2	70.1
OPERATING INCOME	**102.4**	**78.5**	**86.3**	**146.6**	**101.2**	**81.2**	**73.4**	**130.3**
Interest Expense	-56.6	-58.2	-61.4	-64.2	-66.1	-67.8	-69.7	-70.5
NET INTEREST EXP.	**-56.6**	**-58.2**	**-61.4**	**-64.2**	**-66.1**	**-67.8**	**-69.7**	**-70.5**
Income/(Loss) from Affiliates	**21.6**	**17.4**	**-19**	**15.6**	**18.7**	**16.2**	**16**	**14.5**
Other Non-Oper. Inc. (Exp.)	6.4	7.1	-19.6	26.5	24.1	54.3	27	37.1
EBT EXCL. UNUSUAL ITEMS	**73.8**	**44.8**	**265.8**	**124.5**	**77.9**	**83.9**	**51.7**	**111.4**
Gain (Loss) On Sale Of Assets	--	-0.9	--	--	--	--	--	5
Other Unusual Items	--	--	--	-4.9	13.5	-2.8	--	--
EBT INCL. UNUSUAL ITEMS	**73.8**	**43.9**	**265.8**	**119.6**	**64.4**	**81.1**	**51.7**	**116.4**
Income Tax Expense	22.4	13.1	109.5	47.6	25.3	31.8	26	42.7
Minority Int. in Earnings	--	--	17.6	20.8	20.3	23.5	22.7	6
EARNINGS FROM CONTINUING	**51.4**	**30.8**	**173.9**	**92.8**	**59.4**	**72.8**	**48.4**	**79.7**
Earnings Of Discontinued Oper.	--	--	--	--	14.3	--	0.5	--
NET INCOME	**51.4**	**30.8**	**173.9**	**92.8**	**73.7**	**72.8**	**48.9**	**79.7**
NI TO COMMON INCL EXTRA ITEMS	**51.4**	**30.8**	**173.9**	**92.8**	**73.7**	**72.8**	**48.9**	**79.7**
Basic EPS	0.2	0.2	0.8	0.4	0.3	0.3	0.2	0.4
Basic EPS Excl. Extra Items	0.2	0.2	0.8	0.4	0.3	0.3	0.2	0.4
Weighted Avg. Basic Shares Out.	210.4	209.7	209.4	209.2	208.9	208.6	208.3	207.9
Diluted EPS	0.2	0.2	0.8	0.4	0.3	0.3	0.2	0.4
Diluted EPS Excl. Extra Items	0.2	0.2	0.8	0.4	0.3	0.3	0.2	0.4
Weighted Avg. Diluted Shares Out.	212.1	210.6	210.4	210	210	209.6	209.2	208.7

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TECO ENERGY INC(TE)

QUARTERLY FINANCIALS - CASH FLOW STATEMENT (millions)

	2008-06	2008-03	2007-12	2007-09	2007-06	2007-03	2006-12	2006-09
Net Income	51.4	30.8	173.9	92.8	73.7	72.8	48.9	79.7
Depreciation and Amortization	64.9	65	65.5	59.8	66.8	71.6	71.2	70.1
DEPRECIATION AND AMORT., TOTAL	**64.9**	**65**	**65.5**	**59.8**	**66.8**	**71.6**	**71.2**	**70.1**
(Gain) Loss From Sale Of Asset	-0.1	-1	-218.9	17.3	-20.2	-24.3	-20.5	-19.8
(Income) Loss On Equity Investments	-21.6	14.8	-10.7	6.6	-18.7	4.8	-11.5	11.7
Stock-Based Compensation	3.7	2.4	1.7	2.5	4.9	2.5	--	2.3
Minority Interest in Earnings	--	--	17.6	-20.8	-20.3	-23.5	-22.7	-6
Other Operating Activities	-82.7	-12.7	13.2	14.3	19.3	-7.7	-4.7	-6.6
Change In Accounts Receivable	-20.9	-13.1	132.5	-88.6	-8.6	15.7	1.5	-14.1
Change In Inventories	-15.1	7.2	24.3	32.8	-24.5	-42.2	2.6	1.9
Change In Accounts Payable	82.5	-5.6	-29.8	-20.7	15	-36.4	27	5.3
Change In Income Taxes	14.4	1.3	-27	7.9	16.3	29.4	-58.6	18.5
Change In Deferred Taxes	23.9	14.8	93.6	52.4	7.6	28.7	22.3	40.8
Change In Other Working Capital	-14.9	49.1	-60.9	24.2	-36.5	67.5	-7.1	55.9
CASH FROM OPERATIONS	**85.5**	**153**	**139.8**	**180.5**	**74.8**	**158.9**	**48.4**	**239.7**
Capital Expenditure	-127.1	-135.6	-133.8	-86.8	-136.5	-132.8	-153.3	-120.5
Sale of Prop., Plant, and Equip.	--	--	--	--	--	--	25	--
Divestitures	--	-7.3	344.4	15.3	37.6	7.9	18.7	13.7
Sale (Purchase) of Real Estate prop.	--	--	--	--	--	--	15	--
Invest. in Marketable and Eqty Securties	-0.1	89.5	54.8	4.4	-2.3	-29.8	-0.5	1.1
Other Investing Activities	--	--	3.2	26.8	-0.1	--	--	0.9
CASH FLOW FROM INVESTING	**-127.2**	**-53.4**	**268.6**	**-40.3**	**-101.3**	**-154.7**	**-95.1**	**-106.6**
Short-Term Debt Issued	--	--	--	73	--	3	48	--
Long-Term Debt Issued	137.1	190.8	--	--	--	--	--	--
TOTAL DEBT ISSUED	**137.1**	**190.8**	**--**	**73**	**--**	**3**	**48**	**--**
Short-Term Debt Repaid	-18	-7	-48	--	-51	--	--	--
Long-Term Debt Repaid	--	-288.1	-297.2	-269.4	-54	-72.8	-106.2	-6
TOTAL DEBT REPAID	**-18**	**-295.1**	**-345.2**	**-269.4**	**-105**	**-72.8**	**-106.2**	**-6**
TOTAL DIVIDENDS PAID	**-42.4**	**-41.1**	**-41.1**	**-41.1**	**-41**	**-39.8**	**-39.7**	**-39.7**
Other Financing Activities	--	--	0.2	12.1	26	21.8	18.2	4.5
CASH FROM FINANCING	**95.4**	**-144.1**	**-381.9**	**-224**	**-115.2**	**-84.2**	**-73.5**	**-38.7**
NET CHANGE IN CASH	**53.7**	**-44.5**	**26.5**	**-83.8**	**-141.7**	**-80**	**-120.2**	**94.4**
Net Debt Issued	119.1	104.3	-345.2	-196.4	-105	-69.8	-58.2	-6

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ValuEngine™ DETAILED RESEARCH REPORT
TECO ENERGY INC(TE)

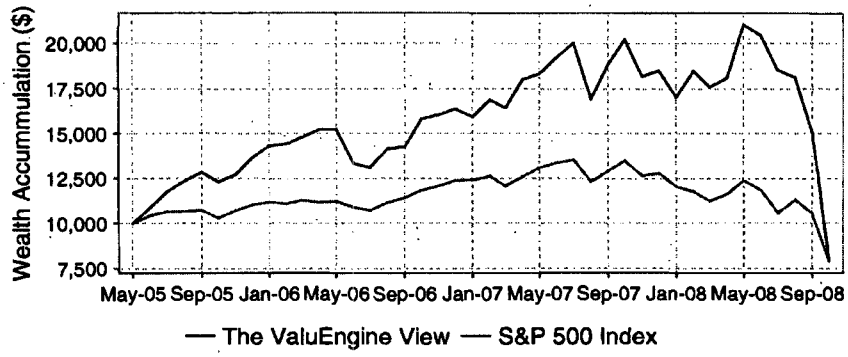
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A subscription-based web site with ValuEngine's proprietary real-time quantitative analysis tools for the U.S. stock market. Here you can access Fair Valuation, Forecast Return %, Probability of Gains/Losses, Financials, multi-stock comparison, Market/Sector/Industry overview, and advanced Screening and Portfolio Creation/Optimization tools for over 4500 U.S. stocks. Sign up now for a free 14 day no-risk trial period. You can continue with your subscription for only $24.95 per month--discounts available for long-term subscribers. Free weekly newsletters and daily bulletins are also available at www.ValuEngine.com

ValuEngine View Newsletter:
A monthly newsletter for busy people less concerned with the day-to-day fluctuations of the market. Editor and highly experienced fund manager Eric Stokes uses the ValuEngine models to screen for stocks and shortlists the results into a manageable 15-stock portfolio, adjusted once per month. He then goes "behind the numbers" to explain each of his picks from business and industry perspectives. All you have to do is follow the Editor! The cost is only $29.95 per month, with discounts for longer-term subscribers. The ValuEngine View newsletter portfolio has returned substantial gains since its launch in May 2005-- full statistics can be viewed at http://www.valuengine.com/nl/NLPerformance (or by visiting www.ValuEngine.com and clicking on the 'Newsletter' option).

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ValuEngine™ DETAILED RESEARCH REPORT
TECO ENERGY INC(TE)

VALUENGINE'S METHODOLOGY

ValuEngine's research combines the most advanced academic concepts with real world Wall Street practice. The result is state-of-the-art fair market valuation and price forecasting technologies.

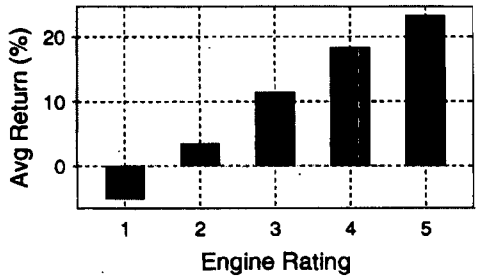
ValuEngine's stock valuation employs a sophisticated, three-factor approach. Fundamental variables, such as a company's trailing 12-month Earnings-Per-Share (EPS), the analyst consensus estimate of the company's future 12-month EPS, and the 30-year Treasury yield, are all used to create a more accurate reflection of a company's fair value. Together with eleven additional variables, ValuEngine paints a detailed picture of a company's fair value, represented by the model price.

ValuEngine's stock forecasts examine, among other things, short-term price reversals, intermediate-term momentum continuation, and long-term price reversals over six time horizons for every industry to ensure forecasts are established relative to a stock's proper peer groups. Advanced statistical/econometric techniques are used to run thousands of simulations estimating the probability of a double in stock price, as well as the probability of meeting and exceeding any given portfolio or stock investment target.

The stock's engine rating is an assessment of its overall attractiveness. It combines valuation, risk-return trade-off, momentum, market capitalization and forecasted future returns. Only two percent of the stock universe receives the highest 5-engine rating. The lowest rating is a single engine.

For more information on ValuEngine, its models and performance, go to www.ValuEngine.com

Engine Rating and Average Annual Return
(Jan 1990 - Oct 2008)



DISCLOSURES

ValuEngine offers equity recommendations and related return estimates to investors and their advisors. It uses a three-class Buy-Hold-Sell rating system. This is a consolidated version of the firm's five class rating system: most favorable and favorable ratings are buys; neutral ratings are holds and the categories unfavorable and most unfavorable are sells.

STOCK RATINGS: The terms below are used to rate a stock's 12-month performance:

1. Buy: Expected to outperform the SP500 producing above average returns.
2. Hold: Expected to perform in line with the SP500 with average returns.
3. Sell: Expected to underperform the SP500 producing below-average returns.

ValuEngine does not offer brokerage or investment banking services. ValuEngine adheres to professional standards and abides by formal codes of ethics that put the interests of clients ahead of their own. The following are specific disclosures made by ValuEngine with regards to this research report:

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ValuEngine™ DETAILED RESEARCH REPORT

TECO ENERGY INC(TE)

Nov. 03, 2008

VALUENGINE RECOMMENDATION & BASIC INFORMATION

RECOMMENDATION		
negative	neutral	positive
SELL	HOLD	BUY

VALUENGINE RATING

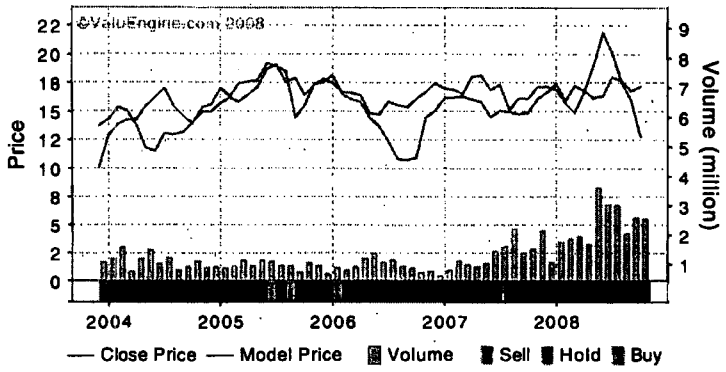


RECOMMENDATION FACTORS	Value	Rank
Overall Rank		top 15%
Fair Value	$18.76	btm 48%
1Yr Target Price	$12.72	top 28%
P/E Ratio	12.58	top 39%
Last 1-Y Return	-28.23%	top 31%
Market Cap(bil)	$2.45	top 13%

BASIC INFORMATION	
Last Trade	$11.54
Trade Date	10/31/08
Market Cap(bil)	$2.455
Trailing P/E	12.58
Forward P/E	8.71
PEG Ratio	0.28
P/S Ratio	0.7
M/B Ratio	1.21
Sharpe Ratio	-0.14
5-Y Avg Ann Return	-3.75%
Volatility	27.72%
EPS Growth	44.49%
Annual Dividend	$0.80
Dividend Yield	6.93%
LT Debt/Equity	1.58
Beta	1.07

VALUATION ANALYSIS	
TE	Today's Fair value: $18.76 38.48% undervalued
Industry	Electrical Utilities 25.90% undervalued
Sector	Public Utilities 27.91% undervalued

FORECAST ANALYSIS	Target Price	Exp. Return
1-Month	$11.75	1.79%
3-Month	$11.88	2.95%
6-Month	$12.16	5.35%
1-Year	$12.72	10.26%
2-Year	$13.09	13.47%
3-Year	$13.50	17.01%



VALUENGINE RECOMMENDATION

ValuEngine has issued a BUY recommendation for TECO ENERGY INC on Nov. 03, 2008. Based on the information we have gathered and our resulting research, we feel that TECO ENERGY INC has the probability to OUTPERFORM average market performance for the next year. The company exhibits ATTRACTIVE company size, volatility and expected EPS growth.

RATING OVERVIEW

The ValuEngine Rating is an overall assessment of a stock's attractiveness. It combines the following five factors:

1. Fair market valuation
2. 1 year forecasted returns
3. Price/Earnings ratio
4. Momentum
5. Market capitalization

Only two percent of the over 4,000 stocks that we cover receive the highest 5 rating. The ratings are the result of the cumulative of the above factors. As such, stocks with relatively poor results for any one of the five variables can still be attractive if the other four factors are strong enough. Top 5 rated stocks can be expected to outperform the overall market by 15% or more, with average annualized returns from Jan. 2000 through Jan. 2006 of over 30% per year.

FAIR MARKET VALUATION PRICE

Based on available data as of Nov. 03, 2008, we believe that TE should be trading at $18.76. This makes TE 38.48% undervalued. Fair Value indicates what we believe the stock should be trading at today if the stock market were perfectly efficient and everything traded at its true worth. For TE, we base this on actual earnings per share (EPS) for the previous four quarters of $0.92, forecasted EPS for the next four quarters of $1.33, and correlations to the 30-year Treasury bond yield of 4.37%. There are an additional 10 firm specific and interest rate related parameters, each playing a role in the valuation analysis.

FORECASTED TARGET PRICES

The predictive variables used in Valuengine's forecast target price models include both proprietary and well-established forecasting variables derived from credible financial research studies and publications. Our forecasting models capture, among other things, several important tendencies that stock prices consistently exhibit: Short-term price reversals, Intermediate-term momentum continuation, and Long-term price reversals. We use a distinct forecasting model for each time horizon and for every industry. We then apply the most advanced statistical/econometric techniques to ensure that our stock return forecasts are as reliable as possible.

Contact ValuEngine:

ValuEngine, Inc.
100 Overlook Center, 2nd Floor
Princeton, NJ 08540, U.S.A.
(800) 381-5576 (T)
support@ValuEngine.com
www.ValuEngine.com

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ValuEngine™ DETAILED RESEARCH REPORT
TECO ENERGY INC(TE)

DATA SUMMARY & MARKET RATIO BASED VALUATION

OPTIMAL BUY-SELL

Based solely on the Historical Mispricing of TE, the best time to buy would be below $17.45 (or valuation below -7.00%). The best time to sell would be above $24.95 (or valuation above 33.00%).

EVALUATION & RANKINGS

	Value	Rank
Valuation	-38.48%	48
12-Month Return	-28.23%	70
5-Y Avg Ann Rtn	-3.75%	55
Volatility	27.72%	84
EPS Growth	44.49%	71
Market Cap(bill)	2.45	88
Sharpe Ratio	-0.14	54
P/S Ratio	0.7	60
M/B Ratio	1.21	41
P/E Ratio	12.58	62

EVALUATION & RANKINGS SUMMARY

Just as important as the percentages shown for our ten predictive variables for each stock is the way they are ranked against the 7000 plus stocks in our database. This is sometimes confusing to newcomers to ValuEngine. Each of these quantitative measurements is ranked on a scale of 1 to 100. Generally the higher the ranking, the more positive the influence each measurement has on the overall attractiveness of the stock. In other words a high rank is always better. Let's take them one by one:

- Valuation rank 48: 52% of stocks are more undervalued
- Momentum rank 70: 30% of stocks have higher momentum
- Sharpe Ratio rank 54: 46% of stocks have a higher Sharpe Ratio
- 5-Year Average Annual Return 55: 45% of stocks have higher average annual return
- Volatility rank 84: 16% of stocks have less volatility
- EPS growth rank 71: 29% of stocks have greater projected EPS growth
- Size rank 88: 12% of companies have higher market capitalization
- P/E rank 62: 38% of stocks have lower P/E ratios
- Price/Sales rank 60: 40% of stocks have lower price/sales ratios
- Market/Book rank 41: 59% of stocks have lower market/book value ratios

MARKET RATIO BASED VALUATION

Portfolio managers and professionals traditionally rely on market ratios to gauge whether a stock is fair valued or overvalued. On this page, we present such a valuation based on one of three market ratios: PEG (price to trailing 4 quarter earnings ratio, divided by the consensus analyst forecasted next year EPS growth), P/E (price to forward 4 quarter earnings ratio), and P/S ratio (price to trailing 4 quarter sales). Among the three, PEG is the most informative as it reflects both the price/earnings ratio and expected future EPS growth, while P/E is better than P/S. For each given stock, we apply the PEG to give a fair value assessment if both its trailing 4 quarter EPS and forecasted EPS growth rate are positive. If its forecasted EPS growth is negative but its forward 4 quarter EPS is positive, we apply the P/E to give a fair value for the stock as of today. Otherwise, we resort to the P/S to assess its fair value.

To establish a valuation standard, we use both (i) the average historical market ratio of the stock over the past 10 years (or however long there is data available for the stock), and (ii) the average market ratio today of five comparable stocks in the same sector and from companies of similar size. These two alternative perspectives should give you a good idea about where this stock's valuation stands today.

1. Valuation Based on TE's Past PEG

Over the past 10 years, TE's average PEG is 1.91. TE earned $0.92 per share in its recent 4 quarters. The analyst consensus estimate is $1.33 for its 4 quarter forward EPS. TE's current sales per share is 0.7. The following assessment is based on multiplying the historical PEG with recent 4 quarter EPS and the forecasted EPS growth rate over the next 4 quarters for TE.

Fair Value	
Historical Average PEG	1.91
PEG-Based Fair Value	$77.86

2. Valuation Based on Comparables' PEG

TE's comparables are CMS, DPL, GXP, HE and OGE. The current PEG average of these comparables is 1.21. TE earned $0.92 per share in its recent 4 quarters. The analyst consensus estimate is $1.33 for its 4-quarter-forward EPS. TE's current sales per share is 0.7. The following assessment is based on multiplying comparable stocks' average PEG today with TE's recent 4 quarter EPS and the forecasted EPS growth rate over the next 4 quarters .

Comparables' PEG

Comparables	Current PEG
CMS	0.55
DPL	1.88
GXP	n/a
HE	n/a
OGE	n/a

Fair Value	
Comparable Stocks' Avg PEG	1.21
Comparable PEG-Based Fair Value	$49.56

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ValuEngine™ DETAILED RESEARCH REPORT
TECO ENERGY INC(TE)

COMPANY ANALYSIS

TECO Energy, Inc., through its subsidiaries, engages in the generation, purchase, transmission, distribution and sale of electric energy.

The company's subsidiary, Tampa Electric Company, has two business segments: Tampa Electric division and Peoples Gas System.

Tampa Electric division
Tampa Electric division (Tampa Electric) provides retail electric service to approximately 668,000 customers in West Central Florida with a net winter system generating capability of 4,602 megawatts (MW).

The retail territory served comprises an area of approximately 2,000 square miles in West Central Florida, including Hillsborough County and parts of Polk, Pasco and Pinellas Counties. The principal communities served are Tampa, Winter Haven, Plant City and Dade City. In addition, Tampa Electric engages in wholesale sales to utilities and other resellers of electricity. It has three electric generating stations in or near Tampa, one electric generating station in southwestern Polk County, Florida and one electric generating station located near Sebring, a city located in Highlands County in South Central Florida.

Peoples Gas System
Peoples Gas System (PGS), the gas division of Tampa Electric Company, engages in the purchase, distribution and sale of natural gas for residential, commercial, industrial and electric power generation customers in Florida. With approximately 334,000 customers, PGS has operations in Florida's major metropolitan areas. Annual natural gas throughput in 2007 was 1.4 billion therms.

TECO Coal Corporation
TECO Coal Corporation (TECO Coal) has 13 subsidiaries, located in Eastern Kentucky, Tennessee and Virginia. These entities own interests in coal processing and loading facilities, mineral rights, own or operate surface and underground mines, and owned synthetic fuel production facilities.

TECO Coal subsidiaries operate 23 underground mines which employ the room and pillar mining method and 14 surface mines. In 2007, TECO Coal subsidiaries sold 9.2 million tons of coal. As of December 31, 2007, the TECO Coal operating companies had a combined estimated 277.1 million tons of proven and probable recoverable reserves.

TECO Coal has four mining complexes, all operating in Kentucky with a portion of Clintwood Elkhorn Mining Company operating in Virginia. Its projects include Perry County Coal, Premier Elkhorn Coal, and Premier Elkhorn Coal.

TECO Guatemala
TECO Guatemala, Inc. (TECO Guatemala) has investments in unconsolidated subsidiaries that participate in two long-term contracted power plants and has an ownership interest in Distribucion Electrica CentroAmericana II, S.A. (DECA II), which has an ownership interest in Guatemala's distribution utility, Empresa Electrica de Guatemala, S.A. (EEGSA) and affiliated energy-related companies.

TECO Guatemala indirectly owns 100% of Central Generadora Electrica San Jose, Limitada (CGESJ), the owner of a project located in Guatemala, which consists of a single-unit pulverized-coal baseload facility (the San Jose Power Station).

Tampa Centro Americana de Electricidad, Limitada (TCAE), an entity 96.06% owned by TPS Guatemala One, Inc., a subsidiary of TECO Guatemala, and the owner of a natural gas-powered facility (the Alborada Power Station).

Discontinued operations
In December 2007, the company sold TECO Transport Corporation (TECO Transport), a Florida corporation.

Significant Events
TECO Energy, Inc., in July 2008, announced the formation of a new subsidiary, SeaCoast Gas Transmission, LLC, to develop and own a high-volume Florida intrastate natural gas transmission pipeline.

History
TECO Energy, Inc. was founded in 1899.

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ValuEngine™ DETAILED RESEARCH REPORT

TECO ENERGY INC(TE)

VALUENGINE RANKINGS

Just as important as the percentages shown for our ten predictive variables for each stock is the way they are ranked against the 7000 plus stocks in our database. Each of these quantitative measurements is ranked on a scale of 1 to 100. Generally the higher the ranking, the more positive the influence each measurement has on the overall attractiveness of the stock. In other words a high rank is always better. The below data points show how the rank for each data point for TE relates to the overall industry, sector, and S&P 500 averages.

Valuation		Rank
TE	-38.48%	48
Industry	-25.90%	36
Sector	-27.91%	40
S&P 500	-25.85%	32

The ValuEngine Valuation Rank measures the relationship between a company's stock price and its Fair Value. The higher the Valuation rank, the more undervalued the stock. With a Valuation Rank of 48, TE is slightly higher than the average of its industry group, which carries a Valuation Rank of 36.

12-Month Return		Rank
TE	-28.23%	70
Industry	-29.91%	65
Sector	-35.14%	58
S&P 500	-37.47%	59

The ValuEngine 12-Month Return Rank reflects the relative stock performance of a stock over the recent 12 months. On a scale of 1 to 100, a higher 12-Month Return rank indicates a stronger performance. With a 12-Month Return Rank of 70, TE is in line with the industry's rank score of 65.

5-Y Avg Ann Rtn		Rank
TE	-3.75%	55
Industry	5.16%	71
Sector	0.65%	64
S&P 500	-1.55%	60

The ValuEngine 5-Years Average Return Rank reflects a stock's average annual return over the last 5 years, in comparison with the coverage universe. A higher rank indicates a better return performance. With a rank of 55, TE is slightly lower than the industry, which has a rank of 71.

Volatility		Rank
TE	27.72%	84
Industry	35.52%	77
Sector	43.08%	70
S&P 500	14.91%	99

The ValuEngine Volatility Rank reflects the volatility associated with the stock. A higher Volatility Rank indicates a lower volatile percentile of stocks. TE has a Volatility Rank of 84, which is in line with the industry Rank of 77.

EPS Growth		Rank
TE	44.49%	71
Industry	16.91%	40
Sector	21.91%	41
S&P 500	10.99%	41

The ValuEngine EPS Growth Rank indicates a stock's expected EPS growth rate. A high rank indicates a high growth rate expectation. TE has an EPS Growth Rank of 71.This is significantly higher than the industry rank of 40.

Market Cap(bill)		Rank
TE	2.45	88
Industry	6.08	79
Sector	7.4	74
S&P 500	n/a	n/a

The ValuEngine Size rank signifies the company's size in terms of market capitalization. A higher rank denotes a larger market capitalization within ValuEngine's stock universe. With a Size rank of 88, TE is in line with the industry, which has a rank of 79.

Sharpe Ratio		Rank
TE	-0.14	54
Industry	0.19	73
Sector	0.07	66
S&P 500	-0.1	57

The ValuEngine Sharpe Ratio Rank measures the risk return tradeoff offered by a stock. Sharpe ratio is the stock's average annual return (over the last five years) divided by its annualized volatility over the same 5 years. With a rank of 54, TE is slightly lower than the industry, which has a rank of 73.

P/S Ratio		Rank
TE	0.7	60
Industry	1.08	54
Sector	1.34	54
S&P 500	n/a	n/a

The ValuEngine Price/Sales rank signifies the relative position of the company based on its P/S ratio. Stocks with the lowest P/S ratio are assigned a rank of 100 while stocks with the highest P/S ratio are ranked 1. At a Price/Sales rank of 60, TE is in line with the industry rank of 54.

M/B Ratio		Rank
TE	1.21	41
Industry	1.52	42
Sector	1.97	42
S&P 500	n/a	n/a

The Market/Book Rank is a measure of a stock's market to book ratio relative to the stock universe. A higher rank corresponds to a lower market book value. TE has a Market/Book rank of 41, which is in line with the industry rank of 42.

P/E Ratio		Rank
TE	12.58	62
Industry	12.91	60
Sector	14.34	58
S&P 500	12.82	61

The ValuEngine P/E Rank signifies the relative standing of a company on its P/E ratio, relative to the universe. Stocks in the top P/E percentile are each assigned a rank of 1(highest P/E stocks) while those in the bottom P/E percentile are assigned a rank of 100 (traditional value stocks). With a P/E rank of 62, TE is in line with the industry P/E rank of 60.

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ValuEngine™ DETAILED RESEARCH REPORT

TECO ENERGY INC(TE)

COMPARISON OF SIMILAR STOCKS* & RISk ASSESSMENT

Valuation		Rank
TE	-38.48%	48
OGE	-24.58%	31
DPL	-20.88%	27
CMS	-38.48%	48
GXP	-18.55%	24

12-Month Return		Rank
TE	-28.23%	70
OGE	-25.43%	73
DPL	-18.24%	80
CMS	-38.29%	58
GXP	-30.62%	68

5-Y Avg Ann Rtn		Rank
TE	-3.75%	55
OGE	4.19%	72
DPL	5.19%	74
CMS	5.51%	75
GXP	-9.59%	44

Volatility		Rank
TE	27.72%	84
OGE	20.51%	95
DPL	17.74%	98
CMS	25.50%	88
GXP	15.45%	99

EPS Growth		Rank
TE	0.44	71
OGE	-0.01	22
DPL	0.06	31
CMS	0.16	50
GXP	-0.03	19

Market Cap(bil)		Rank
TE	2.45	88
OGE	2.52	88
DPL	2.59	88
CMS	2.31	87
GXP	2.31	87

Sharpe Ratio		Rank
TE	-0.14	54
OGE	0.2	78
DPL	0.29	83
CMS	0.22	79
GXP	-0.62	21

P/S Ratio		Rank
TE	0.7	60
OGE	0.61	64
DPL	1.63	37
CMS	0.36	77
GXP	0.78	57

M/B Ratio		Rank
TE	1.21	41
OGE	1.48	34
DPL	2.74	15
CMS	0.89	55
GXP	1.47	34

P/E Ratio		Rank
TE	12.58	62
OGE	10.71	68
DPL	11.13	67
CMS	8.91	76
GXP	13.05	60

FORECAST COMPARISONS

RETURN FORECAST: EXPECTED RETURN

	CMS	DPL	GXP	OGE	TE
One-Month	1.64%	0.81%	0.58%	0.95%	1.79%
Three-Month	4.18%	2.62%	1.39%	2.67%	2.95%
Six-Month	8.94%	6.30%	4.07%	6.83%	5.35%
One-Year	17.98%	13.37%	8.03%	14.15%	10.26%
Two-Year	24.05%	20.29%	10.94%	19.55%	13.47%
Three-Year	32.98%	23.92%	17.11%	20.16%	17.01%

RISK ASSESSMENT: CHANCE OF GAIN

	CMS	DPL	GXP	OGE	TE
One-Month	58.82%	56.32%	55.19%	56.35%	58.85%
Three-Month	62.84%	61.63%	57.16%	60.28%	58.42%
Six-Month	69.00%	69.24%	64.52%	68.10%	60.76%
One-Year	75.96%	77.45%	69.85%	75.48%	64.44%
Two-Year	74.76%	79.08%	69.17%	74.98%	63.44%
Three-Year	77.23%	78.19%	73.87%	71.48%	63.84%

RISK ASSESSMENT: CHANCE OF LOSS

	CMS	DPL	GXP	OGE	TE
One-Month	41.18%	43.68%	44.81%	43.65%	41.15%
Three-Month	37.16%	38.37%	42.84%	39.72%	41.58%
Six-Month	31.00%	30.76%	35.48%	31.90%	39.24%
One-Year	24.04%	22.55%	30.15%	24.52%	35.56%
Two-Year	25.24%	20.92%	30.83%	25.02%	36.56%
Three-Year	22.77%	21.81%	26.13%	28.52%	36.16%

*** Comparables are companies in the same Sector and Industry and of approximately similar market capitalization value.**

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ValuEngine™ DETAILED RESEARCH REPORT

TECO ENERGY INC(TE)

ANNUAL FINANCIALS - BALANCE SHEET (millions)

	2007-12	2006-12	2005-12	2004-12	2003-12	2002-12	2001-12	2000-12
Cash and Equivalents	162.6	441.6	345.7	96.7	108.2	411.1	120.2	99.6
TOTAL CASH & SHORT TERM INVEST	**162.6**	**441.6**	**345.7**	**96.7**	**108.2**	**411.1**	**120.2**	**99.6**
Accounts Receivable	295.9	338.3	323.3	286.8	280.4	422.7	348.1	360.3
Other Receivables	0.7	--	--	--	--	--	--	--
Notes Receivable	--	--	--	--	--	235.1	92.7	223.1
TOTAL RECEIVABLES	**296.6**	**338.3**	**323.3**	**286.8**	**280.4**	**657.8**	**440.8**	**583.4**
INVENTORIES	**154**	**159.8**	**153.8**	**120.8**	**170.7**	**209.8**	**170.5**	**144.5**
Prepaid Expenses	23	46.1	51.5	43.6	68.6	42.9	44.4	22.4
Other Current Assets	153.6	300.1	397.9	189.7	241.9	1.6	--	--
TOTAL CURRENT ASSETS	**789.8**	**1285.7**	**1272.2**	**737.6**	**869.8**	**1323.2**	**775.9**	**849.9**
Gross Property Plant and Equip.	6893.8	7084.1	6754.5	6723.4	8040.2	8215.3	7543.5	6560.4
Accumulated Depreciation	-2005.6	-2317.2	-2187.6	-2065.5	-2361.2	-2751.3	-2705.2	-2590.3
NET PROPERTY, PLANT AND EQUIP	**4888.2**	**4766.9**	**4566.9**	**4657.9**	**5679**	**5464**	**4838.3**	**3970.1**
Long-term Investments	298.4	300.9	305.1	271	360	994.5	383.3	378.8
Goodwill	59.4	59.4	59.4	59.4	71.2	193.7	165.8	--
Deferred Tax Assets, LT	424.9	630.2	735.7	1379.1	1051.5	340.2	242	116.3
Deferred Charges, LT	302.6	318.6	217.9	312.4	353.4	322.2	316.8	361.1
Other Long Term Assets	1.9	0.1	12.9	2059.1	2077.4	--	--	--
TOTAL ASSETS	**6765.2**	**7361.8**	**7170.1**	**9476.5**	**10462.3**	**8637.8**	**6722.1**	**5676.2**
Accounts Payable	302.1	326.5	354.7	257.8	313.8	377.4	267.4	274.8
Accrued Expenses	65.9	75.8	84.9	86.9	206.5	145.7	107.3	96.4
Short-term Borrowings	25	48	215	115	37.5	360.5	638.9	1208.9
Other Current Liabilities	217.5	260.7	264.1	1749.1	1657.8	98.5	119.8	82.4
TOTAL CURRENT LIABILITIES	**617.6**	**1350.4**	**925.9**	**2222.4**	**2247.2**	**1109.2**	**1922.2**	**1899.8**
Long Term Debt	3158.4	3212.6	3709.2	3880	4392.6	3973.4	2042.5	1574.6
Minority Interest	--	--	--	2.9	1.9	--	--	--
Deferred Tax Liability Non-Current	12.2	--	--	504.1	498	495	498.7	445.2
Other Non-Current Liabilities	960	1069.8	943.3	1583.2	1644.9	448.5	287.1	249.7
TOTAL LIABILITIES	**4748.2**	**5632.8**	**5578.4**	**8192.6**	**8784.6**	**6026.1**	**4750.5**	**4169.3**
Common Stock	210.9	209.5	208.2	199.7	187.8	175.8	139.6	133.3
Additional Paid In Capital	1489.2	1466.3	1527	1489.4	1220.8	1094.5	600.7	397.3
Retained Earnings	334.1	83.7	-83.1	-357.6	339.5	1413.7	1298	1177.1
Treasury Stock	--	--	--	--	--	--	--	-144.7
Comprehensive Income and Other	-17.2	-30.5	-60.4	-47.6	-70.4	-72.3	-66.7	-56.1
TOTAL COMMON EQUITY	**2017**	**1729**	**1591.7**	**1283.9**	**1677.7**	**2611.7**	**1971.6**	**1506.9**
TOTAL EQUITY	**2017**	**1729**	**1591.7**	**1283.9**	**1677.7**	**2611.7**	**1971.6**	**1506.9**
TOTAL LIABILITIES AND EQUITY	**6765.2**	**7361.8**	**7170.1**	**9476.5**	**10462.3**	**8637.8**	**6722.1**	**5676.2**

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ValuEngine™ DETAILED RESEARCH REPORT

TECO ENERGY INC(TE)

ANNUAL FINANCIALS - INCOME STATEMENT (millions)

	2007-12	2006-12	2005-12	2004-12	2003-12	2002-12	2001-12	2000-12
Revenues	3536.1	3448.1	3010.1	2669.1	2740	2675.8	2648.6	2295.1
TOTAL REVENUES	**3536.1**	**3448.1**	**3010.1**	**2669.1**	**2740**	**2675.8**	**2648.6**	**2295.1**
Cost Of Goods Sold	2845.5	2768.4	2368	2124.4	2101.5	1983.4	1928.1	1613.3
GROSS PROFIT	**690.6**	**679.7**	**642.1**	**544.7**	**638.5**	**692.4**	**720.5**	**681.8**
Stock-Based Compensation	11.6	--	--	--	--	--	--	--
Depr. and Amortization	263.7	282.2	282.2	282.3	289.4	303.4	298	268.2
OPERATING INCOME	**415.3**	**397.5**	**359.9**	**262.4**	**349.1**	**389**	**422.5**	**413.6**
Interest Expense	-259.5	-279.4	-288.7	-321.9	-328.3	-186	-183.4	-167.6
NET INTEREST EXP.	**-259.5**	**-279.4**	**-288.7**	**-321.9**	**-328.3**	**-186**	**-183.4**	**-167.6**
Income/(Loss) from Affiliates	**68.5**	**58.9**	**60.4**	**36.1**	**-0.4**	**-6**	**6.7**	**--**
Other Non-Oper. Inc. (Exp.)	-118.2	-3.8	--	52.1	141.9	106.3	57.7	12.5
EBT EXCL. UNUSUAL ITEMS	**342.5**	**275.3**	**303.2**	**-30.7**	**162.3**	**293.9**	**293.6**	**264**
Restructuring Charges	--	--	--	-1.2	-24.6	--	--	--
Gain (Loss) On Sale Of Invest.	--	--	--	-152.3	--	-9.4	-9.9	5.5
Gain (Loss) On Sale Of Assets	221.3	20.7	--	--	--	--	--	--
Asset Writedown	--	--	-3.2	-713.5	-181.7	--	--	--
Insurance Settlements	--	--	--	--	--	--	--	5.4
Legal Settlements	--	--	--	5.6	-32	--	--	--
Other Unusual Items	-32.9	-2.5	-74.2	-9.2	-122.7	-34.1	--	--
EBT INCL. UNUSUAL ITEMS	**530.9**	**293.5**	**225.8**	**-749**	**-198.7**	**259.8**	**293.6**	**269.4**
Income Tax Expense	214.2	118.7	101.9	-265.1	-135.2	-38.4	-10.1	18.5
Minority Int. in Earnings	82.2	69.6	87.1	79.5	48.8	--	--	--
EARNINGS FROM CONTINUING	**398.9**	**244.4**	**211**	**-404.4**	**-14.7**	**298.2**	**303.7**	**250.9**
Earnings Of Discontinued Oper.	14.3	1.9	63.5	-147.6	-890.4	31.9	--	--
NET INCOME	**413.2**	**246.3**	**274.5**	**-552**	**-909.4**	**330.1**	**303.7**	**250.9**
NI TO COMMON INCL EXTRA ITEMS	**413.2**	**246.3**	**274.5**	**-552**	**-909.4**	**330.1**	**303.7**	**250.9**
Basic EPS	2	1.2	1.3	-2.9	-5.1	2.2	2.3	2
Basic EPS Excl. Extra Items	1.9	1.2	1	-2.1	-0.1	2	2.3	2
Weighted Avg. Basic Shares Out.	209.1	207.9	206.3	192.6	179.9	153.2	134.5	125.9
Diluted EPS	2	1.2	1.3	-2.9	-5.1	2.2	2.2	2
Diluted EPS Excl Extra Items	1.9	1.2	1	-2.1	-0.1	2	2.2	2
Weighted Avg. Diluted Shares Out.	209.9	208.7	208.2	192.6	179.9	153.3	135.4	126.3

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ValuEngine™ DETAILED RESEARCH REPORT

TECO ENERGY INC(TE)

ANNUAL FINANCIALS - CASH FLOW STATEMENT (millions)

	2007-12	2006-12	2005-12	2004-12	2003-12	2002-12	2001-12	2000-12
Net Income	413.2	246.3	274.5	-552	-909.4	330.1	303.7	250.9
Depreciation and Amortization	263.7	282.2	282.2	289.6	382	303.4	298	268.2
DEPRECIATION AND AMORT., TOTAL	**263.7**	**282.2**	**282.2**	**289.6**	**382**	**303.4**	**298**	**268.2**
(Gain) Loss From Sale Of Asset	-246.1	-67	-261.6	-92.9	-147.5	-15.1	--	-13.6
(Gain) Loss On Sale Of Invest.	--	--	--	--	153.9	--	--	--
Asset Writedown and Restruct. Costs	--	--	3.2	893.3	1453.5	14.1	11.1	14.2
(Income) Loss On Equity Investments	-18	-3.4	-35.9	-34.3	13.8	15.3	-3.1	-6.7
Stock-Based Compensation	11.6	--	--	--	18.3	13.9	9.7	9.2
Minority Interest in Earnings	-82.2	-89.6	-87.1	-79.5	-48.8	--	--	--
Other Operating Activities	39.1	64.7	-129	27.2	-15.6	62.2	13.5	-59.7
Change In Accounts Receivable	51	-26	-56.7	32.1	96.4	-64.1	52	-92.1
Change In Inventories	-9.6	-5.8	-38.1	41.9	7	-39.4	-22.8	7.5
Change In Accounts Payable	-71.9	-18	119	-69.2	-17.5	98.3	-51.3	42.6
Change In Income Taxes	26.6	-17	-17.4	-82	34.5	24.1	16.4	17.6
Change In Deferred Taxes	182.3	109.9	108.1	-358.2	-714.1	-101.3	-107.8	-82.4
Change In Other Working Capital	-5.7	70.6	12.7	123.6	22.1	14.2	-6.3	25.5
CASH FROM OPERATIONS	**554**	**568.9**	**173.9**	**139.6**	**328.6**	**655.7**	**513.1**	**381.2**
Capital Expenditure	-489.9	-453	-295.3	-272.2	-563.2	-1030.7	-956.7	-686.1
Sale of Prop., Plant, and Equip.	--	25	--	--	--	103.3	43.2	61.3
Cash Acquisitions	--	--	--	--	--	-9.9	-315.8	-78.8
Divestitures	405.2	60.4	278.3	326.8	296.5	--	--	--
Sale (Purchase) of Real Estate prop.	--	15	--	--	--	--	--	--
Invest. in Marketable and Eqty Securities	-0.4	0.6	6.9	70.1	-63	-723.2	123.3	-341.1
Other Investing Activities	57.4	0.3	47.6	-34.3	-63.5	--	--	--
CASH FLOW FROM INVESTING	**-27.7**	**-351.7**	**37.5**	**90.4**	**-393.2**	**-1660.5**	**-1106**	**-1044.7**
Short-Term Debt Issued	--	--	100	77.5	--	--	--	395.3
Long-Term Debt Issued	444.1	327.5	311.9	--	655.1	2194	1255.9	594.9
TOTAL DEBT ISSUED	**444.1**	**327.5**	**411.9**	**77.5**	**655.1**	**2194**	**1255.9**	**990.2**
Short-Term Debt Repaid	-23	-167	--	--	-323	-278.4	-570.1	--
Long-Term Debt Repaid	-1137.5	-199.3	-494.1	-225	-526.5	-949.7	-236.5	-145.6
TOTAL DEBT REPAID	**-1160.5**	**-366.3**	**-494.1**	**-225**	**-849.5**	**-1228.1**	**-806.6**	**-145.6**
TOTAL DIVIDENDS PAID	**-163**	**-158.7**	**-157.7**	**-145.2**	**-165.2**	**-215.8**	**-184.2**	**-167.4**
Other Financing Activities	60.1	65.7	81.1	58.7	-15.3	-15.3	--	--
CASH FROM FINANCING	**-805.3**	**-119.3**	**37.6**	**-241.5**	**-238.3**	**1307.4**	**613.5**	**665.6**
NET CHANGE IN CASH	**-279**	**96.9**	**249**	**-11.5**	**-302.9**	**302.6**	**20.6**	**-2.1**
Cash Interest Paid	262.1	259.4	288.9	372.1	493.1	160.2	178.1	166.7
Cash Taxes Paid	-10.5	10.4	27.4	22.4	58.8	-71.9	52.4	83.9
Net Debt Issued	-716.4	-38.8	-82.2	-147.5	-194.4	965.9	449.3	844.6

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ValuEngine™ DETAILED RESEARCH REPORT

TECO ENERGY INC(TE)

QUARTERLY FINANCIALS - BALANCE SHEET (millions)

	2008-06	2008-03	2007-12	2007-09	2007-06	2007-03	2006-12	2006-09
Cash and Equivalents	171.8	118.1	162.6	136.1	219.9	361.6	441.6	561.8
Short Term Investments	2.4	2.3	--	--	18.4	18.2	--	--
TOTAL CASH & SHORT TERM INVEST	**174.2**	**120.4**	**162.6**	**136.1**	**238.3**	**379.8**	**441.6**	**561.8**
Accounts Receivable	330.8	309.9	295.9	356	297.2	310.2	338.3	363.6
Other Receivables	0.2	0.7	0.7	2.1	--	--	--	--
TOTAL RECEIVABLES	**331**	**310.6**	**296.6**	**358.1**	**297.2**	**310.2**	**338.3**	**363.6**
INVENTORIES	**161.9**	**146.8**	**154**	**179.1**	**212.5**	**189.7**	**159.6**	**162.3**
Prepaid Expenses	25.1	21.9	23	25	32.1	28.2	46.1	42.2
Other Current Assets	288.8	135	153.6	304.2	304.4	300.7	300.1	322.5
TOTAL CURRENT ASSETS	**981**	**734.7**	**789.8**	**1002.5**	**1084.5**	**1208.6**	**1285.7**	**1452.4**
Gross Property Plant and Equip.	7037.9	6954.1	6893.8	6810	6740	6629	7084.1	6960.5
Accumulated Depreciation	-2028.6	-2001.8	-2005.6	-1994.6	-1984.2	-1934.5	-2317.2	-2281.1
NET PROPERTY, PLANT AND EQUIP.	**5009.3**	**4952.3**	**4888.2**	**4815.4**	**4755.8**	**4694.5**	**4766.9**	**4679.4**
Long-term Investments	291.2	268	298.4	274	294.3	274.8	300.9	295.6
Goodwill	59.4	59.4	59.4	59.4	59.4	59.4	59.4	59.4
Deferred Tax Assets, LT	384.8	416.3	424.9	526.8	574	580.2	630.2	703.4
Deferred Charges, LT	303.1	303.3	302.6	319	326.5	325.1	318.6	208
Other Long Term Assets	24.8	8.4	1.9	168.1	164.2	156.3	0.1	0.2
TOTAL ASSETS	**7053.8**	**6742.4**	**6765.2**	**7185.2**	**7258.7**	**7298.9**	**7361.8**	**7398.4**
Accounts Payable	356.6	282.2	302.1	259.7	259.9	267.6	326.5	299
Accrued Expenses	96.1	99.9	65.9	143.2	105.1	128.1	75.8	169.1
Short-term Borrowings	--	18	25	73	--	51	48	--
Other Current Liabilities	333	275.6	217.5	258.9	355.2	317.8	260.7	315
TOTAL CURRENT LIABILITIES	**792.8**	**682.8**	**617.6**	**741.9**	**877.7**	**1221.9**	**1350.4**	**1422.5**
Long Term Debt	3212.1	3062.1	3158.4	3454.4	3460.1	3211.3	3212.6	3318.7
Deferred Tax Liability Non-Current	11.2	11.4	12.2	12.7	13.4	--	--	--
Other Non-Current Liabilities	1009.8	993.1	960	1086.8	1091	1096.5	1069.8	967.1
TOTAL LIABILITIES	**5025.9**	**4749.4**	**4748.2**	**5295.8**	**5442.2**	**5529.7**	**5632.8**	**5708.3**
Common Stock	212.7	210.7	210.9	210.6	210.6	209.6	209.5	209.1
Additional Paid In Capital	1512.9	1493.1	1489.2	1484.1	1480.4	1470.9	1466.3	1457.8
Retained Earnings	332.9	323.8	334.1	201.4	149.6	116.9	83.7	74.6
Comprehensive Income and Other	-30.8	-34.6	-17.2	-26.7	-24.1	-28.2	-30.5	-51.4
TOTAL COMMON EQUITY	**2027.7**	**1993**	**2017**	**1869.4**	**1816.5**	**1769.2**	**1729**	**1690.1**
TOTAL EQUITY	**2027.7**	**1993**	**2017**	**1869.4**	**1816.5**	**1769.2**	**1729**	**1690.1**
TOTAL LIABILITIES AND EQUITY	**7053.6**	**6742.4**	**6765.2**	**7185.2**	**7258.7**	**7298.9**	**7361.8**	**7398.4**

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ValuEngine™ DETAILED RESEARCH REPORT

TECO ENERGY INC(TE)

QUARTERLY FINANCIALS - INCOME STATEMENT (millions)

	2008-09	2008-03	2007-12	2007-09	2007-06	2007-03	2006-12	2006-09
Revenues	887.2	791.7	858.3	990	866.5	821.3	826.2	922.9
TOTAL REVENUES	**887.2**	**791.7**	**858.3**	**990**	**866.5**	**821.3**	**826.2**	**922.9**
Cost Of Goods Sold	719.9	648.2	706.5	783.6	698.5	668.5	681.6	722.5
GROSS PROFIT	**167.3**	**143.5**	**151.8**	**206.4**	**168**	**152.8**	**144.6**	**200.4**
Depr. and Amortization	64.9	65	65.5	59.8	66.8	71.6	71.2	70.1
OPERATING INCOME	**102.4**	**78.5**	**86.3**	**146.6**	**101.2**	**81.2**	**73.4**	**130.3**
Interest Expense	-56.6	-58.2	-61.4	-64.2	-66.1	-67.8	-69.7	-70.5
NET INTEREST EXP.	**-56.6**	**-58.2**	**-61.4**	**-64.2**	**-66.1**	**-67.8**	**-69.7**	**-70.5**
Income/(Loss) from Affiliates	**21.6**	**17.4**	**18**	**15.6**	**18.7**	**16.2**	**16**	**14.5**
Other Non-Oper. Inc. (Exp.)	6.4	7.1	-19.6	26.5	24.1	54.3	27	37.1
EBT EXCL. UNUSUAL ITEMS	**73.8**	**44.8**	**265.8**	**124.5**	**77.9**	**83.9**	**51.7**	**111.4**
Gain (Loss) On Sale Of Assets	--	-0.9	--	--	--	--	--	5
Other Unusual Items	--	--	--	-4.9	-13.5	-2.8	--	--
EBT INCL. UNUSUAL ITEMS	**73.8**	**43.9**	**265.8**	**119.6**	**64.4**	**81.1**	**51.7**	**116.4**
Income Tax Expense	22.4	13.1	109.5	47.6	25.3	31.8	26	42.7
Minority Int. in Earnings	--	--	17.6	20.8	20.3	23.5	22.7	6
EARNINGS FROM CONTINUING	**51.4**	**30.8**	**173.9**	**92.8**	**59.4**	**72.8**	**48.4**	**79.7**
Earnings Of Discontinued Oper.	--	--	--	--	14.3	--	0.5	--
NET INCOME	**51.4**	**30.8**	**173.9**	**92.8**	**73.7**	**72.8**	**48.9**	**79.7**
NI TO COMMON INCL EXTRA ITEMS	**51.4**	**30.8**	**173.9**	**92.8**	**73.7**	**72.8**	**48.9**	**79.7**
Basic EPS	0.2	0.2	0.8	0.4	0.3	0.3	0.2	0.4
Basic EPS Excl. Extra Items	0.2	0.2	0.8	0.4	0.3	0.3	0.2	0.4
Weighted Avg. Basic Shares Out.	210.4	209.7	209.4	209.2	208.9	208.6	208.3	207.9
Diluted EPS	0.2	0.2	0.8	0.4	0.3	0.3	0.2	0.4
Diluted EPS Excl.Extra Items	0.2	0.2	0.8	0.4	0.3	0.3	0.2	0.4
Weighted Avg. Diluted Shares Out.	212.1	210.6	210.4	210	210	209.6	209.2	208.7

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ValuEngine™ DETAILED RESEARCH REPORT

TECO ENERGY INC(TE)

QUARTERLY FINANCIALS - CASH FLOW STATEMENT (millions)

	2008-06	2008-03	2007-12	2007-09	2007-06	2007-03	2006-12	2006-09
Net Income	51.4	30.8	173.9	92.8	73.7	72.8	48.9	79.7
Depreciation and Amortization	64.9	65	65.5	59.8	66.8	71.6	71.2	70.1
DEPRECIATION AND AMORT., TOTAL	64.9	65	65.5	59.8	66.8	71.6	71.2	70.1
(Gain) Loss From Sale Of Asset	-0.1	-1	-218.9	17.3	-20.2	-24.3	-20.5	-19.8
(Income) Loss On Equity Investments	-21.6	-14.8	-10.7	6.6	-18.7	4.8	-11.5	11.7
Stock-Based Compensation	3.7	2.4	1.7	2.5	4.9	2.5	--	2.3
Minority Interest in Earnings	--	--	-17.6	-20.8	20.3	-23.5	-22.7	-6
Other Operating Activities	-82.7	-12.7	13.2	14.3	19.3	-7.7	-4.7	-6.6
Change In Accounts Receivable	-20.9	-13.1	132.5	-88.6	8.6	15.7	1.5	-14.1
Change In Inventories	-15.1	7.2	24.3	32.8	-24.5	-42.2	2.6	1.9
Change In Accounts Payable	82.5	-5.6	-29.8	-20.7	15	-36.4	27	5.3
Change In Income Taxes	14.4	1.3	-27	7.9	16.3	29.4	-58.6	18.5
Change In Deferred Taxes	23.9	14.8	93.6	52.4	7.6	28.7	22.3	40.8
Change In Other Working Capital	-14.9	49.1	-60.9	24.2	-36.5	67.5	-7.1	55.9
CASH FROM OPERATIONS	85.5	153	139.8	180.5	74.8	158.9	48.4	239.7
Capital Expenditure	-127.1	-135.6	-133.8	-86.8	-136.5	-132.8	-153.3	-120.5
Sale of Prop., Plant, and Equip	--	--	--	--	--	--	25	--
Divestitures	--	-7.3	344.4	15.3	37.6	7.9	18.7	13.7
Sale (Purchase) of Real Estate prop.	--	--	--	--	--	--	15	--
Invest. in Marketable and Eqty Securties	-0.1	89.5	54.8	4.4	-2.3	-29.8	-0.5	1.1
Other Investing Activities	--	--	3.2	26.8	-0.1	--	--	-0.9
CASH FLOW FROM INVESTING	-127.2	-53.4	268.6	-40.3	-101.3	-154.7	-95.1	-106.6
Short-Term Debt Issued	--	--	--	73	--	3	48	--
Long-Term Debt Issued	137.1	190.8	--	--	--	--	--	--
TOTAL DEBT ISSUED	137.1	190.8	--	73	--	3	48	--
Short-Term Debt Repaid	-18	-7	-48	--	-51	--	--	--
Long-Term Debt Repaid	--	-288.1	-297.2	-269.4	-54	-72.8	-106.2	-6
TOTAL DEBT REPAID	-18	-295.1	-345.2	-269.4	-105	-72.8	-106.2	-6
TOTAL DIVIDENDS PAID	-42.4	-41.1	-41.1	-41.1	-41	-39.8	-39.7	-39.7
Other Financing Activities	--	--	0.2	12.1	26	21.8	18.2	4.5
CASH FROM FINANCING	95.4	-144.1	-381.9	-224	-115.2	-84.2	-73.5	-38.7
NET CHANGE IN CASH	53.7	-44.5	26.5	-83.8	-141.7	-80	-120.2	94.4
Net Debt Issued	119.1	-104.3	-345.2	-196.4	-105	-69.8	-58.2	-6

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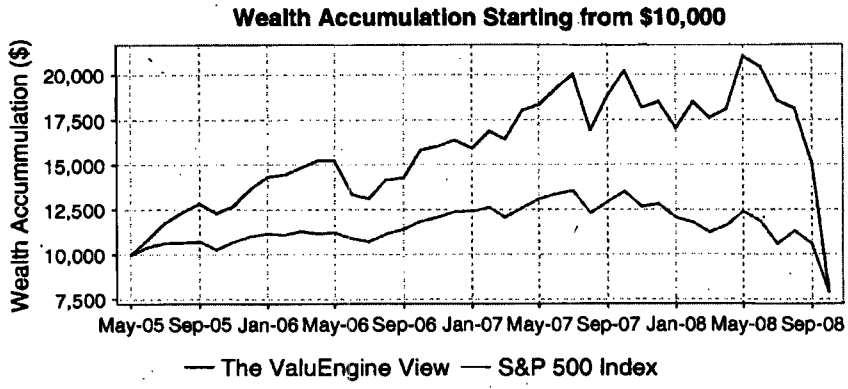
ValuEngine™ DETAILED RESEARCH REPORT
TECO ENERGY INC(TE)

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ValuEngine™ DETAILED RESEARCH REPORT
TECO ENERGY INC(TE)

VALUENGINE'S METHODOLOGY

ValuEngine's research combines the most advanced academic concepts with real world Wall Street practice. The result is state-of-the-art fair market valuation and price forecasting technologies.

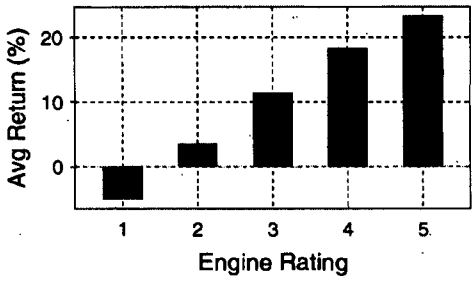
ValuEngine's stock valuation employs a sophisticated, three-factor approach. Fundamental variables, such as a company's trailing 12-month Earnings-Per-Share (EPS), the analyst consensus estimate of the company's future 12-month EPS, and the 30-year Treasury yield, are all used to create a more accurate reflection of a company's fair value. Together with eleven additional variables, ValuEngine paints a detailed picture of a company's fair value, represented by the model price.

ValuEngine's stock forecasts examine, among other things, short-term price reversals, intermediate-term momentum continuation, and long-term price reversals over six time horizons for every industry to ensure forecasts are established relative to a stock's proper peer groups. Advanced statistical/econometric techniques are used to run thousands of simulations estimating the probability of a double in stock price, as well as the probability of meeting and exceeding any given portfolio or stock investment target.

The stock's engine rating is an assessment of its overall attractiveness. It combines valuation, risk-return trade-off, momentum, market capitalization and forecasted future returns. Only two percent of the stock universe receives the highest 5-engine rating. The lowest rating is a single engine.

For more information on ValuEngine, its models and performance, go to www.ValuEngine.com

Engine Rating and Average Annual Return
(Jan 1990 - Oct 2008)



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1. Buy: Expected to outperform the SP500 producing above average returns.
2. Hold: Expected to perform in line with the SP500 with average returns.
3. Sell: Expected to underperform the SP500 producing below-average returns.

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TECO's Responses to Staff's First Request for Production of Documents (Nos. 3-8, 10-32)

TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR
PRODUCTION OF DOCUMENTS
DOCUMENT NO. 3
BATES STAMPED PAGE: 2203
FILED: OCTOBER 20, 2008

3. Please provide copies of all reports or reviews for Tampa Electric Company prepared by or for Standard & Poor's Rating Service since January 1, 2007.

A. See the company's response to OPC's Second Request for Production of Documents Nos. 69 and 72.

Hearing Exhibit - 00000509

TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR
PRODUCTION OF DOCUMENTS
DOCUMENT NO. 4
BATES STAMPED PAGE: 2204
FILED: OCTOBER 20, 2008

4. Please provide copies of all reports or reviews for TECO Energy, Inc. prepared by or for Standard & Poor's Rating Service since January 1, 2007.

A. See the company's response to OPC's Second Request for Production of Documents Nos. 69 and 72.

Hearing Exhibit - 00000510

TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR
PRODUCTION OF DOCUMENTS
DOCUMENT NO. 5
BATES STAMPED PAGE: 2205
FILED: OCTOBER 20, 2008

5. Please provide copies of all reports or reviews for Tampa Electric Company prepared by or for Moody's Investor Service since January 1, 2007.

A. See the company's response to OPC's Second Request for Production of Documents Nos. 69 and 72.

Hearing Exhibit - 00000511

TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR
PRODUCTION OF DOCUMENTS
DOCUMENT NO. 6
BATES STAMPED PAGE: 2206
FILED: OCTOBER 20, 2008

6. Please provide copies of all reports or reviews for TECO Energy, Inc. prepared by or for Moody's Investor Service since January 1, 2007.

A. See the company's response to OPC's Second Request for Production of Documents Nos. 69 and 72.

Hearing Exhibit - 00000512

TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR
PRODUCTION OF DOCUMENTS
DOCUMENT NO. 7
BATES STAMPED PAGES: 2207
FILED: OCTOBER 20, 2008

7. Please provide copies of all reports or reviews for Tampa Electric Company prepared by or for Fitch Ratings since January 1, 2007.

A. See the company's response to OPC's Second Request for Production of Documents Nos. 69 and 72.

Hearing Exhibit - 00000513

TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR
PRODUCTION OF DOCUMENTS
DOCUMENT NO. 8
BATES STAMPED PAGES: 2208
FILED: OCTOBER 20, 2008

8. Please provide copies of all reports or reviews for TECO Energy, Inc. prepared by or for Fitch Ratings since January 1, 2007.

A. See the company's response to OPC's Second Request for Production of Documents Nos. 69 and 72.

TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR
PRODUCTION OF DOCUMENTS
DOCUMENT NO. 10
BATES STAMPED PAGES: 9376
FILED: OCTOBER 20, 2008

10. For TECO Energy, Inc., please provide copies of all reports, reviews, and analyses since January 1, 2007, where the subject has been return on equity, equity ratio, debt ratio, capital structure, or cost of capital.

A. See the company's response to Staff's First Request for Production of Documents No. 9.

Hearing Exhibit - 00000515

TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR
PRODUCTION OF DOCUMENTS
DOCUMENT NO. 11
BATES STAMPED PAGES: 9377
FILED: OCTOBER 20, 2008

11. Please provide copies of the minutes from any Board of Director meetings, management meetings, or any other meetings where the topic of discussion was return on equity, equity ratio, debt ratio, capital structure, or cost of capital for Tampa Electric Company.

A. There are no minutes from any Board of Director meetings, management meetings, or any other meetings where the topic of discussion was return on equity, equity ratio, debt ratio, capital structure, or cost of capital for Tampa Electric Company.

Hearing Exhibit - 00000516

TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR
PRODUCTION OF DOCUMENTS
DOCUMENT NO. 12
BATES STAMPED PAGES: 9378 - 9439
FILED: OCTOBER 20, 2008

12. Please provide copies of all Standard and Poor's reports for each corporate credit rating change that occurred for Tampa Electric Company from 1999 through the present.

A. Copies of all Standard and Poor's reports for each corporate credit rating change that occurred for Tampa Electric Company from 1999 through 2006 are attached. Additionally, the company has provided copies of all Fitch Ratings and Moody's Investor Services reports to provide a complete history for each corporate credit rating change, which includes the respective rating agency's rationale for each rating change. Also, see the company's response to OPC's Second Request for Production of Documents for copies of all credit reports for TECO Energy or Tampa Electric published by the credit rating agencies since January 1, 2007.

Hearing Exhibit - 00000517



Moody's Investors Service

Global Credit Research
Rating Action
4 APR 2000

Save as PDF

Rating Action: TECO Energy, Inc.

MOODY'S CHANGES RATINGS OUTLOOK OF TECO ENERGY AND ITS AFFILIATE, TAMPA ELECTRIC, TO NEGATIVE

New York, April 04, 2000 -- Moody's Investors Service is changing the ratings outlook of TECO Energy and its principal affiliate, Tampa Electric Company to negative. The A1 ratings assigned to TECO Energy's senior unsecured debt continue to benefit from the stability of cash flows being generated by Tampa Electric, its focus on growing its Florida based businesses, and its historically conservative financial management. However, as the company refines and implements its new growth strategies, significant challenges are expected to loom.

Tampa Electric's capital expenditures are expected to grow considerably over the next few years as the company adds to its generation reserve margin, meets growth requirements, and implements its settlements with the U.S. and Florida environmental agencies. In total these programs will result in an active external financing program as internal cash generation is not expected to keep pace. A higher reliance on debt financing could result, further straining cash coverages.

At the same time as the company's utility operation is required to deploy significant levels of new capital, TECO Power Services is expected to solidify itself as the company's major growth vehicle. The projects outside the U.S. are principally located in Central America and this region likely forms the core for any additional offshore expansion. Considerable attention is expected to placed on the U.S. national market. Because of the developmental nature of many of these projects, cash flows supporting the investment will take time to build.

Growing both major portions of the business simultaneously will require the company to attract substantial new capital. Maintaining cash flow and balance sheet measures could prove difficult when the company's stock price is well off its 52 week high. A negative rating outlook results.

TECO Energy Inc. is a diversified, energy related utility holding company headquartered in Tampa, Florida. Its principal subsidiary is Tampa Electric Company, a regulated electric utility.

