

TECO ENERGY INC
Form 10-K/A
March 07, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 1

FORM 10-K/A

x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2007

OR

.. Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission	Exact name of each Registrant as specified in its charter, state of incorporation, address of principal executive offices, telephone number	I.R.S. Employer Identification Number
File No. 1-8180	TECO ENERGY, INC. (a Florida corporation) TECO Plaza 702 N. Franklin Street Tampa, Florida 33602 (813) 228-1111	59-2052286
1-5007	TAMPA ELECTRIC COMPANY (a Florida corporation) TECO Plaza	59-0475140

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702 N. Franklin Street

Tampa, Florida 33602

(813) 228-1111

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
TECO Energy, Inc.	
Common Stock, \$1.00 par value	New York Stock Exchange
Common Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if TECO Energy, Inc. is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if Tampa Electric Company is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrants are not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. YES NO

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether TECO Energy, Inc. is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer Accelerated filer Non-Accelerated filer Smaller reporting company

Indicate by check mark whether Tampa Electric Company is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer Accelerated filer Non-Accelerated filer Smaller reporting company

Indicate by check mark whether TECO Energy, Inc. is a shell company (as defined in Rule 12b-2 of the Act). YES NO

Indicate by check mark whether Tampa Electric Company is a shell company (as defined in Rule 12b-2 of the Act). YES NO

The aggregate market value of TECO Energy, Inc.'s common stock held by nonaffiliates of the registrant as of June 29, 2007 was \$3,617,304,251 based on the closing sale price as reported on the New York Stock Exchange.

The aggregate market value of Tampa Electric Company's common stock held by nonaffiliates of the registrant as of June 29, 2007 was zero.

The number of shares of TECO Energy, Inc.'s common stock outstanding as of Feb. 25, 2008 was 210,915,193. As of Feb. 25, 2008, there were 10 shares of Tampa Electric Company's common stock issued and outstanding, all of which were held, beneficially and of record, by TECO Energy, Inc.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement relating to the 2008 Annual Meeting of Shareholders of TECO Energy, Inc. are incorporated by reference into Part III.

Tampa Electric Company meets the conditions set forth in General Instruction (I) (1) (a) and (b) of Form 10-K and is therefore filing this form with the reduced disclosure format.

This combined Form 10-K represents separate filings by TECO Energy, Inc. and Tampa Electric Company. Information contained herein relating to an individual registrant is filed by that registrant on its own behalf. Tampa Electric Company makes no representations as to the information relating to TECO Energy, Inc.'s other operations.

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EXPLANATORY NOTE

This amendment is being filed to include the conformed signature blocks of PricewaterhouseCoopers, LLP on each Report of Independent Registered Certified Public Accounting Firm set forth on pages 101 and 161 of the combined Annual Report of TECO Energy, Inc. and Tampa Electric Company on Form 10-K for the year ended Dec. 31, 2007 as originally filed with the Securities and Exchange Commission on February 28, 2008 (Original Form 10-K). These signed reports were obtained by us prior to our filing of the Original Form 10-K with the Securities and Exchange Commission. We have also corrected the transposition of the 2007 and 2006 column headings on page 163 of the Tampa Electric Company Consolidated Balance Sheet. There are no other changes being made to the Financial Statements or any other matter in Part II, Item 8 of the Original Form 10-K.

We have also included in Part II, Item 9A, a specific cross-reference to the location of the report of the independent registered certified public accounting firm with respect to TECO Energy Inc.'s internal control over financial reporting, but have made no substantive changes to that section.

No changes are being made pursuant to this amendment to any other item of our Original Form 10-K other than the updating of the Exhibits to include updated Certifications of the Chief Executive and Chief Financial Officers, including adding the certification of internal control over financial reporting to the Certifications of Tampa Electric Company, and an updated consent of PricewaterhouseCoopers, LLP, Independent Registered Certified Public Accounting Firm.

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TECO ENERGY, INC.**

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All other financial statement schedules have been omitted since they are not required, are inapplicable or the required information is presented in the financial statements or notes thereto.	

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TECO ENERGY, INC.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Securities Exchange Act of 1934, as amended. We conducted an evaluation of the effectiveness of TECO Energy, Inc.'s internal control over financial reporting as of December 31, 2007 based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under this framework, our management concluded that TECO Energy, Inc.'s internal control over financial reporting was effective as of December 31, 2007.

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Report of Independent Registered Certified Public Accounting Firm

To the Board of Directors and Shareholders of TECO Energy, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of TECO Energy, Inc. and its subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 4 to the financial statements, the Company changed its method of evaluating its uncertain tax positions as of January 1, 2007. Also, as discussed in Note 5 to the financial statements, the Company changed its method of accounting for its defined benefit pension and other postretirement plans as of December 31, 2006. Further, as discussed in Note 1 to the financial statements, the Company changed its method of accounting for stock-based compensation as of January 1, 2006.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Tampa, Florida

February 27, 2008

Table of Contents**TECO ENERGY, INC.****Consolidated Balance Sheets***Assets*

<i>(millions)</i>	<i>Dec. 31, 2007</i>	<i>Dec. 31, 2006</i>
Current assets		
Cash and cash equivalents	\$ 162.6	\$ 441.6
Restricted cash	7.4	37.3
Receivables, less allowance for uncollectibles of \$3.3 and \$4.6 at Dec. 31, 2007 and Dec. 31, 2006, respectively	295.9	334.9
Crude oil options receivable, net	78.5	3.4
Inventories, at average cost		
Fuel	85.8	85.0
Materials and supplies	68.2	74.6
Current regulatory assets	67.4	255.7
Current derivative assets	0.3	7.1
Income tax receivables	0.7	18.8
Prepayments and other current assets	23.0	27.3
Total current assets	789.8	1,285.7
Property, plant and equipment		
Utility plant in service		
Electric	5,275.2	5,030.4
Gas	917.4	877.7
Construction work in progress	364.8	334.1
Other property	336.4	841.9
Property, plant and equipment	6,893.8	7,084.1
Accumulated depreciation	(2,005.6)	(2,317.2)
Total property, plant and equipment, net	4,888.2	4,766.9
Other assets		
Deferred income taxes	424.9	630.2
Other investments	22.9	8.0
Long-term regulatory assets	186.8	231.3
Long-term derivative assets	1.9	0.1
Investment in unconsolidated affiliates	275.5	292.9
Goodwill	59.4	59.4
Deferred charges and other assets	115.8	87.3
Total other assets	1,087.2	1,309.2
Total assets	\$ 6,765.2	\$ 7,361.8

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents**TECO ENERGY, INC.****Consolidated Balance Sheets** continued*Liabilities and Capital*

<i>(millions)</i>	<i>Dec. 31, 2007</i>	<i>Dec. 31, 2006</i>
Current liabilities		
Long-term debt due within one year		
Recourse	\$ 5.7	\$ 566.7
Non-recourse	1.4	1.3
Junior subordinated notes		71.4
Notes payable	25.0	48.0
Accounts payable	302.1	326.5
Customer deposits	138.1	129.5
Current regulatory liabilities	35.4	46.7
Current derivative liabilities	26.0	70.3
Interest accrued	32.7	50.5
Taxes accrued	33.2	25.3
Other current liabilities	18.0	14.2
Total current liabilities	617.6	1,350.4
Other liabilities		
Investment tax credits	12.2	14.7
Long-term regulatory liabilities	582.7	555.3
Long-term derivative liabilities	0.1	3.7
Deferred credits and other liabilities	377.2	496.1
Long-term debt, less amount due within one year		
Recourse	3,149.4	3,202.2
Non-recourse	9.0	10.4
Total other liabilities	4,130.6	4,282.4
Commitments and contingencies (see Note 12)		
Capital		
Common equity (400.0 million shares authorized; par value \$1; 210.9 million shares and 209.5 million shares outstanding at Dec. 31, 2007 and Dec. 31, 2006, respectively)	210.9	209.5
Additional paid in capital	1,489.2	1,466.3
Retained earnings	334.1	83.7
Accumulated other comprehensive loss	(17.2)	(30.5)
Total capital	2,017.0	1,729.0
Total liabilities and capital	\$ 6,765.2	\$ 7,361.8

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents**TECO ENERGY, INC.****Consolidated Statements of Income***(millions, except per share amounts)*

<i>For the years ended Dec. 31,</i>	2007	2006	2005
Revenues			
Regulated electric and gas (includes franchise fees and gross receipts taxes of \$111.2 in 2007, \$104.2 in 2006 and \$87.2 in 2005)	\$ 2,786.3	\$ 2,660.3	\$ 2,293.8
Unregulated	749.8	787.8	716.3
Total revenues	3,536.1	3,448.1	3,010.1
Expenses			
Regulated operations			
Fuel	854.7	803.4	461.1
Purchased power	271.9	221.3	269.7
Cost of natural gas sold	389.9	365.3	350.2
Other	280.4	294.0	270.3
Operation other expense			
Mining related costs	435.4	450.2	412.5
Waterborne transportation costs	206.4	217.8	191.8
Other	16.6	15.6	49.3
Maintenance	183.5	183.3	168.4
Depreciation and amortization	263.7	282.2	282.2
Gain on sale, net of transaction related costs	(221.3)		
Taxes, other than income	218.3	217.5	194.7
Sale of previously impaired assets / asset impairments		(20.7)	3.2
Total expenses	2,899.5	3,029.9	2,653.4
Income from operations	636.6	418.2	356.7
Other income (expense)			
Allowance for other funds used during construction	4.5	2.7	
Other income	112.0	94.5	171.6
Loss on debt exchange/extinguishment	(32.9)	(2.5)	(74.2)
Income from equity investments	68.5	58.9	60.4
Total other income	152.1	153.6	157.8
Interest charges			
Interest expense	259.5	279.4	288.7
Allowance for borrowed funds used during construction	(1.7)	(1.1)	
Total interest charges	257.8	278.3	288.7
Income before provision for income taxes	530.9	293.5	225.8
Provision for income taxes	214.2	118.7	101.9
Income from continuing operations before minority interest	316.7	174.8	123.9
Minority interest	82.2	69.6	87.1
Income from continuing operations	398.9	244.4	211.0
Discontinued operations			

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Income from discontinued operations		2.3	88.2
Income tax (benefit) provision	(14.3)	0.4	24.7
Total discontinued operations	14.3	1.9	63.5
Net income	\$ 413.2	\$ 246.3	\$ 274.5
Average common shares outstanding	Basic	209.1	207.9
	Diluted	209.9	208.2
Earnings per share from continuing operations	Basic	\$ 1.91	\$ 1.18
	Diluted	\$ 1.90	\$ 1.17
Earnings per share from discontinued operations	Basic	\$ 0.07	\$ 0.01
	Diluted	\$ 0.07	\$ 0.01
Earnings per share	Basic	\$ 1.98	\$ 1.19
	Diluted	\$ 1.97	\$ 1.18
Dividends declared and paid per common share outstanding	\$ 0.775	\$ 0.760	\$ 0.760

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents**TECO ENERGY, INC.****Consolidated Statements of Comprehensive Income***(millions)*

<i>For the years ended Dec. 31,</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>
Net income	\$ 413.2	\$ 246.3	\$ 274.5
Other comprehensive income (loss), net of tax			
Net unrealized losses on cash flow hedges	(6.3)	(0.3)	(0.1)
Amortization of unrecognized benefit costs	2.4		
Recognized benefit costs due to curtailment	8.7		
Change in benefit obligation due to annual remeasurement	8.5	42.7	(7.2)
Other comprehensive income (loss), net of tax	13.3	42.4	(7.3)
Comprehensive income	\$ 426.5	\$ 288.7	\$ 267.2

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents**TECO ENERGY, INC.****Consolidated Statements of Cash Flows***(millions)*

<i>For the years ended Dec. 31,</i>	2007	2006	2005
Cash flows from operating activities			
Net income	\$ 413.2	\$ 246.3	\$ 274.5
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	263.7	282.2	282.2
Deferred income taxes	184.8	112.5	110.8
Investment tax credits, net	(2.5)	(2.6)	(2.7)
Allowance for other funds used during construction	(4.5)	(2.7)	
Non-cash stock compensation	11.6	11.5	5.5
Gain on sales of business / assets, pretax	(246.1)	(67.0)	(261.6)
Equity in earnings of unconsolidated affiliates, net of cash distributions on earnings	(18.0)	(3.4)	(35.9)
Minority interest	(82.2)	(69.6)	(87.1)
Non-cash debt extinguishment / exchange	2.6	2.5	19.8
Asset impairment			3.2
Derivatives marked to market	(82.7)	2.0	(2.9)
Deferred recovery clause	123.7	53.4	(154.3)
Receivables, less allowance for uncollectibles	51.0	(26.0)	(56.7)
Inventories	(9.6)	(5.8)	(38.1)
Prepayments and other deposits	3.2	11.4	(11.3)
Taxes accrued	26.6	(17.0)	(17.4)
Interest accrued	(17.8)	0.5	17.5
Accounts payable	(71.9)	(18.0)	119.0
Other	8.9	56.7	12.6
Cash flows from operating activities	554.0	566.9	177.1
Cash flows from investing activities			
Capital expenditures	(494.4)	(455.7)	(295.3)
Allowance for other funds used during construction	4.5	2.7	
Net proceeds from sales of business / assets	405.2	100.4	278.3
Restricted cash	29.9	0.3	47.6
Distributions from unconsolidated affiliates	27.5	7.3	2.8
Other investments	(0.4)	(6.7)	0.9
Cash flows (used in) from investing activities	(27.7)	(351.7)	34.3
Cash flows from financing activities			
Dividends	(163.0)	(158.7)	(157.7)
Proceeds from sale of common stock	14.0	12.5	16.2
Proceeds from long-term debt	444.1	327.5	311.9
Repayment of long-term debt	(1,137.5)	(199.3)	(494.1)
Contributions from minority interests	81.3	65.7	83.1
Debt exchange premiums	(21.2)		
Exchange of equity units			180.2
Net (decrease) increase in short-term debt	(23.0)	(167.0)	100.0
Other			(2.0)
Cash flows (used in) from financing activities	(805.3)	(119.3)	37.6

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Net (decrease) increase in cash and cash equivalents	(279.0)	95.9	249.0
Cash and cash equivalents at beginning of the year	441.6	345.7	96.7
Cash and cash equivalents at end of the year	\$ 162.6	\$ 441.6	\$ 345.7

Supplemental disclosure of cash flow information

Cash paid during the year for:

Interest (net of amounts capitalized) ⁽¹⁾	\$ 262.1	\$ 259.4	\$ 288.9
Income taxes (refund) paid	\$ (10.5)	\$ 10.4	\$ 27.4

(1) Included in interest paid during the year is interest paid on debt obligation for discontinued operations of \$12.0 million for 2005. No interest was paid in 2007 or 2006 for debt related to discontinued operations.

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents**TECO ENERGY, INC.****Consolidated Statements of Capital**

<i>(millions)</i>	<i>Shares</i> ⁽¹⁾	<i>Common Stock</i>	<i>Additional Paid-in Capital</i>	<i>Retained Earnings (Deficit)</i>	<i>Accumulated Other Comprehensive Income (Loss)</i>	<i>Unearned Compensation</i>	<i>Total Capital</i>
Balance, Dec. 31, 2004	199.7	\$ 199.7	\$ 1,489.4	\$ (357.6)	\$ (43.8)	\$ (3.8)	\$ 1,283.9
Net income				274.5			274.5
Other comprehensive loss, after tax					(7.3)		(7.3)
Common stock issued	1.6	1.6	19.6			(5.0)	16.2
Cash dividends declared			(157.7)				(157.7)
Final settlement of equity security units	6.9	6.9	173.3				180.2
Amortization of unearned compensation						5.5	5.5
Tax benefits stock options			2.4				2.4
Performance shares						(6.0)	(6.0)
Balance, Dec. 31, 2005	208.2	\$ 208.2	\$ 1,527.0	\$ (83.1)	\$ (51.1)	\$ (9.3)	\$ 1,591.7
Net income				246.3			246.3
Other comprehensive income, after tax					42.4		42.4
Common stock issued	1.3	1.3	9.4				10.7
Cash dividends declared			(79.2)	(79.5)			(158.7)
Stock compensation expense			11.5				11.5
Adoption FAS 123R			(9.3)			9.3	
Tax benefits stock options			1.4				1.4
Adoption FAS 158					(21.8)		(21.8)
Performance shares			5.5				5.5
Balance, Dec. 31, 2006	209.5	\$ 209.5	\$ 1,466.3	\$ 83.7	\$ (30.5)		\$ 1,729.0
Net income				413.2			413.2
Other comprehensive income, after tax					13.3		13.3
Common stock issued	1.4	1.4	10.9				12.3
Cash dividends declared				(163.0)			(163.0)
Stock compensation expense			11.6				11.6
Implementation of FIN 48				0.2			0.2
Tax benefits stock options			0.4				0.4
Balance, Dec. 31, 2007	210.9	\$ 210.9	\$ 1,489.2	\$ 334.1	\$ (17.2)		\$ 2,017.0

(1) TECO Energy had a maximum of 400 million shares of \$1 par value common stock authorized as of Dec. 31, 2007, 2006 and 2005. The accompanying notes are an integral part of the consolidated financial statements.

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TECO ENERGY, INC.

Notes to Consolidated Financial Statements

1. Significant Accounting Policies

The significant accounting policies for both utility and diversified operations are as follows:

Principles of Consolidation

The consolidated financial statements include the accounts of TECO Energy, Inc. and its majority-owned subsidiaries (TECO Energy or the company). All significant inter-company balances and inter-company transactions have been eliminated in consolidation. Generally, the equity method of accounting is used to account for investments in partnerships or other arrangements in which TECO Energy or its subsidiary companies do not have majority ownership or exercise control.

For entities that are determined to meet the definition of a variable interest entity (VIE), the company obtains information, where possible, to determine if it is the primary beneficiary of the VIE. If the company is determined to be the primary beneficiary, then the VIE is consolidated and a minority interest is recognized for any other third-party interests. If the company is not the primary beneficiary, then the VIE is accounted for using the equity or cost method of accounting. In certain circumstances this can result in the company consolidating entities in which it has less than a 50% equity investment and deconsolidating entities in which it has a majority equity interest.

Use of Estimates

The use of estimates is inherent in the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). Actual results could differ from these estimates.

Segment Reporting

In 2005, only historical data is presented for TWG Merchant as all merchant assets have been divested. Any residual results for 2006 and 2007 are included in Other and eliminations .

Cash Equivalents

Cash equivalents are highly liquid, high-quality investments purchased with an original maturity of three months or less. The carrying amount of cash equivalents approximated fair market value because of the short maturity of these instruments.

Restricted Cash

Restricted cash at Dec. 31, 2007 includes \$7.1 million of cash held in escrow related to the 2003 sale of Hardee Power Partners (HPP). The \$7.1 million will be released from escrow in 2012, upon maturity of debt financing currently held by the purchaser of HPP. Restricted cash also included other unrelated amounts totaling approximately \$0.3 million at Dec. 31, 2007.

Restricted cash at Dec. 31, 2006 included \$30.0 million of cash held in escrow related to the 2003 sale of TECO Coal Corporation s (TECO Coal) indirectly owned synthetic fuel production facilities, the \$7.1 million related to HPP discussed above, and other unrelated amounts totaling approximately \$0.2 million. The \$30.0 million of cash from the synthetic fuel facility sale was retained in escrow to support the company s obligation under the sale agreement until the expiration of that agreement or TECO Energy achieved investment-grade credit ratings. The funds were released in December 2007 upon the attainment of the required credit ratings.

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Cost Capitalization

Debt issuance costs The company capitalizes the external costs of obtaining debt financing and includes them in Deferred charges and other assets on TECO Energy's Consolidated Balance Sheet and amortizes such costs over the life of the related debt on a straight-line basis that approximates the effective interest method. These amounts are reflected in Interest expense on TECO Energy's Consolidated Statements of Income.

As discussed in **Note 7**, in December 2007, TECO Energy completed a debt exchange offer where \$899.3 million principal amount of outstanding TECO Energy notes were exchanged for TECO Finance notes with substantially the same terms. Fees paid to the note holders in connection with these transactions of \$21.2 million were capitalized and will be amortized over the lives of the related TECO Finance notes. The payment of these fees is reflected as Debt exchange premiums in the Financing section of the Consolidated Statement of Cash Flows for the year ended Dec. 31, 2007.

Capitalized interest expense Interest costs for the construction of non-utility facilities are capitalized and depreciated over the service lives of the related property. TECO Energy capitalized \$0.1 million of interest costs in 2005. No interest costs were capitalized in 2007 or 2006.

Planned Major Maintenance

TECO Energy accounts for planned maintenance projects by expensing the costs as incurred. Planned major maintenance projects that do not increase the overall life or value of the related assets are expensed. When the major maintenance materially increases the life or value of the underlying asset, the cost is capitalized. While normal maintenance outages covering various components of the plants generally occur on at least a yearly basis, major overhauls occur less frequently.

Tampa Electric and Peoples Gas System (PGS) expense major maintenance costs as incurred. For Tampa Electric and PGS, concurrent with a planned major maintenance outage, the cost of adding or replacing retirement units-of-property is capitalized in conformity with Florida Public Service Commission (FPSC) and Federal Energy Regulatory Commission (FERC) regulations.

The San José and Alborada plants in Guatemala each have a long-term power purchase agreement (PPA) with EEGSA. A major maintenance revenue recovery component is explicit in the capacity payment portion of the PPA for each plant. Accordingly, a portion of each monthly fixed capacity payment is deferred to recognize the portion that reflects recovery of future planned major maintenance expenses. Actual maintenance costs are expensed when incurred with a like amount of deferred recovery revenue recognized at the same time.

Depreciation

TECO Energy subsidiaries compute depreciation primarily by the straight-line method at annual rates that amortize the original cost, less net salvage value, of depreciable property over its estimated service life. TECO Coal subsidiaries depreciate certain mining assets by the units of production method that assigns a rate per unit produced by dividing the original cost over the estimated amount of units.

Total depreciation expense for the years ended Dec. 31, 2007, 2006, and 2005 was \$254.0 million, \$270.3 million and \$267.6 million, respectively. There were no plant acquisition adjustments in 2007 or 2006, however acquisition adjustments of \$10.0 million occurred in 2005. The provision for total regulated utility plant in service, expressed as a percentage of the original cost of depreciable property, was 3.7% for 2007, 3.9% for 2006, and 4.0% for 2005.

Allowance for Funds Used During Construction (AFUDC)

AFUDC is a non-cash credit to income with a corresponding charge to utility plant which represents the cost of borrowed funds and a reasonable return on other funds used for construction. AFUDC is recorded in years when the capital expenditures on eligible projects exceed approximately \$36 million. The base on which AFUDC is calculated excludes construction work-in-progress which has been included in rate base. The rate used to calculate AFUDC is revised periodically to reflect significant changes in Tampa Electric's cost of capital. The rate was 7.79% for 2007 and 2006. No projects qualified for AFUDC in 2005 while total AFUDC for 2007 and 2006 was \$6.2 million and \$3.8 million, respectively.

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Other Investments

As of Dec. 31, 2007, the company had a total of \$15.0 million invested in two auction rate securities, including a \$5.0 million security maturing on Jun. 15, 2032 and a \$10.0 million security maturing on Jun. 1, 2041. These securities earn an interest rate set in an auction every 28 days. Both the carrying amount and interest received are included under the same caption "Other investments", on TECO Energy's Consolidated Balance Sheet and Consolidated Statement of Cash Flows, respectively.

Although the final maturities of these securities are considered long-term, the company has the opportunity to sell the securities at par at each auction date. As required by Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, any unrealized change in fair value of available-for-sale securities is reflected in other comprehensive income. Because of the auction frequency, the fair value of these securities has not fluctuated, and accordingly, no adjustments to fair value have been recorded.

Inventory

TECO Energy subsidiaries value materials, supplies and fossil fuel inventory using a weighted-average cost method. These materials, supplies and oil and gas inventories are carried at the lower of weighted-average cost or market, unless evidence indicates that the weighted-average cost (even if in excess of market) will be recovered with a normal profit upon sale in the ordinary course of business.

Investments in Unconsolidated Affiliates

Investments in unconsolidated affiliates are accounted for using the equity method of accounting. The percentage ownership interests for each investment at Dec. 31, 2007 and 2006 are presented in the following table:

TECO Energy's Percent Ownership in Unconsolidated Affiliates⁽⁴⁾

<i>Dec. 31,</i>	<i>2007</i>	<i>2006</i>
TECO Transport		
Ocean Dry Bulk, LLC ⁽¹⁾		50%
TECO Guatemala		
Distribucion Electrica CentroAmericana II, S.A. (DECA II)	30%	30%
Central Generadora Electrica San José, Limitada (San José or CGESJ)	100%	100%
Tampa Centro Americana de Electricidad, Limitada (Alborada or TCAE)	96%	96%
Other		
Litestream Technologies, LLC ⁽²⁾		36%
Walden Woods Business Center, Ltd.	50%	50%
TECO Funding Company I, LLC ⁽³⁾		100%
TECO Funding Company II, LLC ⁽³⁾		100%

- (1) TECO Transport was sold to an unaffiliated third party effective Dec. 4, 2007.
- (2) In 2004, the assets of Litestream Technologies, LLC were sold in bankruptcy. The company indirectly owned a 36% interest in Litestream Technologies, LLC as of Dec. 31, 2006. In 2007, the final disbursement to creditors was made.
- (3) On Dec. 20, 2005, all outstanding subordinated notes held by TECO Funding Company I, LLC were redeemed and the LLC was subsequently dissolved. On Jan. 16, 2007, all outstanding subordinated notes held by TECO Funding Company II, LLC matured.
- (4) TECO Energy, Inc. received \$63.2 million, \$56.6 million and \$27.0 million during the years ended Dec. 31, 2007, 2006 and 2005, respectively, as dividends from unconsolidated affiliates.

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Regulatory Assets and Liabilities

Tampa Electric and PGS are subject to the provisions of SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation* (FAS 71) (see **Note 3** for additional details).

Deferred Income Taxes

TECO Energy uses the asset and liability method to determine deferred income taxes. Under the asset and liability method, the company estimates its current tax exposure and assesses the temporary differences resulting from differences in the treatment of items, such as depreciation, for financial statement and tax purposes. These differences are reported as deferred taxes, measured at current rates, in the consolidated financial statements. Management reviews all reasonably available current and historical information, including forward-looking information, to determine if it is more likely than not that some or all of the deferred tax asset will not be realized. If management determines that it is likely that some or all of a deferred tax asset will not be realized, then a valuation allowance is recorded to report the balance at the amount expected to be realized.

Investment Tax Credits

Investment tax credits have been recorded as deferred credits and are being amortized as reductions to income tax expense over the service lives of the related property.

Revenue Recognition

TECO Energy recognizes revenues consistent with the Securities and Exchange Commission's (SEC) Staff Accounting Bulletin (SAB) 104, *Revenue Recognition in Financial Statements*. Except as discussed below, TECO Energy and its subsidiaries recognize revenues on a gross basis when earned for the physical delivery of products or services and the risks and rewards of ownership have transferred to the buyer. Revenues for any financial or hedge transactions that do not result in physical delivery are reported on a net basis.

The regulated utilities' (Tampa Electric and PGS) retail businesses and the prices charged to customers are regulated by the FPSC. Tampa Electric's wholesale business is regulated by FERC. See **Note 3** for a discussion of significant regulatory matters and the applicability of FAS 71 to the company.

Revenues for TECO Coal shipments via rail are recognized when title and risk of loss transfer to the customer when the railcar is loaded. For coal shipments via ocean vessel, revenue is recognized under international shipping standards as defined by Incoterms 2000 when title and risk of loss transfer to the customer.

Revenues for certain transportation services at TECO Transport were recognized using the percentage of completion method, which included estimates of the distance traveled and/or the time elapsed, compared to the total estimated contract.

Revenues for energy marketing operations at TECO Gas Services are presented on a net basis in accordance with Emerging Issues Task Force No. (EITF) 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*, and EITF 02-3, *Recognition and Reporting of Gains and Losses on Energy Trading Contracts Under Issues No. 98-10 and 00-17*, to reflect the nature of the contractual relationships with customers and suppliers. As a result, costs netted against revenues for the years ended Dec. 31, 2007, 2006 and 2005 were \$2.1 million, \$0.8 million and \$3.8 million, respectively.

Shipping and Handling

TECO Coal includes the costs to ship product to customers in **Operation other expense** Mining related costs on the Consolidated Statements of Income for the periods ended Dec. 31, 2007, 2006 and 2005.

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Derivatives and Hedging Activities

The company classifies cash inflows and outflows related to derivative and hedging instruments in the appropriate cash flow sections associated with the item being hedged. In the case of heating oil swaps that are used to mitigate the fluctuations in the price of diesel fuel, the cash inflows and outflows are included in the operations section. Settlements for crude oil options that protect the cash flows related to the sales of investor interests in the synthetic fuel production facilities are included in the investing section.

Other Income and Minority Interest

TECO Energy earned a significant portion of its income indirectly through the synthetic fuel operations at TECO Coal. At the end of 2007, 2006 and 2005, TECO Coal had sold ownership interests in the synthetic fuel facilities to unrelated third-party investors equal to 98%. These investors paid for the purchase of the ownership interests as synthetic fuel is produced. The payments were based on the amount of production and sales of synthetic fuel and the related underlying value of the tax credit, which was subject to potential limitation based on the price of domestic crude oil. These payments are recorded in **Other income** in the Consolidated Statements of Income. The program that provided federal income tax credits for the production of synthetic fuel expired Dec. 31, 2007.

Additionally, the outside investors made payments towards the cost of producing synthetic fuel. These payments are reflected as a benefit under **Minority interest** in TECO Energy's Consolidated Statements of Income and these benefits comprise the majority of that line item.

For the year ended Dec. 31, 2007, **Other income** reflected a phase-out of approximately 67%, or \$140.2 million, of the benefit of the underlying value of any 2007 tax credits based on an estimate of the average annual price of domestic crude oil during 2007. Should the final actual average annual price of domestic crude oil be different than this estimate, the cash payments and the benefits recognized in **Other income** and **Minority interest** will be adjusted, either positively or negatively, in the first quarter of 2008. A phase-out of approximately 35%, or \$61.1 million after-tax, was recognized in 2006 and no phase-out of the benefit was recognized in 2005.

To protect the cash proceeds derived from the sale of ownership interests, TECO Energy had in place crude oil options to hedge against the risk of high oil prices reducing the value of the tax credits related to the production of synthetic fuel. These instruments were marked-to-market with fair value gains and losses recognized in **Other income** on the Consolidated Statements of Income. For the years ended Dec. 31, 2007, 2006 and 2005, the company recognized gains on marked-to-market derivatives of \$82.7 million, \$2.9 million and \$0.5 million, respectively. The increase in the gain from 2006 to 2007 was reflective of the increase in oil prices and the total volume of barrels hedged, which was 2.8 million barrels in 2006 compared to 25.1 million barrels in 2007.

Revenues and Cost Recovery

Revenues include amounts resulting from cost recovery clauses which provide for monthly billing charges to reflect increases or decreases in fuel, purchased power, conservation and environmental costs for Tampa Electric and purchased gas, interstate pipeline capacity and conservation costs for PGS. These adjustment factors are based on costs incurred and projected for a specific recovery period. Any over- or under-recovery of costs plus an interest factor are taken into account in the process of setting adjustment factors for subsequent recovery periods. Over-recoveries of costs are recorded as deferred credits, and under-recoveries of costs are recorded as deferred charges.

Certain other costs incurred by the regulated utilities are allowed to be recovered from customers through prices approved in the regulatory process. These costs are recognized as the associated revenues are billed. The regulated utilities accrue base revenues for services rendered but unbilled to provide a closer matching of

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revenues and expenses (see **Note 3**). As of Dec. 31, 2007 and 2006, unbilled revenues of \$46.6 million and \$47.8 million, respectively, are included in the Receivables line item on TECO Energy's Consolidated Balance Sheets.

Tampa Electric purchases power on a regular basis primarily to meet the needs of its retail customers. Tampa Electric purchased power from non-TECO Energy affiliates at a cost of \$271.9 million, \$221.3 million and \$269.7 million, for the years ended Dec. 31, 2007, 2006 and 2005, respectively. The prudently incurred purchased power costs at Tampa Electric have historically been recovered through an FPSC-approved cost recovery clause.

Accounting for Excise Taxes, Franchise Fees and Gross Receipts

TECO Coal and TECO Transport incur most of TECO Energy's total excise taxes, which are accrued as an expense and reconciled to the actual cash payment of excise taxes. As general expenses, they are not specifically recovered through revenues. Excise taxes paid by the regulated utilities are not material and are expensed when incurred.

The regulated utilities are allowed to recover certain costs incurred from customers through prices approved by the FPSC. The amounts included in customers' bills for franchise fees and gross receipt taxes are included as revenues on the Consolidated Statements of Income. These amounts totaled \$111.2 million, \$104.2 million and \$87.2 million for the years ended Dec. 31, 2007, 2006 and 2005, respectively. Franchise fees and gross receipt taxes payable by the regulated utilities are included as an expense on the Consolidated Statements of Income in Taxes, other than income. For the years ended Dec. 31, 2007, 2006 and 2005, these totaled \$110.9 million, \$104.0 million and \$87.0 million, respectively.

Asset Impairments

TECO Energy and its subsidiaries apply the provisions of FAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (FAS 144). FAS 144 addresses accounting and reporting for the impairment or disposal of long-lived assets, including the disposal of a component of a business.

In accordance with FAS 144, the company assesses whether there has been an impairment of its long-lived assets and certain intangibles held and used by the company when such impairment indicators exist. Indicators of impairment existed for certain asset groups, triggering a requirement to ascertain the recoverability of these assets using undiscounted cash flows. See **Note 18** for specific details regarding the results of these assessments.

Deferred Charges and Other Assets

Deferred charges and other assets consist primarily of mining development costs amortized on a per ton basis and offering costs associated with various debt offerings that are being amortized over the related obligation period as an increase in interest expense.

Deferred Credits and Other Liabilities

Other deferred credits primarily include the accrued post-retirement and pension liabilities, and medical and general liability claims incurred but not reported. The company and its subsidiaries have a self-insurance program supplemented by excess insurance coverage for the cost of claims whose ultimate value exceeds the company's retention amounts. The company estimates its liabilities for auto, general, marine protection & indemnity, and workers' compensation using discount rates mandated by statute or otherwise deemed appropriate for the circumstances. Discount rates used in estimating these liabilities at both Dec. 31, 2007 and 2006 ranged from 4.00% to 4.75%.

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Stock-based Compensation

Effective Jan. 1, 2006, TECO Energy accounts for its stock-based compensation in accordance with FAS No. 123 (revised 2004), *Share-Based Payment* (FAS 123R). Under the provisions of FAS 123R, share-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee's or director's requisite service period (generally the vesting period of the equity grant). Prior to this, the company accounted for its share-based payments under Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* and its related interpretations and the disclosure requirements of FAS 123, *Accounting for Stock-Based Compensation*, as amended by FAS 148, *Accounting for Stock-Based Compensation Transition and Disclosure*. The company elected to adopt the modified-prospective transition method as provided under FAS 123R and, accordingly, results for prior periods have not been restated. See **Note 9**, Common Stock, for more information on share-based payments.

Restrictions on Dividend Payments and Transfer of Assets

Dividends on TECO Energy's common stock are declared and paid at the discretion of its Board of Directors. The primary sources of funds to pay dividends on TECO Energy's common stock are dividends and other distributions from its operating companies. TECO Energy's credit facility contains a covenant that could limit the payment of dividends exceeding a calculated amount (initially \$50 million) in any quarter under certain circumstances. Certain long-term debt at PGS contains restrictions that limit the payment of dividends and distributions on the common stock of Tampa Electric Company.