New York
Stephen J. Gutkowski, CFA
Senior Vice President
Corporate Finance
Moody's Investors Service

New York
Susan D. Abbott
Managing Director
Corporate Finance
Moody's Investors Service

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Moody's Investors Service
Global Credit Research

Tampa Electric Company

April 2000

Ratings and Contacts

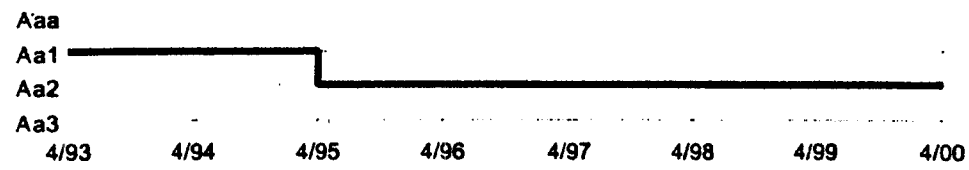
Category	Moody's Rating
Issuer Rating	Aa3
First Mortgage Bonds	Aa2
Senior Unsecured	Aa3
Commercial Paper	P-1

Parent: TECO Energy, Inc.
Senior Unsecured A1

Analyst	Phone
Stephen J. Gutkowski/New York	1.212.553.1653
Scott Solomon/New York	
Susan D. Abbott/New York	

Rating History

Senior Secured



Operating Statistics

Tampa Electric Company (Statistics in bold type)
Peer Group Median (Statistics in light type)

	[1]1999		1998		1997		1996		1995		[2]5-Yr.Avg	
Revenue (US$ bil.)	1.5	1.2	1.5	1.1	1.4	1.1	1.1	1.0	1.1	[3]4.5	[3]7.4	
Assets (US$ bil.)	3.3	2.9	3.1	2.8	3.1	2.7	2.7	2.8	2.6	[3]2.5	[3]7.4	
Com. Equity (US$ bil.)	1.4	0.9	1.3	0.9	1.3	0.9	1.1	0.9	1.0	[3]2.3	[3]9.2	
Op. Margin (%)	15.9	14.7	14.8	15.1	15.1	16.4	15.5	16.1	15.0	15.7	14.8	
ROA(%)	4.4	3.7	4.7	3.6	4.8	3.7	5.1	3.8	4.9	3.7	4.8	
ROE(%)	10.6	12.2	11.1	11.7	11.7	12.0	12.4	12.5	12.5	12.0	11.8	
Div. Payout (%)	106.2	82.8	100.8	85.2	98.6	81.9	96.7	79.0	88.5	82.3	98.3	
Pretax Int. Cov. (X)	4.0	3.5	4.7	3.4	4.5	3.5	4.5	3.4	4.7	3.4	4.7	
Fxd. Chg. Cov. (X)	4.0	3.0	4.7	2.9	4.5	2.9	4.3	2.9	4.2	2.9	4.4	
FFO Int. Cov. (X)	5.1	4.5	6.4	4.5	4.8	4.6	5.9	4.4	6.1	4.4	5.8	
FFO % Total Debt	33.9	25.7	40.0	26.2	26.8	26.4	34.7	25.3	33.1	25.3	32.5	
RCF % Gross CAPEX	50.2	113.0	84.5	124.6	69.9	128.8	82.5	113.5	39.1	113.6	57.7	
Total Cap. (US$ bil.)	2.2	2.1	2.2	2.0	2.2	2.0	1.9	1.9	1.8	[3]2.3	[3]6.4	
TD % Cap.	39.9	49.2	38.5	49.5	43.0	48.8	39.9	49.5	40.6	49.4	40.8	
Pfd. Stk. % Cap.	0.0	5.5	0.0	6.0	0.0	5.7	1.0	4.6	3.0	5.3	1.4	
Common % Cap.	60.1	45.0	60.5	44.9	57.0	45.4	59.1	45.1	56.3	44.9	57.7	

Electric Utility Operating Statistics

Customer Segmentation	Residential	Commercial	Industrial	Wholesale	Total
Revenue (US$ mil.)	583.2	335.2	112.8	89.7	1,497.4
Kwh(mil.)	7050	5173	2520	2498	18513
¢/Kwh	8.0	6.5	4.5	3.6	8.0
Regional Average	7.9	6.5	4.7	4.3	7.8

Competitive Position	Fuel	Non-Fuel	Investment	Total Cost	Regional Cost
$ per Mwhr.	21.25	5.61	12.59	39.45	39.45

[1] For the 12 months ended September 30; Balance sheet items are as of September 30. [2] Five year average 1996-1994. [3] Five year compound annual growth rate.

Opinion

Rating Rationale

The Aa2 ratings assigned to the senior secured debt of Tampa Electric Company, the main operating company of TECO Energy, reflect the growing economic base of its service territory and the benefits of its rate stabilization plan. However, the company is not without its challenges.

The most pressing is the financial burden associated with a large capital expenditure plan resulting from the company's need for additional capacity to meet growth requirements, add to its reserve margin, and meet the obligations of its agreements with both the Florida and U.S. environmental agencies. These come at a time when financial performance is not meeting expectations and the company's position in the Aa2 peer group has weakened.

Over the next few years capital expenditures will grow significantly; averaging $350 million for 2001 through 2004. This level compares with an average spending level of $200 million for the 1996-1998 period. At the current levels, a very active external financing program is expected. Maintaining a strong balance sheet in this environment could prove to be difficult. Already well under the FPSC's 58.7% equity level, the company's dividend payout ratio is moving up and the parent's stock price is well under its 52 week high.

Recent Developments

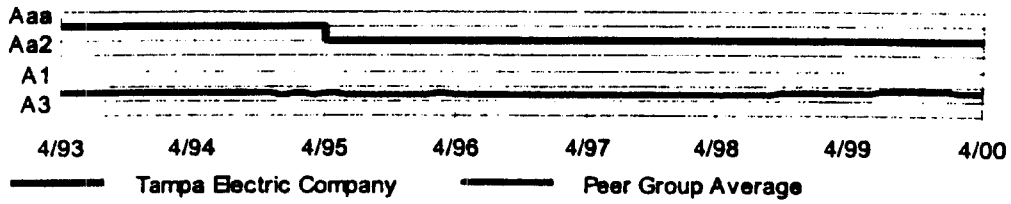
The company's environmental compliance costs are expected to approach $1 billion over the next 10 years.

Rating Outlook

The pressures of a large capital requirement are expected to remain a continuing challenge and result in a negative ratings outlook. The speed and extent to which the parent company's expands into activities with higher financial and business risk profiles than Tampa Electric could further exacerbate the situation.

Coupon	Type of Debt	Maturity	Moody's Rating
Tampa Electric Company			
—	Issuer Rating	—	Aa3
7.750%	First Mortgage Bonds	2022	Aa2
6.125%	First Mortgage Bonds	2003	Aa2
5.750%	First Mortgage Bonds	2000	Aa2
5.940%	Rmktd. Notes	2038	Aa3
—	Commercial Paper	—	P-1
—	415 Shelf Registration	—	(P)Aa3
—	415 Shelf Registration	—	(P)Aa2

Rating History: Peer **Similar Securities**



The peer group on the front page includes 121 electric utilities. Members of the peer group may change from year to year, which may slightly alter peer group data.

Authors
Stephen Gutkowski
Jonathan M. Newman

Production Associate
John Tzanos

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Risks/Weaknesses

- The company's capital requirement to meet environmental compliance standards increases its external financing need and could expose the company to competitive price pressures.
- The financial requirements of TECO's focus on growing its non-regulated business could impact Tampa Electric's financial flexibility.
- Increased leverage at Tampa Electric has increased pressures on debt protection measurements.
- The potential loss of wholesale customers to new merchant power plants poses a developing risk.

Opportunities/Strengths

- The company's service territory continues to realize strong economic growth.
- Tampa Electric operates in a stable regulatory environment.
- The relatively low exposure to an industrial customer base, the customer segment most likely to switch electric suppliers, provides a degree of cash flow stability if retail competition is introduced.
- Future cost containment initiatives should allow the company to manage its operating expenses and partially offset the impact of its growing capital requirements.

Company Fundamentals

Tampa Electric Company (Tampa Electric) headquartered in Tampa Florida, is the largest operating subsidiary of TECO Energy Inc., a diversified energy-related holding company which has interests in both regulated and non-regulated businesses. Tampa Electric has approximately $3.2 billion of assets concentrated in electric generation, transmission, and distribution services, as well as in its Peoples Gas Services (PGS) division; which is Florida's largest regulated retail natural gas distribution company. Although there has been substantial growth in the company's PGS business, the electric operations continue to provide the lion's share of Tampa Electric's net income. At year-end 1999 the electric operations comprised approximately 87% of Tampa Electric's total assets and had a net income margin (excluding one-time charges) of approximately 11%. Tampa Electric's electric operations provide service to more than 550,000 retail customers in a 2,000 square-mile area of West Central Florida, while PGS has a 250,000 customer distribution network and operates in all large metropolitan locations in Florida.

Economic Expansion Supports Customer Growth

The service territory of Tampa Electric is fairly stable. The West Central Florida economy is diverse, consisting of chemical, pulp, paper, and phosphate mining companies. While military bases and telecommunication companies provide a key source of skilled labor, the state also benefits from large tourism and commercial fishing industries. Florida's economy experienced strong growth in 1999 and is expected to outpace the U.S. economy growth over the next few years. The relatively low cost of doing business in the state draws new companies, while the absence of a personal income tax attracts new residents. In 1999, Tampa Electric's electric utility had 2.5% customer growth while its PGS division realized 3.7% growth in its customer base. Because average territorial retail kilowatt-hour sales are anticipated to grow 2.5% per year through 2005, the company accelerated the planned in service date of its Polk Power Station's unit 2 to September 2000. In addition, Tampa Electric will purchase an additional 75 MW from Hardee Power Partners, which is owned by TECO Power Services (TPS).

Tampa Electric's generation is predominantly coal based and accounted for approximately 98% of the company's total 3,569 MW of owned generation in 1999. Units that burned natural gas or oil represented the remaining 2%. Purchased power amounted to only 12% of the electric utility's operating and maintenance costs indicating the electric utility has not had difficulty meeting load requirements from internal capacity.

Management Strategy and Competitive Position

Tampa Electric remains TECO's largest subsidiary and provides the most dependable and sizable source of cash flow for the holding company. Although TECO is committed to facilitating the growth of its regulated utility business in Florida, it is clear that the company's long-term growth strategy emphasizes the development of its TPS subsidiary and maximizing the value of its transportation business.

Tampa Electric is committed to enhancing its customer service, decreasing its operating costs, and increasing the sale of its ancillary business services. Starting in March 2000, the company has begun to reduce the number of physical business offices and implement changes to remaining customer service offices to lower costs, improve service, and realize procedural efficiencies. Management also remains focussed on increasing sales of its ancillary business services segment, including energy monitoring systems, commercial lighting, and surge protection to key market segments such as health care, education, lodging, and restaurants.

Production Costs High Relative to Neighbors'

From a production cost standpoint Tampa Electric was less competitive relative to other utilities in the state in 1998. This was largely the result of some above market coal contracts and high fuel transportation costs. A long-term contract between Tampa Electric and TECO Coal expired in 1999. The contract had supplied approximately 8% of Tampa Electric's coal requirements in 1999. In recent years Tampa Electric has successfully tested lower cost alternatives to the specialty coal it had purchased from TECO Coal and accordingly has not renewed its contract with TECO Coal.

1998 Production Costs

	Non-Fuel O&M	Fuel Cost	Total Production Costs (Cents / total Kwh)	Purchased Power
Tampa Electric Company	0.56	2.13	2.69	4.09
Florida Power Corporation	0.70	1.81	2.51	5.39
Florida Power & Light	0.54	1.85	2.38	4.74

Competitive Electric Rates

As illustrated in the chart below, Tampa Electric's electric rates are competitive among peninsular Florida investor-owned utilities and significantly below national averages. Compared to the other peninsular Florida utilities, Tampa Electric has the lowest industrial and wholesale rates and is the mid-priced supplier for the residential and commercial rate categories.

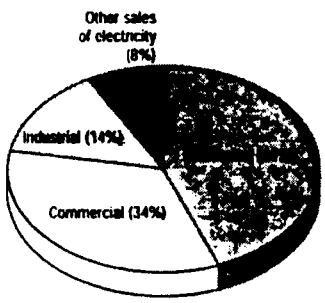
1998 Electric Rate Comparison

	Residential	Commercial	Industrial (Cents / total Kwh)	Wholesale
Tampa Electric Company	7.99	6.48	4.48	3.61
Florida Power & Light	7.87	6.47	4.99	4.96
Florida Power Corporation	8.62	6.09	4.90	5.38
National Average	8.71	7.61	4.60	NA

Low Defection Risk

Risk of customer loss is minimized by low exposure to industrial customers, the class most likely to seek alternative suppliers in a deregulated environment. In 1999 approximately 44% of total Kwh retail sales were to residential consumers, 34% to commercial customers, 14% to industrial customers, and the remaining sales went to other users. However, the phosphate mining industry which accounted for roughly 5% of Tampa Electric's revenues in 1999, is expected to contribute less revenue in the future because of the southward migration of mining operations out of Tampa Electric's service area.

1999 Retail Sales



Hearing Exhibit - 00000523

Parent's Non-Regulated Investments Elevate Business Risk

Tampa Electric's parent, TECO Energy Inc., is focused on maintaining the competitiveness of its core-regulated utilities while expanding its investments in non-regulated, energy-related businesses, both domestically and internationally. Through its subsidiaries TECO Coal Corporation (TCC), TECO Power Services Corporation (TPS), TECO Transport Corporation (TTC), TECO Coal Bed Methane, and Peoples Gas Company (PGC) (contains the propane operations), TECO has investments in Europe, North America and Central America.

Moody's is concerned with TECO's exposure in Central America, where local economies have suffered recent setbacks. TPS recently increased its ownership interest to 100% from 46% in the 120 MW San José Power Station that began commercial operation on January 19, 2000. This baseload generating facility is located in Escuintla, Guatemala and provides power under a 15-year purchase power agreement to Empresa Eléctrica de Guatemala, S.A., a distribution company in which TPS also has a 24% interest. TPS also has investments in several other Central American projects, including the 78 MW, oil fired Alborada Power Station.

In North America TECO is also intent on developing its non-regulated businesses. TPS recently undertook three new domestic projects. The 75 MW combustion turbine addition at TPS's Hardee Power Station, located in Florida, the construction of a 312 MW generating station in Accomack County, Virginia, and a fifty percent interest in the Hamakua Energy Project, which is a 60 MW cogeneration facility in Hawaii. TCC also announced that it had purchased two operating synthetic fuel production facilities from Covol Technologies, Inc.

Recently, TECO embarked on a joint venture that joins the propane operations from its Peoples Gas Company with the propane operations of Atmos Energy Corporation, AGL Resources, Inc., and Piedmont Natural Gas Company, Inc. The emerging entity will be named US Propane, L.P., and with nearly 200,000 customers will be one of the ten largest propane retailers in the country. The transaction is expected to be completed by May 1, 2000.

Regulation, Rates, and Restructuring

Florida Regulatory Environment Remains Unchanged

Florida's low electric rates have provided the state legislature with little reason to restructure the electric industry and introduce retail competition. The 1999 legislative session was adjourned without a serious electric restructuring initiative or study. The Florida Public Service Commission has been fairly supportive of the investor-owned utilities in the state, and with the absence of restructuring legislation on the horizon Tampa Electric will continue to operate in fairly stable business environment. A hearing is scheduled in August 2000 to review a complaint by the Florida Industrial Power Users Group that the commission's decision to review the company's 1997 and 1998 earnings levels and order of $11.2 million refund is insufficient. The company's allowed ROE was established in a 1995 rate order whereby Tampa Electric is allowed an ROE earnings range between 10.75% to 12.75% with rates established at the 11.75% midpoint. In September 1999, the FPSC issued an order for Tampa Electric to refund to customers $11.2 million after an examination of the company's 1998 and 1997 earnings. The commission set Tampa Electric's equity ratio for 1998 and 1997 at 58.7% for tariff purposes.

Supportive Regulatory Treatment

Tampa Electric is allowed by the FPSC to recover certain types of costs through four cost recovery clauses:

- Fuel and Purchase Power Energy Recovery (FCR), which minimizes volatility of fuel costs.
- Purchased Power Capacity Costs (PPCC), which provides for recovery of purchased capacity should the utility choose a purchase option rather than build plants.
- Energy Conservation Costs Recovery (ECCR), which allows utilities to recover the costs of conservation programs and activities.
- Environmental Costs Recovery (ECR), which provides reimbursement for prudently incurred environmental compliance expenditures.

The cost recovery factors are adjusted annually in January.

On November 30, 1999, the FPSC ruled that Tampa Electric and the other Florida investor owned utilities (IOU's) are to raise their capacity reserve margins from 15% to 20% by 2004. Under the agreement the IOU's can build more generating capacity, purchase additional power, or implement greater demand side management programs to meet this requirement.

Financial Impact of Environmental Compliance Remains an Issue

In the future, the company's financial flexibility may be limited by environmental compliance expenditures. In November 1999, the Department of Justice sued Tampa Electric and seven other utilities on behalf of the EPA for alleged violation of the Clean Air Act (CAA) associated with New Source Review requirements affecting repairs, maintenance, modifications and operational charges, maintenance, modifications and operational changes made to facilities.

On December 7, 1999, Tampa Electric and the Florida Department of Environmental Protection (DEP) reached an agreement intended to result in Tampa Electric's compliance with the CAA and the EPA's NOx directive. The agreement, estimated to cost $1 billion, is centered around the Company's plan to convert the coal fired Gannon plant to a gas fired facility at a cost of $600 million and increasing the plant's capacity from 1,100 MW to 1,475 MW. Tampa Electric reached a settlement with federal regulatory authorities over the pending litigation on February 29, 2000. The nature of the settlement is essentially the same as DEP agreement. Tampa Electric's resolution of the federal litigation represents the first such action of a utility to comply with the EPA's coal fired initiative. As part of the settlement on the federal level the company has agreed to pay $3.5 million in penalties and fines "to eliminate the uncertainties of litigation and in exchange for a release from past liability and a safe harbor during the ten-year term of the consent decree".

Merchant Power Competition

There is active competition in wholesale markets in Florida, largely as a result of the Energy Policy Act of 1992, which removed certain regulatory barriers to independent power producers (IPPs), and required utilities to transmit power from the IPPs to wholesale customers. In an attempt to capitalize on increased wholesale demand, several companies including Duke Power Services (a subsidiary of Duke Energy), are planning to build facilities to service wholesale customers within Florida, primarily municipalities. However, these companies have met significant opposition from the three investor-owned utilities in Florida, who have argued that merchant plants are illegal under the state's complex laws governing power projects, specifically the Florida Power Siting (PPSA) Act.

On March 5, 1999, the Florida Public Service Commission (FPSC) voted in favor of allowing Duke Energy Power Services to build a 514 MW combined cycle merchant plant in New Smyrna Beach, Florida, thereby setting an important precedent for the development of merchant plants, and indirectly increasing the IOU's competition within Florida. Given the decision by the FPSC to allow Duke Energy Power Services to build the merchant plant, Moody's anticipates that other competing facilities will be built, therefore further increasing in-state competition for wholesale customers. This risk is partially offset by the increasing growth in demand for wholesale energy in the Florida market. Tampa Electric and the two other state IOUs have appealed the FPSC's decision to the Florida's Supreme Court. The matter was argued before the court in December 1999 and a decision could be possible before June 2000.

Financial Analysis

Historically, Tampa Electric and its parent TECO Energy have reported above average measurements of profitability and cash flows. However, in 1999 the performance at both companies was stressed by lower electric sales at the utility, greater capital expenditures, and after-tax charges affecting continuing operations. Given the challenges facing both companies, the performance in 1999 could be the beginning of a new financial profile.

TAMPA ELECTRIC

In 1999, despite the company's retail customer growth rate of 2.5%, its total electric sales decreased by 3% while its operating revenue was $11 million less compared to 1998. While Tampa Electric's 1999 earnings of roughly $145 million reflect the $10 million of after-tax charges affecting continuing operations, net income declined by only $1.5 million from 1998. Gross cash flow (GCF) for 1999 was $294 million, approximately $35 million less compared to 1998. Dividends paid to TECO in 1999 totaled $150 million leaving an estimated retained cash flow balance to cover interest and capital expenditures of $165 million. GCF coverage of debt declined to 28% in 1999 from 40% the previous year. We anticipate that in the future this ratio will remain pressured by a higher level of capital expenditures and an increasing level of competition at the wholesale level.

More Debt, Weaker Coverage

Tampa Electric's 1999 capital structure has deteriorated since year-end 1998, primarily because of the larger capital expenditures associated with the planned acceleration of its Polk Power Station's Unit 2 in-service date but also because of planning for the FPSC's decision in September. Capital expenditures for 1999 were $313 million as compared to $232 million the previous year. Capital expenditures for 2000 are estimated at $300 million with an additional $1.4 billion to be spent from 2001 through 2004; an average of $350 million annually. At these levels, we anticipate a significant external financing requirement resulting in substantial pressures on cash flow coverages and the capital structure.

As of December 31, 1999 the company's capitalization totaled approximately $2.4 billion and was comprised of 56% common equity and 44% debt. In 1998, the equity/debt mix was 60%--40% respectively. We estimate that GCF coverage of the company's $78 million interest expense dropped to near 5 times in 1999, from 6.42 times in 1998. Moody's anticipates the company's GCF coverage to remain below historical levels throughout the current construction cycle. Tampa Electric's 1999 GCF coverage level is now well below the estimated 5.64 coverage level for the Aa2 peer group. Continued comparable performance may not be appropriate for the existing rating category

Profitability

Tampa Electric's profitability was not significantly impaired in 1999. Cost containment efforts were successful in reducing operating expenses by 3% in 1999 compared to 1998 levels, thus offsetting the decline in operating revenues during the same period. Consequently, operating income increased by close to $14 million in 1999. At $263 million for 1999, operating income reflects an anticipated refund of $4 million earned above a 12% ROE. The company's return on equity and net income margin were 11% and 10% respectively, essentially unchanged from 1998. Comparing Tampa Electric's profitability measurements to its Aa2 peer group indicates that while the company's profitability measurements declined from 1998 levels they correspond with the performance of others in the rating category. In the future, profitability will be impacted not only by the service territory's underlying economic fundamentals but also by the level of regulatory recovery of the environmental compliance related capital expenditures.

TECO

Although TECO's revenues increased nearly $25 million in 1999 from 1998, the company's 1999 earnings, at $186 million, were meaningfully less than the $206 million the company generated in 1998. TECO's 1999 earnings were affected by a $14.8 million dollar loss related to the discontinuance of its Tecom automated energy monitoring systems business unit. The company also incurred $9.7 million of after-tax charges resulting from corporate income tax provisions and settlements, as well as an adjustment to the carrying value of its leveraged lease portfolio. Tampa Electric charges impacting earnings were $6.4 million associated with the FPSC decision capping the company' equity ratio for 1997 and 1998 and the $3.5 million for the EPA settlement.

TECO's total capitalization at year-end 1999 was $3.9 billion, with debt comprising 58% and equity 42%. Compared to 1998, when debt composed 52% of TECO's total capitalization there was a sizable increase in leverage in 1999. The greater leverage was a consequence of the $115 million the company spent repurchasing 5.4 million shares of stock, and the capital expenditures the company made in its non-regulated businesses. The buyback of approximately 1.6 million additional common shares are possible under existing board authority. Future capital requirements will prove to be substantial and we do not anticipate the company will have the financial resources to return the capital structure to its historical profile over the intermediate term. Tampa Electric's debt amounted to around 48% of TECO's consolidated debt in 1999; a level that should be expected to remain relatively stable over the next few years.

In 1999, Tampa Electric represented roughly 71% of TECO's assets, 74% of its revenues, and 77% of its net income. Given the company's emphasis on growing the unregulated parts of the business, a successful implementation of this strategy will see the relative contribution of Tampa Electric diminish over time. Recently, however, the cash flow contribution from activities other than Tampa Electric has not kept pace with the expansion of the businesses. For example in 1999, the diversified businesses contributed approximately $100 million in gross cash flow or approximately 25% of consolidated gross cash flow while being financed by approximately $1.13 billion in debt. The resulting 9% cash flow to debt ratio compares to a 31% statistic at Tampa Electric for the same time. We do not anticipate that either ratio will improve over the intermediate term because of the likely expansion of projects at TPS and the growing capital need of Tampa Electric. The company has estimated capital expenditures at the diversified operations to total $315 million in 2000 and require an additional $206 million over the following four years. The latter figure does not include future projects that may develop. Given the company's growth strategy it is highly unlikely that future capital investments will be limited to the $206 million currently forecasted.

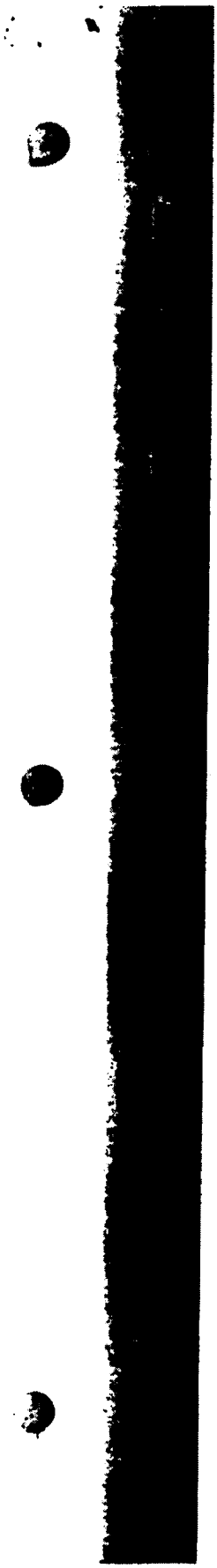
Tampa Electric Company

	1998	1997	1996	1995	1994
INCOME STATEMENT ($ millions)					
Revenue	1,487	1,439	1,113	1,092	1,095
Operating Expense	1,182	1,134	869	863	888
Earnings Before Interest, Taxes, Depr. & Amort.	473	466	364	343	322
Depreciation and Amortization	167	161	120	113	115
Earnings Before Interest & Taxes	306	305	244	230	207
Other Income	-10	-3	16	13	2
Gross Interest Expense	63	66	54	48	42
Pretax Income	146	149	142	134	112
Income Taxes	86	88	71	66	57
Preferred Dividends	0	0	2	4	4
Net Income Available for Common Stock	146	148	140	130	108
Coverage Analysis					
EBITDA Interest Coverage	7.5	7.0	6.8	7.1	7.7
EBIT Interest Coverage	4.8	4.6	4.5	4.7	5.0
Pretax Interest Coverage	4.7	4.5	4.5	4.7	4.9
FFO Interest Coverage	6.4	4.8	5.9	6.1	5.7
(FFO-Gross Capital Expenditures) Interest Coverage	1.8	1.5	1.1	-1.8	-0.9
Fixed Charge Coverage	4.7	4.5	4.3	4.2	4.4
Earnings Analysis					
Operating Margin	14.8	15.1	15.5	15.0	13.6
Return on Equity	11.1	11.7	12.4	12.5	11.4
Return on Asset	4.7	4.8	5.1	4.9	4.5
Return on Capital	9.7	9.7	9.8	9.4	8.7
AFUDC % Net Income	0.0	0.1	16.4	14.8	5.2
BALANCE SHEET ($ millions)					
Cash and Equivalents	1	3	0	4	7
Net Plant and Equipment	2,610	2,548	2,278	2,202	1,985
Total Assets	3,146	3,099	2,723	2,639	2,418
Current Portion of LT Debt, Leases & Pref.	5	4	1	26	1
Short-Term Debt	80	219	99	144	92
Long-Term Debt	774	727	661	583	607
Total Debt	859	950	761	754	700
Preferred Equity	0	0	20	55	55
Common Equity	1,315	1,262	1,127	1,040	949
Total Capitalization	2,173	2,212	1,908	1,849	1,705
Tangible Capitalization (net worth)	2,173	2,212	1,908	1,849	1,705
Capital Structure					
Retained Earnings	288	290	192	188	173
Total Debt - Cash and Equivalents	858	948	761	750	693
Deferred Charges % Common Equity	18.5	20.4	18.5	19.2	19.5
STD + Curr. Portion of LTD, Leases & Pref. % Capitalization	3.9	10.1	5.2	9.2	5.5
Total Debt % Capitalization	39.5	43.0	39.9	40.8	41.1
Asset Composition					
Net Plant and Equipment % Total Assets	83.0	82.2	83.7	83.4	82.1
Investments % Total Assets	0.3	0.2	0.2	0.0	0.0
Current Assets % Total Assets	9.1	9.2	8.5	9.0	10.2
Deferred Charges % Total Assets	7.7	8.3	7.6	7.6	7.6

Tampa Electric Company

	1998	1997	1996	1995	1994
CASH FLOW STATEMENT ($ millions)					
Funds From Operations	344	255	264	250	194
Preferred Dividends	0	0	2	4	4
Common Dividends	148	146	135	115	116
Retained Cash Flow	196	109	127	131	75
Gross Capital Expenditures	232	155	203	334	231
Free Cash Flow	-36	-47	-76	-204	-156
Issuance of Long-Term Debt	51	0	78	1	1
Retirement of Long-Term Debt	-4	-17	-25	0	0
Net Change in Long-Term Debt	48	-17	53	1	1
Retirement of Preferred Equity	0	-20	-36	0	0
Net Change in Preferred Equity	0	-20	-36	0	0
Change in Working Capital	-74	30	1	-56	-9
Cash Flow Analysis					
FFO % Gross Capital Expenditures	84.5	69.9	62.5	39.1	32.4
FFO % Total Debt	40.0	26.8	34.7	33.1	27.7
Total Debt / FFO	249.9	372.5	287.9	302.0	360.9
Total Debt / (FFO - Gross Capital Expenditures)	770.2	952.2	1,251.2	-886.6	-1,907.6
RCF % Gross Capital Expenditures	84.5	69.9	62.5	39.1	32.4
RCF % Total Debt	22.8	11.4	16.7	17.3	10.7
Construction Analysis					
Gross Capital Expenditures % Capitalization	10.7	7.0	10.7	18.1	13.5
CWIP % Common Equity	2.9	0.6	0.6	40.2	19.9
OPERATING STATISTICS					
Market Analysis					
Electric % Total Revenue	100.0	100.0	100.0	100.0	100.0
Residential % Electric Revenue	37.9	37.0	48.5	47.9	46.2
Commercial % Electric Revenue	22.5	22.7	28.9	28.9	28.9
Industrial % Electric Revenue	7.6	7.8	9.2	9.8	9.9
Wholesale % Electric Revenue	6.0	6.6	8.4	7.3	6.4
Residential % Kwh Sales	38.1	35.6	36.4	36.7	37.1
Commercial % Kwh Sales	27.9	26.9	26.5	27.2	28.6
Industrial % Kwh Sales	13.6	13.5	12.7	13.6	14.2
Wholesale % Kwh Sales	13.4	17.3	17.8	15.6	13.1
Residential Price per Kwh	8.0	8.2	8.2	8.2	8.5
Commercial Price per Kwh	6.5	6.7	6.7	6.7	6.9
Industrial Price per Kwh	4.5	4.6	4.5	4.5	4.8
Wholesale Price per Kwh	3.6	3.0	2.9	3.0	3.4
Total Price per Kwh	8.0	7.9	6.1	6.3	6.8
Competitive Position					
Fuel Per Mwhr	21.2	21.2	0.0	0.0	0.0
Non-Fuel Per Mwhr	5.6	4.9	0.0	0.0	0.0
Investment Per Mwhr	12.6	12.5	0.0	0.0	0.0
Total Cost Per Mwhr	39.5	38.5	0.0	0.0	0.0

Hearing Exhibit - 00000528



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Report Number: 54910

Tampa Electric, TECO Ratings Lowered By Fitch Ratings

25 Jul 2000 9:22 AM (EDT)

Fitch-NY-July 25, 2000: Fitch has lowered its long-term ratings of Tampa Electric Company (Tampa) and its parent holding company TECO Energy, Inc. (TECO) and maintained short-term liquidity ratings. The resulting ratings are:

Tampa Electric:

--First Mortgage Bonds lowered from 'AA+' to 'AA';

--Unsecured PCRBs lowered from 'AA-' to 'AA';

--Commercial Paper lowered from 'F1+' to 'F1+';

--Variable Rate Mode Unsecured PCRBs lowered from 'F1+' to 'F1+'.

TECO Energy, Inc.:

--Medium Term Notes lowered from 'AA-' to 'A';

--Commercial Paper N/A 'F1'.

The Outlook for both companies is Stable.

Financial fundamentals are weakening at the regulated utility (Tampa) and on a consolidated basis for TECO. EBITDA/Interest Expense at Tampa has weakened from the mid 7.0x range in 1998, and is expected to range in the low 6.0x due to the cost of a large capital expenditure program. While the bulk of TECO's cash flow is derived from the regulated utility, its ratios are expected to deteriorate to a greater extent due to an additional investment in unregulated generation. Consolidated EBITDA/Interest expense at TECO is forecasted to be in the mid 4.0x range going forward, well below the 6-6.3x generated in the 1997-98 period, and below the 5.3x generated in 1999.

Tampa Electric:
The additional investment in regulated generation is viewed as a sound business strategy. By repowering the 1,160 mw Gannon unit from coal to gas fuel, Tampa expects its plant to be 36% more efficient than today's levels. The facility, to be renamed Bayside, will produce 1,475 mw at a capital cost of approximately $600 million by 2004. Tampa's current reserve margin will also improve from its existing 16% to a more comfortable 20% by adding a 180 mw combustion turbine unit this year, and a similar unit within 18 months. By repowering to natural gas, Tampa will create fuel diversity among its 3,469 mw fleet.

Tampa's regulatory agreement ended on December 31, 1999. Although no agreement or action is specifically required under these circumstances, we believe that Tampa's significant capital program will require the implicit support of the regulators.

The regulated utility has desirable fundamentals, including growth in the service territory, a small industrial customer base, and a lack of retail competition. While a Florida governor's commission is studying the issue, enabling legislation would be required to effect retail competition. Tampa is acceptably positioned with retail prices midway between its two publicly owned peers, and has competitive costs for the region. Tampa has no stranded assets in its portfolio.

TECO Energy:
Business risk at the unregulated holding company is rising, as unregulated generation increases as a percentage of the consolidated entity's cash flow. TECO plans to almost treble its EBITDA from unregulated generation as it focuses in the United States and Central America. The Central American projects are characterized by little currency risk, long-term purchased power agreements, and are frequently in conjunction with established, experienced global partners. Higher potential cash flow volatility exists as TECO plans to grow its unregulated domestic generation. These are smaller projects in various locations nationwide. As some of these projects have a merchant component, they may be subject to electricity's significant price volatility.

TECO's second largest cash flow provider is currently its marine transport business on river and blue water. Some revenue certainty exists in this business, as over two-thirds of TECO Transport's activity is engaged under multi-year contracts.

Shipping has long-term potential cash flow volatility, as its business cycle is economically cyclical.

Leverage is forecasted to be moderately weaker at both organizations through the period of repowering, however liquidity remains ample. Tampa Electric and TECO each maintain over $225 million of available credit facilities.

TECO is headquartered in Tampa, Florida. It is a parent holding company for approximately $4.7 billion in assets and $2 billion in consolidated revenues. Tampa Electric is its largest subsidiary, serving approximately 550,000 electric customers and over 250,000 natural gas customers in Florida.

Fitch is an international rating agency that provides global capital market investors with the highest quality ratings and research. Dual headquartered in New York and London with a major office in Chicago, Fitch rates entities in 75 countries and has some 1,100 employees in more than 40 local offices worldwide. The agency, which is a combination of Fitch IBCA and Duff & Phelps Credit Rating Co., provides ratings for Financial Institutions, Corporates, Structured Finance, Insurance, Sovereigns and Public Finance Markets worldwide.

Contact: Lori R. Woodland 1-312-606-2309 or Douglas, J. Laskowski 1-312-368-2053, Chicago.

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RESEARCH

TECO Energy Inc. & Units Ratings Lowered; Outlook Negative

Publication date: 27-Oct-2000
Credit Analyst: Deborah Kaylo, New York (1) 212-438-7668

NEW YORK (Standard & Poor's CreditWire) Oct. 27, 2000--Standard & Poor's today lowered its ratings on TECO Energy Inc. and affiliates Tampa Electric Co., the regulated utility, and TECO Finance Inc., the company's nonregulated financing arm (see list below).

The outlook is negative.

The rating actions reflect the heavy debt load relative to the company's current business position and ratings, management's increasingly more aggressive power development strategy, capital outlay at the regulated utility, as well as growing regulatory uncertainty related to industry restructuring.

TECO Energy's aggressive higher-risk nonregulated activities include independent power projects, which have become increasingly integral to the company's core business strategy. The growth of nonregulated activities could further impact the business risk profile requiring even higher credit protection measures. Additionally, the company's debt-financed share repurchase program has adversely affected credit protection measures, resulting in higher debt to total capital levels.

Regulated Tampa Electric is also being impacted by greater capital outlays for such projects as the Gannon repowering project, as well as the changing regulatory environment, which may result in greater competition.

The ratings on TECO Energy reflect Standard & Poor's consolidated rating methodology, resulting in the same corporate credit rating (risk of default) for TECO Energy and Tampa Electric. No regulatory or structural insulation is accorded Tampa Electric, given the absence of proscriptive authority by the regulators in the state of Florida.

TECO Energy's nonregulated businesses are riskier than the traditional regulated utility. In addition to coal properties and barging operations, affiliate TECO Power Services has invested in independent power producers in Central America and is investing in the U.S. These investments are deemed by Standard & Poor's to have important risks that need to be managed, including regulatory impediments, project supervision challenges, and sovereign concerns. Management may be challenged to generate cash flow commensurate with the level of risk undertaken.

The ratings on TECO Energy also reflect utility affiliate Tampa Electric's above-average business profile and adequate financial measures. The utility's business profile is supported by strong customer growth, minimal reliance on industrial load, and competitive rates. Tampa Electric's long-term prospects are buoyed by Florida's vibrant economy and natural gas expansion into the southwest portion of the state.

Consolidated funds from operations to adjusted total debt ranges between 25% and 30%, while short-term interest coverage exceeds 4 times. Debt to total capital levels have increased to 60% over the past year, but the company plans to strengthen this by adding greater balance to the capital structure.

OUTLOOK: NEGATIVE

The negative outlook reflects the continuing challenge to reduce debt leverage and improve consolidated credit protection measures going forward. Standard & Poor's expects these measures to be strengthened in order to maintain the current rating. Management's

commitment to credit quality, coupled with the cash flow potential of both the utility and nonutility businesses, could provide the foundation for longer-term credit stability, Standard & Poor's said. -- CreditWire

RATINGS LOWERED

	TO	FROM
TECO Energy Inc.		
Corporate credit rating	A/A-1	AA-/A-1+
Senior unsecured debt	A-	AA-
Shelf senior unsecured debt (prelim.)	A-	AA-
Tampa Electric Co.		
Corporate credit rating	A/A-1	AA/A-1+
Commercial paper	A-1	A-1+
Senior secured debt	A	AA
Senior unsecured debt	A	AA
Shelf senior secured debt (prelim.)	A	AA
Shelf senior unsecured debt (prelim.)	A	AA
Teco Finance Inc.		
Corporate credit rating	A	AA-
Senior unsecured debt	A-/A-1	AA-/A-1+
Commercial paper*	A-1	A-1+

*Guaranteed by TECO Energy Inc.

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11/21/00 - Tampa Electric, TECO Outlooks Lowered by Fitch

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CHICAGO, Nov 21, 2000 (BUSINESS WIRE) -- Fitch has assigned a Negative Rating Outlook to the securities issued by TECO Energy, Inc. (TECO) and its regulated utility subsidiary, Tampa Electric Company.

The lowered outlook follows TECO's recent announcements to develop 3,713 mw of unregulated domestic generation projects through 2004.

The negative rating outlook is based on TECO's business growth migrating to unregulated ventures. By 2004, as these new projects become operational, unregulated cash flow is expected to comprise almost half of the consolidated entity. Cash flow derived from these projects is expected to be structurally subordinate to project-specific debt requirements.

TECO is developing a financing structure for the projects, which could impact credit quality. TECO is assessing the amount of equity it will raise to fund these ventures, along with nonrecourse project-level debt. The ultimate consolidated leverage, combined with the extensive project cash flow is contractual or merchant,and will likely determine the future of TECO's ratings.

Ratings at Tampa Electric, the regulated utility, may be impacted by these decisions. The utility also has a substantial construction program of its own in place and will require equity contributions from the parent to maintain its current credit profile. In addition, regulation does not limit the upstreaming of cash from the utility to parent. Management has, however, noted its commitment to maintain strong investment-grade credit quality at the utility. The regulated utility has desirable fundamentals, including growth in the service territory, a small industrial customer base, and a lack of retail competition.

Existing securities ratings are as follows:

Tampa Electric

-- First Mortgage Bonds, 'AA';

-- Unsecured PCRBs, 'AA-';

-- Commercial Paper,'F1+';

-- Variable Rate Mode Unsecured PCRBs,'F1+'.

TECO Energy, Inc.

-- Medium-Term Notes, 'A';

-- Commercial Paper,'F1'.

TECO is headquartered in Tampa, Florida. It is a parent holding company for approximately $4.7 billion in assets and $2 billion in consolidated revenues. Tampa Electric is its largest subsidiary, serving approximately 550,000 electric customers and over 250,000 natural gas customers in Florida.

CONTACT: Fitch, Chicago
Lori R. Woodland, 312/606-2309
Douglas, J. Laskowski, 312/368-2053

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Moody's Investors Service

Global Credit Research
Rating Action
12 MAR 2001

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Rating Action: TECO Energy, Inc.

MOODY'S EXTENDS EXISTING RATING REVIEW FOR POSSIBLE DOWNGRADE FOR TECO ENERGY AND AFFILIATES TO INCLUDE THE PRIME-1 RATING FOR COMMERCIAL PAPER OF TECO FINANCE; THE PRIME-1 RATING OF TAMPA ELECTRIC IS CONFIRMED

Approximately $975 Million in Debt is Affected

Approximately $975 Million in Debt is Affected

New York, March 12, 2001 -- Moody's Investors Service is extending its ratings review for the possible downgrade of TECO Energy, Inc. and its affiliates to include the Prime-1 rating of its financial conduit, TECO Finance Inc. Concurrently Moody's is confirming the Prime-1 commercial paper rating of Tampa Electric Company. On November 14, 2000, in response to TECO Energy's announcement that it had purchased interests to develop several power projects with a combined capacity of 5,770 mw., Moody's placed various debt securities of both TECO Energy and Tampa Electric under review for possible downgrade. It now appears that the strategic decision to aggressively grow its independent power business will require that TECO Energy deploy significant financial resources over a relatively short period of time; a situation which could possibly infringe upon the credit quality necessary to support the Prime-1 commercial paper rating of TECO Finance, whose debt is guaranteed by its parent, TECO Energy.

With the announcement of this growth initiative, TECO Power Services has interests in over 7,000 mw of generation. TECO Energy anticipates that by 2004 about half of its earnings will be derived from its unregulated businesses. In 2000, Tampa Electric earned $340 million of the total $420 million in operating income reported by TECO Energy.

TECO Energy, Inc. is a diversified, energy related utility holding company headquartered in Tampa, Florida. Its principal subsidiary is Tampa Electric Company, a regulated electric utility.

New York
Stephen J. Gutkowski, CFA
Senior Vice President
Corporate Finance
Moody's Investors Service
JOURNALISTS: (212) 553-0376
SUBSCRIBERS: (212) 553-1653

New York
Susan D. Abbott
Managing Director
Corporate Finance
Moody's Investors Service
JOURNALISTS: (212) 553-0376
SUBSCRIBERS: (212) 553-1653

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Moody's Investors Service

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Moody's Investors Service

Global Credit Research
Rating Action
27 MAR 2001

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Rating Action: TECO Energy, Inc.

MOODY'S LOWERS SENIOR SECURED RATINGS OF TAMPA ELECTRIC COMPANY TO Aa3 FROM Aa2 AS WELL AS SENIOR UNSECURED RATINGS OF TECO ENERGY TO A3 FROM A1. SHORT TERM RATINGS OF TECO FINANCE LOWERED TO P-2.

Approximately $6.3 Billion of Debt Securities Affected.

New York, March 27, 2001 -- Moody's today lowered the senior secured ratings of Tampa Electric Company to Aa3 from Aa2. In addition, it lowered the long term senior unsecured ratings of the parent company, TECO Energy, to A3 from A1 and the short term rating of TECO Finance to P-2 from P-1. This resolves a review begun on November 14, 2000 when the company announced a change in strategy involving its unregulated businesses.

Tampa Electric Company benefits from a stable regulatory environment in a service area with a robust economy dominated by residential consumers. Deregulation, which is being slowly and carefully considered in Florida is unlikely to effect the company in the near future. However, the company is engaged in a large constructuion program to add capacity to meet growth requirements, add to its reserve margins, and meet the obligations of its agreements with the Florida and US environmental agencies. This large capital program at the utility pressures the company's financial flexibility which has deteriorated from the very high levels of the past.

The expenditures at Tampa Electric will occur at the same time that the Parent company, TECO Energy, is embarking on an ambitious program to expand TECO Power Services (TPS), their primary unregulated power development business. TPS has announced, in fairly rapid succession, a number of investments in plants in the Entergy/SERC, ERCOT and WSCC/AZNMA regions. These primarily gas fired combined cycle plants are efficient and low cost, and will operate in a merchant environment for most likely 50% of their output. The power will be marketed through well-established electricity marketers in the U.S.

The rapid growth of TPS will result in the regulated cash flows from Tampa Electric declining to approximately 40% of total cash flows to TECO Energy versus the 53% it currently conbtributes. Concurrently, TPS' contribution to total cash flow is estimated to increase to 43% from its current 14% level. The increased weighting of higher risk cash flows from TPS results in the change in TECO Energy's senior unsecured rating to A3 from A1. Other unregulated businesses, TECO Transport, TECO Coal and TECO Coalbed Methane are small, but robust contributors to the Parent's overall creditworthiness.

Tampa Electric Company ratings downgraded include its senior secured debt to Aa3 from Aa2; its senior unsecured debt, pollution control revenue bonds, and issuer ratings to A1 from Aa3; and the ratings of its shelf registration for prospective issuance of senior secured debt to (P)Aa3 from (P)Aa2.

TECO Energy, Inc. ratings downgraded include its senior unsecured debt to A3 from A1; its junior subordinated debt to Baa1 from A2; and its shelf registration for prospective issuance of senior unsecured debt, junior subordinated debt, or preferred securities to (P)A3/(P)Baa1/(P) "a3" from (P)A1/(P)A2/(P) "a1", respectively.

Additional ratings downgraded include the short-term debt rating for TECO Finance, Inc. to Prime-2 from Prime-1; as well as the ratings of preferred securities of TECO Capital Trust I to "a3" from "a1" and the shelf registration ratings for prospective issuance of preferred securities of TECO Capital Trust II and TECO Capital Trust III to (P) "a3" from (P) "a1".

TECO Energy is a diversified energy company headquartered in Tampa, Florida.

New York
Michael Foley
Managing Director
Corporate Finance
Moody's Investors Service
JOURNALISTS: (212) 553-0376
SUBSCRIBERS: (212) 553-1653

9399

New York
Susan D. Abbott
Managing Director
Corporate Finance
Moody's Investors Service
JOURNALISTS: (212) 553-0376
SUBSCRIBERS: (212) 553-1653

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Moody's Investors Service

Global Credit Research
Rating Action
29 MAR 2001

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Rating Action: TECO Energy, Inc.

MOODY'S ASSIGNS STABLE RATING OUTLOOK FOR TECO ENERGY, INC. AND TAMPA ELECTRIC COMPANY

Approximately $6.3 Billion of Debt Securities Affected

New York, March 29, 2001 -- Moody's Investors Service assigned a stable outlook to TECO Energy (A3 senior unsecured) and Tampa Electric (Aa3 senior secured) in conjunction with the rating actions taken on March 27, 2001. Moody's lowered the long-term senior secured ratings of Tampa Electric Company to Aa3 from Aa2 and the long-term senior unsecured ratings of the parent company, TECO Energy, to A3 from A1. The short-term rating of TECO Finance was also lowered to P-2 from P-1.
The P-1 short-term rating for Tampa Electric Company was confirmed on March 12, 2001.

TECO Energy is a diversified energy company headquartered in Tampa, Florida.

New York
Susan D. Abbott
Managing Director
Corporate Finance
Moody's Investors Service

New YorkM
Michael Foley
Managing Director
Corporate Finance
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Fitch Downgrades TECO Energy & Tampa Electric Ratings

04 Jan 2002 5:20 PM

Fitch-NY-January 4, 2002: Fitch has downgraded the outstanding ratings of TECO Energy, Inc. and Tampa Electric Company as follows:

TECO Energy, Inc.:

–Senior unsecured to 'A-' from 'A';

–Medium-term notes to 'A-' from 'A';

–ROARS to 'A-' from 'A';

–Trust preferred stock to 'BBB+' from 'A-';

–Commercial paper to 'F2' from 'F1'.

Tampa Electric:

–First mortgage bonds to 'AA-' from 'AA';

–Senior unsecured to 'A+' from 'AA-';

–Unsecured PCRBs to 'A+' from 'AA-';

–Commercial paper unchanged at 'F1+';

–Variable-rate mode unsecured PCRBs unchanged at 'F1+'.

The ratings are removed from Rating Watch Negative, but the long-term Rating Outlook remains Negative pending resolution of the NEPCO related issues and further strengthening of the balance sheet.

TECO's ratings are reflective of the increase in leverage and business risk resulting from growing investments in unregulated activities, particularly independent power projects and TECO's exposure to NEPCO (an indirect subsidiary of Enron) as the engineering and procurement contractor (EPC) on several of the company's merchant generation projects. The Chapter 11 filing by Enron, allowed the banks to stop funding the projects for which NEPCO is the EPC. While TECO is negotiating with the banks for a waiver, a source of funding is still uncertain. Resolution is likely to result in amendments that will shift additional risk to TECO. At the same time, additional equity is needed to maintain a capital structure consistent with the rating. Fitch expects TECO to issue additional equity before year-end to strengthen the balance sheet.

TECO's credit quality continues to be supported by solid unregulated coal, natural gas and transport businesses as well as its regulated utility subsidiary, Tampa Electric Company. The regulated gas and electric operations contributed approximately 73% of consolidated EBITDA in 2001. Tampa Electric has achieved solid financial results from strong customer and sales growth in recent years. The utility also benefits from a favorable customer mix, a fuel and purchased power cost recovery adjustment clause, and the slow pace of electric industry restructuring in Florida. Capital expenditures for new generating capacity, however, have increased as the utility prepares to meet anticipated demand growth and to increase the reserve margin.

TECO Energy is a holding company headquartered in Tampa, Florida. Its principal businesses are a regulated electric and natural gas local distribution company subsidiary, unregulated generation, marine transport, coal and coalbed methane production.

Contact: Donna DiDonato 1-212-908-0637 or Robert Hornick 1- 212-908-0523, New York.

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Moody's Investors Service

Global Credit Research
Rating Action
23 JAN 2002

Rating Action: TECO Energy, Inc.

MOODY'S CHANGES OUTLOOKS OF TECO ENERGY AND TAMPA ELECTRIC COMPANY TO NEGATIVE

Moody's Investors Service has changed the outlooks of the long-term ratings of TECO Energy and Tampa Electric Company to negative in response to increased financial pressure on the companies resulting from accelerated equity contributions and a higher degree of risk being undertaken by TECO Energy at its two major independent power projects: Union Power and Gila River. These developments have increased the level of uncertainty throughout the organization. The company has responded proactively to this increased financial pressure by trimming its capital expenditure forecast and reevaluating overall growth and expansion plans.

Affected are Tampa Electric Company's Aa3 senior secured, A1 issuer, senior unsecured and pollution control revenue bond debt; TECO Energy's A3 senior unsecured and Baa1 junior subordinated debt; and the Baa1 rating of the trust preferred securities of TECO Capital Trust I and TECO Capital Trust II.

Moody's action does not affect the P-1 commercial paper rating for Tampa Electric Company or the P-2 commercial paper rating of TECO Finance, Inc.

TECO Energy has been engaged in an ambitious program to expand TECO Power Services (TPS), its unregulated power development business. TPS has interests in a number of primarily gas fired combined cycle plants which are expected to operate in an increasingly uncertain merchant environment for 50% or more of their output. At the same time, Tampa Electric is engaged in a large construction program of rate based generation to add capacity to meet growth requirements in Florida, increase its reserve margins, and meet environmental compliance mandates. These substantial capital requirements have been and will continue to be a challenge for the company.

Four of the projects under construction at TPS, including the large Union Power and Gila River power stations, utilize NEPCO, an Enron subsidiary, as construction contractor. Although NEPCO has not filed for bankruptcy, and TECO Energy does not expect it to do so, Enron had guaranteed NEPCO's obligations under the construction contracts. Enron's bankruptcy permitted the bank group financing the Union Power and Gila River projects to stop funding construction costs, although construction continued without interruption. The banks have agreed to continue funding the two projects in exchange for TECO Energy replacing Enron as guarantor of NEPCO's obligations, payment by TECO Energy of project cost overruns (estimated at $83 million, although this can be offset by any remaining contingency amounts), and an acceleration by TECO Energy of $200 million of project equity contributions to mid-2002 from 2003. These developments have also delayed the financing of the smaller Dell and McAdams projects. In short, TECO Energy has had to undertake additional risk and obligations with respect to various TPS projects than had been contemplated at their outset.

In response, TECO Energy has announced measures to offset the impact of these developments, including a reduction in its 2002-2004 capital expenditure budget by approximately $700 million, for the most part by delaying other generation projects at TPS and Tampa Electric, including the recently announced repowering of its Bayside Units 3 and 4. The company also recently issued $400 million of Mandatorily Convertible Securities to be used to fund capital expenditures and to repay short-term debt. Finally, the company has indicated that it intends to finance its growth requirements with a higher proportion of equity than debt and plans to issue equity in 2003 and 2004 (on top of the $325 million of common equity issued in 2001). Moody's believes these actions are positive and will be important to maintaining credit quality at both TECO Energy and Tampa Electric.

TECO Energy is a diversified energy company headquartered in Tampa, Florida.

New York
John Diaz
Managing Director
Corporate Finance
Moody's Investors Service

New York
Michael G. Haggarty
Vice President - Senior Analyst
Corporate Finance
Moody's Investors Service

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Research:

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Ratings on TECO Energy Inc. and Affiliates Lowered to 'A-'; Outlook Negative

Publication date: 25-Apr-2002
Analyst: Deborah Kaylo, New York (1) 212-438-7668

NEW YORK (Standard & Poor's) April 25, 2002--Standard & Poor's today lowered the corporate credit rating for TECO Energy Inc. and affiliates to single-'A'-minus from single-'A', and its short-term commercial paper rating to 'A-2' from 'A-1'. The outlook remains negative.

The rating action reflects Standard & Poor's assessment of TECO's business strategy and the quality of the cash flow stream generated weighed against the level of risk being undertaken.

"TECO has taken positive steps to improve its credit profile in recent months, however continued progress is expected as the company faces challenges with regard to balancing the risk between its regulated and nonregulated businesses," noted Standard & Poor's credit analyst Deborah Kaylo. Management has demonstrated its commitment to credit quality by strengthening the balance sheet, rationalizing assets, and reducing discretionary capital expenditures. TECO's ability and resolve to bolster its financial profile such that consolidated funds flow interest coverage approaches 5 times (x) and debt leverage under 50% are expressly factored into current ratings. TECO has issued nearly $800 million in equity in 2001 and 2002. Significant reduction in capital expenditures, specifically the delay of the Bayside Units 3 and 4 repowering project for Tampa Electric Co. and an early stage development project for TECO Power Services, has preserved free cash flow.

Still, TECO is challenged with a growing portfolio of higher-risk, nonregulated power development, as well as regulated utility plant-repowering expenditures, which stress the company's credit profile in the near term. The current rating is also predicated on continuing power development construction arrangements, and facilitating plant construction while proceeding on schedule and within budget, so that forecasted project cash flows are achieved, and bank financing for power development projects remains accessible.

TECO's nonregulated businesses are higher risk than the traditional regulated utility and include independent power generation. Independent power plant projects are being financed on a nonrecourse basis to achieve near-term credit protection measures at the consolidated level, commensurate with the current ratings. Management may be challenged to generate cash flow commensurate with the increasing level of risk undertaken.

There are contingent obligation challenges with some of the project development activities, which require the company to be in accordance with debt and interest coverage tests, as well as maintenance of ratings. In addition, there is a debt-to-total capital test in the company's credit facilities. Challenges with respect to the NEPCO (an Enron Corp. subsidiary) power development construction contract still present some uncertainty to the company's credit. The company faces challenges in its construction development activities and must actively manage its contingent obligations and its financial liquidity cushion in the shorter term, as well as its construction contract arrangements.

The utility's business profile is supported by strong customer growth, minimal reliance on industrial load, competitive rates, and expectations of supportive regulation. Challenges include resolution of wholesale deregulation issues; enabling formation of Grid Florida, the regional transmission organization; and substantial outlays of capital to repower an existing coal plant to meet growing capacity needs and comply with environmental standards. Tampa Electric's long-term prospects are buoyed by Florida's vibrant economy and natural gas expansion into the southwest and northeast portions of the state.

While the company has taken steps to delever and rebalance its capital

structure, it still has challenges to maintain credit quality at the current rating level. Standard & Poor's expects incremental cash flows from the company's diverse portfolio of business lines to continue bolstering the company's financial profile in 2002 and 2003. Failure to achieve the aforementioned financial protection measures in a timely manner will likely lead to ratings downgrade.

A complete list of the ratings is available to RatingsDirect subscribers at www.ratingsdirect.com, as well as on Standard & Poor's public Web site at www.standardandpoors.com under Ratings Actions/Newly Released Ratings.

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Press Release

FitchRatings

Fitch
One State Street Plaza
New York, NY 10004
(212) 908-0810
www.fitchratings.com

Fitch Ratings Downgrades TECO Energy & Tampa Electric
23 Sep 2002 4:01 PM

Fitch Ratings-New York-September 23, 2002: Fitch Ratings has downgraded the outstanding ratings of TECO Energy, Inc. and Tampa Electric Company as follows:

TECO Energy, Inc.

--Senior unsecured lowered to 'BBB' from 'A-';

--ROARS lowered to 'BBB' from 'A-';

--Preferred stock lowered to 'BBB-' from 'BBB+'.

TECO Finance (guaranteed by TECO Energy, Inc.)

--Medium-term notes lowered to 'BBB' from 'A-';

--Commercial paper unchanged at 'F2'.

Tampa Electric
--First mortgage bonds lowered to 'A' from 'AA-';

--Senior unsecured lowered to 'A-' from 'A+';

--Unsecured PCRBs lowered to 'A-' from 'A+';

--Commercial paper lowered to 'F2' from 'F1+';

--Variable-rate mode unsecured PCRBs lowered to 'F2' from 'F1+'.

The Rating Outlook has been revised to Stable from Negative.

The TECO Energy downgrades reflect the continued weakness in wholesale power markets and the expected negative impact on TECO's earnings and cash flow measures. Over the last 2 years, TECO, through its subsidiary TECO Power Services, made significant investments in the development of natu gas-fired mid-merit generating plants in the Electric Reliability Council of Texas, Entergy and Wester System Coordinating Council markets with the bulk of these units expected to come on line late this y and during 2003. To date, only a portion of the projected output has been hedged for relatively short durations at prices well below previous forecasts. The new ratings assume no meaningful improvemen

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Fitch
One State Street Plaza
New York, NY 10004
(212) 908-0810
www.fitchratings.com

sparks spreads over the next few years and incorporate TECO's potential flexibility to delay or defer projects.

While much of TECO's equity and debt needs were met with significant issuance in the first half of the year, ongoing access to the capital and bank markets will be required. In addition to an upcoming maturity of $200 million of senior notes, TECO has significant obligations related to the Union and Gila River projects. TECO executed agreements with project financing banks in January 2002 to resume construction funding that had been halted as a result of the bankruptcy of the engineering and procurement contractor's parent, Enron. With these agreements TECO's equity contributions were accelerated and the company assumed certain obligations related to construction completion. TECO's equity commitments include repayment of a $500 million equity bridge facility in four installments beginning in October 2002. TECO has also provided a $154 million contingent letter of credit that could be drawn upon if necessary to complete the projects. The Stable Outlook reflects Fitch's belief that these risks have been appropriately incorporated in the current ratings.

Offsetting the volatility of the independent power business is the strong performance of TECO's regulated utility subsidiary, Tampa Electric Company, as well as, the unregulated coal, natural gas and transport businesses. The regulated utility operations contributed 74% of EBITDA in 2001. The downgrade of Tampa Electric's ratings reflects the increase in leverage and business risk at the parent, and Fitch's rating policy that links parent and subsidiary ratings.

Tampa Electric's credit profile is characterized by very strong financial performance as evidenced by an equity ratio in excess of 55%, above-average customer and sales growth, and a favorable customer mix. The utility also benefits from a fuel and purchased power cost recovery adjustment mechanism, and the slow pace of electric industry restructuring in Florida. Robust customer and energy growth of 2.5% and 2.6% annually over the last five years has required significant investment in new plant, resulting in some modest pressure on financial ratios. Capital expenditures over the last three years have increased as a result of the re-powering of two units at the Gannon station scheduled for operation in 2003 and 2004. Despite increasing debt levels and interest expense, performance has remained strong with EBITDA interest coverage, ranging from 6 to 7 times (x) over the last three years.

TECO Energy is a holding company headquartered in Tampa, Florida. Its principal businesses are a regulated electric and natural gas local distribution company subsidiary, unregulated generation, marine transport, coal and coalbed methane production.

Contact: Donna DiDonato 1-212-908-0637 or Robert Hornick 1- 212-908-0523, New York.

Media Relations: Matt Burkhard 1-212-908-0540, New York.

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Research:

Ratings On TECO Energy Inc., Subs Lowered To 'BBB'; Tampa Electric Co. CP Affirmed At 'A-2'

Publication date: 24-Sep-2002
Credit Analyst: William Ferara, New York (1) 212-438-7667; John W Whitlock, New York (1) 212-438-7678

NEW YORK (Standard & Poor's) Sept. 24, 2002--Standard & Poor's Ratings Services today lowered the corporate credit ratings for Florida-based TECO Energy Inc. and affiliates to triple-'B' from single-'A'-minus. At the same time, the commercial paper rating for subsidiary Tampa Electric Co. was affirmed at 'A-2'. The outlook for all entities is negative. The rating action for electricity-provider TECO and its affiliates reflects lower levels of consolidated cash flow, higher debt balances associated with commitments related to its power unit, and expected credit protection measures that are now commensurate with the triple-'B' corporate credit rating.

"TECO's announced action plan, combined with previous equity issuances in 2001 and 2002, exemplifies the company's stated commitment to credit quality," noted Standard & Poor's credit analyst John Whitlock. "However, depressed profitability at TECO Power Services (TPS) combined with the weak environment for power prices presents significant challenges for the firm, including weaker interest coverages and execution risk," he continued.

The decision to defer further investment in TECO's Dell and McAdams independent power plants, reduce other discretionary capital expenditures, and monetize certain noncore holdings is designed to maximize cash flow and generate $400 million in net proceeds. Importantly, successful completion of these steps in a timely manner could be the catalyst for ratings stability. In addition, these actions are expected to eliminate the need for external financing in 2003 and help to offset cost overruns that TECO assumed, that are related to plant completions.

TECO has adequate liquidity with a $1 billion credit facility backstopping commercial paper at TECO ($700 million authorized) and Tampa Electric ($300 million authorized). Outstanding balances for the two commercial paper programs was about $160 million and consolidated cash and cash equivalents totaled $90 million in mid-September 2002. A ratings trigger does exist for a $500 million equity bridge financing, associated with two uncompleted power projects. In the event of a trigger, TECO would have to post a letter of credit in the amount of the equity bridge loan, its remaining equity contribution, and additional costs, if any, required for the completion of the projects.

The negative outlook reflects the substantial execution risk TECO faces as it implements its action plan, and significant challenges related to activity at TPS, including construction commitments. Still, timely completion of TECO's monetization efforts, combined with successful navigation of TPS risks, could lead to ratings stability.

A complete list of the ratings is available to RatingsDirect subscribers at www.ratingsdirect.com, as well as on Standard & Poor's public Web site at www.standardandpoors.com under Ratings Actions/Newly Released Ratings.

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Global Credit Research
Rating Action
24 SEP 2002

Moody's Investors Service

Rating Action: TECO Energy, Inc.

MOODY'S LOWERS TECO ENERGY'S SENIOR UNSECURED RATING TO Baa2 AND TAMPA ELECTRIC COMPANY'S SENIOR SECURED RATING TO A1 AND ASSIGNS STABLE OUTLOOKS

Approximately $3.6 Billion of Debt Securities Affected.

New York, September 24, 2002 -- Moody's Investors Service has lowered TECO Energy Inc.'s (TECO) senior unsecured rating to Baa2 from A3. In addition, Moody's has lowered Tampa Electric Company's senior secured rating to A1 from Aa3; issuer and senior unsecured rating to A2 from A1; and long-term pollution control revenue bond debt to A2 from A1. Moody's has also lowered the rating on the trust preferred securities of TECO Capital Trust I and TECO Capital Trust II to Baa3 from Baa1. The P-1 commercial paper rating of Tampa Electric Company and the P-2 commercial paper rating of TECO Finance, Inc. are confirmed. The outlook for all of the rated entities is stable.

These rating actions conclude a review prompted by concerns regarding low projected wholesale power prices, excess capacity, and deteriorating market conditions in the regions where TECO Power Services (TPS), TECO's unregulated power generation subsidiary, is completing an aggressive merchant generation expansion program. TECO has since announced a plan of action to address many of these concerns and has reevaluated and significantly curtailed its growth and expansion plans in the unregulated generation market. The plan of action includes the decision to terminate and/or delay various projects and to engage in a series of asset sales and capital expenditure reductions aimed at conserving cash in 2003. TECO has also indicated that it now expects earnings to be lower in 2003, for the most part because of negative developments at TPS.

The downgrade of TECO's rating reflects the company's large and highly concentrated exposure to the merchant generation markets, taking into consideration the difficult actions now being taken by management to limit the adverse effects of this exposure. Moody's believes that TECO's action plan, while mitigating some of the long-term risk associated with its merchant generation portfolio, has negatively affected the company's credit quality in the near term.

Although the indefinite delay of the Dell and McAdams projects will save the company $87 million and reduce merchant market exposure in 2003, it raises the possibility of a write-off of the capital already invested in these projects. TECO has also indicated that it is exploring various options regarding its $137 million loan related to the Odessa and Guadalupe power projects in Texas, which is due on December 31, 2002, raising the risk of a write-off of all or part of this investment as well. Moody's also notes that TECO's plan to sell assets comes at a time when numerous other companies in the power and energy sector are selling assets as well.

The downgrade of TECO's rating is also indicative of Moody's expectation that nearly half of the parent company's cash flow going forward will come from businesses other than Tampa Electric and Peoples Gas, TECO's stable, regulated utility subsidiaries. Moody's views the quality and certainty of the cash flows coming from these other businesses, including TPS, TECO Coal, and TECO Transport, to be lower than those of the regulated utilities.

The downgrade of Tampa Electric's rating reflects financial performance measures which have weakened somewhat from their previously high levels, for the most part as a result of a large capital expenditure program at the utility. Tampa Electric has also relied on capital contributions from TECO to maintain equity levels in recent years, which are less likely going forward given the continued challenges facing the parent company. Finally, as part of TECO's action plan in response to its difficulties in the merchant generation markets, Tampa Electric has had to curtail or postpone its own capital expenditure plans, including the repowering of its Bayside power stations. Tampa Electric is also expected to monetize its Section 29 tax credit capability to raise cash. These factors combined have resulted in a modest deterioration of Tampa Electric's credit quality.

The stable outlooks on the ratings of both TECO Energy and Tampa Electric are indicative of Moody's view that the actions announced by TECO's management have limited some of the downside risk associated its

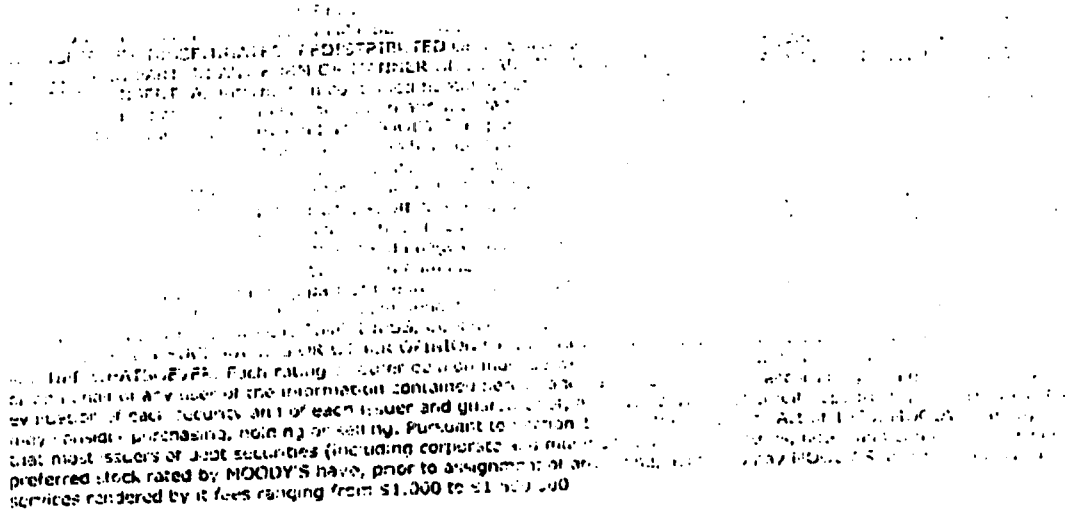
merchant generation portfolio and should permit the companies to operate for the intermediate term at current rating levels. Management's action plan still must be executed and the company will be challenged to generate cash and earnings from of its large Gila and Union power projects, to come on line during the first half of 2003. However, Moody's believes the company's stable earnings base at Tampa Electric and Peoples Gas will help mitigate the impact of the continued low power price environment in the intermediate term. Moody's will monitor the progress of TECO's plan of action going forward, including the renewal of most of its bank lines in November and the financial performance of its Gila and Union power projects.

TECO Energy is a diversified energy company headquartered in Tampa, Florida, and the parent company of Tampa Electric Company.

New York
John Diaz
Managing Director
Corporate Finance
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York
Michael G. Haggerty
Vice President - Senior Analyst
Corporate Finance
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

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Moody's Investors Service

Global Credit Research
Rating Action
21 APR 2003

Rating Action: TECO Energy, Inc.

MOODY'S DOWNGRADES TECO ENERGY'S SENIOR UNSECURED RATING TO Ba1 WITH A NEGATIVE OUTLOOK; AND TAMPA ELECTRIC COMPANY'S SENIOR SECURED RATING TO A3 WITH A STABLE OUTLOOK

Approximately $3.6 billion of Debt Securities Affected.

New York, April 21, 2003 -- Moody's Investors Service downgraded TECO Energy's (TECO) senior unsecured rating to Ba1 from Baa2. Moody's downgraded Tampa Electric Company's senior secured rating to A3 from A1; issuer and senior unsecured rating to Baa1 from A2; long-term pollution control revenue bonds to Baa1 from A2; and commercial paper rating to Prime-2 from Prime-1. Moody's also downgraded the commercial paper rating of TECO Finance, Inc. to Not Prime from Prime-2 and the rating on the trust preferred securities of TECO Capital Trust I and TECO Capital Trust II to Ba2 from Baa3. The rating outlook for TECO is negative and the rating outlook for Tampa Electric is stable. This action concludes the review of TECO and Tampa Electric's ratings that was initiated on March 12, 2003.

The downgrade of TECO's ratings reflects higher risks associated with the company's large and concentrated exposure to the merchant generation markets, which will increase further following its announced buyout of partner Panda Energy's interests, and diminished asset value as evidenced by substantial writedowns being taken by the company related to power projects, turbine commitments, and the consolidation of TECO Panda Generating Company debt pursuant to FASB FIN 46. Moody's believes that additional writedowns are likely at its TECO Power Services (TPS) subsidiary's remaining power projects, including the suspended Dell and McAdams plants and perhaps the nearly completed Union and Gila projects, which could pressure the debt to capital covenant under its revolving credit agreements. Finally, continued poor merchant energy market conditions will continue to severely limit the cash flow generated by the TPS project portfolio in 2003 and 2004, making it increasingly difficult for TECO to meet parent company interest and dividend obligations without relying on additional asset sales or debt financings. Moody's expects that unfavorable energy market conditions will continue through 2004, the first full year of operation of TECO's large 4,400 MW Union and Gila projects.

The negative outlook on TECO's ratings reflects the company's limited financial flexibility for the remainder of 2003, which Moody's believes will continue through 2004, and the possibility that TECO will have to execute additional asset sales or debt financings to offset the negative effects of poorly performing merchant plants. Liquidity continues to be fairly tight in Moody's opinion, and TECO has large rating triggered obligations associated with this exposure. In particular, TECO is required, within 15 days of this rating action, to collateralize or repay a $375 million equity bridge loan that would otherwise have been paid in increments through the remainder of the year. The negative outlook also considers the possibility of additional writedowns within its power project portfolio and the potential that TECO will need to provide further support to the Union and Gila power projects.

As a result of this rating downgrade, additional contingent obligations will now be required to satisfy letter of credit provisions in its construction contract undertakings for the Union and Gila projects. Under the terms of these undertakings and as is disclosed in TECO's 2002 10-K, TECO is now required, as a result of this downgrade, to deliver letters of credit in an amount equal to the full construction contract price of the Union and Gila projects, or such lesser amount satisfactory to the majority of the project lenders. Although TECO believes the amount actually required would be based on the amounts reasonably necessary to cover remaining payment and performance obligations for the Union and Gila projects (which it estimated to be approximately $60 million at 12/31/02), Moody's is concerned with the uncertainty surrounding the actual amount of this obligation.

The downgrade of Tampa Electric's ratings reflects Moody's view that the regulated utility has been somewhat affected by the financial pressures on the parent company, for several reasons. First, as part of TECO's cash generation plans, Tampa Electric has postponed its own capital expenditure program, including

the repowering of its Bayside Units 3 and 4. Second, Tampa Electric has relied on capital contributions from TECO to maintain equity levels in recent years, which are unlikely going forward given the continued difficulties facing the parent company. Third, Tampa Electric has issued $250 million of unsecured notes, increasing leverage at the utility, and has made a $100 million capital contribution to TECO in 2003. Fourth, Tampa Electric's financial performance measures have weakened somewhat from their traditionally high levels, for the most part as a result of a large capital expenditure program at the utility. In addition, Tampa Electric renewed its 364-day $300 million revolving credit facility in November 2002, but without a one year term loan option, primarily due to issues at the parent company. This limits the utility's financial flexibility as the new maturity date approaches in November 2003.

The stable outlook on Tampa Electric's ratings reflects Moody's view that the current ratings level adequately reflects the financial pressure placed on the utility by TECO as it attempts to stabilize its own financial condition. Moody's will continue monitor the performance of Tampa Electric as it completes major elements of its capital expenditure program over the next few months; whether or not there is any utilization of its $300 million revolving credit, which is not anticipated; management's progress in either extending, replacing, or adding a term loan option to its $300 million revolving credit, maturing in November; and the potential that additional capital expenditures may be required at Tampa Electric to meet growth and expansion needs.

Moody's notes that management's most recent efforts to shore up liquidity at the parent company have been significant in supporting TECO's rating at the Ba1 level. In particular, the reduction in TECO's dividend as well as its ability to obtain additional financings at both TECO and Tampa Electric is expected to permit the company to withstand a period of little to no cash generation from the Union and Gila projects in both 2003 and 2004 while maintaining liquidity. However, Moody's also notes that in its effort to limit its long-term exposure to the merchant generation markets, TECO has actually increased its exposure over the short-term by buying out its partner, Panda Energy, thereby increasing its interest in some power projects. Ratings stability at TECO will depend on the timing and amount of likely writedowns associated with its remaining merchant plants, the successful execution of the newest action plans outlined by TECO management in its April 11, 2003 financial presentation, and a significant improvement in the cash generation prospects of its merchant portfolio.

Rating lowered include:

TECO Energy's senior unsecured debt rating, to Ba1 from Baa2 and the trust preferred securities rating of TECO Capital Trust I and TECO Capital Trust II, to Ba2 from Baa3. The rating outlook is negative.

Tampa Electric's senior secured rating, to A3 from A1; issuer and senior unsecured rating, to Baa1 from A2; long-term pollution control revenue bond debt rating, to Baa1 from A2; and commercial paper rating, to Prime-2 from Prime-1. The rating outlook is stable.

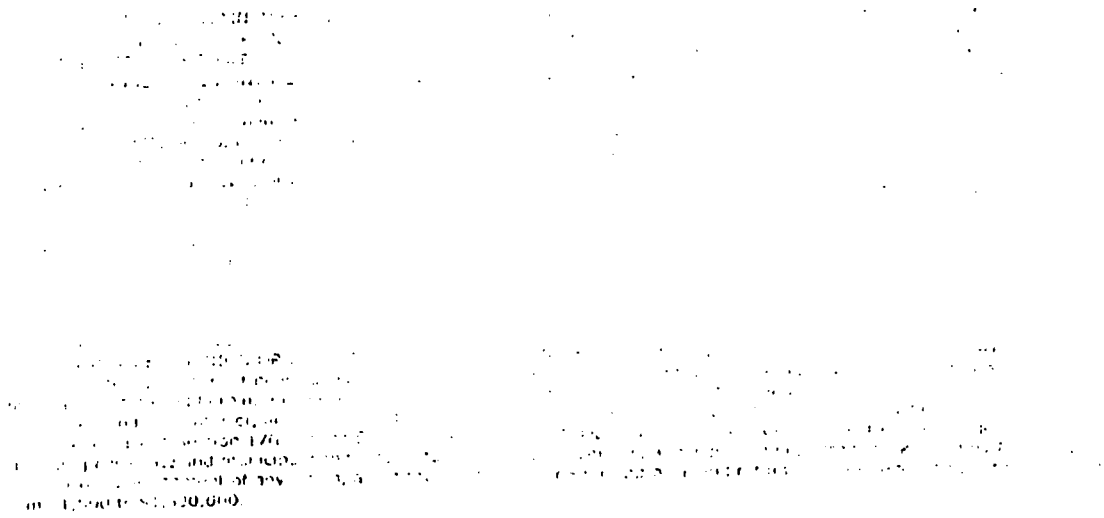
TECO Finance, Inc.'s commercial paper rating, to Not Prime from Prime-2.

TECO Energy is a diversified energy company headquartered in Tampa, Florida, and the parent company of Tampa Electric Company.

New York
Daniel Gates
Managing Director
Corporate Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York
Michael G. Haggarty
Vice President - Senior Analyst
Corporate Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

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Fitch Downgrades Ratings of TECO Energy and Tampa Electric

25 Apr 2003 4:50 PM

Fitch Ratings-New York-April 25, 2003: Fitch Ratings has downgraded the outstanding ratings of TECO Energy, Inc. (TECO) and Tampa Electric Company as shown below. The Rating Outlook for both issuers has been revised to Negative from Stable.

TECO Energy, Inc.: –Senior unsecured debt lowered to 'BB+' from 'BBB'; –Preferred stock lowered to 'BB' from 'BBB-'.

TECO Finance (guaranteed by TECO) –Medium term notes lowered to 'BB+' from 'BBB'; –Commercial paper withdrawn.

Tampa Electric Company: –First mortgage bonds lowered to 'A-' from 'A'; –Senior unsecured debt lowered to 'BBB+' from 'A-'; –Unsecured pollution control revenue bonds (Hillsborough County, Florida IDA for Tampa Electric) lowered to 'BBB+' from 'A-'; –Commercial paper unchanged at 'F2'; –Variable rate mode unsecured pollution control revenue bonds (Hillsborough County, Florida IDA for Tampa Electric) unchanged at 'F2'.

The downgrade of TECO Energy's ratings reflect the higher-than-expected debt leverage on a cash flow basis (gross debt measured against earnings before interest taxes depreciation and amortization (EBITDA)), and the negative impact on earnings and cash flow measures from increased interest expense, weaker projected earnings and higher-than-anticipated capital expenditures. While the recently announced dividend cut and other liquidity enhancing measures are positive and provide adequate liquidity for the near term, the updated financial profile is more reflective of the revised ratings. Prospects for recovery in the wholesale power markets in which TECO has made significant investments in the development of natural gas-fired mid-merit generating plants (funded in part through increased leverage at the structurally-subordinated parent company) remain remote for the foreseeable future. The Negative Outlook at TECO reflects the continuing merchant energy exposure and uncertainty surrounding future capital market access.

The downgrades and Negative Outlook for Tampa Electric reflect Fitch's policy that restricts the rating differential between a parent and its utility subsidiary. The regulated utility continues to provide an offset to the risks associated with the independent power business. Tampa Electric, which contributed 66% of consolidated EBITDA for the TECO group in 2002, has financial metrics which would be consistent with the 'A' category, despite significant investment in new plant over the last several years to meet customer and sales

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TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR PODS
FILED: OCTOBER 20, 2008

growth. The recent issuance of $250 million of senior unsecured notes at Tampa Electric and the recent return of capital to the parent is expected to have a moderately negative impact on financial measures, although the ratings will continue to be constrained by that of the parent.

Fitch had already incorporated the impact of recent rating downgrades at TECO that require the company to provide letters of credit to support remaining obligations related to the Union and Gila River projects, including the $375 million outstanding under an equity bridge facility due in three installments this year. The consolidation of the debt associated with these projects does not change Fitch's view of the obligations as non-recourse to TECO, and does not impact financial covenants.

Certain recently-announced actions that will have a favorable impact on near-term liquidity include a 46% dividend cut that will save $120 million annually and $90 million in 2003; arrangement of a $350 million 364-day unsecured credit facility that addresses the maturity in November 2003 of the termed out bank loan; sale of 49.5% interest in synthetic fuel facilities that will provide $50 million in cash flow annually; and, a $250 million private placement at Tampa Electric in lieu of the sale of a coal gasification facility. These additional sources of liquidity along with cash balances will fund TECO's remaining commitments to merchant generation projects and regulated capital expenditures. These include obligations, related to the Union and Gila River projects, which are gradually winding down as construction is completed. Other assets also identified as potential sources of liquidity through disposal include the Hardee Power Station (a gas-fired facility in Florida supported by long term contracts), the San Jose and Alborada Power Stations (coal- and oil-fired facilities in Guatemala supported by long term contracts) and the TECO Transport business. Fitch typically measures the liquidity benefit of possible disposals against the execution risk associated with the disposal process, and notes that execution on all three asset sales, while allowing some deleveraging of the parent, would also reduce the proportion of unregulated generation with long term contracts.

Management also announced that an accounting charge of up to $350 million is likely during the first half of the year. The charge is related to the consolidation of the Union and Gila projects and write-downs related to turbine orders and the TIE project. While the continued weakness in wholesale power markets may very well lead to additional write-downs in the merchant generation portfolio, this is not expected to cause the company to breach its debt to capital requirement under the multi-year credit facility given the headroom under the 65% limitation (at least for the near term). This ratio stood at 56.2% at March 31, 2003 and the charge is expected to add about 2.5% to that number.

TECO Energy is a holding company headquartered in Tampa, Florida. Its principal businesses are a regulated electric and natural gas local distribution company subsidiary, unregulated generation, marine transport, and coal production and synthetic fuel facilities. Tampa Electric provides retail electric service to over 600,000 customers in west central Florida and through its Peoples Gas division distributes and markets natural gas to approximately 281,000 customers throughout the state.

Contacts: Donna DiDonato +1-212-908-0637 or Robert Hornick +1- 212-908-0523, New York.

Media Relations: James Jockle +1-212-908-0547, New York.

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STAFF'S FIRST REQUEST FOR PODS
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RESEARCH

TECO Energy and Units Ratings Lowered; Outlook Still Negative

Publication date: 30-May-2003
Credit Analyst: William Ferara, New York (1) 212-438-7667

NEW YORK (Standard & Poor's) May 30, 2003--Standard & Poor's Ratings Services said today that it lowered its long-term corporate credit ratings on electricity provider TECO Energy Inc. and affiliates to 'BBB-' from 'BBB'.

At the same time, Standard & Poor's lowered its short-term corporate credit and commercial paper ratings on subsidiary Tampa Electric Co. to 'A-3' from 'A-2'.

The outlook for all the entities is negative. Tampa, Fla.-based TECO has about $3.8 billion in debt.

"The downgrade of TECO and its subsidiaries reflects the company's continued exposure to power plant projects that are being severely impacted by a weak power price environment, ongoing asset sale execution risk, and the paramount importance of continuing to execute planned strategic initiatives to arrest the company's weakening credit quality," said Standard & Poor's credit analyst William Ferara.

Standard & Poor's assessment of the consolidated creditworthiness of the TECO enterprise upon completion of company's announced strategic plans is consistent with a 'BBB-' corporate credit rating.

The company's attempt to refocus its business strategy to rationalize its merchant power exposure and focus primarily on its utility (about 70% of cash flow) and coal (about 20% of cash flow) businesses are the primary drivers behind the company's maintaining its investment-grade corporate credit rating.

The current ratings are supported by the expected dramatic reduction in the company's business risk profile, which, going forward, will be supported by a lower-risk consolidated business mix that is expected to produce a steady cash flow stream, mostly generated from integrated utility operations. Absent this reduction in its risk profile, TECO's credit quality would be in the noninvestment-grade 'BB' category.

Standard & Poor's said that the negative outlook reflects the substantial execution risk TECO faces as it attempts to rationalize its merchant plant exposure and complete potential asset sales, such as TECO Transport, the Hardee power station, Guatemalan assets, and other assets.

Standard & Poor's is closely monitoring the firm's success in these endeavors with expectations for continued steady progress throughout 2003. Importantly, lack of movement on these issues in a timely fashion will result in a ratings downgrade to noninvestment grade. Conversely, rapid completion of TECO's stated objectives at expected values could be the catalyst for ratings stability at the 'BBB-' corporate credit rating level.

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Fixed Income in the left navigation bar, select Credit Ratings Actions.

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Moody's Investors Service

Global Credit Research
Rating Action
20 OCT 2003

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Rating Action: TECO Energy, Inc.

MOODY'S CHANGES THE RATING OUTLOOK OF TAMPA ELECTRIC TO NEGATIVE FROM STABLE

New York, October 20, 2003 – Moody's Investors Service has changed the rating outlook of Tampa Electric Company (A3 senior secured) to negative from stable. The negative outlook reflects Moody's concerns regarding the high level of debt at parent company TECO Energy (Ba1 senior unsecured, negative outlook), financial pressures at unregulated subsidiaries of TECO, and the perceived likelihood that upstreamed dividends from Tampa Electric will be increasingly relied upon to service parent company obligations which begin to mature in 2007. Over the last several years, TECO and its subsidiaries have incurred substantial debt balances to finance the construction of wholesale generation at TECO Power Services (TPS), in addition to funding higher capital expenditures at Tampa Electric. As market conditions in the wholesale generation markets have deteriorated, Moody's believes that TPS will not generate significant cash flow to service parent company debt obligations going forward, suggesting that there will be a greater long term reliance upon dividends from Tampa Electric and other subsidiaries.

The negative outlook considers Moody's view that the regulated utility is not completely insulated from the ongoing financial pressures facing the parent and other subsidiaries of the parent. Tampa Electric has in recent years delayed certain aspects of its capital expenditure program and returned some previously contributed capital to TECO, which has affected the utility's own financial flexibility during a period of significant capital spending needs. Until conditions improve in the wholesale generation markets or TECO is able to otherwise mitigate its exposure to these markets and deal with substantial debt related to unregulated investments, Moody's believes that Tampa Electric will continue to remain somewhat exposed to the pressures facing the parent company.

Tampa Electric is a regulated utility headquartered in Tampa, Florida and a subsidiary of TECO Energy, Inc.

New York
Daniel Gates
Managing Director
Corporate Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York
Michael G. Haggarty
Vice President - Senior Analyst
Corporate Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

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Moody's Investors Service

Global Credit Research
Rating Action
10 FEB 2004

Rating Action: TECO Energy, Inc.

MOODY'S DOWNGRADES TECO ENERGY (Sr. Unsec. To Ba2) AND TAMPA ELECTRIC COMPANY (SR. Sec. To Baa1); RATING OUTLOOK IS NEGATIVE

Approximately $4.4 Billion of Debt Securities Affected

New York, February 10, 2004 -- Moody's Investors Service downgraded TECO Energy, Inc.'s (TECO) senior unsecured debt rating to Ba2 from Ba1. Moody's downgraded Tampa Electric Company's senior secured debt rating to Baa1 from A3; and downgraded its senior unsecured debt, Issuer Rating, and long-term pollution control revenue bonds to Baa2 from Baa1. Tampa Electric's Prime-2 commercial paper rating is affirmed. Moody's also downgraded the rating on the trust preferred securities of TECO Capital Trust I and TECO Capital Trust II to Ba3 from Ba2. The rating outlook is negative for TECO, Tampa Electric, TECO Capital Trust I, and TECO Capital Trust II.

The downgrade of TECO's ratings reflects its high leverage, minimal anticipated free cash flow generation for the next several years, and likely continued reliance upon asset sales and/or equity issuance to limit further balance sheet deterioration. The rating action also reflects Moody's view that the overall cash generating prospects of the consolidated TECO enterprise have weakened considerably over the last several years as TECO has had to divest a number of once key cash generating assets, such as the Hardee Power plant and its coalbed methane business, and that TECO's remaining merchant plant investments will continue to negatively affect the company's financial performance until either market conditions improve or TECO disposes of these assets.

The downgrade also considers the larger than anticipated $826 million of write-downs, charges, and other adjustments taken in the fourth quarter, most of which were related to the company's long expected decision to exit its investments in the poorly performing Union and Gila River merchant power projects. The write-down was larger than Moody's anticipated, due partly to the expensing of an interest rate hedge at the projects and because of a series of smaller adjustments taken in the quarter. As a result, TECO has only limited room under the 65% debt to capital covenant in its bank revolving credit facility. Absent a permanent amendment of this covenant or a waiver for a sustained period, this covenant may limit the company's flexibility to address its other merchant plant investments in ways that would trigger an additional write-down. As a means to maintain sufficient liquidity in the event its bank revolving credit can not be drawn upon, TECO has established a $200 million standby credit facility secured by the capital stock of TECO Transport. The security granted under this facility falls just below the 5% limitation on liens embodied in TECO's most recent $300 million notes issuance.

Moody's is also concerned that TECO will not completely exit from the Union and Gila River projects until at least September 30, 2004; and as a result will incur losses associated with these projects throughout most of fiscal year 2004. The company has recorded substantially negative free cash flow for the last several years which may continue given the company's other merchant plant investments. While capital spending will be substantially lower going forward, cash flow generation is weak relative to the company's high debt burden and high dividend pay-out ratio. This may result in a continued reliance upon asset sales or equity issuances to reduce debt and improve the balance sheet.

Moody's also notes that TECO has taken no action to exit its other merchant plant investments, including the mothballed Dell and McAdams plants. Moody's believes that the prospects for these plants, which are located in Arkansas and Mississippi, respectively, remain particularly bleak for at least the next several years. TECO has publicly represented in the past that it thought it would be able to write off its entire merchant energy portfolio if necessary without breaking its debt to capital covenant. After the larger than expected write-off in the fourth quarter, Moody's believes that this is no longer the case. In addition, in Moody's opinion, TECO has likely failed to meet its 3.0x EBITDA to Interest coverage covenant in the Construction Contract Undertaking agreements associated with the Union and Gila River projects for the last two quarters.

The downgrade of Tampa Electric's rating reflects Moody's view that the regulated utility continues to be negatively affected by the weakened financial condition of the parent company. Although TECO has recently articulated a back to basics strategy focusing on its core Florida utility operations, Moody's believes that TECO's management will continue to be preoccupied with exiting the Union and Gila plant investments, and resolving issues surrounding its other merchant plant investments through 2004, and perhaps into 2005 as

well. Moody's believes there may be greater pressure on Tampa Electric for dividends to the parent for a number of years, which may be accomplished by deferring certain expenses or capital expenditures.

The negative outlook reflects the continued challenges facing both TECO Energy and Tampa Electric going forward, including finalizing its exit from Union and Gila, strengthening the balance sheet, determining the ultimate disposition of its other merchant energy investments, executing additional asset sales, and renegotiating and extending its bank revolving credit facility. In the event that TECO makes significant progress in addressing these issues during 2004, the rating outlook could be revised.

Ratings lowered include:

TECO Energy's senior unsecured debt rating, to Ba2 from Ba1; and the trust preferred securities rating of TECO Capital Trust I and TECO Capital Trust II, to Ba3 from Ba2.

Tampa Electric's senior secured debt rating, to Baa1 from A3; senior unsecured and Issuer Rating, to Baa2 from Baa1; and pollution control revenue bonds to Baa2 from Baa1.

Tampa Electric's Prime-2 commercial paper rating is affirmed.

TECO Energy, Inc. is a diversified energy company headquartered in Tampa Florida, and the parent company of Tampa Electric Company.

New York
Daniel Gates
Managing Director
Corporate Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York
Michael G. Haggarty
Vice President - Senior Analyst
Corporate Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

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TECO Energy Rating Lowered; Tampa Electric Rating Affirmed

Publication date: 20-Jul-2004
Credit Analyst: Todd A Shipman, CFA, New York (1) 212-438-7676

NEW YORK (Standard & Poor's) July 20, 2004--Standard & Poor's Ratings Services said today that it lowered its corporate credit rating on TECO Energy Inc. to 'BB' from 'BBB-'. Standard & Poor's also lowered its senior unsecured debt rating on the company to 'BB' from 'BB+'. The outlook is stable.

In addition, Standard & Poor's affirmed its 'BBB-/A-3' corporate credit rating on utility subsidiary Tampa Electric Co. and revised the outlook on the company to stable from negative.

Tampa, Fla.-based TECO Energy has about $3.7 billion of total debt outstanding.

"The drop in ratings at the parent holding company is due to a combination of lower expected financial performance at TECO Energy and less support accorded to TECO Energy from its Tampa Electric utility subsidiary," said Standard & Poor's credit analyst Todd Shipman.

"In making the ratings distinction between the utility and its parent company, Standard & Poor's is acknowledging the wide differential in the stand-alone credit profiles of the two companies, which have diverged as TECO Energy has foundered in its unregulated merchant energy operations," continued Mr. Shipman.

In affirming the Tampa Electric ratings, Standard & Poor's is positing its view that the utility's credit profile is unlikely to suffer further deterioration from the parent's activities. The separation is substantiated by management actions over the past three years that have been consistent with maintaining the utility's strong investment-grade credit quality.

Thus, despite the absence of explicit mechanisms to insulate the utility, Standard & Poor's believes Tampa Electric's independent credit profile justifies a corporate credit rating of 'BBB-'.

TECO Energy's move out of an investment-grade rating category, its refocused utility business strategy, and its ability to weather recent liquidity needs without burdening its utility franchise were also determining factors in Standard & Poor's rating actions. (See "Credit FAQ: TECO Energy Inc. and Tampa Electric Co." published on July 20, 2004 for more information on the decision to separate the ratings.)

TECO Energy's commitment to refocus its business strategy by rationalizing its merchant power exposure and focusing primarily on its utility (about 70% of cash flow) and coal (about 15% of cash flow) businesses will create a lower-risk consolidated business mix that is expected to produce a more reliable cash flow stream. The credit strengths of the refocused business are offset by high debt leverage, a byproduct of the failed merchant strategy.

Although the company has taken steps to exit from merchant activities, the transition has caused weaker financial results than Standard & Poor's had previously incorporated into its analysis. The company's efforts to recover from its failed merchant strategy will therefore take longer and be more difficult to achieve, and the lower ratings on TECO Energy better reflect that risk.

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

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STANDARD &POOR'S | RATINGSDIRECT

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Research:
Summary: TECO Energy Inc.

Publication date: 20-Jul-2004
Credit Analyst: Todd A Shipman, CFA, New York (1) 212-438-7678

Credit Rating: BB/Stable/NR

Rationale

On July 20, 2004, Standard & Poor's Ratings Services lowered its corporate credit rating on TECO Energy Inc. to 'BB' from 'BBB-'. The outlook is stable.

In addition, Standard & Poor's affirmed its 'BBB-/A-3' corporate credit rating on utility subsidiary Tampa Electric Co. and revised the outlook on the company to stable from negative.

Tampa, Fla.-based TECO Energy has about $3.7 billion of total debt outstanding.

The drop in ratings at the parent holding company is due to a combination of lower expected financial performance at TECO Energy and less support accorded to TECO Energy from its Tampa Electric utility subsidiary. In making the ratings distinction between the utility and its parent company, Standard & Poor's is acknowledging the wide differential in the stand-alone credit profiles of the two companies, which have diverged as TECO Energy has foundered in its unregulated merchant energy operations.

In affirming the Tampa Electric ratings, Standard & Poor's is positing its view that the utility's credit profile is unlikely to suffer further deterioration from the parent's activities. The separation is substantiated by management actions over the past three years that have been consistent with maintaining the utility's strong investment-grade credit quality. Thus, despite the absence of explicit mechanisms to insulate the utility, Standard & Poor's believes Tampa Electric's independent credit profile justifies a corporate credit rating of 'BBB-'. TECO Energy's move out of an investment-grade rating category, its refocused, utility business strategy, and its ability to weather recent liquidity needs without burdening its utility franchise were also determining factors in Standard & Poor's rating actions (see "Credit FAQ: TECO Energy Inc. and Tampa Electric Co." published on July 20, 2004 for more information on the decision to separate the ratings.)

TECO Energy's commitment to refocus its business strategy by rationalizing its merchant power exposure and focusing primarily on its utility (about 70% of cash flow) and coal (about 15% of cash flow) businesses will create a lower-risk consolidated business mix that is expected to produce a more reliable cash flow stream. The credit strengths of the refocused business are offset by high debt leverage, a byproduct of the failed merchant strategy. Although the company has taken steps to exit from merchant activities, the transition has caused weaker financial results than Standard & Poor's had previously incorporated into its analysis. The company's efforts to recover

from its failed merchant strategy will therefore take longer and be more difficult to achieve, and the lower ratings on TECO Energy better reflect that risk.

The management and boards of TECO Energy and Tampa Electric have shown a willingness to shield Tampa Electric from the full impact of the parent's financial difficulties as TECO Energy manages its withdrawal from the merchant energy business. Tampa Electric's financial condition has weakened during TECO Energy's travails, in part because of the financing needs of its own construction program, but even so the utility exhibits a credit profile that implies a strong investment-grade rating. The electric utility operations are marked by a strong, growing service territory, a relatively supportive regulatory environment, minimal exposure to industrial customers, and competitive rates.

Liquidity.

TECO Energy's liquidity is fair and slightly weaker as a result of the recent replacement of its primary bank facility at a much smaller level. The company faces no recourse debt maturities until 2007, and the company has about $450 million of total borrowing capacity. Standard & Poor's would expect only minimal collateral calls (relating to gas purchase obligations) should Tampa Electric's debt ratings be lowered. In addition, capital needs have eased as both the parent's and the utility's construction programs have been completed or suspended. TECO Energy's ability to reduce its annual $150 million common dividend provides additional flexibility.

■ Outlook

The stable outlook reflects Standard & Poor's confidence in the ultimate resolution of TECO Energy's merchant exposure and management's commitment to a redefined business strategy. The company must continue to execute on its stated business strategy, effectively manage its remaining business lines, and deliver results consistent with projections. Ratings stability is directly correlated with a swift exit from merchant activity and prudent use of free cash flow to reduce debt. Any renewed interest in higher-risk businesses on the part of TECO Energy's management most likely would result in a return to a negative outlook.

■ Ratings List

To From

TECO Energy Inc.

Long-term corp credit rtg BB/Stable BBB-/Negative

Senior unsecured debt BB BB+

Preferred stock B BB

Short-term corp credit rtg NR A-3

Commercial paper NR A-3

Tampa Electric Co.

Corporate credit rating BBB-/Stable/A-3

Senior unsecured debt BBB-

Commercial paper A-3

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

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STANDARD &POOR'S | RATINGSDIRECT

Research:

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Credit FAQ: TECO Energy Inc. and Tampa Electric Co.

Publication date: 20-Jul-2004
Credit Analyst: Todd A Shipman, CFA, New York (1) 212-438-7676

On July 20, 2004, Standard & Poor's lowered its corporate credit rating on TECO Energy Inc. to 'BB' from 'BBB-' but affirmed its 'BBB-' corporate credit rating on utility subsidiary Tampa Electric Co. The outlook on both companies is stable. (See research update on TECO Energy and Tampa Electric published on July 20, 2004 for more information.)

■ Frequently Asked Questions

The downgrade of TECO Energy happened after the company has apparently weathered the worst of its crisis. What prompted Standard & Poor's to drop the company into the noninvestment grade category at this time?

Although Standard & Poor's believes the TECO Energy's circumstances have begun to improve, the need to execute its exit strategy from its merchant energy operations and the restoration of the company's balance sheet are still subject to many delays and pitfalls. The risks of falling short or behind in those efforts are the reason that the rating action is being taken now.

The ratings on TECO Energy's electric utility subsidiary, Tampa Electric, were noticeably untouched in the downgrade. Why were the utility ratings spared?

In affirming Tampa Electric's ratings, Standard & Poor's is acknowledging the wide differential in the stand-alone credit profiles of the two companies, which diverged as TECO Energy stumbled in its unregulated merchant energy operations. Stand-alone credit quality at the utility is considered to be strongly investment grade.

Another consideration that played a part in the decision was that the ratings on TECO Energy and Tampa Electric reached an inflection point when the credit quality of the consolidated entity fell below investment grade. Regulators and utility managers have an incentive to prevent credit deterioration below an investment-grade level, especially when the utility has a high-growth service area that requires financial resources to meet that growth.

What caused the credit quality of TECO Energy to erode since Standard & Poor's previous review of the company in November 2003?

As stated in the research update, the downgrade of TECO Energy is due to a combination of TECO Energy's lower-than-expected financial performance and less support accorded to TECO Energy from its Tampa Electric utility subsidiary. It was a combination of those two developments that tipped the balance against TECO Energy's investment-grade rating. Most influential was the disappointing financial performance thus far in 2004. While some of it can be traced to one-time events and timing issues, Standard & Poor's detected a weakening in the company's financial condition that, while not serious, is projected to persist long enough to impede the pace of the company's recovery. Bringing the company's balance sheet back to health, which already had been projected to take several years, has now become more difficult and will possibly take longer than expected.

Did the separation of the ratings on TECO Energy and Tampa Electric affect where TECO Energy's ratings eventually settled?

The determination that the creditworthiness of the entire TECO enterprise was below investment grade led to the decision to de-couple the corporate credit ratings on TECO Energy and Tampa Electric. That decision in turn exerted even greater downward pressure on the TECO Energy ratings, since the analysis of the holding company's credit profile could no longer count on the full access to Tampa Electric's financial strength. The result was a two-notch downgrade of TECO Energy's corporate credit rating and a one-notch decline in the unsecured debt rating. Tampa Electric's ratings remained the same.

Does the separation of this holding company/utility subsidiary pair represent a change in Standard & Poor's consolidated ratings methodology?

No. Although different corporate credit ratings for a parent company and its wholly owned subsidiary are more the exception than the rule, the possibility of a separation of the two has always been contemplated in Standard & Poor's ratings criteria. The rating of a strong subsidiary owned by a weaker parent is normally constrained by the parent's rating, but the presence of regulators has traditionally supported the relaxation of that rule in the case of holding companies and their regulated utility operating subsidiaries.

As deregulation initiatives spread from the telecommunications arena to the natural gas and then to the electric industries, Standard & Poor's applied more stringent tests to ascertain the likelihood that regulators and utility managers would act to protect a utility from the consequences of higher-risk activities at a parent. As deregulation has lost favor, at least in the electric industry, and companies have reverted to a strategy directed at their regulated operations, the flexibility that has always existed in the consolidated rating methodology may begin to be applied in more situations.

In TECO Energy's case, Standard & Poor's found that a separation (but not a de-linkage) of the corporate credit ratings of the parent and utility was warranted because:

- A distinction may be made when the ratings straddle the investment-grade/noninvestment-grade divide;
- The deterioration in credit quality was caused not at the utility but at the parent, and a wide disparity exists between the utility's credit profile and that of its parent;
- TECO Energy's management track record forbearing to seriously harm the utility's financial position to rescue the parent from its difficulties; and
- The need for the parent to call upon the resources of the utility has been judged to have significantly lessened.

How does TECO Energy's situation differ from that of other utility holding companies whose failing creditworthiness has been applied to the ratings of their utilities?

In the case of DPL Inc. (BB-/Watch Neg/B) and Dayton Power & Light Co. (BB-/Watch Neg/B), the management and governance issues that led to rating cuts applied equally to the holding company and the utility. For CMS Energy Corp. (BB/Negative/--) and Consumers Energy Co. (BB/Negative/--), the utility's stand-alone credit quality is not considered to be strong and is not nearly as far from the parent's and from the investment-grade boundary. For FirstEnergy Corp. (BBB-

/Stable/--) and its utilities (BBB-/Stable/--), the problems originated at the utility level, and the investment-grade line has not yet been crossed. With regard to Allegheny Energy Inc. (B/Stable/--) and its utilities (B/Stable/--), management's attitudes toward its utilities and the role they might play in helping restore the parent to financial health led to Standard & Poor's conclusion that the utilities shared the same risk of default as the parent. Allegheny's credit measures are much weaker and its nonutility assets are of less value, so the financial performance of the utilities continue to support the parent. It should be noted that if TECO Energy were to experience more credit declines, those same factors could affect Tampa Electric's ratings at that point (see next question).

What circumstances or events could lead to further ratings deterioration at TECO Energy? At Tampa Electric?

With the ratings now carrying a stable outlook, Standard & Poor's obviously believes TECO Energy has gotten through the worst of the challenges presented by the failed merchant strategy. However, two things could cause the company's credit quality to suffer and result in more downgrades. First, if the company were to fall any further behind in its financial recovery plan, the ratings could resume a downward course. Secondly, a retraction or even any equivocation of its commitment to exit the merchant energy business would undoubtedly have negative rating repercussions.

The ratings on Tampa Electric could also participate in any future downgrades. While the corporate credit ratings on the two entities are now different, they are not necessarily independent of each other. The ratings are still tied together, but in a loose manner that allows some degree of separation. However, any deterioration of TECO Energy's credit quality would place pressure on Tampa Electric's investment-grade rating because it would almost certainly increase the probability that the Tampa Electric's financial integrity may have to be breached to provide liquidity or other financial assistance to its parent.

Is liquidity a concern?

TECO Energy has mostly moved past the point where liquidity is a major issue. The need for liquidity has sharply dropped as the construction expenditures for both utility and the unregulated power generation projects have been completed or suspended. However, liquidity is only fair and is slightly weaker as a result of the recent replacement of the parent's primary bank facility at a much smaller level ($200 million versus $350 million previously). TECO Energy faces no recourse debt maturities until 2007, and the company has about $450 million of total borrowing capacity under credit facilities at the parent and the utility. Standard & Poor's would expect only minimal collateral calls (relating to gas purchase obligations) should Tampa Electric's debt ratings be lowered. TECO Energy's ability to reduce its annual $150 million common dividend provides additional flexibility.

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Fitch Affirms TECO and Tampa Electric; Outlook to Stable

NEW YORK--(BUSINESS WIRE)--Dec. 2, 2004 Fitch Ratings has affirmed the ratings of TECO Energy (TECO) and Tampa Electric Company and revised the Rating Outlook to Stable. At the same time, Fitch has withdrawn the outstanding senior secured rating at Tampa Electric as the utility's remaining first mortgage bonds have been retired. A complete list of the ratings is included at the bottom of this press release.

Earlier today, TECO announced an agreement to sell the Frontera Power Station for $134 million to a subsidiary of Centrica. This sale provides incremental cash available to fund $680 million of 2007 debt maturities at TECO and was not previously assumed in Fitch's or in management's projections. This development, along with the cumulative effect of several positive developments over the past 18 months is reflected in the Rating Outlook revision.

Positive developments over the past 18 months have included the completion of several noncore asset sales, monetization of 90% of TECO's interest in synthetic fuel facilities, and refinement of management's focus on core operations. In addition, TECO has addressed its liquidity needs by entering into a $200 million three-year credit facility that was put in place at the parent in July. Tampa Electric has credit facilities totaling $275 million comprising a $125 million facility that matures in 2006 and a $150 million facility that matures in 2007. The Frontera sale is expected to close by year-end 2004, subject to certain regulatory approvals, and to generate approximately $40 million of tax benefits. The plant is a 477 megawatt natural gas-fired, combined-cycle merchant power plant in Electric Reliability Council of Texas (ERCOT), located near McAllen, TX.

Earlier this year, TECO announced plans to exit from the Union and Gila River power projects, which Fitch viewed as neutral credit developments. While the process of an orderly transfer to the project lenders is continuing, TECO's exposure is not expected to be more than the $30 million previously announced. The current ratings and Rating Outlook assume that TECO will not provide additional support to the projects beyond the $30 million payment in exchange for full releases by the lending banks and that capital expenditures and investments will continue at maintenance levels. Longer term ratings improvement will depend on the ability to reduce consolidated leverage through generation of free cash flow.

Despite the recent improvement, TECO's ratings continue to reflect the company's weak financial profile due primarily to significant debt relative to expected cash flow generation of remaining businesses. Favorably, TECO has made significant progress in completing asset sales, including the one announced today and in strengthening the consolidated liquidity position. At the same time, TECO has no significant debt maturities until 2007. TECO's ratings also consider the contribution of regulated utility subsidiary Tampa Electric, which benefits from a growing and diverse service territory and a favorable regulatory environment. Financial measures at Tampa Electric have been and are expected to remain strong. Hurricane damage cost exposure of $60 million is not considered to be a major issue for Tampa Electric as amounts in excess of the $42 million storm reserve are expected to be recovered.

TECO Energy is a holding company headquartered in Tampa, Florida. Its principal businesses include a regulated electric and natural gas local distribution company subsidiary and unregulated marine transport, coal, and synthetic fuel production facilities, unregulated electric generation with long-term contracts, and merchant generation in the U.S. Tampa Electric provides retail electric service to over 620,000 customers in western central Florida and through its Peoples Gas division distributes and markets natural gas to approximately 305,000 customers throughout the state.

TECO Energy, Inc.

Rating Outlook is revised to Stable from Negative, along with the following rating actions:

-- Senior unsecured debt affirmed at 'BB+';

-- Preferred stock affirmed at 'BB'.

Tampa Electric Company

Rating Outlook is revised to Stable from Negative, along with the following rating actions:

-- Senior secured first mortgage bond rating withdrawn;

-- Senior unsecured debt affirmed at 'BBB+';

-- Unsecured pollution control revenue bonds (Hillsborough County,

Florida IDA for Tampa Electric) affirmed at 'BBB+';

-- Commercial paper affirmed at 'F2';

-- Variable-rate mode unsecured pollution control revenue bonds

(Hillsborough County, Florida IDA for Tampa Electric) affirmed

at 'F2'.

CONTACT: Fitch Ratings, New York Donna DiDonato, 212-908-0637 Robert Hornick, 212-908-0523
or Brian Bertsch (Media), 212-908-0549

Last Updated: December 2, 2004 15:29 EST



Moody's Investors Service

Global Credit Research
Rating Action
10 MAY 2005

Rating Action: TECO Energy, Inc.

MOODY'S REVISES RATING OUTLOOK OF TECO ENERGY (Sr. Uns. Ba2) AND TAMPA ELECTRIC (Sr. Uns. Baa2) TO STABLE FROM NEGATIVE; ASSIGNS Ba1 SENIOR IMPLIED RATING

Approximately $4 Billion of Debt Securities Affected

New York, May 10, 2005 – Moody's Investors Service affirmed the ratings of TECO Energy, Inc. (TECO: Ba2 senior unsecured) and assigned a Ba1 Senior Implied Rating. Moody's also affirmed the ratings of TECO's subsidiary Tampa Electric Company (Tampa Electric: Baa2 senior unsecured) and affirmed the Ba3 rating on the trust preferred securities of TECO Capital Trust I. The rating outlook was revised to stable from negative for TECO, Tampa Electric, TECO Capital Trust I and TECO Capital Trust II.

The revision of the rating outlook reflects reduced business risk resulting from the company's progress in exiting the merchant generation business, including the nearly completed transfer of the Union and Gila River power stations to the project lenders. The outlook revision also considers the commitment to a back-to-basics strategy focusing on its core Florida utility operations; improved liquidity resulting from non-core asset sales and modifications of bank facilities; and Moody's expectation that the company's cash flow will be more predictable going forward and allow it to reduce or refinance the significant debt maturities that occur in 2007.

The stable outlook also considers the fundamental change in strategy made by the company over the last two years, particularly since it installed a new CEO in 2004. Since that time, the company has successfully sold or otherwise disposed of a number of its non-core assets, including its Hardee, Hamakua, TIE (Odessa and Guadalupe), Commonwealth Chesapeake, and Frontera power stations. It is also in the final stages of terminating its involvement in the Union and Gila River power stations, which are expected to be transferred to the lending banks later this month. Although TECO still retains the mothballed Dell and McAdams plants, the company's total merchant generation portfolio has declined significantly and the remaining exposure will be more manageable going forward. The company is considering strategic alternatives for these two remaining plants and is likely to exit these investments as well. Future cash flow generation will be derived predominantly from TECO's more stable Tampa Electric and Peoples Gas regulated utility subsidiaries, as well as other core operations, including TECO Coal and TECO Transport.

The Ba1 senior implied rating reflects TECO's continued high leverage, much of it a legacy of its merchant generation expansion strategy, and Moody's expectation that the company's operating cash flow generation will represent less than 15% of adjusted debt over the next two years. Approximately $1.0 billion of the company's debt is due in 2007, $750 million of which is at the parent company. Moody's expects TECO to generate adequate cash to retire a significant portion of these debt maturities. A key variable that could affect the company's ability to meet its cash flow projections is the amount of cash it receives from its synthetic fuels business, which could be negatively affected by sustained higher oil prices. In addition, tax credits from synthetic fuels expire at the end of 2007.

Ratings affirmed include:

TECO Energy's senior unsecured debt at Ba2; and the trust preferred securities of TECO Capital Trust I at Ba3 and TECO Capital Trust II at (P)Ba3.

Tampa Electric's senior secured debt at (P)Baa1; senior unsecured debt and issuer Rating at Baa2; and long-term pollution control revenue bonds at Baa2.

TECO Energy, Inc. is a diversified energy company headquartered in Tampa Florida and is the parent company of Tampa Electric Company.

New York
Daniel Gates
Managing Director
Corporate Finance Group

Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York
[redacted]chael G. Haggarty
- Senior Credit Officer
Corporate Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

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[redacted]OODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from $1,500 to $2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moodys.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."

Fitch Ratings Revises TECO's & Tampa Electric's Outlook to Positive; Ratings Affirmed

Ratings
04 Apr 2007 3:31 PM (EDT)

Fitch Ratings-New York-04 April 2007: Fitch revises the long-term Rating Outlook of TECO Energy, Inc. (TECO, Issuer Default Rating [IDR] 'BB+'), and its main operating subsidiary, Tampa Electric Company (Tampa Electric, IDR 'BBB') to Positive from Stable. The existing ratings are affirmed. Approximately $3.8 billion of debt is affected by today's rating actions. The full list of affected ratings is below.

The revision of TECO's Rating Outlook to Positive reflects Fitch's expectation that TECO's leverage and business risk will continue to trend downward as a result of debt repayments and an increasing proportion of consolidated revenues generated by lower risk regulated utilities due to growth of the utilities and the planned sale of TECO Transport. Business risk has been lowered during the past few years through the wind-down of merchant power operations. The FFO interest coverage ratio improved to 3.2x for the twelve months ended Dec. 31, 2006. Parent company debt has been reduced by $157 million since December 2006 and the company's plan to retire $300 million of parent debt maturing in May 2007 using cash on hand is achievable. In addition to the retirement of this $300 million of debt, TECO has committed to an additional $500 million of early redemptions of parent level debt, which will be accelerated from no later than the end of 2010 to the end of 2008 if TECO Transport is sold according to plan.

In Fitch's view, credit metrics are likely to be restored to investment grade levels within the two-year time horizon of a Rating Outlook. Morgan Stanley has been retained as advisor for the sale of TECO Transport and management intends to use the proceeds of a sale for parent debt reduction. TECO has locked in the $100 million of cash from synthetic fuel production in 2007 through hedges, which eliminated the uncertainty regarding syn-fuel related cash flows and had NOL tax assets of $760 million as of December 31, 2006, which should result in minimal tax payments for several years.

Liquidity is considered strong. TECO's consolidated cash balances were $442 million as of December 31, 2006. Internal liquidity is supplemented by availability under committed credit facilities of $427 million at Tampa Electric and $190.5 million at TECO as of Dec. 31, 2006.

The revision of Tampa Electric's Outlook to Positive reflects the on-going improvement of TECO's consolidated credit profile as well as Fitch's expectation that the utility will fund its capital spending in a manner that maintains its already strong capital structure and coverage ratios. Credit metrics are strong relative to 'BBB' category guidelines. The FFO interest coverage was 4.6 times for the twelve months ending Dec. 31, 2006. TECO injected $50 million of equity capital into Tampa Electric in 2006 and plans an additional $82 million equity investment in 2007. Challenges for Tampa Electric include maintaining credit quality as it moves into a period of higher capital spending. Tampa Electric has considerable capital spending needs for reliability, transmission upgrades, and base-load generating capacity needs.

TECO is a holding company that owns subsidiaries engaged in diversified energy related activities. The main operating subsidiary is Tampa Electric, which provides retail electric services to approximately 661,000 customers in the west central Florida. It also purchases, distributes, and sells natural gas to approximately 332,000 customers. In addition, TECO owns interests in coal processing and loading facilities, synthetic fuel production facilities, and mineral rights, as well as owns or operates surface and underground mines in eastern Kentucky, Tennessee, and Virginia; and provides waterborne transportation, storage, and transfer services of coal and other dry-bulk commodities.

Ratings Affirmed, Outlook Positive:

TECO Energy, Inc.:
--Issuer default rating (IDR) 'BB+';
--Senior unsecured debt 'BB+';

Tampa Electric Company:
--IDR 'BBB';
--Senior unsecured debt 'BBB+';
--Short-term 'F2'.

Contact: Sharon Bonelli +1-212-908-0581 or Karima Omar +1-212-908-0592, New York.

Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549.

Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site,

'www.fitchratings.com'. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.
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Fitch Places Ratings of TECO & Tampa Electric on Rating Watch Positive

Ratings
30 Oct 2007 3:55 PM (EDT)

Fitch Ratings-New York-30 October 2007: Fitch Ratings has placed the following ratings of TECO Energy, Inc. and its primary operating subsidiary, Tampa Electric Company on Rating Watch Positive:

TECO Energy, Inc.:
--Issuer Default Rating (IDR) 'BB+';
--Senior Unsecured debt 'BB+'.

Tampa Electric Company
--IDR 'BBB';
--Senior unsecured debt 'BBB+'.

Approximately $3.4 billion of debt is affected by today's ratings actions.

The Rating Watch Positive of TECO reflects Fitch's expectation that the approximate $370 - $380 million of net proceeds from the sale of TECO Transport Corp. (Transport) will be used to repay parent debt and reduce leverage. TECO announced an agreement to sell the Transport barge operations on Oct. 29, 2007. Fitch expects to resolve the Rating Watch Positive status after the $500 million parent company debt reduction plan is substantially completed. At this time, Fitch considers likely a one-notch upgrade of TECO to 'BBB-'. While the timing of closing of the Transport sale and associated debt reduction cannot be predicted with certainty, TECO and the purchaser, an affiliate of Greenstreet Equity Partners, L.P., anticipate closing the transaction by Dec. 31, 2007. In an initial step towards the goal of reducing parent debt by $500 million by no later than December 2008, TECO retired $110 million of Dock and Wharf bonds at Transport on the maturity date in September 2007 using cash on hand.

TECO's liquidity position is considered satisfactory. Nearly all of TECO's $200 million committed bank revolving credit facility is available and Tampa Electric has limited borrowings under its bank facilities. Cash on hand was $220 million as of June 30, 2007. There are nominal debt maturities in 2008 and 2009.

The sale of Transport will enable TECO to accelerate the parent level debt reduction effort. Fitch forecasts that repayment of the aforementioned $500 million of parent company debt will drive down the consolidated ratio of debt-to operating EBITDA to approximately 4 times (x) in 2008. Moreover, the divestiture of Transport will lower consolidated business risk because an increasing proportion of consolidated cash flows will be generated by lower risk regulated utilities. TECO repaid approximately $467 million of holding company debt and parent guaranteed debt in the first nine months of 2007. TECO's consolidated ratio of debt to EBITDA was 5.4x for the twelve months ending June, 30, 2007 compared to 5.7x at Dec. 31, 2006.

The Rating Watch Positive of Tampa Electric reflects the improvement in TECO's consolidated leverage, lower group business risk, and strong stand-alone financials. Tampa Electric's credit ratios are strong for the 'BBB' rating category with an EBITDA to interest ratio of 4.6x as of June 30, 2007. Fitch anticipates Tampa Electric will be able to maintain a strong balance sheet as it funds system growth and investments necessary to maintain a safe and reliable system. The cancellation of the proposed Polk IGCC plant will reduce capital spending at Tampa Electric in the near-term, but will likely lead to greater reliance on gas-fired peaking and combined cycle capacity over time.

Contact: Sharon Bonelli +1-212-908-0581 or Karima Omar +1-212-908-0592, New York.

Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549.

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TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR
PRODUCTION OF DOCUMENTS
DOCUMENT NO. 13
BATES STAMPED PAGE: 9440
FILED: OCTOBER 20, 2008

13. Please provide copies of all Standard and Poor's reports for each corporate credit rating change that occurred for TECO Energy, Inc. from 1999 through the present.

A. See the company's response to Staff's First Request for Production of Documents No. 12.

Hearing Exhibit - 00000579



Exhibit #36

FOR CLERK

(Nos. 3-8, 10-32) (14)

Hearing Exhibit - 00000580

TAMPA ELECTRIC COMPANY
DOCKET NO. 080317-EI
STAFF'S FIRST REQUEST FOR
PRODUCTION OF DOCUMENTS
DOCUMENT NO. 14
BATES STAMPED PAGES: 9441 - 9570
FILED: OCTOBER 20, 2008

14. Please provide a copy of the most current edition of Standard & Poor's rating criteria for utilities in the Company's possession.

A. A copy of the most current edition of Standard & Poor's rating criteria for utilities in the company's possession is attached.

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RESEARCH

U.S. Utilities Ratings Analysis Now Portrayed In The S&P Corporate Ratings Matrix

Publication date: 30-Nov-2007
Primary Credit Analysts: Todd A Shipman, CFA, New York (1) 212-438-7676; todd_shipman@standardandpoors.com
William Ferara, New York (1 212-438-1776; bill_ferara@standardandpoors.com
John W Whitlock, New York (1) 212-438-7678; john_whitlock@standardandpoors.com
Secondary Credit Analyst: Michael Messer, New York (1) 212- 438-1618; michael_messer@standardandpoors.com

The electric, gas, and water utility ratings ranking lists published today by Standard & Poor's U.S. Utilities & Infrastructure Ratings practice are categorized under the business risk/financial risk matrix used by the Corporate Ratings group. This is designed to present our rating conclusions in a clear and standardized manner across all corporate sectors. Incorporating utility ratings into a shared framework to communicate the fundamental credit analysis of a company furthers the goals of transparency and comparability in the ratings process. Table 1 shows the matrix.

Table 1

Business Risk/Financial Risk

	Financial Risk Profile				
Business Risk Profile	**Minimal**	**Modest**	**Intermediate**	**Aggressive**	**Highly leveraged**
Excellent	AAA	AA	A	BBB	BB
Strong	AA	A	A-	BBB-	BB-
Satisfactory	A	BBB+	BBB	BB+	B+
Weak	BBB	BBB-	BB+	BB-	B
Vulnerable	BB	B+	B+	B	B-

The utilities rating methodology remains unchanged, and the use of the corporate risk matrix has not resulted in any changes to ratings or outlooks. The same five factors that we analyzed to produce a business risk score in the familiar 10-point scale are used in determining whether a utility possesses an "Excellent," "Strong," "Satisfactory," "Weak," or "Vulnerable" business risk profile:

- Regulation,
- Markets,
- Operations,
- Competitiveness, and
- Management.

Regulated utilities and holding companies that are utility-focused virtually always fall in the upper range ("Excellent" or "Strong") of business risk profiles. The defining characteristics of most utilities--a legally defined service territory generally free of significant competition, the provision of an essential or near-essential service, and the presence of regulators that have an abiding interest in supporting a healthy utility financial profile--underpin the business risk profiles of the electric, gas, and water utilities.

As the matrix concisely illustrates, the business risk profile loosely determines the level of financial risk appropriate for any given rating. Financial risk is analyzed both qualitatively and quantitatively, mainly with financial ratios and other metrics that are calculated after various analytical adjustments are performed on financial statements prepared under GAAP.

Financial risk is assessed for utilities using, in part, the indicative ratio ranges in table 2.

Table 2

Financial Risk Indicative Ratios - U.S. Utilities

(Fully adjusted, historically demonstrated, and expected to consistently continue)

	Cash flow		Debt leverage
	(FFO/debt) (%)	(FFO/interest) (x)	(Total debt/capital) (%)
Modest	40 - 60	4.0 - 6.0	25 - 40
Intermediate	25 - 45	3.0 - 4.5	35 - 50
Aggressive	10 - 30	2.0 - 3.5	45 - 60
Highly leveraged	Below 15	2.5 or less	Over 50

The indicative ranges for utilities differ somewhat from the guidelines used for their unregulated counterparts because of several factors that distinguish the financial policy and profile of regulated entities. Utilities tend to finance with long-maturity capital and fixed rates. Financial performance is typically more uniform over time, avoiding the volatility of unregulated industrial entities. Also, utilities fare comparatively well in many of the less-quantitative aspects of financial risk. Financial flexibility is generally quite robust, given good access to capital, ample short-term liquidity, and the like. Utilities that exhibit such favorable credit characteristics will often see ratings based on the more accommodative end of the indicative ratio ranges, especially when the company's business risk profile is solidly within its category. Conversely, a utility that follows an atypical financial policy or manages its balance sheet less conservatively, or falls along the lower end of its business risk designation, would have to demonstrate an ability to achieve financial metrics along the more stringent end of the ratio ranges to reach a given rating.

Note that even after we assign a company a business risk and financial risk, the committee does not arrive by rote at a rating based on the matrix. The matrix is a guide--it is not intended to convey precision in the ratings process or reduce the decision to plotting intersections on a graph. Many small positives and negatives that affect credit quality can lead a committee to a different conclusion than what is indicated in the matrix. Most outcomes will fall within one notch on either side of the indicated rating. Larger exceptions for utilities would typically involve the influence of related unregulated entities or extraordinary disruptions in the regulatory environment.

We will use the matrix, the ranking list, and individual company reports to communicate the relative position of a company within its business risk peer group and the other factors that produce the ratings.

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RESEARCH

Corporate Ratings Criteria--Rating Methodology: Industrials & Utilities; Cyclicality; Loan Covenants; Country Risk

Publication date: 09-Jun-2005
Primary Credit Analyst: Solomon B Samson, New York (1) 212-438-7653; sol_samson@standardandpoors.com
Secondary Credit Analysts: Scott Sprinzen, New York (1) 212-438-7812; scott_sprinzen@standardandpoors.com
Emmanuel Dubois-Pelerin, Paris (33) 1-4420-6673; emmanuel_dubois-pelerin@standardandpoors.com
Kenneth C Pfeil, New York (1) 212-438-7889; ken_pfeil@standardandpoors.com

(Editor's note: This article updates a Corporate Criteria article originally published on Oct. 28, 2004.)

Rating Methodology: Industrials & Utilities

Standard & Poor's uses a format that divides the analytical task, so that all salient issues are considered. The framework we use looks first at fundamental business analysis; then comes financial analysis.

Credit ratings often are identified with financial analysis, and especially ratios. But it is critical to realize that ratings analysis starts with the assessment of the business and competitive profile of the company. Two companies with identical financial metrics are rated very differently, to the extent that their business challenges and prospects differ.

Standard & Poor's developed the matrices shown below to make explicit the rating outcomes that are typical for various business risk/financial risk combinations.

Business Risk/Financial Risk Matrix

Table 1 illustrates the relationship of business and financial risk profiles to the issuer credit rating. Table 2 shows the financial risk ratios for industrial companies.

Table 1

Business Risk/Financial Risk

	Financial Risk Profile				
Business Risk Profile	**Minimal**	**Modest**	**Intermediate**	**Aggressive**	**Highly Leveraged**
Excellent	AAA	AA	A	BBB	BB
Strong	AA	A	A-	BBB-	BB-
Satisfactory	A	BBB+	BBB	BB+	B+
Weak	BBB	BBB-	BB+	BB-	B
Vulnerable	BB	B+	B+	B	B-

Table 2

Financial Risk Indicative Ratios

(Fully adjusted, historically demonstrated, and expected to consistently continue)

	Cash flow (Funds from operations/Debt) (%)	**Debt leverage (Total debt/Capital) (%)**
Minimal	Over 60	Below 25
Modest	45-60	25-35
Intermediate	30-45	35-45
Aggressive	15-30	45-55
Highly leveraged	Below 15	Over 55

How can one use the matrices to better understand rating conclusions? Here is one illustration:

Company ABC is deemed to have a 'satisfactory' business risk profile. (It is typical, in that respect, of investment-grade industrial corporates--what we previously labeled 'average'.)

If ABC's financial risk were 'intermediate', the expected rating assignment should be 'BBB'. The table of indicative ratios can be used as a simple starting point. ABC's ratios of cash flow to debt of 35% and debt leverage of 40% are characteristic of 'intermediate' financial risk. In reality, of course, the assessment of financial risk is not so simplistic! It encompasses financial policies and risk tolerance; several perspectives on cash flow adequacy, including free cash flow and the degree of flexibility regarding capital expenditures; and various measures of liquidity, including coverage of short-term maturities.

Company ABC can aspire to being upgraded to the 'A' category, by reducing its debt burden to the point that cash flow to debt is over 60% and debt leverage is only 25%. Conversely, ABC may choose to become more financially aggressive--say, to reward shareholders by borrowing to repurchase shares. It can expect to be rated in the 'BB' category if its cash flow to debt ratio is 20% and debt leverage remains below 55%, and there is a commitment to keeping finances at these levels.

The rating outcomes indicated are not meant to be precise. There can always be small positives and negatives that would lead to a notch higher or lower than the typical outcomes. Moreover, there will always be exceptions--cases that do not fit neatly into this analytical framework: For example, liquidity concerns or litigation could pose overarching risks.

The matrix does not address the lowest rungs of the credit spectrum, i.e., the 'CCC' category and below. Those ratings always reflect some impending crisis or extraordinary vulnerability. The balanced approach that underlies the matrix framework just does not work well for such situations.

Standard & Poor's strives for transparency around the rating process. It should be apparent, however, that the ratings process cannot be entirely reduced to a cookbook approach: Ratings incorporate many subjective judgments, and remain as much an art as a science.

Corporate credit analysis factors.

There are several categories underlying both the business and financial risk assessments. These can vary by industry, in order to focus on the most relevant factors.

Business risk

Country risk

Industry characteristics

Company position

- Product portfolio/Marketing
- Technology
- Cost efficiency

Strategic and operational management competence

Profitability/Peer group comparisons

Financial risk

Accounting

Corporate governance/Risk tolerance/Financial policies

Cash-flow adequacy

Capital Structure/Asset Protection

Liquidity/Short-term factors

Industry risk.

Each rating analysis begins with an assessment of the company's environment. The degree of operating risk facing a

participant in a given business depends on the dynamics of that business. This analysis focuses on the strength of industry prospects, as well as the competitive factors affecting that industry.