In addition, TECO Diversified, Inc., a wholly-owned subsidiary of TECO Energy and the holding company for TECO Coal, has a guarantee related to a coal supply agreement that limits the payment of dividends to its common shareholder, TECO Energy, but does not limit loans or advances. See **Notes 6, 7 and 12** for additional information on significant financial covenants.

Foreign Operations

The functional currency of the company's foreign investments is primarily the U.S. dollar. Transactions in the local currency are re-measured to the U.S. dollar for financial reporting purposes. The aggregate re-measurement gains or losses included in net income in 2007, 2006 and 2005 were not material. The foreign investments are generally protected from any significant currency gains or losses by the terms of the power sales agreements and other related contracts, in which payments are defined in U.S. dollars.

2. New Accounting Pronouncements

Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (FAS 160). FAS 160 was issued to improve the relevance, comparability and transparency of the financial information provided by requiring: ownership interests be presented in the consolidated statement of financial position separate from parent equity; the amount of net income attributable to the parent and the noncontrolling interest be identified and presented on the face of the consolidated statement of income; changes in the parent's ownership interest be accounted for consistently; when deconsolidating, that any retained equity interest be measured at fair value; and that sufficient disclosures identify and distinguish between the interests of the parent and noncontrolling owners. The guidance in FAS 160 is effective for fiscal years beginning on or after Dec. 15, 2008. The company is currently assessing the impact of FAS 160, but does not believe it will be material to its results of operations, statement of position or cash flows.

Business Combinations (Revised)

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations* (FAS 141R). FAS 141R was issued to improve the relevance, representational faithfulness, and comparability of information disclosed in

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financial statements about business combinations. The Statement establishes principles and requirements for how the acquirer: 1) recognizes and measures the assets acquired, liabilities assumed and any noncontrolling interest in the acquiree; 2) recognizes and measures the goodwill acquired; and 3) determines what information to disclose for users of financial statements to evaluate the effects of the business combination. The guidance in FAS 141R is effective prospectively for any business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after Dec. 15, 2008. The company will assess the impact of FAS 141R in the event it enters into a business combination whose expected acquisition date is subsequent to the required adoption date.

Offsetting Amounts Related to Certain Contracts

In April 2007, the FASB issued FASB Staff Position (FSP) FIN 39-1. This FSP amends FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts* by allowing an entity to offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments executed with the same counterparty under a master netting arrangement. The guidance in this FSP is effective for fiscal years beginning after Nov. 15, 2007. The Company adopted this FSP effective Jan. 1, 2008 without any effect on its results of operations, statement of position or cash flows.

Fair Value Option For Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (FAS 159). FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of FAS 159 is to provide opportunities to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply hedge accounting provisions. FAS 159 is effective for fiscal years beginning after Nov. 15, 2007. The company adopted FAS 159 effective Jan. 1, 2008, but did not elect to measure any financial instruments at fair value. Accordingly, its adoption did not have any effect on its results of operations, statement of position or cash flows.

Fair Value Measurements

In September 2006, the FASB issued FAS No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. FAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. FAS 157 applies under other accounting pronouncements that require or permit fair value measurements.

FAS 157, among other things, requires the company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value, and specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the company's market assumptions. FAS 157 defines the following fair value hierarchy, based on these two types of inputs:

Level 1 Quoted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 Model derived valuations in which one or more significant inputs or significant value drivers are unobservable.

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The effective date is for fiscal years beginning after Nov. 15, 2007. In November of 2007, the FASB granted a one year deferral for non-financial assets and liabilities. As a result, the company adopted FAS 157 effective Jan. 1, 2008 for financial assets and liabilities. Financial assets and liabilities of the company measured at fair value include derivatives and certain investments, for which fair values are primarily based on observable inputs.

During 2008, the company will continue to evaluate FAS 157 for the remaining non-financial assets and liabilities to be included effective Jan. 1, 2009. The company does not believe the impact of adoption for the remaining non-financial assets and liabilities will be material to its results of operations, statement of position or cash flows.

3. Regulatory

As discussed in **Note 1**, Tampa Electric's and PGS's retail businesses are regulated by the FPSC. Tampa Electric is subject to regulation by the Federal Energy Regulatory Commission (FERC) under the Public Utility Holding Company Act of 2005 (PUHCA 2005), which replaced the Public Utility Holding Company Act of 1935 which was repealed. However, pursuant to a waiver granted in accordance with FERC's regulations, TECO Energy is not subject to certain of the accounting, record-keeping, and reporting requirements prescribed by FERC's regulations under PUHCA 2005.

Base Rates Tampa Electric

Tampa Electric's rates and allowed return on equity (ROE) range of 10.75% to 12.75% with a midpoint of 11.75% are in effect until such time as changes are occasioned by an agreement approved by the FPSC or other FPSC actions resulting from rate or other proceedings initiated by Tampa Electric, FPSC staff or other interested parties. Tampa Electric's base rates were last set in a 1992 proceeding.

Cost Recovery Tampa Electric

In September 2007, 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. In November 2007, the FPSC approved Tampa Electric's requested changes. The rates include the impacts of natural gas and coal prices expected in 2008, the refund of the overestimated 2007 fuel and purchased power expenses, the collection of previously unrecovered 2006 fuel and purchased power expenses, the proceeds from the actual and projected sale of excess sulfur dioxide (SO₂) 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. In addition, the rates reflect the FPSC's September 2004 decision to reduce the annual cost recovery amount for water transportation services for coal and petroleum coke provided under Tampa Electric's contract with TECO Transport described below. As part of the regulatory process, it is reasonably likely that third parties may intervene on similar matters in the future. The company is unable to predict the timing, nature or impact of such future actions.

Base Rates PGS

PGS's rates and allowed ROE range of 10.25% to 12.25% with a midpoint of 11.25% are in effect until such time as changes are occasioned by an agreement approved by the FPSC or other FPSC actions resulting from rate or other proceedings initiated by PGS, FPSC staff or other interested parties. PGS's current base rates have been in effect since 2003.

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Cost Recovery PGS

In September 2007, PGS filed its annual request with the FPSC to change its Purchased Gas Adjustment (PGA) cap factor for 2008. The PGA rate can vary monthly due to changes in actual fuel costs but is not expected to exceed the FPSC approved annual cap. In November 2007, the FPSC approved the cap factor under PGS PGA for the period January 2008 through December 2008.

SO₂ Emission Allowances

The Clean Air Act Amendments of 1990 established SO₂ allowances to manage the achievement of SO₂ emissions requirements. The legislation also established a market-based SO₂ allowance trading component.

An allowance authorizes a utility to emit one ton of SO₂ during a given year. The EPA allocates allowances to utilities based on mandated emissions reductions. At the end of each year, a utility must hold an amount of allowances at least equal to its annual emissions. Allowances are fully marketable and, once allocated, may be bought, sold, traded or banked for use currently or in future years. In addition, the EPA withholds a small percentage of the annual SO₂ allowances it allocates to utilities for auction sales. Any resulting auction proceeds are then forwarded to the respective utilities. Allowances may not be used for compliance prior to the calendar year for which they are allocated. Tampa Electric accounts for these using an inventory model with a zero basis for those allowances allocated to the company. Tampa Electric recognizes a gain at the time of sale, approximately 95% of which accrues to retail customers through the environmental cost recovery clause.

Over the years, Tampa Electric has acquired allowances through EPA allocations. Also, over time, Tampa Electric has sold unneeded allowances based on compliance and allowances available. The SO₂ allowances unneeded and sold resulted from lower emissions at Tampa Electric brought about by environmental actions taken by the company under the Clean Air Act.

For the year ended Dec. 31, 2007, Tampa Electric sold approximately 168,000 allowances, resulting in proceeds of \$91.1 million, the majority of which is included as a cost recovery clause regulatory liability. In the years ended Dec. 31, 2006 and 2005, approximately 44,500 and 100,000 allowances were sold for \$45.0 million and \$79.7 million in proceeds, respectively.

Other Items

Storm Damage Cost Recovery

Tampa Electric accrues \$4 million annually to fund a FERC-authorized, self-insured storm damage reserve. This reserve was created after Florida's investor owned utilities (IOUs) were unable to obtain transmission and distribution insurance coverage due to destructive acts of nature.

The FPSC approved Tampa Electric to reclassify approximately \$39 million of 2004 hurricane restoration costs as plant in service (rate base). With this adjustment and the normal \$4 million annual storm accrual, Tampa Electric's storm reserve was \$20.0 and \$16.0 million as of Dec. 31, 2007 and 2006, respectively.

Coal Transportation Contract

In September 2004, the FPSC voted to disallow a portion of the costs that Tampa Electric can recover from its customers for water transportation services under a five year transportation agreement ending Dec. 31, 2008. The amounts disallowed, and excluded from the recovery under the fuel adjustment clause, were \$15.1 million, \$15.3 million and \$14.1 million for the years ended Dec. 31, 2007, 2006 and 2005, respectively.

Table of Contents**Regulatory Assets and Liabilities**

Tampa Electric and PGS maintain their accounts in accordance with recognized policies of the FPSC. In addition, Tampa Electric maintains its accounts in accordance with recognized policies prescribed or permitted by the Federal Energy Regulatory Commission (FERC).

Tampa Electric and PGS apply the accounting treatment permitted by FAS 71. Areas of applicability include: deferral of revenues and expenses under approved regulatory agreements; revenue recognition resulting from cost recovery clauses that provide for monthly billing charges to reflect increases or decreases in fuel, purchased power, conservation and environmental costs; and the deferral of costs as regulatory assets to the period that the regulatory agency recognizes them when cost recovery is ordered over a period longer than a fiscal year. Details of the regulatory assets and liabilities as of Dec. 31, 2007 and 2006 are presented in the following table:

Regulatory Assets and Liabilities	<i>Dec.</i> <i>31,</i> <i>2007</i>	<i>Dec.</i> <i>31,</i> <i>2006</i>
<i>(millions)</i>		
Regulatory assets:		
Regulatory tax asset ⁽¹⁾	\$ 62.5	\$ 49.5
Other:		
Cost recovery clauses	47.2	239.2
Post-retirement benefit asset	97.5	148.9
Deferred bond refinancing costs ⁽²⁾	25.5	26.7
Environmental remediation	11.4	12.3
Competitive rate adjustment	5.4	5.5
Other	4.7	4.9
Total other regulatory assets	191.7	437.5
Total regulatory assets	254.2	487.0
Less: Current portion	67.4	255.7
Long-term regulatory assets	\$ 186.8	\$ 231.3
Regulatory liabilities:		
Regulatory tax liability ⁽¹⁾	\$ 18.8	\$ 20.6
Other:		
Deferred allowance auction credits	0.1	0.8
Cost recovery clauses	18.9	28.9
Environmental remediation	11.4	12.3
Transmission and delivery storm reserve	20.3	16.3
Deferred gain on property sales ⁽³⁾	4.7	6.8
Accumulated reserve-cost of removal	543.5	516.1
Other	0.4	0.2
Total other regulatory liabilities	599.3	581.4
Total regulatory liabilities	618.1	602.0
Less: Current portion	35.4	46.7
Long-term regulatory liabilities	\$ 582.7	\$ 555.3

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- (1) Related to plant life and derivative positions.
- (2) Amortized over the term of the related debt instrument.
- (3) Amortized over a 5-year period with various ending dates.

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All regulatory assets are being recovered through the regulatory process. The following table further details our regulatory assets and the related recovery periods:

Regulatory assets

<i>(millions) Dec. 31,</i>	<i>2007</i>	<i>2006</i>
Clause recoverable ⁽¹⁾	\$ 52.6	\$ 244.7
Earning a rate of return ⁽²⁾	101.7	152.6
Regulatory tax assets ⁽³⁾	62.5	49.5
Capital structure and other ⁽³⁾	37.4	40.2
Total	\$ 254.2	\$ 487.0

- (1) To be recovered through cost recovery clauses approved by the FPSC on a dollar for dollar basis in the next year. The decrease between years is principally due to the recovery of previously unrecovered fuel costs.
- (2) Primarily reflects allowed working capital, which is included in rate base and earns an 8.2% rate of return as permitted by the FPSC.
- (3) Regulatory tax assets and Capital structure and other regulatory assets have a recoverable period longer than a fiscal year and are recognized over the period authorized by the regulatory agency. Also included are unamortized loan costs which are amortized over the life of the related debt instruments. See footnotes 1 and 2 in the prior table for additional information.

Table of Contents**4. Income Tax Expense**

Income tax expense consists of the following components:

Income Tax Expense (Benefit)

<i>(millions)</i>	<i>Federal</i>	<i>Foreign</i>	<i>State</i>	<i>Total</i>
2007				
Continuing operations				
Current payable	\$ 2.8	\$ 0.7	\$ 14.1	\$ 17.6
Deferred	178.6		20.5	199.1
Amortization of investment tax credits	(2.5)			(2.5)
Income tax expense from continuing operations	178.9	0.7	34.6	214.2
Discontinued operations				
Deferred	(14.3)			(14.3)
Income tax benefit from discontinued operations	(14.3)			(14.3)
Total income tax expense	\$ 164.6	\$ 0.7	\$ 34.6	\$ 199.9
2006				
Continuing operations				
Current payable	\$ 1.0	\$ 2.8	\$ 5.4	\$ 9.2
Deferred	87.2	0.2	24.7	112.1
Amortization of investment tax credits	(2.6)			(2.6)
Income tax expense from continuing operations	85.6	3.0	30.1	118.7
Discontinued operations				
Deferred	8.5		(8.1)	0.4
Income tax expense (benefit) from discontinued operations	8.5		(8.1)	0.4
Total income tax expense	\$ 94.1	\$ 3.0	\$ 22.0	\$ 119.1
2005				
Continuing operations				
Current payable	\$ 2.0	\$ 7.5	\$ 9.0	\$ 18.5
Deferred	63.7	0.8	21.6	86.1
Amortization of investment tax credits	(2.7)			(2.7)
Income tax expense from continuing operations	63.0	8.3	30.6	101.9
Discontinued operations				
Deferred	35.3		(10.6)	24.7
Income tax expense (benefit) from discontinued operations	35.3		(10.6)	24.7
Total income tax expense	\$ 98.3	\$ 8.3	\$ 20.0	\$ 126.6

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As discussed in **Note 1**, TECO Energy uses the liability method to determine deferred income taxes. Based primarily on the reversal of deferred income tax liabilities and future earnings of the company's core utility operations, management has determined that the net deferred tax assets recorded at Dec. 31, 2007 will be realized in future periods.

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The principal components of the company's deferred tax assets and liabilities recognized in the balance sheet are as follows:

Deferred Income Tax Assets and Liabilities

<i>(millions) Dec. 31,</i>	<i>2007</i>	<i>2006</i>
Deferred income tax assets		
Alternative minimum tax credit carryforward	\$ 196.6	\$ 197.6
Investment in partnership	61.8	55.3
Net operating loss carryforward	508.2	763.4
Other	160.1	147.9
Total deferred income tax assets	\$ 926.7	\$ 1,164.2
Deferred income tax liabilities		
Property related	(487.2)	(468.5)
Deferred fuel	(14.6)	(65.5)
Total deferred income tax liabilities	(501.8)	(534.0)
Net deferred tax assets	\$ 424.9	\$ 630.2

At Dec. 31, 2007, the company has cumulative unused federal and state (Florida) net operating losses of approximately \$1,322.9 million and \$663.2 million, respectively, expiring in 2026 and 2027, respectively. In addition, the company has unused general business credits of \$2.2 million and unused foreign tax credits of \$6.4 million expiring in 2026 and 2016, respectively. The company also has available alternative minimum tax credit carryforwards for tax purposes of approximately \$197.0 million which may be used indefinitely to reduce federal income taxes.

Effective Income Tax Rate

<i>(millions) For the years ended Dec. 31,</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>
Net income from continuing operations before minority interest	\$ 316.7	\$ 174.8	\$ 123.9
Plus: minority interest	82.2	69.6	87.1
Net income from continuing operations	398.9	244.4	211.0
Total income tax provision	214.2	118.7	101.9
Income from continuing operations before income taxes	613.1	363.1	312.9
Income taxes on above at federal statutory rate of 35%	214.6	127.1	109.5
Increase (decrease) due to			
State income tax, net of federal income tax	22.5	18.7	18.1
Foreign income taxes	1.9	2.2	6.6
Amortization of investment tax credits	(2.5)	(2.6)	(2.7)
Permanent reinvestment foreign income	(11.0)	(9.2)	(9.4)
Non-conventional fuels tax credit	(1.4)	(2.1)	
AFUDC equity	(1.6)	(1.0)	
Dividend income			1.6
State rate change		2.7	2.4
State valuation allowance	2.0	2.1	
Depletion	(7.8)	(9.8)	(8.4)
Other	(2.5)	(9.4)	(15.8)
Total income tax provision from continuing operations	\$ 214.2	\$ 118.7	\$ 101.9

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Provision for income taxes as a percent of income from continuing operations, before income taxes	34.9%	32.7%	32.6%
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For the three years presented, we experienced a number of events that have impacted the overall effective tax rate on continuing operations. These events included permanent reinvestment of foreign income under APB Opinion No. 23, *Accounting for Taxes - Special Areas* (APB 23), adjustment of deferred tax assets for the effect of an enacted change in state tax rates, depletion, repatriation of foreign source income to the United States, and reduction of income tax expense under the new tonnage tax regime. The change in the 2007 effective tax rate is principally due to the taxation of earnings as a result of the sale of TECO Transport in consolidated filing states with higher tax rates, the projected state tax rate at which various deferred items will reverse as a result of this sale, and lower depletion. See below for a discussion of discontinued operations in 2007.

At Dec. 31, 2007, the portion of cumulative undistributed earnings from our investments in EEGSA was approximately \$87.8 million. With the exception of the earnings repatriated in 2005, these earnings have been, and are intended to be, indefinitely invested in foreign operations. Therefore, no provision has been made for U.S. taxes or foreign withholding taxes that may be applicable upon actual or deemed repatriation.