The many factors assessed include industry prospects for growth, stability, or decline, and the pattern of business cycles (see "Cyclicality"). It is critical, for example, to determine vulnerability to technological change, labor unrest, or regulatory interference. Industries that have long lead times or that require fixed plant of a specialized nature face heightened risk. The implications of increasing competition obviously are crucial. Standard & Poor's knowledge of investment plans of the major players in any industry offers a unique vantage point from which to assess competitive prospects.

While any particular profile category can be the overriding rating consideration, the industry risk assessment can be a key factor in determining the rating to which any participant in the industry can aspire. It would be hard to imagine assigning 'AA' and 'AAA' debt ratings to companies with extensive participation in industries of above-average risk, regardless of how conservative their financial posture. Examples of these industries are integrated steel makers, tire and rubber companies, home-builders, and most of the mining sector.

Conversely, some industries are regarded favorably. They are distinguished by such traits as steady demand growth, ability to maintain margins without impairing future prospects, flexibility in the timing of capital outlays, and moderate capital intensity. Industries possessing one or more of these attributes include manufacturers of branded consumer products, drug companies, and publishing and broadcasting. High marks in this category do not translate into high ratings for all industry participants, but the cushion of strong industry fundamentals provides helpful support.

Again, the industry risk assessment sets the stage for analyzing specific company risk factors and establishing the priority of these factors in the overall evaluation. For example, if technology is a critical competitive factor, R&D prowess is stressed. If the industry produces a commodity, cost of production assumes major importance.

Keys to success.

As part of the industry analysis, key rating factors are identified: the keys to success and areas of vulnerability. A company's rating is, of course, crucially affected by its ability to achieve success and avoid pitfalls in its business.

The nature of competition is, obviously, different for different industries. Competition can be based on price, quality of product, distribution capabilities, image, product differentiation, service, or some other factor. Competition may be on a national basis, as is the case with major appliances. In other industries, such as chemicals, competition is global, and in still others, such as cement, competition is strictly regional. The basis for competition determines which factors are analyzed for a given company.

For any particular company, one or more factors can hold special significance, even if that factor is not common to the industry. For example, the fact that a company has only one major production facility normally is regarded as an area of vulnerability. Similarly, reliance on one product creates risk, even if the product is highly successful. For example, a pharmaceutical company has reaped a financial bonanza from just two medications. The company's debt is reasonably highly rated, given its exceptional profits and cash flow, but it would be viewed still more favorably were it not for the dependence on only two drugs (which are, after all, subject to competition and patent expiration).

Diversification factors.

When a company participates in more than one business, each segment is separately analyzed. A composite is formed from these building blocks, weighting each element according to its importance to the overall organization. The potential benefits of diversification, which may not be apparent from the additive approach, are then considered.

A truly diversified company will not have a single business segment that is dominant. One major automobile company received much attention for "diversifying" into aerospace and computer processing. But it never became a diversified company, because its success was still determined substantially by one line of business.

Limited credit is given if the various lines of business react similarly to economic cycles. For example, diversification from nickel into copper cannot be expected to stabilize performance; similar risk factors are associated with both metals.

Most critical is a company's ability to manage diverse operations. The skills and practices needed to run a business differ greatly among industries, not to mention the challenge posed by participation in several different industries. For example, a number of old-line industrial companies rushed to diversify into financial services, only to find themselves saddled with unfamiliar businesses they had difficulty managing.

Some companies have adopted a portfolio approach to their diverse holdings. The business of buying and selling businesses is different from running operations and is analyzed differently. The ever-changing character of the company's assets typically is viewed as a negative. On the other hand, there is often an offsetting advantage: greater flexibility in raising funds if each line of business is a discrete unit that can be sold off.

Size considerations.

Standard & Poor's has no minimum size criterion for any given rating level. However, size turns out to be significantly correlated to ratings. The reason: size often provides a measure of diversification, and/or affects competitive position.

Small companies also can possess the competitive benefits of a dominant market position, although that is not common. Obviously, the need to have a broad product line or a national marketing structure is a factor in many businesses and would be a rating consideration. In this sense, sheer mass is not important; demonstrable market advantage is.

Market-share analysis often provides important insights. However, large shares are not always synonymous with competitive advantage or industry dominance. For instance, if an industry has a number of large but comparably sized participants, none may have a particular advantage or disadvantage. Conversely, if an industry is highly fragmented, even the large companies may lack pricing leadership potential. The textile industry is an example.

Small companies are, almost by definition, more concentrated in terms of product, number of customers, or geography. In effect, they lack some elements of diversification that can benefit larger companies. To the extent that markets and regional economies change, a broader scope of business affords protection. This consideration is balanced against the performance and prospects of a given business.

In addition, lack of financial flexibility is usually an important negative factor in the case of very small companies. Adverse developments that would simply be a setback for companies with greater resources could spell the end for companies with limited access to funds.

There is a controversial notion that small, growth-oriented companies represent a better credit risk than older, declining companies. While this is intuitively appealing to some, it ignores some important considerations. Large companies have substantial staying power, even if their businesses are troubled. Their constituencies--including large numbers of employees--can influence their fates. Banks' exposure to these companies may be quite extensive, creating a reluctance to abandon them. Moreover, such companies often have accumulated a lot of peripheral assets that can be sold. In contrast, the promise of small companies can fade very quickly and their minuscule equity bases will offer scant protection, especially given the high debt burden some companies deliberately assume.

Fast growth often is subject to poor execution, even if the idea is well conceived. There also is the risk of overambition. Moreover, some companies tend to continue high-risk financial policies as they aggressively pursue ever-greater objectives, limiting any credit-quality improvement. There is little evidence to suggest growth companies initially receiving speculative-grade ratings have particular upgrade potential. Many more defaulted over time than achieved investment grade. Oil exploration, retail, and high technology companies especially have been vulnerable, even though their great potential was touted at the time they first came to market.

Management evaluation.

Management is assessed for its role in determining operational success and also for its risk tolerance. The first aspect is incorporated in the business-risk analysis; the second is weighed as a financial policy factor.

Subjective judgments help determine each aspect of management evaluation. Opinions formed during the meetings with senior management are as important as management's track record. While a track record may seem to offer a more objective basis for evaluation, it often is difficult to determine how results should be attributed to management's skills. The analyst must decide to what extent they are the result of good management; devoid of management influence; or achieved despite management.

Plans and policies are judged for their realism. How they are implemented determines the view of management consistency and credibility. Stated policies often are not followed, and the ratings may reflect skepticism until management has established credibility. Credibility can become a critical issue when a company is faced with stress or restructuring, and the analyst must decide whether to rely on management to carry out plans for restoring creditworthiness.

Other organizational/corporate culture considerations.

Standard & Poor's evaluation is sensitive to potential organizational problems. These include situations where:

- The company has a highly aggressive business model, e.g., growing through large acquisitions or expansion into unproven markets;
- The company has made frequent and significant changes to its strategy;
- The company has a history of retrenchment and restructuring;
- There is significant organizational reliance on an individual, especially one who may be nearing retirement;
- The transition from entrepreneurial or family-bound to professional management has yet to be accomplished;
- Management compensation is excessive or poorly aligned with the interests of stakeholders;

- There is excessive management turnover;
- The company is involved in legal, regulatory, or tax disputes to a significantly greater extent than its peers;
- The company has an excessively complex legal structure, perhaps employing intricate off-balance-sheet structures;
- The relationship between organizational structure and management strategy is unclear;
- Shareholders impose constraints on management prerogatives;
- The finance function and finance considerations do not receive high organizational recognition;
- The company is particularly aggressive in the application of accounting standards, or demonstrates a lack of opaqueness in its financial reporting (see also "Accounting Characteristics," below), and;
- Management's financial policy is exceptionally aggressive, as evidenced by heavy debt usage or a history of aggressive actions to directly reward shareholders (see also "Financial Policy," below).

(See also "The Evolving Role of Corporate Governance in Credit Rating Analysis.")

Measuring performance and risk.

Having evaluated the issuer's competitive position and operating environment, the analysis proceeds to several financial categories. To reiterate: the company's business-risk profile determines the level of financial risk appropriate for any rating category.

Financial risk is portrayed largely through quantitative means, particularly by using financial ratios. Profitability benchmarks vary greatly by industry, but broad measures of financial risk are correlated to the company's level of business risk (which incorporates both the industry and position within the industry).

Several analytical adjustments typically are required to calculate ratios for an individual company. Cross-border comparisons require additional care, given the differences in accounting conventions and local financial systems.

Accounting characteristics and information risk.

Financial statements (and related disclosures) serve as our primary source of information regarding the financial condition and financial performance of industrial or utility companies. The analysis of financial statements begins with a review of accounting characteristics. The purpose is to determine whether ratios and statistics derived from the statements can be used appropriately to measure a company's performance and position relative to both its direct peer group and the larger universe of corporates. The rating process is, in part, one of comparisons, so it is important to have a common frame of reference.

The starting point of accounting quality analysis is an understanding of different national and international accounting frameworks, as these vary widely. Recent moves to adopt International Financial Reporting Standards (IFRS) in many countries--including Australia, Canada, and across the European Union--as well as an ongoing effort to effect convergence between U.S. GAAP and IFRS, ultimately could enhance comparability among companies. However, this ought not be seen as a panacea. Within IFRS, just as within the separate national accounting systems, companies are called upon to chose among numerous alternative methods--for example, cost as opposed to fair-value methods--and the resulting differences can have a significant effect on comparability among peers. In addition, even in applying the same methods within the same accounting frameworks, companies show varying degrees of aggressiveness in the underlying estimates and judgments they employ. Moreover, the carrying value of assets can be greatly influenced by the historical development of a company--for example, whether it has grown primarily through internal development or through acquisitions, or whether it previously underwent a leveraged buyout or bankruptcy reorganization--and this also affects many of the quantitative measures employed in financial analysis.

Some of the accounting issues to be reviewed include:

- Consolidation basis. The accounting approach to consolidation may differ from how we define the economic entity for analytical purposes.
- Revenue and expense recognition. For example, percentage of completion compared with completed contract in the construction industry;
- Cash and investments. For example, are investments valued at cost or market?
- Receivables--trade and finance. For example, how conservative are loss provisions?
- Inventory valuation methods. For example, FIFO or LIFO;
- Fixed assets--including depreciation methods and asset lives;
- Intangible assets, including treatment of goodwill;
- Postretirement benefits obligations (see discussion in the "Criteria Topics" section);
- Other liabilities and contingent obligations, recognized on the balance sheet and otherwise, such as operating leases, environmental liabilities, asset retirement obligations, guarantees, litigation;
- Derivatives and hedges;

- Foreign currency;
- Inflation accounting;
- Cash-flow matters. For example, to what extent are R&D and interest costs expensed rather than capitalized? To what extent is operating cash flow affected by nonrecurring items?
- Segment reporting. How are segments defined, and how are transfer prices for transactions between segments determined?

To the extent possible, analytical adjustments are made to better portray reality and to level the differences among companies. Although it is rarely possible to completely recast a company's financial statements, it is important to at least have some notion of the extent to which different financial measures are overstated or understated. Apart from its importance to the quantitative aspects of the analysis, conclusions regarding accounting characteristics and financial transparency can also influence qualitative aspects of the analysis, such as the assessment of management, including financial policy and internal information systems.

As part of its surveillance process, Standard & Poor's closely monitors the potential impact of pending changes in accounting standards. Such changes do not have any direct impact on credit quality; however, accounting changes may reveal new information about a company--information that then needs to be factored into our understanding of the company. For example, the ratings for a few U.S. companies were lowered following the implementation of new accounting for retiree medical liabilities in the early 1990s, because little information previously was available about these obligations. It also is possible accounting changes could trigger financial covenant violations or regulatory or tax consequences, and could even influence changes in business behavior, such as a change in hedging policy.

Standard & Poor's typically relies on audited financial statements, and does not view its role as "auditing the auditors." However, a rating can sometimes be assigned even in the absence of audited statements. This especially is the case when a new company is formed from a division of another company that did produce audited financials. In other cases, there may be unaudited physical data—such as oil-production data--that corroborates company results. In any event, to the extent "information risk" exists, it can influence the level of the rating assigned. In cases where the information uncertainty is so significant that it precludes a meaningful analysis, we would decline to assign a rating.

An increasing number of companies are faced with the finding of accounting and financial reporting irregularities of various types. Their auditors may identify "material weakness" in the accounting systems. Actual mistakes—or even fraud—may have been uncovered. The SEC or other regulatory agencies may order "formal" or "informal" investigations of the accuracy and/or adequacy of financial reporting. In many instances, there is no way for us to immediately know how serious any of these troubling events will turn out to be. The underlying reality can range from an almost trivial problem to complete audit and financial failure. (And, occasionally, a small problem can turn into a large one, as "headline risk" takes a toll on the company's access to financing.)

Standards & Poor's seeks to assess the potential ramifications, possibly through further discussions with management, in-house or external legal counsel, auditors, independent members of the board and the audit committee. However, in some such cases, detailed information may not be available for some time, and we will react, if necessary, based on the best available information, through CreditWatch actions, intermediate rating changes or in extreme cases with the suspension or withdrawal of the ratings.

Financial policy.

Standard & Poor's attaches great importance to management's philosophies and policies involving financial risk. A surprising number of companies have not given this question serious thought, much less reached strong conclusions. For many others, debt leverage (calculated without any adjustment to reported figures) is the only focal point of such policy considerations. More sophisticated business managers have thoughtful policies that recognize cash-flow parameters and the interplay between business and financial risk.

Even companies that have set goals may not have the wherewithal, discipline, or management commitment to achieve these objectives. A company's leverage goals, for example, need to be viewed in the context of its past record and the financial dynamics affecting the business. If management states, as many do, that its goal is to operate with a 35% debt-to-capital ratio, we factor that into our analysis only to the extent it appears plausible. For example, if a company has aggressive spending plans, that 35% goal would carry little weight, unless management has committed to a specific program of asset sales, equity sales, or other actions that in a given time period would produce the desired results.

Standard & Poor's does not encourage companies to manage themselves with an eye toward a specific rating. The more appropriate approach is to operate for the good of the business as management sees it, and let the rating follow. Certainly, prudence and credit quality should be among the most important considerations, but financial policy should be consistent with the needs of the business rather than an arbitrary constraint.

If opportunities are foregone merely to avoid financial risk, the company is making poor strategic decisions. In fact, it may be sacrificing long-term credit quality for the facade of low risk in the near term. One financial article described a company that curtailed spending expressly "to become an 'A'-rated company." As a result, "...the company's business responded

poorly to an increase in market demand. Needless to say, the sought-after 'A' rating continued to elude the company."

In any event, pursuit of the highest rating attainable is not necessarily in the company's best interests. 'AAA' may be the highest rating, but that does not suggest that it is the "best" rating. Typically, a company with virtually no financial risk is not optimal as far as meeting the needs of its various constituencies. An underleveraged company is not minimizing its cost of capital, thereby depriving its owners of potentially greater value for their investment. In this light, a corporate objective of having its debt rated 'AAA' or 'AA' is at times suspect. Whatever a company's financial track record, an analyst must be skeptical if corporate goals are implicitly irrational. A company's "conservative financial philosophy" must be consistent with its overall goals and needs.

Profitability and coverage.

Profit potential is a critical determinant of credit protection. A company that generates higher operating margins and returns on capital has a greater ability to generate equity capital internally, attract capital externally, and withstand business adversity. Earnings power ultimately attests to the value of the company's assets, as well. In fact, a company's profit performance offers a litmus test of its fundamental health and competitive position. Accordingly, the conclusions about profitability should confirm the assessment of business risk.

The more significant measures of profitability are:

- Pretax, pre-interest return on capital;
- Operating income as a percentage of sales; and
- Earnings on business segment assets.

While the absolute levels of ratios are important, it is equally important to focus on trends and compare these ratios with those of competitors. Various industries follow different cycles and have different earnings characteristics. Therefore, what may be considered favorable for one business may be relatively poor for another. For example, the drug industry usually generates high operating margins and high returns on capital. Defense contractors generate low operating margins, but high returns on capital. The pipeline industry has high operating margins and low returns on capital. Comparisons with a company's peers influence our perception of its competitive strengths and pricing flexibility.

The analysis proceeds from historical performance to projected profitability. Because a rating is an assessment of the likelihood of timely payments in the future, the evaluation emphasizes future performance. However, the rating analysis does not attempt to forecast performance precisely or to pinpoint economic cycles. Rather, the forecast analysis considers variability of expected future performance based on a range of economic and competitive scenarios.

Particularly important are management's plans for achieving earnings growth. Can existing businesses provide satisfactory growth, especially in a low-inflation environment, and to what extent are acquisitions or divestitures necessary to achieve corporate goals? At first glance, a mature, cash-generating company offers a great deal of bondholder protection, but Standard & Poor's assumes a corporation's central focus is to augment shareholder value over the long run. In this context, a lack of indicated earnings growth potential is considered a weakness. By itself this may hinder a company's ability to attract financial and human resources. Moreover, limited internal earnings growth opportunities may lead management to pursue growth externally, implying greater business and financial risks.

Earnings also are viewed in relation to a company's burden of fixed charges. Such ratios link profit performance with pure financing considerations, such as aggressiveness of debt usage. The two primary fixed-charge coverage ratios are:

- Earnings before interest and taxes (EBIT) coverage of interest; and
- Earnings before interest and taxes and rent (EBITR) coverage of interest plus total rents.

If preferred stock is outstanding and material, coverage ratios are calculated both including and excluding preferred dividends, to reflect the company's discretion over paying the dividend when under stress. Similarly, if interest payments can be deferred, adjustments to the calculation help capture the company's flexibility in making payments.

To reflect more accurately the ongoing earnings power of the company, reported profit figures are adjusted. These adjustments remove the effect of foreign-exchange gains and losses; litigation reserves; writedowns and other nonrecurring or extra-ordinary gains and losses; and unremitted equity earnings of a subsidiary.

In some countries it is not uncommon for industrial companies to establish their treasury operations as a profit center. In Japan, for example, the term "zaiteku financing" refers to the practice of generating profits through arbitrage and other financial-market transactions. If financial position-taking is a material part of a company's aggregate earnings, Standard & Poor's segregates those earnings to assess the profitability of the core business. We also may view with skepticism the ability to realize such profits on a sustained basis and may treat them like nonrecurring gains.

Similarly, there are numerous analytical adjustments to the interest amounts. Interest that has been capitalized is added back. An interest component is computed for debt equivalents such as operating leases and receivable sales. Amounts may be subtracted to recognize the impact of borrowings in hyperinflationary environments or borrowings to support cash investments as part of a tax arbitrage strategy. And interest associated with finance operations is segregated in accordance with the methodology spelled out in "Finance Subsidiaries' Rating Link to Parent".

Earnings differences.

Shareholder pressures and accounting standards in certain countries--such as the U.S.--can result in companies seeking to maximize profits on a quarter-to-quarter or short-term basis. In other regions--aided by local tax regulation--it is normal practice to take provisions against earnings in good times to provide a cushion against downturns, resulting in a long-run "smoothing" of reported profits. Given local accounting standards, it is not rare to see a Swiss or German company vaguely report "other income" or "other expenses"--largely provisions or provision reversals--as the largest line items in a profit and loss account. In meetings with management, Standard & Poor's discusses provisioning and depreciation practices to see to what extent a company employs noncash charges to reduce or bolster earnings.

Capital structure/leverage and asset protection.

Ratios employed by Standard & Poor's to capture the degree of leverage used by a company include:

- Total debt/total debt + equity;
- Total debt + off-balance-sheet liabilities/total debt + off-balance-sheet liabilities + equity; and
- Total debt/total debt + market value of equity.

Traditional measures focusing on long-term debt have lost much of their significance, because companies rely increasingly on short-term borrowings. It is now commonplace to find permanent layers of short-term debt, which finance not only seasonal working capital but also an ongoing portion of the asset base.

In many countries, notably in Japan and Europe, local practice is to maintain a high level of debt while holding a large portfolio of cash and marketable securities. Many companies manage their finances on a "net-debt" basis. In these situations, we focus on net debt to capital—and, similarly, net interest coverage, and cash flow to net debt. When a company consistently demonstrates such excess liquidity, debt leverage is calculated by netting out excess liquidity from short-term borrowings. Each situation is analyzed on a case-by-case basis, subject to additional information regarding a company's liquidity position, normal working cash needs, nature of short-term borrowings, and funding philosophy. Funds earmarked for future use, such as an acquisition or a capital project, are not netted out. This approach also is used, for example, in the case of cash-rich U.S. pharmaceutical companies that enjoy tax arbitrage opportunities with respect to these cash holdings.

What is considered "debt" and "equity" for the purpose of ratio calculation is not always so simple (See "Equity Credit: What It Is, And How To Get It"). In the case of hybrid securities, the analysis is based on their features--not the accounting or the nomenclature. Pension and retiree health obligations are similar to debt in many respects. Their treatment is explained in "Postretirement Obligations."

Indeed, not all subtleties and complexities lend themselves to ratio analysis. Original-issue discount debt, such as zero coupon debt, is included at the accreted value. However, since there is no sinking fund provision, the debt increases with time, creating a moving target. (The need, eventually, to refinance this growing amount represents another risk.) In the case of convertible debt, it is somewhat presumptuous to predict whether and when conversion will occur, making it difficult to reflect the real risk profile in ratio form.

A company's asset mix is a critical determinant of the appropriate leverage for a given level of risk. Assets with stable cash flow or market values justify greater use of debt financing than those with clouded marketability. For example, grain or tobacco inventory would be viewed positively, compared with apparel or electronics inventory; transportation equipment is viewed more favorably than other equipment, given its suitability for use by other companies.

Accordingly, we believe it is critical to analyze each type of business and asset class in its own right. While FASB and IAS now require consolidation of nonhomogenous business units, we analyze each separately. This is the basis for our methodology for analyzing captive finance companies (See "Finance Subsidiaries' Rating Link to the Parent").

Asset valuation.

Knowing the true values to assign a company's assets is key to the analysis. Leverage as reported in the financial statements is meaningless if the assets' book values are materially undervalued or overvalued relative to economic value. Standard & Poor's considers the profitability of an asset as an appropriate basis for determining its economic value. Market values of a company's assets or independent asset appraisals can offer additional insights. However, there are shortcomings in these methods of valuation (just as there are with historical cost accounting) that prevent reliance on any single measure. Similarly, ratios using the market value of a company's equity in calculations of leverage are given limited weight as analytical tools. The stock market emphasizes growth prospects and has a short time horizon; it is influenced by changes

in alternative investment opportunities and can be very volatile. A company's ability to service its debt is not affected directly by such factors.

The analytical challenge of which values to use is especially evident in the case of merged and acquired companies. Accounting standards allow the acquired company's assets and equity to be written up to reflect the acquisition price, but the revalued assets have the same earning power as before; they cannot support more debt just because a different number is used to record their value. Right after the transaction, the analysis can take these factors into account, but down the road the picture becomes muddied. We attempt to normalize for purchase accounting, but the ability to relate to pre-acquisition financial statements and to make comparisons with peer companies is limited.

Presence of a material goodwill account indicates the impact of acquisitions and purchase accounting on a company's equity base. Intangible assets are no less "valuable" than tangible ones. But comparisons are still distorted, because other companies cannot record their own valuable business intangibles, i.e., those that have been developed, rather than acquired. This alone requires some analytical adjustment when measuring leverage. In addition, analysts are entitled to be more skeptical about earning prospects that rely on turnaround strategies or "synergistic" mergers.

Off-balance-sheet financing.

Analysis of liabilities is not limited to those shown on the company's balance sheet. Off-balance-sheet items factored into the leverage analysis include:

- Operating leases;
- Guarantees, debt of joint ventures, and unconsolidated subsidiaries;
- Take-or-pay contracts and obligations under throughput and deficiency agreements;
- Receivables that have been factored, transferred, or securitized; and
- Contingent liabilities, such as potential legal judgments or lawsuit settlements.

Various methodologies are used to determine the proper adjustment value for each off-balance-sheet item. In some cases, the adjustment is straightforward. For example, the amount of guaranteed debt can simply be added to the guarantor's liabilities to reflect the potential burden of this contingent liability. Other adjustments are more complex or less precise.

Nonrecourse debt of a joint venture may be attributed to the parent companies, especially if they have a strategic tie to the operation. The analysis may burden one parent with a disproportionate amount of the debt if that parent has the greater strategic interest or operating control or its ability to service the joint-venture debt is greater. Other considerations that affect a company's willingness to walk away from such debt--and other nonrecourse debt--include shared banking relationships and common country location. In some instances, the debt may be so large in relation to the owner's investment that the incentives to support the debt are minimized. In virtually all cases, however, the parent likely would invest additional amounts before deciding to abandon the venture. Accordingly, adjustments would be made to reflect the owner's current and projected investment, even if the venture's debt were not added to the parent's balance sheet.

In the case of contingencies, estimates are developed. Insurance coverage is estimated, and a present value is calculated if the payments will stretch over many years. The resulting amount is viewed as a corporate liability from an analytical perspective. The sale or securitization of accounts receivable represents a form of off-balance-sheet financing (i.e, whenever such assets continue to be generated on an onging basis for the company). If proceeds are used to reduce other debt, the impact on credit quality is neutral. (There can be some incremental benefit to the extent that the company has expanded access to capital, and this financing may be lower in cost. However, there may also be an offset in the higher cost of unsecured financing.) For ratio calculations, Standard & Poor's adds back the amount of receivables and a like amount of debt. This eliminates the distorting, cosmetic effect of using an off-balance-sheet technique and allows better comparison with other companies that have chosen other avenues of financing. Similarly, if a company uses proceeds from receivables sales to invest in riskier assets--and not to reduce other debt--the adjustment will reveal this increase in financial risk.

The debt-equivalent value of operating leases is determined by calculating the present value of minimum operating lease obligations as reported in the annual report's footnotes. The lease amount beyond five years is assumed to mature at a rate approximating the minimum payment due in year five.

The variety of lease types may require the analyst to obtain additional information or use estimates to evaluate lease obligations. This is needed whenever lease terms are shorter than the assets' expected economic lives. For example, retailers report only the first period of a lease written with an initial period and several renewal options over a long term. Another limitation develops when a portion of the lease payment is contingent, e.g., a percentage of sales, as is often the case in the retailing industry.

(Traditionally, operating leases were recognized by the "factor method": annual lease expense is multiplied by a factor that reflects the average life of the company's leased assets. This method is an attempt to capitalize the asset, rather than just the use of the asset for the lease period. However, the method can overstate the asset to be capitalized by failing to recognize asset use over the course of the lease. It also is too arbitrary to be realistic.)

Preferred stock.

Preferred stocks can qualify for treatment as equity or be viewed as debt--or something between debt and equity--depending on their features and the circumstances. The degree of equity credit for various preferreds is discussed in "Equity Credit." Preferred stocks with a maturity receive diminishing equity credit as they progress toward maturity. In the same vein, sinking-fund preferreds are less equity-like. The sinking fund requirements themselves are of a fixed, debt-like nature. Moreover, they usually are met through debt issuance, which results in the sinking-fund preferred being just the precursor of debt. It would be misleading to view sinking-fund preferreds--particularly that portion coming due in the near to intermediate term--as equity, only to have each payment convert to debt on the sinking fund's payment date.

A preferred that may eventually be refinanced with debt is viewed as a debt equivalent, not equity, all along. Auction preferreds, for example, are "perpetual" on the surface. However, they often represent merely a temporary debt alternative for companies that are not current taxpayers--until they once again can benefit from tax deductibility of interest expense. Moreover, the holders of these preferreds would pressure for a redemption in the event of a failed auction or even a rating downgrade.

Redeemable preferred stock issues may also be refinanced with debt once an issuer becomes a taxpayer. Preferreds that can be exchanged for debt at the company's option also may be viewed as debt in anticipation of the exchange. However, the analysis also would take into account offsetting positives associated with the change in tax status. Often the trigger prompting an exchange or redemption would be improved profitability. Then, the added debt in the capital structure would not necessarily imply lower credit quality. The implications are different for many issuers that do not pay taxes for various other reasons, including availability of tax-loss carry-forwards or foreign tax credits. For them, a change in taxpaying status is not associated with better profitability, while the incentive to turn the preferred into debt is identical.

Cash-flow adequacy.

Interest or principal payments cannot be serviced out of earnings, which is just an accounting concept; payment has to be made with cash. Although there usually is a strong relationship between cash flow and profitability, many transactions and accounting entries affect one and not the other. Analysis of cash-flow patterns can reveal a level of debt-servicing capability that is either stronger or weaker than might be apparent from earnings.

Cash-flow analysis is the single most critical aspect of all credit rating decisions. It takes on added importance for speculative-grade issuers. While companies with investment-grade ratings generally have ready access to external financing to cover temporary cash shortfalls, junk-bond issuers lack this degree of flexibility and have fewer alternatives to internally generated cash for servicing debt.

Cash-flow ratios.

Ratios show the relationship of cash flow to debt and debt service, and also to the company's needs. Because there are calls on cash other than repaying debt, it is important to know the extent to which those requirements will allow cash to be used for debt service or, alternatively, lead to greater need for borrowing.

Some of the specific ratios considered are:

- Funds from operations/total debt (adjusted for off-balance-sheet liabilities);
- Debt/EBITDA;
- EBITDA/interest;
- Free operating cash flow + interest/interest;
- Free operating cash flow + interest/interest + annual principal repayment obligation (debt-service coverage);
- Total debt/discretionary cash flow (debt payback period);
- Funds from operations/capital spending requirements, and
- Capital expenditures/capital maintenance.

Where long-term viability is more assured (i.e., higher in the rating spectrum) there can be greater emphasis on the level of funds from operations and its relation to total debt burden. These measures clearly differentiate between levels of protection over time. Focusing on debt service coverage and free cash flow becomes more critical in the analysis of a weaker company. Speculative-grade issuers typically face near-term vulnerabilities, which are better measured by free cash flow ratios.

Interpretation of these ratios is not always straightforward; higher values can sometimes indicate problems rather than strength. A company serving a low-growth or declining market may exhibit relatively strong free cash flow, because of minimal fixed and working capital needs. Growth companies, in comparison, often exhibit thin or even negative free cash flow because investment is needed to support growth. For the low-growth company, credit analysis weighs the positives of strong current cash flow against the danger that this high level of protection might not be sustainable. For the high-growth company, the problem is just the opposite: weighing the negatives of a current cash deficit against prospects of enhanced

protection once current investment begins yielding cash benefits. There is no simple correlation between creditworthiness and the level of current cash flow.

Measuring cash flow.

Discussions about cash flow often suffer from lack of uniform definition of terms. Table 1 illustrates Standard & Poor's terminology with respect to specific cash flow concepts. At the top is the item from the funds flow statement usually labeled "funds from operations" (FFO) or "working capital from operations." This quantity is net income adjusted for depreciation and other noncash debits and credits factored into it. Back out the changes in working capital investment to arrive at "operating cash flow." Next, capital expenditures and cash dividends are subtracted out to arrive at "free operating cash flow" and "discretionary cash flow," respectively. Finally, cost of acquisitions is subtracted from the running total, proceeds from asset disposals added, and other miscellaneous sources and uses of cash netted together. "Prefinancing cash flow" is the end result of these computations, which represents the extent to which company cash flow from all internal sources has been sufficient to cover all internal needs. The bottom part of the table reconciles prefinancing cash flow to various categories of external financing and changes in the company's own cash balance. In the example, XYZ Inc. experienced a $35.7 million cash shortfall in year one, which had to be met with a combination of additional borrowings and a drawdown of its own cash.

Table 3

Measuring Cash Flow

Cash flow summary: XYZ Corp.

	Year One	Year Two
(Mil. $)		
Funds from operations (FFO)	18.6	22.3
Dec. (inc.) in noncash current assets	(33.1)	1.1
Inc. (dec.) in nondebt current liabilities	15.1	(12.6)
Operating cash flow	0.5	10.8
(Capital expenditures)	(11.1)	(9.7)
Free operating cash flow	(10.5)	1.0
(Cash dividends)	(4.5)	(5.1)
Discretionary cash flow	(15.0)	(4.1)
(Acquisitions)	(21.0)	0.0
Asset disposals	0.7	0.2
Net other sources (uses) of cash	(0.4)	(0.1)
Prefinancing cash flow	(35.7)	(4.0)
Inc. (dec.) in short-term debt	23.0	0.0
Inc. (dec.) in long-term debt	6.1	13.0
Net sale (repurchase) of equity	0.3	(7.1)
Dec. (inc.) in cash and securities	6.3	(2.0)
	35.7	4.0

The need for capital.

Standard & Poor's analysis of cash flow in relation to capital requirements begins with an examination of a company's capital needs, including both working and fixed capital. While this analysis is performed for all debt issuers, it is critically important for fixed capital-intensive companies and growth companies. Most companies seeking working capital are able to finance a significant portion of current assets through trade credit. However, rapidly growing companies typically experience a buildup in receivables and inventories that cannot be financed internally or through trade credit.

Improved working-capital management techniques have, over the recent past, greatly reduced the investment that might otherwise have been required. This makes it difficult to base expectations on extrapolating recent trends. In any event, improved turnover experience would not be a reason to project continuation of such a trend to yet better levels.

Because we evaluate companies as ongoing enterprises, our analysis assumes companies continually will provide funds to maintain capital investments as modern, efficient assets. Cash flow adequacy is viewed from the standpoint of a company's ability to finance capital-maintenance requirements internally, as well as its ability to finance capital additions. To quantify the requirements for capital maintenance, data typically are provided by the company.

An important dimension of cash flow adequacy is the extent of a company's flexibility to alter the timing of its capital requirements. Expansions are typically discretionary. However, large plants with long lead times usually involve, somewhere along the way, a commitment to complete the project.

There are companies with cash flow adequate to the needs of their existing businesses, but that are known to be acquisition-minded. Their choice of acquisition as an avenue for growth means this activity must also be anticipated in the credit analysis. Management's stated acquisition goals and past takeover bids--including those not consummated--provide a basis for judging prospects for future acquisitions.

Liquidity analysis: Key factors for consideration.

Debt characteristics:

- Maturity structure;
- Dependence on commercial paper and other confidence-sensitive forms of debt;
- Exposure to interest rate fluctuations--i.e., fixed/floating mix;
- Credit triggers;
- Rating triggers;
- Financial covenants;
- Material adverse change (MAC) clauses; and
- Defined events of default.

Other potential calls on cash:

- Postretirement benefits obligations;
- Environmental liabilities;
- Asset retirement obligations;
- Take or pay obligations;
- Obligations arising from guarantees and support agreements;
- Obligations arising from derivatives;
- Litigation; and
- Other contingent liabilities.

Operating sources of liquidity:

- Expected near-term free cash flow;
- Ability to liquidate working capital; and
- Flexibility to curtail spending.

Bank credit facilities:

- Total amount of facilities;
- Nature of bank commitments;
- Availability under facilities;
- Facility maturities;
- Bank group quality;
- Evidence of support/lack of support of bank group; and
- Credit triggers (see above).

Other alternative sources of liquidity:

- Cash and other liquid assets;
- Ability to tap debt and equity markets;
- Ability to sell nonstrategic assets;
- Flexibility to curtail common and preferred stock dividends; and
- Parental support.

Financial flexibility and liquidity.

The previously discussed financial factors (profitability, capital structure, cash flow) and liquidity considerations are combined to arrive at an overall view of financial health. In addition, sundry considerations that do not fit in other categories are examined, including serious legal problems, lack of insurance coverage, or restrictive covenants in loan

agreements that place the company at the mercy of its bankers. The potential impact of such contingencies is considered, along with the company's contingency plans. Access to various capital markets, affiliations with other entities, and ability to sell assets are important factors in determining a company's options under stress.

Flexibility can be jeopardized when a company is overly reliant on bank borrowings or commercial paper. Reliance on commercial paper without adequate backup facilities is a big negative. An unusually short maturity schedule for long-term debt and limited-life preferred stock also is a negative. In general, a company's experience with different financial instruments gives management better access to capital markets. A company's size and its financing needs can play a role in whether it can raise sufficient funds in the public debt markets. Similarly, a company's role in the national economy--and this is particularly true outside the U.S.--can enhance its access to bank and public funds.

Access to the common stock market may primarily be a question of management's willingness to accept dilution of earnings per share, rather than a question of whether funds are available. (However, in some countries, including Japan and Germany, equity markets may not be so accessible.) When a new common stock offering is projected as part of a company's financing plan, Standard & Poor's tries to measure management's commitment to this plan, and its sensitivity to changes in share price.

As going concerns, companies should not be expected to repay debt by liquidating operations. Clearly, there is little benefit in selling natural resource properties or manufacturing facilities if these must be replaced in a few years. Nonetheless, a company's ability to generate cash through asset disposals enhances its financial flexibility.

Pension obligations, environmental liabilities, and serious legal problems restrict flexibility, apart from the obligations' direct financial implications. For example, a large pension burden can hinder a company's ability to sell assets, because potential buyers will be reluctant to assume the liability, or to close excess, inefficient, and costly manufacturing facilities, which might require the immediate recognition of future pension obligations and result in a charge to equity.

When there is a major lawsuit against a company, suppliers or customers may be reluctant to continue doing business, and the company's access to capital may also be impaired, at least temporarily.

Factoring Cyclicality into Corporate Ratings

Standard & Poor's credit ratings are meant to be forward-looking, and their time horizon extends as far as is analytically foreseeable. Accordingly, the anticipated ups and downs of business cycles--whether industry-specific or related to the general economy--should be factored into the credit rating all along. Ratings should never be a mere snapshot of the present situation. Accordingly, ratings are held constant throughout the cycle, or, alternatively, the rating does vary--but within a relatively narrow band.

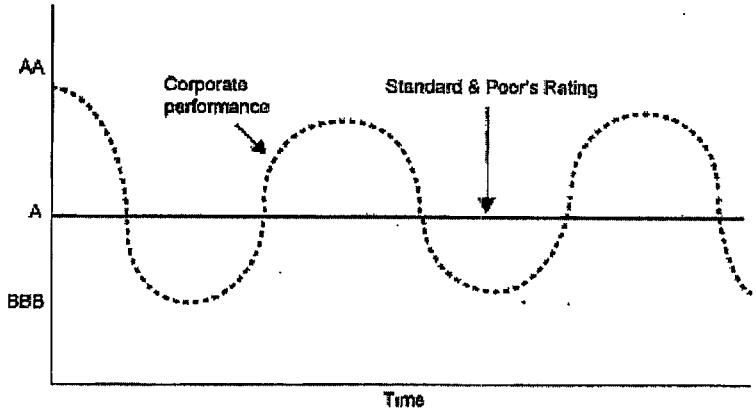
Cyclicality and business risk.

Cyclicality is, of course, a negative incorporated in the assessment of a company's business risk. The degree of business risk, in turn, becomes the basis for establishing ratio standards for a given company for a given rating category. The analysis then focuses on a company's ability to meet these levels, on average, over a full business cycle and the extent to which it may deviate and for how long.

The ideal is to rate "through the cycle."

Chart 1

Rating In An Ideal World. . .



There is no point in assigning high ratings to a company enjoying peak prosperity if that performance level is expected to be only temporary. Similarly, there is no need to lower ratings to reflect poor performance as long as one can reliably anticipate that better times are just around the corner.

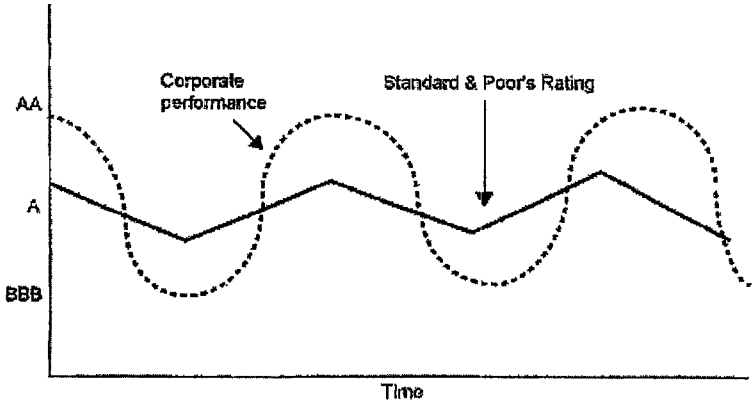
However, rating through the cycle requires an ability to predict the cyclical pattern--usually, difficult to do. The phases of a cycle probably will be longer or shorter, steeper or less severe, than just repetitions of earlier cycles. Interaction of cycles from different parts of the globe and the convergence of secular and cyclical forces are further complications.

Moreover, even predictable cycles can affect individual companies in ways that have a lasting impact on credit quality. For example, a company may accumulate enough cash in the upturn to mitigate the risks of the next downturn. (Auto manufacturers have been able--during cyclical upswings--to accumulate huge cash hoards that should exceed cash outflows anticipated in future recessions.) Conversely, a company's business can be so impaired during a downturn that its competitive position may be permanently altered. In the extreme, a company will not survive a cyclical downturn to participate in the upturn!

Accordingly, ratings may well be adjusted with the phases of a cycle. Normally, however, the range of the ratings would not fully mirror the amplitude of the company's cyclical highs or lows, given the expectation that a cyclical pattern will persist. The expectation of change from the current performance level—for better or worse—would temper any rating action. In most cases, then, the typical relationship of ratings and cycles might look more like that below.

Chart 2

. . . And In The Real World



Sensitivity to cyclical factors--and ratings stability--also varies considerably along the rating spectrum. As the credit quality of a company becomes increasingly marginal, the nature and timing of near-term changes in market conditions could mean the difference between survival and failure. A cyclical downturn may involve the threat of default before the opportunity to

participate in the upturn that may follow. In such situations, cyclical fluctuations usually will lead directly to rating changes—possibly, even several rating changes in a relatively short period. Conversely, a cyclical upturn may give companies a breather that may warrant a modest upgrade or two from those very low levels.

In contrast, companies viewed as having strong fundamentals--i.e., those enjoying investment-grade ratings--are unlikely to see their ratings changed significantly because of factors deemed to be purely cyclical, unless the cycle is either substantially different from what was anticipated or the company's performance is somehow exceptional relative to what had been expected.

Analytical challenges.

Cyclicality encompasses several different phenomena that can affect a company's performance. General business cycles, marked by fluctuations in overall economic activity and demand, are only one type. Demand-driven cycles may be specific to a particular industry, e.g., product-replacement cycles lead to volatile swings in demand for semiconductors. Other types of cycles arise from variations in supply, as seen in the pattern of capacity expansion and retrenchment that is characteristic of the chemicals, forest products, and metals sectors. In some cases, natural phenomena are the driving forces behind swings in supply. For example, variations in weather conditions result in periods of shortage or surplus in agricultural commodities.

The confluence of different types of cycles is not unusual: a general cyclical upturn could coincide with an industry's construction cycle that has been spurred by new technology. The interrelationship of different national economies is an additional complicating factor.

All these cycles can vary considerably in their duration, magnitude, and dynamics. For example, the unprecedented eight years of uninterrupted, robust economic expansion in the U.S. that followed the 1982 trough was totally unforeseen. On the other hand, there was no basis to assume in advance that the downturn that followed would be so severe, albeit relatively brief. Indeed, at any given point, it is difficult to know the stage in the cycle of the general economy, or a given industrial sector. A "plateau" following a period of demand growth might indicate the peak has been reached--or represent a pause before the resumption of growth.

Even general downturns vary in their dynamics, affecting industry sectors differently. For example, the soaring interest rates that accompanied the recession of 1980-1981 had a particularly adverse effect on sales of consumer durables such as autos. Sometimes, sluggish demand for large-ticket items can spur demand for other, less costly consumer products.

In any case, purely cyclical factors are difficult to differentiate from coincident secular changes in industry fundamentals, such as the emergence of new competitors, changes in technology, or shifts in customer preferences. Similarly, it may be tempting to view cyclical benefits--such as good capacity utilization--as a secular improvement in an industry's competitive dynamics.

A high degree of rating stability for a company throughout the cycle also should entail consistency in business strategy and financial policy. In reality, management psychology is often strongly influenced by the course of a cycle. For example, in the midst of a prolonged, highly favorable cyclical rebound, a given management's resolve to pursue a conservative growth strategy and financial policy may be weakened. Shifts in management psychology may affect not just individual companies, but entire industries. Favorable market conditions may spur industrywide acquisition activity or capacity expansion.

Standard & Poor's understands that public sentiment about cyclical credits may fluctuate between extremes over the course of the cycle, with important ramifications for financial flexibility. Whatever our own views about the long-term staying power of a given company, the degree of public confidence in the company's financial viability is critical for it to have access to capital markets, bank credit, and even trade credit. Accordingly, the psychology and the perceptions of capital providers must be taken into account.

Loan Covenants

Public-market participants long ago stopped demanding significant covenant protection, perhaps because poorly written covenant packages with weak tests and significant loopholes enabled managements to circumvent them. Furthermore, in a widely held transaction, a covenant violation that normally would be waived could deteriorate into a payment default, because of the difficulty of having all the investors act in unison. Moreover, investors in publicly traded debt instruments have little interest in working with borrowers and probably have fewer resources to do so. Their primary protection is their ability to sell their investments if things should turn sour.

Traditional private-placement investors and bank lenders do have the resources and the expertise to work out problem credits. Such investors negotiate covenant packages carefully, to give themselves the most advantageous position from which to exercise control, and they expect to be compensated adequately for accepting covenants that are weak, i.e., those that might allow management more leeway to cause a deterioration in credit quality. In general, however, covenant packages are more relaxed than in the past, because liquidity has increased, and financial markets broadened.

Covenants' intended functions include:

- Preservation of repayment capacity. Some covenants limit new borrowings or assure lenders that cash generated both from ongoing operations and from asset sales will not be diverted from servicing debt. Credit quality is preserved by share-repurchase and dividend restrictions, which seek to maintain funds available for debt service.
- Protection against financial restructurings. All lenders are concerned with the risk of a sudden deterioration in credit quality that can result from a takeover, a recapitalization, or a similar restructuring. Properly crafted covenants may prevent some of these credit-damaging events from occurring without the debt's first having been repaid or the pricing's first having been adjusted.
- Protection in the event of bankruptcy or default. These covenants preserve the value of assets for all creditors and—what is particularly important—safeguard the priority positions of particular lenders. Protection is provided through negative-pledge clauses, cross-acceleration (or cross-default) provisions, and limits on obligations that either are more senior or rank equally.
- Signals and triggers. Signals and triggers assure the steady flow of information, provide early warning signals of credit deterioration, and place the lender in a position of influence should deterioration occur. Since triggers can bring the parties to the table, to enable the lender to decide whether it might be appropriate to modify or waive restrictions, they must therefore be set at appropriate levels, to signal deterioration before the credit drops to unacceptable levels.

Enforcement is dubious. A company determined to do so can often, with the assistance of its lawyers, find ways to evade the letter of the agreement embodied in covenants. They could even choose to ignore them altogether. A court usually will not force a company to comply with covenants. Rather, the court will award damages--if the breach of covenants is considered the cause of the damages. As long as the company continues to pay principal and interest, the court is unlikely to recognize any damages as having occurred. In the event of a breach of the covenant, the usual remedy is the ability to declare an event of default and accelerate the loan. However, this remedy is so severe that, more often than not, lenders choose not to precipitate a default by demanding immediate repayment--despite a stipulated right to do so. Instead, the lender may prefer to take a security position or to get additional collateral, to raise rates, to obtain a waiver fee, or to provide more input into the company's decisions. In reality, these are the benefits of covenant protection.

Covenants and ratings.

Covenants play a limited enhancing role in determining the corporate credit rating:

- Covenants do not address fundamental credit strength. Covenants do not and cannot affect the potential for facing business adversity, competitive reverses, and other risks that are outside the control of the company.
- The level of a covenant is often inconsistent with the rating level desired. For example, a covenant that allows a company to leverage itself no more than 60% has little bearing on the company's achieving a 'BBB' rating, if 40% is the maximum leverage tolerated for that specific company as a 'BBB'.
- In practice, lenders waive covenants for a variety of reasons. Waivers might result from company/bank relationship issues, a lack of understanding of the magnitude of problems, or a realization that the original levels were unnecessarily tight. The bankers normally waive the covenant for a fee, or extract higher interest rates. This benefits the banker, without enhancing the credit quality for the benefit of all creditors.
- Finally, if the covenants appear only in certain issues, those issues could be refinanced.

For all these reasons, in most cases, Standard & Poor's does not believe particular covenant or group of covenants can improve a particular borrower's ability to meet its obligations in a timely fashion.

The main reason to be aware of a rated entity's covenants is quite the opposite: Tight covenants could imperil credit quality by causing a default that might otherwise have been avoided. When bankers have the discretion to accelerate debt because of a covenant breach, they might do so to preserve the advantage held (e.g., based on being secured).

Covenants can, however play a valuable role in a more limited fashion. First, they may protect the specific debt issue that includes the covenants--particularly with respect to ultimate recovery. Second, they may prevent certain deliberate actions that could hurt credit quality, and that would be meaningful in cases where the credit-rating assessment is specifically concerned about the potential for those actions.

Covenants may be more effective at protecting the credit quality of a subsidiary from its parent company or group. Nonetheless, the parent could always choose to file the subsidiary into bankruptcy, unless it were legally structured to be "bankruptcy remote." The benefit would then be in terms of better recovery for the creditors of the subsidiary. We usually would not rate a subsidiary based on its strong "stand-alone" profile, even if there were significant covenant restrictions, because of the concerns noted above.

Moreover, a covenant package can be helpful as an expression of management's intent. Since most companies (especially public companies) would be expected to honor--not evade--commitments they make, covenants can provide an insight into management's plans. An analyst would consider how complying with covenants were consistent with other articulated

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strategic goals. Management's willingness to agree to certain restrictive covenants, in essence, "puts their money where their mouth is." For example, if a company had traditionally been highly leveraged but planned to deleverage in the future, the analyst would expect to see a debt test that ratcheted down over time.

Country Risk

It has long been Standard & Poor's view that country risk plays a critical role in determining all ratings within a given domicile. Sovereign-related stress can have an overwhelming impact upon company creditworthiness, both direct and indirect. This was demonstrated vividly most recently in the Republic of Argentina (2001-2002), as well as in the Russian Federation (1998-1999) and in the Republics of Indonesia (1997-1998) and Ecuador (1998-1999).

Sovereign credit ratings are suggestive of general risk faced by local entities, but they may not fully capture risk applicable to the private sector. As a result, when rating corporate or infrastructure companies or projects, we look beyond the sovereign ratings to evaluate the specific economic or country risk that may impact the entity's creditworthiness. Such economic or country risk pertains to the impact of government policies upon the obligor's business and financial environment, and a company's ability to insulate itself from these risks.

Economic risk.

The macroeconomic factors most relevant to corporate credit analysis when determining economic risk include:

- Country growth prospects;
- Volatility of the economy;
- Inflation and real interest rate trends;
- Devaluation/overvaluation risk;
- Political stability;
- Banking-system and payment-system risk;
- Local capital-market depth; and
- The extent of integration into global trade and capital markets, and relative sensitivity of foreign direct investment and portfolio flows.

Industry risk.

Country risk analysis also covers industry risk specific to corporates, including:

- Labor issues;
- Infrastructure challenges;
- Accounting and transparency; and
- Institutional risk (i.e., legal and regulatory risk and credit culture issues, tax risk, and corruption levels).

Depending on the country, there can be strong, creditworthy companies that demonstrate they are significantly sheltered from sovereign and country risk, and would be unlikely to default on their local currency obligations during a sovereign local- and foreign-currency default scenario. On the other hand, we also would expect there to be cases where default levels will be much higher than the sovereign rating benchmark would indicate. Therefore, depending upon the country, the degree of country risk, and relative strength of the corporate sector in a given jurisdiction, there can be cases where a company's local currency ratings can exceed the foreign currency, or even the local currency, sovereign credit rating. Otherwise, where country risk is very high, most corporate ratings will be below that of the sovereign. In all cases, local currency ratings are determined in reference to our country risk framework.

It should be noted that in recent cases of sovereign stress, corporate default levels have been very high. The most notable example is Argentina, where a rather extreme sovereign default scenario has ensued. Nearly every entity rated by Standard & Poor's has defaulted on bond, bank, or supplier debt. The key country risk factors in that case were:

- Maxi-devaluation of the currency;
- Price controls in the form of frozen utility tariffs;
- Frozen bank deposits, and a banking system in crisis;
- Currency controls that restricted the ability of companies to make payments abroad and interrupted supply chains; and
- A recession more than four years old.

Regulated utilities were perhaps the most affected, although exporters also suffered both a severe contraction in credit and multiple levels of taxes imposed by a government in desperate need of revenue sources.

Foreign exchange-rate risk/Foreign-exchange controls.

There are many risk factors in this category, related to both the rate and availability of foreign exchange. Exposure to exchange-rate risk includes:

- Operating margin. Where costs have a significant dollar/hard currency component while revenue is denominated in the local currency, the company will suffer margin compression in a currency devaluation. Examples would be manufacturing companies that must import raw materials, media companies that import content, or wireless companies that import handsets. Assuming the devaluation occurs during a time of economic recession--as often is the case--the company typically will not be able to pass on increased costs directly, at least not immediately. The flip side of this is where costs are in the local currency while revenue is in or linked to a hard currency; these companies will be affected when the currency is overvalued. Commodity exporters based in countries with overvalued local currencies have been harshly affected by this risk, particularly when it coincided with periods of weak commodity prices. Analysts should carefully evaluate any currency mismatch between revenue and expenses.
- Capital expenditures. A related risk is where companies generate local currency cash flows, but have hard currency capital expenditures, e.g., must rely on imported capital equipment.
- Mismatch between local currency revenue and foreign debt. Companies with largely local currency cash flows, but depend on dollar or dollar-linked debt (or another hard currency) are most vulnerable.

Most recent cases of sovereign distress have included sharp currency devaluations, including Argentina (where the currency lost nearly 75% of its value against the U.S. dollar, with the exchange rate falling from a fixed 1:1 at Dec. 31, 2001, to near 3.6 Argentine pesos per U.S. dollar by October 2002); Russia (where the currency lost 65% of its value in U.S. dollar terms between July 1998 and November 1998); and Indonesia (where the currency lost 58% of its value over a three-month period in early 1998).

Exposure to foreign-exchange-availability risk pertains when a company is heavily dependent on imported supplies or imported capital equipment. The company's operations could be interrupted if foreign-exchange controls are imposed by the sovereign (which is plausible in the case in event of a sovereign foreign-currency default). For example, the imposition of exchange controls in Argentina, together with a prolonged period of uncertainty over the implementation of controls and relevant exchange rate, caused widespread disruption in distribution chains because of sharply curtailed imports (and exports).

Hedging/Financial policy.

Does the company hedge foreign-exchange risk, to the extent it is within its control to do so? In many emerging markets, it is not practicable to hedge foreign-exchange exposure over the long term because of the unavailability or cost of long-term hedging instruments. Does the company show a propensity to speculate with financial arbitrage opportunities? (For example, does the company borrow in U.S. dollars to invest in high interest rate local currency instruments, exposing itself to devaluation risk?)

Political risk.

Is there a history or likelihood of civil unrest in the region or country where the company operates that could disrupt operations? Does the company operate in a politically sensitive industry that could be subject to expropriation?

Macroeconomic volatility risk.

Are the company's prospects tied to local economic conditions? Volatile growth rates or extended periods of economic recession/depression could reduce predictability of cash flows or severely hamper sales volumes, pricing power, etc.

Institutional risk: Legal system risk/Credit culture/Corruption.

How dependable is the rule of law? Is there an independent judicial system? Are creditors' rights respected? Is the bankruptcy code transparent? Are there credit-culture issues whereby companies have a cultural incentive to default on debt? Are corruption levels generally high in the country?

Accounting and reporting transparency.

Is there a strong regulatory enforcement agency for publicly reporting companies in the country? Are accounts generally audited by top international accounting companies? Are quarterly and annual financial statements typically available within a reasonable time after a period closes? Are disclosure levels generally adequate, or is significant supplemental information required? In jurisdictions where majority family ownership is common, disclosure often lags. In addition, particularly where there is majority family ownership, the entire family group of companies should be analyzed, and intercompany operations and relationships should be scrutinized.

Taxes/Royalties/Duties.

Does the company or its key investments enjoy tax subsidies or royalty arrangements that have renegotiation risk at the federal or regional level? Does the government have a history of micromanaging the current account balance through changing taxes or duties on imports/exports/foreign borrowings?

Government regulation.

Is there a particular risk to the company that the government may change the rules through import/export restrictions; direct intervention in service quality or levels; redefining boundaries of competition (such as service areas); altering existing barriers to entry; changing subsidies; changing antitrust legislation; changing the maximum percentage level of foreign ownership participation; or changing terms to concession contracts for utilities? For extractive industries, is there a risk of government contract renegotiation?

Infrastructure and labor problems.

To what extent might the company be vulnerable to the reduced public services and labor strife that could accompany the sovereign default scenario? Are there potential bottlenecks, poor transport, high-cost/inefficient port services? Is there a need to supply electricity or other basic services/infrastructure?

Inflation risk.

Where existing or potential high/accelerating inflation is an issue, does the company have the pricing flexibility, systems, and know-how to keep revenue increasing in line with or ahead of costs? How much price elasticity is typical for the product of the company, particularly during times of economic weakness?

Price controls particularly are a threat for regulated industries, such as telephone/electric services, and possibly for some basic commodities such as gasoline sales. At times of rising inflation, governments often try to appease consumers by failing to allow full-cost passthroughs on prices in regulated industries, and under severe stress may freeze all prices in an effort to control inflation. For example, Argentina froze utility tariffs for gas, electric, and local telephone services in January 2002, which effectively cut the earnings power of those companies by 60%-75% relative to their dollar debt, because of the concurrent currency devaluation. In other cases, sovereigns have more indirectly constrained price increases on politically sensitive goods or services, or have moved to impose even broader price controls (such as Venezuela did in mid-1994).

Interest-rate risk.

Does the country have a history of high real interest rates, which can make local borrowing expensive? If local borrowings are indexed to local reference (such as bank deposit rates or inflation) or foreign exchange rates, the company can be subject to sudden and large rate hikes at times of sovereign stress. Such borrowings may originally have appeared cheaper, only in that the risk was not fully recognized.

Restricted access to capital.

Does the company have a large concentration of assets in a particular emerging market country? The risk that access to cash flows of foreign subsidiaries could be constrained by potential transfer/convertibility risk should be reviewed.

Access to capital.

Is the company a top-tier name in the local market, that would benefit from a "flight to quality" from local bank lending during crises? Does the company have committed lines of credit from international banks that are not subject to sovereign-related "material adverse change" clauses? Does the company have ample access to trade credit? Can the company withstand the cuts in trade lines and increase in costs that typically occur during periods of sovereign stress? (An example was the sharp reduction in trade-line availability from foreign banks for Brazilian corporates during 2002). Where short-term debt can be rolled over, it should be assumed that substantially higher interest rates would be incurred in a stress scenario. Limited access to capital often is a key constraint for emerging-market issuers: it broadly penalizes their credit quality relative to those of companies in developed markets. Even the strongest Latin American private-sector issuers had difficulties accessing local or international capital markets during periods of stress. Companies are affected by volatile international investor confidence in emerging markets. While economic problems may originate in a particular country or region, we have seen many cases of regional or emerging market contagion. Thin domestic capital markets also prevent companies from accessing local markets at reasonable rates; in times of stress, the local banking system would be suffering illiquidity because of high capital flight. A weak or poorly regulated local banking system can introduce additional volatility. Moreover, many emerging-market-based companies typically do not have access to committed credit lines.

Debt maturity structure.

For emerging-market issuers, concentration in short-term debt, whether dollar- or local-currency denominated, exposes the company to critical rollover risk. This risk is highest for companies with large upcoming bullet maturities on capital market debt, although the quality and likelihood of continued bank support also is analyzed. Emerging-market companies partially can mitigate this risk by prefunding the refinancing of large bullet maturities well in advance. It cannot be assumed availability under uncommitted lines--or programs such as euro-denominated commercial paper or medium-term notes--where pricing and availability always are subject to market sentiment.

Liquidity.

Is the company's near-term financial flexibility supported by substantial liquidity? If so, is the company's liquid asset position held in local government bonds, local banks, or local equities, and will the issuer have access to these assets in times of stress on the sovereign? Local banks broadly are affected by sovereign stress scenarios, with the extreme case demonstrated by Argentina's bank-deposit freeze. Similarly, Ecuador froze deposits in 1998 in an effort to halt a run on its

banks. Ideally, the company should have liquidity positions that are well diversified among top local and foreign financial institutions. Having liquidity outside the country of domicile is also a significant enhancement (although the risk that companies may be required by the sovereign to repatriate funds/export proceeds is also be considered).

Foreign-currency ratings.

The local-currency credit rating, by definition, excludes the risk of direct sovereign intervention that may constrain payment of foreign currency debt. The foreign-currency credit rating is a current opinion of an obligor's overall capacity to meet its obligations in foreign currency. In many cases, sovereign default and sovereign intervention risk are assumed to be roughly equivalent, and most foreign-currency credit ratings in these jurisdictions are limited by that of the sovereign. However, in some countries, we may determine that sovereign intervention risk is different than sovereign default risk. In these cases, foreign-currency credit ratings for private-sector entities may be higher than that of the sovereign. Examples include currency unions such as the European Monetary Union (EMU), where the 'AAA' rating of the European Central Bank indicates an 'AAA' ability to convert euros to foreign currency and transfer foreign currency. Thus, no ratings of entities within the EMU are constrained by transfer and convertibility risk. There are other company- or issue-specific reasons why the entity's foreign-currency rating may be higher than that of the sovereign. For example, companies domiciled in a given country but with substantial offshore operations, or companies that are subsidiaries of offshore parents, could have a rating higher than the country of domicile. In addition, transactions can be structured to reduce transfer and convertibility (T&C) risk by capturing transaction flows off shore, through insurance for T&C risk, or using other structural techniques, and therefore receive a rating higher than the foreign-currency sovereign credit rating. (For additional comments, see "Sovereign Risk and Ratings Above the Sovereign," RatingsDirect, July 23, 2001.)

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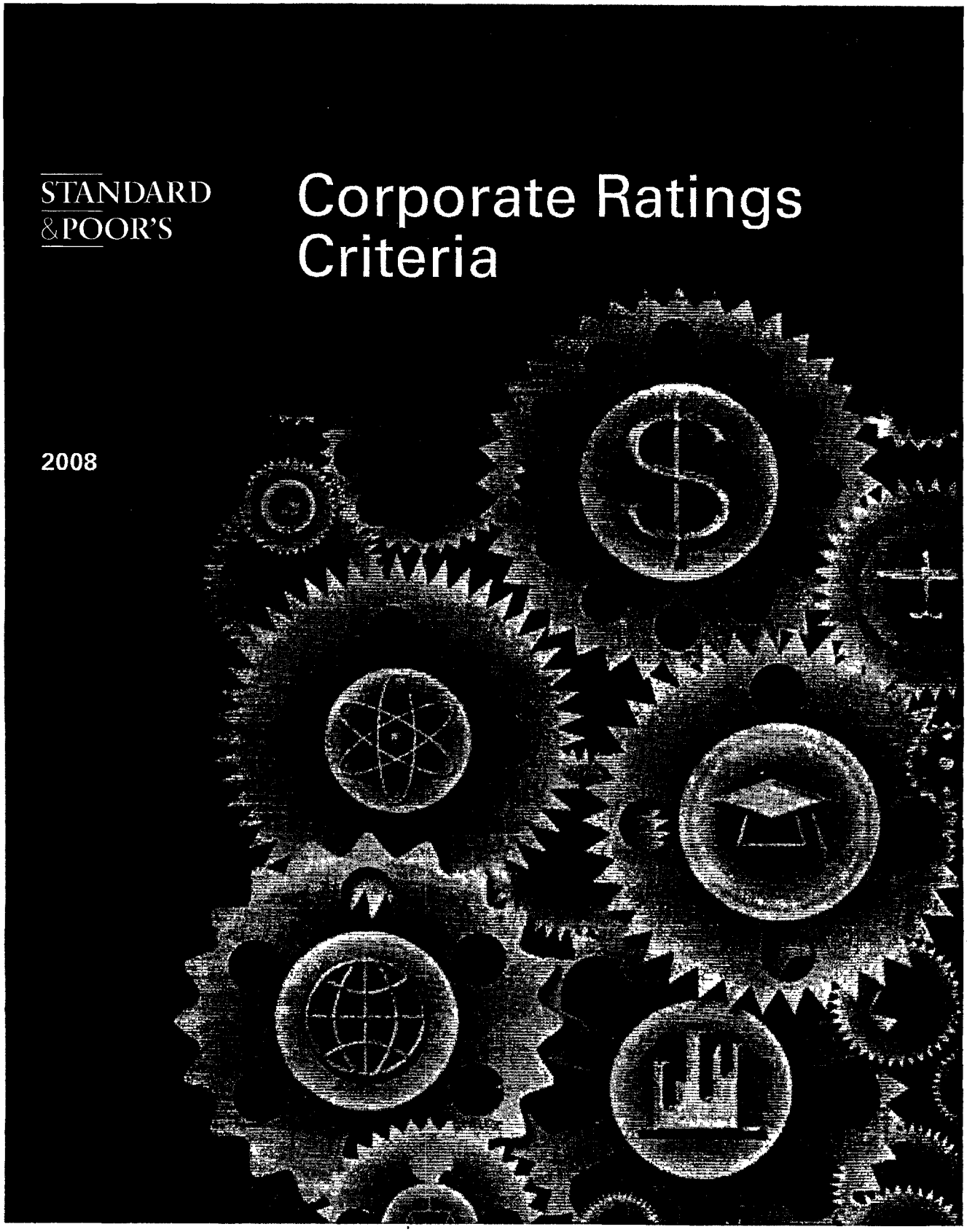
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Solomon B. Samson
Chief Rating Officer, Corporate Ratings

Analytical Contacts

Solomon B. Samson
New York (1) 212-438-7653

Neri Bukspan
New York (1) 212-438-1792

Emmanuel Dubois-Pelerin
Paris (33) 1-4420-6673

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Standard & Poor's Ratings—And Their Role In The Financial Markets

Standard & Poor's Ratings Services traces its history back to 1860. It currently is the leading credit rating organization and a major publisher of financial information and research services on U.S. and foreign corporate and municipal debt obligations. We now rate many trillions of dollars worth of bonds and other financial obligations of obligors in more than 50 countries. We rate and monitor developments pertaining to these issues and issuers from an office network based in 22 world financial centers.

Standard & Poor's was an independent, publicly owned corporation until 1966, when all of its common stock was acquired by McGraw-Hill Inc., a major publishing company. Standard & Poor's is now a business unit of McGraw-Hill. In matters of credit analysis and ratings, Standard & Poor's Credit Market Services operates entirely independently of McGraw-Hill. Other units of Standard & Poor's provide investment, financial, and trading information, data, and analyses—including on equity securities—but operate separately from the ratings group. Standard & Poor's operates with no government mandate and is independent of any investment banking company, bank, or similar organization.

What Is Standard & Poor's?

We are an organization of professionals that provides analytical services—high-quality, objective, value-added analytical information—to the world's financial markets.

We operate under the core values of:

- Independence;
- Objectivity;
- Credibility; and
- Disclosure.

Our recognition as a rating agency ultimately depends on investors' willingness to accept our judgment. We believe it is important that all of our ratings users understand how we arrive at those ratings, and we regularly publish ratings research and detailed reports on ratings criteria and methodology.

We began rating the debt of corporate and government issuers decades ago. Our credit rating criteria and methodology have grown in sophistication to keep pace with a more dynamic world, and the introduction of new financial products. For example, Standard & Poor's was the first major rating agency to assess the credit quality of, and assign credit ratings to, the claims-paying ability of insurance companies (1971); financial guarantees (1971); mortgage-backed bonds (1975);

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mutual funds (1983); asset-backed securities (1985); and secured loan recovery (2003). Over the years, these credit ratings have achieved wide investor acceptance as easily usable tools for differentiating credit quality.

The Rating Process Has Many Facets

Many of the practices described here are governed by specific statements of policy, which can be located on sandp.com/Ratings/Form NRSRO/Exhibits 2, 3, and 7.

Standard & Poor's provides ratings only when there is adequate information available to form a credible opinion, and only after applicable quantitative, qualitative, and legal analyses are performed. The analytical framework is divided into several categories to ensure that salient qualitative and quantitative issues are considered. For example, regarding industrial companies, the qualitative categories are oriented to business analysis, such as the company's competitiveness within its industry and the caliber of management; the quantitative categories relate to financial risk.

The rating process is not limited to an examination of various financial measures. Proper assessment of credit quality for an industrial company includes a thorough review of business fundamentals, including industry prospects for growth and vulnerability to technological change, labor unrest, or regulatory actions. (Other sectors emphasize factors that are especially relevant to entities in that sector. For example, public finance ratings involve an evaluation of the basic underlying economic strength of the public entity, as well as the effectiveness of the governing process to address problems. In financial institutions, the reputation of the bank or company may have an impact on the future financial performance and the institution's ability to repay its obligations.)

We assemble a team of analysts with appropriate expertise to review information pertinent to the rating. A lead analyst is responsible for conducting the analysis and coordinating the rating process. Members of the analytical team meet with the rated entity's management to review, in detail, key factors that could affect on the rating, including operating and financial plans and management policies. The meeting also helps analysts develop the qualitative assessment of management itself, an important factor in many rating decisions.

Following this review and discussion, a rating committee meeting is convened. At the meeting, the committee discusses the lead analyst's recommendation and the facts and expectations supporting the rating. Finally, the voting members of the committee vote on the recommendation.

The issuer subsequently is notified of the rating and the major considerations supporting it. A rating can be appealed prior to its publication—if meaningful new or additional information is to be presented by the issuer. Obviously, there is no guarantee that any new information will alter the rating committee's decision.

Once a final rating is assigned, it is disseminated to the public via RatingsDirect, S&P.com, and the news media, together with the rationale and other commentary.

In the U.S., Standard & Poor's assigns and publishes its ratings irrespective of issuer request, if the financing is a public deal. In the case of private transactions, the company has publication rights. In most markets outside the U.S., ratings are assigned only on request, so the company can choose to make its rating public or to keep it confidential. (Confidential ratings are disclosed by us only to parties designated by the rated entity.)

Surveillance And Review Are Ongoing

All ratings are monitored, including continual review of new financial or economic information. Our surveillance is ongoing, meaning we staying abreast of all current developments. Moreover, it is routine to schedule annual review meetings with management, even in the absence of the issuance of new obligations or apparent reason to question the extant rating or outlook. These meetings enable analysts to discuss potential problem areas and be apprised of any changes in the issuer's plans.

As a result of the surveillance process, it is sometimes necessary to reassess the rating or

outlook. The lead analyst initiates a review, conducted in a similar fashion to the initial rating assignment process. In the interim, we place the ratings on CreditWatch, if we believe the likelihood of a rating change is sufficiently high. The review entails a comprehensive analysis—including, if warranted, a meeting with management—and a presentation to a rating committee. The rating committee evaluates the circumstances, arrives at decisions on ratings and outlooks, notifies the issuer, and entertains an appeal, if one is made (and meets our policy for accepting appeals). After this process, all ratings and outlooks—whether changed or affirmed—are announced.

Issuers' Use Of Ratings

It is common for companies to structure financing transactions to reflect rating criteria so they qualify for higher ratings. However, the actual structuring of a given issue is the exclusive function and responsibility of an issuer and its advisors. We develop and publish criteria as new financing alternatives are proposed. We will also react to a proposed financing, apply and interpret criteria for a type of issue, and outline the rating implications for the benefit of an issuer, underwriter, bond counsel, or financial advisor—but we do not function as an investment banker or financial advisor. Adopting such a role ultimately would impair the objectivity and credibility that are vital to our continued performance as an independent rating agency. Our guidance also is sought on sundry credit quality issues that might affect the rating opinion. For example, companies solicit our view on hybrid preferred stock, the monetization of assets, or other innovative financing techniques before putting these into practice. Nor is it uncommon for debt issuers to undertake specific and sometimes significant actions for the sake of maintaining their ratings. For example, one large company faced a downgrade of its 'A-1' commercial paper rating because of a growing component of short-term, floating-rate debt. To keep its rating, the company chose to restructure its debt maturity schedule in a way consistent with our view of what was consistent with the profile of an 'A' rated credit.

Some companies go one step further, incorporating specific rating objectives as corporate goals. Indeed, earning an 'A' rating, or at least an investment-grade rating, affords companies a measure of flexibility and may be worthwhile as part of an overall financial strategy. Beyond that, we do not encourage companies to manage themselves with an eye toward a specific rating. The more appropriate approach is to operate for the good of the business as management sees it and to let the rating follow. Ironically, managing for a very high rating can sometimes be inconsistent with the company's ultimate best interests, if it means being overly conservative and forgoing opportunities.

Several Types Of Credit Ratings

A Standard & Poor's credit rating is our opinion of the general creditworthiness of an obligor (issuer credit rating/corporate credit rating), or the credit risk associated with a particular debt security or other financial obligation (issue rating).

A rating does not constitute a recommendation to purchase, sell, or hold a particular security. In addition, a rating does not comment on the liquidity of the rated instrument—or any other element affecting suitability of an investment for a particular investor (including currency, interest rate, and prepayment risk).

Credit ratings are based on information furnished by the obligors or obtained by us from other sources we consider reliable. Although we look at information we receive with a critical eye, we do not perform any kind of audit (of financial statements or transactions) in connection with any credit rating—and may, on occasion, rely on unaudited financial information. Credit ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information.

We maintain separate and well-established rating scales for long-term and short-term instruments. (A separate scale for preferred stock was integrated with the debt scale in February 1999. There is an additional scale exclusively for medium-term municipal notes.)

In non-'AAA' transfer and convertibility (T&C) zones, we assign both foreign- and

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local-currency issuer credit ratings. We also have introduced several national scale ratings, applicable in specific countries, and recovery ratings, which opine on loss given default.

Long-term credit ratings are divided into several categories, ranging from 'AAA'—reflecting the strongest credit quality—to 'D', reflecting the lowest. Long-term ratings from 'AA' to 'CCC' may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

A short-term credit rating is an assessment of an issuer's credit quality with respect to an instrument considered short term in the relevant market. Short-term ratings range from 'A-1', for the highest-quality obligations, to 'D', for the lowest. The 'A-1' rating may also be modified by a plus sign to distinguish the strongest credits in that category.

Issuer Credit Ratings

We provide issuer credit ratings—an opinion of the obligor's overall capacity and willingness to meet its financial obligations as they come due—whether rated or not. Default on any of these leads to an issuer rating of 'D' or 'SD' *(see Definitions, page 11).*

However, if payment is withheld due to disputes (as may pertain to operating or lease obligations), we do not deem this to be a default. Our issuer credit rating is not specific to any particular financial obligation, because it does not take into account the specific nature or provisions of any particular obligation. Such ratings do not take into account recovery prospects or statutory or regulatory preferences, nor do they take into account the creditworthiness of guarantors, insurers, or other forms of credit enhancement that may pertain to a specific obligation. (However, when we believe that support from a third party—such as an affiliate or government—would benefit the issuer in ways that make the overall risk of default more remote, such support is factored into the rating.)

Counterparty ratings, corporate credit ratings, and sovereign credit ratings are all forms of issuer credit ratings. Because a corporate credit rating provides an overall assessment of a company's creditworthiness, it is used for a variety of financial and commercial purposes, such as negotiating long-term leases or minimizing the need for a letter of credit for vendors. If the credit rating is not assigned in conjunction with a rated public financing, the company can choose to make its rating public or to keep it confidential.

Credit ratings can be either long or short term. Short-term ratings are assigned to those obligations considered short term in the relevant market. In the U.S., for example, that means obligations with an original maturity of no more than 365 days, including commercial paper. Commercial paper ratings pertain to the program established to sell these notes. There is limited review of individual notes. Nonetheless, such program ratings characterize the notes as "rated paper."

Short-term ratings also are used to indicate the creditworthiness of an obligor with respect to put features on long-term obligations. The result is a dual rating, in which the short-term rating addresses the put feature in addition to the usual long-term rating. Medium-term notes (MTNs) are assigned long-term ratings. A rating is assigned to the MTN program and, subsequently, to individual notes, as they are identified—and as applicable (in terms of tenor, seniority, and currency).

Issue-Specific Credit Ratings

Our issue credit rating is a current opinion of the credit risk pertaining to a specific financial obligation, a specific class of financial obligations, or a specific financial program. This opinion reflects, where applicable, the creditworthiness of guarantors, insurers, or other forms of credit enhancement on the obligation, and takes into account statutory and regulatory preferences. On a global basis, Standard & Poor's issue credit rating criteria have long identified the added country-risk factors that give external debt a higher default probability than domestic obligations. (In 1992, we revised our criteria to define external rather than domestic obligations by currency instead of by market of issuance. This led to the adoption of the local currency/foreign currency nomenclatures for issue credit ratings.) Because rating coverage now has

expanded to a growing range of emerging-market countries, and because Organisation for Economic Co-operation and Development (OECD)-based companies increasingly have expanded to emerging markets, the analysis of political, economic, and monetary risk factors are even more important.

Definitions

Our long-term issue ratings ('AAA' through 'D') are assigned to notes, note programs, certificate of deposit programs, bank loans, bonds and debentures; shelf registrations (preliminary), equipment trust certificates, and preferred stock and other hybrid securities. Debt types include secured, senior unsecured, subordinated, junior subordinated, and deferrable payment debt.

Short-term issue ratings ('A-1+' through 'D') apply to commercial paper programs and put bonds. (The rating type is determined by the initial tenor; once a long-term rating is applied, the approach of the maturity does not lead to re-rating with a short-term rating.)

Issue and issuer credit ratings use the identical symbols, but the definitions do not completely correspond to each other: Issuer ratings—and short-term issue ratings—reflect only the risk of default, but long-term issue ratings also incorporate a view of loss given default (either via a specific recovery analysis or by reflecting relative position of the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.)

Junior obligations typically are rated lower than the issuer credit rating, to reflect the lower priority in bankruptcy, as noted above. Debt that provides good prospects for ultimate recovery, such as well-secured debt, is rated higher than the issuer credit rating.

Recovery ratings ('1+' through '6') are our opinion of a specific issue's prospects regarding loss given default. We generally assign these ratings to the debt of speculative-grade companies. Wherever we assign a recovery rating, that rating forms the basis for notching the issue credit rating relative to the issuer rating.

Long-term ratings definitions

'AAA': An obligation rated 'AAA' has the highest rating we assign. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

'AA': An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

'A': An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

'BBB': An obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

Obligations rated 'BB', 'B', 'CCC', 'CC', and 'C' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation, and 'C' the highest. While such obligations likely will have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposure to adverse conditions.

'BB': An obligation rated 'BB' is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions that could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

'B': An obligation rated 'B' is more vulnerable to nonpayment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions likely will impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

'CCC': An obligation rated 'CCC' is vulnerable to nonpayment within one year, and depends on favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation.

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In the event of adverse business, financial, or economic conditions, the obligor is unlikely to have the capacity to meet its financial commitment on the obligation.

'CC': An obligation rated 'CC' currently is highly vulnerable to nonpayment.

'C': The 'C' rating is also used when a bankruptcy petition has been filed or similar action has been taken but payments on this obligation are being continued. 'C' is also used for a preferred stock that is in arrears (as well as for junior debt of issuers rated 'CCC-' and 'CC').

'D': Default; 'SD': Selective default. The 'D' and 'SD' ratings, unlike other ratings, are not prospective; rather, they are used only when a default actually has occurred—not when default is only expected.

Standard & Poor's changes ratings to 'D':

- On the day an interest and/or principal payment is due and is not paid. An exception is made if the instrument provides for a grace period and we believe a payment will be made within that period, in which case the rating can be maintained;
- Upon voluntary bankruptcy filing or similar action. (An exception is made for a specific issue if we expect debt-service payments will continue to be made on that issue.) In the absence of a payment default or bankruptcy filing, a technical default (e.g., covenant violation) is not sufficient for assigning a 'D' rating;
- Upon completion of a distressed exchange offer, whereby some or all of an issue is either repurchased for an amount of cash or replaced by other securities having a total value that clearly is less than par (even though the offer is well in excess of the security's current market price); or,
- In the case of ratings on preferred stock or deferrable payment securities, upon nonpayment of the dividend or deferral of the interest payment.

With respect to issuer credit ratings (i.e., corporate credit ratings, counterparty ratings, and sovereign ratings), failure to pay any financial obligation—rated or unrated—leads to either a 'D' or 'SD' rating. Ordinarily, an issuer's distress leads to general default, and the rating is 'D'. 'SD' is assigned when an issuer can be expected to default selectively, i.e., continue to pay certain issues or classes of obligations while not paying others. This fact pattern normally is associated with sovereign government defaults. In the corporate context, selective default might apply when a company conducts a distressed or coercive exchange with respect to one or some issues, while intending to honor its obligations regarding other issues. (In fact, it is not unusual for a company to launch such an offer precisely with such a strategy—to restructure part of its debt to keep the company solvent.) Nonpayment of a financial obligation subject to a bona fide commercial dispute or a missed preferred stock dividend does not cause the issuer credit rating to be changed.

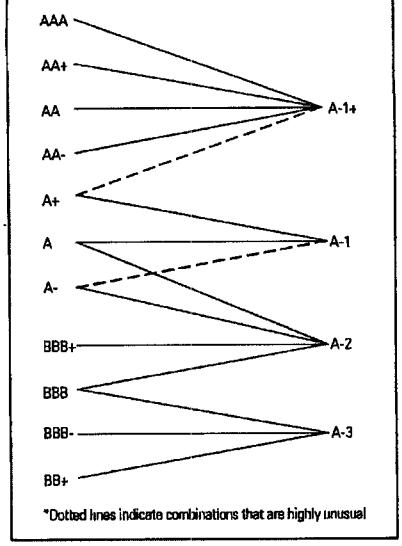
Plus (+) or minus (-): The ratings from 'AA' to 'CCC' may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories. In 1994, we introduced a symbol to be added to an issue credit rating when the instrument could have significant non-credit risk. The 'r' was added to such instruments as interest-only strips, inverse floaters, and instruments that pay non-fixed amounts at maturity, e.g., amounts based the value of a particular equity or a currency or stock index. The 'r' was intended to alert investors to non-credit risks and emphasizes that an issue credit rating addressed only the credit quality of the obligation; it was discontinued in July 2000.

Short-term ratings definitions

'A-1': A short-term obligation rated 'A-1' is in the highest category we rate. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.

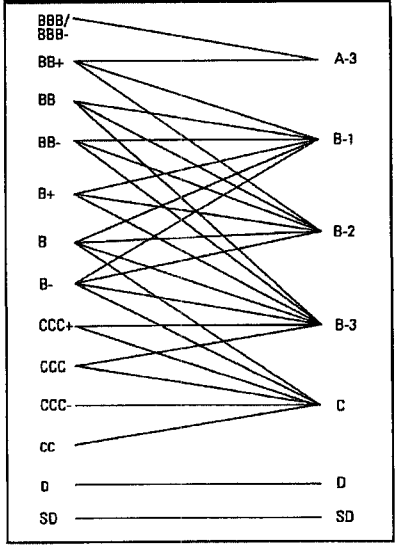
'A-2': A short-term obligation rated 'A-2' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.

Chart 1 Correlation Of Short-Term Investment-Grade Ratings With Long-Term Corp Credit Ratings*



*Dotted lines indicate combinations that are highly unusual

Chart 2 Correlation Of Short-Term Speculative-Grade Ratings With Long-Term Corp Credit Ratings



'A-3': A short-term obligation rated 'A-3' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

'B': A short-term obligation rated 'B' has, in our view, significant speculative characteristics. The obligor currently has the capacity to meet its financial commitment on the obligation; however, it faces major ongoing uncertainties that could lead to inadequate capacity to meet its financial commitment on the obligation. We expanded the 'B' short-term rating category in 2004 by dividing it into 'B-1', 'B-2', and 'B-3'.

'C': A short-term obligation rated 'C' currently is vulnerable to nonpayment and depends on favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation

'D': The same as the long-term rating definition for 'D'.

Investment-grade, short-term ratings are highly correlated with long-term ratings *(see Commercial Paper chapter of this book)*. Speculative-grade short-term ratings reflect less constraint regarding linkage to long-term ratings.

Investment And Speculative Grades

The term "investment grade" originally was used by various regulatory bodies to connote obligations eligible for investment by institutions such as banks, insurance companies, and savings and loan associations. Over time, it gained widespread use throughout the investment community. Issues rated in our four highest categories—'AAA', 'AA', 'A', and 'BBB'—generally are recognized as investment grade. Debt rated 'BB' or below generally is considered "speculative grade." (The term "junk bond" is merely an irreverent expression for this category of more risky debt; "high-grade" and "high-yield" debt are common terms, as well.) Nomenclature aside, we take no view as to which securities are worthy of investment, because an investor with a particular risk preference may appropriately invest in securities that are not investment grade.

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Ratings continue as a factor in many regulations, both in the U.S. and abroad, notably in Europe and Japan. For example, the SEC requires investment-grade status in order to register debt on Form-3, which, in turn, is one way to offer debt via a Rule 415 shelf registration. The Federal Reserve Board allows members of the Federal Reserve System to invest in securities rated in the four highest categories, just as the Federal Home Loan Bank System permits federally chartered savings and loan associations to invest in corporate debt with those ratings, and the Department of Labor allows pension funds to invest in commercial paper rated in one of the three highest categories. In similar fashion, California regulates investments of municipalities and county treasurers; Illinois limits collateral acceptable for public deposits; and Vermont restricts investments of insurers and banks. The New York and Philadelphia stock exchanges fix margin requirements for mortgage securities depending on their ratings, and the securities haircut for commercial paper, debt securities, and preferred stock that determines net capital requirements is also a function of the ratings assigned.

Currency

We devised two types or ratings in order to comment on the risks associated with payment in currencies other than the entity's home country. Such payments typically are made outside the company's home country, so the risks encompass both transfer and convertibility.

- A local currency rating is our current opinion of an obligor's overall capacity to generate sufficient local currency resources to meet its financial obligations (both foreign and local currency), absent the risk of direct sovereign intervention that may constrain payment of foreign currency debt. Depending on the location of a company's operations, such intervention could relate to more than one government. Local currency credit ratings are provided on our global scale or on separate national scales, and may be either issuer or specific issue credit ratings. Country or economic risk considerations factored into local-currency ratings include the impact of government policies on the obligor's business and financial environment, including factors such as the exchange rate, interest rates, inflation, labor market conditions, taxation, regulation, and infrastructure. However, the opinion does not address transfer and other risks related to direct sovereign intervention to prevent the timely servicing of cross-border obligations.
- A foreign currency credit rating is our current opinion of an obligor's overall capacity to meet all financial obligations—including its foreign-currency-denominated financial obligations. It may take be either an issuer or an issue credit rating. As in the case of local currency credit ratings, a foreign currency credit opinion on our global scale is based on the obligor's individual credit characteristics, including the influence of country or economic risk factors. However, unlike local currency ratings, a foreign currency credit rating includes transfer and other risks related to sovereign actions that

Table 1 **Cumulative Default Rates 1981–2006 (%)**

Year	AAA	AA	A	BBB	BB	B	CCC/C
1	0.0	0.0	0.1	0.2	1.1	5.0	26.3
2	0.0	0.1	0.2	0.7	3.1	10.9	34.7
3	0.1	0.1	0.3	1.2	5.6	15.9	40.0
4	0.2	0.2	0.5	1.9	8.0	19.8	43.2
5	0.3	0.3	0.7	2.6	10.1	22.6	46.2
10	0.7	0.9	1.9	5.4	17.5	30.4	51.8
15	0.8	1.3	2.8	7.9	20.8	35.0	54.6

Source: S&P Annual 2006 Global Default Study.

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may directly affect access to the foreign exchange needed for timely servicing of the rated obligation. Transfer and other direct sovereign risks addressed in such ratings include the likelihood of foreign-exchange controls and the imposition of other restrictions on the repayment of foreign debt. *(See Analytical Methodology/Country Risk section of this book for a discussion of the relationship of these ratings to ratings on the pertinent sovereign.)*

National Scale Ratings

We produce national scale ratings in a number of countries across throughout the world. These ratings are expressed with the traditional letter symbols, but the rating definitions do not conform to those employed for the global scale. The rating definitions of each national scale and its correlation to global scale ratings are unique, so there is no basis for comparability across national scales.

CreditWatch Listings And Rating Outlooks

Our ratings evaluate default risk over the life of a debt issue, incorporating an assessment of all future events to the extent they are known or can be anticipated. But we also recognize the potential for future performance to differ from initial expectations. Rating outlooks and CreditWatch listings address this possibility by focusing on the scenarios that could result in a rating change. Ratings (both issuer and issue ratings) appear on CreditWatch when an event or deviation from an expected trend has occurred or is expected such that there is a significant chance (roughly 50% or more) of requiring a rating change, and additional information is necessary to take a rating action. For example, an issue is placed under such special surveillance as the result of mergers, recapitalizations, regulatory actions, or unanticipated operating developments.

We attempt to resolve CreditWatch reviews within 90 days, unless the outcome of a specific event is still pending. A listing does not mean a rating change is inevitable; however, in some cases, it is certain that a rating change will occur, and only the magnitude of the change is unclear. In such situations, we immediately lower the corporate credit rating to the highest-conceivable outcome, or upgrade it to the lowest-conceivable outcome, while also listing the rating on CreditWatch for potential additional actions. In those instances—and generally, whenever possible—we comment on the range of alternative ratings. An issuer cannot automatically appeal a CreditWatch listing, but our analysts are sensitive to their concerns and the fairness of the process.

Rating changes also can occur without the issue appearing on CreditWatch beforehand. In fact, if all necessary information is available, ratings should immediately be changed to reflect the changed circumstances; there should be no delay merely to signal via a CreditWatch listing that a ratings change is to occur.

A rating outlook is assigned to all long-term debt issuers and assesses the potential for an issuer rating change. Outlooks have a longer time frame than CreditWatch listings—typically, two years for investment-grade entities, and one year for speculative-grade entities—and incorporate trends or risks with less certain implications for credit quality. (Ratings that are listed on CreditWatch, by definition, have no assigned outlook.)

A negative, developing, or positive outlook is not necessarily a precursor of a rating change or a CreditWatch listing. CreditWatch designations and outlooks may be positive, meaning the rating may be raised, or negative, meaning it may be lowered. Developing is used for those unusual situations in which future events are so unclear that the rating could be raised or lowered. A stable outlook is assigned when ratings likely will not be changed within the applicable timeframe, but it should not be confused with expected stability of the company's financial performance. ■

Our Rating Process

Most corporations approach us to request a rating prior to the sale or registration of a debt issue. That way, first-time issuers can receive an indication of what rating to expect. Issuers with rated debt outstanding also want to know in advance what affect issuing additional debt will have on the ratings we already have assigned. (As a matter of policy, in the U.S., we assign and publish ratings for all public corporate debt issues over $100 million—with or without a request from the issuer. In these cases, we contact the issuer to elicit its cooperation.)

The analysts with the greatest relevant industry/country expertise are assigned to evaluate the credit and commence surveillance of the company. Our analysts generally concentrate on one or two industries, covering the entire spectrum of credits within those industries. Such specialization allows the analysts to accumulate expertise and competitive information better than if junk-bond issuers were followed separately from high-grade issuers. While one analyst takes the lead in following a given issuer and typically handles day-to-day contact, a team of experienced analysts—including a back-up analyst—is always assigned to the rating relationship with each issuer.

Meeting With Management

A meeting with corporate management is an integral part of our rating process. The purpose is to review in detail the company's key operating and financial plans, management policies, and other credit factors that have an impact on the rating. Management meetings are critical in helping to reach a balanced assessment of a company's circumstances and prospects.

Participation

The company typically is represented by its chief financial officer. The chief executive officer usually participates when strategic issues are reviewed (usually the case at the initial rating assignment). Operating executives often present detailed information regarding business segments. Outside advisors may be helpful in preparing an effective presentation. We neither encourage nor discourage their use: It is entirely up to management whether advisors assist in the preparation for meetings, and whether they attend the meetings.

Scheduling

Management meetings usually are scheduled at least several weeks in advance, to assure mutual availability of the appropriate participants and to allow adequate preparation time for our analysts. In addition, if a rating is being sought for a pending issuance, it is to the issuer's advantage to allow about three weeks following a meeting for us to complete the review process. More time may be needed in certain cases, if, for example, extensive review of documentation is necessary. However, where special circumstances exist and a quick turnaround is needed, we endeavor to meet the requirements of the marketplace.

Facility Tours

Touring major facilities can be very helpful for us to understand a company's business. However, it generally is not critical in assigning a rating to a given company. Considering the time constraints that typically arise in the initial rating exercise, arranging facility tours may not be feasible. As discussed below, such tours may well be a useful part of the subsequent surveillance process.

Preparing For Meetings

Corporate management should feel free to contact its designated Standard & Poor's credit analyst for guidance in advance of the meeting regarding the particular areas that will be emphasized in the analytic process. Published ratings criteria, as well as industry commentary and articles on peer companies, may also help management appreciate the analytic perspective.

Providing detailed, written lists of questions tends to constrain spontaneity and artificially limit the scope of the meeting. Therefore, some of our practices prefer not to do so, while other practices endeavor in other ways to avoid such outcomes.

We request that the company submit background materials well in advance of the meeting, (ideally, several sets), including:

- five years of audited annual financial statements;
- the last several interim financial statements;
- narrative descriptions of operations and products; and
- if available, a draft registration statement or offering memorandum, or equivalent.

Apart from company-specific material, relevant industry information also is useful. While not mandatory, written presentations by management often help provide a framework for the discussion. Such presentations typically mirror the format of the meeting discussion, as outlined below. Where a written presentation is prepared, it is particularly useful for our team to review it in advance of the meeting.

There is no need to try to anticipate all questions that might arise. If additional information is necessary to clarify specific points, it can be provided subsequent to the meeting. In any case, our credit analysts generally will have follow-up questions that arise as the information covered at the management meeting is further analyzed.

Confidentiality

A substantial portion of the information set forth in company presentations is highly sensitive and is provided by the issuer to us solely for the purpose of arriving at ratings. Such information is kept strictly confidential by the ratings group, on a need-to-know basis. (Obviously, if information is known to us or comes to be known from other sources, the company cannot expect us to treat this information confidentially.) It is not to be used for any other purpose, nor by any third party, including other Standard & Poor's units. Standard & Poor's maintains a "Chinese Wall" between its rating activities and its equity information services. Even if a public rating is subsequently assigned, any rationales or other information we publish about the company will refer only to publicly available corporate information. In the same vein, if we change a rating or outlook based on confidential information received, we will take pains to avoid disclosing that information in our published materials.

Conduct Of Meeting

In a typical meeting with issuer management, we typically address:

- industry environment and prospects;

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- an overview of major business segments, including operating statistics and comparisons with competitors and industry norms;
- financial polices and financial performance goals;
- distinctive accounting practices;
- projections, including income and cash flow statements and balance sheets, together with the underlying market and operating assumptions;
- capital spending plans; and
- financing alternatives and contingency plans.

It should be understood that our ratings are not based on the issuer's financial projections or management's view of what the future may hold. Rather, ratings are based on our assessment of the company's prospects. However, management's financial projections are a valuable tool in the rating process, because they indicate management's plans, how management assesses the company's challenges, and how it intends to deal with problems. Projections also depict the company's financial strategy in terms of anticipated reliance on internal cash flow or outside funds, and they help articulate management's financial objectives and policies.

Management meetings with companies new to the rating process typically last two to four hours, or longer if the company's operations are particularly complex. If the issuer is domiciled in a country new to ratings or participates in a new industry, more time is usually required. When, in addition, there are major accounting issues to be covered, meetings can last a full day or two.

Short, formal presentations by management are useful to introduce areas for discussion. We prefer meetings to be interactive and largely informal, with ample time allowed for questions and responses. (At management meetings, as at all other times, we welcome the company's questions regarding our procedures, methodology, and analytical criteria.)

Rating Committee

A committee is always convened to assign a new issuer rating. Rating committees normally consist of five to seven voting members, and a chairperson reviews the suitability of the committee participants.

A presentation is made by the lead analyst to the rating committee, which has been provided in advance with appropriate financial statistics and comparative analysis. The presentation follows the methodology as outlined in the methodology section below. It includes analysis of the company's business and its operating environment, evaluation of its strategic and financial management, accounting aspects, and financial analysis. When rating a specific issue, there is additional discussion of the proposed issue and terms of the indenture.

Once the ratings are determined, the company is notified, and told of the major supporting considerations. We allow the issuer to respond to the rating decision prior to its publication by presenting new or additional data. We entertain appeals in the interest of having available the most information possible and, thereby, the most accurate ratings. In the case of a decision to change an extant rating, any appeal must be conducted as expeditiously as possible, i.e., within a day or two. The committee reconvenes to consider the new information.

After notifying the company, the rating is disseminated via the media, or released to the company for dissemination in the case of private placements or corporate credit ratings.

To maintain the integrity and objectivity of our rating process, our internal deliberations and the identities of those who sat on a rating committee are kept confidential, and not disclosed to the issuer.

Surveillance

Corporate ratings on publicly distributed issues are monitored for at least one year. The company can then elect to pay us to continue surveillance. Ratings assigned at the company's request have the option of surveillance, or being on a "point-in-time" basis.

Surveillance is performed by the same industry analysts that work on the assignment of the ratings. In fact, we strive to provide continuity of the lead analyst and a portion of the relevant rating committee (some members do rotate, though, to allow for fresh perspectives, and the lead analyst role must rotate after five years). To facilitate

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surveillance, companies put the lead analyst on mailing lists to receive interim and annual financial statements, press releases, and bank documents, including compliance certificates. The lead analyst is in periodic contact with the company to discuss ongoing performance and developments. Where these vary significantly from expectations, or where a major, new financing transaction is planned, an update management meeting is appropriate. We also encourage companies to discuss hypothetically—again, in strict confidence—transactions that perhaps are only being contemplated (e.g., acquisitions, new financings), and, where practicable, we endeavor to provide frank feedback about the potential ratings implications of such transactions.

In any event, management meetings routinely are scheduled at least annually. These meetings enable analysts to keep abreast of management's view of current developments, discuss business units that have performed differently from original expectations, and be apprised of changes in plans. As with initial management meetings, we willingly provide guidance in advance regarding areas we believe warrant emphasis: There generally is no need to dwell on basic information covered at the initial meeting. Apart from discussing revised projections, it is helpful to revisit the prior projections and to discuss how actual performance varied, and why.

A significant proportion of meetings with company officials takes place on the company's premises. There are several reasons: to facilitate increased exposure to management personnel—particularly at the operating level; obtain a first-hand view of critical facilities; and achieve a better understanding of the company by spending more time reviewing the business units in depth. While we actively encourage meetings on company premises, time and scheduling constraints on both sides dictate that arrangements for these meetings be made some time in advance.

Because the staff is organized by specialty, credit analysts typically meet each year with most major companies in their assigned area to discuss the industry outlook, business strategy, and financial forecasts and policies. This way, competitors' forecasts of market demand can be compared with one another, and we can assess implications of competitors' strategies for the entire industry. Our analysts can judge management's relative optimism regarding market growth and relative aggressiveness in approaching the marketplace.

Importantly, the analyst compares business strategies and financial plans over time and seeks to understand how and why they changed. This exercise provides insights regarding management's abilities with respect to forecasting and implementing plans. By meeting with different managements over the course of a year, and the same management year after year, analysts can distinguish between managements with thoughtful, realistic agendas and those with wishful approaches.

Management credibility is achieved to the extent the record demonstrates that a company's actions are consistent with its plans and objectives. Once earned, credibility helps support continuity of a particular rating level, because we can rely on management to do what it says to maintain and/or restore creditworthiness when faced with financial stress or strategic challenge. Once lost, credibility is difficult to restore. The rating process benefits from the unique perspective on credibility gained by extensive evaluation of management plans and financial forecasts over many years.

Rating Changes

As a result of the surveillance process, it sometimes becomes apparent that changing conditions require reconsideration of the outstanding rating. When this occurs, the analyst undertakes a preliminary review, which, after internal deliberation, may lead to a CreditWatch listing. This is followed by a comprehensive analysis, communication with management, and a presentation to the rating committee. The rating committee evaluates the matter, arrives at a rating decision, and notifies the company—after which we publish the rating changes, if any, and the new outlook. The process is exactly the same as the rating of a new issue. Reflecting this surveillance, the timing of rating changes depends neither on the sale of new debt issues nor on our internal schedule for reviews. ■

Analytical Methodology

Our rating methodology is based on fundamental analysis. Our model has evolved over time to reflect greater complexity and volatility facing companies. Current ratings analysis puts much greater emphasis on cash flow adequacy and liquidity than in the past. Our profitability analysis was part of our financial risk review, but we now emphasize its role as part of our business risk and competitive assessment.

Overview

Over the past five or six years, we have paid significantly more attention to accounting considerations and corporate governance. While management's risk orientation has always been a critical part of our rating decisions, there is a more complex corporate landscape now—including the availability of ever more complicated securities and transactions. Accordingly, we need to drill deeper into management practices and policies, including a range of issues, from ownership to board independence to off-balance sheet stratagems.

Business risk/financial risk matrix

We strive for transparency around the rating process. However, it is critical to realize—and it should be apparent—that the ratings process cannot be reduced to a cookbook approach: Ratings incorporate many subjective judgments, and remain as much an art as a science.

Our corporate analytical methodology organizes the analytical process according to a common framework, and it divides the task into several categories so that all salient issues are considered. The first categories involve fundamental business analysis; the financial analysis categories follow. (Credit ratings often are identified with financial analysis—especially ratios. And we publish ratio statistics and benchmarks both for sectors and individual companies. But ratings analysis starts with the assessment of the business and competitive profile of the company. Two companies with identical financial metrics are rated very differently, to the extent that their business challenges and prospects differ.)

We developed the matrix in table 2 to make explicit the rating outcomes that are typical for various business risk/financial risk combinations. The table illustrates the relationship of business and financial risk profiles to the issuer credit rating. The following illustrates how the tables can be used to better understand our rating conclusions.

The hypothetical case of company ABC

Company ABC is deemed to have a satisfactory business risk profile, typical of a low

investment-grade industrial issuer. If its financial risk were "intermediate", the expected rating outcome should be 'BBB'.

ABC's ratios of cash flow to debt (35%) and debt leverage (total debt to EBITDA of 2.5x) are indeed characteristic of intermediate financial risk. (The assessment of financial risk really is not so simple: It encompasses financial policies and risk tolerance, volatility and risks to future performance, several perspectives on cash flow adequacy—including free cash flow and the degree of flexibility regarding capital expenditures, and various measures of liquidity—including coverage of short-term maturities.)

Company ABC can aspire to an upgrade to the 'A' category by reducing its debt burden to the point that cash flow to debt is more than 60% and debt leverage is only 1.5x. Conversely, ABC may choose to become more financially aggressive—perhaps it decides to reward shareholders by borrowing to repurchase its stock. The company can expect to be rated in the 'BB' category if its cash flow to debt ratio is 20% and debt leverage remains at 4x—and there is a commitment to keeping its finances at these levels.

The rating matrix is a guideline, not written in stone

The rating matrix is not meant to be precise. There can always be small positives and negatives that would lead to a notch higher or lower than the typical outcome.

Moreover, there will always be exceptions—cases that do not fit neatly into this analytical framework. For example, liquidity concerns or litigation could pose overarching risks. Also, the matrix does not address the lowest rungs of the credit spectrum (i.e., the 'CCC' category and lower). These ratings, by definition, reflect some impending crisis or extraordinary vulnerability, and the balanced approach that underlies the matrix framework just does not lend itself to such situations.

Corporate Credit Analysis Categories

The categories underlying our business and financial risk assessments are:

Business Risk

- Country risk
- Industry factors
- Competitive position
- Profitability/Peer group comparisons

Table 2 Business Risk/Financial Risk

	—Financial risk profile—				
Business risk profile	**Minimal**	**Modest**	**Intermediate**	**Aggressive**	**Highly Leveraged**
Excellent	AAA	AA	A	BBB	BB
Strong	AA	A	A-	BBB-	BB-
Satisfactory	A	BBB+	BBB	BB+	B+
Weak	BBB	BBB-	BB+	BB-	B
Vulnerable	BB	B+	B+	B	B-
Financial risk indicative ratios*	**Minimal**	**Modest**	**Intermediate**	**Aggressive**	**Highly Leveraged**
Cash flow (Funds from operations/Debt) (%)	Over 60	45–60	30–45	15–30	Below 15
Debt leverage (Total debt/Capital) (%)	Below 25	25–35	35–45	45–55	Over 55
Debt/EBITDA (x)	<1.4	1.4–2.0	2.0–3.0	3.0–4.5	>4.5

*Fully adjusted, historically demonstrated, and expected to continue consistently.

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Financial risk
- Governance/Risk tolerance/Financial policies
- Accounting
- Cash flow adequacy
- Capital structure/Asset protection
- Liquidity/Short-term factors

Note that we do not have any predetermined weights for these categories. The significance of specific factors varies from situation to situation.

Business risk considerations

Country risk. The operating environment in the particular country—including, importantly, any sovereign-related stress—can have an overwhelming impact upon company creditworthiness, both direct and indirect. Sovereign credit ratings suggest general risk faced by local entities, but they may not fully capture risk applicable to the private sector. As a result, when rating corporate or infrastructure companies or projects, we look beyond the sovereign ratings to evaluate the specific economic or country risk that may impact the entity's creditworthiness. Such economic or country risk pertains to the impact of government policies upon the obligor's business and financial environment, and a company's ability to insulate itself from these risks.

Industry factors. All rating analyses incorporate an assessment of the company's business environment. The degree of operating risk facing a company almost always depends on the dynamics of the industry in which it participates. Our industry analysis focuses on the strength of industry prospects, as well as the competitive factors affecting that industry.

The many factors assessed include industry prospects for growth, stability, or decline, and the pattern of business cycles. It is critical, for example, to determine vulnerability to technological change, labor unrest, regulatory interference, or changes in the supply/demand balance. Our knowledge of the investment plans of the major players in a given industry offers a unique vantage point with respect to the future industry's profile.

The industry risk assessment sets the stage for analyzing specific company risk factors/keys to success and establishing the priority of these factors in the overall evaluation. For example, if technology is a critical competitive factor, R&D prowess is stressed. If the industry produces a commodity, cost of production is of major importance.

Still, for any particular company, one or more factors can hold special significance, even if that factor is not common to the industry. For example, the fact that a company has only one major production facility normally is regarded as an area of vulnerability. Similarly, reliance on one product creates risk, even if the product is highly successful (e.g., a pharmaceutical company with only one blockbuster drug that is subject to competition and patent expiration).

Competitive position. Competitive position represents a critical input in assessing a company's level of business risk in our analysis, and can often have a significant impact on the debt rating for an issuer. To determine a given issuer's competitive position, we look at key factors pertinent to the specific industry. A key factor for a pharmaceutical company, for example, might be research and development, whereas marketing would be a particularly important consideration for a consumer products company.

Company size and diversification often plays role. While we have no minimum size criterion for any given rating level, company size tends to be significantly correlated to rating levels. This is because larger companies often benefit from economies of scale and/or diversification, translating into a stronger competitive position. Small companies are, almost by definition, more concentrated in terms of product, number of customers, and geography. To the extent that markets and regional economies change, a broader scope of business affords protection.

Small companies are sometimes touted for their greater growth potential. However, fast growth often is subject to poor execution (even if the idea is well conceived) and can also tempt a company into over-ambitiousness, which could involve added risk.

Management evaluation. Management is assessed for its role in determining operational success and also for its risk tolerance. The first aspect is incorporated in the business risk

analysis; the second is weighed as a financial policy factor.

Subjective judgments help determine each aspect of management evaluation. Opinions formed during the meetings with senior management are as important as management's track record. While a track record may seem to offer a more objective basis for evaluation, it often is difficult to determine how results should be attributed to management's skills.

Management plans and policies are judged for their realism. How they are implemented determines the view of management consistency and credibility. Stated policies often are not followed, and a rating may reflect skepticism until management has established credibility. Credibility can become a critical issue when a company is faced with stress or restructuring, and we must decide whether to rely on management to carry out plans for restoring creditworthiness.

Profitability/Peer group comparisons. Profit potential is a critical determinant of credit protection. A company that generates higher operating margins and returns on capital has a greater ability to generate equity capital internally, attract capital externally, and withstand business adversity. Earnings power ultimately attests to the value of the company's assets, as well.

Moreover, conclusions about profitability also serve as a good sanity check on our assessment of business risk: A company's profit performance offers a litmus test of its fundamental health and competitive position. In this regard, comparing peer companies on key profit metrics is most meaningful.

Financial risk considerations

Having evaluated the issuer's operating environment and competitive position, the analysis proceeds to several financial categories. To reiterate, the company's business risk profile determines the level of financial risk appropriate for any rating category. Financial risk is portrayed largely through quantitative means, particularly by using financial ratios. Several analytical adjustments typically are required to calculate ratios for an individual company *(see Encyclopedia of Analytical Adjustments, below)*. Cross-border comparisons require additional care, given the differences in accounting conventions and local financial systems.

Financial policy. We attach great importance to management's philosophies and policies involving financial risk. A surprising number of companies have not given this question serious thought, much less reached strong conclusions. For many others, debt leverage (calculated without any adjustment to reported figures) is the only focal point of such policy considerations. More sophisticated business managers have thoughtful policies that recognize cash flow parameters, the interplay between business and financial risk, and the need to adjust financial data to reflect different needs and perspectives.

Even those companies that have set goals may not have the wherewithal, discipline, or management commitment to achieve these objectives. Leverage goals, for example, need to be viewed in the context of an issuer's past record and the financial dynamics affecting the business.

Accounting characteristics and information risk. Financial statements and related disclosures serve as our primary source of information regarding the financial condition and financial performance of industrial and utility companies. The analysis of financial statements begins with a review of accounting characteristics. The purpose is to determine whether ratios and statistics derived from the statements can be used appropriately to measure a company's performance and position relative to both its direct peer group and the larger universe of corporate issuers. The rating process is, in part, one of comparisons, so it is important to have a common frame of reference.

Analytical adjustments are made to better portray reality and to level the differences among companies—although it rarely is possible to completely recast a company's financial statements. Even where the ability to adjust is limited, it is important to at least have some notion of the extent to which different financial measures are overstated or understated.

Apart from their importance to the quantitative aspects of the analysis, conclusions regarding accounting characteristics and financial transparency can also influence

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qualitative aspects of the analysis, such as the assessment of management.

Cash flow adequacy. Interest or principal payments cannot be serviced out of earnings,. which is just an accounting concept; payment has to be made with cash. Although there usually is a strong relationship between cash flow and profitability, many transactions and accounting entries affect one and not the other. Analysis of cash flow patterns can reveal a level of debt-servicing capability that is either stronger or weaker than might be apparent from earnings.

The analysis often focuses on levels of funds from operations (FFO), but we play close attention to working capital swings, capital spending requirements, and shareholder distributions to complete the picture with respect to cash flow adequacy.

Cash flow analysis is usually the single most critical aspect of credit rating decisions. It takes on added importance for speculative-grade issuers. While companies with investment-grade ratings generally have ready access to external financing to cover temporary cash shortfalls, speculative-grade issuers lack this degree of flexibility and have fewer alternatives to internally generated cash for servicing debt.

Capital structure and asset protection. A review of an issuer's capital structure represents an important part of our financial review. The review encompasses both the level and mix of debt employed (i.e., fixed/variable rate, maturity, currency, secured/unsecured). This analysis helps us determine a company's financial flexibility, and how leveraged it is. Of course, when we look at leverage, our analysis goes beyond reported debt on the balance sheet and includes such items as leases, pension and retiree medical liabilities, guarantees, and contingent liabilities.

In addition, a company's asset mix is a critical determinant of the appropriate leverage for a given level of risk. Assets with stable cash flows or market values justify greater use of debt financing than those with clouded marketability. Accordingly, we believe it is critical to analyze each type of business and asset class in its own right. While the Financial Accounting Standards Board (FASB) and International Accounting Standards (IAS) now require consolidation of nonhomogenous business units, we analyze each separately.

Liquidity/short-term factors. Sundry considerations that do not fit in other categories are examined here. The potential impact of contingencies is considered, along with the company's contingency plans. These include serious legal problems, lack of insurance coverage, or restrictive covenants in loan agreements that place the company at the mercy of its bankers. Access to various capital markets, affiliations with other entities, and the ability to sell assets are important factors in determining a company's options under stress.

Debt maturity schedules are scrutinized. Flexibility can be jeopardized when an issuer is overly reliant on bank borrowings or commercial paper. Issuing commercial paper without adequate backup facilities is a big negative.

As going concerns, companies should not be expected to repay debt by liquidating operations. Clearly, there is little benefit in selling natural resource properties or manufacturing facilities if they must be replaced in a few years. Nonetheless, the ability to generate cash through asset disposals enhances a company's financial flexibility.

Country Risk

Country risk—the risk of doing business in a particular country—is a critical component of many ratings, particularly for companies in emerging markets. The large number of corporate defaults in Argentina during the 2001-2002 crisis was related to a combination of macroeconomic factors, such as severe currency depreciation and weak economic activity, and government actions such as the 'pesification' (conversion to pesos from foreign currency) of financial obligations, utility tariffs, and most other dollar-denominated contracts at an unfavorable exchange rate from a creditor's perspective.

Country risk differs from sovereign credit risk—the risk of the sovereign defaulting on its commercial debt obligations. Country risk is often correlated with sovereign creditworthiness, but not always.

Depending on the industry sector or individual company's financial strength, a company may be better or less able to withstand macroeconomic shocks or other country-related risks. For instance, several—but not all—Brazilian exporters performed well during 2002 despite a severe credit crunch in the marketplace, given government reluctance to interfere with export financing. Commercial banks and state development banks continued to provide lines of credit to major exporters, even though the sovereign suffered credit stress. Most Russian companies continued to perform and to service external, export-backed debt in 1998-1999 when the sovereign was in default.

On the other hand, strengthening credit quality of the sovereign state does not necessarily improve the business environment—or the relevant country risk. For example, while Russia's sovereign credit quality has been improving, the operating environment remains risky. All ratings on Russian companies factor in uncertainty about enforcement of regulatory and legal norms and the still-weak corporate governance environment.

Certain industries tend to be more affected by sovereign issues than others. Banks and utilities are greatly affected by the regulatory framework and by the general condition of the economy. On the opposite end of the spectrum are export-oriented companies, which are less affected by local economic conditions, and generally benefit from currency depreciation. Nevertheless, even exporters are exposed to country risk. For instance, they are subject to local rules on labor and domestic input sourcing, and could suffer a disruption in financial market access because of sovereign-related investor perceptions. Resource nationalism can also make export-oriented commodity industries more likely targets of selective sovereign intervention.

Exposure to country risk may even differ on a company-by-company basis. For instance, in Russia, the large oil and gas producers may each be subject to different risks of government interference.

Government-related companies generally enjoy some government support, but face general country risks as well. While selective sovereign intervention is hardly an issue for them, in terms of outright expropriation, they are still subject to the country's tax and regulatory risks, infrastructure constraints, or exchange rate movements. There are plenty of examples in which the sovereign has induced the government-owned entities to reduce capital investment budgets, increase the tax burden, or pay extraordinary dividends when economic pressures have risen.

Country risk methodology and interaction with the sovereign rating

The main sovereign and industry-related risks affecting and sometimes constraining the credit quality of companies in a certain jurisdiction include various economic, financial, regulatory, and industry-related risks that can affect day-to-day operations, long-term investment decisions, and, of course, payment capacity.

We divide the main country risk factors that could affect the private sector into two categories: Economic/political and industry risks.

Economic risks:

- growth prospects of a country;
- its business cycle;
- political factors influencing the business environment;
- current and projected inflation levels;
- foreign exchange risks affecting the flow of imports, exports, and the balance of payments;
- the payment system and the strength and depth of the banking system;
- interest rates and spreads;
- the depth and liquidity of the local capital markets; and
- access to the cross-border markets for commercial or financial transactions.

Industry-related risks:

- labor market constraints or incentives;
- the strength and political direction of labor unions;
- labor cost and strike experience;
- condition of general infrastructure in the country—with potential constraints on water supply, cost of electricity, and price and availability of oil and gas;
- poor transportation services in roads, ports, and airports;
- accounting and reporting transparency in the country;

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- federal and state government legal systems;
- regulatory risk for utilities, banks, and other entities under regulation;
- existence or potential for heavy taxation; and
- corruption-related risks affecting day-to-day operations.

Past experience

The main country risk factors that have affected financial performance and caused corporate defaults in the past are the following:

- Currency mismatch on operations and financial obligations combined with sharp local currency depreciation;
- Price controls combined with drastic raw material increases;
- Sudden contraction of liquidity, combined with a general weakening of the financial system and a possible freezing of bank deposits;
- Large increases in the cost of funds by financial intermediaries, if available;
- Delayed payments from domestic customers, including sovereigns themselves or sovereign-owned entities;
- Hikes in export tariffs or taxes;
- Prolonged labor strikes with excessive demands;
- Unfriendly change in regulations;
- GDP contraction and reduced domestic demand for several months or years;
- Sovereign restrictions on access to foreign exchange needed for debt service; and
- Forced conversion of foreign currency-denominated obligations into local currency.

Ratings above the sovereign

Under our methodology, ratings on a company may exceed those on the sovereign, if we expect it would continue to perform and fulfill its financial obligations, even during a sovereign local and/or foreign currency default scenario. The company must demonstrate that it is significantly sheltered from sovereign and country risk factors, based on past experience and probable scenarios. Where such potential exists, we would perform additional sovereign and country risk stress scenarios as part of the rating analysis.

In addition, ratings above those on the sovereign are possible where there is strong implicit or explicit support from a highly-rated parent in another jurisdiction, and/or there is significant cash-flow diversity derived from operations in several countries.

Foreign currency ratings of an entity would be usually capped by the transfer and convertibility (T&C) assessment for a given country—ordinarily, higher than the sovereign foreign-currency rating. *(See "Ratings Above The Sovereign: Foreign Currency Rating Criteria Update," published Nov. 3, 2005, on RatingsDirect, the real time Web-based source for Standard & Poor's credit ratings, research, and risk analysis. Assessments of T&C risk are published on a monthly basis for all rated sovereigns.)* Nevertheless, a company's foreign currency ratings can exceed the T&C assessment in instances of: very strong credit metrics and business prospects, as projected even through a sovereign default scenario; strong incentives to service foreign debt (links to global trading system); or a projected ability to generate enough foreign currency cash flow to comfortably cover foreign currency outflows.

As of 2007, the foreign currency ratings of 68 entities in 21 countries exceeded the sovereign rating of the country of domicile. *(See "Transfer And Convertibility Assessment History Since November 2005" published June 7, 2007, on RatingsDirect.)* Only a handful, however, exceeded the T&C assessment.

Industry Risk

Industry risk analysis sets the stage for company-specific analysis. The goal is to develop a robust understanding of the company's external business and operating environment. Industry analysis focuses on the industry prospects, as well as identifying the competitive factors, risks, and challenges affecting participants in that industry. Once key industry and country risk considerations are identified, the credit analysis process proceeds to a second phase—company-specific analysis.

Industry characteristics—and the mix of opportunities and risks they represent—include the sector's growth and profit potential, degree of cyclicality, ease of entry, nature and degree of competition, capital intensity,

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operational and cost structure, regulation, and technology. Companies best-positioned to take advantage of these key industry drivers—or to mitigate associated risks more effectively, possess a competitive advantage—and a stronger business risk profile.

Evaluating an industry's risk profile

While characteristics pertinent to credit risk across industries broadly are similar, the impact of these factors can vary significantly between industries. Table 3 highlights how a common set of industry characteristics/metrics can be applied to identifying the relative credit impact of key industry factors across some major industries in the U.S.

Some industries are more highly affected by national factors than others. The nature and impact of key characteristics can vary markedly between countries for a given industry. Utilities, telecom, and retail tend to be more affected by national characteristics. By contrast, oil & gas, chemicals, and technology sectors are more global in nature, as national factors tend to be less influential.

An example of country-specific influences: Telecom

While the telecom industry recently has been a primary driver of globalization, and the technology platforms and connectivity provided by telecommunication companies form the underpinnings of the global network for voice, data video, and Internet services, it does not have a uniform global credit profile. A few leading operators have diversified internationally by building networks in multiple regions and countries, although none can be said to be global. A major impediment to the creation of truly global players is that many governments view the industry as being of national strategic importance; so, as in the case of utilities, barriers to cross border/global expansion and diversification often are material. The high cost of cross-border entry includes availability and expense of government-sanctioned frequencies and licenses, network-construction capital expense, and, in emerging markets, often the requirement to share profits and management decisions with local partners. The degree of competition in telecom is in many countries a direct function of government policy and regulation, as well as other factors, such as population and business density. National markets with the higher telecom credit risk tend to be those with a high degree of competition, where growth prospects are limited by market maturity, and government and regulatory policy or actions have spurred competition, and historically been inconsistent: The U.K. is an example of one such market. Conversely, in markets with lower levels of competition

Table 3 Key Industry Characteristics And Drivers Of Credit Risk

Credit risk impact: High (H); Medium (M); Low (L)

Risk factor	Cyclicality	Competition	Capital intensity	Technology risk	Regulatory/ government	Energy sensitivity
Industry	H	H	H	L	M/H	H
Airlines (U.S.)	H	H	H	M	M	H
Autos*	H	H	H	M	M	M
Auto suppliers*	H	H	M	H	L	L/M
High technology*	H	H	H	M	M/H	H
Mining*	H	H	H	L	M	L
Chemicals (bulk)*	H	H	H	L	M	H
Hotels*	H	H	H	L	L	M
Shipping*	H	H	H	L	L	M
Competitive power*	H	H	M	L	H	H
Telecoms (Europe)	M	H	H	H	H	L

*Global.

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(often because of government policies and regulations that aim to support price levels and profit margins, and create surplus cash generation to fund infrastructure spending by incumbents), and growth prospects are high, the sector credit-risk profile can be much more favorable. A prime example of the latter market is China. Key ratings metrics, such as operating margins, EBITDA coverage, and leverage ratios for China's dominant incumbent wireline and wireless companies reflect this advantage, and are among the strongest of any rated telecom. However, in the case of China, our ratings on these companies are constrained by sovereign/country-risk considerations. Markets where competition is limited by government policy are obviously susceptible over time to policy changes leading to greater market liberalization. While the possibility of a major policy U-turn in China currently appears low, it is essential that any likelihood of changes that would foster greater competition be factored into the analysis in markets where there is a high degree of government protection.

High-risk industries

Certain sectors historically have experienced higher default rates and downward transition behavior. This can be linked to key high-risk industry characteristics. Ratings within such industries tend to cluster, because competitive differentiation is often hard to achieve and financing needs are relatively similar.

Still, it is critical not to paint an entire industry with the same brush. In fact, the stress of many companies in a particular industry can result from the superior execution and performance of their rivals. Such competitive divergence should be mirrored in a bifurcated ratings profile for that industry.

Factors with a high level of impact on credit risk are cyclicality, degree of competition, capital intensity, technological risk, regulation/deregulation, and energy cost sensitivity.

Mature industries that are very competitive often have long-established companies with inflexible/legacy cost structures (arising from labor, pension, and/or environmental issues, among others). Industries in this category include autos, airlines, and integrated steel.

Cyclicality

Industry cycles result not only from fluctuating demand, but, importantly, also from swings in supply capacity. (Such addition of new capacity often occurs in response to cyclical upswings in demand.) Overbuilding of production capacity exacerbates competitive and earnings pressure, especially in the event of a downturn in demand (examples of this dynamic: bulk chemicals and shipping).

A company's business can be so impaired during a downturn that it runs out of funds—or its competitive position may be permanently altered. In the extreme, a company will not survive a cyclical downturn to participate in the upturn. So, all else equal, companies subject to cyclicality are rated lower than non-cyclical companies.

We attempt to avoid assigning high ratings to a company at its peak of cyclical prosperity, if that performance level is expected to be only temporary. Similarly, we may not lower ratings to reflect weakening performance because of cyclical factors, if the downturn is likely to be only temporary or there are good prospects for management to respond to the changed circumstances.

It is not that ratings are not adjusted with the phases of a cycle: Rather, the range of the ratings would not fully mirror the amplitude of the company's cyclical highs or lows, given the expectation that a cyclical pattern will persist. The expectation of change from the current performance level—for better or worse—tempers any rating action.

We do not—and cannot—aim to "rate through the cycle" entirely. Rating through the cycle requires an ability to predict the cyclical pattern—usually extremely difficult to do. The phases of a cycle probably will be longer or shorter, or steeper or less severe, than just repetitions of earlier cycles. Interaction of cycles from different parts of the globe and the convergence of secular and cyclical forces are further complications.

Moreover, even predictable cycles can affect individual companies in ways that have a lasting impact on credit quality. As noted, a company may fail during the cyclical downturn. Conversely, a company may accumulate enough cash in the upturn to mitigate the risks of the next downturn.

Furthermore, investor sentiment about cyclical credits may fluctuate over the course of a cycle, with important ramifications for financial flexibility. Whatever our own views about the long-term staying power of a given company, the degree of public confidence in the company's financial viability determines its access to capital markets, bank credit, and even trade credit—for better or worse. Accordingly, the psychology and the perceptions of capital providers must be taken into account.

Sensitivity to cyclical factors—and ratings stability—also varies considerably along the rating spectrum. As the credit quality of a company becomes increasingly marginal, the nature and timing of near-term changes in market conditions are more likely to mean the difference between survival and failure. A cyclical downturn may involve the threat of default before the opportunity to participate in the upturn that may follow. In such situations, cyclical fluctuations usually will lead directly to rating changes—possibly even several rating changes in a relatively short period. Conversely, a cyclical upturn may give companies a breather that may warrant a modest upgrade or two from those very low levels.

In contrast, companies viewed as having strong fundamentals (i.e., those enjoying investment-grade ratings) are unlikely to see significant rating changes because of factors deemed to be cyclical, unless the cycle is either substantially different from that expected, or the company's performance is somehow exceptional relative to that expected.

(Rating stability for a company throughout a cycle also presumes consistency in business strategy and financial policy. In reality, management psychology is often strongly influenced by the course of a cycle. For example, in the midst of a prolonged, highly favorable cyclical rebound, a given management's resolve to pursue a conservative growth strategy and financial policy may be weakened. Shifts in management psychology may affect not just individual companies, but entire industries. Favorable market conditions may spur industry-wide acquisition activity or capacity expansion.)

Capital intensity

To the degree that a business is capital intensive, return/break-even horizons are often further out, because of the need to invest heavily in fixed assets/production capacity. Operating leverage/capacity utilization adds to the risk profile.

Sectors that are both capital intensive and have a high degree of competition (e.g., autos, shipping, forest products, and metals & mining) are especially sensitive to the need for high capacity utilization. Nonetheless, capital-intensive sectors often have a high propensity to over-expand capacity in growth periods, leading to surplus capacity, intense price competition, and eroding margins. Perhaps ironically, such companies also tend to have above-average financial risk, as financing needs often are substantial and long.

Rapid change

Industries undergoing rapid change because of technological innovation and/or deregulation tend to have higher levels of industry risk. Barriers to entry can be substantially reduced, allowing an entry to new competitors that may not be burdened by legacy business models, technologies, and the cost structures of incumbents.

There is greater potential for industry peers sorting themselves into winners and losers—as companies pursue different business models/strategies. The quality of management is particularly important in such industries.

Risks in maturing or declining industries

Maturing economic and demographic environment can lead to market saturation (e.g., anemic growth rates in Western Europe and Japan for autos and steel). Technological change may spur substitution (fixed-wireline phones by mobile/wireless; traditional media advertising by Internet ads; pharmaceutical medications by bio-medications; and print media/news by Internet news services). New business models can lead to disintermediation (local retailers by mega retailers, and traditional airlines by low-cost carriers).

Stagnant or declining revenues require cost-reduction to maintain profitability. Product differentiation also tends to be difficult in maturing industry environments, as there is a

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high degree of correlation between industry maturity and product commoditization (brands do afford companies protection from commoditization in some sectors). Industry consolidation often is challenging—both for the companies making the acquisitions—and those left to compere with them.

Risks in rapidly growing, immature industries

The promise of new technologies and new business models—while a threat to the existing companies—is not a panacea for the innovators either (e.g., Internet and dot.com companies). High-growth industries, particularly those driven by technological change, tend to have long investment breakeven horizons, especially if they are capital intensive. Their early periods are associated with losses and negative cash flow.

Unproven commercial viability of a new technology and/or business model also make them poor candidates for obtaining credit. New industries normally are funded in their early phases through venture capital (e.g., biotechnology).

Some high-technology/high-growth industries are viewed as having economic and political importance to national governments, which may protect them from market competition in an attempt to stimulate their development (as noted with China's telecoms). Barriers to entry erected by governments in the form of licensing, franchise auctioning, and laws barring competition and acquisition by nonsanctioned entities are used to provide a protected environment. However, as these industries mature, governments open them up to varying degrees of competition by allowing new entrants or removing monopolistic privileges incumbents had previously enjoyed. Once deregulated, such industries normally become much riskier from a credit perspective, because increased competition erodes industry profit margins.

"Old" industries can become rejuvenated in emerging markets

Not all industry high-growth opportunities are created by new technology or business models. Currently, the rapid industrialization of developing countries (notably China and India) is creating growth industries for mature products—including auto manufacturing, capital goods, and steel. In addition, countries seeking to attract foreign participants offer protected environments and/or assistance and inducements.

Such status can prove tempting for foreign companies establishing operations, but early foreign entrants often find it hard to maintain adequate profitability once tax holidays end and/or new entrants are in place. (Again, China offers a good example: the government's decision to allow the entrance of additional Western, Japanese, and Korean auto manufacturers has created a high degree of competition with rapidly declining profit margins, despite very rapid market and sales growth.)

Potentially onerous government regulations, policies, and requirements, as well tolerance of illicit activity—such as proprietary technology transfers/piracy, are additional risk elements that need to be considered.

Competitive Position

Competitive positioning is the cornerstone of business risk analysis. While the industry environment, whether favorable or unfavorable, will strongly influence the business risk, differences in competitive positioning can justify substantial differences in credit standing among industry players. A strong business profile score can only be achieved through a very competitive position. Such status supports revenue and cash flow stability—and generally goes in tandem with superior profitability measures. A comparatively weak competitive position—even in the most favorable industry environment—is unlikely to result in a solid credit standing.

Sustainability is key

The sustainability and trend of a competitive position are critical rating factors. Sustainability of competitive advantage is often determined by cost leadership or product differentiation. A broader evaluation would look at:

- Product positioning (quality, pricing) and brand reputation;
- Market shares, the installed customer base, and geographic coverage;

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- Distribution capabilities;
- Customer relationships;
- Technology/manufacturing capabilities; and
- Meaningful barriers to entry, such as transportation, capital or technology intensiveness, and regulation.

The assessment of these factors must, of course, be forward looking; we use historical data only to the extent that they provide insight into future trends.

Several other factors also are critical in determining the strength and sustainability of a company's competitive position. Vertical integration, for instance, often enables a stronger competitive position—although not necessarily higher returns on capital employed—protection of the customer base, and pricing power, as well as better ability to adjust to technology developments. That said, it is of utmost importance for a company to have the strongest grip on that part of the value chain that comprises the highest value added.

Market share analysis can be a critical component, but only when weighed in the context of industry dynamics

In noncommodity sectors, market share analysis often provides important insight into a company's competitive strength. A large share, however, is not always synonymous with a competitive advantage or with industry dominance. If an industry has a number of similarly large participants, none may have a particular advantage or disadvantage. (This is the case of the mature U.K. mobile telephony market, which, despite having four competitors with roughly similar large market shares, is characterized by intense competition, yielding relatively low margins for all market participants.) Even duopolies (such as the aircraft manufacturing industry) do not necessarily ensure high and stable margins. Highly fragmented industries (such as transportation—with airlines being a good example) may lack pricing leadership potential altogether. These examples underline the limits of market share analysis without understanding the industry context.