On Oct. 22, 2004, the President of the United States signed the American Jobs Creation Act of 2004 (the Act). The Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85% dividend received deduction for certain dividends from controlled foreign corporations. The company elected to apply Code Section 965 with respect to its 2005 dividends. For the twelve months ended Dec. 31, 2005, the company repatriated \$38.9 million, resulting in \$1.0 million of additional tax expense net of foreign tax credits. The tax savings related to the repatriation provision of the Act are reflected in the Other category in the effective income tax rate.

Code Section 248 of the Act also introduced a new tonnage tax which allows corporations to elect to exclude from gross income certain income from activities connected with the operation of a U.S. flag vessel in U.S. foreign trade and become subject to a tax imposed on the per-ton weight of the qualified vessel instead. The company elected to apply Code Section 248 for qualified vessels in 2006 and 2005. The tax savings related to the tonnage tax regime are reflected in the Other category in the effective income tax rate.

The actual cash (refunded) paid for income taxes as required for the alternative minimum tax, state income taxes and prior year audits in 2007, 2006 and 2005 was \$(10.5) million, \$10.4 million and \$27.4 million, respectively.

In June 2006, the FASB issued FASB Interpretation Number 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109, Accounting for Income Taxes* (FIN 48). FIN 48 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on derecognition, classification, interest and penalties on income taxes, accounting in interim periods, and requires increased disclosures.

The company adopted the provisions of FIN 48 effective Jan. 1, 2007. As a result of the implementation of FIN 48, the company recognized a \$0.1 million decrease in the deferred tax liability for uncertain tax benefits with a corresponding increase to the Jan. 1, 2007 balance of retained earnings. Subsequent to the implementation of FIN 48, the company recognized in the second quarter \$14.3 million of tax benefits in discontinued operations as a result of reaching favorable conclusions with taxing authorities. Additionally, during the fourth quarter of 2007, the company recognized \$1.9 million of current tax expense from an uncertain tax position that did not meet the more likely than not criteria. Lastly, the company has had on-going discussions with state tax authorities related to tax issues addressed prior to the adoption of FIN 48. The principle remaining issues relate to how a state taxes the sale of various revenue components and how it treats the nature of the sale of various

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partnership interests. There is a reasonable possibility that these issues may be resolved in the next twelve months. At this time, the Company does not have sufficient information to determine whether these issues will be resolved favorably. As a result, the Company has recorded a full valuation allowance as the most probable outcome. If these matters are positively settled, they would increase earnings in the period of settlement. If unfavorably resolved, they would have no impact on earnings, but they would result in a decrease in operating cash flows. The gross exposure on this issue as of Dec. 31, 2007 is approximately \$12.7 million.

The following table provides a reconciliation of Unrecognized Tax Benefits at the beginning and end of 2007:

Unrecognized Tax Benefits

<i>(in millions)</i>	
Balance, Jan. 1, 2007	\$ 11.2
Addition for tax positions of the current year	2.9
Additions for tax provision of prior years	0.8
Reductions for tax positions of prior years for:	
Changes in judgement	
Settlements during the period	
Lapses of applicable statute of limitation	
Balance, Dec. 31, 2007	\$ 14.9

The company recognizes interest and penalties associated with uncertain tax positions in Operation other expense Other in the Consolidated Statements of Income. In 2007, the company recorded approximately \$0.9 million of pre-tax charges for interest only. Additionally, the company has recognized approximately \$2.0 million and \$1.1 million of interest on the balance sheet as of Dec. 31, 2007 and 2006, respectively. No amounts have been recorded for penalties.

The company's U.S. subsidiaries join in the filing of a U.S. federal consolidated income tax return. The Internal Revenue Service (IRS) concluded its examination of the company's consolidated federal income tax returns for the 2005 and 2006 tax years during 2007. The U.S. federal statute of limitations remains open for the year 2007 and onward. Year 2007 is currently under examination by the IRS under the Compliance Assurance Program, a program in which the company is a participant. The company does not expect the settlement of current IRS examinations to significantly change the total amount of unrecognized tax benefits for the 2007 tax year. Foreign and U.S. state jurisdictions have statutes of limitations generally ranging from 3 to 5 years from the filing of an income tax return. The state impact of any federal changes remains subject to examination by various states for a period of up to one year after formal notification to the states. Years still open to examination by taxing authorities in major state and foreign jurisdictions include 2002 and onward.

5. Employee Postretirement Benefits

In September 2006, the FASB issued SFAS No.158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (FAS 158). The company adopted FAS 158 on Dec. 31, 2006. This standard requires the recognition in the statement of financial position the over-funded or under-funded status of a defined benefit postretirement plan, measured as the difference between the fair value of plan assets and the benefit obligation in the case of a defined benefit plan, or the accumulated postretirement benefit obligation in the case of other postretirement benefit plans. As a result of this standard, the company reported as of Dec. 31, 2006, a \$125.8 million increase in benefit liabilities on the balance sheet and a \$21.8 million accumulated other comprehensive loss, net of estimated tax benefits. In addition, as a result of the application of FAS 71 to the impacts of FAS 158, Tampa Electric Company recorded \$91.9 million in both benefit liabilities and regulatory assets as of Dec. 31, 2006. This standard did not affect the results of operations.

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Pension Benefits

TECO Energy has a non-contributory defined benefit retirement plan that covers substantially all employees. Benefits are based on employees age, years of service and final average earnings.

Amounts disclosed for pension benefits also include the unfunded obligations for the supplemental executive retirement plan. This is a non-qualified, non-contributory defined benefit retirement plan available to certain members of senior management.

TECO Energy reported other comprehensive income of \$42.7 million in 2006 for adjustments to the minimum pension liability. The adjustments to other comprehensive income related to the minimum pension liability in 2006 are net of \$35.1 million of after-tax charges that, for regulatory purposes prescribed by FAS 71, were recorded as regulatory assets for Tampa Electric and PGS. TECO Energy had recorded other comprehensive losses of \$7.2 million in 2005 related to adjustments to the minimum pension liability associated with the pension plans; there were no impacts of FAS 71 in 2005 related to the additional minimum pension liability adjustments (see **Note 10**).

Other Postretirement Benefits

TECO Energy and its subsidiaries currently provide certain postretirement health care and life insurance benefits for substantially all employees retiring after age 50 meeting certain service requirements. The company contribution toward health care coverage for most employees who retired after the age of 55 between Jan. 1, 1990 and Jun. 30, 2001 is limited to a defined dollar benefit based on service. The company contribution toward pre-65 and post-65 health care coverage for most employees retiring on or after Jul. 1, 2001 is limited to a defined dollar benefit based on an age and service schedule. In 2008, the company expects to make a contribution of about \$13.5 million to this program. Postretirement benefit levels are substantially unrelated to salary. The company reserves the right to terminate or modify the plans in whole or in part at any time.

On Dec. 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the MMA) was signed into law. Beginning in 2006, the new law added prescription drug coverage to Medicare, with a 28% tax-free subsidy to encourage employers to retain their prescription drug programs for retirees, along with other key provisions. TECO Energy's current retiree medical program for those eligible for Medicare (generally over age 65) includes coverage for prescription drugs. The company has determined that prescription drug benefits available to certain Medicare-eligible participants under its defined-dollar-benefit postretirement health care plan are at least actuarially equivalent to the standard drug benefits that are offered under Medicare Part D.

On May 19, 2004, the FASB issued FASB Staff Position No. 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* (FSP 106-2). The guidance in FSP 106-2 requires (a) that the effects of the federal subsidy be considered an actuarial gain and recognized in the same manner as other actuarial gains and losses and (b) certain disclosures for employers that sponsor postretirement health care plans that provide prescription drug benefits. TECO Energy adopted FSP 106-2 retroactive for the second quarter of 2004.

The company received its first subsidy payment under Part D in 2006 for the 2006 plan year. It has filed and is awaiting approval for its 2007 Part D subsidy application with the Centers for Medicare and Medicaid Services (CMS).

Table of Contents**Obligations and Funded Status**

<i>(millions)</i>	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Change in benefit obligation				
Net benefit obligation at prior measurement date ⁽¹⁾	\$ 569.9	\$ 562.1	\$ 202.8	\$ 206.2
Service cost	16.0	15.8	5.3	5.9
Interest cost	33.0	30.7	12.2	11.3
Plan participants' contributions			3.6	3.3
Actuarial (gain) loss	(21.9)	(4.5)	(8.4)	(9.9)
Plan amendments	0.3		(3.8)	
Curtailed	(6.1)		(2.1)	
Special termination benefits	0.6			
Gross benefits paid	(34.6)	(34.2)	(14.8)	(13.4)
Federal subsidy on benefits paid	n/a	n/a	0.9	(0.6)
Net benefit obligation at measurement date ⁽¹⁾	\$ 557.2	\$ 569.9	\$ 195.7	\$ 202.8
Change in plan assets				
Fair value of plan assets at prior measurement date ⁽¹⁾	\$ 435.2	\$ 434.7	\$	\$
Actual return on plan assets	56.6	27.0		
Employer contributions	35.5	7.7	11.2	10.1
Plan participants' contributions			3.6	3.3
Gross benefits paid	(34.6)	(34.2)	(14.8)	(13.4)
Fair value of plan assets at measurement date ⁽¹⁾	\$ 492.7	\$ 435.2	\$	\$
Funded status				
Fair value of plan assets	\$ 492.7	\$ 435.2	\$	\$
Benefit obligation	557.2	569.9	195.7	202.8
Funded status at measurement date ⁽¹⁾	(64.5)	(134.7)	(195.7)	(202.8)
Net contributions after measurement date	26.1	30.8	2.6	2.1
Unrecognized net actuarial loss	81.9	138.8	5.9	15.6
Unrecognized prior service (benefit) cost	(3.2)	(4.5)	18.9	29.7
Unrecognized net transition (asset) obligation			11.7	16.5
Accrued liability at end of year	\$ 40.3	\$ 30.4	\$ (156.6)	\$ (138.9)
Amounts Recognized in Balance Sheet				
Long-term regulatory assets	\$ 57.2	\$ 99.1	\$ 40.3	\$ 49.8
Accrued benefit costs and other current liabilities	(4.5)	(1.3)	(13.6)	(12.8)
Deferred credits and other liabilities	(34.0)	(103.3)	(179.5)	(190.0)
Accumulated other comprehensive loss (income) (pretax)	21.6	35.9	(3.8)	14.1
Net amount recognized at end of year	\$ 40.3	\$ 30.4	\$ (156.6)	\$ (138.9)

(1) The measurement date was Sep. 30, 2007 and 2006. In accordance with FAS 158, the company will move to a year-end measurement date effective Dec. 31, 2008 under the 15-month transition approach.

Amounts recognized in accumulated other comprehensive income consist of:

	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Net actuarial loss (gain)	\$ 20.4	\$ 35.4	\$ (15.0)	\$ (5.5)
Prior service cost (credit)	1.2	0.5	8.6	15.9
Transition obligation (asset)			2.6	3.7
	\$ 21.6	\$ 35.9	\$ (3.8)	\$ 14.1

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The accumulated benefit obligation for all defined benefit pension plans was \$493.0 million and \$508.3 million at Sep. 30, 2007 and 2006, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

Accumulated benefit in excess of plan assets

<i>(millions)</i>	2007	2006
Projected benefit obligation, measurement date	\$ 557.2	\$ 569.9
Accumulated benefit obligation, measurement date	493.0	508.3
Fair Value of plan assets, measurement date	492.7	435.2

Components of Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Income:

<i>(millions)</i>	Pension Benefits			Other Benefits		
	2007	2006	2005	2007	2006	2005
Net periodic benefit cost:						
Service cost	\$ 16.0	\$ 15.8	\$ 16.2	\$ 5.3	\$ 6.0	\$ 6.5
Interest cost	33.0	30.7	32.7	12.2	11.3	11.2
Expected return on plan assets	(36.3)	(35.7)	(37.2)			
Amortization of:						
Actuarial loss	9.1	8.8	4.3		0.5	
Prior service (benefit) cost	(0.5)	(0.5)	(0.5)	2.8	3.0	3.0
Transition (asset) obligation			(0.2)	2.5	2.7	2.7
Curtailment loss	(0.4)			6.4		
Settlement loss			1.4			
Net periodic benefit cost	\$ 20.9	\$ 19.1	\$ 16.7	\$ 29.2	\$ 23.5	\$ 23.4

In addition to the costs shown above, \$0.6 million of special termination benefit costs were recognized in 2007 related to pension benefits.

Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income⁽¹⁾:

<i>(millions)</i>	Balance at Dec. 31, 2005	Movement for the year ended Dec. 31, 2006	Adjustment to implement FAS 158	Balance at Dec. 31, 2006
Additional minimum pension liability	\$ (51.5)	\$ 42.7	\$ 8.8	\$ (2.0)
Unrecognized pension losses and prior service costs			(22.0)	(22.0)
Unrecognized other benefit losses, prior service costs and transition obligations			(8.6)	(8.6)
Total accumulated other comprehensive income, net of taxes	\$ (51.5)	\$ 42.7	\$ (21.8)	\$ (30.6)

(1) These balances exclude the pretax amounts recognized as Regulated Assets by Tampa Electric and Peoples Gas System as detailed as follows on a pretax basis:

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<i>Related to additional minimum pension liability</i>	
Unrecognized pension losses and prior service costs	\$ 57.0
<i>Related to the adoption of FAS 158</i>	
Unrecognized pension losses and prior service costs	\$ 42.1
Unrecognized other benefit losses, prior service costs and transition obligations	49.8
Total related to the adoption of FAS 158, pretax	91.9
Total postretirement benefits included in regulated assets, pretax	\$ 148.9

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The estimated net loss and prior service net cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are \$0.9 million and \$0.1 million, respectively. The estimated prior service cost and transition obligation for the other postretirement benefit plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$0.5 million and \$0.5 million, respectively.

In addition, the estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from regulatory assets into net periodic benefit cost over the next fiscal year totals \$1.5 million. The estimated prior service cost and transition obligation for the other postretirement benefit plan that will be amortized from regulatory asset into net periodic benefit cost over the next fiscal year totals \$3.2 million.

Additional Information

(millions)	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Increase in minimum liability included in other comprehensive income, net of tax	\$	\$ 42.7	\$	\$

Weighted-average assumptions used to determine benefit obligations at Sep. 30, the measurement date for the pension and other postretirement benefit plans

	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Discount rate	6.20%	5.85%	6.20%	5.85%
Rate of compensation increase	4.25%	4.00%	4.25%	4.00%

Weighted-average assumptions used to determine net periodic benefit cost for years ended Dec. 31,

	Pension Benefits			Other Benefits		
	2007	2006	2005	2007	2006	2005
Discount rate	5.85%	5.50%	6.00%	5.85%	5.50%	6.00%
Expected long-term return on plan assets	8.25%	8.50%	8.75%	n/a	n/a	n/a
Rate of compensation increase	4.00%	3.75%	4.25%	4.00%	3.75%	4.25%

The expected return on assets assumption was based on expectations of long-term inflation, real growth in the economy, fixed income spreads, and equity premiums consistent with our portfolio, with provision for active management and expenses paid. The compensation increase assumption was based on the same underlying expectation of long-term inflation together with assumptions regarding real growth in wages and company-specific merit and promotion increases. The discount rate assumption was based on a cash flow matching technique developed by our outside actuaries and a review of current economic conditions. This technique matches the yields from high-quality (Aa-graded, non-callable) corporate bonds to the company's projected cash flows for the pension plan to develop a present value that is converted to a discount rate.

	2007	2006	2005
Healthcare cost trend rate			
Initial rate	9.25%	9.50%	9.50%
Ultimate rate	5.25%	5.00%	5.00%
Year rate reaches ultimate	2015	2014	2013

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Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

(millions)	1% Increase	1% Decrease
Effect on total service and interest cost	\$ 1.0	\$ (0.7)
Effect on postretirement benefit obligation	\$ 6.8	\$ (5.6)

Asset Allocation

Pension plan assets (plan assets) are invested in a mix of equity and fixed income securities. The company's investment objective is to obtain above-average returns while minimizing volatility of expected returns over the long term. The target equities/fixed income mix is designed to meet investment objectives. The company's strategy is to hire proven managers and allocate assets to reflect a mix of investment styles, emphasize preservation of principal to minimize the impact of declining markets, and stay fully invested except for cash to meet benefit payment obligations and plan expenses.

Pension Plan Assets	Target Allocation	Actual Allocation, End of Year	
		2007	2006
Asset Category			
Equity securities	55-65%	64%	66%
Fixed income securities	35-45%	36%	34%
Total		100%	100%

Other Postretirement Benefit Plan Assets

There are no assets associated with TECO Energy's postretirement benefit plan.

Contributions

On Aug. 17, 2006, the President signed the Pension Protection Act of 2006, which generally introduces new minimum funding requirements beginning Jan. 1, 2008. The company's policy is to fund the plan at or above amounts determined by the company's actuaries to meet ERISA guidelines for minimum annual contributions and minimize PBGC premiums paid by the plan. The company contributed \$30.0 million to the plan in 2007, which included a \$25.8 million contribution in addition to the \$4.2 million minimum contribution required. TECO Energy expects to make a \$9.0 million contribution in 2008 and average annual contributions of \$11 million in 2009 - 2012.

The supplemental executive retirement plan is funded annually to meet the benefit obligations. In 2007, the company made a contribution of \$1.3 million to this plan. In 2008, the company expects to make a contribution of about \$4.5 million to this plan.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Expected benefit payments (millions):	Pension Benefits	Other Postretirement Benefits	
		Gross	Expected Federal Subsidy
2008	\$ 65.4	\$ 14.6	\$ (1.1)
2009	44.3	15.8	(1.2)
2010	45.7	16.8	(1.4)
2011	47.0	17.7	(1.5)
2012	48.0	18.2	(1.7)

2013-2017	258.5	93.1	(11.1)
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Table of Contents**Defined Contribution Plan**

The company has a defined contribution savings plan covering substantially all employees of TECO Energy and its subsidiaries (the Employers) that enables participants to save a portion of their compensation up to the limits allowed by IRS guidelines. The company and its subsidiaries match up to 6% of the participant's payroll savings deductions. Effective July 2004, employer matching contributions were 30% of eligible participant contributions with additional incentive match of up to 70% of eligible participant contributions based on the achievement of certain operating company financial goals. In April 2007, the employer matching contributions were changed to 50% of eligible participant contributions, with an additional incentive match of up to 50%. For the years ended Dec. 31, 2007, 2006 and 2005, the company and its subsidiaries recognized expense totaling \$8.6 million, \$9.0 million and \$10.2 million, respectively, related to the matching contributions made to this plan.

6. Short-Term Debt

At Dec. 31, 2007 and 2006, the following credit facilities and related borrowings existed:

Credit Facilities

(millions)	Dec. 31, 2007			Dec. 31, 2006		
	Credit Facilities	Borrowings Outstanding ⁽¹⁾	Letters of Credit Outstanding	Credit Facilities	Borrowings Outstanding ⁽¹⁾	Letters of Credit Outstanding
Tampa Electric Company:						
5-year facility	\$ 325.0	\$	\$	\$ 325.0	\$ 13.0	\$
1-year accounts receivable facility	150.0	25.0		150.0	35.0	
TECO Energy/TECO Finance:						
5-year facility	200.0		9.5	200.0		9.5
Total	\$ 675.0	\$ 25.0	\$ 9.5	\$ 675.0	\$ 48.0	\$ 9.5

(1) Borrowings outstanding are reported as notes payable.

These credit facilities require commitment fees ranging from 9.0 to 17.5 basis points. The weighted average interest rate on outstanding notes payable at Dec. 31, 2007 and 2006 was 4.76% and 5.45%, respectively.

TECO Energy/TECO Finance Credit Facility

On May 9, 2007, TECO Energy amended its \$200 million bank credit facility, entering into a Second Amended and Restated Credit Agreement. The amendment (i) extended the maturity date of the credit facility from Oct. 11, 2010 to May 9, 2012 (subject to further extension with the consent of each lender); (ii) removed the stock of TECO Transport Corporation as security for the facility; (iii) made TECO Energy the Guarantor and its wholly-owned subsidiary, TECO Finance, Inc. (TECO Finance), the Borrower; (iv) allowed TECO Finance to borrow funds at an interest rate equal to the federal funds rate, as defined in the agreement, plus a margin, as well as a rate equal to either the London interbank deposit rate plus a margin or JPMorgan Chase Bank's prime rate (or the federal funds rate plus 50 basis points, if higher) plus a margin; (v) allowed TECO Finance to request the lenders to increase their commitments under the credit facility by up to \$50 million in the aggregate; (vi) included a \$200 million letter of credit facility (compared to \$100 million under the previous agreement); (vii) reduced the commitment fees and borrowing margins; and (viii) made other technical changes.

The facility requires that at the end of each quarter the ratio of debt to earnings before interest, taxes, depreciation and amortization (EBITDA), as defined in the agreement, not exceed 5.00 times from Apr. 1, 2007 through Dec. 31, 2009 and 4.50 times from and after Jan. 1, 2010, and TECO Energy's EBITDA to interest coverage ratio, as defined in the agreement, to be not less than 2.60 times. As of Dec. 31, 2007, the company was in compliance with both requirements. The facility places certain limitations on the ability to sell core assets and limits the ability of TECO Energy and certain of its subsidiaries, excluding Tampa Electric Company, to issue

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additional indebtedness in excess of a calculated level (initially \$300 million), unless the indebtedness refinances currently outstanding indebtedness or meets certain other conditions. The facility also provides that, in the event the aggregate quarterly dividend payments on TECO Energy common stock were to equal or exceed a calculated amount (initially \$50 million), subject to increase in the event TECO Energy issues additional shares of common stock, TECO Energy would not be able to declare or pay cash dividends on the common stock or make certain other distributions unless it had previously delivered liquidity projections satisfactory to the administrative agent under the credit facility demonstrating that TECO Energy will have sufficient cash to pay such dividends and distributions and the three succeeding quarterly dividends. The limitations described above on the ability to sell core assets, issue additional indebtedness and pay cash dividends will be released if TECO Energy achieves investment grade ratings and stable outlooks from both Moody's and Standard & Poor's.

Tampa Electric Company Credit Facility

On May 9, 2007, Tampa Electric Company amended its \$325 million bank credit facility, entering into a Second Amended and Restated Credit Agreement. The amendment (i) extended the maturity date of the credit facility from Oct. 11, 2010 to May 9, 2012 (subject to further extension with the consent of each lender); (ii) continued to allow Tampa Electric Company to borrow funds at an interest rate equal to the federal funds rate, as defined in the agreement, plus a margin, as well as a rate equal to either the London interbank deposit rate plus a margin or Citibank's prime rate (or the federal funds rate plus 50 basis points, if higher) plus a margin; (iii) allowed Tampa Electric Company to request the lenders to increase their commitments under the credit facility by up to \$175 million in the aggregate (compared to \$50 million under the previous agreement); (iv) continued to include a \$50 million letter of credit facility; (v) reduced the commitment fees and borrowing margins; and (vi) made other technical changes. The facility requires that at the end of each quarter the ratio of debt to capital, as defined in the agreement, not exceed 65%. As of Dec. 31, 2007, Tampa Electric Company was in compliance with this requirement.

Tampa Electric Company Accounts Receivable Facility

On Jan. 6, 2005, Tampa Electric Company and TEC Receivables Corp (TRC), a wholly-owned subsidiary of Tampa Electric Company, entered into a \$150 million accounts receivable collateralized borrowing facility. The assets of TRC are not intended to be generally available to the creditors of Tampa Electric Company. Under the Purchase and Contribution Agreement entered into in connection with that facility, Tampa Electric Company sells and/or contributes to TRC all of its receivables for the sale of electricity or gas to its retail customers and related rights (the Receivables), with the exception of certain excluded receivables and related rights defined in the agreement, and assigns to TRC the deposit accounts into which the proceeds of such Receivables are paid. The Receivables are sold by Tampa Electric Company to TRC at a discount. Under the Loan and Servicing Agreement among Tampa Electric Company as Servicer, TRC as Borrower, certain lenders named therein and Citicorp North America, Inc. as Program Agent, TRC may borrow up to \$150 million to fund its acquisition of the Receivables under the Purchase Agreement. TRC has secured such borrowings with a pledge of all of its assets including the Receivables and deposit accounts assigned to it. Tampa Electric Company acts as Servicer to service the collection of the Receivables. TRC pays program and liquidity fees based on Tampa Electric Company's credit ratings. The receivables and the debt of TRC are included in the consolidated financial statements of TECO Energy and Tampa Electric Company.

On Dec. 20, 2007, Tampa Electric Company and TRC extended the maturity of Tampa Electric Company's \$150 million accounts receivable collateralized borrowing facility from Dec. 21, 2007 to Dec. 19, 2008.

7. Long-Term Debt

At Dec. 31, 2007, total long-term debt had a carrying amount of \$3,168.7 million and an estimated fair market value of \$3,270.1 million. At Dec. 31, 2006, total long-term debt had a carrying amount of \$3,855.4 million and an estimated fair market value of \$3,979.7 million. The estimated fair market value of long-term debt

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was based on quoted market prices for the same or similar issues, on the current rates offered for debt of the same remaining maturities, or for long-term debt issues with variable rates that approximate market rates, at carrying amounts.

A substantial part of the tangible assets of Tampa Electric are pledged as collateral to secure its first mortgage bonds. There are currently no bonds outstanding under Tampa Electric's first mortgage bond indenture.

TECO Energy's maturities and annual sinking fund requirements of long-term debt for 2008 through 2012 and thereafter are as follows:

Long-Term Debt Maturities

Dec. 31, 2007

<i>(millions)</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>Thereafter</i>	<i>Total Long-term debt</i>
TECO Energy	\$	\$	\$ 102.8	\$ 191.7	\$ 100.2	\$ 8.8	\$ 403.5
TECO Finance				171.8	236.2	491.2	899.2
Tampa Electric					540.0	1,123.9	1,663.9
Peoples Gas	5.7	5.5	3.7	3.4	113.4	60.0	191.7
TECO Guatemala	1.4	1.4	1.4	1.5	1.5	3.2	10.4
Total long-term debt maturities	\$ 7.1	\$ 6.9	\$ 107.9	\$ 368.4	\$ 991.3	\$ 1,687.1	\$ 3,168.7

Debt Securities

TECO Energy Debt Tender and Exchange Offers

In December 2007, TECO Energy completed debt tender and exchange offers (Offers) which resulted in the redemption of \$297.2 million principal amount of TECO Energy notes for cash and the exchange of \$899.3 million principal amount of TECO Energy notes for TECO Finance notes. TECO Finance is a wholly owned subsidiary of TECO Energy whose business activities consist solely of providing funds to TECO Energy for its diversified activities. The TECO Finance notes are fully and unconditionally guaranteed by TECO Energy.

The Offers resulted in:

The purchase for cash and retirement of \$297.2 million principal amount of TECO Energy 7.5% notes due 2010.

The exchange of \$236.4 million principal amount of TECO Energy 7.20% notes due 2011 and \$63.6 million principal amount of TECO Energy 7.00% notes due 2012 together for \$300 million principal amount of TECO Finance 6.572% notes due 2017 with substantially similar terms as the exchanged TECO Energy notes.

The exchange of \$171.8 million principal amount of TECO Energy 7.20% notes due 2011 for a like principal amount of TECO Finance 7.20% notes due 2011.

The exchange of \$236.2 million principal amount of TECO Energy 7.00% notes due 2012 for a like principal amount of TECO Finance 7.00% notes due 2012.

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The exchange of \$191.2 million principal amount of TECO Energy 6.75% notes due 2015 for a like principal amount of TECO Finance 6.75% notes due 2015.

In connection with these debt tender and exchange transactions, \$32.9 million of premiums and fees were expensed, and are included in Loss on debt exchange/extinguishment on the Consolidated Statement of Income and as part of the Cash Flows from Operating Activities in the Consolidated Statement of Cash Flows for the year ended Dec. 31, 2007. As discussed in **Note 1**, \$21.2 million of fees paid to the holders of the exchanged

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notes were capitalized, and included in Deferred charges and other assets on the Consolidated Balance Sheet as of Dec. 31, 2007 and as part of the Cash Flows from Financing Activities in the Consolidated Statement of Cash Flows for the year then ended. These capitalized costs will be amortized and included in Interest expense on the Consolidated Statement of Income over the remaining lives of the related debt.

The TECO Finance notes due 2011, 2012 and 2015 have the same interest rate, interest payment dates, maturity and covenants as the corresponding series of TECO Energy notes.

TECO Energy may redeem some or all of each series of the TECO Finance notes at a price equal to the greater of (i) 100% of the principal amount of the applicable TECO Finance notes to be redeemed, plus accrued and unpaid interest, or (ii) the net present value of the remaining payments of principal and interest on the applicable TECO Finance notes, discounted at the applicable Treasury Rate (as defined in the applicable supplemental indenture), plus 50 basis points for the TECO Finance 6.572% notes due 2017 and the TECO Finance 6.75% notes due 2015 and 25 basis points for the TECO Finance 7.20% notes due 2011 and the TECO Finance 7.00% notes due 2012. In each case, the redemption price would include accrued and unpaid interest to the redemption date.

Pursuant to a negative pledge contained in the second supplemental indenture governing the TECO Finance 6.75% notes due 2015, if TECO Energy incurs, issues, assumes or guarantees any debt that is secured by a mortgage, pledge or other lien on (i) certain property having a net book value in excess of 2% of consolidated net assets (as defined in the supplemental indenture), or (ii) capital stock or debt of any direct subsidiary of TECO Energy, TECO Energy will, subject to certain exceptions set forth therein, secure the TECO Finance 6.75% notes due 2015 equally and ratably with such debt.

Retirement of \$110.6 million Plaquemines Port, Harbor, and Terminal District (Louisiana) Marine Terminal Facilities Revenue Refunding Bonds due Sep. 1, 2007

On Sep. 1, 2007, pursuant to the terms of the indenture governing \$110.6 million of Plaquemines Port, Harbor, and Terminal District (Louisiana) Marine Terminal Facilities Revenue Refunding Bonds, Series 1985 A, B, C and D, \$110.6 million principal amount of bonds were retired at maturity.

Retirement of \$150 million Tampa Electric Company 5.375% notes due Aug. 15, 2007

On Aug. 15, 2007, pursuant to the terms of the indenture, \$150 million principal amount of 5.375% Notes due Aug. 15, 2007 were retired at maturity.

Issuance of Hillsborough County Industrial Development Authority Pollution Control Revenue Refunding Bonds (Tampa Electric Company Project), Series 2007 and Redemption of Series 1990 Bonds, Series 1992 Bonds and Series 1993 Bonds

On Jul. 25, 2007, the Hillsborough County Industrial Development Authority (HCIDA) issued \$125.8 million of HCIDA Pollution Control Revenue Refunding Bonds (Tampa Electric Company Project), Series 2007 (the Series 2007 Bonds) for the benefit of Tampa Electric Company, consisting of (a) \$54.2 million Series 2007A Bonds due May 15, 2018, (b) \$51.6 million of Series 2007B Bonds due Sep. 1, 2025, and (c) \$20 million of Series 2007C Bonds due Nov. 1, 2020. Tampa Electric Company is responsible for payment of the interest and principal associated with the Series 2007 Bonds. The proceeds of this issuance, together with available cash, were used to call and retire on Aug. 1, 2007, at a redemption price equal to 100% of par plus accumulated but unpaid distributions to that date, (a) \$54.2 million of the existing HCIDA Pollution Control Revenue Refunding Bonds (Tampa Electric Company Gannon Coal Conversion Project), Series 1992 (the Series 1992 Bonds), which had a maturity date of May 15, 2018, (b) \$51.605 million of the existing HCIDA Pollution Control Revenue Refunding Bonds (Tampa Electric Company Project), Series 1990 (the Series 1990 Bonds), which had a maturity date of Sep. 1, 2025, and (c) \$20 million of the existing HCIDA Pollution Control Revenue Bonds (Tampa

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Electric Company Project), Series 1993 (the Series 1993 Bonds), which had a maturity date of Nov. 1, 2020. Costs of the issuance were paid from available funds of Tampa Electric Company. Tampa Electric Company entered into a Loan and Trust Agreement with the HCIDA, as issuer, and The Bank of New York Trust Company, N.A., as trustee, in connection with the issuance of the Series 2007 Bonds.

The Series 2007 Bonds bear interest at an auction rate that will be reset pursuant to an auction procedure at the end of every auction period (initially set at 7 days for the Series 2007A Bonds and the Series 2007B Bonds and 35 days for the Series 2007C Bonds). In connection with the issuance of the Series 2007 Bonds, Tampa Electric Company also entered into an insurance agreement with Financial Guaranty Insurance Company (FGIC) (Insurance Agreement) pursuant to which FGIC issued a financial guaranty insurance policy (Policy). The Policy provides insurance for Tampa Electric Company's obligation for payment on the Series 2007 Bonds and allowed the Series 2007 Bonds to be issued at a lower interest rate than without such insurance in place. The terms of the Insurance Agreement will, among other things, limit Tampa Electric Company's ability to incur certain liens without ratably securing the Series 2007 Bonds, subject to a number of exceptions.

At the end of any auction period, Tampa Electric Company may redeem all or any part of the Series 2007 Bonds at its option at a redemption price equal to the sum of the accrued and unpaid interest to the redemption date on the principal amount of the Series 2007 Bonds to be redeemed, plus 100% of the principal amount of the Series 2007 Bonds to be redeemed. The Series 2007 Bonds are also subject to special mandatory redemption in the event that interest payable on any Series 2007 Bonds has become subject to federal income tax in accordance with the Loan and Trust Agreement. (See **Note 25** for an update on the Series 2007 Bonds as of the date of this filing.)

Issuance of Tampa Electric Company 6.15% Notes due 2037

On May 15, 2007, Tampa Electric Company issued \$250 million aggregate principal amount of 6.15% Notes due May 15, 2037. The offering resulted in net proceeds to Tampa Electric Company (after deducting underwriting discounts and commissions and estimated offering expenses) of approximately \$246.1 million. Net proceeds were used to repay short-term debt, repay maturing long-term debt and for general corporate purposes. Tampa Electric Company may redeem all or any part of the 6.15% Notes at its option at any time and from time to time at a redemption price equal to the greater of (i) 100% of the principal amount of 6.15% Notes to be redeemed or (ii) the present value of the remaining payments of principal and interest on the 6.15% Notes to be redeemed, discounted at an applicable treasury rate (as defined in the applicable indenture), plus 25 basis points; in either case, the redemption price would include accrued and unpaid interest to the redemption date.

Issuance of Polk County Industrial Development Authority Solid Waste Disposal Facility Revenue Refunding Bonds (Tampa Electric Company Project), Series 2007 and Redemption of Polk County Industrial Development Authority Solid Waste Disposal Facility Revenue Bonds (Tampa Electric Company Project, Series 1993)

On May 14, 2007, the Polk County Industrial Development Authority (PCIDA) issued \$75 million of PCIDA Solid Waste Disposal Facility Revenue Refunding Bonds (Tampa Electric Company Project), Series 2007 (the Polk Series 2007 Bonds) for the benefit of Tampa Electric Company. Tampa Electric Company is responsible for payment of the interest and principal associated with the Polk Series 2007 Bonds. The proceeds of this issuance, together with available cash, were used to call and retire on Jun. 29, 2007, at a redemption price equal to 102% of par plus accumulated but unpaid interest to that date, \$75 million of the existing PCIDA Solid Waste Disposal Facility Revenue Bonds (Tampa Electric Company Project), Series 1993 (the Polk Series 1993 Bonds), which had a maturity date of Dec. 1, 2030. Costs of the issuance were paid from available funds of Tampa Electric Company. Tampa Electric Company entered into a Loan and Trust Agreement with the PCIDA, as issuer, and The Bank of New York Trust Company, N.A., as trustee, in connection with the issuance of the Polk Series 2007 Bonds.