Global industries typically are characterized by gradual market consolidation and the risk of product commoditization; only large, cost-efficient players with vast research and distribution capabilities are able to sustain or reinforce their business positions and profitability.

In contrast, companies operating in local industries may benefit from transportation barriers, long-term regulatory advantages, or a locally large installed asset or customer base. This is sometimes the case for food retailers, which can enjoy all these advantages, helping them achieve relatively solid business risk profiles, based on entrenched and well-managed local positions.

Comparing mature and fast-growing markets

An emerging or fast-growing market offers considerable growth prospects, but competitive positions in such markets are likely to be more volatile. Companies may reap substantial benefits over a relatively short period of time but find it difficult to manage over the long haul. (Moreover, fast-growth companies often tend to retain high-risk financial policies as they aggressively pursue ever more ambitious objectives, thereby limiting potential credit quality.) The promise of small companies can fade very quickly on growth-related risks, including management's experience and resources to enter new markets, or to integrate acquired companies.

A mature market, although perhaps not appealing from an earnings growth standpoint and possibly exposed to risks of price commoditization or revenue decline, can mean greater protection for market shares. Large companies in mature markets have substantial staying power. Their sizable staff, vast array of disposable assets, and often-significant restructuring potential can positively influence their fates.

Generally, we would therefore favor a solid, established position in a mature, consolidated industry, which would have greater ability to offer predictable revenue and earnings streams, and to protect a company's capacity to service its debt over the long term.

Diversification can enhance the business risk profile

Having a diverse range of products, customers, and/or suppliers helps cushion a

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company against adversity. Geographic spread can also afford some protection against adverse changes in regional markets and economies, to the extent that the markets for a company's products or services are sufficiently uncorrelated.

When a company operates in more than one business, we analyze each segment separately. We then form a composite from these building blocks, weighing each element according to its importance within the overall organization. (Determination of importance can vary; we often use earnings contribution, especially if segment cash flow data are unavailable.)

Diversification that includes a good competitive position in several industry segments is then considered as a positive credit factor. The business profile of a company solidly positioned in an array of cash-generative businesses with different industrial cycles is stronger in terms of credit quality than each of the best-ranked stand alone competitors.

However, we generally are cautious with respect to the benefits of business diversification related to weaker competitive positions or activities exposed to a very difficult industry environment.

Global conglomerates generally achieve some of the highest ratings among corporate issuers. Impressive geographic spreads, balanced exposure to cyclical industries and economic conditions, and often very sizable market shares in consolidated, well-protected markets are common features of some of the world's largest conglomerates, such as U.S.-based General Electric Co. (AAA/Stable/A-1+).

Size and ratings end up being highly correlated

While we have no minimum size criterion for any given rating level, size and ratings do end up being correlated, given that size often provides a measure of diversification, and/or affects competitive positioning.

It is relative—not absolute—size that is crucial in determining market position, extent of diversification, and financial flexibility. Small companies also can enjoy the competitive advantages that accompany a dominant market position, although such a situation is not common. In this sense, sheer mass is not important; demonstrable market advantage is.

Accordingly, small or modest size generally is a negative rating factor if there is significant divergence in size and market shares between the market leaders and smaller players. Nevertheless, small and midsize enterprises can survive and perform satisfactorily in industries dominated by companies with large market shares, provided they can build defendable market positions in niche segments of the industry. German sports car designer and manufacturer Porsche AG (not rated) has successfully defended and expanded its strong position in luxury sports cars with respect to competitors owned by large car manufacturers.

As noted, large companies in highly fragmented industries may find it difficult to exert influence over pricing; instead, all industry players are exposed to intense competition. This is the case in the semiconductor industry, for example (with the exception, perhaps, of the microprocessor segment), where none of the large players has demonstrated a long-term ability to differentiate themselves in a highly competitive environment. The transportation and logistics industries are other good examples.

Large size also is often positively correlated with low cost. Economies of scale in purchasing, manufacturing, and distribution can provide large companies with better cash flow characteristics, which is of particular importance at the downside of the cycle. In some cases, like forest products, group size may not be the most critical aspect of cost advantage; rather, the size of the individual production units—in particular the size of the machines—is critical.

Also, small companies are, almost by definition, more concentrated in terms of product, number of customers, and geography. In effect, they lack certain elements of diversification that can benefit larger companies. To the extent that market and regional economies change, a broader business scope affords protection.

In addition, the impetus to grow dramatically tends to be higher for players aiming to access the industry's first tier than for industry giants that already achieved that status. Ambitious growth strategies often entail significant financial and implementation risks.

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Accordingly, we pay much attention to management's plans for achieving earnings growth. Can existing businesses provide satisfactory growth, especially in a low-inflation environment, and to what extent are acquisitions or divestitures necessary to achieve corporate goals? At first glance, a mature, cash-generating company offers a great deal of bondholder protection; but we presume a company's central focus is to increase shareholder value over the long run. In this context, a lack of indicated earnings growth potential is considered a weakness.

How Company Management Influences Business And Financial Risk

Management evaluation is an input for both business risk and financial risk profiles—reflecting the fact that management's strategy, decisions, and policies affect all aspects of a company's activity. The evaluation includes a review of the credibility and realism of management's strategy and projections, its operating and financial track record, and its appetite for assuming business and financial risk

Our judgments regarding management's strategy and operating track record help determine our view of competitive position, a key element of the business risk profile. We try to assess management's competence—and its role in determining strategic and operational success.

We bear in mind that success can be more difficult to achieve in some industries than others, simply because of the inherent risk characteristics of the business. Various airline executives, reflecting on the periodic and damaging price wars endemic to the U.S. airline industry, have observed that "you are only as smart as your dumbest competitor." Management's reputation within an industry complements our evaluations.

Each industry has its own specific challenges and constituencies that management must deal with. Heavily unionized industries, such as automakers, steel, and airlines, may face difficult labor relations—and how management handles unions and employees can determine a company's fate in cases where a strike could be fatal to operations. Relations with regulators or government officials are important in other sectors, such as utilities. Corporate governance and financial policy—including its risk tolerance—are part of our financial risk evaluation.

Strategies and plans

We compare management's future plans and assumptions with those of peer companies and with our own estimates. Implausible or overly optimistic projections can indicate poor internal planning capabilities or an insufficient grasp of the challenges (or opportunities) facing that company—especially if management fails to consider factors that peer competitors are focusing on. Indeed, one benefit of our access to management as part of the rating process is the opportunity to compare perspectives of various participants in an industry.

How strategy, plans, and policies are implemented helps determine our view of management consistency and credibility. In that exercise, determining why actual results fail to meet expectations is important. For example, meeting or exceeding projections could be the result of unanticipated good fortune, rather than a reflection of management's capabilities.

Accordingly, when reviewing projections or scenarios that are presented by management, we also strive to understand what could cause performance to deviate. We understand that forecasting is more difficult in some industries than others, and that unforeseen factors outside of management's control can upset the best-laid plans. A candid acknowledgement of risks and understanding of how various factors could affect earnings and cash flow is helpful for our internal deliberations—and may reflect favorably on management's credibility. Conversely, a record of abrupt or frequent changes in business strategy, including unexpected acquisitions, divestitures, or restructurings, definitely would raise our concern.

Acquisition strategy

Acquisitions often play a significant role in management's strategy. Although almost all mergers involve risk, well-executed acquisitions can make strategic sense. We try to fathom the company's acquisition criteria with respect to:

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- Strategic "fit";
- Diversification objectives;
- Market share gains;
- Availability of excess cash resources; and
- Valuation considerations (cash flow multiples, internal rate of return, earnings accretion).

(Some of these considerations also reflect on management's overall risk tolerance and financial policy, which are discussed below in the context of financial risk.)

Management's approach and plans for poorly performing business units or those that no longer make strategic sense are a related area for investigation. Objective appraisals of businesses units and disciplined approaches to dealing with underperformers (divestiture, restructuring, or discontinuing businesses are among the options in such cases) are viewed positively.

Corporate governance and its relationship to credit analysis

Our evaluation of governance as part of credit analysis is not focused on misappropriation of funds, lack of accountability, or other misdeeds. Rather, it covers a broad array of topics relating to how a company is managed; its relationship with shareholders, creditors, and others; and how its internal procedures, policies, and practices can create or mitigate risk.

The starting point is to identify the owners of the company. The nature of the owner—e.g., government, family, holding company, or strategically linked business—can hold significant implications for both business and financial aspects of the rated entity. Ownership by stronger or weaker parent companies can substantially affect the credit quality of the rated entity. Cross-shareholding of industrial groups and family-controlled networks, commonplace in certain parts of the world, can have positive or negative implications, depending on the specific situation. We never rate corporate entities on a standalone basis.

The corporate governance of family-owned businesses, for example, introduces added complexities. Do the various family shareholders agree on strategy? Have the owners hired professional management and allowed them sufficient authority and autonomy to carry out their mission? What about management succession, or other involvement by children of the founder or owner? What about the possible desire to liquefy value in shareholdings through dividends or an IPO, and what are the implications of estate planning? Still, family ownership can hold certain advantages, in terms of adherence to long-term strategic goals and commitment of family resources to a business.

Ownership by private equity firms has become more common recently in the U.S. and Europe. Such owners typically are much more actively involved in management than public shareholders, and we seek to understand private equity owners' strategy for the company being rated. Is the company a platform for organic growth, industry consolidation, or a cash cow? What is the typical holding period and exit strategy for the owners? Repaying debt (often incurred in a leveraged acquisition of the company) and eventually selling to a strategic buyer or through an IPO is likely to be a more creditor-friendly strategy than debt-financed dividends. Some of the larger private equity companies own multiple rated companies, giving us a track record by which to judge the owners' statements of intent when a new investment of theirs is being rated.

The existence of more than one owner introduces the potential for conflicts over control. Joint owners might disagree on how to operate the business. Even minority owners can sometimes exercise effective control or at least frustrate the will of the majority owners. Whenever control is disproportionate to the underlying economic interest, the incentives for the stakeholders could diverge. This could result from existence of classes of shares with super voting rights or from owning 51% in each of multiple layers of holding companies. In either example, control might rest with a party that holds only a relatively small economic stake.

(Conventional, equity-oriented corporate governance analysis is very sensitive to share structure—for example, whether each type of share provides representational voting—out of concern that management or majority owners will act to the detriment of minority shareholders. Although this concern is not

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the direct focus of our credit analysis, there is a penalty for companies considered abusive to minority holders. Perception of such conduct would, obviously, impair the company's access to investment capital. Furthermore, if a company mistreated one group of stakeholders, there would be serious concern that it could later try to shortchange other stakeholders, including creditors.)

Our evaluation of corporate governance is sensitive to potential organizational problems. These include situations where:

- There is significant organizational reliance on an individual, especially one who may be nearing retirement;
- The transition from entrepreneurial or family-bound to professional management has yet to be accomplished;
- Management compensation is excessive or poorly aligned with the interests of stakeholders;
- There is excessive management turnover;
- The company is involved in legal, regulatory, or tax disputes to a significantly greater extent than its peers;
- The company has an excessively complex legal structure, perhaps employing intricate off-balance-sheet structures;
- The relationship between organizational structure and management strategy is unclear;
- The finance function and finance considerations do not receive high organizational recognition; and
- The company is particularly aggressive in the application of accounting standards, or demonstrates a lack of opaqueness in its financial reporting.

And recent examples of poor corporate governance have contributed to impaired creditworthiness. These cases included:

- Uncontrolled dominant ownership influence that applied company resources to personal or unrelated use;
- Uncontrolled executive compensation programs;
- Management incentives that compromised long-term stability for short-term gain; and
- Inadequate oversight of the integrity of financial disclosure, which resulted in heightened funding and liquidity risk.

Still, board structure and involvement has not figured prominently in the rating process. Of course, if it is evident a company's board of directors is passive and does not exercise the normal oversight, it weakens the checks and balances of the organization. But considerations such as the proportion of independent members on the board of directors, presence of independent directors in the board-level audit committee, and the compensation of directors and senior management teams have limited relevance. It can be difficult to determine objectively whether a given level of compensation is excessive, or will result in a company strategy that is overly aggressive or mainly focused on short-term performance.

Indeed, strong corporate governance—in the conventional sense, demonstrated in part by the presence of an active, independent board that participates in determining and monitoring the control environment—does not by itself provide enhancement to creditworthiness. Governance qualities cannot overcome a weak business or financial risk profile, although they might contribute to protecting an already strong business.

Financial policy and risk tolerance: managing the balance sheet and more

We assess financial policies for aggressiveness/conservatism, sophistication, and consistency with business objectives. We attach great importance to management philosophies and policies involving financial risk. Accounting practices, capital spending levels, debt tolerance, merger activity, and asset sale frequency are all aspects of a management's financial policies *(see "Credit FAQ: Knowing The Investors In A Company's Debt And Equity," published April 4, 2006, on RatingsDirect).*

Policy differences between companies can be driven by various factors, including management preferences, business requirements, and/or shareholder value considerations. Policies should optimize for the typically divergent interests of the company's stakeholders—shareholders, creditors, customers, and employees, among others. Specifically, the company's goals with respect to its credit rating also need to be consistent with the balancing of those interests.

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Sophisticated business managers have thoughtful policies that target a variety of financial measures and acknowledge the interplay between business and financial risk. But a surprising number of companies have not given their financial policy serious thought, much less reached strong conclusions. For many others, debt leverage (either debt to capital or debt to EBITDA, calculated without any adjustment to reported figures) is the only focal point of such policy considerations.

In all cases, what corporate management says it will do must be viewed in the context of what it actually does and what makes sense for that entity to do. For example, an organization's leverage goals should be judged relative to its past record and future business requirements. A company that is increasing its capital spending beyond what can be met from internal cash flow should not be forecasting declining leverage unless there is a corresponding plan to sell assets or common equity. A skeptical analyst would question management on how exactly it plans to achieve both goals. The answers, and the company's subsequent performance, reflect on management's risk tolerance and credibility.

The analyst must consider the realistic choices available to management and how it responds. Similarly, debt usage and shareholder rewards need to be judged within the context of the company's cash-generating capabilities and the stability of those cash flows. We view a debt-financed dividend as very risky for a weak company with volatile cash flows, but such a move could be reasonable for a company that is generating substantial free cash flow and has already achieved a solid balance sheet.

We do not encourage companies to manage themselves with an eye toward a specific rating. The more appropriate approach is to operate for the good of the business as management sees it, and let the rating follow. Certainly, prudence and credit quality should be among the most important considerations, but financial policy should be consistent with the needs of the business, rather than an arbitrary constraint. If management forgoes attractive business opportunities merely to avoid financial risk, the company may be making a poor strategic decision, sacrificing long-term credit quality for near-term balance sheet considerations.

In any event, pursuit of the highest rating attainable is not necessarily in the company's best interests. While 'AAA' is our highest rating, we do not suggest that it is the "best" rating. Typically, a company with virtually no financial risk is not optimal as far as meeting the needs of its various constituencies. An underleveraged company is not minimizing its cost of capital, thereby depriving its owners of potentially greater value for their investment. In this light, a corporate objective of having its debt rated 'AAA' or 'AA' is ordinarily suspect. Whatever a company's financial track record, an analyst must be skeptical if corporate goals are implicitly irrational. A company's "conservative financial philosophy" must be consistent with its overall goals and needs.

A high credit rating usually is more important for financial institutions than industrial companies. For companies with solid business risk profiles and the financial capacity to target ratings within investment grade, various motivations can affect financial policy. Two examples are the balancing of financial risk against cost of capital and reliable access to commercial paper markets. The former often leads to a target rating in the range of 'BBB+' to 'A'. The latter may suggest seeking a 'BBB' or 'BBB+' rating, which typically coincides with an 'A-2' commercial paper rating. Customer perception can be another motivating factor. Some defense companies say maintaining an investment-grade rating is important when selling weapons to governments outside the U.S.

Tolerance for risk extends beyond leverage. The mixture of fixed-rate and floating-rate debt (including use of derivatives to manage that) offers an example. Generally speaking, long-term assets such as factories are best financed using fixed-rate debt, while short-term working capital financing may be accomplished using floating-rate borrowings. Management should develop an appropriate maturity schedule and liquidity targets.

For companies with defined-benefit pension plans, management makes choices regarding the mix of investment assets. The

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proportions of equity, fixed-income, and other investment assets should be developed with a view to the relative volatility of those investment assets. We review such investment choices and compare assumptions (e.g., discount rate) with those of other companies in the same industry. Other potential sources of earnings and cash flow volatility are exposure to foreign exchange or commodity price movements. Use of derivatives to manage such exposure is reviewed as part of our overall financial risk assessment, but the choices made by management also reflect on its appetite for risk.

Accounting And Financial Reporting

A company's financial reports are the starting point for the financial analysis of a rated entity (or issue). Such analysis must consider the accounting basis a company uses to prepare its financial reports and the implications of the varying methodologies and assumptions on the reported amounts.

Understanding the implications of the accounting basis used—e.g., International Financial Reporting Standards (IFRS), U.S. Generally Accepted Accounting Principles (U.S. GAAP), or other local or statutory GAAP basis—is highly germane to our corporate rating methodology. But analytical challenges exist even for companies using the same accounting basis, because accounting rules often provide optional treatment for certain items (e.g., LIFO rather than FIFO to account for inventory under U.S. GAAP, optional hedge accounting, or optional revaluation of certain assets or liabilities under IFRS). Moreover, as business transactions have become increasingly complex, related accounting rules and concepts have correspondingly grown more complex—and in many cases, subject to greater reliance on estimates and judgments.

Accounting failures in the early 2000s highlighted several fundamental shortcomings of the financial reporting process and its ability to comprehensively address the information needs of financial statement users. Shortcomings include both recognition and measurement issues (e.g., under what circumstances an item such as a special-purpose entity, or a "synthetic lease" should be reflected on or off a company's balance sheet, and at what value), and transparency issues (e.g., what a company should disclose about the nature of off-balance sheet commitments, compensation arrangements, or related-party transactions).

These failures also reinvigorated the debate on the merits of using a principles-based, rather than a rules-based, accounting standards framework, and served as a catalyst for expediting convergence of global accounting standards. Relatively rapid rates of accounting rules changes have occurred—often hampering meaningful period-over-period comparisons. In addition, the broader concerns about clarity and accuracy of financial reports have been evidenced by a considerable increase in restatements.

To address these challenges, we have increased and systematized the emphasis we place on the understanding of issuers' accounting characteristics. We supplement our analysis with enhanced financial statement analysis both in terms of qualitative and quantitative considerations. Our ratings criteria include numerous quantitative adjustments we often make to reported financial results to increase consistency among peers, and to better align with our view of the underlying economic reality of a particular circumstance or transaction. Our analysts also employ adjustments to portray what we view as a more appropriate depiction of recurring activity. For example, we may adjust financial measures to exclude gains or losses that we view as unsustainable or nonrecurring.

As part of our ongoing surveillance process, we consider the impact of changes in accounting standards and the impact of special events or items reported by an issuer (e.g., acquisitions, dispositions, write-offs, internal control matters, restatements, and regulatory actions). As the amount of disclosure in financial statements varies by company and by jurisdiction, we engage in differing levels of interaction with our issuers to obtain additional data beyond what is reported in the company's financials.

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Evaluating accounting characteristics in the rating process

Our analysis of an issuer's financial statements begins with a review of the accounting characteristics, to determine whether the ratios and statistics derived from the statements can be used appropriately to measure the rated issuer's performance and position relative to both its peer group and the larger universe of corporate issuers. (The rating process is, in part, one of comparisons, so it is important to have a common frame of reference.) In doing so, we take an analytic rather than forensic approach.

The recent adoption of, or moves to adopt, IFRS in many countries—including Australia, Canada, and across the EU—as well as the ongoing effort to converge U.S. GAAP and IFRS, continues to further enhance comparability among companies. However, this ought not be seen as a panacea. Within IFRS, U.S. GAAP, and the separate national accounting systems, companies may choose among alternative accounting methods—for example, historical or amortized cost, as opposed to fair-value methods—and the resulting differences can have a significant effect on comparability among peers. In addition, even in applying the same methods within the same accounting frameworks, companies show varying degrees of aggressiveness in the underlying estimates and judgments they employ. Moreover, the carrying value of assets and liabilities can be greatly influenced by the historical development of a company—for example, whether it has grown primarily through internal development or through acquisitions, or whether it previously underwent a leveraged buyout or bankruptcy reorganization.

A company's scope of consolidation is an example of a key accounting characteristic that we consider to determine the relevant economic entity for analytical purposes. We look at whether there are non-consolidated affiliates, including joint ventures, where the company does not exert a high degree of control but which we feel should be consolidated for analytical purposes (given our assessment of their strategic importance, including ownership positions, the size of the investments and whether a unique, interdependent customer/supplier relationship exists) even though they may be properly excluded from consolidation for accounting purposes. Consider The Coca-Cola Co. and PepsiCo Inc., where certain key unconsolidated bottling companies are viewed as part of an entire economic system: We accordingly consolidate these entities for analytical purposes. The converse may be true when we deconsolidate an entity that is properly consolidated for accounting purposes. There are many examples of industrial companies or diversified holding companies that consolidate financial or insurance subsidiaries; for analytical purposes, we use the equity method for such nonhomogenous business activities, to avoid the distortions that would pertain as reported.

With respect to a company's hedging and risk management policies and related accounting for derivative instruments, accounting results vary widely among companies, and commonly fail to adequately depict the underlying economics. Our framework for analyzing derivative use focuses on the business, financial, liquidity, controls/risk management, and financial statement risks. This analysis includes a determination of whether a company is using derivatives for trading and/or risk management purposes, and whether a company avails itself of special hedge-accounting treatment. As this area is both complex and fraught with inadequate disclosure by many issuers, our review often entails interaction with management to properly assess a company's derivative use and risk management practices.

The accounting characteristics we review and the emphasis placed on each depend on the nature of, and activity in, the industry in which the entity operates. For example, analyzing inventory and related consideration may be important for a manufacturing company, but less relevant for a hotel management company: Likewise, the analysis of oil or natural resources reserves or the use of percentage of completion accounting is relevant to only a handful of industries.

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Analytical adjustments to financial statements

Making analytical adjustments to amounts reported in the financial statements of the companies we rate traditionally has been an integral part of our rating process. We make analytical adjustments to better portray economic reality and to level the reporting differences among companies, e.g., to arrive at measures we believe enable more meaningful peer and period-over-period comparisons; better reflect underlying economics; better reflect creditors' risks, rights, and benefits; and facilitate more robust financial forecasts. It is rarely possible to completely recast a company's financial statements, but making these analytical adjustments improves the analytical relevance and consistency of the financial ratios that we use in our credit analysis.

(Although our adjustments revise certain amounts reported by issuers under applicable accepted accounting principles, that does not imply that we challenge the application of said principles by the issuer, the adequacy of its audit or financial reporting process, or the appropriateness of the accounting basis used to fairly depict the issuer's financial position and results for other purposes. Rather, our methodology reflects a fundamental difference between accounting and analysis. The accountant necessarily must find one number to use in presenting financial data. The analyst, by definition, picks apart the numbers. Good analysis looks at multiple perspectives, then uses adjustments as an analytical tool to depict a situation differently for a specific purpose or to gain another vantage point.)

Examples of common adjustments include:

- Trade receivables sold or securitized;
- Hybrid securities;
- Surplus cash and "near cash" investments;
- Capitalized interest;
- Share-based compensation expenses;
- Captive finance activity; and
- Asset retirement obligations.

(See "Ratios And Adjustments" chapter for a full list and discussion.)

Changes in accounting standards

As part of our surveillance process, we monitor the potential impact of recent and pending changes in accounting and disclosure standards, and other legislation affecting information included in financial reports. Accounting changes should not have any direct impact on credit quality unless they reveal new information about a company, which then needs to be factored into our understanding of the company. (For example, the ratings for a few U.S. companies were lowered following the implementation of new accounting for retiree medical liabilities in the early 1990s, because little information was previously available about these obligations.) However, accounting changes can produce indirect effects. These include triggering of financial covenant violations; regulatory or tax consequences; or adverse market reactions as a result of changes in market sentiment about the company's apparent leverage, profitability, or capitalization; and, accordingly, can even influence changes in business behavior.

Consider the example of U.S. accounting standard SFAS No. 158, which requires full recognition of pensions and other postretirement obligations (e.g., retiree healthcare) on the sponsoring employers' balance sheet. Because we have long reflected an issuer's full postretirement liability by virtue of our adjustments to leverage and capitalization ratios, the adoption of this pronouncement has no direct ratings implications. However, the potential ancillary effects could be equally important to our consideration: As a result of the new standard, many companies will report substantially lower shareholders' equity and will appear more leveraged—and could affect dividend policies. In addition, many employers are changing the structure and funding levels of their postretirement plans as a consequence of changes in legislation and accounting standards, resulting in potential changes to amounts and timing of related cash flows.

Another example of changes in accounting standards that caused pronounced behavioral shifts: SFAS No. 123R, requiring the expensing of stock-options and other share-based payments. In anticipation of that change, many companies chose to accelerate the vesting of employee stock options in the year prior to adoption. The effect of such acceleration

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was to move compensation expense that would have been recognized in 2006 and future years to a pre-adoption year. (Such recognition was not required; only pro forma footnote disclosure of the expense was required under pre-SFAS No. 123R rules.) In addition, many companies have reconsidered their use of share-based pay as a result of the expensing requirement, and have made changes to their employee compensation plans—resulting, for some, in real changes to cash flows.

Information risk, restatements, and disclosure of significant events

To the extent we believe information risk exists, it can influence our decision to maintain a rating, assign a rating in the first place, or the level of the rating assigned. In cases where the information risk is so significant that it precludes meaningful analysis we would decline to assign a rating, or, where a rating is already assigned, withdraw or suspend that rating.

However, we ordinarily rely on the issuer's audited financial statements and the inherent checks and balances in the financial reporting process. Our analytical process does not include an audit, nor does it include a process of "verification."

A rating can sometimes be assigned even in the absence of audited financial statements. This especially is the case when a new company is formed from a division of another company that did produce audited financial statements. In other cases, there may be unaudited data—such as oil-production data—that corroborates company results.

Further, much additional information that is provided to us by management is unaudited, including preliminary financial data, quarterly financial statements, projections, operating data, pro-forma financial statements, cash flow data, and various scenario analyses, to name a few. We incorporate such data at our discretion, making judgments about the reliability of each input.

There have been many situations—especially recently—where rated companies have delayed filing their financial reports for various reasons, sometimes for significant periods of time. Such reporting delays, too, require judgment regarding the implications, if any, for credit quality. We have no monolithic approach to such situations, rather, additional interaction with the company is required, as part of our surveillance process during the period in which formally issued and audited financial statements are lacking. Our interaction includes determining the cause for the delay and potential consequences, obtaining interim financial reports, discussing how the company is addressing ensuing regulatory or covenant matters, discussing liquidity prospects, and internal control matters, among others.

Filing delays happen for many reasons: In some cases, because of a restatement of prior-year financials; in others, from a review of an alleged financial-statement irregularity, or issues discovered with a company's internal controls process.

In any event, we are cognizant that lengthy reporting delays can result in adverse regulatory reactions and covenant compliance uncertainty. Delays, restatements, material weaknesses, and related investigations also can lead to other adverse results, such as auditor changes, personnel changes, lawsuits, management distraction, increased compliance costs, and challenges in accessing the capital market—the impact of which must be closely evaluated in our ratings process. The impact these events have on a rating depends on the unique facts and circumstances of each case.

With respect to violation of covenants, a liquidity crisis could result. Technical and actual defaults (including cross defaults) require waivers under debt agreements, and sometimes result in a company receiving a notice of default. Sometimes the question of whether or not a filing delay results in a default is not immediately clear when the delay is announced, or during the period of delay. In some cases, detailed information may not be available for some time, and we will react as we deem appropriate, based on our analysis of the best available information, through CreditWatch actions and intermediate rating changes, or—in extreme cases—withdrawal of the ratings.

In general, the impact of the instances involving financial-statement irregularities is hard to predict. The underlying reality can

range from an almost trivial problem to a complete audit and financial failure. Occasionally, a small problem can turn into a large one, as headline risk takes a toll on the company's access to financing. We critically weigh how pervasive these issues are, how they affect the enterprise's reputation and its ability to conduct future business, and broadly how proactively management and the board approach resolution to these matters.

Cash Flow Adequacy

Cash flow analysis focuses on understanding and forecasting how cash is generated and spent by a business. It incorporates identifying a company's cash flows, determining trends and sustainability, distinguishing operating from investing and financing flows, and understanding potential sources of distortion and future volatility.

All this must be considered in the context of a company's individual characteristics, such as, where it is in its life cycle. The ability to generate cash is determined by a firm's business prospects—competitiveness, market dynamics, economic environment, etc., while its need for cash is a consequence of the balance-sheet structure, management's financial strategy, and strategic needs.

An enterprise's capacity to pay debts or any other obligation, the core underlying concept of a credit rating, is determined by the ability to generate cash—not earnings, which is an accounting concept. Although there is generally a strong correlation between operating cash flow and profitability in the long run, many transactions and accounting entries may affect one and not the other during a specific period. Aggressive accounting policies, for example, regarding revenue and expense recognition, asset write-downs, or adjustments to depreciation schedules, can have a material impact on earnings and none whatsoever on actual cash generation.

Liquidity pressures can arise even when a company reports robust earnings—e.g., when gains not realizable in cash for a lengthy period comprise a significant component of earnings or where the enterprise faces large capital expenditure requirements. Accordingly, cash flow adequacy is typically the single most critical aspect of credit rating analysis.

Measuring cash flow

Discussions of cash flow often suffer from lack of a uniform definition of terms. Our analysts use numerous cash flow measures in the credit decision process, and the terms we use to define specific cash flow concepts are summarized here.

We begin to measure an issuer's operating cash flow generation using its funds from operations (FFO), which is defined as net income from continuing operations adjusted for depreciation, amortization, and other noncash and nonrecurring items such as deferred taxes, write-offs, gains and losses on asset sales, foreign exchange gains and losses on financial instruments, and undistributed equity earnings or losses from joint ventures.

The availability of cash for debt service for companies on a high growth spurt is ordinarily better appreciated after backing out the changes in working capital, and arriving at the operating cash flow (OCF). The use of the FFO metric for some regulated utilities, for instance, can be misleading as it does not capture the variation in regulatory assets or liabilities. In Brazil, for example, tariffs are revised only annually: the time gap between when the actual cash revenues or costs occur and the recognition in the income statement is substantial and might affect different fiscal years. Similarly for working capital-intensive industries such as retailing, OCF may be a better indicator of the firm's actual cash generation. Working capital, on the other hand, could be managed or manipulated by management depending on its liquidity or accounting needs. Accordingly, FFO has been frequently used as a comparative indicator of cash from operations. As OCF tends to be more volatile, FFO is often used to smooth period-over-period variation in working capital. It is used as a better proxy of recurring cash flow generation rather than the actual cash flow generated by the ability to manage working capital.

By deducting capital expenditures from OCF we arrive at free operating cash flow (FOCF), which can be used as a proxy of a company's cash generated from core operations. We sometimes exclude discretionary

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capital expenditures for capacity growth from the FOCF calculation, but in practice, it is often difficult to discriminate between expansion and replacement. And, while companies do have some flexibility to manage their capital budget to weather down cycles, such flexibility is generally temporary and unsustainable in light of intrinsic requirements of the business. For example, companies can be compelled to increase their investment programs because of strong demand growth or technological changes. Regulated entities (e.g., telecommunication companies) might also face significant investment requirements related to their concession contracts.

We calculate a company's discretionary cash flow by subtracting cash dividends (including to minority interests) from FOCF. The discretion in dividend pay-out will depend on a company's financial strategy. Companies with aggressive dividend pay-out targets might be reluctant to reduce the level of dividends even under some liquidity pressure. In addition, dividends of investment-grade companies are less likely to be reduced following some reversals—although they ultimately are discretionary.

Finally, cash used for acquisitions and/or received from asset disposals and other miscellaneous sources and uses of cash are subtracted or added to discretionary cash flow, and prefinancing cash flow is the end result. This metric represents the extent to which a company's cash flow from all nonfinancing sources has been sufficient to cover all internal needs, including the payment of dividends. We then reconcile prefinancing cash flow to various categories of external financing activity, such as borrowing or repayment, equity issuance, and to changes in the company's cash balances.

While EBITDA is a widely used indicator of cash flow, it has significant limitations. Because EBITDA derives only from income statement inputs, it can be distorted by the same accounting issues that limit the use of earnings as a basis of cash flow. Besides, EBITDA overlooks balance sheet items that might be tying or freeing up cash. It is better suited for more established companies, especially in relation to industry benchmarks.

Potential distortions affecting cash flows

Distortions to cash flow may arise from timeliness of income or expense recognition, classification of items, and other accounting issues. For example, the period in which companies choose to recognize income and expenses (such as the charge-off of uncollectible items, asset disposals, repairs and maintenance, etc.) depends on applicable GAAP, which may be subject to estimates and management's discretion.

Because cash flow is an indicator of a company's health and prospects, there is a bias to enhance apparent cash generation by treating cash inflows as operating in nature, and cash outflows as investing or financing in nature. But loose classification of flows into operating, investing, or financing can distort their true nature. Classification of investments as trading, available-for-sale, or held-to-maturity dictates if related cash-flows are treated as operating or investing. Operating margin hedging program results are treated as financing—while they reflect operational strategies.

Another source of distortion is translation of foreign-currency. Swings in working capital may only reflect the volatility of the foreign currency, and not the actual cash in the original currency. We would prefer to analyze working capital in the original currency—and reflect translation effects in a separate cash-flow entry.

Cash flow ratios

Analysts are encouraged to look at more than a single measure, to develop several perspectives. A company's individual characteristics and its business cycle will be better captured in certain ratios than in others.

Where long-term viability of a company is more certain (i.e., for more highly rated credits), there can be greater analytical reliance on FFO and its relation to total debt burden. In addition, more established, healthier companies usually have a wider array of financing possibilities to cover potential short-term liquidity needs and to refinance upcoming maturities. For more marginal situations, the focus shifts to free cash flow—after the various uses have been subtracted—and this is more directly related to current debt service. Some of the cash-flow metrics most used by our analysts include:

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Debt payback ratios

- Funds from operations (FFO)/total debt: the most frequently used credit measure in industrial ratings;
- Operating cash flow (OCF)/total debt: captures working capital requirements;
- Debt/EBITDA: used as a proxy of debt repayment capacity for high-yield issuers; it can overstate repayment capacity by excluding interest burden—usually high for speculative ratings;
- Total debt/discretionary cash flow: provides an indication of how many years would be required to repay outstanding debt using current cash flows, but is subject to changes in dividend policy;
- Free operating cash flow (FOCF)/total debt: indicates a company's capacity to pay debt with internal operating cash flow; it is more critical when analyzing weaker companies, because speculative-grade issuers typically face near-term vulnerabilities that are better measured by free cash flow ratios.

Debt service ratios

- EBITDA/interest expenses: useful because of its simplicity, wide usage, and industry reference (peer comparisons, financial covenants, etc.);
- FOCF + interest expenses/interest expenses: similar to the EBITDA/interest ratio, but more comprehensive (after taxes, working capital and capital expenditure) and with lower potential for distortions;
- FOCF + interest expenses/interest expenses + 12-month debt maturities: measures the ability to pay interest and principal out of free cash flow; more appropriate for projects and entities with amortizing debts.

Financial flexibility ratios

- FFO/capital expenditures: indicates a company's internal flexibility to meet its capital budget;
- Capital expenditure/depreciation expense: a low ratio (typically, less than 100%) could indicate problems in the rate of replacement of plant and equipment—a strong ratio may indicate high-growth industries, and is needed to keep up with the competition.

Interpretation of ratios is not straightforward, and careful analysis always is required, because a similar ratio might lead to different conclusions, depending on company specifics. A company serving a low-growth or declining market may exhibit relatively strong free cash flow because of diminishing fixed and working capital needs. Growth companies, in contrast, exhibit thin or even negative free cash flow because of the investment needed to support growth. For the low-growth company, credit analysis weighs the positive, strong current cash flow against the danger that this high level of protection might not be sustainable. For the high-growth company, the opposite is true: Weighing the negatives of a current cash deficit against prospects of enhanced protection once current investments begin yielding cash benefits.

There is no simple correlation between creditworthiness and current levels of cash flow. Even for peer companies with very similar cash flow coverage ratios, the rating outcome can be very different, depending on their other business and financial characteristics.

Balance Sheet And Asset Protection

The main ratio we use for leverage analysis is total debt/total debt + equity.

What is considered "debt" and "equity" for the purpose of ratio calculation is not always so simple, and requires extensive analytical input. Our computation of total debt includes various off-balance sheet liabilities and analytical adjustments, as noted in the section on cash flow analysis. Similarly, the amount of equity is adjusted for hybrid securities in all their variations. *(See Hybrid instruments section of "Ratios And Adjustments" chapter for our adjustments and how we calculate them.)*

We sometimes calculate supplemental ratios that incorporate the market value equity. These can have especial relevance in comparing companies with significant intangible assets. Traditional measures focusing on long-term debt have lost much of their significance, because companies rely increasingly on short-term borrowings. It is now

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commonplace to find permanent layers of short-term debt, which finance not only seasonal working capital but also an ongoing portion of the asset base.

Generally, we do not net out cash from the debt amount; however, we adopt a "net debt" approach in some situations, especially in countries (such as Japan and in Europe) where local practice is to maintain a large portfolio of cash and marketable securities. (In these situations, we also focus on cash flow to net debt.) Each situation is analyzed on a case-by-case basis, subject to additional information regarding a company's liquidity position, normal working cash needs, nature of short-term borrowings, and funding philosophy. Funds earmarked for future use, such as an acquisition or a capital project, are not netted out. This approach also is used in the case of cash-rich U.S. pharmaceutical companies that enjoy tax arbitrage opportunities with respect to these cash holdings.

In the case of hybrid securities, too, the analysis is based on their specific features—not the accounting or the nomenclature. For debt that is convertible at the discretion of the investor, depending on the future value of the common shares, it would be somewhat presumptuous for us to predict whether and when conversion will occur, so we ordinarily give little, if any, weight to the conversion potential.

Original-issue discount debt, such as zero coupon debt, is included at the accreted value. However, since there is no sinking fund provision, the debt increases with time, creating a moving target. (The need, eventually, to refinance this growing amount represents another risk.)

Nonrecourse debt is often included in the calculation; moreover, even nonrecourse debt of a joint venture may be attributed to the parent companies, especially if they have a strategic tie to the operation. The analysis may burden one parent with a disproportionate amount of the debt if that parent has the greater strategic interest or operating control or its ability to service the joint-venture debt is greater. Other considerations that affect a company's willingness to walk away from such debt—and other nonrecourse debt—include shared banking relationships and common country location. In some instances, the debt may be so large in relation to the owner's investment that the incentives to support the debt are minimized. In virtually all cases, however, the company likely would invest additional amounts before deciding to abandon the venture. Accordingly, adjustments would be made to reflect the owner's current and projected investment, even if the debt were not added to the (parent) company's balance sheet.

More fundamentally, the nature and valuation of a company's asset mix is critical to determining the appropriate leverage for a given level of risk. Assets with stable cash flow or market values justify greater use of debt financing than those with clouded marketability. For example, grain or tobacco inventory are viewed positively, compared with apparel or electronics inventory; transportation equipment is viewed more favorably than other equipment, given its suitability for use by other companies.

Accordingly, we believe it is critical to analyze each type of business and asset class in its own right. While FASB and IAS now require consolidation of nonhomogenous business units, we analyze each separately. This is the basis for our methodology for analyzing captive finance companies.

Asset valuation

Knowing appropriate values to assign a company's assets is key to our analysis. Leverage as reported in the financial statements is meaningless if the assets' book values are materially undervalued or overvalued relative to economic value.

We consider the profitability of an asset as an appropriate basis for determining its economic value. Market values of a company's assets or independent asset appraisals can offer additional insights. However, there are shortcomings in these methods of valuation—just as there are with historical cost accounting—that prevent reliance on any single measure. (Similarly, using the market value of a company's equity in calculations of leverage has its drawbacks. The stock market emphasizes growth prospects and has a short time horizon; it is influenced by changes in alternative investment opportunities and can be very volatile. A company's

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ability to service its debt is not affected directly by such factors.)

The analytical challenge of which values to use is especially evident in the case of merged and acquired companies. Accounting standards allow the acquired company's assets and equity to be written up to reflect the acquisition price, but the revalued assets have the same earning power as before; they cannot support more debt just because a different number is used to record their value. Right after the transaction, the analysis can take these factors into account, but down the road the picture becomes muddied. We attempt to normalize for purchase accounting, but the ability to relate to pre-acquisition financial statements and to make comparisons with peer companies is limited.

Presence of a material goodwill account indicates the impact of acquisitions and purchase accounting on a company's equity base. Intangible assets are no less "valuable" than tangible ones, but comparisons are still distorted, because other companies cannot record their own valuable business intangibles, i.e., those that have been developed, rather than acquired. This alone requires some analytical adjustment when measuring leverage. In addition, analysts are entitled to be more skeptical about earning prospects of an acquisitive company when these rely on turnaround strategies or "synergistic" mergers.

Preferred stock

Preferred stocks can qualify for treatment as equity or be viewed as debt—or something between debt and equity—depending on their features and the circumstances. Preferred stocks with a maturity receive diminishing equity credit as they progress toward maturity.

Preferred stock that may eventually be refinanced with debt is viewed as a debt equivalent, not equity, all along. While "perpetual" on the surface, these securities often are merely a temporary debt alternative for companies that are not current taxpayers, until they once again can benefit from tax deductibility of interest expense. Redeemable preferred stock issues may be expected to be refinanced with debt once an issuer becomes a taxpayer. Preferreds that can be exchanged for debt at the company's option also may be viewed as debt in anticipation of the exchange. However, the analysis also would take into account offsetting positives associated with the change in tax status. Often the trigger prompting an exchange or redemption would be improved profitability. Then, the added debt in the capital structure would not necessarily imply lower credit quality. The implications are different for many issuers that do not pay taxes for various other reasons, including availability of tax-loss carry-forwards or foreign tax credits. For them, a change in taxpaying status is not associated with better profitability, while the incentive to turn the preferred into debt is identical.

Auction preferreds are even more problematic, given that the holders of these preferreds would pressure for redemption in the event of a failed auction or even a rating downgrade.

Liquidity

Gradual erosion in a company's fundamentals can ultimately lead to liquidity problems. Yet, even a company with a solid business position and moderate debt use, can, when faced with sudden adversity, experience an actual or potential liquidity crisis, or an inability to access public debt markets. Possible causes of such adversity include:

- A dramatic setback in the business caused by, for example, a crisis in consumer confidence, such as the precipitous market downturn following the terrorist attacks of Sept. 11, 2001. In particular, this event had a significant negative impact on the airline and travel-related industries.
- A large, adverse litigation judgment.
- Real or alleged management impropriety, including accounting abuses such as those at Enron Corp. in 2001, and Tyco International Ltd. in 2002.
- Large derivatives or trading losses.
- Sovereign intervention, for example, in the form of foreign currency controls, controls on bank deposits, or pricing controls, such as those in Argentina in 2002.

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We consider the challenges a company confronted by a shock or triggering event would face concerning its existing debt maturities, its ability to make internal adjustments to maximize near-term cash generation, and its access to external sources of liquidity and capital. Analyzing a company's ability to cope with such extraordinary challenges is a matter of assessing its liquidity or its options under stress.

Our analytical focus here is on the downside: whether the company can meet its obligations on a rainy day, rather than just under the expected circumstances. Speculative-grade issuers are more susceptible to liquidity crises, which, in their situations, can stem from upcoming interest and principal payments, financial covenants, and availability on revolving credit facilities.

In the context of a liquidity crisis, a company's business position cannot be considered a constant: The nervousness of customers and/or suppliers might impair the company's competitive standing, contributing to a downward spiral in its fortunes. Industrial companies with finance operations may be particularly vulnerable, given the funding required for such operations. Companies with trading operations are doubly vulnerable, given the risk-averse inclination of trading counterparties, coupled with heavy funding needs.

Often, the effect of such adversities is compounded by the triggering of contingent provisions included in credit lines, bond indentures, counterparty agreements, or operating agreements. Triggers can change minor adversity into a major crisis for the company (and, as such, we do not view ratings or other triggers favorably). These provisions take many different forms, with the trigger based on rating downgrades, the violation of financial benchmarks or ratio levels, "material adverse changes" (as interpreted by the creditor), share price declines, or ownership changes. They may set off default, acceleration, put, or collateralization requirements.

In any event, the starting point of liquidity analysis is the maturity schedule for debt and other long-term obligations. Near-term maturities include commercial paper; sinking fund payments and final maturity payments of long-term debt; borrowings under bank credit facilities with approaching expiration dates; and mandatory redemptions of preferred stock. Other significant financial obligations may also need to be considered, for example, lease obligations, contingent obligations such as letters of credit, required pension fund contributions, postretirement employment payments, and tax payments. Even when analyzing highly creditworthy companies, it is necessary to be aware of the overall maturity structure and potential for refinancing risk.

Cash is king

The best sources of liquidity are surplus cash and near-cash on the balance sheet. This includes cash in the bank, cash equivalents, and short-and long-term marketable securities. (Indeed, we also look to some companies to maintain high cash balances against potential liquidity crises; these include bonding requirements in the case of U.S. cigarette companies, and cyclical reversals in the case of capital intensive manufacturers, such a the automobile companies.)

Of course, not all cash is surplus. Virtually every company has some base amount of cash necessary for day-to-day operations—which may be quite large, if the company is subject to wide swings in working capital. Companies with seasonal borrowing needs may build up large cash balances for use during the seasonal peak.

Additionally, restricted cash (disclosed separately) is unavailable for everyday funding and should not be factored into a liquidity analysis, because these funds have been set aside to satisfy a specific obligation. A subsidiary's loan agreements can also restrict dividends and upstream advances. This poses a problem for a holding company that would rely on such dividends or upstream loans to access cash at the subsidiary level.

Bank overdrafts should also be deducted from available cash balances. Offshore cash may be subject to a repatriation tax, in which case it should be discounted accordingly. For companies in emerging markets, it is important to consider whether the company's liquid asset position is held in local government bonds, local banks, or local equities, and whether the issuer will have access to these assets at times of stress on the sovereign.

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To fully benefit from cash and near-cash holdings from a liquidity perspective, these assets must be readily accessible and available to support the company's immediate needs. Sometimes the company may not have free access to all the cash shown on the consolidated balance sheet. For example, offshore cash may not be available for a few business days—especially if it has to be converted from a foreign currency.

Other internal sources of liquidity

Any company faced with severe liquidity pressures can be expected to make internal adjustments to maximize near-term cash flow. Considering a company's flexibility to do so is an extension of normal cash flow analysis. There are several possible options for doing this.

Cash can be extracted from working capital by monetizing receivables through factoring or securitization, liquidating unneeded inventories, or stretching out payments to suppliers. However, if, for example, no factoring or securitization facilities are already in place, these may take several months to establish. If aggressive discounting is necessary to sell inventory quickly, such liquidations could have severe implications for the company's future pricing power and brand image. In stretching payment terms to suppliers, the company runs a risk of spreading alarm about its situation and, ultimately, making suppliers unwilling to ship goods.

Companies generally have some flexibility to reduce capital expenditures from planned levels, at least temporarily. As such, we look at maintenance, rather than discretionary capital spending plans. Maintenance capital spending may include plant refurbishing, and ordinary repair work and is necessary for the company to sustain normal operations. Pollution control projects needed to meet regulatory requirements have little deferral potential. Presumably, expenditures related to growth initiatives could be put on hold, and are discretionary in nature. In any case, it may take some time to reduce expenditures to the maintenance level if the company had already entered into contractual commitments related to its planned investments.

The business implications of reducing capital spending must also be considered. Continued deferral of spending may make the company less competitive and more prone to operational problems. Additionally, beyond a certain point, management might rationally conclude that seeking protection from creditors through a bankruptcy filing would be preferable to permanently impairing the business by neglecting capital spending.

Curtailing operations with negative cash flow and divestitures

Discrete business units or product lines that are performing poorly or in a start-up mode could be suspended. Shutdown costs must be netted against the ongoing cash savings. Again, the implications of such actions for the business must also be weighed.

A company may choose to sell entire operations or lines of business to raise cash. These could include underperformers as well as strong businesses. Additionally, we consider the company's ability to realize value in light of market conditions for such assets, including the availability of interested buyers, as well as the likely time period for effecting transactions. Assets sold in a fire sale often do not recapture their full value. Dumping large blocks of stock may depress their value.

Asset sales may have mixed implications for the remaining business mix. For example, the sale of a profitable, cash-generating operation that had been the company's best business could have a negative impact on the company's business risk profile. Alternatively, a money-losing unit with heavy capital requirements could improve the business risk profile while bringing in some much needed cash.

Dividend deferrals offer a quick source of cash savings. But, dividend cuts often are visible signals of distress, and the negative perception in the capital markets that may result must also be considered: At the very least, such actions may hinder further equity issuance. Additionally, extended deferral of preferred dividends may create a growing liability on the balance sheet.

External sources of liquidity

A company's ability to tap external sources of funding may be jeopardized when it is overly

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reliant on one source of financing. In general, a company's experience with different financial instruments and capital markets gives management alternatives if conditions in a particular market suddenly sour.

Company size and recognition can play a role in whether it can raise funds in the public debt markets. Similarly, a company's role in the national economy—particularly outside the U.S.—can enhance its access to bank and public funds. Large issuers in a relatively small country often are favorably positioned to attract financing from that country's banking system. External sources of liquidity, including commercial paper, bonds, bank credit facilities, and equity issuance are discussed below.

Of all the sources of debt funding, commercial paper is the least reliable. Use of commercial paper to fund short-term assets (typically, inventory and receivables) or as a small component of a company's long-term funding is fairly common. However, when faced with severe adverse circumstances, companies often will not be able to roll over outstanding commercial paper as it matures—let alone raise additional sums.

Typically, only companies viewed as having a strong credit standing can access the market. The market for commercial paper rated 'A-2' or lower is much smaller than the market for that rated 'A-1' or 'A-1+', in part because of SEC regulation 2(a)7, which severely restricts holdings of lower-rated commercial paper by U.S. money market funds. The U.S. market for commercial paper rated 'A-2' or lower in 2007 was estimated to total about $72 billion, compared with the approximately $1.7 trillion of 'A-1' and 'A-1+' paper outstanding. Moreover, the 'A-2' market is subject to significant pressure during credit crunches.

When market fears build regarding a particular issuer, the term of commercial paper the issuer can place typically shrinks to a few days, thereby heightening refinancing risk. Market confidence can be lost very quickly. This was evident following Altria Inc.'s loss of access to the commercial paper markets following an unfavorable verdict and $12 billion bonding requirement in the Price class action lawsuit. And, in addition to legitimate concerns about a declining credit, the market can be spooked by unwarranted fears. For example, Columbia Gas Systems Inc. unexpectedly filed for bankruptcy protection in 1991 because of onerous natural gas take-or-pay obligations. Suddenly, other natural gas pipeline companies, many of which had minimal take-or-pay exposure, found it difficult to sell commercial paper.

Backup liquidity

Given the commercial paper market's acute sensitivity to credit quality, and the speed with which confidence can be lost, we consider it prudent for companies that issue commercial paper to make arrangements in advance for backup sources of liquidity. Backup liquidity protects a company from defaulting if it is unable to roll over maturing paper with new notes because of shrinkage in the overall commercial paper market, or an issuer's inability to access the commercial paper market because of company-specific issues.

Backup for commercial paper generally is provided by committed credit facilities, yet sometimes may take the form of excess cash that is specifically committed for this purpose. *(For a discussion of our commercial paper backup policies, see "Commercial Paper.")*

Bonds

The public bond market is far less risk-averse than the commercial paper market. Most investment-grade companies in the U.S. can gain access to the public debt market for a new bond issue at a reasonable rate. In other, less-developed countries, the public bond market may at times become inaccessible for even the most creditworthy companies (e.g., South Korea in early 2001). Placing debt is easiest for a company that has regularly tapped the market and that can issue debt in large amounts—thereby providing investors with a more liquid secondary market.

Although the market for speculative-grade debt is very large, this market is much more volatile. Speculative-grade companies, especially those on a deteriorating trend, may well have only intermittent access to this market, depending on market sentiments and liquidity. There have been times when even

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'CCC'-rated debt found ready buyers, but there have also been periods when the entire junk bond market was effectively shut down.

Whatever the general market conditions, even investment-grade companies may have difficulty issuing public debt if one of the types of shocks discussed above has occurred. In theory, a company should be able to issue debt at some price, but in practice, debt issuance may well not be feasible if there is considerable uncertainty in the market about a company's situation and underwriters are, therefore, understandably nervous about undertaking a transaction on behalf of the company.

The price of outstanding bonds may be a good gauge of market sentiments—although technical factors can also influence pricing. Obviously, if existing bond spreads have widened significantly relative to the market and are responding wildly to the day-to-day developments at a company, prospects for an additional public debt issuance are poor. (We monitor bond spreads as part of our ongoing surveillance.) The bond market has also been inaccessible during periods of overall market uncertainty following economic weakness, political changes, and terrorism actions or threats.

Bank credit facilities

Bank credit generally is a company's most reliable source for debt capital. When a company loses access to the commercial paper and public debt markets, banks are often the lenders of last resort. It is typical for banks to provide a portion of a healthy firm's company's regular financing. Speculative-grade companies have also accessed these markets more frequently in lieu of traditional public subordinated debt offerings. In some countries (including almost all less-developed markets), banks are the major source of capital for both short-and long-term needs.

Banks offer various types of credit facilities that differ widely in the commitment to advance cash under all circumstances. Weaker forms of commitment, although less costly to issuers, give banks great flexibility to redirect credit at their discretion. For example, uncommitted lines are little more than an invitation to do business at some future date, and are given little to no credit in our liquidity analysis.

The strongest facilities are those that are in place and confirmed in writing, or committed facilities. In the U.S., fully documented revolving credits represent such contractual commitments. In the absence of a contractual commitment, payment for the facility—whether by fee or balances—is important because it generally creates some moral commitment on the bank. Generally, a solid business relationship is key to determining whether a bank will stand by its client.

Dependence on just one or a few banks heightens risks. Apart from the possibility that the bank will not have adequate capacity to lend, it also may not be willing to lend to the issuer. Having several banking relationships diversifies the risk that a single bank will lose confidence in the borrower and hesitate to provide funds.

Although less common anymore, in some cases, companies establish separate credit agreements with each of their banks, which can make it unwieldy to quickly renegotiate terms of the agreements in a crisis. A group of lenders having pre-established lending commitments under a common credit agreement is generally more practical, effective, and predictable. Even here, though, some features of the agreement could greatly hinder the renegotiation process—for example, a requirement that the agreement can be modified only by unanimous consent.

Concentration of banking facilities also tends to increase the amount of an individual bank's participation. As the amount of the exposure increases, the bank may be more reluctant to meet its commitment. In addition, the potential requirement of high-level authorizations at the bank for the release of funds could create logistical problems for the issuer in quickly accessing funds. On the other hand, a company will not benefit if it spreads its banking business so thinly that it lacks a substantial relationship with any of its banks. We expect banks themselves to be financially sound, and do not favorably view marginally investment-grade banks.

As with any source of debt funding, the analyst must consider the term structure of bank

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credit facilities. Reliance on short-term facilities poses obvious risks. Even multiyear facilities will provide commitments for only a short time as the end of their terms approaches. We closely monitor a company's efforts to arrange for the continuation of its banking facilities well before they lapse. In normal situations, bank facility expirations may be viewed as "soft" maturities because the facilities are routinely renewed. But, if the company is under stress and the banks have lost confidence in the company's prospects, the banks might use the expiration to demand repayment.

Financial covenants and triggers

In assessing a company's access to bank capital and other sources of debt financing, the analyst must consider triggers that can block access to additional funding, accelerate the repayment of existing debt, or create a cross default with other debt obligations. The most common such triggers are financial covenants in the form of ratio benchmarks. In certain cases, investors may take comfort from knowing that covenants (e.g., leverage tests) impose discipline on an otherwise financially aggressive management by prohibiting debt-financed acquisitions and special distributions to shareholders. In severe adversity, however, tight covenants could imperil credit quality by provoking a crisis with lenders if the covenants are violated: the lenders would have the discretion to accelerate the debt, causing a default that might otherwise have been avoided. Triggers may also be in the form of credit rating changes themselves, for example, a change in rating from investment grade to non-investment grade.

In considering just how the issuer's risk profile is affected by such provisions, the key considerations are: How close the company is to the trigger thresholds; how severe and immediate the consequences are; the amounts involved; and how material the amounts are in the context of the specific company. Borrowing agreements, even of creditworthy companies, are sometimes structured with tight covenants. The initial expectation is that lenders will routinely renegotiate the terms as the issuer's circumstances change. Even here, though, the existence of covenants can be problematic if, for example, the lenders' strategies change and they wish to reduce their exposure to the borrower, or if a company is unable to meet its financial forecasts that were used as a basis of setting these covenants.

Violation of covenants in public debt issues always is serious, given the cumbersome procedure the company must follow to obtain waivers or to modify the covenants. In all cases, it is important to monitor the performance of a company against its most restrictive financial covenants. (We obtain bank loan covenant compliance reports directly from issuers, given the nonpublic information needed to compute the covenant values.)

Material adverse change (MAC) clauses represent another form of trigger. Remedies include the full range of possibilities that also apply to financial covenants. The vague definition of such clauses leaves much discretion to lenders. Still, cases of MAC clauses actually being invoked against corporate borrowers are extremely rare. The bank's reputation would suffer if it was not judicious in invoking the clause—and it would be subject to litigation. There undoubtedly have been instances, though, when companies have been dissuaded from tapping their credit facilities by the threat of a MAC clause being invoked.

Springing liens also can be problematic regarding financing flexibility. Sometimes, lenders may require the company to post collateral after a downgrade—which is provided for in the loan documentation. When assessing the impact of a springing lien, we consider how close the company is to the trigger; for example, if the company is rated 'BBB-' with a negative outlook, it is pretty close to a lien that goes into effect upon dropping to speculative grade. (With respect to recovery analysis, we always assume that a springing lien has been activated. The context for recovery analysis is a default scenario—and we assume that the trigger would have been breached in advance of default.)

Equity issuance

In theory, equity issuance is another source of capital; in practice, this source cannot be relied on in a crisis scenario. The public equity markets are extremely fickle. Selling new common stock generally is feasible

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only if the company is seen as having at least decent prospects and the overall stock market is favorable. Moreover, accessing the common stock market may primarily depend on management's willingness to accept dilution. We therefore do not give companies credit for potential equity issuances until such transaction has been completed.

Selling preferred stock may be more acceptable to management because this avoids dilution of the common shareholders' earnings, but this usually is viable only if the company's continuing ability to meet its preferred dividend requirements is apparent.

Companies owned by other corporate or government entities can seek fresh capital from these owners. Often a strong parent or equity sponsor is available to provide much needed capital during a liquidity crisis.

The management factor

Finally, management's skill in coping with a liquidity crisis can make the difference between corporate life and death. Prudent financial managers will:

- Avoid excessive short-term debt;
- Spread debt maturities over time;
- Maintain cordial relations and credibility with banks, during bad times and good;
- Negotiate bank loan covenants with ample cushion while the company is financially strong;
- Anticipate potential covenant defaults before they occur and renegotiate covenants on a timely basis with the bank group;
- Maintain bank lines in excess of anticipated needs, and begin negotiating renewals well before expiration; and
- Fully draw credit lines at the onset of major difficulties. ■

Ratios And Adjustments

Key Ratios And Glossary Of Terms

Table 4 Key Ratios

Ratio	Formula
Operating income before depreciation	Operating income before depreciation and amortization/revenues and amortization to revenues
EBIT interest coverage	EBIT/interest
EBITDA interest coverage	EBITDA/interest
FFO interest coverage	FFO, plus interest paid, minus operating lease adjustment to depreciation/interest*
Return on capital	EBIT/average beginning of year and end of year capital
FFO to debt	FFO/debt
FOCF to debt	FOCF/debt
Discretionary cash flow to debt	Discretionary cash flow/debt
Net cash flow to capital expenditures (capex)	Net cash flow/capex
Debt to EBITDA	Debt/EBITDA
Debt to debt plus equity	Debt/debt plus equity

*The numerator reflects FFO before interest paid; the denominator reflects interest expense.

Table 5 Glossary Of Terms

Term	Definition
Capital	Debt, plus noncurrent deferred taxes, plus equity.
Capital expenditures (capex)	Funds expended to acquire or develop tangible and certain intangible assets. It includes the cost of acquisition of assets through leases and similar arrangements, and excludes capitalized costs that we expense as an analytical adjustment.
Cash flow from operations	This measure reflects cash flows from operating activities, not investment and financing activities. It includes interest received and paid, dividends received, and taxes paid in the period. Additionally, for some items such as postretirement benefits and asset retirement obligations, we include the (net) cost for the period rather than actual cash outflows, in order to separate what we view as financing of these obligations from the operating cost component.

Table 5 **Glossary Of Terms** (continued)

Term	Definition
Debt	Total short- and long-term borrowings of the company (including maturities), adjusted by adding a variety of on- and off-balance sheet financing arrangements pursuant to our adjustment methodology, and subtracting surplus cash, where applicable. Borrowings are measured at amortized cost (including remeasurement upon change in ownership of the issuer). Foreign-currency unhedged borrowings are measured at each period-end spot rate.
Discretionary cash flow	Cash flow from operations minus capex, minus dividends paid.
Dividends	Dividends paid to common and preferred shareholders and to minority interest shareholders of consolidated subsidiaries.
EBIT	A traditional view of profit that factors in capital intensity. However, it also includes interest income, the company's share of equity earnings of associates and joint ventures, and other recurring, non-operating items.
EBITDA	Operating profits before interest income, interest expense, income taxes, depreciation, amortization, and asset impairment. Excludes undistributed equity earnings of affiliates. While at times EBITDA is considered a proxy for cash earnings, changes in accounting make this increasingly an accrual-based earnings measure. The difference between EBITDA and operating income before depreciation and amortization is in the adjustments we make for operating leases, exploration expense, and stock-based compensation. Exploration expense is added back to EBITDA, rather than being treated as an operating cost. The operating lease adjustment to EBITDA increases for the implicit interest component of rent expense, but not for the depreciation component. Finally, the charge to earnings for share-based compensation is reversed in calculating EBITDA.
Equity	Common equity and equity hybrids, and minority interest.
Equity hybrids	The portion of hybrid instruments attributed to equity pursuant to our methodology for classifying such securities.
FOCF	Cash flow from operations minus capex.
FFO	Operating profits from continuing operations, after tax, plus depreciation and amortization, plus deferred income tax, plus other major recurring noncash items.
Interest	The gross amount of interest incurred (including amounts capitalized), adjusted for charges related to items that we add to debt; no subtraction of interest income, except where derived from assets structurally linked to a borrowing.
Net cash flow	FFO minus dividends.
Operating income before depreciation & amortization	A measure of operating profitability that excludes depreciation and amortization, to partly neutralize capital intensity as a factor when comparing the profitability of companies.
Revenues	Total sales and other revenues we consider to be operating.

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Incorporating Adjustments Into The Analytical Process

Our analysis of financial statements begins with a review of accounting characteristics to determine whether ratios and statistics derived from the statements adequately measure a company's performance and position relative to both its direct peer group and the larger universe of industrial companies. To the extent possible, our analytical adjustments are made to better reflect reality and to minimize differences among companies.

Our approach to adjustments is meant to modify measures used in the analysis, rather than fully recast the entire set of financial statements. Further, it often may be preferable or more practical to adjust separate parts of the financial statements in different ways. For example, while stock-options expense represents a cost of doing business that must be considered as part of our profitability analysis, fully recasting the cash implications associated with their grant on operating cash flows is neither practical nor feasible, given repurchases and complexities associated with tax laws driving the deduction timing. Similarly, the analyst may prefer to derive profitability measures from LIFO-based inventory accounting—while retaining FIFO-based measures when looking at the valuation of balance sheet assets.

Certain adjustments are routine, as they apply to many of our issuers for all periods (e.g., operating lease, securitizations, and pension-related adjustments). Other adjustments are made on a specific industry basis (e.g., adjustments made to reflect asset retirement obligations of regulated utilities and volumetric production payments of oil and gas producing companies).

Beyond that, we encourage use of nonstandard adjustments that promote the objectives outlined above. Individual situations require creative application of analytical techniques—including adjustments—to capture the specific fact pattern and its nuances. For example, retail dealer stock sometimes has the characteristics of manufacturer inventory—notwithstanding its legal sale to the dealer. Subtle differences or changes in the fact pattern (such as financing terms, level of inventory relative to sales, and seasonal variations) would influence the analytical perspective.

We recognize that the use of nonstandard adjustments involves an inherent risk of inconsistency. Also, some of our constituencies want to be able to easily replicate and even anticipate our analysis—and nonstandard adjustments may frustrate that ability. However, for us, the paramount consideration is producing the best possible quality analysis. Sometimes, one must accept the tradeoffs that may be involved in its pursuit.

In many instances, sensitivity analyses and range estimates are more informative than choosing a single number. Accordingly, our analysis at times is expressed in terms of numerical ranges, multiple scenarios, or tolerance levels. Such an approach is critical when evaluating highly discretionary or potentially varied outcomes, where using exact measurement is often impossible, impractical, or even imprudent (e.g., adjusting for a major litigation where there is an equal probability of an adverse or a favorable outcome).

Similarly, in some cases, the analyst must evaluate financial information on an adjusted and an unadjusted basis. For example, most hybrid equity securities fall in a grey area that is hard to appreciate merely by making numerical adjustments. So, while we do employ a standard adjustment that splits the amounts in two, we also prefer that our analysts look at measures that treat these instruments entirely as debt—and entirely as equity.