The Polk Series 2007 Bonds mature on Dec. 1, 2030 and bear interest at an auction rate that will be reset pursuant to an auction procedure at the end of every auction period (initially set at 35 days). In connection with

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the issuance of the Polk Series 2007 Bonds, Tampa Electric Company also entered into an insurance agreement with FGIC (Insurance Agreement) pursuant to which FGIC issued a financial guaranty insurance policy (Policy). The Policy provides insurance for Tampa Electric Company's obligation for payment on the Bonds and allowed the Bonds to be issued at a lower interest rate than without such insurance in place. The terms of the Insurance Agreement will, among other things, limit Tampa Electric Company's ability to incur certain liens without ratably securing the Bonds, subject to a number of exceptions.

At the end of any auction period, Tampa Electric Company may redeem all or any part of the Polk Series 2007 Bonds at its option at a redemption price equal to the sum of the accrued and unpaid interest to the redemption date on the principal amount of the Polk Series 2007 Bonds to be redeemed, plus 100% of the principal amount of the Polk Series 2007 Bonds to be redeemed. The Polk Series 2007 Bonds are also subject to special mandatory redemption in the event that interest payable on any Polk Series 2007 Bonds has become subject to federal income tax in accordance with the Loan and Trust Agreement. (See **Note 25** for an update on the Polk Series 2007 Bonds as of the date of this filing.)

Retirement of \$300 million TECO Energy 6.125% notes due May 1, 2007

On May 1, 2007, pursuant to the terms of the indenture, \$300 million principal amount of 6.125% Notes due May 1, 2007 were retired at maturity.

TECO Capital Trust II

On Jan. 16, 2007, all \$71.4 million outstanding subordinated notes were retired at maturity pursuant to their original terms. This caused the retirement of \$57.5 million trust preferred securities of TECO Capital Trust II, pursuant to their original terms.

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At Dec. 31, 2007 and 2006, TECO Energy had the following long-term debt outstanding:

Long-Term Debt

(millions) Dec. 31,		Due	2007	2006
TECO Energy	Notes: 6.125%	2007	\$	\$ 300.0
	Floating rate 7.23% for 2007 and 7.37% for 2006 (effective rate 7.4% for 2007) ⁽¹⁾⁽²⁾⁽⁶⁾	2010	100.0	100.0
	7.5% (effective rate of 7.8%) ⁽¹⁾⁽²⁾	2010	2.8	300.0
	7.2% (effective rate of 7.4%) ⁽¹⁾	2011	191.7	600.0
	7.0% (effective rate of 7.1%) ⁽¹⁾	2012	100.2	400.0
	6.75% (effective rate of 6.9%) ⁽¹⁾⁽²⁾	2015	8.8	200.0
	Junior subordinated notes:			
	5.93% (Capital Trust II)	2007		71.4
			403.5	1,971.4
TECO Finance	Notes: 7.2% (effective rate of 7.4%) ⁽¹⁾⁽³⁾	2011	171.8	\$
	7.0% (effective rate of 7.1%) ⁽¹⁾⁽³⁾	2012	236.2	
	6.75% (effective rate of 6.9%) ⁽¹⁾⁽²⁾⁽³⁾	2015	191.2	
	6.572% (effective rate of 7.3%) ⁽¹⁾⁽³⁾	2017	300.0	
			899.2	
Tampa Electric	Installment contracts payable: ⁽⁴⁾			
	5.1% Refunding bonds (effective rate of 5.7%)	2013	60.7	60.7
	4.4% Variable rate for 2007 ⁽⁶⁾⁽⁷⁾ (effective rate of 4.60%) and fixed rate 4.0% for 2006 ⁽⁵⁾	2018	54.2	54.2
	4.6% Variable rate for 2007 ⁽⁶⁾⁽⁷⁾ (effective rate of 4.81%) and fixed rate 4.25% for 2006 ⁽⁵⁾	2020	20.0	20.0
	5.5% Refunding bonds (effective rate of 6.27%)	2023	86.4	86.4
	4.7% Variable rate for 2007 ⁽⁶⁾⁽⁷⁾ (effective rate of 4.72%) and fixed rate 4.0% for 2006 ⁽⁵⁾	2025	51.6	51.6
	5.3% Variable rate for 2007 ⁽⁶⁾⁽⁷⁾ (effective rate of 5.52%) and fixed rate 5.85% for 2006	2030	75.0	75.0
	4.6% Variable rate for 2007 ⁽⁶⁾⁽⁸⁾ (effective rate of 5.30%) and 3.89% for 2006	2034	86.0	86.0
	Notes: 5.375%	2007		125.0
	6.875% (effective rate of 6.98%) ⁽¹⁾	2012	210.0	210.0
	6.375% (effective rate of 7.35%) ⁽¹⁾	2012	330.0	330.0
	6.25% (effective rate of 6.3%) ⁽¹⁾⁽²⁾	2014-2016	250.0	250.0
	6.55% (effective rate of 6.6%) ⁽¹⁾	2036	250.0	250.0
	6.15% (effective rate of 6.6%) ⁽¹⁾	2037	190.0	
			1,663.9	1,598.9
Peoples Gas System	Senior Notes: ⁽¹⁾⁽²⁾ 10.35%	2007		1.0
	10.33%	2008	1.0	2.0
	10.30%	2008-2009	2.8	3.8
	9.93%	2008-2010	3.0	4.0
	8.00%	2008-2012	14.9	17.0
	Notes: 5.375%	2007		25.0
	6.875% (effective rate of 6.98%) ⁽¹⁾	2012	40.0	40.0
	6.375% (effective rate of 7.35%) ⁽¹⁾	2012	70.0	70.0
	6.15% (effective rate of 6.28%) ⁽¹⁾	2037	60.0	
			191.7	162.8

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TECO Guatemala	Note: 3.0%	2008-2014	10.4	11.7
Other Unregulated	Dock and Wharf bonds, 5.0% ⁽⁴⁾	2007		110.6
Unamortized debt discount, net			(3.2)	(3.4)
			3,165.5	3,852.0
Less amount due within one year			7.1	639.4
Total long-term debt			\$ 3,158.4	\$ 3,212.6

- (1) These securities are subject to redemption in whole or in part, at any time, at the option of the company.
- (2) These long-term debt agreements contain various restrictive financial covenants.
- (3) Guaranteed by TECO Energy.
- (4) Tax-exempt securities.
- (5) The interest rate on these bonds was fixed for a five-year term on Aug. 5, 2002; upon expiration of that term the bonds were issued in an auction-rate mode.
- (6) Composite year-end interest rate.
- (7) The notes pay interest at an auction rate since refinancing in 2007.
- (8) The notes pay interest at an auction rate since refinancing in 2006.

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8. Preferred Stock

Preferred stock of TECO Energy \$1 par

10 million shares authorized, none outstanding.

Preference stock (subordinated preferred stock) of Tampa Electric no par

2.5 million shares authorized, none outstanding.

Preferred stock of Tampa Electric no par

2.5 million shares authorized, none outstanding.

Preferred stock of Tampa Electric \$100 par

1.5 million shares authorized, none outstanding.

9. Common Stock

Stock-Based Compensation

On Jan. 1, 2006, TECO Energy adopted FAS 123R, requiring the company to recognize expense related to the fair value of its stock-based compensation awards. Prior to this, the company accounted for its share-based payments under APB 25 and related interpretations. The company adopted FAS 123R using the modified-prospective transition method. Under this transition method, compensation cost recognized beginning Jan. 1, 2006 includes compensation cost for all share-based payments granted prior to, but not yet vested as of Dec. 31, 2005 (based on the grant-date fair market value estimated in accordance with the original provisions of FAS 123), and compensation cost for all share-based payments granted on or after Jan. 1, 2006 (based on the grant date fair market value estimated in accordance with the provisions of FAS 123R). Results for prior periods have not been restated.

TECO Energy has two share-based compensation plans, the Equity Plan and the Director Equity Plan (Plans), which are described below. The types of awards granted under these Plans include stock options, stock grants, time-vested restricted stock and performance-based restricted stock. Stock options have been granted with an exercise price greater than or equal to the fair market value of the common stock on the date of grant and have a 10-year contractual term. Stock options for the Director Equity Plan vest immediately and stock options for the Equity Plan have graded vesting over a three-year period, with the first 33% becoming exercisable one year after the date of grant. Stock options were last awarded in 2006. Stock grants and time-vested restricted stock are valued at the fair market value on the date of grant, with expense recognized over the vesting period, which is normally three years. Beginning in 2006, the company granted time-vested restricted stock to directors that vests one-third each year. Performance-based restricted stock has been granted to officers and employees, with shares potentially vesting after three years. The total awards for performance-based restricted stock vest based on the total return of TECO Energy common stock compared to a peer group of utility stocks. The 2005 and 2006 grants can vest between 0% to 200% of the original grant and the 2007 grant can vest between 0% to 150% of the original grant. Dividends are paid on all time-vested and performance-based restricted stock awards.

TECO Energy recognized total stock compensation expense for 2007 and 2006 of \$11.6 million pretax, or \$7.1 million after-tax and \$11.5 million pretax, or \$7.1 million after-tax, respectively. Total stock compensation expense is reflected in Operation other expense-Other on the Consolidated Statements of Income. Cash received from option exercises under all share-based payment arrangements was \$9.2 million, \$7.3 million and \$11.5 million for the periods ended Dec. 31, 2007, 2006 and 2005 respectively. The aggregate intrinsic value of stock options exercised was \$3.6 million, \$2.7 million and \$5.5 million for the periods ended Dec. 31, 2007, 2006 and 2005, respectively. The total fair market value of awards vesting during 2007 was \$3.6 million, which includes stock grants, time-vested restricted stock and performance-based restricted stock. As of Dec. 31, 2007, there was \$8.7 million of unrecognized compensation cost related to all non-vested awards that is expected to be recognized over a weighted average period of two years. Prior to the adoption of FAS 123R, TECO Energy presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Consolidated Condensed Statement of Cash Flows. Beginning on Jan. 1, 2006, the company changed its cash flow presentation in accordance with FAS 123R, which requires the cash flows resulting from excess tax deductions on share-based payments to be classified as financing cash flows.

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Previously under APB 25, the company recognized or disclosed expenses for retirement-eligible employees over the nominal vesting period. Beginning Jan. 1, 2006 under FAS 123R, any new awards made to retirement-eligible employees are recognized immediately or over the period from the grant date to the date of retirement eligibility (non-substantive approach). The impact on net income for 2006 and 2005 of applying the nominal vesting period approach versus the non-substantive vesting period approach to awards granted prior to Jan. 1, 2006, for retirement-eligible employees would not have been material.

The fair market value of stock options is determined using the Black-Scholes valuation model, and the company uses the following methods to determine its underlying assumptions: expected volatilities are based on the historical volatilities; the expected term of options granted is based on the Staff Accounting Bulletin No. 107 (SAB 107) simplified method of averaging the vesting term and the original contractual term; the risk-free interest rate is based on the U.S. Treasury implied yield on zero-coupon issues (with a remaining term equal to the expected term of the option); and the expected dividend yield is based on the current annual dividend amount divided by the stock price on the date of grant.

The fair market value of performance-based restricted stock awards is determined using the Monte-Carlo valuation model, and the company uses the following methods to determine its underlying assumptions: expected volatilities are based on the historical volatilities; the expected term of the awards is based on the performance measurement period (which is generally three years); the risk-free interest rate is based on the U.S. Treasury implied yield on zero-coupon issues (with a remaining term equal to the expected term of the award); and the expected dividend yield is based on the current annual dividend amount divided by the stock price on the date of grant, with continuous compounding.

The value of time-vested restricted stock and stock grants are based on the fair market value of TECO Energy common stock at the time of grant.

Stock-based compensation expense reduced the Company's results of operations as follows:

<i>(millions, except per share amounts)</i>	Dec. 31, 2007	Dec. 31, 2006
Income before income taxes	\$ 11.6	\$ 11.5
Net income	\$ 7.1	\$ 7.1
EPS Basic:	\$ 0.03	\$ 0.03
EPS Diluted:	\$ 0.03	\$ 0.03

The following table illustrates the effect on net income and earnings per share as if the company had applied the fair-value recognition provisions of FAS 123 to all share-based payments, prior to the adoption of FAS 123R. As all share-based payments have been expensed in 2007 and 2006 in accordance with FAS 123R, no pro forma is required.

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<i>For the year ended Dec. 31,</i>	2005
Net income from continuing operations	
As reported	\$ 211.0
Add: Unearned compensation expense ⁽¹⁾	3.4
Less: Pro forma expense ⁽²⁾	6.8
Pro forma	\$ 207.6
Net income	
As reported	\$ 274.5
Add: Unearned compensation expense ⁽¹⁾	3.4
Less: Pro forma expense ⁽²⁾	6.8
Pro forma	\$ 271.1
Net income from continuing operations EPS, basic	
As reported	\$ 1.02
Pro forma	\$ 1.01
Net income from continuing operations EPS, diluted	
As reported	\$ 1.00
Pro. forma	\$ 0.99
Net income EPS, basic	
As reported	\$ 1.33
Pro forma	\$ 1.31
Net income EPS, diluted	
As reported	\$ 1.31
Pro forma	\$ 1.29

- (1) Unearned compensation expense reflects the compensation expense of time-vested and performance-based restricted stock awards, after-tax.
- (2) Includes compensation expense for stock options and performance-based restricted stock, determined using a fair-value based method, after-tax, plus compensation expense associated with time-vested restricted stock awards, determined based on fair market value at the time of grant, after-tax.

Assumptions	2007	2006	2005
Assumptions applicable to stock options			
Risk-free interest rate		4.92%	4.02%
Expected lives (in years)		6	7
Expected stock volatility		27.00%	34.12%
Dividend yield		4.66%	4.66%
Assumptions applicable to performance-based restricted stock			
Risk-free interest rate	4.53%	4.92%	3.74%
Expected lives (in years)	3	3	3
Expected stock volatility	16.71%	18.22%	45.31%
Dividend yield	4.25%	4.64%	4.49%

Equity Plans

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In April 2004, the company's shareholders approved the 2004 Equity Incentive Plan (2004 Plan). The 2004 Plan superseded the 1996 Equity Incentive Plan (1996 Plan), and no additional grants will be made under the 1996 Plan. Under the 2004 Plan, the Compensation Committee of the Board of Directors authorized 10 million shares of TECO Energy common stock that may be awarded as stock grants, stock options and/or stock

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equivalents to officers, key employees and consultants of TECO Energy and its subsidiaries. The Compensation Committee has discretion to determine the terms and conditions of each award, which may be subject to conditions relating to continued employment, restrictions on transfer or performance criteria.

Under the 2004 Plan and the 1996 Plan (collectively referred to as the Equity Plans), 1.1 million and 0.9 million stock options were granted to employees in 2006 and 2005, respectively, with weighted average fair values of \$3.26 and \$3.93. (No stock options were granted in 2007.) In addition, 0.6 million, 0.5 million and 0.4 million shares of restricted stock were granted in 2007, 2006 and 2005, respectively, with weighted average fair values of \$18.14, \$16.85 and \$21.57, respectively. In 2006, 17,962 shares of unrestricted common stock were granted with a weighted average fair value of \$17.54. A summary of non-vested shares of restricted stock and stock options for 2007 under the Equity Plans are shown as follows:

Nonvested Restricted Stock and Stock Options-Equity Plans

	Nonvested Restricted Stock ⁽¹⁾		Nonvested Stock Options ⁽²⁾	
	Number of Shares (thousands)	Weighted Avg. Grant Date Fair Value (per share)	Number of Shares (thousands)	Weighted Avg. Grant Date Fair Value (per share)
Nonvested balance at Dec. 31, 2006	970	\$ 18.62	2,241	\$ 3.30
Granted	571	18.14		
Vested	(196)	15.82	(1,323)	3.20
Forfeited	(163)	18.27	(51)	3.31
Nonvested balance at Dec. 31, 2007	1,182	\$ 18.90	867	\$ 3.45

(1) The weighted average remaining contractual term of restricted stock is 2 years.

(2) All nonvested stock options are expected to vest.

Stock option transactions during 2007 under the Equity Plans are summarized as follows:

Stock Options Equity Plans

	Number of Shares (thousands)	Weighted Avg. Option Price (per share)	Weighted Avg. Remaining Contractual Term (years)	Aggregate Intrinsic Value (millions)
Outstanding balance at Dec. 31, 2006	9,806	\$ 20.30		
Granted				
Exercised	(712)	12.56		
Cancelled	(366)	23.94		
Outstanding balance at Dec. 31, 2007 ⁽¹⁾	8,728	\$ 20.77	5	\$ 11.8
Exercisable at Dec. 31, 2007 ⁽²⁾	3,204	\$ 13.77	7	\$ 11.0
Available for future grant at Dec. 31, 2007	7,501			

(1) Option prices range from \$11.09 to \$31.58.

(2) Option prices range from \$11.09 to \$16.30.

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As of Dec. 31, 2007, the options outstanding under the Equity Plans are summarized below:

Range of Option Prices	Stock Options Outstanding			Stock Options Exercisable		
	Option Shares (thousands)	Weighted Avg. Option Price	Weighted Avg. Remaining Contractual Life	Option Shares (thousands)	Weighted Avg. Option Price	Weighted Avg. Remaining Contractual Life
\$11.09 \$13.50	2,248	\$ 12.71	6 Years	2,248	\$ 12.71	6 Years
\$16.21 \$18.87	1,838	\$ 16.29	8 Years	956	\$ 16.24	8 Years
\$21.25 \$22.48	1,544	\$ 21.36	2 Years			
\$23.55 \$25.97	67	\$ 24.27	2 Years			
\$27.56 \$31.58	3,031	\$ 29.10	3 Years			
Total	8,728	\$ 20.77	5 Years	3,204	\$ 13.77	7 Years

Director Equity Plan

In April 1997, the company's shareholders approved the 1997 Director Equity Plan (1997 Plan), as an amendment and restatement of the 1991 Director Stock Option Plan (1991 Plan). The 1997 Plan superseded the 1991 Plan, and no additional grants will be made under the 1991 Plan. The purpose of the 1997 Plan is to attract and retain highly qualified non-employee directors of the company and to encourage them to own shares of TECO Energy common stock. The 1997 Plan, administered by the Board of Directors, authorized 250,000 shares of TECO Energy common stock to be awarded as stock grants, stock options and/or stock equivalents.