In any event, adjustments do not always neatly allow one to gain full appreciation of financial risks and rewards. For example, a company that elects to use operating leases for its core assets must be compared with peers that purchase the same assets (e.g., retail stores), and our lease adjustment helps in this respect. But we also recognize the flexibility associated with the leases in the event of potential downsizing, and would not treat the company identically with peers that exhibit identical numbers. Likewise, in a receivable securitization, while the sale of the receivables to the securitization vehicle generally shifts some of the risks, often the predominant share remains with the issuer. Beyond adjusting to incorporate the assets and related debt of the securitization vehicles, analysts must appreciate the funding

flexibility and efficiencies related to these vehicles and the limited risk transference that may pertain.

Apart from their importance to the quantitative aspects of the financial analysis, qualitative conclusions regarding the company's financial data can also influence other aspects of the analysis—including the assessment of management, financial policy and internal controls.

Communicating our adjustments and related criteria

We traditionally have incorporated analytical adjustments to the ratings process. Our published key ratio statistics are also adjusted to reflect many of the adjustments made.

Since 2003, we have published accounting sections that outline our view of the issuer's accounting characteristics, including the underlying considerations and key adjustments made in our published industrial companies' issuer reports. The purpose is to capture in one place the major accounting issues that affect an issuer's financials, their related analytical significance, and the adjustments made; it is not intended to be a summary of every accounting policy.

We provide a reconciliation table in our credit analysis reports on corporate issuers *(See "New Reconciliation Table Shows Standard & Poor's Adjustments To Company Reported Amounts," published Oct. 3, 2006, on Ratings Direct).* It is a bridge between a company's reported amounts and various Standard & Poor's adjusted measures. The reconciliation table begins with company reported amounts for a range of balance sheet, earnings, and cash flow measures, then lists adjustments to each measure by topic and our total adjusted measure. Not all adjustments are included as of yet in these reconciliation tables. We are modifying our software to incorporate additional adjustments—but some adjustments may not be included, as they do not lend themselves to precision or standardization (e.g., litigation or other contingencies).

Occasionally, adjustments are based in whole or in part on nonpublic information provided to us during the rating process. Our rating analysis, evaluation, and commentary incorporate consideration of this information, but our published data refer exclusively to publicly available information.

Our criteria governing financial-statement adjustments are subject to ongoing review and occasional revisions necessary to address changes in accounting rules and in response to emerging financial products and structures—consistent with our broad objective of maintaining a dynamic criteria framework capable of addressing evolving market conditions in a timely and comprehensive manner.

When considering significant criteria changes (including ratio adjustments), we solicit public input and comments. In addition, we encourage ongoing dialogue with market participants regarding all criteria matters. We regard this dialogue as an important facet of maintaining a robust criteria framework, responsive to the needs of those who use our ratings and other market participants.

Encyclopedia Of Analytical Adjustments

The following sections outline the specific adjustments we use in analyzing industrial companies. At the end, we include our key ratios and their definitions. The list of adjustments, in alphabetical order, includes:

- Accrued Interest And Dividends
- Asset Retirement Obligations
- Capitalized Development Costs
- Capitalized Interest
- Captive Finance Operations
- Exploration Costs
- Foreign Currency Exchange Gains/Losses
- Guarantees
- Hybrid Instruments
- LIFO/FIFO: Inventory Accounting Methods
- Litigation
- Nonrecourse Debt Of Affiliates (Scope Of Consolidation)
- Nonrecurring Items/Non-core Activities
- Operating Leases
- Postretirement Employee Benefits/Deferred Compensation
- Power Purchase Agreements
- Share-Based Compensation Expense

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- Stranded Costs Securitizations Of Regulated Utilities
- Surplus Cash
- Trade Receivables Securitizations
- Volumetric Production Payment
- Workers Compensation/Self Insurance

Accrued interest and dividends

Accrued interest that is not already included in reported debt is reclassified as debt. This adjustment allows more consistent comparisons of companies' financial obligations, by eliminating differences arising from the frequency of payments—for example, quarterly, rather than annually—or calendar dates of specific payments—for example, January 1 or December 31.

In a similar vein, accrued dividends on hybrid equity securities are treated as debt, irrespective of the extent of the securities' equity content. (Deferred amounts—whether the deferral was optional or mandatory—are also usually treated as debt, given the need to pay them in a relatively short time. Obviously, we would not include amounts that are noncumulative, which never will be paid.)

Adjustment procedures

- Balance sheet: Accrued interest and dividends accrued on hybrid securities are reclassified as debt. There is no adjustment needed to equity.
- Cash flow statement: Because the impact usually is quite limited, no adjustment is performed to FFO or OCF. Annual cash flow is not affected by payment frequency or dates, except in the year a particular security is issued or retired.

Asset retirement obligations

We treat asset retirement obligations (AROs) as debt-like liabilities. AROs are legal commitments, assumed when commissioning or operating long-lived assets, to incur restoration and removal costs for disposing, dismantling or decommissioning those assets. Examples include the costs of plugging and dismantling on-and off-shore oil and gas facilities; decommissioning nuclear power plants and recycling or storing used nuclear fuel; and capping mining and waste-disposal sites.

These commitments are independent from the level and timing of any cash flow generated by the use of the assets. In certain instances, we expect ARO costs to be reimbursed to the entity through rates or assumed by other parties. When the asset operator's costs are reimbursed by the government or via a rate-setting process, the entity bears far different and less open-ended economic risks—and may not require debt imputation. We have tended to view AROs related to nuclear power plants of rate-regulated U.S. utilities in this light.

Several characteristics distinguish AROs from conventional debt, including timing and measurement uncertainties; tax implications; and the standing of claimants in bankruptcy.

ARO measurement involves a high degree of subjectivity and measurement imprecision. Our starting point is the reported liability amount, which may be adjusted for anticipated reimbursements, asset salvage value, and tax reductions, further adjusted for any assumptions we view as unrealistic.

Most AROs involve obligations to incur costs that may extend well into the future. Uncertainties inherent in their estimation include:

- The amount of the ultimate cost of abandonment, which will depend on the relevant country's laws and asset-specific environmental regulations at retirement; the condition of the markets for the specific assets' retirement services; possible economies of scale for the operator; and whether the activities ultimately are performed by the operator or by a third party.
- The timing of asset retirement, which is subject to assumptions that can change materially. For example, in extractive projects, future price expectations for hydrocarbon or minerals affect the economic life of the assets. For power generators, asset-retirement timing depends notably on local regulatory decisions. Their impact might be favorable (i.e., in the case of an operating license extension) or unfavorable (i.e., in the case of an early mandated closure).
- The discount rate to be used in the present value calculation. U.S. GAAP requires the use of an entity-specific discount rate. Hence, the stronger the entity's credit, the lower the discount rate—and the higher the

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liability. Similarly, the periodic accretion rate is lower for stronger credits, and higher for weaker credits. If nothing else, this hinders comparability across companies using U.S. GAAP, as well as to IFRS-reporting companies, which use market-related rates adjusted to risk-specific factors attributable to the liability.

AROs are recorded on a pretax basis under most accounting standards. Any expected tax benefits generally are reflected as a separate deferred tax asset on the balance sheet (because the ARO-related asset is depreciated). Tax savings, when they coincide with the ARO payments (as opposed to their provisioning), reduce the net cash cost, which we factor in our analysis to the extent we expect the company to generate taxable income in the particular jurisdiction.

- The obligation, net of any dedicated retirement-fund assets, salvage value, and anticipated tax savings, is added to debt. We generally adjust for the net aggregate funding position, even if some specific obligations are underfunded and others are overfunded.
- Adjustments are made on a tax-effected basis in cases where it is likely the company will be able to use the deductions.
- The accretion of the obligation reflects the time value of money and is akin to noncash interest—similar to postretirement benefit (PRB) interest charges. Accordingly, we reclassify it (net of earnings on any dedicated funds, if applicable—but never less than zero) as interest expense for both income-statement and cash-flow statement analysis. We keep the net present value of the obligations newly incurred during the period (analogous to PRB service costs) within operating expenses. If dedicated funding is in place and the related returns are not entirely reflected in reported earnings and cash flows, the unrecognized portion of the return on these assets is added and the recognized portion is reclassified to interest expense and operating cash flow.
- Cash payments for abandonment and contributions into dedicated funds that exceed/are less than the sum of: newly incurred obligations plus accretion of existing obligations are reclassified as repayment/incurrence of a debt obligation; this increases/decreases operating cash flow and funds from operations by the difference.
- For U.S. rate-regulated utilities that own nuclear power plants included in rate base, we have concluded that the decommissioning liability should not be viewed as a debt-equivalent liability. This is because of the safeguards that ensure funding sufficiency and collection of decommissioning costs in rates. Funding through customer rates and the probable nature of recovery result in a substantive liability defeasance.

Adjustment procedures

Data requirements

- The estimated asset retirement obligation (ARO), based on financial statement disclosure or analyst estimate.
- Any associated assets or funds set aside for the ARO.
- ARO interest costs, whether charged to operating or financing costs.
- New provisions (increases in liability during the period).
- Gain or loss on assets set aside for funding.
- Cash payments for AROs.

Calculations

- Subtract assets set aside to fund asset-retirement liabilities from the ARO to create a net ARO.
- Multiply this net obligation by (1 - the tax rate) to derive ARO adjustment for debt.
- Subtract both the gain (loss) on assets set aside from the sum of new provisions and interest costs and compare this amount to the cash payments made to arrive at the excess contribution/shortfall.
- Multiply this excess contribution/shortfall by (1 - the tax rate) to arrive at the ARO adjustments to funds from operations and cash flow from operations.

Procedures

- ARO debt is added to reported debt.
- ARO interest costs (net of ARO fund earnings) are removed from operating expenses, if they are included in these, and added to interest expense.
- The ARO adjustment to FFO is added to FFO.

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(Please see "Asset Retirement Obligations: How SFAS 143 Affects U.S. Utilities Owning Nuclear Plants," published March 31, 2004, and "Corporate Ratings Criteria, 2006 edition—Corporate Asset-Retirement Obligations," on RatingsDirect.)

Capitalized development costs

Costs relating to the conceptual formulation and design of products for sale or lease commonly are expensed on the income statement—while costs incurred subsequent to establishing the technological feasibility of these products are capitalized. The asset is then amortized over its estimated economic life.

Defining feasibility involves substantial subjectivity. Accordingly, the treatment of product or asset development costs sometimes varies substantially among companies or accounting regimes. For example, many U.S. software companies do not capitalize any software development costs (an analytically conservative approach), while others capitalize certain expenditures and amortize them over future periods.

Expensing, rather than capitalizing, can have a meaningful impact on a company's financial statements and credit metrics, making peer comparisons difficult. Automaker accounting for tooling poses similar comparability issues relating to varying capitalization policies.

While it is acceptable under the applicable accounting rules for a company to capitalize certain development costs, in order to facilitate comparability, we adjust reported financial statements. The amounts capitalized are treated as if they had been expensed. To the extent that the amortization of past capitalization equals current development spending, there is no impact on operating expenses, operating profit, or EBIT, but there is an impact on EBITDA and operating profit before depreciation.

This approach helps make companies' operating performance more transparent and comparable, regardless of their stance on capitalizing software and similar development costs. Note, that with respect to energy exploration costs, we take the opposite approach *(see adjustment for exploration costs)*, given the objective of comparability with most companies in that industry and the pragmatic aspects of doing so.

A company's position in its product life cycle has a great effect on its current spending relative to the amortization of past capitalization of development costs. However, as a practical matter—in the absence of more accurate figures—we use the annual amortization figure reported in the financial statements as a proxy for the current year's development costs. We realize, too, that the amount amortized is not entirely comparable across companies, as the amortization period for these assets may vary. For example, in the case of software, it typically ranges from two to five years.

Adjustment procedures

Data requirements

- Amount of development costs incurred and capitalized during the period.
- Amount of amortization of relevant capitalized costs.

Calculations

- EBITDA, operating profit before depreciation, and capital expenditures: subtract the amount of net capitalized development costs, or, alternatively, the amortization amount for that period.
- EBIT and operating profit after depreciation: subtract (or add, as the case may be) the difference between the spending and amortization in the period.
- FFO and capital expenditures: Subtract the amount capitalized in the period.
- Balance sheet accounts: We do not carry through the adjustment to the cumulative asset (and equity) accounts, weighing the complexity of such adjustments against the limited impact that can be expected in most cases on amounts that are secondary to our analysis.

(Please see "Accounting Issues In The U.S. High Technology Group," published Jan. 3, 2007, on RatingsDirect.)

Capitalized interest

We factor in capitalized interest as expense in the period when incurred. The valuation of property, plant, and equipment (PP&E) includes, under some GAAP, a cost of carry

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element relating to multi-period project expenditures. Part of the rationale is that the company must factor the carrying costs when deciding on a project's economics, but this obscures the amount that actually must be paid during the period. Companies may also have significant discretion with respect to the amounts they capitalize, making comparisons difficult. Accordingly, we prefer to focus on total interest cost.

As a result, we reverse interest capitalization and include the amount as an expense. In the cash flow statement, we reclassify capitalized interest from investing to operating cash flow. This correspondingly reduces funds from operations and capital expenditure amounts. Free cash flow remains unchanged.

We do not adjust for the cumulative gross-up of PP&E resulting from interest capitalization, tax effects, or future depreciation effects. That is, we do not try to identify the portion of PP&E attributable to past interest capitalization, in order to reduce PP&E by the amount that would correspond to the expensed view taken on such interest capitalized in the past. It would be impractical to attempt to do so, given the lack of data available. Moreover, the more material impact tends to be to coverage and profitability measures, not to asset or equity-based ratios.

Adjustment procedures

Data requirements

- The amount of capitalized interest during the period.

Calculations

- Interest expense: add amount of capitalized interest; and
- Capital expenditures, FFO, and operating cash flows: reduce by amount of capitalized interest that is reclassified as operating cash flows.

Captive finance operations

A captive finance operation (captive) functions primarily as an extension of a company's marketing activities. The captive facilitates the sale of goods or services by providing financing (in the form of loans or leases) to the company's dealers and/or end customers. The captive can be structured as a legally separate subsidiary, or as a distinct operating division or business line of the company. Captive finance units organized as separate subsidiaries are rated the same as their parents in the overwhelming majority of cases, meaning we view their default risk as indistinguishable from that of the parent.

Whatever the legal/organizational structure, the two businesses are not analyzed on a consolidated basis. Rather, we segregate financing activities from corporate/industrial activities and analyze each separately, reflecting the differences in business dynamics and economic characteristics, and the appropriateness of different financial measures. Our approach is to create a pro forma captive unit to enable finance-company analytical techniques to be applied to the captive finance activity, and correspondingly appropriate analytical techniques to the pure industrial company.

Finance assets (e.g., loans receivable and leases)—along with appropriate amounts of financial debt and equity—are allocated to the pro forma finance company; all other assets and liabilities are included in the parent/industrial balance sheet. Similarly, only finance-related revenues and expenses are included in the pro forma finance company income statement. The debt and equity of the parents and the captives are apportioned so that both entities will reflect, in most cases, identical credit quality.

In our analytical methodology for captive finance operations, we attribute debt and equity to the pro forma finance company based on our assessment of the quality of the finance assets, taking account of factors such as underwriting standards, charge-off policy, quality of the collateral, and portfolio concentration or diversity. The adjusted financial measures are highly sensitive to assumptions we make about the leverage appropriate to the finance assets in question. We continue to refine our leverage guidelines for major finance asset types.

Adjustment procedures

Note: In almost all instances, financial statements fully consolidate majority-owned captive finance operations: Here, consolidated

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financial statements are assumed as the starting point. Where separate financial statements are also available for the finance unit, information from these can be used to refine the adjustment.

Data requirements

- On-balance-sheet finance receivables and leases, net;
- Finance receivables and leases sold or securitized—carried off-balance-sheet;
- Finance company revenues (if actual finance revenues are unavailable, we use 15% of total finance receivables);
- Finance company administrative expenses (if actual finance company expenses are unavailable, we use 3% of total finance receivables);
- Debt to equity ratio: determined to reflect our view of the "leveragability" of the captive's assets (on- and off-balance-sheet finance receivables and leases);
- Interest rate (the average rate experienced by the company); and
- Required fixed charge coverage—an interest coverage appropriate for the rating. (Often, 1.25x is used.)

Calculations

- Total finance assets = on-balance-sheet finance receivables and leases + finance receivables and leases sold or securitized (carried off-balance-sheet).
- Finance company EBIT = finance company revenues – noninterest expenses.
- Finance company debt = Total finance assets times the debt-to-equity ratio/(1 + debt-to-equity ratio). This can never be more than reported consolidated debt; if so, the debt to equity ratio should be adjusted. (Separately, consolidated debt also is adjusted to reflect the debt equivalent of securitized assets and hybrid securities.)
- Finance company equity = total finance assets – finance company debt.
- Finance company interest = most recent two-year finance company debt x interest rate.
- Finance company required EBIT = finance company interest x required fixed charge coverage.
- Transfer payment = finance company EBIT – finance company required EBIT (which can be positive or negative).
- Subtract finance company revenues from total revenues to derive adjusted industrial company revenues.
- Subtract finance company operating expenses, including depreciation, from total operating expenses to derive adjusted industrial company operating expenses.
- Industrial EBIT = adjusted revenues – adjusted expenses + transfer payment.
- Reduce reported interest by finance company interest, if reported captive finance company's interest is included in consolidated operating expenses; otherwise, no adjustment is required.
- Reduce reported debt (adjusted for securitized assets) by finance company debt.
- Reduce reported equity by finance company equity (after increasing total reported equity by the minority interests in the captive finance company's equity, if the captive is not fully owned, and its reported equity excludes minority interests).
- Remove the finance company's cash flows, including capital expenditures, from reported cash flows.

(Please see "Criteria: Request for Comment: Risk-Based Framework for Assessing the Capital Adequacy of Financial Institutions," published Jan. 12, 2007; "Criteria: Captive Finance Operations," published April 17, 2007; and Finance Subsidiaries' Rating Link To Parent, in "Corporate Ratings Criteria 2006" edition, on RatingsDirect.

Exploration costs

Under some accounting systems, oil and gas exploration and production (E&P) companies may choose between two alternative accounting methods, full cost and successful efforts. These accounting methods differ in what costs these companies capitalize or expense. A successful-efforts-reporting company expenses the costs of unsuccessful exploration drilling (dry-hole costs) and exploration costs, such as geologic and geophysical expenditures (seismic surveys) and the costs of carrying and retaining undeveloped properties. In successful-efforts accounting, only exploratory drilling costs that result in the discovery and development of a commercial oil and gas field may be capitalized and

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amortized based on the field's proved reserves on a unit-of-production basis; all dry-hole expenditures are expensed as incurred. Using the full-cost accounting method, all exploration and development expenditures are capitalized and amortized over the reserves of the related pool of properties.

Another difference is the size of the cost center used to amortize capitalized costs. Successful-efforts companies use smaller cost centers, such as a particular lease or field; full-cost companies generally use larger cost centers, which may be as large as an entire country.

We view successful-efforts accounting as more appropriate, given the highly risky nature of hydrocarbon exploration. Successful-efforts accounting does not have the potential to inflate equity and smooth earnings to the same degree as full-cost accounting. In general, large companies (e.g., major integrated companies) use the successful-efforts method, while smaller companies (e.g., independent E&P companies) use the full-cost system.

However, our analysis of exploration costs requires making comparisons between companies that use different accounting methods, which can best be accomplished by adding back exploration expense to EBITDA for successful-effort companies. (While we prefer the successful efforts approach, there is no practical way to adjust full cost users to a successful efforts method.) Exploration expense usually is disclosed on the face of the income statement of successful efforts companies. This number often is referred to as EBITDAX.

Given our preference for successful efforts, we limit this adjustment to EBITDA measures—and do not carry the adjustment through to all related accounts or to other ratios. Adjusting EBITDA usually suffices for comparative purposes. And, adjusting a successful efforts company's balance sheet to reflect what it would look like if it had used the full-cost method—or vice versa—is not really feasible. (Apart from the differences as to what companies can capitalize under the two methods, the rules for asset impairment tests also differ. The full-cost impairment test, called the ceiling test, generally is easier to violate because of higher asset carrying costs and its trigger mechanism. (If the book value of assets falls below the discounted present value of cash flows, a charge may be necessary. The trigger for ordinary impairment is related to the undiscounted future cash flows.)

Adjustment procedures

Data requirements

- Exploration expenses (only applies to E&P companies using the successful-efforts method of accounting).

Calculations

- Adjustment to operating income before depreciation, depletion, and amortization to calculate EBITDA: We add exploration expense back to operating income before depreciation, depletion, and amortization in the EBITDA calculation. This increases EBITDA and operating income before D&A by the entire amount of exploration expense.

(Please see "Credit FAQ: Exploring Standard & Poor's Oil And Gas Company Reconciliation Tables," published Feb. 12, 2007, on RatingsDirect.)

Foreign currency exchange gains/losses

Foreign currency exchange gains/losses can be related to transactions or translations:

- Transaction gains/losses arise from transactions that are denominated in a currency other than the entity's functional currency (generally the currency in which the entity principally transacts). Examples include buying and selling goods or services whose prices are denominated in a foreign currency, borrowing or lending in a foreign currency, or other contractual obligations denominated in a foreign currency. A change in the exchange rate will increase or decrease the amount of functional currency needed to settle the account between the time the transaction is recorded in the functional-currency accounts and the time it is settled, leading to exchange gains or losses. When translating the related accounts (e.g., loans receivable, accounts payable, and debt) into the reporting currency, such gains and losses are recognized in the income statement as incurred.

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- Translation gains/losses occur when translating financial statements of a subsidiary from a local currency to the reporting currency of the enterprise for consolidation. Translation gains or losses are included in shareholders' equity (under U.S. GAAP, included in other comprehensive income for the period and in accumulated other comprehensive income in the owners' equity section of the balance sheet).

Foreign currency transaction gains/losses recognized in the income statement raise questions similar to those in Nonrecurring Items/Noncore Activity *(see below)*. To present a representative view of operating performance and financial ratios, we typically adjust company income statements to exclude nonrecurring and other unusual transaction gains and losses.

Currency transaction gains and losses may be viewed as recurring or nonrecurring. We review transaction gains and losses and determine whether or not to adjust for them. We may adjust reported financial results for currency gains and losses that result from one-time or infrequent transactions; for example, we may adjust (or exclude) foreign currency gains or losses resulting from the infrequent purchase of a specialized capital asset payable in a foreign currency.

When the gains or losses result from recurring or ongoing transactions, we do not adjust. We consider transaction gains and losses as ongoing when the company has a history of entering into transactions denominated in foreign currencies. The purchase of inventory that is paid in a foreign currency is an example. Debt denominated in a foreign currency could also result in recurring foreign currency gains and losses that we would not adjust for.

Companies may not report currency gains or losses separately for recurring and nonrecurring transactions. Consequently, we may not make adjustments if the data are not available, or if the amount is immaterial. Our analysis must also take into account the potential for changes in actual cash flows that may be required to settle a transaction denominated in a foreign currency.

Translation gains/losses are not included in determining net income, but are included in shareholders' equity (and, under U.S. GAAP, in other comprehensive income) as mentioned above. Companies generally translate assets and liabilities using the exchange rate at the balance sheet date. The income statement is translated at the exchange rate in effect at the time revenues, expenses, gains and losses are recognized. The cash flow statement is translated using the exchange rate in effect at the time of the cash flow. As a practical matter, companies often use an average exchange rate for the reporting period for both income and cash flow statements. In addition, the cash flow statement reports the effects of exchange rate changes on cash balances held in foreign currencies on a separate line. We do not adjust the balance sheet, the income statement, or the cash flow statement for translation gains or losses included in other comprehensive income.

If a parent liquidates its investment in a foreign subsidiary (or investment), the amount of foreign currency gains or losses built up in equity are removed from equity and included in net income for the period. This amount should be excluded from income as a nonrecurring item (as would generally apply to the gain or loss resulting from the sale).

Adjustment procedures

Data requirements

- Amounts of nonrecurring (analytically determined) foreign currency exchange transaction gains and losses.

Calculations

- The amount of nonrecurring foreign currency gain or loss is added to or subtracted from operating income before and after D&A, EBITDA, and EBIT.

Guarantees

The accounting for guarantees can vary greatly. In many instances, a guarantee to support borrowings of unconsolidated affiliates or third parties is not recorded on the guarantor's consolidated balance sheet until it meets certain tests regarding probability of payment.

Alternatively, it may be recorded at the lowest amount in a range of possible outcomes or at a statistically calculated expected value (e.g., under IFRS, a contingent obligation may be

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measured at a probability-weighted figure of potential payment amounts). To illustrate, if the company estimates a 70% chance of having to pay nothing and a 30% chance of having to pay €1 million, then the company obligation would be measured at €300,000, an amount that has no probability of being paid.

We may take a different approach, to reflect our own assessment of the risk of ultimately being required to pay (upon the default of the other party).

We add the guaranteed amount to the guarantor's total debt, unless the other party is sufficiently creditworthy (i.e., investment-grade) in its own right, or if we assess the likelihood of payment at a lower amount. (Interest is not imputed on such adjustment items, since the potential obligation may materialize far in the future, and there is no current need to service that potential obligation.)

In the case of an affiliate, we consider the possibility of support for the borrower's debt even absent a formal guarantee.

Performance guarantees are treated differently, because there should be little impact as long as the company maintains its work or product quality. Construction companies often provide performance guarantees as a condition in work contracts.

A company's track record of payments for performance guarantees could be an indicator of the amount of potential future liability. Only if the track record gives us specific reason for concern would we attempt an estimate of the liability—and add that amount to debt for ratio calculations.

Adjustment procedures

Data requirements

- Determine the value of the guarantees on and off the balance sheet to be added to debt, net of tax benefit, as applicable.

Calculations

- Debt: Add the amount of off-balance-sheet debt-equivalent; reclassify as debt the amount of on-balance-sheet liability.
- Equity: Subtract amount of off-balance-sheet debt-equivalent.

Hybrid instruments

Hybrid instruments have some characteristics of debt, and some of common equity. The more weight the latter carries, the more equity content we attribute to the instrument. We classify corporate hybrids' equity content as minimal, intermediate, or high.

How to reflect hybrids in credit ratios is not a simple question. For many years, we did not divide the amounts involved in proportion to the equity content of the specific security, believing the resulting numbers could be misleading. As an example, a company might pay the stipulated periodic amount or defer it; under no scenario would it defer a fraction of the payment: Therefore, calculating a fixed-charge coverage ratio with a fractional amount has little intuitive meaning.

For hybrids with intermediate equity content, we instead computed financial ratios both ways—viewed alternatively, as debt and as equity. Two sets of coverage ratios were calculated—to display deferrable ongoing payments (whether technically dividends or interest) entirely as ordinary interest and, alternatively, as an equity dividend. Similarly, two sets of balance-sheet ratios were calculated for the principal amount of the hybrid instruments, displaying those amounts entirely as debt and entirely as equity.

For hybrids, analytical truth lies somewhere between these two perspectives, and analysts have been—and are—encouraged to continue viewing hybrids from all perspectives—i.e., computing ratios with the security as debt and, alternatively, as equity; to interpolate between the sets of ratios to arrive at the most meaningful depiction of an issuer's financial profile; and note and give effect to each more-equity-like or less-equity-like feature of various hybrids in the same category, although such nuances play, at most, a very subtle role in the overall rating analysis.

However, we changed our methodology in 2006 because it proved too challenging to communicate our previous, more abstract approach—and issuers, in particular, had trouble appreciating the potential impact on our view of their financial profile. Notwithstanding the issues mentioned above, we adopted the following adjustments (after adjusting convertible debt issued by IFRS reporting companies as described below):

- For hybrids in the intermediate category, we calculate ratios with outstanding amounts

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(excluding unpaid accrued remunerations) split 50-50: One-half of the principal is categorized as debt and one-half as equity; one-half of the period payments is treated as common dividends and one-half as interest. (There is no adjustment to taxes.) This set of ratios is used as the basic adjusted measures, and these are the ratios we publish.
- Hybrids with minimal equity content are treated entirely as debt for calculating ratios.
- Hybrids with high equity content are treated entirely as equity for calculating ratios.
- Unpaid dividends that have accrued, prior to period end, are viewed as debt—even for equity-like securities.

Convertible debt is not treated as a hybrid—unless the conversion is mandatory, or it features appropriate tenor, subordination, and deferability characteristics. While IFRS and other accounting regimes split the issued value of a convertible debt obligation between its pure debt component (the fair value of a similar debt obligation without the conversion feature), accounted for as debt, and the embedded conversion feature (the difference between the debt component and the issue price), accounted for as equity, such convertible debt generally does not attract any equity credit in our methodology. Rather, we adjust reported debt by the value of the conversion option included in shareholders' equity. Cash-based measures such as FFO continue to reflect only the actual cash cost of the convertible debt, based on the coupon rate.

Adjustment procedures

Data requirements
- Amount of hybrid instrument in the balance sheet and shareholders' equity;
- Amount of associated expense and payments in the period; and
- Amounts of accrued unpaid interest/dividends.

Calculations
- A high-equity-content hybrid reported as equity is treated as reported, as are its associated dividends. However, accrued dividends are included as debt.
- A high equity content hybrid reported as debt is removed from debt and added to equity. The associated interest charge is removed from interest expense and treated as a dividend. Additionally, interest payments are also adjusted as dividends in the FFO and operating cash flow calculations.
- An intermediate equity content hybrid reported as equity (e.g., preferred stock) has 50% of its value removed from equity and added to debt. Also, 50% of the dividend amount is removed and added to interest expense and interest paid, impacting the FFO and OCF calculations.
- An intermediate equity content hybrid reported as debt has 50% of its value removed from debt and added to equity. Also, 50% of the associated interest is removed from interest expense and interest paid and added to dividends.
- A minimal equity content hybrid reported as equity is removed from equity and added to debt. Its associated dividends are added to interest expense and interest paid, thereby also reducing FFO and OCF.
- A minimal equity content hybrid reported as debt is treated as reported, as is its associated interest.
- The accrued unpaid charges on hybrid instruments are categorized as debt.

Note: For optionally convertible instruments, prior to the reclassifications above, we recombine the instrument's issued amount (amortized cost) if it has been bifurcated (as described above, notably for IFRS-reporting companies). We also adjust the period's expense, where necessary and practicable, to equal the instrument's debt component multiplied by the company's refinancing rate, at the convertible's issuance date, for the equivalent nonconvertible instrument.

(Please see "Criteria: Equity Credit For Corporate Hybrid Securities, published May 8, 2006, on RatingsDirect;" "Criteria: Clarification Regarding Step-Ups Used In Equity Hybrids, Aug. 9, 2007; and "Criteria: Standard & Poor's Announces Several Refinements To Its Hybrid Capital Criteria," Oct. 30, 2007.)

LIFO/FIFO: Inventory accounting methods

The choice of inventory accounting methods under U.S. GAAP between first-in, first-out (FIFO); last-in, first-out (LIFO); weighted

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average; and specific identification can provide dramatically different results for peers that engage in the same underlying activities. This issue is more pronounced in sectors that are inventory-intensive, and in particular, where inventory prices fluctuate significantly.

The challenge of comparing peers increases on a global dimension. Similar choice of accounting options exists in generally accepted accounting standards other than U.S. GAAP—while LIFO, widely used in the U.S., is not permissible under many other accounting standards, including IFRS. Tax treatment of permissible inventory costing methods is a key driver in management's decision to elect a method, and varies significantly by jurisdiction. (For example, LIFO is permitted for tax-reporting purposes in the U.S., and those who elect LIFO for tax purposes must also use it for their financial statement reporting.)

Moreover, some companies use a combination of costing methods. For example, management may elect to use the LIFO method for a portion of inventory in which prices are expected to rise and FIFO for the balance. In other instances, inventory reported on a consolidated financial statement can include inventory balances of subsidiaries in different countries, each of which use different accounting methods.

The greatest potential disparity of financial results is between FIFO and LIFO accounting methods. In a period of rising prices, the LIFO method results in a lower income than FIFO, because the most recent costs flow into cost of goods sold on the income statement, and the oldest costs are reflected in inventory on the balance sheet. Furthermore, cash flows are temporarily improved, because current income taxes are lower as a result of the lower income. Apart from intercompany comparisons, different methods can skew the perspective of corporate performance. For example, LIFO provides a better reflection of matching costs against revenues on the income statement, but creates a balance-sheet distortion by having older costs residing in inventory. The FIFO method, on the other hand, provides a more current valuation of inventory on the balance sheet, but can significantly understate cost of goods sold in a period of rising prices, resulting in artificially overstated income.

- Balance sheet: Where significant to our analytical process or essential for peer comparability, we add back the LIFO reserve to inventory amounts on the balance sheet for companies that use the LIFO method. This enables us to reflect inventory balances at approximate current market value. (Companies that apply the LIFO method are required to disclose what the inventory valuation would be under FIFO, through an account called the LIFO reserve, which represents the cumulative effect on gross profit from the use of the LIFO method.) A corresponding adjustment, net of tax, is made to equity.
- Income statement: We do not adjust the income statement when companies use LIFO, believing the LIFO method results in costs of goods sold that are more indicative of replacement-cost values, and the best matching to revenues. While it might be desirable to adjust for those companies that use FIFO or average costs methods, the data generally are unavailable.
- When a company using the LIFO method has inventory balances that decrease over a period of time, LIFO liquidation may result. It means that older, less-recent layers of inventory are turned into cost of goods sold as a result. (These are older in terms of their accounting, not necessarily in any physical sense.) Assuming an inflationary environment, cost of goods sold is reduced, and as a result, income increases because of LIFO liquidation gains. To capture the true sustainable profitability of a company, the gains generated from LIFO liquidation generally are excluded from our current profitability measures and ratios.
- Cash flows: We typically do not adjust the cash flows, but we consider, qualitatively, the boost to cash flows the LIFO method affords during periods of price inflation (via taxes deferred to future periods).

Adjustment procedures

Data requirements

- For the balance-sheet adjustments: LIFO reserve.

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- For the income statement adjustments: LIFO liquidation gains.

Calculations

The balance sheet adjustments affect inventory (assets) and equity.

- LIFO reserve is added to inventory (assets).
- Equity is increased by the LIFO reserve (after-tax).

The income statement adjustment affects operating income before and after D&A, and EBITDA and EBIT.

- LIFO liquidation gains are deducted from operating income when calculating operating income before and after D&A, and EBITDA and EBIT.

Litigation

We make case-by-case judgments regarding the probability of a negative outcome, the potential financial effect, and its timing, including duration of any appeals process. We also regularly obtain additional data from the company involved, on a confidential basis, to enable a more meaningful analysis of plausible scenarios. These might include any available legal opinions and research; the company's legal strategy; and the number, size, and status of claims. To assist us, we may consult legal counsel to evaluate likely scenarios. This includes in-house legal staff, external counsel, and/or industry-related counsel.

To the extent that a monetary judgment is predictable, we size the amount that will be paid and treat it as a debt-equivalent. If payment is not imminent—if, for example, there is an extended appeals process—we would estimate the time until actual payment, and discount the eventual payment amount unless interest will be added. The adjusted debt ratios are calculated including the present value of the estimated payout, on an after-tax basis. Where applicable, we subtract any expected insurance recoveries.

It usually is very challenging to size litigation outcomes. Previous cases of similar nature can serve as benchmarks. Subjective judgments regarding the merits of a case may also inform our view of possible outcomes.

Sometimes, the company's litigation reserves recorded in its financial statements can offer insight. Companies must reserve for litigation they can quantify. In practice, most companies tend to minimize legal reserves (although some companies—especially European companies—will over-reserve to enable smoothing of future earnings). Therefore, to the extent that a company does reserve, one may ordinarily conclude there is a high likelihood that required payments will be at least that amount. The company's reserve is not a reliable indicator that the ultimate liability will not exceed that amount. In any event, providing reserves is merely an accounting recognition of the liability; it doesn't mean that the company has put aside cash to fund the liability. We would still need to adjust the debt figures to reflect the cash impact that a payment would entail. (On the other hand, there often will be a lengthy period until payment is made, so we also consider the company's ability to generate cash in the interim.)

A class-action suit permits a large number of individual claims to be combined and tried as one lawsuit. We view class-action lawsuits as the most troublesome type for credit quality because of the potential size of awards. Class-action suits must be certified by a court to proceed to trial; however, once certified, the lawsuit often takes years to wind through the litigation process.

Outside the U.S., litigation is less significant as a credit risk than in the U.S. Typically, there is no award of punitive damages, class actions are limited, and/or trials may not come before juries that can react unpredictably to the litigation.

Because the specific financial effect of a lawsuit is difficult to quantify accurately, we may rely on analytical techniques such as calculating ranges of outcomes or performing sensitivity analysis. This can be very helpful if it allows us to conclude, for example, that the company can manage even the more dire potential outcomes without materially affecting its financial profile. Alternatively, if significant uncertainty remains, we might consider a downgrade based on a very large risk exposure.

Litigation poses several important, potentially troubling considerations beyond any direct financial consequences. We consider the potential damage to a company's reputation or ability to conduct normal business operations. For example, product liability

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cases sometimes result in the product's being removed from the market. Substantial litigation may require an inordinate amount of management time and create quite a distraction from running the business.

More broadly, lawsuits can affect a company's reputation and/or its ability to garner further business or raise capital. Public mistrust and a negative perception of the company's operating strategy would definitely be of concern.

Last, but not least, bonding requirements can pose a tremendous liquidity challenge, especially in jurisdictions that have no bonding caps. Bonding can tie up cash that could otherwise be invested in the business, even if it does not pose an immediate threat to solvency. (Naturally, in the case of litigation expected to benefit the company, similar adjustments apply, in reverse.)

Adjustment procedures

Data requirements

- Determine the value of the litigation exposure to be added to debt.

Calculations

- Debt: Add the amount of debt equivalent (net of tax benefit, as applicable) to debt; and
- Equity: Subtract the amount of off-balance-sheet debt equivalent, net of tax.

(Please see "How Litigation Risk Affects Corporate Ratings," published Nov. 28, 2005, on RatingsDirect.)

Nonrecourse debt of affiliates (scope of consolidation)

In the context of corporate debt analysis, non-recourse debt often refers to a situation in which an affiliate or subsidiary of a company borrows funds, possibly pledging its assets as collateral, while the parent company and other subsidiaries in the corporate structure have no legal obligation to perform under the borrowing agreement. If an event of default occurs, the lender's claims are limited solely to the subsidiary that borrowed the money.

Non-recourse debt may exist for a variety of reasons. A company may want to legally isolate the bankruptcy risk of a subsidiary, for example, because the subsidiary's business prospects are more unpredictable than those of the parent. Also, non-recourse debt may result from a particular jurisdiction's legal requirement to operate locally through a separate legal entity. In other cases, a company may own only a portion of a subsidiary, maybe even a minority interest, and the company may be unwilling to put itself on the hook to fund the obligations of the joint venture.

In non-recourse structures, the parent company has the legal right to walk away from the troubled (or bankrupt) subsidiary. This often is a by-product of corporate law and related legal isolation doctrines related to entities structured as corporations or other limited-liability structures. Notwithstanding the theory, history has shown this often is not the way things play out. The parent company often ends up providing economic support to the subsidiary, despite the non-recourse nature of the obligation.

In analyzing these situations, we attempt to understand the relationship between the parent and subsidiary, and make a judgment about whether the parent would be inclined to step in (and to what extent). While predicting the outcome of such a scenario is not an exact science, we believe that considering plausible scenarios is superior to relying solely on the legal framework, and ignoring the economic relationship extant between the entities.

The relationships between the affiliated entities can vary greatly. The entity issuing the debt considered to be non-recourse may simply represent a non-core, non-strategic investment; if so, the parent is not burdened with the subsidiary's debt obligations.

At the other end of the spectrum, the subsidiary's operations may be characterized as an integrated business. The analysis would then fully consolidate the subsidiary's financial statements, including debt. Furthermore, the risk profile of the subsidiary's operations would be integrated with the overall business risk analysis of its parent.

Often, the subsidiary issuing the debt may not fall neatly into either category; it may lie somewhere in the middle of the spectrum. Sometimes we use a pro rata consolidation to reflect this middle ground. For example, we would apply pro rata consolidation to joint ventures between partners of

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comparable capacity and willingness to support for their respective strategic reasons. Even in cases that do not call for analytical consolidation, we presume there will be additional investment in the non-recourse entity, i.e., the money the company likely would spend to provide support or bail out the unit in which it invested.

No single factor determines the analytical view of the relationship with the affiliate; rather, several factors, taken together, will lead to one characterization or another, including:

- Strategic importance—integrated lines of business or critical supplier;
- Percentage ownership (current and prospective);
- Management control;
- Shared corporate name;
- Domicile in same country;
- Common sources of capital and lending relationships;
- Financial capacity for providing support;
- Significance of amount of investment;
- Investment relative to amount of debt at the venture or project;
- Nature of any other owners (strategic or financial; financial capacity);
- Management's stated posture;
- Track record of parent company in similar circumstances;
- The nature of potential risks;
- Shared collective bargaining agreements; and
- Jurisdiction's bankruptcy-law regime.

Adjustment procedures

There is no standardized adjustment, given the multiple fact patterns and subjective nature relating to subsidiaries/projects/joint ventures. As explained above, some consolidated entities—and their liabilities—might be deconsolidated, while some nonconsolidated entities may be consolidated.

Another possible adjustment is pro rata consolidation. This approach is not used too frequently, and typically applies only when both owners have similar financial profiles and motivations with respect to a joint venture.

Note that even in cases where we conclude that the liability will not ultimately be supported, we could well expect that the owner would extend partial support to the venture or subsidiary, including additional investments to attempt to rescue it. We would try to size such additional expenditures—and impute that amount as debt to the parent.

(Please see "Corporate Ratings Criteria," 2006 edition: Parent/Subsidiary Links, and "Credit FAQ: Knowing The Investors In A Company's Debt And Equity," published April 4, 2006, on RatingsDirect.)

Nonrecurring items/noncore activities

We typically make adjustments to a company's reported operating income and cash flow to remove items we consider nonrecurring and include those we consider recurring, so the historical financial ratios will be more indicative of future performance. These adjustments cover items including discontinued operations; effects of natural disasters; gains or losses on asset sales and sale/leasebacks; and one-time charges for asset write-downs, restructurings and plant shutdowns.

We review each potential nonrecurring item, and determine whether to adjust for it. Our view of these items may differ from the company's view, as presented in financial statements or footnotes.

We may view some supposedly one-time restructurings as ongoing for a particular company. Taking such a view may reflect a company's history of recurring restructuring charges, or the perceived need to address either company-specific or industry-wide competitive issues (for example, the need to move facilities offshore in order to be cost competitive).

We may also view certain other items that company management characterizes as one-time items as normal operating costs: In the retail industry, we do not typically view inventory write-downs or high store pre-opening costs from a rapid expansion program as unusual items.

In a similar vein, we often distinguish between a company's core business activity and other, ancillary activities—especially if there is some question about the latter's sustainability. A manufacturer may earn money from trading activity; it may even set up its

treasury operations as a profit center, but we may isolate, reclassify, and separately analyze the results of those operations.

For income derived from the sale and licensing of corporate assets, we similarly distinguish between sustainable, ongoing sales and those that are more opportunistic. Ancillary activities can distort measures of core operating performance, and peer analyses that rely on comparability of data, unless adjustments are made. An analogy can be drawn to the analytical segregation of non-homogenous activity. Some GAAP rules may require consolidation if a company owns both manufacturing and finance subsidiaries: We would separate the two for analytical purposes.

These adjustments require an appreciation of industry-specific contexts. For example, in the high-technology industry, companies dedicate substantial amounts of capital to research and development efforts and accumulate intellectual property in the form of patents, trade secrets, domain names, etc., which may be sold or licensed to complement revenues generated from core operations.

We consider revenue generated from the licensing of intellectual property to be a part of operating income, and therefore a component of EBITDA, because this arrangement allows for a relatively predictable, recurring source of revenue. However, revenue generated from the sale of intellectual property is not considered part of operating income. While there may be advantages in selling intellectual property, rather than licensing—e.g., the receipt of greater upfront proceeds or the elimination of future responsibilities—this arrangement normally is treated as non-operating income.

In other situations, the sale of assets may be considered recurring. For example, companies that lease or rent automobiles or industrial equipment routinely and periodically dispose of these assets via auctions and/or other sales.

Adjustment procedures

Data requirements

- Amounts of income, expense, and cash flows to be reclassified (including nonrecurring items reported as operating, and recurring items not reported as operating). These amounts are judgmentally determined, based on information disclosed and our assessment.

Calculations

- Add or subtract amounts from respective measures, (e.g., revenue, operating income before and after D&A; D&A; EBIT; EBITDA; operating cash flows and FFO) to reclassify as appropriate. Because operating cash flows and FFO are post-tax measures, they also are adjusted to reflect the tax effects, where feasible.
- Beyond the standard adjustment, additional insights may be gleaned by adjusting individual line items within cost of goods sold or selling, general, and administrative (SG&A) expense, if there is sufficient data to reflect adjustments at such levels. Similarly, ancillary activities data are segregated and separately analyzed, to the extent practicable with available data.

Operating leases

Companies commonly use leasing as a means of financing. The accounting for leases distinguishes between operating and finance leases. Finance leases (also referred to as capital leases) are accounted for in a manner similar to a debt-financed acquisition of an asset, while many operating leases are reflected in the accounts on a pay-as-you go basis. We view the accounting distinction between operating and capital leases as substantially artificial. In both cases, the lessee contracts for the use of an asset, entering into a debt-like obligation to make periodic rental payments.

Our lease adjustments seek to enhance comparability of reported results (both operating and financial) and financial obligations among companies whether they lease assets under leases accounted for as operating or financing leases, or use debt to finance asset acquisition. The operating-lease-adjustment model is intended to bring companies' financial ratios closer to the underlying economics and more comparable, by taking into consideration all financial obligations incurred, whether on or off the balance sheet. The model improves our analysis of how profitably a company employs its leased and owned assets.

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Our model does not fully replicate a scenario in which a company acquired an asset and financed it with debt; rather, our adjustment is narrower in scope: It attempts to capture only the debt equivalent of a company's lease contracts in place. For example, when a company leases an asset with a 20-year productive life for five years, the adjustment picks up only the payments relating to the contracted lease period, ignoring the cost of the entire asset that would have been purchased—and depreciated—by a company that chose to buy instead of lease. We have chosen not to use alternative methodologies that capitalize the entire asset because they entail various data and interpretation challenges. In cases where the company has an economic need to use the asset for longer than the lease term, we take account of this qualitatively; however, if the lease is viewed as artificially short, and there is adequate information, such as for sale/leaseback transactions, we capitalize the entire sale amount.

Adjustment procedures

Data requirements

- Minimum lease payments: Noncancelable future lease payment stream (and residual value guarantees if not included in minimum lease payments); discount factor; annual lease-related operating expense for the most recent year; and deferred gains on sale leaseback transactions that resulted in leases accounted for as operating.
- Future-lease payment data are found in the notes to the financial statements. Annual payments for the coming five years (itemized by year) and the aggregate amount for subsequent years are provided under U.S. GAAP. Our model assumes that future payments for years beyond the fifth year approximate the fifth-year amount. Under IFRS, companies are permitted to disclose amounts payable in years two through four in a single combined amount, instead of disclosing separate amounts for each of the next five years. In this case, we assume a flat level of payments in years two through four, based on the total minimum lease payment disclosed for these three years. This approximation—caused by the limited disclosure—does not capture how future payments may decline in these years. Future lease payments are considered net of sublease rental only when the lease and sublease terms match, and the sub-lessee is sufficiently creditworthy.
- The discount factor is determined in one of the following ways: ideally, the imputed discount rate associated with the lease would be used, but rarely is available, and unlikely to be available for all companies in an industry; use the average rate on the company's secured debt; and/or use a rate imputed from the company's total interest expense and average debt.
- Annual operating-lease-related expense is sometimes available in the notes and will be used. When the amount is not separately disclosed (e.g., when presented with contingent rent and other amounts, or incorporated with other costs), it is estimated using the average of the first projected annual payment at the end of the most recent and prior year.

Calculations

- Debt: The present value of the payment stream, determined using the discount factor, is added to debt. (Lease debt is not tax-effected because its taxes will never reflect the analytical construct underlying our adjustment. The company is, in fact, getting the tax treatment afforded to leases—assuming GAAP and tax treatment as operating lease is the same. The actual tax amounts are those included in the accounts—and generally require no adjustment. This contrasts with PRB and ARO adjustments—which may be tax-effected. Those adjustments are based on the anticipation that tax-deductible recognition of the obligations will ultimately be required.)
- Operating income and cash flow measures: The operating-lease-related expense is apportioned to interest and depreciation components, as described below. The effect is to increase operating income measures: SG&A—by the entire amount of the expense; EBIT—by the implicit interest portion; EBITDA—by the implicit interest portion; and FFO—by the implicit depreciation portion. In addition, operating

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income would be adjusted to reverse gain or loss on sale/leaseback transactions.
- Interest expense: Interest expense is increased by the product of the discount rate multiplied by the average first-year projected payment for the current and previous years.
- Depreciation: Operating-lease depreciation, i.e., the operating-lease-related expense amount less the calculated lease interest, is added to depreciation expense. (We deliberately calculate EBITDA without adding back the imputed depreciation component, despite the apparent definitional conflict. The cash flow characteristics of leasing do not neatly conform with the alternative of borrowing to acquire—even though our adjustment attempts to equate them. Lease payments represent ongoing cash outflows—quite different than depreciation, or even amortization of asset acquisition-related debt.)
- Capital expenditures: Capital expenditures are increased by an implied amount calculated as the year-over-year change in operating lease debt plus annual operating lease depreciation. This amount cannot be negative. Capital expenditures are also adjusted in the same fashion for capital leases.
- Property plant & equipment: Operating lease debt is added to PP&E to approximate the depreciated asset cost.

Postretirement employee benefits/deferred compensation

Defined-benefit obligations for retirees, including pensions and health care coverage (collectively referred to as PRB), and other forms of deferred compensation are financial obligations that must be paid over time, just as debt must be serviced, so we include them in debt ratios. A company may pre-fund the obligation or part of it (and companies often do pre-fund their pension obligations), which offsets the financial burden. Our objective, therefore, is to reflect the level of underfunding of defined-benefit pension obligations, as well as typically not-funded health care obligations and retiree lump-sum payment schemes, and other forms of deferred compensation. In arriving at adjusted financial measures, we must undo accounting shortcomings that affect balance sheets, cash flow statements, and income statements (under most current GAAP). The adjustments pertain to obligations already incurred, without trying to capture future levels of liability.

When PRB obligations constitute a major rating consideration, we delve more deeply into the company's particular circumstances and its benefits plans. Also, for some companies, funding and liquidity considerations surrounding retiree obligations can be much more important to the credit profile than imputing debt to the financial ratios. This situation typically pertains to speculative-grade companies that tend to have fewer available resources for cash requirements, including meeting mandated funding of PRB obligations.

We do not include in debt any amounts for defined-contribution plans, because they entail no obligations or risks to the sponsor related to past services beyond the current period's payments. We also have a slightly different position regarding multi-employer plans, not otherwise dealt with here. *(See "Standard & Poor's Approach To Analyzing Employers' Participation In U.S. Multi-Employer Pension Plans," published May 30, 2006, on RatingsDirect.)*

A key difference between debt and PRB obligations is the inherent measurement uncertainty, as the benefits and related assets, to the extent they are funded, are variable. Quantifying PRB obligations relies on numerous assumptions, including:
- Employee turnover rates and length of service, according to which benefits vary;
- Mortality rates and dependency status/longevity assumptions, as the employee and his/her dependents' lifespan determine how long the benefit will be paid;
- Future compensation levels, to the extent wages prior to retirement are a factor in determining the amount of the benefit;
- Health care cost inflation, use, and delivery patterns; and
- Discount rate assumptions required to calculate a present value of the future required cash outflows.

Standard financial adjustments cannot easily factor in deviations from normal assumptions on these measurement drivers. However, for some factors, the analysis can, at least,

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gauge the sensitivity to changes in those assumptions. For example, a rough rule of thumb is that for each percentage point increase or decrease in the discount rate, the liability decreases or increases by at least 10%, and often by 15%-20%. (The more mature the plan, or the higher the market interest rates, the lesser the impact.)

To simplify the numerical analysis, we combine all retiree benefit plan assets and liabilities, for pension, health, and other obligations, netting the positions of a company's plans in surplus against those that are in deficit.

In theory, and over the long term, companies with multiple plans should be able to curtail contributions to over-funded plans and redirect contributions to under-funded plans. In the near term, however, funding surpluses are often hard to tap—and may have adverse tax consequences if drawn—even while cash contribution requirements may be onerous on other, under-funded plans. But, if meeting near-term cash requirements is an important issue for a particular company, its credit profile likely will be driven by liquidity considerations, while debt ratio levels would be of secondary importance.

We focus on the measure of the obligation that reflects a going-concern view. For example, under U.S. GAAP for pensions, this is the projected benefit obligation (PBO), or an equivalent actuarial measure of the ultimate liability. The going-concern view of the company includes the effect of expected wage increases if the benefit attributable to past employment services is tied to employee compensation according to some formula. However, for collectively bargained labor contracts, the PBO does not take account of expected wage increases beyond the term of the existing contract.

We do not use the accumulated benefit obligation (ABO), which takes into account only the benefits payable upon plan termination at period end, or the vested benefit obligation (which is no longer disclosed under U.S. GAAP), because they reflect a shutdown value perspective, rather than an ongoing firm perspective. Similarly, in the U.K., we do not focus on the value of beneficiaries' claims based on a full buyout basis (i.e., based on the price prevailing on the annuity market, where demand is currently insufficiently covered by supply), which often considerably exceeds the amount equivalent to PBO under IFRS or U.K. GAAP. (The ABO and full buyout value are more appropriate measures in our recovery and subordination analyses.)

For other postretirement obligations—including medical liabilities, we use a measure equivalent to the pension PBO. For example, under U.S. GAAP, this is the accumulated postretirement benefit obligation (APBO).

We tax-effect our PRB adjustments—unless the related tax benefits have already been, or are unlikely to be, realized. We use the rates applicable to the company's plans, or, if this is unavailable, the current corporate rate—even while recognizing that fiscal reality may be more complex or dynamic as the company's fortunes change over time. In the typical situation, the company has credible prospects of generating sufficient future taxable income to take advantage of PRB-related deductions and reduce future tax payments. When a company's ability to generate profits is indeed dubious, we would not tax-effect. Moreover, in such cases, the company likely would be so pressured that liquidity—rather than capitalization or coverage levels—would be the overriding analytical focus.

Capital structure

We adjust capitalization for PRB effects by adjusting both debt and equity, where applicable. Debt is grossed up by the company's tax-effected unfunded PRB obligation. Equity is adjusted by the difference between the amount accrued on the corporate balance sheet and the amount of net over/under-funded obligation (net surplus/deficit), net of tax.

Companies following U.S. GAAP recently adopted SFAS 158, and record the unfunded PRB obligation on their balance sheets; companies following IFRS have the option to fully recognize actuarial gains and losses on their balance sheets. Accordingly, our equity adjustment is no longer required in many instances.

Debt is not adjusted down for net surpluses, so net over-funding (surplus) leaves debt

unchanged. Equity can be adjusted up (if the net recognized asset is less than the pre-tax surplus) or down. We do not split the debt adjustment between short- and long-term.

While the surplus is not treated as a cash equivalent, it nonetheless can be of value, especially to obviate future contributions. Sometimes it becomes evident that the amount is unrecoverable or cannot be used to offset future contributions. Given inconsistent accounting disclosure regarding the recoverability of surpluses, we rely on inquiries to company management.

Cash flow

We try to identify catch-up contributions made to reduce unfunded obligations, which would artificially depress reported operating cash flows. We view these contributions as akin to debt amortization, which represents a financing, rather than an operating cash flow. Specifically, cash paid (plan contributions plus benefits paid directly to beneficiaries) exceeding the sum of current-period service and net interest costs (that is, interest cost net of actual or expected returns on plan assets) is added back to FFO on a tax-effected basis. We look at actual investment returns for the period and returns normalized for potentially nonrecurring, unusually high or low performance.

Conversely, if the company is funding postretirement obligations at a level substantially below its net expense (service cost and net interest cost), we interpret this as a form of borrowing that artificially bolsters reported cash flow from operations.

In order to appropriately interpret adjusted numbers, note that our cash flow adjustment:

- Reallocates to the period certain costs (service and interest) that often differ from the cash impact in the period;
- Ignores prior service costs and other items such as curtailments, settlements and special termination benefits, and foreign-exchange variations;
- Ignores any income or charge (whether through income-statement or directly recognized into equity) that reflected the recognition of actuarial gains and losses; and
- Until early 2006, was capped at zero (no longer the case).

Income statement

In analyzing profitability (including operating profit and EBITDA), we disaggregate the benefits-cost components that may be lumped into operating income and expenses, allocate the amounts to operating and financial components, and eliminate those components we believe have no economic substance. The period's current service cost—reflecting the present value of future benefits earned by employees for services rendered during the period—is the sole item we keep as part of operating expenses.

The components, if any, that represent accounting artifacts and stem from the smoothing approach of the accounting rules—e.g., amortization of variations from previous expectations regarding plan benefits, investment performance, and actuarial experience—are eliminated from our income measures. As a result of these adjustments, pre-tax and after-tax income no longer match reported amounts.

Interest expense, which results from applying the discount rate to the beginning-of-period obligation to accrete the liability with the passage of time for the reporting period, is essentially a finance charge—and is reclassified as such, if reported differently.

The expected return on plan assets represents management's subjective, long-range expectation about the performance of the investment portfolio; in some accounting systems—such as U.S. GAAP—it may be applied to a smoothed, market-related value, rather than the fair-market values of the assets. We may choose instead to apply a standardized return, to gauge what multiyear average returns can be expected. We note the risks in the asset mix, but only subjectively. (In the future, we may find a way to reflect the risk profile of the portfolios in a more quantitative manner.)

Either way, the return on plan assets is netted against PRB-related interest expense up to the amount of the interest expense reported, but not beyond, as the economic benefits to be derived from such overage are limited. If, however, the actual return is negative, the full amount is treated as an addition to interest expense because the

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resulting economic detriment to the company is quite tangible.

Adjustment procedures

Data requirements

For the income and cash flow adjustments, amounts for the period of:

- Service cost;
- Interest cost;
- Expected return on plan assets;
- Actual return on plan assets;
- Actuarial gains/losses (amortization or immediate recognition in earnings);
- Prior service costs (amount included in earnings);
- Other amounts included in earnings (e.g., special benefits, settlements/curtailments);
- Total benefit costs; and
- The sum of employer contributions and direct payments made to participants.

For the balance-sheet adjustments:

- PRB-related assets on the balance sheet, including intangible assets, pre-paid or noncurrent assets, or any other assets;
- PRB-related liabilities on the balance sheet, including current and noncurrent liabilities;
- PRB-related deferred tax assets (or tax rate applicable to PRB costs);
- Fair value of plan assets; and
- Total plan obligations.

Note: Relevant pension and other postretirement benefit amounts are combined for all plans.

Calculations

Income-statement adjustments include adjustments to expenses and interest.

- Total PRB costs charged to operating income, less the service cost, yields the PRB adjustment to operating income. This is added to operating income before and after D&A, EBIT, and EBITDA.
- Interest cost less the expected return is PRB interest. In some cases, we may adjust expected returns to normalize it at a more realistic level. If net PRB interest is a cost, we include it in adjusted interest expense (we do not reduce interest expense if expected returns exceed interest cost). This PRB interest is added to reported interest when the net benefit costs are included in operating income. If reported interest already includes an interest component for PRBs (e.g., as may be the case under IFRS), we adjust it, if necessary, to ensure it reflects the amount of PRB interest cost. A similar calculation is made using the actual, rather than expected, return on plan assets.

The adjustment to funds from operations starts with a calculation of excess contributions or PRB borrowing:

- Total employer contributions (including direct payments to retirees), less service costs, less interest costs, plus expected return yields the excess contribution, if positive, or PRB borrowing, if negative. (A similar calculation is made using actual, rather than expected return.)
- The excess contribution or PRB borrowing is reduced by taxes at the rate applicable to PRB costs. That is, the amount is multiplied by (1 - tax rate) to create the PRB adjustment to FFO.
- The excess contribution on PRB borrowing is added or subtracted to or from FFO.

The balance-sheet adjustments affect assets, debt, and equity.

- Plan obligations less assets equals the net pension and postretirement funded status (deficit or surplus).
- The net balance sheet asset (liability) position is determined as the balance sheet assets less liabilities. For the adjustment to debt, if net pension and postretirement funded status is a surplus, debt is not adjusted. If the net pension and postretirement is a deficit, this amount is reduced by the expected tax shield, that is, the amount is multiplied by (1 - tax rate).
- In some jurisdictions, the tax benefit is realized in advance of funding the deficit or paying benefits, for example, when the liability is accrued for tax purposes. The expected tax shield used in our calculation only takes into account amounts that have not yet been received. The adjustment to equity also considers existing balance sheet amounts.
- Equity is adjusted for the tax-effected difference between the deficit/surplus and the net balance sheet assets/liabilities, i.e., multiplied by (1 - tax rate).

Unlike the adjustment to debt, the adjustment to equity can be an increase or decrease.

(Please see "Corporate Ratings Criteria," 2006 edition: Postretirement Obligations; and "Ratings Implications Of New FASB Standard On Pensions And Other Postretirement Benefit Obligations," published Sept. 29, 2006, on RatingsDirect.)

Power purchase agreements

We view purchased power supply agreements (PPAs) as creating fixed, debt-like, financial obligations that represent substitutes for debt-financed capital investments in generation capacity. In a sense, a utility that has entered into a PPA has contracted with a supplier to make the financial investment on its behalf. Consequently, by adjusting financial metrics to incorporate PPA fixed obligations, we achieve greater comparability of utilities that finance and build generation capacity and those that purchase capacity to satisfy customer needs.

PPAs do benefit utilities by shifting various risks to the suppliers, such as construction risk and most of the operating risk. The principal risk borne by a utility that relies on PPAs is the recovery of the costs of the financial obligation in rates. Differentiating the risk profiles of utilities that take divergent approaches is incorporated in our qualitative business-risk assessments.

We calculate the present value (PV) of the future stream of capacity payments under the contracts as reported in the financial statement footnotes, or as supplied directly by the company. The discount rate used is equivalent to the company's average cost of non-securitization debt. For U.S. companies, notes to the financial statements enumerate capacity payments for the coming five years, and a thereafter period. We often have access to company forecasts that show the detail underlying the thereafter amount; otherwise, we divide the amount reported as thereafter by the average of the capacity payments in the preceding five years to derive an approximation of annual payments after year five.

In calculating the amount we add to debt, we also consider new contracts that will commence during the forecast period. Such contracts are not reflected in the notes to the financial statements—but information regarding these contracts may be provided to us by the company.

If these contracts represent extensions of existing PPAs, they are immediately included in the PV calculation. However, a contract sometimes is executed in anticipation of incremental future needs, so the energy will not flow until some later period and there are no interim payments. In these instances, we incorporate that contract in our projections, starting in the year that energy deliveries begin under the contract, just as if the company had purchased a plant at that juncture. That way, the debt imputation is viewed in the context of all the related activity, including revenues and cash flow from the forecast demand. (Of course, the projected PPA debt is included in projected ratios. That way, the future PPA figures as a current rating factor, even if it is not included in the current-year ratio calculations.)

The calculated PV is adjusted to reflect the benefits of regulatory or legislative cost recovery mechanisms. The adjustment reduces the debt-equivalent amount by multiplying the PV by a specific risk factor that pertains to each contract. The stronger the recovery mechanisms, the smaller the risk factor. These risk factors typically range between 0% and 50%, but can be as high as 100%.

A 100% risk factor would signify that substantially all risk related to contractual obligations rests on the company, with no mitigating regulatory or legislative support. For example, an unregulated energy company that has entered into a tolling arrangement with a third-party supplier would be assigned a 100% risk factor. Conversely, a 0% risk factor indicates that the burden of the contractual payments rests solely with ratepayers. This fact pattern frequently is found among regulated utilities that act as conduits for the delivery of a third party's electricity, and essentially deliver power, collect charges, and remit revenues to the suppliers. These utilities typically have been directed to divest their generation assets; are barred from developing new generation assets; and the power supplied to their customers is sourced through a state auction or third parties that act as intermediaries between retail customers and electricity suppliers.

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Intermediate degrees of recovery risk are presented by a number of regulatory and legislative mechanisms. For example, we employ a 50% risk factor in cases where regulators use a utility's rate case to establish base rates to provide for the recovery of the fixed costs created by a PPA. While we view this type of mechanism as generally supportive of credit quality, the utility still needs to obtain approval to recover costs and the prudence of PPA capacity payments in successive rate cases to ensure ongoing recovery of its fixed costs. If a regulator has established a power cost adjustment mechanism that recovers all prudent PPA costs, a risk factor of 25% is employed, because the recovery hurdle is lower than it is for a utility that must litigate time and again its right to recovery costs.

In certain jurisdictions, true-up mechanisms are more favorable and frequent than the review of base rates, but still do not amount to pure fuel adjustment clauses. Such mechanisms may be triggered by financial thresholds or passage of prescribed periods of time. In these instances, a risk factor between 25% and 50% is employed.

Legislatively created cost-recovery mechanisms are long-lasting and more resilient to change. Consequently, such mechanisms lead to risk factors between 0% and 15%, depending on the legislative provisions for cost recovery and the supply function borne by the utility. Legislative guarantees of complete and timely recovery of costs are particularly important to achieving the lowest risk factors.

We do not impute debt for supply arrangements if a utility acts merely as a conduit for the delivery of power. As an example, New Jersey's vertically integrated utility companies were transformed into pure transmission and distribution utilities. The state commission, or an appointed proxy, leads an annual auction in which suppliers bid to serve the state's retail customers, and the utilities are protected from supplier default. The state's utilities merely deliver power and collect revenues from retail customers on behalf of the suppliers. Therefore, we impute debt only to New Jersey utilities' qualifying facility and exempt wholesale generator contracts—and not for other electricity supply contracts where the utilities merely act as conduits between the winners of the regulator's supply auction and the end-user, retail customers.

We also exclude PPAs with durations of less than one year where they serve merely as gap fillers, pending either the construction of new capacity or the execution of long-term PPA contracts. These contracts are temporary—and we focus on the more permanent situation, which is factored into the forecast ratios.

Given the long-term mandate of electric utilities to meet their customers' demand for electricity, and also to enable comparison of companies with different contract lengths, we use an evergreening methodology. Evergreen treatment extends the duration of short-and intermediate-term contracts to a common length of around 12 years. To quantify the cost of the extended capacity, we use empirical data regarding the cost of developing new peaking capacity, incorporating regional differences. The cost of new capacity is translated into a dollars-per-kilowatt-year figure using a proxy weighted average cost of capital and a proxy capital recovery period.

Some PPAs are treated as operating leases for accounting purposes—based on the tenor of the PPA or the residual value of the asset upon the PPA's expiration. We accord PPA treatment to those obligations, in lieu of lease treatment, if companies identify them to us. That way, such PPAs will not be subject to a 100% risk factor for analytical purposes as though they were ordinary leases; rather, the PV of the stream of capacity payments associated with these PPAs is reduced to reflect the applicable risk factor. (PPAs treated as capital leases for accounting purposes do not fall under our PPA adjustment.)

Long-term transmission contracts can also serve in lieu of building generation, and, accordingly, fall under our PPA methodology. In some cases, these transmission contracts provide access to specific power plants, while other transmission arrangements provide access to competitive wholesale electricity markets. We view these types of transmission arrangements as extensions of the power plants to which they are connected or the markets that they serve. Accordingly, we impute debt for the fixed costs associated with such transmission contracts.

Adjustment procedures

Data requirements

- Future capacity payments obtained from the financial statement footnotes or from management.
- Discount rate: the company's cost of nonsecuritized debt.
- Analytically determined risk factor.

Calculations

- Balance-sheet debt is increased by the PV of the stream of capacity payments multiplied by the risk factor.
- Equity is not adjusted, because the recharacterization of the PPA implies the creation of an asset, which offsets the debt.
- PP&E and total assets are increased for the implied creation of an asset equivalent to the debt.
- An implied interest expense for the imputed debt is calculated by multiplying the utility's average cost of nonsecuritized debt by the amount of imputed debt (or, average PPA imputed debt, if there is fluctuation of the level), and is added to interest expense.
- The cost amount attributed to depreciation is reclassified as capex, thereby increasing operating cash flow and FFO.
- We impute a depreciation component to PPAs. The depreciation component is derived by multiplying the relevant year's capacity payment by the risk factor and then subtracting the implied PPA-related interest for that year. Accordingly, the impact of PPAs on cash flow measures is tempered.
- Some PPA contracts refer only to a single, all-in energy price. We identify an implied capacity price within such an all-in energy price, to calculate an implied capacity payment associated with the PPA. This implied capacity payment is expressed in dollars per kilowatt-year, multiplied by the number of kilowatts under contract. (In cases that exhibit markedly different capacity factors, such as wind power, the relation of capacity payment to the all-in charge is adjusted accordingly.)
- Operating income before D&A and EBITDA are increased for the imputed interest expense and imputed depreciation component, the total of which equals the entire amount paid for PPA (subject to the risk factor).
- Operating income after D&A and EBIT are increased for interest expense.

(Please see "Standard & Poor's Methodology For Imputing Debt for U.S. Utilities' Power Purchase Agreements," Published May 7, 2007, and "Credit FAQ: Imputed Debt Calculation For U.S. Utilities' Power Purchase Agreements," published March 30, 2007, on RatingsDirect.)

Share-based compensation expense

We view the value of equity instruments *(for example, stock options and restricted shares awards)* granted to employees and/or other service providers as an outlay that should be taken into account in evaluating issuers' performance and profitability. When we assess a company's ability to generate a real, all-in return on capital employed, we should not view differently companies granting equity from peers using cash as a form of compensation. Although often not representing a direct or an immediate call on a company's cash resources, these grants are made in exchange for, or in anticipation of, services to be provided: They have a real economic value and so should be considered.

In analyzing the financial aspects of equity awards granted by an issuer, we consider adjustments to:

- Normalize the value of these grants in calculating earnings and performance-based metrics. That is, certain accounting regimes mandate expensing of stock-based grants while others do not. In addition, certain practices employed by management, such as vesting acceleration and other award modifications, could meaningfully affect reported results. Accordingly, certain adjustments may be warranted for more meaningful peer and period-over-period comparisons.
- Highlight the effect that these arrangements might have over time on cash flows. That is, although most awards do not result in cash being exchanged upon grant, future cash flows are clearly affected. This occurs as a result of payments received by the company upon exercise or issuance of shares; payments made by the company for share repurchases (to mitigate EPS dilution); a company's practice to settle the value of equity grants in cash in lieu of

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shares; and tax savings generated by the favorable tax treatment generally afforded to options and other grants.
- Separately, we try to ascertain the effectiveness of a company's grants in aligning employee incentives with shareholders' and creditors' objectives.

Until recently, the major accounting regimes (e.g., IFRS, U.S. GAAP, Canadian GAAP, and Australian GAAP) did not mandate expensing of these costs. Now most require the fair value of equity-based grants (or an approximation of that value) to be included as an expense in the income statement. This amount is generally expensed over the benefiting period, i.e., the period the employee is assumed to provide services in exchange for the award. Often the vesting period is used as a proxy. Prior to the advent of IFRS and the recent mandating of expensing under U.S. GAAP for all stock-based grants, the accounting was greatly fragmented and inconsistent among companies and jurisdictions, and also varied according to the form of the award. For example, although restricted shares or stock appreciation rights may be economically equivalent to stock option grants, the accounting differed. Further, disclosures of stock-based compensation arrangements, which were lacking in the past, have vastly improved as a result of governance and transparency requirements by accounting-standard setters, securities regulators, and exchanges, providing more pertinent data on these arrangements.

Profitability analysis

Our objective is to capture compensation cost in our profitability measures—regardless of the means of payment (i.e., whether paid in cash, shares, options or other in-kind payment)—as fully and as consistently as possible.

With the recent accounting changes, most rated companies now expense the cost of equity-based grants, so the consistency of reported earnings is significantly enhanced, obviating in many cases the need to define a different common basis for analysis. However, where information enabling quantification is not available, we employ a qualitative assessment, to be conscious of the difference among peers.

Companies may, at times, modify their share-based awards, grant a one-time award (e.g., upon an acquisition), or accelerate vesting (e.g., upon a change in control or downsizing). These actions could meaningfully alter reported income and introduce discrete volatility to earnings. However, adjustments for these variants generally are not feasible as a practical matter, and are attempted only where material and the relevant information is available.

Cash-flow analysis

When a company grants share-based awards, generally no cash is paid or received. Cash-flow consequences, if any, only arise when the options are exercised (e.g., as a result of payment of the exercise price and from associated tax benefits). For some other grants, such as stock appreciation rights (SARs) payable in shares and restricted share grants, no cash changes hands at all. Just as with all issuance of equity, the company's financial position is enhanced, or at least is not diminished, as a result of the grant (assuming settlement is effected with shares, and the grant/exercise is not tied to commensurate repurchases). From a cash-flow standpoint, companies would gain flexibility to the extent that stock-based grants provide an alternative to cash compensation and their creditors should be better off, while their shareholders will be diluted.

Our cash-flow measures, such as FFO and OCF, are not affected by share-based grants. Being a non-cash item, share-based related expense will continue to be backed out on the cash flow statement. Because options and restricted share grants represent non-cash events, our key cash flow ratios—FFO to total debt, EBITDA to interest, and debt to EBITDA—exclude stock option expense. Accordingly, for companies whose stock-based compensation expense (payable in shares) has been deducted, we adjust EBITDA measures by adding back the expense.

Unlike options or restricted share awards, certain other share-based arrangements are payable solely in cash (e.g., stock appreciation rights required to be settled in cash), and represent a future call on a company's cash

flow. The obligations under these arrangements are treated as debt.

For tax-reporting purposes, the exercise or the point of vesting (not granting) of certain stock-based awards often generates a tax-deductible expense, regardless of whether the company has been expensing stock-option grants for financial reporting purposes. Tax credits are shown as an operating item on the cash flow statement under U.S. GAAP only to the extent they relate to the accounting expense; if the tax deduction exceeds the amount attributable to the accounting expense, such excess is a financing item. Analytically, we view tax benefits more appropriately as a financing item on the cash flow statement, since they are triggered only upon equity issuance.

To mitigate dilution caused by options and other share-related grants, companies often engage in share repurchases. Arguably, if a company regularly reverses the dilution resulting from the exercise of share-based awards through share repurchases, the related cash outlays (net of cash proceeds from the exercise) could be treated as a cash operating expense. However, we view a company's decision to repurchase its shares as a separate matter—and part of the company's overall corporate finance strategy. Accordingly, we determine the level of expected share repurchases in the context of a broader assessment of liquidity, capitalization, and financial policy.

In contrast, when an issuer enters into derivative or similar contracts to repurchase shares at a future date, we view these contracts as precursors to such purchases—and incorporate the repurchase immediately in the analysis. Still, even in the absence of such contractual arrangements, the analysis incorporates the eventual share repurchases if they are anticipated. We adjust debt by adding amounts that are anticipated as necessary to fund these transactions.

Additional considerations

For U.S. tax purposes, generally the exercise (not granting) of certain stock options results in a tax-deductible expense to the employer. However, for GAAP purposes, the company expenses the fair value of stock options, which is determined at the grant date, ratably over the related service period. As a result of the use of the grant date fair value to determine the accounting expense, rather than an exercise-date intrinsic or other value for tax deduction purposes, the book and the tax expenses will differ. Furthermore, U.S. GAAP does not allow companies to record a reduction to income tax expense on their income statements for these excess tax benefits. Instead, the tax benefit is recorded directly as an incremental increase to equity (more specifically, additional paid-in capital) and a reduction of taxes payable (i.e., never recorded in as a benefit in the income statement). Consistent with our view that the tax benefits are more financing in nature, because they relate to equity issuance, this will not give rise to an adjustment.

If the options ultimately expire unexercised, any previously recorded accounting expense (recorded based on the award's initial fair value) is not reversed under U.S. GAAP. Although in this circumstance no tax deduction would be generated at all, it would result in a deferred tax asset being recorded on the company's balance sheet over the expense recognition period (because the book expense and resulting deferred tax assets are calculated based on the initial fair value). This tax asset is reversed through earnings only upon expiration of the exercise period. This requirement can cause large deferred tax assets, unlikely to be realized, to remain on a company's balance sheet, causing artificially inflated equity balance in circumstances in which a company's fortunes are adversely changing, and its options are moving substantially out of the money (rendering both exercise and use of the tax benefit improbable). Analytically, it would be more appropriate to reverse the asset amount against equity when it becomes apparent that use of the benefits is unlikely. Adjustments for these situations are considered only in rare circumstances.

Both IFRS and U.S. GAAP now require the expensing of stock options and other share-based employee compensation. However, to facilitate the transition from the prior approach of not expensing, the transition provision allows companies to apply this approach only

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to grants that were made after a specific date (e.g., Nov. 7, 2002, under IFRS). As a result, costs for an increasing proportion of outstanding grants will be expensed over time. We have generally not attempted to adjust earnings measures to include the missing expenses in the early years of the transition.

Adjustment procedures

Data requirements

- Total period share-based compensation expense reflected in the financial statements. (Amounts may be available in the statements or in the notes.)
- In jurisdictions that do not require expensing of such compensation, an estimate of what would be expensed.
- Amount of deferred taxes unlikely to be realized.
- Tax cash flows included in operating that we view as financing.
- Estimate of amounts to be used for share repurchases.

Calculations

- EBITDA: Where noncash stock compensation costs have been expensed, we reverse the expense amount.
- SG&A, Operating income before and after D&A, and EBIT: In jurisdictions where share-based compensation is not required to be expensed, the estimated amount is deducted from these profitability measures.
- Tax assets that are unlikely to be realized are subtracted from assets and equity.
- Taxes that are financing in nature are added to operating cash flow and FFO.
- Debt is increased—and equity decreased—for related share repurchases that are contractually committed or otherwise imminent.

(Please see "Analytic Implications Of Stock-Based Compensation Accounting," published March 24, 2005, and "Camouflaged Share Repurchases: The Rating Implications of Total-Return Swaps and Similar Equity Derivatives," published Dec. 7, 2000, on RatingsDirect.)

Stranded costs securitizations of regulated utilities

For rate-regulated utilities, we remove the effects of debt related to securitization of stranded costs, to the extent that debt is serviced separately by the utilities' customers through direct inclusion in rates. Because the customers, not the utility, are responsible, by statute, for principal and interest payments, we remove the debt from the balance sheet for analytical purposes. We also remove related amounts from revenue, depreciation, and interest.

Adjustment procedures

Data requirements

- Amount of securitized debt related to stranded costs on the utility's balance sheet at period end;
- Interest expense related to securitized stranded-cost debt for the period; and
- Principal repayments on stranded-cost securitized debt during the period.
- Note: We obtain the data from the financial statements and footnotes of the utility; or separate special purpose vehicle (SPV) created for the debt securitization; or information received directly from the utility.

Calculations

- Adjustment to debt: We subtract the stranded-cost securitized debt from total debt.
- Adjustment to revenues: We remove the revenue earned from customers that is committed to paying securitized debt principal and interest from total revenues. We assume that revenue equals the sum of interest and principal payments made during the year.
- Adjustment to operating income before depreciation and amortization and EBITDA: We remove the revenue earned from customers committed to paying principal and interest on securitized debt.
- Adjustment to operating income after depreciation and amortization and EBIT: We remove the revenue earned from customers committed to paying principal and interest. We also remove depreciation and amortization related to the regulatory asset, which we assume equals the sum on principal payments during the period. As a result, the reduction to operating income after D&A is only for the interest portion.
- Adjustment to interest expense: We reduce interest expense by interest expense of the securitized debt.

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- Operating cash flows: We reduce operating cash flows for revenues and increase for the assumed interest amount related to the securitized debt. This results in a net decrease to operating cash flows equal to the principal repayment amount.

(Please see "Securitizing Stranded Costs," published Jan. 18, 2001, on RatingsDirect.)

Surplus cash

The credit profile of companies that have accumulated cash is, of course, enhanced by the available liquidity. But our analytical methodology regularly goes a step further, by adjusting both financial and operating ratios to reflect a company's surplus cash (that is, unless the surplus is deemed to be only temporary).

Industrial credit ratios are intended to capture the degree to which a company has leveraged its risk assets, and highly liquid financial assets often involve virtually no risk. Moreover, ratios are designed to indicate a company's ability to service and repay debt obligations from operating cash flow, and surplus cash and/or highly-liquid assets are, in a sense, available to repay debt apart from ongoing cash flow generation. Accordingly, we often net surplus cash against debt and debt-like obligations—so that net debt is what figures in ratio calculations.

In some situations—only where the surplus cash is structurally linked to debt that would not be needed, were it not for the cash holdings—we also use a net interest expense when calculating the denominator of coverage ratios, such as FFO/interest, EBIT/interest and EBITDA/interest. (Absent such linkage, we use gross interest in the denominator. Also, since interest income is differentiated from operating income, it is generally not included in the numerator.)

Further, maintenance of surplus cash distorts operational benchmarks and return on assets (ROA) measures that are important for peer comparisons in some sectors, such as pharmaceuticals. Given the relatively low returns on low-risk financial assets, maintaining such assets depresses asset-related margins (even without taking into account interest expense required if the company is financing the cash with debt that otherwise would not be needed).

The key analytical considerations regarding net debt adjustments are the quality of the financial assets themselves, and the company's purpose and strategies for maintaining them—although doing so involves commensurately higher levels of debt. Some of the possible strategies—and what they imply for the permanence of the surplus—are discussed below.

Virtually all companies require some cash to facilitate their operations. Retailers, restaurants, and supermarkets, for example, need cash to make change. More broadly, companies require a certain level of cash for very-near-term liquidity. We do not give any special credit or make any adjustments for cash that is merely adequate to support ongoing operations, even though the amount can sometimes be quite substantial—especially for companies that operate numerous facilities, and those that transact in diverse currencies.

Companies engage in dialogue with us to help us gauge these near-term operating liquidity needs, and our sector comparisons and reviews also target peer consistency regarding maintenance of sufficient liquidity. Apart from potential netting for surpluses, maintaining adequate liquidity is always an important rating consideration. A company with a deficient level of cash for working capital needs would be penalized in its rating assignment.

However, many companies possess still greater cash, and/or liquid, low-risk, financial resources. Several different possible purposes and strategies could apply. This is important to our analytical treatment: There are many situations in which we use net calculations and, many others where we do not, usually determined by the company's strategies. The strategies explained below are in descending order, starting with the most supportive of a net approach and concluding with a number of strategies that do not lead to a net approach.

Strategies that support net-debt treatment

- Defeasance (both legal and economic). Because the company places very high-quality assets in a trust to cover the interest and principal of a specific debt issue, this is the most obvious application of the net debt adjustment. *(See "Defeasance Of*

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Corporate Bonds May Be Gaining Popularity," published July 25, 2006, on RatingsDirect).

- Tax arbitrage. Some companies manufacture in various tax havens; retain related profits in those low-tax locales and avoid tollgate taxes by holding financial investments there; while financing and incurring tax-deductible interest expense in higher-tax rate jurisdictions. Such structural basis for maintaining cash is another solid reason for applying the net debt adjustments. (However, for analytical purposes, any "tollgate" taxes payable upon repatriation are subtracted from the cash.) The large, cash-rich U.S. pharmaceutical companies offer a good example of this tax arbitrage strategy. And, given the magnitude of this aspect of these companies' finances, profitability measures could be quite distorted without also adjusting return on asset ratios to a net basis. *(See "Credit FAQ: Tax Relief On Foreign Cash And Its Special Benefit To U.S. Drug And Medical Device Firms," published Sept. 14, 2004, and "Ratings Implications Of Earnings Repatriations Under The American Jobs Creation Act," published June 26, 2006, on RatingsDirect.)*
- Funding future payment of obligations—especially retiree obligations. Some companies may earmark financial assets on their balance sheet to provide for their retiree benefit obligations. In particular, some large German corporations assert that this is their financial policy. Indeed, while these assets are not legally segregated, we would view them as offsetting the liability. Application of the net debt approach in such cases presumes that the liability itself is sufficiently debt-like to be included in our definition of adjusted debt. (U.S., U.K., and Dutch companies, among others, are forced by law to fund their pension obligations in a trust. Our pension adjustment adds back only any unfunded portion, which is equivalent to netting these financial assets against the debt-like pension liability.)
- Meet seasonal requirements. A company may choose to pre-fund its intrayear borrowing needs, by borrowing (or not repaying outstanding debt balances), holding the proceeds in cash or near-cash investments, drawing down the cash as the year progresses, and then replenishing it at period end. The company should not be penalized relative to a company that instead relies on borrowing only as the need actually materializes, thus avoiding the debt showing up on its yearend financial statements. (In both cases, there may be equal prudence, since the latter company would typically be able to rely on a revolving credit agreement.) To avoid such a distortion and promote comparability, we would use a net-debt approach. However, it would be tricky to estimate the impact on interest expense involved for this pattern, which is one reason we are reluctant to focus on net interest expense.
- Maintain access to financial markets. Very similar to the above strategy, some companies believe it is in their best interests to keep a fairly stable presence in the financial markets, especially in commercial paper markets. They maintain market presence on a regular basis, and avoid going in and out of the markets as their cash flow patterns would dictate.

Strategies that do not support net-debt treatment

- Cyclical safety net. Some companies tend to accumulate cash during good times, and hold onto it for self-preservation during expected lean years. For companies that have large ongoing capital requirements, this can be critical. The large U.S. auto companies offer a dramatic example. Similarly, high-technology companies tend to operate with a large cash cushion, given the vicissitudes of the technology product life cycles. Such cash is not really an offset to debt, and net debt is not used as the basis for analysis in these instances. (Nonetheless, it is hard to forecast how much cash is appropriately dedicated to spending in future downturns. So the analyst might calculate supplementary ratios based on netting, just to gain perspective and for peer comparison purposes.)
- Reserve for investment opportunities. Cash earmarked for investment in operations—

expansion or capital projects—or acquisitions does not qualify for netting against debt. The cash position is temporary, although some companies may take their time until the opportunity they seek arrives. Of course, having such cash to invest is a great positive that must not be overlooked; it figures in other aspects of the analysis: The potential additional cash flow that can be anticipated from enlarged operations is considered in financial projections, and the current availability of cash enhances liquidity.

- Awaiting return to shareholders. In the current financial environment, this situation may be the most common, at least in the U.S. Many companies that have been successful at generating surplus cash are motivated to repurchase stock or pay out special dividends. While shareholder enrichment programs may stretch out over several quarters or even a few years, the cash position of such companies is ephemeral, and should not be netted against debt.

There are many instances where the purpose may be mixed or the strategy unclear. Local business practice can then form the basis for deciding whether the cash position is likely to be long-lasting. Accordingly, companies with surplus cash that operate in the European context are regularly afforded net debt treatment, given the acceptance—even tradition—of companies operating permanently with surplus cash. (Whatever portion is deemed to be needed for operations is excluded from the adjustment.)

In contrast, North American companies operate in an environment that looks askance at cash accumulation. Shareholders expect these funds to be invested, or returned to them for reinvestment. We therefore presume that, in most cases, surplus cash will be distributed to shareholders sooner or later. Accordingly, few companies in North America are analyzed on a net-debt basis.

Some companies participate in global industries, and may be influenced, to some extent, by the behavior of cross-border peers. This could provide additional insight into what to expect in those instances.

A company's excess cash may be invested in assets of varying quality or liquidity. We tend to be fairly conservative about which assets can be used to fully offset debt. However, a diversified portfolio of assets—such as traded equities, for example—can constitute a reasonably high quality investment, and is certainly very liquid. We have sometimes taken a net approach even with respect to nonfinancial assets, when they exhibit similar critical aspects of low risk and liquidity. For example, agricultural commodity and energy trading companies hold inventory against committed orders. Netting the value of these commodities against debt allows a better picture of the true credit risks.

To the extent that asset values may be subject to decline, we would haircut the investment prior to the netting adjustment. There are situations where we would not adjust for excess cash on the balance sheet because the company has only limited access to the funds. Such exceptions include:

- Funds held at partially owned subsidiaries. Joint-venture partners or minority shareholders may insist on maintaining significant liquidity at the subsidiary level, or may otherwise limit the repatriation of cash to the group's central treasury operations. Restrictive bank loan covenants at these units create similar restrictions.
- Operating subsidiaries that are regulated. These business units may be prevented from up-streaming cash to their parents, or may have to maintain substantial cash balances for regulatory reasons.
- Captive insurance subsidiaries. While cash appears unencumbered, it usually has to be invested in line with the subsidiary's insurance status and regulations.
- Pension funding vehicles. Even pension surpluses are generally regarded as inaccessible for all practical purposes.

Adjustment procedures

Data requirements

- The amount of surplus cash is judgmentally determined, based on our assessment of liquidity available to repay debt.
- Estimated taxes that would be subject to collection upon repatriation, if applicable.

Calculations

- Debt and cash and investments are reduced by the surplus cash amount, net of related

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taxes. However, the resulting debt amount may never be negative.
- If the cash and debt are structurally linked, interest expense is reduced by an amount that corresponds to earnings on the surplus cash.

(Please see "Net Debt Adjustments Reflect Asset Quality, Strategic Intent," published Feb. 22, 2007, on RatingsDirect.)

Trade receivables securitizations

Securitization is an important financing vehicle for many companies, often providing lower—cost, more diverse sources of funding and liquidity than otherwise available to the company. However, securitizations do not ordinarily transform the risks or the underlying economic reality of the business activity, and do not necessarily provide equity relief (i.e., that having accomplished a securitization, the issuer can retain less equity, or incur more debt, than otherwise would be the case, without any change in its credit quality).

To the extent the securitization accomplishes true risk transfer (i.e., all risks—contractual, legal, and reputational), the transaction is interpreted as an asset sale. Yet, in the much more common case, the company retains the bulk of risks related to the assets transferred, and the transaction is akin, in our view, to a secured financing. More importantly, perhaps, we do not give any benefit for securitization of assets that will be re-generated in the ordinary course of business (and financed on an ongoing basis).

Key considerations in assessing the extent of equity relief include:
- Riskiness of the securitized assets. The only risk that can be transferred is that which existed in the first place. If, as is often the case, an issuer securitizes its highest-quality or most liquid assets, that limits the extent of any meaningful equity relief.
- First-loss exposure. The issuer commonly retains the first-loss exposure, to enhance the credit protection afforded for the securitized debt. For the securitized debt to be highly rated, the extent of enhancement must be a multiple of the expected losses associated with the assets. The first-loss layer thus encompasses the preponderance of risk associated with the securitized assets, and the issuer's total realizations from the securitization will vary depending on the performance of the assets. Often, only the risk of catastrophic loss is transferred to third-party investors—risk generally of little relevance in the corporate rating analysis.
- Moral recourse. How the company would behave if losses did reach catastrophic levels. Empirical evidence suggests companies often believe they must bail out troubled financings (for example, by repurchasing problematic assets or replacing them with other assets) to preserve access to this funding source and, more broadly, to preserve their good name in the capital markets, even though they have no legal requirement to do so. Moral recourse is magnified when securitizations are a significant part of a company's financing activity, or when a company remains linked to the securitized assets by continuing in the role of servicer or operator.
- Ongoing funding needs. Even if it were contractually and legally certain that the risks related to a given pool of assets had been fully transferred and the issuer would not support failing securitizations, equity relief (or an analytical deconsolidation) still would not necessarily have been achieved. If, for whatever reason, losses related to the securitized assets rose dramatically higher than initially anticipated, and if the issuer has a recurring need to finance similar assets, future access to the securitization market would be dubious—at least economically. Future funding needs would then have to be met by other means, with the requisite equity (and the equivalent level of borrowings) to support them. Thus, even if a company separately sells the first-loss exposures, or sells the entire asset without retaining any first-loss exposure, it would not achieve equity relief.

The accounting treatment of securitizations may not be congruent with our analytical perspective, and, accordingly, adjustments to the reported financials often are necessary (especially for companies reporting under U.S. GAAP, since many securitizations remain on-balance sheet under IFRS).

For transactions in which a company retains the preponderance of risks (including those related to ongoing funding needs), we calculate ratios where the outstanding

amount of securitized assets are consolidated, along with the related securitized debt—regardless of the accounting treatment. If securitization is used essentially to transfer risk in full and there are no contingent or indirect liabilities, we view the transaction as the equivalent of an asset sale. When necessary, then, we recast the assets, debt, earnings and cashflows, and shareholders' equity accordingly, including adjusting for deferred tax effects and imputed interest.

Issues/limitations of adjustments

When securitizations are accounted for as sales, they commonly give rise to upfront gain/loss-on-sale effects, which represent the present value of the estimated difference between the asset yield and the securitization funding rate and other securitization-related costs. For securitizations that we are putting back on the balance sheet, it is appropriate to back out such gains and spread them out over the life of the securitizations, given the uncertainty about whether the earnings will ultimately be realized as expected and their essentially non-recurring character. Losses that reflect the discount on sale are also backed out, to avoid double-counting the interest component of the transactions.

To impute interest, we generally have to approximate a rate, given the lack of precise information that is available. Since securitizations tend to be relatively well-secured and risk-free for the investor, we assume a rate that approximates the risk-free rate, currently 5%.

In theory, it might be desirable to fully recast the income statement, and consolidate off-balance-sheet securitizations, but as a practical matter, this is difficult to accomplish. Still, some companies have voluntarily included pro forma schedules in their public disclosures to enable such analysis.

Cash inflows or outflows related to working capital assets or liabilities, or finance receivables, are classified as operating in nature on the statement of cash flows under U.S. GAAP and IFRS. Hence, securitizations affect operating cash flow, with particularly significant effects possible in reporting periods when securitizations are initiated or mature. The reporting convention varies in line with the balance sheet classification. If the securitization is consolidated, the related borrowings are treated as a financing activity. If the securitization is not consolidated, it is as if the assets self-liquidated on an accelerated basis: No debt incurrence is identified separately, either as an operating or financing source of cash. When our analytic view is that securitizations should be consolidated (or, in rare situations, when those that are consolidated should not be), it would be desirable to recast the statement of cash flow accordingly—to smooth out the variations in operating cash flow that can result from the sale treatment of the securitization, which can give a distorted picture of recurring cash flow. Again, as a practical matter, this often can be difficult to accomplish.

Adjustment procedures

Data requirements

- Identify the period-end amount and average outstanding amount of trade receivables sold or securitized, for which an adjustment is warranted, that are not on the balance sheet.

Calculations

- Debt and receivables are increased by the amount of trade receivables sold or securitized.
- Interest expense is increased by an amount of interest imputed at the risk-free discount rate.
- Operating cash flows are adjusted to remove the proceeds from the securitization when there is an increased level of securitization—upon initiation of securitization or subsequent fluctuation in amounts securitized. Merely rolling over existing securitization requires no cash flow adjustment.

(Please see "Securitization's Effect On Corporate Credit Quality," published Nov. 28, 2005, and "Finance Company Rating Methodology: Credit Ratios To Be Analyzed On A Managed Basis," published Feb. 23, 2001, on RatingsDirect.)

Volumetric production payments

A volumetric production payment (VPP) is an arrangement in which an exploration and production (E&P) company agrees to deliver a specified quantity of hydrocarbons from

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specific properties to a counterparty (often a financial institution) in return for a fixed amount of cash received at the beginning of the transaction. The seller often bears all of the production and development costs associated with delivering the agreed-upon volumes. The buyer receives a nonoperating interest in oil and gas properties that produce the required volumes. The security is a real interest in the producing properties that is expected to survive bankruptcy of the E&P company that sold the VPP. When the total requisite units of production are delivered, the production payment arrangement terminates and the conveyed interest reverts back to the seller.

We view production payments structured with a high level of security to production coverage as debt-like obligations, and adjust financial and operating analysis accordingly. The retention of risk in VPPs is central to our treatment of such deals as largely debt-like.

The accounting for VPPs affects the seller's financial statements and also operating statistics in several ways. The VPP volumes (i.e., the amount of oil and gas required to be delivered under the agreement) are removed from the seller's reserves. Proceeds received for the VPP increase the seller's cash balances, and the seller books a deferred revenue liability—or debt—to reflect the obligation under the agreement. Revenues and costs incurred to produce the VPP volumes are included in the seller's income statement as and when the oil and gas is produced. Operating statistics calculated on a per-barrel basis will be overstated because they include both the amortization of deferred revenues and costs, but do not factor in the volumes related to the VPP. In the case of lifting costs, for example, barrels produced in the numerator are lower, while the expense in the denominator continues to include the cost of producing the VPP volumes.

When the necessary data are available, we adjust the reported results to minimize the distortion caused by accounting for a production payment. The required volumes are returned to reserves and deferred revenue is treated as debt. Similarly, the oil and gas volumes produced to meet the VPP requirements are added to the E&P company's production when calculating per-barrel sales and lifting costs. This treatment reflects the view that VPPs are conceptually similar to secured debt, rather than asset sales. The similarity pertains in typical deals, in which the reserves included in the production agreement are significantly greater than the required volumes. The seller bears the obligation to deliver the agreed-upon volumes, and retains the production and a significant amount of reserve risk, while receiving the benefit of fixing commodity prices. A VPP structured with minimal coverage would be viewed as closer to an asset sale, since the transfer of risk would be more substantial.

Adjustment procedures

Data requirements

- Amount of VPP-related deferred revenue reported on the balance sheet at period end;
- Oil and gas reserve data (related to VPPs that have been removed from reported amounts);
- Remaining quantity of oil and gas reserves removed from reported reserves at end of period (yet to be delivered); and
- Oil and gas volumes produced during the year from the VPPs.

The amount of deferred revenue related to VPPs at period end is obtained from the financial statements. Reserve quantities may come from the financial statements or from the company.

Calculations

- Adjustment to debt: We add the amount of deferred VPP revenue at period end to debt.
- Adjustment to interest expense: We impute interest expense on the adjustment to debt. The rate is that inherent in the contract, or a rate estimated by the analyst based on the company's secured borrowing rates. In either case, it is applied to the average of the current period end, and the previous period end deferred VPP revenue balance.
- We add period-end reserve volumes related to VPPs back to reported reserves.
- Similarly, we add the oil and gas volumes produced to meet the VPP requirements to the company's production and sales statistics used to calculate per-barrel selling prices and lifting costs.
- Adjustment to operating cash flow: We reclassify cash proceeds from VPPs as

financing cash flows. Future cash flows will be adjusted (if practicable and data are available) upon delivery, to reflect the cash flows associated with the properties.

(Please see "Credit FAQ: Volumetric Production Payments For U.S. Oil And Gas Companies," published April 14, 2005, and "Oil And Gas Volumetric Production Payments: The Corporate Ratings Perspective," published Dec. 4, 2003, on RatingsDirect.)

Workers compensation/self insurance

Workers compensation systems provide compensation for employees injured in the course of employment. While schemes differ between jurisdictions, provisions may be made for payments in lieu of wages, compensation for economic losses (past and future), reimbursement for or payment of medical and like expenses, general damages for pain and suffering, and benefits payable to the dependents of workers killed during employment. (For example, U.S. coal mining companies, under the Federal Coal Mine Health and Safety Act, are responsible for medical and disability benefits to existing and former employees and their families who are affected by pneumoconiosis, better known as black lung disease.)

Workers compensation coverage may be provided through insurance companies, and thus is not a financial concern for the company. But, in certain instances and/or industries, employers assume direct responsibility for medical treatment, lost wages, etc.

In these cases, under U.S. GAAP or IFRS, the incurred liabilities usually are recorded on the company's balance sheet as other liabilities, based on an actuarially determined present value of known and estimated claims. Accordingly, these obligations represent a call on future cash flow, distinguishing them from many other, less-certain contingencies. They are analogous to postretirement obligations, which we also add to debt.

Treating the workers-compensation liability as debt affects many line items on the financial statements. Ideally, if there is sufficient disclosure available, we would adjust fully (in a manner akin to our post-retirement adjustments). In practice, the data are not available, so we reclassify these obligations, adjusted for tax, as debt. Similarly, we may also treat other analogous self-insurance-type liabilities as debt.

Adjustment procedures

Data requirements

- Net amount recognized as a liability for workers compensation obligations and for self-insurance claims.

Calculations

- Add amount recognized for workers compensation obligations (net of tax) and net amount recognized for self-insurance claims (net of tax) to debt. ■

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Rating Each Issue

We assign two types of credit ratings—one to corporate issuers and the other to individual corporate debt issues (or other financial obligations). The first is called a Standard & Poor's corporate credit rating. It is our current opinion on an issuer's overall capacity to pay its financial obligations, i.e., its fundamental creditworthiness. This opinion focuses on the issuer's ability and willingness to meet its financial commitments on a timely basis. It generally indicates the likelihood of default regarding all financial obligations of the company, because, in most countries, companies that default on one debt type—or file for bankruptcy—virtually always stop payment on all debt types.

The corporate rating does not reflect any priority or preference among obligations. In the past, we published the "implied senior-most rating" of corporate obligors—a different term for precisely the same concept. "Default risk rating" and "natural rating" are additional ways of referring to this issuer rating.

(Generally, a corporate credit rating is published for all companies that have issue ratings—in addition to those companies that have no ratable issues, but request just an issuer rating. Where it is germane, both a local currency and foreign currency issuer rating are assigned.)

We also assign credit ratings to specific issues. In fact, the vast majority of credit ratings pertain to specific debt issues. Long-term issue ratings are a blend of default risk (sometimes referred to as "timeliness") and the recovery prospects (loss given default, or LGD) associated with the specific debt being rated. Debt with relatively good recovery prospects—especially well-secured debt—is rated above the corporate credit rating; debt with relatively poor prospects for such loss-given-default—especially junior debt—is rated below the corporate credit rating. Notching does not apply to short-term ratings *(see Commercial Paper chapter of this book)*.

Recovery ratings were added in 2003. These ratings address only recovery prospects, using a scale of one to six, rather than the letter ratings.

Notching Down; Notching Up

The practice of differentiating issues in relation to the issuer's fundamental creditworthiness is known as "notching." Issues are notched up or down from the corporate credit rating level. Payment on time as promised obviously is critical with respect to all debt issues. The potential for recovery in the event of a default—i.e., ultimate recovery, albeit delayed—also is important, but timeliness is the primary consideration. That explains why issue ratings are still anchored to the corporate credit rating. They are notched—up or down—from the corporate credit rating in accordance with established guidelines explained here.

As default risk increases, the concern over what can be recovered takes on greater relevance and, therefore, greater rating significance. Accordingly, the loss-given-default aspect of ratings is given more weight as one moves down the rating spectrum. For example, subordinated debt can be rated up to two notches below a non-investment grade corporate credit rating, but one notch at most if the corporate credit rating is investment grade. (In the same vein, issues of companies with a 'AAA' rating need not be notched at all.)

For investment-grade companies, we seek to differentiate those financial obligations judged to have materially inferior recovery prospects by virtue of being unsecured or subordinated—either contractually or structurally. Priority in bankruptcy is considered in broad terms; there is no attempt to specify a default scenario.

In the speculative-grade categories, we do seek to predict specific recovery levels based on full-blown default-scenario modeling. Because any default would presumably be less distant in time than for investment-grade companies, it is more reasonable to analyze a specific anticipated default scenario, with associated asset mix and realizable values. When such a rigorous recovery analysis is performed, we assign a recovery rating and base the notching on the specific outcome. We focus on a central tendency of approximately 50%. Therefore, issues with recovery rates significantly above 50% are rated above the corporate rating; conversely, issues recovering significantly less than 50% are rated below the corporate rating. We go into greater detail in "Speculative-grade").

Notching relationships underlying issue ratings are subject to review and change when actual developments vary from expectations. Changes in notching do not necessarily have to be accompanied by changes in default risk.

Notching guidelines are a function of the bankruptcy law and practice in the legal jurisdiction that governs a specific instrument. For example, distinguishing between senior and subordinated debt can be meaningless in India, where companies may be allowed to continue paying even common dividends at the same time they are in default on debt obligations; accordingly, notching is not applied in India. The majority of legal systems broadly follow the practices underlying our criteria for notching—but it always is important to be aware of nuances of the law as they pertain to a specific issue.

Preferred stock

Preferred stock carries greater credit risk than debt in two important ways: The dividend is at the discretion of the issuer, and the preferred represents a deeply subordinated claim in the event of bankruptcy. Prior to 1999, Standard & Poor's used a separate preferred stock scale. In February 1999, the debt and preferred stock scales were integrated.

Accordingly, now, preferred stock generally is rated below subordinated debt. When our credit rating on a company is investment grade, its preferred stock is rated two notches below the corporate credit rating. For example, if the corporate credit rating is 'A+', the preferred stock would be rated 'A-'. (In case of a 'AAA' corporate credit rating, the preferred stock would be rated 'AA+'.) When the corporate credit rating is non-investment grade, the preferred stock is rated at least three notches (one rating category) below the corporate credit rating. Deferrable payment debt is treated identically to preferred stock, given subordination and the right to defer payments of interest.

There are situations in which the dividend is especially jeopardized, so notching would exceed the guidelines above. For example, state charters restrict payment when there is a

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deficit in the equity account. This can occur following a write-off, even while the company is healthy and possesses ample cash to continue paying. Similarly, covenants in debt instruments can endanger payment of dividends, even while there is a capacity to pay.

In all cases, the risk of deferral of payments is analyzed from a pragmatic, rather than a legal, perspective. If a company defers a payment or passes on a preferred dividend, it is tantamount to default on the preferred issues. The rating is changed to 'D' once the payment date has passed. The rating usually would be lowered to 'C' in the interim, to the extent nonpayment can be anticipated—e.g., if the company were to announce that its directors failed to declare the preferred dividend. Whenever a company resumes paying preferred dividends but remains in arrears with respect to payments it skipped, the rating is, by definition, 'C'.

Convertible preferred/equity units

Some securities provide for mandatory conversion into common stock of a company. Such securities vary with respect to the formula for sharing potential appreciation in share value. In the interim, these securities represent a subordinated debt or preferred stock claim. Other offerings package a short-life debt or preferred stock with a deferred common stock purchase contract to achieve similar economics.

Ratings on the issue address primarily the likelihood of interim payments and the solvency of the company at the time of conversion to enable it to honor its obligation to deliver the shares. These ratings do not address the amount or value of the common stock investors ultimately will receive. The equity risk that pertains is reflected merely by limiting the rating to the equivalent of the company's preferred equity securities. (We once highlighted this risk by appending an "r" to the ratings of these hybrid securities, but now rely on the market's familiarity with such instruments and their terms.)

Reflecting Recovery In Issue Ratings

If we can confidently project recovery prospects exceeding 70% for an individual security, that issue is typically rated higher than the corporate rating; conversely, if we project recovery for a given security to be under 30%, the issue is typically rated lower than the corporate rating. When we cannot confidently model absolute recovery because of jurisdictional issues or because the corporate credit rating is investment-grade and the issue is unsecured, we notch down when a debt issue's junior standing, relative to other debt issues of the company, indicates relatively poor recovery prospects.

The weighting of recovery aspects in issue ratings also varies as the potential for default becomes more meaningful, as explained below.

Investment grade

For investment-grade companies, notching relationships are based on broad guidelines that combine consideration of asset protection and ranking. The guidelines are designed to identify material disadvantage for a given issue by virtue of the existence of better-positioned obligations. The analyst does not seek to predict specific recovery levels, which would involve knowing the exact asset mix and values at a point well into the future. Therefore we do not generally perform a fundamental recovery analysis, given the difficulty of doing meaningful default scenario analysis while the company is still so strong.

(For example, we would not presume that default occurs while the company's capital structure remains roughly the same—as we generally do in the recovery analysis of speculative grade companies. With respect to currently strong credits—with relatively unburdened balance sheets—such an approach would be inappropriate. Indeed, currently, we typically do not assign recovery ratings for debt issues of investment-grade corporates—with the exception of utility first mortgage bonds.)

Rather, we use a rule-of-thumb approach to identify debt issues with inferior recovery prospects—or, for consideration of adding notches, we use discrete asset valuations if there is collateral (modified somewhat in the case of regulated utilities).

Rating below the corporate credit rating: "Notching down"

When a debt issue is judged to be junior to other debt issues of the company, and thereby to have relatively poor recovery prospects,

that issue is notched down from the corporate credit rating. As a matter of rating policy, the differential is limited to one rating designation in the investment-grade categories given the critical role of timeliness for investment grade debt. Loss-given-default is just less significant in the scheme of things for investment grade—leading to less weight given to recovery; investors are focused on getting paid in the first place.

Whenever a threshold percentage of the company's assets would first be used to satisfy other claims, this translates into a meaningful disadvantage for the "junior" creditors. The threshold for notching is reached when more-senior claims cover over 20% of the assets (unless less-valuable assets make up the collateral or there exist mitigating factors, such as upstream guarantees).

While we do not make specific judgments regarding the level of absolute recovery for investment-grade debt, the material disadvantage of junior issues is designed to roughly correspond to the 30% absolute-recovery benchmark that applies for speculative-grade notching. More often than not, junior debt recovers less than 30% (although this figure may vary by jurisdiction).

The threshold level takes into account that it normally takes more than $1 of book assets—as valued today—to satisfy $1 of priority debt. In the case of secured debt—which limits the priority to the collateral pledged—the remaining assets are still less likely to be sufficient to repay the unsecured debt, inasmuch as the collateral ordinarily consists of the company's better assets and often substantially exceeds the amount of the debt.

Moreover, in all likelihood, there will be additional debt by the time of default, as pointed out above. Since such debt—as well as the refinancing of existing debt—will be incurred as the company approaches default, it is more likely to be on a secured basis (or directly to the entity that holds the operating assets, in the case of an operating company/holding company structure).

To the extent that certain obligations have a priority claim on the company's assets, lower-ranking obligations are at a disadvantage because a smaller pool of assets will be available to satisfy the remaining claims. As mentioned above, debt can be junior by virtue of being contractually subordinated—that is, the terms of the issue specifically provide that debt holders will receive recovery in a bankruptcy only after the claims of other creditors have been satisfied.

Another case is when the issue is unsecured, while assets representing a significant portion of the company's value collateralize secured borrowings. (If the collateral that secures a particular debt issue is of dubious value, while the more valuable collateral is pledged to another loan, even secured debt may be notched down from the corporate credit rating.)

A third form of disadvantage can arise if a company conducts its operations through an operating subsidiary/holding-company structure. In this case, if the whole group is bankrupt, creditors of the subsidiaries—including holders of even contractually subordinated debt—would have the first claim to the subsidiaries' assets, while creditors of the parent would have only a junior claim, limited to the residual value of the subsidiaries' assets remaining after the subsidiaries' direct liabilities have been satisfied. The disadvantage of parent-company creditors owing to the parent/subsidiary legal structure is known as "structural subordination." Even if the group's operations are splintered among many small subsidiaries, the individual debt obligations of which have only dubious recovery prospects, the parent-company creditors may still be disadvantaged compared with a situation in which all creditors would have an equal claim on the assets.

If a company has an atypical mix of assets, the 20% threshold could be higher or lower to reflect the relative amounts of better or worse assets. Goodwill especially is suspect, considering its likely value in a default scenario. In applying the notching guidelines, Standard & Poor's generally eliminates from total assets goodwill in excess of a normal amount—10% of total adjusted assets. As distinct from goodwill, intangibles are considered potentially valuable—for example, established brands in the consumer products sector. We do not, however, perform detailed asset appraisals or attempt to postulate specifically about how market values might fluctuate in a hypotheti-

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cal stress scenario (except in the case of secured debt).

The concept behind these thresholds is to measure material disadvantage with respect to the various layers of debt. At each level, as long as the next layer of debt still enjoys plenty of asset coverage, we do not consider the priority of the top layers as constituting a real disadvantage for the more junior issuers. Accordingly, the nature of the individual company's asset is important: If a company has an atypical mix of assets, the thresholds could be higher or lower to reflect the relative amounts of better or worse assets.

The relative size of the next layer of debt also is important. If the next layer is especially large—in relation to the assets assumed to remain after satisfying the more senior layers—then coverage is impaired. There are numerous LBOs financed with outsized issues just below the senior layers. Although the priority debt may be small (below the threshold levels), it poses a real disadvantage for junior issues: given the paucity of coverage remaining, the junior debt should be notched down.

One other note to keep in mind is that "absolute trumps relative." If for structural or other issue-specific (or jurisdiction specific) reasons we can confidently anticipate recovery above 30% (and below 70%), we would equate the issue rating with the corporate credit rating, regardless of the result of the priority debt calculation. Similarly, if there were structural, issue-specific, or jurisdiction-specific reasons to anticipate recovery below 30%, we would rate the issue one notch below the corporate credit rating. These absolute recovery ranges are similar to those used for speculative-grade issue rating guidelines where we assign recovery ratings.

Application of guidelines

In applying the guidelines above, lease obligations—whether capitalized in the company's financial reporting or kept off balance sheet as operating leases as priority debt—and the related assets are included on the asset side. Similarly, sold trade receivables and securitized assets are added back, along with an equal amount of priority debt. Other creditors are just as disadvantaged by such financing arrangements as by secured debt. In considering the surplus cash and marketable securities of companies that presently are financially healthy, we assume neither that the cash will remain available in the default scenario, nor that it will be totally dissipated, but rather that, over time, this cash will be reinvested in operating assets that mirror the company's current asset base, subject to erosion in value of the same magnitude.

Local- and foreign-currency issue ratings. In determining local-currency issue ratings, the point of reference is the local-currency corporate credit rating: local-currency issue ratings may be notched down one notch from the local-currency corporate credit rating in the case of investment-grade issuers, or one or two notches in the case of speculative-grade issuers. A foreign-currency corporate credit rating on a company is sometimes lower than the local-currency corporate credit rating, reflecting the risk that a sovereign government could take actions that would impinge on the company's ability to meet foreign-currency obligations. But junior foreign-currency issues are not notched down from the foreign-currency corporate credit rating, because the government action would apply regardless of the senior/junior character of the debt. Of course, the issue would never be rated higher than if it had been denominated in local currency. For example, if the local-currency corporate credit rating on a company were 'BB+' and the foreign-currency corporate credit rating were 'BB-', subordinated foreign currency-denominated issues could be rated 'BB-'. But, if the local-currency corporate credit rating were 'BB+' and the foreign currency corporate credit rating was 'BB', the subordinated foreign-currency denominated issues would be rated 'BB-', as would the subordinated local-currency denominated issues.

Rating above the corporate credit rating: "Notching up"

Since we generally do not perform specific default scenario modeling for investment-grade companies, identifying issues with superior recovery characteristics usually relies on security provisions of a specific issue. Candidates for notching up are secured debt issues, where collateral consists of assets with

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a well-established track record with respect to recovery, such as first mortgage bonds of regulated utilities.

As explained above, the weight given to recovery in assigning issue ratings diminishes as one moves up the rating spectrum. When a company's rating is in the 'BBB' category, its well-secured debt is rated one or two notches above the corporate rating, depending on the extent of the collateral coverage. For the 'A' category, the maximum addition is limited to one notch—and this applies only when full recovery is anticipated. For 'AAA' and 'AA' categories, notching up is phased out entirely.

Structural subordination

At times, a parent and its affiliate group have distinct default risks. The difference in risk may arise from covenant restrictions, regulatory oversight, or other considerations. This is the norm for holding companies of insurance operating companies and banks. In such situations, there are no fixed limits governing the gaps between corporate credit ratings of the parent and its subsidiaries. The holding company has higher default risk, apart from post-default recovery distinctions. If such a holding company issued both senior and junior debt, its junior obligations would be notched relative to the holding company's corporate credit rating by one or two notches.

Often, however, a parent holding company with one or more operating companies is viewed as a single economic entity. When the default risk is considered the same for the parent and its principal subsidiaries, they are assigned the same corporate credit rating. Yet, in a liquidation, holding-company creditors are entitled only to the residual net worth of the operating companies remaining after all operating company obligations have been satisfied. Parent-level debt issues are notched down to reflect structural subordination when the priority liabilities create a material disadvantage for the parent's creditors, after taking into account all mitigating factors. In considering the appropriate rating for a specific issue of parent-level debt, priority liabilities encompass all third-party liabilities (not just debt) of the subsidiaries—including trade payables, pension and retiree medical liabilities, and environmental liabilities—and any relatively better positioned parent-level liabilities. (For example, parent-level borrowings collateralized by the stock of the subsidiaries would be disadvantaged relative to subsidiary liabilities, but would rank ahead of unsecured parent-level debt.) Potential mitigating factors include:

Guarantees

Guarantees by the subsidiaries of parent-level debt (i.e., upstream guarantees) may overcome structural subordination by putting the claims of parent company creditors on a pari passu basis with those of operating company creditors. Such guarantees have to be enforceable under the relevant national legal system(s), and there most be no undue concern regarding potential allegations of fraudulent conveyance. Although joint and several guarantees from all subsidiaries provide the most significant protection, several guarantees by subsidiaries accounting for a major portion of total assets would be sufficient to avoid notching of parent debt issues in most cases.

The legal analysis outcome depends on the specific fact pattern, not legal documentation—so one cannot standardize the determination. But, if either the guarantor company received value or was solvent for a sufficiently long period subsequent to issuing the guarantee, the upstream guarantee should be valid. Accordingly, we consider upstream guarantees valid if any of these conditions are met:

- The proceeds of the guaranteed obligation are provided (downstreamed) to guarantor. It does not matter whether the issuer downstreams the money as an equity infusion or as a loan. Either way, the financing benefits the operations of the subsidiary which justifies the guarantee;
- The legal risk period—ordinarily, one or two years from entering into the guarantee—has passed;
- There is a specific analytical conclusion that there is little default risk during the period that the guarantee validity is at risk; or
- The rating of the guarantor is at least 'BB-' in jurisdictions that involve a two-year risk,

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or at least 'B+' in jurisdictions with one year risk.

Operating assets at the parent
If the parent is not a pure holding company, but rather also directly owns certain operating assets, this gives the parent's creditors a priority claim to the parent-level assets. This offsets, at least partially, the disadvantage that pertains to being structurally subordinated with respect to the assets owned by the subsidiaries.

Diversity
When the parent owns multiple operating companies, more liberal notching guidelines may be applied to reflect the benefit the diversity of assets might provide. The threshold guidelines are relaxed (but not eliminated) to correspond with the extent of business and/or geographic diversification of the subsidiaries. For bankrupt companies that own multiple, separate business units, the prospects for residual value remaining for holding company creditors improve as individual units wind up with shortfalls and surpluses Also, holding companies with diverse businesses—in terms of product or geography—have greater opportunities for dispositions, asset transfers, or recapitalization of subsidiaries. If, however, the subsidiaries are operationally integrated, economically correlated, or regulated, the company's flexibility to reconfigure is more limited.

Concentration of debt
If a parent has a number of subsidiaries, but the preponderance of subsidiary liabilities are concentrated in one or two of these, e.g., industrial groups having finance or trading units, this concentration of liabilities can limit the disadvantage for parent-company creditors. Although the net worth of the leveraged units could well be eliminated in the bankruptcy scenario, the parent might still obtain recoveries from its relatively unleveraged subsidiaries. In applying the notching guideline in such cases, it may be appropriate to eliminate the assets of the leveraged subsidiary from total assets, and its liabilities from priority liabilities. The analysis then focuses on the assets and liabilities that remain, and the standard notching guideline must be substituted by other judgments regarding recovery prospects.

Downstream loans
If the parent's investment in a subsidiary is not just an equity interest, but also takes the form of downstream senior loans, this may enhance the standing of parent-level creditors because they would have not only a residual claim on the subsidiary's net worth, but also a debt claim that could be pari passu with other debt claims. However, most intercompany claims are subject to equitable subordination and/or other elimination in the bankruptcy process. Such assessment of downstream advances must take into account the applicable legal framework. (On the other hand, if the parent has borrowed funds from its subsidiaries, the resulting intercompany parent-level liability could further dilute the recoveries of external parent-level creditors.)

Adjustments
We eliminate from the notching calculations subsidiaries' deferred tax assets and liabilities and other accounting accruals and provisions that are not likely to have clear economic meaning in a default.

Speculative grade
For speculative grade issuers, we perform a fundamental recovery analysis, which is communicated via our recovery ratings. The different levels of recovery are factored into our debt issue ratings by adding or subtracting notches from the corporate credit rating *(see table 6)*.

Recovery ratings assess a debt instrument's ultimate prospects for recovery of estimated principal and pre-petition interest (i.e., interest accrued but unpaid at the time of default) given a simulated payment default. Our recovery methodology focuses on estimating the percentage of recovery that debt investors would receive at the end of a formal bankruptcy proceeding or an informal out-of-court restructuring. Lender recoveries could be in the form of cash, debt or equity securities of a reorganized entity, or some combination thereof.

We focus on nominal recovery (rather than discounted present value recovery) because we believe discounted recovery is better identified independently by market participants who can apply their own preferred discount rate to our nominal recovery. (However, in jurisdictions with anticipated workout periods of longer than two to three years, we factor the delay into both recovery ratings and issue ratings to account for the time value of money and the inherent incremental uncertainty.)

While informed by historical recovery data, our recovery ratings incorporate fundamental deal-specific, scenario-driven, forward-looking analysis. They consider the impact of key structural features, inter-creditor dynamics, the nature of insolvency regimes, multi-jurisdictional issues, in the context of a simulated default.

We acknowledge that recovery analysis (including default modeling, valuation, and restructuring dynamics) is complex and does not lend itself to precise or certain predictions. Outcomes invariably involve unforeseen events and are subject to extensive negotiations that are influenced by the subjective judgments, negotiating positions, and agendas of the various stakeholders. Even so, we believe our methodology of focusing on a company's unique and fundamental credit risks—together with the composition and structure of its debt, legal organization, and non-debt liabilities—provides valuable insight into creditor recovery prospects.

In this light, our recovery ratings are intended to provide educated approximations of post-default recovery rates, rather than exact forecasts. Recovery ratings, when viewed together with a company's risk of default as estimated by our corporate credit rating, can help investors evaluate a debt instrument's risk/reward characteristics and determine their expected return.

Jurisdiction-specific adjustments for recovery and issue ratings

Full-blown, fundamental recovery analysis is limited to jurisdictions where insolvency regimes are reasonably well established and sufficient precedent and data are available. In other jurisdictions, we do not assign recovery ratings—and the basis for rating a specific issue different from than the corporate credit rating is similar to that used in investment-grade situations. That is, we employ a simple rule-of-thumb approach to identify issues that are junior—and thereby materially disadvantaged with respect to recovery prospects. If claims that come ahead of a given debt issue equal 15% of assets, we subtract one notch from the corporate credit rating level; if such priority claims reach the 30% level, we subtract two notches. We do not rate issues more than two notches below the corporate

Table 6 Recovery Rating Scale And Issue Rating Criteria

(For issuers with a speculative-grade corporate credit rating)

Recovery rating	Recovery description	Recovery expectations (%)*	Issue rating notches relative to corporate credit rating
1+	Highest expectation, full recovery	100	+3
1	Very high recovery	90–100	+2
2	Substantial recovery	70–90	+1
3	Meaningful recovery	50–70	0
4	Average recovery	30–50	0
5	Modest recovery	10–30	-1
6	Negligible recovery	0–10	-2

*Recovery of principal plus accrued but unpaid interest at the time of default. ¶Very high confidence of full recovery resulting from significant overcollateralization or strong structural features.

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credit rating on the basis of inferior recovery considerations.

We are in the process of reviewing all significant jurisdictions around the world to assess how insolvency proceedings in practice affect post-default recovery prospects and to consistently incorporate jurisdiction-specific adjustments. With the help of local insolvency practitioners, we assess each jurisdiction's creditor friendliness—in theory as well as in practice (about 30 jurisdictions have been assessed to date).

The four main factors that shape our analysis of the jurisdictions' creditor friendliness are:

- Security,
- Efficiency and control,
- Adherence to priorities, and
- Time to resolution.

Based on these factors, we classify the reviewed countries into three categories, according to their creditor-friendliness. This classification enables us to make jurisdiction-specific adjustments to our recovery analysis. We cap both recovery ratings and the differential between the issuer credit and debt issue ratings in countries with debtor-friendly insolvency regimes. *(See "Jurisdiction-Specific Adjustments To Recovery And Issue Ratings," published July 5, 2007, on RatingsDirect.)*

Recovery Methodology For Industrials

Recovery analytics for industrial issuers has three basic components: determining the most likely path to default for a company; valuing the company following default; and distributing that value to claimants that we identify, based upon the relative priority of each claimant.

Establishing a simulated path to default

This step is a fundamental; we must first understand the forces most likely to cause a default before we can estimate a level of cash flow at default or value a company. This step draws on the company and sector knowledge of our credit analysts to formulate and quantify the factors most likely to cause a company to default, given its unique business risks and financial risks.

At the outset of this process, we deconstruct the borrower's cash flow projections to understand management's general business, industry, and economic expectations. Once we understand management's view, we make appropriate adjustments to key economic, industry, and firm specific factors to simulate a payment default. While we recognize that there are many possible factors—both foreseen and unforeseen—that could lead to a default, we focus on the key operating factors that would most likely contribute to default.

Forecasting cash flow at default

The simulated default scenario is our assessment of the borrower's most likely path to a hypothetical payment default. The "insolvency proxy" is the point along that path that the company would default. The insolvency proxy is ordinarily defined as the point at which funds available plus free cash flow is exceeded by fixed charges.

The terms in this equation are:

Funds available. The sum of balance sheet cash and revolving credit facility availability (in excess of the minimal amount a company needs to operate its business at its seasonal peak).

Free cash flow. EBITDA in the year of default, less a minimal level of required maintenance capital expenditures, less cash taxes, plus or minus changes in working capital. For default modeling and recovery estimates, our EBITDA and free cash flow estimates ignore noncash compensation expenses and do not use our adjustments for operating leases.

Fixed charges. The sum, in the year of default, of:

- Scheduled principal amortization. Bullet or ballooning maturities are not treated as fixed charges, because lenders typically would refinance these amounts as long as a company can otherwise comfortably service its fixed charges.
- Required cash interest payments, including assumed increases to LIBOR rates on floating-rate debt and to the margin charged on debt obligations that have pricing grids or maintenance financial covenants; and
- Other cash payments the borrower is either contractually or practically obligated to pay that are not already captured as an operating expense. (Lease payments, for

example, are accounted for within free cash flow and are not considered a fixed charge.)

A projected default may occur even if fixed charges are fully covered in a few special circumstances:

- Strategic bankruptcy filings, when a borrower may attempt to take advantage of the insolvency process primarily to obtain relief from legal claims or onerous contracts;
- When a borrower in distress may rationally be expected to retain a large amounts of cash (e.g., to prepare for a complex, protracted restructuring; if it is in a very capital-intensive industry; if it is in a jurisdiction that does not allow for superpriority standing for new credit in a postpetition financing); or
- When a borrower's financial covenants have deteriorated beyond the level at which even the most patient lender could tolerate further amendments or waivers.

Free cash flow is not necessarily equal to the level at point of default, though. Cash flow may decline below the insolvency proxy if the borrower's operating performance is expected to continue to deteriorate due to whatever competitive and economic conditions are assumed in the simulated default scenario. In any event, we attempt to identify a level of cash flow as one basis for our valuation.

Determining valuation

We consider a variety of valuation methodologies, including market multiples, discounted cash flow (DCF) modeling, and discrete asset analysis. The market multiples and DCF methods are used to determine a company's enterprise value as a going concern. This is generally the most appropriate approach when our simulated default and recovery analysis indicates that the borrower's reorganization (or the outright sale of the ongoing business or certain segments) is the most likely outcome of an insolvency proceeding.

We use discrete asset valuation most often for industries in which this valuation approach is typically used, or when the simulated default scenario indicates that the borrower's liquidation is the most likely outcome of insolvency.

If a company is expected to reorganize, but certain creditors hold collateral consisting of only particular assets, then enterprise value is inappropriate—and we assess the collateral based in its discrete values.

Market multiples

The key to valuing a company using a market-multiples approach is to select appropriate comparable companies, or comps. The analysis should include several comps similar to the company being valued with respect to business lines, geographic markets, margins, revenue, capital requirements, and competitive position. Of course, an ideal set of comps does not always exist, so analytical judgment often is required to adjust for differences in size, business profiles, and other attributes. In addition, in the context of a recovery analysis, the multiples must consider the competitive and economic environments assumed in our simulated default scenario, which are often very different than present conditions. As a result, our analysis strives to consider a selection of multiples and types of multiples.

Ideally, we are interested in multiples for similar companies that have reorganized because of circumstances consistent with our simulated default scenario. In practice, however, the existence of such "emergence" multiple comps are rare. As a result, our analysis often turns to transaction or purchase multiples for comparable companies, because these generally are more numerous. With transaction multiples, we try to use forward multiples (purchase price divided by projected EBITDA), rather than trailing multiples (purchase price divided by historical EBITDA), because we believe forward multiples, which incorporate the benefit of perceived cash flow synergies used to justify the purchase price, provide a more appropriate reference point. In addition, trading multiples for publicly traded companies can be useful because they allow us to track how multiples change over economic and business cycles. This is especially relevant for cyclical industries and for sectors entering a different stage of development, or experiencing changing competitive conditions.

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A selection of multiples helps match our valuation with the conditions assumed in our simulated default scenario. For example, a company projected to default in a cyclical trough may warrant a higher multiple than one expected to default at a cyclical midpoint. Further, two companies in the same industry may merit meaningfully different multiples if one is highly levered and at risk of default from relatively normal competitive stresses, while the other is unlikely to default unless there is a large unexpected fundamental deterioration in the cash flow potential of the business model (which could make historical sector multiples irrelevant).

Our multiples analysis may also consider alternative industry-specific multiples—such as subscribers, hospital beds, recurring revenue, etc.—where appropriate. Alternatively, such metrics may serve as a check on the soundness of a valuation that relied on an EBITDA multiple, DCF, or discrete asset approach.

Discounted cash flow (DCF)

Our valuation is based on the long-term operating performance of the reorganized company. We use a perpetuity growth formula, which contemplates a long-term steady-state growth rate deemed appropriate for the borrower's business. However, when applicable, we start with specific annual cash flow forecasts for a period of time following reorganization, while relying on the perpetuity growth formula for subsequent periods.

Discrete asset valuation

We value the relevant assets by applying industry-and asset-specific advance rates or third-party appraisals.

Identifying and estimating the value of debt and nondebt claims

After valuing a company, we identify and quantify the debt obligations and other material liabilities that would be expected to have a claim against the company. Potential claims fall into three broad categories:

- Principal and accrued interest on all debt outstanding at the point of default, whether issued at the operating company, subsidiary, or holding company level;
- Bankruptcy-related claims, such as debtor-in-possession (DIP) financing and administrative expenses for professional fees and other bankruptcy costs;
- Other nondebt claims, such as taxes payable, certain securitization programs, trade payables, deficiency claims on rejected leases, litigation liabilities, and unfunded post-retirement obligations.

Our analysis of these claims and their potential values takes into consideration each borrower's particular facts and circumstances, as well as the expected impact on the claims as a result of our simulated default scenario.

We estimate debt outstanding at the point of default by reducing term loans by scheduled amortization up to the point of our simulated default. We assume that all committed debt facilities, such as revolving credit facilities and delayed draw term loans, are fully drawn. For asset-based lending (ABL) facilities, we consider whether the borrowing base formula would allow the company to fully draw the facility in a simulated default scenario. For letters of credit, especially those issued under dedicated synthetic letter of credit tranches, we assess whether these contingent obligations are likely to be drawn.

Our estimate of debt outstanding at default also includes an estimate of prepetition interest, which is calculated by adding six months of interest (based on historical data from Standard & Poor's LossStats® database) to our estimated principal amount at default. The inclusion of pre-petition interest makes our recovery analysis more consistent with banks' credit risk capital requirements under the Basel II Framework.

Our analysis focuses on the recovery prospects for the debt instruments in a company's current or pro forma debt structure, and generally does not make estimates for other debt that may be issued prior to a default. We feel that this approach is prudent and more relevant to investors because the amount and composition of any additional debt (secured, unsecured, and/or subordinated) may materially impact lender recovery rates, and it is not