Under the 1997 Plan, 25,000 shares of restricted stock were awarded in 2007, with a weighted average fair value of \$18.35. Restricted stock transactions for the year ended Dec. 31, 2007 under the 1997 Plan are summarized as follows:

Nonvested Restricted Stock Director Equity Plans

	Number of Shares (thousands)	Weighted Avg. Grant Date Fair Value (per share)
Nonvested balance at Dec. 31, 2006	27	\$ 16.30
Granted	25	18.35
Vested	(10)	16.30
Forfeited		
Nonvested balance at Dec. 31, 2007 ⁽¹⁾	42	\$ 17.52

(1) The weighted average remaining contractual term is 2 years.

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Under the 1997 Plan, 35,000 stock options were granted in 2005 with a weighted average fair value of \$3.95. In addition, 5,000 shares of unrestricted common stock were granted in 2005, with a weighted average fair value of \$16.21. No stock options were granted in 2007 or 2006. Stock option transactions during the year ended Dec. 31, 2007 under the 1997 Plan are summarized as follows:

Stock Options Director Equity Plans⁽¹⁾

	<i>Number of Shares (thousands)</i>	<i>Weighted Avg. Option Price (per share)</i>	<i>Weighted Avg. Remaining Contractual Term (years)</i>	<i>Aggregate Intrinsic Value (millions)</i>
Outstanding balance at Dec. 31, 2006	221	\$ 20.99		
Granted				
Exercised	(15)	13.62		
Expired	(33)	25.24		
Outstanding balance at Dec. 31, 2007 ⁽²⁾	173	\$ 20.82	4	\$ 0.2
Exercisable at Dec. 31, 2007 ⁽³⁾	68	\$ 13.52	6	
Available for future grant at Dec. 31, 2007	189			

(1) Stock options granted under the Director Equity Plans vest immediately.

(2) Option prices range from \$11.09 to \$31.58 per share.

(3) Option prices range from \$11.09 to \$16.21 per share.

Dividend Reinvestment Plan

In 1992, TECO Energy implemented a Dividend Reinvestment and Common Stock Purchase Plan. TECO Energy raised \$3.9 million and \$4.4 million of common equity from this plan in 2007 and 2006, respectively.

Common Stock

On Jan. 18, 2005, TECO Energy issued 6.85 million shares of common stock as part of the final settlement for the remaining outstanding equity security units of TECO Capital Trust II, receiving approximately \$180 million of proceeds from the settlement.

Shareholder Rights Plan

In accordance with the company's Shareholder Rights Plan, a Right to purchase one additional share of the company's common stock at a price of \$90 per share is attached to each outstanding share of the company's common stock. The Rights expire in May 2009, subject to extension. The Rights will become exercisable 10 business days after a person acquires 10% or more of the company's outstanding common stock or commences a tender offer that would result in such person owning 10% or more of such stock. If any person acquires 10% or more of the outstanding common stock, the rights of holders, other than the acquiring person, become rights to buy shares of common stock of the company (or of the acquiring company if the company is involved in a merger or other business combination and is not the surviving corporation) having a market value of twice the exercise price of each Right.

The company may redeem the Rights at a nominal price per Right until 10 business days after a person acquires 10% or more of the outstanding common stock.

Table of Contents**10. Other Comprehensive Income**

TECO Energy reported the following other comprehensive income (loss) (OCI) for the years ended Dec. 31, 2007, 2006 and 2005, related to changes in the fair value of cash flow hedges and amortization of unrecognized benefit costs associated with the company's pension plans:

Other comprehensive income (loss)

<i>(millions)</i>	<i>Gross</i>	<i>Tax</i>	<i>Net</i>
2007			
Unrealized loss on cash flow hedges	\$ (3.7)	\$ (1.4)	\$ (2.3)
Less: Gain reclassified to net income	(6.5)	(2.5)	(4.0)
Loss on cash flow hedges	(10.2)	(3.9)	(6.3)
Amortization of unrecognized benefit costs	4.3	1.9	2.4
Recognized benefit costs due to curtailment	14.2	5.5	8.7
Unrecognized benefits due to remeasurement	13.7	5.2	8.5
Total other comprehensive income	\$ 22.0	\$ 8.7	\$ 13.3
2006			
Unrealized gain on cash flow hedges	\$	\$	\$
Less: Gain reclassified to net income	(0.5)	(0.2)	(0.3)
Gain (loss) on cash flow hedges	(0.5)	(0.2)	(0.3)
Additional minimum pension liability	69.5	26.8	42.7
Total other comprehensive income	\$ 69.0	\$ 26.6	\$ 42.4
2005			
Unrealized gain on cash flow hedges	\$ 7.3	\$ 3.7	\$ 3.6
Less: Gain reclassified to net income	(5.7)	(2.0)	(3.7)
Gain (loss) on cash flow hedges	1.6	1.7	(0.1)
Additional minimum pension liability	(11.8)	(4.6)	(7.2)
Total other comprehensive loss	\$ (10.2)	\$ (2.9)	\$ (7.3)

Accumulated other comprehensive loss

<i>(millions) Dec. 31,</i>	<i>2007</i>	<i>2006</i>
Unrecognized pension losses and prior service costs ⁽¹⁾	\$ (13.3)	\$ (22.0)
Unrecognized other benefit losses, prior service costs and transition obligations ⁽²⁾	2.3	(8.6)
Net unrealized (losses) gains from cash flow hedges ⁽³⁾	(6.2)	0.1
Total accumulated other comprehensive loss	\$ (17.2)	\$ (30.5)

(1) Net of tax benefit of \$8.3 million and \$13.9 million as of Dec. 31, 2007 and 2006, respectively.

(2) Net of tax (expense) benefit of \$(1.5) million and \$5.5 million as of Dec. 31, 2007 and 2006, respectively.

(3) Net of tax benefit (expense) of \$3.8 million and \$(0.2) million as of Dec. 31, 2007 and 2006, respectively.

Table of Contents**11. Earnings Per Share**

For the years ended Dec. 31, 2007, 2006 and 2005, stock options for 5.8 million shares, 7.0 million shares and 5.4 million shares, respectively, were excluded from the computation of diluted earnings per share due to their anti-dilutive effect.

Earnings per Share

(millions, except per share amounts)

<i>For the years ended Dec. 31,</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>	
Numerator				
Net income from continuing operations, basic	\$ 398.9	\$ 244.4	\$ 211.0	
Effect of contingent performance shares, net of tax			(2.0)	
Net income from continuing operations, diluted	398.9	244.4	209.0	
Discontinued operations, net of tax	14.3	1.9	63.5	
Net income, diluted	\$ 413.2	\$ 246.3	\$ 272.5	
Denominator				
Average number of shares outstanding basic	209.1	207.9	206.3	
Plus: Incremental shares for unvested restricted stock and assumed conversions: Stock options at end of period, unvested unrestricted stock and contingent performance shares	3.6	3.3	5.4	
Less: Treasury shares which could be purchased	(2.8)	(2.5)	(3.5)	
Average number of shares outstanding diluted	209.9	208.7	208.2	
Earnings per share from continuing operations	Basic	\$ 1.91	\$ 1.18	\$ 1.02
	Diluted	\$ 1.90	\$ 1.17	\$ 1.00
Earnings per share from discontinued operations, net	Basic	\$ 0.07	\$ 0.01	\$ 0.31
	Diluted	\$ 0.07	\$ 0.01	\$ 0.31
Earnings per share	Basic	\$ 1.98	\$ 1.19	\$ 1.33
	Diluted	\$ 1.97	\$ 1.18	\$ 1.31

12. Commitments and Contingencies**Legal Contingencies***Settlement of the Securities Class Action*

A number of securities class action lawsuits (which were subsequently consolidated) were filed in 2004 against the company and certain current and former officers by purchasers of TECO Energy securities (the Securities Class Action). On Jul. 12, 2007, the U.S. District Court entered a preliminary order approving the settlement of the Securities Class Action. On Oct. 18, 2007, the U.S. District Court entered a final order approving the settlement. The matter is now closed.

West LB Letter of Credit Litigation

In February 2005, West LB sued TPS McAdams LLC (TPS McAdams), an indirect wholly-owned subsidiary of the company, as a result of the a third party default under the McAdams construction contract in 2002. On Jul. 9, 2007, the U.S. Bankruptcy Court Judge ruled in favor of TPS McAdams and granted its motion to dismiss West LB's amended complaint that TPS McAdams presented for payment pursuant to a letter of credit fraudulently. West LB appealed the dismissal of its amended complaint and TPS McAdams filed a motion to recover its attorneys fees for

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defending the lawsuit in the event West LB was unsuccessful in its appeal. TPS McAdams and West LB entered into a settlement agreement and the case has been dismissed with prejudice. The matter is now closed.

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Grupo Arbitration

On Aug. 11, 2006, TPS International Power, Inc. (TPSI) received a favorable ruling from the Bogota Chamber of Commerce Arbitration Tribunal (the Tribunal) in the arbitration demand by a Colombian trade union regarding a 1996 transaction that was never consummated related to the potential purchase and financing of a power plant. The Tribunal found no liability on the part of TPSI and found that it had no jurisdiction over TECO Energy or any of its subsidiaries.

Following the Tribunal's finding, the union filed a petition for annulment in the ordinary courts on Aug. 31, 2006. The union was ordered to file its detailed petition citing the record to substantiate its annulment claim on Oct. 12, 2006 but it failed to do so. The court-appointed Tribunal issued a confirmation that the matter was closed. In early December 2006, the union filed two separate procedural petitions asking the Tribunal to set aside its determination claiming that the union's petition was barred due to the missed deadline, on the basis that the Tribunal's Notification of the Oct. 12 date was technically deficient. On Mar. 20, 2007, the Court found against the union on procedural grounds on its petition to revoke the Court's action vacating the petition for annulment. On Mar. 27, 2007, the union filed a petition to review the Mar. 20, 2007 ruling and TPSI has opposed that petition. In late September 2007, the Court ruled in the Company's favor and denied the union's petition. Subsequently, the union filed an extraordinary procedural tactic which was also denied by the Court. Under Colombian law, the matter is considered closed.

Other Issues

From time to time, TECO Energy and its subsidiaries are involved in various other legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies in the ordinary course of its business. Where appropriate, accruals are made in accordance with FAS No. 5, *Accounting for Contingencies*, to provide for matters that are probable of resulting in an estimable, material loss. While the outcome of such proceedings is uncertain, management does not believe that their ultimate resolution will have a material adverse effect on the company's results of operations or financial condition.

Superfund and Former Manufactured Gas Plant Sites

Tampa Electric Company, through its Tampa Electric and Peoples Gas divisions, is a potentially responsible party (PRP) for certain superfund sites and, through its Peoples Gas division, for certain former manufactured gas plant sites. While the joint and several liability associated with these sites presents the potential for significant response costs, as of Dec. 31, 2007, Tampa Electric Company has estimated its ultimate financial liability to be approximately \$11.5 million primarily at PGS, and this amount has been accrued in the company's financial statements. The environmental remediation costs associated with these sites, which are expected to be paid over many years, are not expected to have a significant impact on customer prices.

The estimated amounts represent only the estimated portion of the cleanup costs attributable to Tampa Electric Company. The estimates to perform the work are based on actual estimates obtained from contractors, or Tampa Electric Company's experience with similar work adjusted for site specific conditions and agreements with the respective governmental agencies. The estimates are made in current dollars, are not discounted and do not assume any insurance recoveries.

Allocation of the responsibility for remediation costs among Tampa Electric Company and other PRPs is based on each party's relative ownership interest in or usage of a site. Accordingly, Tampa Electric Company's share of remediation costs varies with each site. In virtually all instances where other PRPs are involved, those PRPs are considered creditworthy.

Factors that could impact these estimates include the ability of other PRPs to pay their pro-rata portion of the cleanup costs, additional testing and investigation which could expand the scope of the cleanup activities,

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additional liability that might arise from the cleanup activities themselves or changes in laws or regulations that could require additional remediation. These costs are recoverable through customer rates established in subsequent base rate proceedings.

Long-Term Commitments

TECO Energy has commitments under long-term leases, primarily for building space, office equipment and heavy equipment.

Total rental expense for these leases, included in Operation other expense Other on the Consolidated Statements of Income for the years ended Dec. 31, 2007, 2006 and 2005, was \$29.8 million, \$30.0 million and \$28.3 million, respectively, including leases of marine equipment at TECO Transport, which was sold on Dec. 4, 2007.

The following is a schedule of future minimum lease payments at Dec. 31, 2007 for all leases with non-cancelable lease terms in excess of one year:

Future Minimum Lease Payments of Leases⁽¹⁾

<i>Year ended Dec. 31:</i>	<i>Amount (millions)</i>
2008	\$ 5.4
2009	11.7
2010	11.1
2011	11.0
2012	11.1
Thereafter	83.7
Total minimum lease payments	\$ 134.0

- (1) This schedule includes the fixed capacity payments required under a capacity and tolling agreement of Tampa Electric which commences Jan.1, 2009. In accordance with the provisions of EITF 01-08, *Determining Whether an Arrangement Contains a Lease*, the company evaluated the agreement and concluded based on the criteria that the arrangement met the lease definition. Prudently incurred capacity payments are recoverable under an FPSC-approved cost recovery clause (See **Note 3**).

Guarantees and Letters of Credit

TECO Energy accounts for guarantees in accordance with FASB Interpretation No. (FIN) 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (an interpretation of FASB Statements No. 5, 57 and 107 and rescission of FASB Interpretation No. 34)*. Upon issuance or modification of a guarantee the company determines if the obligation is subject to either or both of the following:

Initial recognition and initial measurement of a liability; and/or

Disclosure of specific details of the guarantee.

Generally, guarantees of the performance of a third party or guarantees that are based on an underlying (where such a guarantee is not a derivative subject to FAS 133) are likely to be subject to the recognition and measurement, as well as the disclosure provisions, of FIN 45. Such guarantees must initially be recorded at fair value, as determined in accordance with the interpretation.

Alternatively, guarantees between and on behalf of entities under common control or that are similar to product warranties are subject only to the disclosure provisions of the interpretation. The company must disclose information as to the term of the guarantee and the maximum potential amount of future gross payments (undiscounted) under the guarantee, even if the likelihood of a claim is remote.

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A summary of the face amount or maximum theoretical obligation under TECO Energy's letters of credit and guarantees as of Dec. 31, 2007 are as follows:

Letters of Credit and Guarantees

<i>(millions)</i> <i>Letters of Credit and Guarantees</i>	<i>Maturing</i>				<i>Total</i>	<i>Liabilities Recognized at Dec. 31, 2007</i>
	<i>2008</i>	<i>2009</i>	<i>2010 - 2012</i>	<i>After 2012</i>		
<i>for the Benefit of:</i>						
Tampa Electric						
Letters of credit	\$	\$	\$	\$ 0.3	\$ 0.3	\$
Guarantees:						
Fuel purchase/energy management ^{(1) (2)}				20.0	20.0	1.4
				20.3	20.3	1.4
TECO Transport						
Letters of credit ⁽³⁾	2.5				2.5	
TECO Coal						
Letters of credit				6.7	6.7	
Guarantees: Other ⁽²⁾	5.5			1.4 ⁽¹⁾	6.9	2.4
	5.5			8.1	13.6	2.4
Other unregulated						
Guarantees:						
Fuel purchase/energy management ⁽²⁾	53.7			3.9 ⁽¹⁾	57.6	
Total	\$ 61.7	\$	\$	\$ 32.3	\$ 94.0	\$ 3.8

(1) These guarantees renew annually and are shown on the basis that they will continue to renew beyond 2012.

(2) The amounts shown are the maximum theoretical amount guaranteed under current agreements. Liabilities recognized represent the associated obligation of TECO Energy under these agreements at Dec. 31, 2007. The obligations under these letters of credit and guarantees include net accounts payable and net derivative liabilities.

(3) TECO Transport was sold effective Dec. 4, 2007. The terms of the sale required that these letters of credit be replaced by the purchaser; this was completed in 2008.

Financial Covenants

In order to utilize their respective bank facilities, TECO Energy/TECO Finance and Tampa Electric Company must meet certain financial tests as defined in the applicable agreements. In addition, TECO Energy, Tampa Electric Company and other operating companies have certain restrictive covenants in specific agreements and debt instruments. At Dec. 31, 2007, TECO Energy, Tampa Electric Company and the other operating companies were in compliance with all required financial covenants.

13. Related Parties

The company and its subsidiaries had certain transactions, in the ordinary course of business, with entities in which directors of the company had interests. The company paid legal fees of \$1.3 million, \$1.2 million and \$1.3 million for the years ended Dec. 31, 2007, 2006 and 2005, respectively, to Ausley McMullen, P.A. of which Mr. Ausley (a director of TECO Energy) is an employee. Other transactions were not material

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for the years ended Dec. 31, 2007, 2006 and 2005. No material balances were payable as of Dec. 31, 2007 or 2006.

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14. Segment Information

TECO Energy is an electric and gas utility holding company with significant diversified activities. Segments are determined based on how management evaluates, measures and makes decisions with respect to the operations of the entity. The management of TECO Energy reports segments based on each subsidiary's contribution of revenues, net income and total assets, as required by FAS 131, *Disclosures about Segments of an Enterprise and Related Information*. All significant intercompany transactions are eliminated in the consolidated financial statements of TECO Energy, but are included in determining reportable segments.

During the first quarter of 2005, the company revised internal reporting information for the purpose of evaluating, measuring and making decisions with respect to the components which previously comprised the Other Unregulated operating segment. The revised operating segment,

TECO Guatemala, is comprised of all Guatemalan operations. The remaining components are now included in Other & Eliminations. Prior period segment results have been restated to reflect the revised segment structure. In 2007, only historical data is presented for TWG Merchant as all merchant assets have been divested. Any residual results for 2007 and 2006 are included in Other and Eliminations.

The information presented in the following table excludes all discontinued operations. See **Note 20** for additional details of the components of discontinued operations.

Table of Contents**Segment Information ⁽¹⁾**

<i>(millions)</i>	Tampa Electric	Peoples Gas	TECO Coal	TECO Transport	TECO Guatemala	TWG Merchant	Other & Eliminations	Total TECO Energy
2007								
Revenues outsiders	\$ 2,186.6	\$ 599.7	\$ 544.5	\$ 197.1	\$ 8.0 ⁽⁶⁾	\$	\$ 0.2	\$ 3,536.1
Sales to affiliates	1.8			93.2			(95.0)	
Total revenues	2,188.4	599.7	544.5	290.3	8.0		(94.8)	3,536.1
Earnings from unconsol. affiliates					68.5			68.5
Depreciation and amortization	178.6	40.1	38.4	5.6	0.5		0.5	263.7
Total interest charges ⁽²⁾	112.2	17.1	12.5	4.8	15.2		96.0	257.8
Internally allocated interest ⁽²⁾			11.6	0.8	14.9		(27.3)	
Provision (benefit) for taxes	85.2	16.4	46.3	13.5	7.8		45.0	214.2
Net income from continuing operations ⁽²⁾	\$ 150.3	\$ 26.5	\$ 90.9	\$ 34.0	\$ 44.7 ⁽⁸⁾	\$	\$ 52.5 ⁽³⁾	\$ 398.9
Goodwill, net	\$	\$	\$	\$	\$ 59.4	\$	\$	\$ 59.4
Investment in unconsolidated affiliates					275.5			275.5
Other non-current investments					15.0		8.0	23.0
Total assets	4,838.3	761.4	501.2 ⁽⁵⁾		435.3 ⁽⁹⁾		229.0	6,765.2
Capital expenditures	\$ 373.8	\$ 49.2	\$ 43.8	\$ 25.1	\$ 2.3	\$	\$ 0.2	\$ 494.4
2006								
Revenues outsiders	\$ 2,082.7	\$ 577.6	\$ 574.9	\$ 205.1	\$ 7.6 ⁽⁶⁾	\$	\$ 0.2	\$ 3,448.1
Sales to affiliates	2.2			103.4			(105.6)	
Total revenues	2,084.9	577.6	574.9	308.5	7.6		(105.4)	3,448.1
Earnings from unconsol. affiliates				(0.3)	58.7		0.5	58.9
Depreciation and amortization	186.3	36.5	36.4	22.1	0.6		0.3	282.2
Total interest charges ⁽²⁾	107.4	15.2	10.6	4.5	15.0		125.6	278.3
Internally allocated interest ⁽²⁾			9.9	(1.4)	14.6		(23.1)	
Provision (benefit) for taxes	80.3	18.8	35.6	10.9	8.7		(35.6)	118.7
Net income (loss) from continuing operations ⁽²⁾	\$ 135.9	\$ 29.7	\$ 78.8	\$ 22.8	\$ 37.6	\$	\$ (60.4) ⁽³⁾	\$ 244.4
Goodwill, net	\$	\$	\$	\$	\$ 59.4	\$	\$	\$ 59.4
Investment in unconsolidated affiliates				2.9	276.0		14.0	292.9
Other non-current investments							8.0	8.0
Total assets	4,813.7	765.2	389.4 ⁽⁵⁾	333.9	424.6 ⁽⁹⁾		635.0	7,361.8
Capital expenditures	\$ 366.4	\$ 54.0	\$ 40.2	\$ 16.5	\$ 0.7	\$	\$ (22.1) ⁽⁷⁾	\$ 455.7
2005								
Revenues outsiders	\$ 1,744.3	\$ 549.5	\$ 505.1	\$ 192.5	\$ 7.7 ⁽⁶⁾	\$ 0.4	\$ 10.6	\$ 3,010.1
Sales to affiliates	2.5			85.7			(88.2)	
Total revenues	1,746.8	549.5	505.1	278.2	7.7	0.4	(77.6)	3,010.1
Earnings from unconsol. affiliates				(0.3)	57.9		2.8	60.4
Depreciation and amortization	187.1	35.0	36.8	21.4	0.8	0.7	0.4	282.2
Total interest charges ⁽²⁾	98.3	15.1	13.4	5.1	15.9	10.4	130.5	288.7
Internally allocated interest ⁽²⁾			12.5	(0.6)	14.2	10.1	(36.2)	
Provision (benefit) for taxes	90.6	18.5	64.9	8.1	(1.9)	(10.9)	(67.4)	101.9
Net income from continuing operations ⁽²⁾	\$ 147.1	\$ 29.6	\$ 115.4	\$ 20.2	\$ 40.4	\$ (14.6)	\$ (127.1) ⁽³⁾	\$ 211.0

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Net income (loss) from continuing operations ⁽²⁾

Goodwill, net	\$	\$	\$	\$	\$	59.4	\$	\$	\$	59.4				
Investment in unconsolidated affiliates					2.9	274.0			20.2	297.1				
Other non-current investments									8.0	8.0				
Total assets		4,554.0	721.5	385.6 ⁽⁵⁾	322.4	408.4 ⁽⁹⁾	233.0		545.2	7,170.1				
Capital expenditures	\$	203.5	\$	42.5	\$	24.1	\$	18.1	\$	0.2	\$	6.9	\$	295.3

- (1) From continuing operations. All periods have been adjusted to reflect the reclassification of results from operations to discontinued operations for CCC and BCH Mechanical, Inc.
- (2) Segment net income is reported on a basis that includes internally allocated financing costs. Internally allocated costs for 2007, 2006 and 2005 were at pretax rates of 7.5%, 7.5% and 8%, respectively, based on the average of each subsidiary's equity and indebtedness to TECO Energy assuming a 50/50 debt/equity capital structure. Internally allocated interest charges are a component of total interest charges.

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- (3) Net income for 2007 includes \$20.2 million of after-tax debt extinguishment costs, \$149.4 million after-tax gain on the sale of TECO Transport and \$16.3 million after-tax in transaction costs. Net income for 2006 includes after-tax gains of \$8.1 million on the sale of McAdams and \$5.7 million on the sale of two steam turbines. Net income for 2005 includes \$46.7 million after-tax of debt extinguishment charges at TECO Energy parent (including a \$19.8 million non-cash charge).
- (4) 2007 results for TECO Transport are through Dec. 3, 2007.
- (5) The carrying value of mineral rights as of Dec. 31, 2007, 2006 and 2005 was \$18.9 million, \$20.6 million and \$22.5 million, respectively.
- (6) Revenues for 2007, 2006 and 2005 are exclusive of entities deconsolidated as a result of FIN 46R and include only revenues for the consolidated Guatemalan entities.
- (7) Included in other capital expenditures is a cash offset of \$22.1 million, related to the sale of two combustion turbines by TPS McAdams to Tampa Electric. The corresponding capital expenditure is included in Tampa Electric's capital expenditures for 2006.
- (8) Net income is comprised of earnings from unconsolidated affiliates less: depreciation, interest charges, taxes and other net expenses of \$0.3 million.
- (9) Total assets represent primarily equity and advances invested in unconsolidated affiliates. As of Dec. 31, 2007, the equity and advances balance due TECO Energy totaled \$413.5 million.

Tampa Electric provides retail electric utility services to more than 668,000 customers in West Central Florida. PGS is engaged in the purchase and distribution of natural gas for more than 334,000 residential, commercial, industrial and electric power generation customers in the state of Florida.

TECO Coal, through its wholly-owned subsidiaries, owns mineral rights and owns or operates surface and underground mines and coal processing and loading facilities in Kentucky, Tennessee and Virginia. TECO Coal acquired and began operating two synthetic fuel facilities in 2000, whose production qualifies for the non-conventional fuels tax credit. In 2003, these synthetic fuel operations were transferred into a newly formed LLC for the purpose of continuing growth in the production and sale of synthetic fuel. In April 2003, TECO Coal sold 49.5% interest in this entity, with another 40.5% being sold in 2004, and an additional 8% sold in 2005.

TECO Transport, through its wholly-owned subsidiaries, transported, stored and transferred coal and other dry bulk commodities for third parties and Tampa Electric. TECO Transport's subsidiaries operated on the Mississippi, Ohio and Illinois rivers, in the Gulf of Mexico and worldwide. TECO Transport was sold on Dec. 4, 2007.

TECO Guatemala includes the equity investments in the San José and Alborada power plants, the equity investment in DECA II, and the TECO Guatemala parent company.

TWG Merchant's assets were entirely divested by the end of 2006.

15. Asset Retirement Obligations

TECO Energy accounts for asset retirement obligations under FAS 143, *Accounting for Asset Retirement Obligations* (FAS 143) and FIN 47 *Accounting for Conditional Asset Retirement Obligations*. An asset retirement obligation (ARO) for a long-lived asset is recognized at fair value at inception of the obligation if there is a legal obligation under an existing or enacted law or statute, a written or oral contract, or by legal construction under the doctrine of promissory estoppel. Retirement obligations are recognized only if the legal obligation exists in connection with or as a result of the permanent retirement, abandonment or sale of a long-lived asset.

When the liability is initially recorded, the carrying amount of the related long-lived asset is correspondingly increased. Over time, the liability is accreted to its estimated future value. The corresponding amount capitalized at inception is depreciated over the remaining useful life of the asset. The liability must be revalued each period based on current market prices.

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TECO Energy has recognized asset retirement obligations for reclamation and site restoration obligations principally associated with coal mining, storage and transfer facilities. The majority of obligations arise from environmental remediation and restoration activities for coal-related operations. Prior to the adoption of FAS 143, TECO Coal accrued reclamation costs for such activities. For TECO Coal, the adoption of FAS 143 modified the valuation and accrual methods used to estimate the fair value of asset retirement obligations.

For the years ended Dec. 31, 2007, 2006 and 2005, TECO Energy recognized \$1.4 million, \$1.5 million, and \$1.6 million of accretion expense, respectively, associated with asset retirement obligations in Depreciation and amortization on the Consolidated Statements of Income.

Reconciliation of beginning and ending carrying amount of asset retirement obligations:

(millions)	Dec. 31,	
	2007	2006
Beginning balance	\$ 52.7	\$ 42.2
Additional liabilities	0.1	3.5
Liabilities settled	(7.0)	(2.4)
Accretion expense	1.4	1.5
Revisions to estimated cash flows		7.3
Other ⁽¹⁾	0.6	0.6
Ending balance	\$ 47.8	\$ 52.7

(1) Accretion expense reclassified as a deferred regulatory asset.

During 2006, estimated cash flows used in determining the recognized asset retirement obligations were adjusted by \$7.3 million at Tampa Electric Company. The amount is related to the increased cost of removal of materials used for the generation and transmission of power. There were no adjustments to estimated cash flows in 2007.

As regulated utilities, Tampa Electric and PGS must file depreciation and dismantlement studies periodically and receive approval from the FPSC before implementing new depreciation rates. Included in approved depreciation rates is either an implicit net salvage factor or a cost of removal factor, expressed as a percentage. The net salvage factor is principally comprised of two components a salvage factor and a cost of removal or dismantlement factor. The company uses current cost of removal or dismantlement factors as part of the estimation method to approximate the amount of cost of removal in accumulated depreciation.

For Tampa Electric and PGS, the original cost of utility plant retired or otherwise disposed of and the cost of removal, or dismantlement, less salvage value is charged to accumulated depreciation and the accumulated cost of removal reserve reported as a regulatory liability, respectively.

16. Mergers, Acquisitions and Dispositions

Sale of TECO Transport

On Dec. 4, 2007, TECO Diversified, Inc., a wholly-owned subsidiary of the company, sold its entire interest in TECO Transport Corporation for cash to an unaffiliated investment group. The selling price was \$405 million, subject to a working capital adjustment and resulted in a pretax gain of \$221.3 million, which is net of transaction-related costs. In accordance with the provisions of SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (FAS 144), as a result of its significant continuing involvement with Tampa Electric Company related to the waterborne transportation of solid fuel, the results of TECO Transport were reflected in continuing operations.

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Sale of Properties

During the year ended Dec. 31, 2006, the company sold two lots adjacent to the corporate office in downtown Tampa, Florida to third party real estate developers. The sales included total proceeds of \$15.0 million and resulted in pretax gains of \$6.4 million. Included in each sale agreement was the ability to lease the properties until construction commenced and options to repurchase the properties after a certain period of time in the event the lots were not developed. As a result of this continuing involvement, the total gain was being deferred until such time as the continuing involvement terminates. During 2007, the option to repurchase one of the lots expired and construction commenced. As a result, \$0.4 million related to that sale was recognized in Other income on the Consolidated Statement of Income.

Sale of Steam Turbines

In July 2006, the company sold a steam turbine generator located in Maricopa County, Arizona to a third party for a net after-tax gain of \$2.6 million. In December 2006, the company sold a second steam turbine generator also located in Maricopa County, Arizona to a third party for a net after-tax gain of \$3.1 million.

Sale of TPS McAdams, LLC

On Jun. 23, 2006, TPS McAdams, LLC, an indirect subsidiary of TECO Energy, was sold to Von Boyett Corporation for \$1.2 million in cash. The assets of TPS McAdams, LLC had been impaired in 2004 to an estimate of salvage value, which included allowances for potential future site restoration costs. In the first quarter of 2006, TPS McAdams, LLC sold the combustion turbines at the site to Tampa Electric at the book value contemplated in the salvage estimate. The sale and transfer of TPS McAdams, LLC, including its remaining assets and any potential site restoration costs at terms better than contemplated in the salvage estimate, resulted in a pretax gain of \$10.7 million (\$8.1 million after-tax) being recognized in continuing operations.

Sale of TECO Thermal

In May 2006, the company sold the assets of TECO Thermal, an indirect subsidiary of TECO Energy, to a third party. Total proceeds on the sale were \$8.1 million and resulted in an after-tax gain of \$0.5 million.

Dell Power Station

On Aug. 16, 2005, an indirect subsidiary of TECO Energy completed the sale of substantially all of its assets, including the Dell Power Station, to Associated Electric Cooperative, Inc., a Missouri electric cooperative, for \$75 million. The sale resulted in a pretax gain of \$23.2 million (\$14.9 million after-tax). TECO Energy retained certain other operating liabilities totaling \$11.0 million pretax (\$7.1 million after-tax). The net after-tax impact of \$7.8 million is included in continuing operations.

Union and Gila River Project Companies

On Jun. 1, 2005, the company completed the sale and transfer of ownership of its indirect subsidiaries, Union Power Partners, L.P., Panda Gila River, L.P., Trans-Union Interstate Pipeline, L.P., and UPP Finance Co., LLC, owners of the Union and Gila River power stations in Arkansas and Arizona, respectively (collectively, the Projects) to an entity owned by the Projects' lenders in the manner set forth in the Projects' confirmed Joint Plan of Reorganization. In connection with the transfer and the related release of liability, the company and its indirect subsidiaries paid an aggregate of \$31.8 million, consisting of \$30.0 million to the Projects' lenders as consideration for release of liability and \$1.8 million as reimbursement of legal fees for two non-consenting lenders in the recently concluded Chapter 11 proceeding.

Table of Contents**BCH Mechanical, Inc.**

On Jan. 7, 2005, an indirect subsidiary of TECO Energy completed the disposal of its 100% interest in BCH Mechanical, Inc. (BCH) pursuant to a Stock Purchase Agreement dated as of Dec. 31, 2004. The purchaser of BCH was BCH Holdings, Inc., majority owned at that time by Daryl W. Blume, who was a Vice President of BCH and one of the owners of BCH when it was purchased by a subsidiary of TECO Energy in September 2000. Under the transaction, TECO Energy retained BCH's net working capital determined as of Dec. 31, 2004, and certain other existing obligations. During the third quarter of 2005, terms of the sale were modified from a sale of assets to a sale of stock. This modification resulted in an additional after-tax loss of \$1.4 million on tax-related assets. The results of BCH are reflected in discontinued operations for all periods presented (see **Note 20**).

Synthetic Fuel Facilities

Effective Apr. 1, 2003, TECO Coal sold a 49.5% indirect interest in Pike Letcher Synfuel, LLC (PLS), which owns synthetic fuel production facilities located at TECO Coal's operations in eastern Kentucky. In May 2004, TECO Coal sold an additional 40.5% of its membership interest in the synthetic fuel facilities and another 8% in July 2005, under similar terms as the first transaction. On Dec. 29, 2005, the agreements with the investors were amended to permit the curtailment of synthetic fuel production when oil prices are above certain thresholds and to allow the company the right, but not the obligation, to cause PLS to reduce or halt synthetic fuel production should estimates for crude oil prices reach certain levels. This amendment also allowed for the release of \$20 million of the \$50 million restricted cash that had been held in escrow. Generally, revenue is recognized as the monthly installments are received. Because the purchase price for this sale, as well as the other sales of ownership interests, is related to the value of tax credits generated through December 2007, it was subject to a reduction to the extent the credit is limited due to the average domestic oil price for a particular year exceeding the benchmark designated for that year by the Department of Energy. In addition to retaining a 2% membership interest in the facilities, TECO Coal continued to supply the feedstock and operate the facilities through the expiration of the agreement on Dec. 31, 2007.

17. Goodwill and Other Intangible Assets

SFAS 141, *Business Combinations*, requires all business combinations be accounted for using the purchase method of accounting. Under SFAS 142 *Goodwill and Other Intangible Assets* (FAS 142), goodwill is not subject to amortization. Rather, goodwill and intangible assets, with an indefinite life, are subject to an annual assessment for impairment by applying a fair-value-based test. Intangible assets with a measurable useful life are required to be amortized.

As required under FAS 142, TECO Energy reviews recorded goodwill and intangible assets at least annually during the fourth quarter, for each reporting unit. Reporting units are generally determined as one level below the operating segment level; reporting units with similar characteristics are grouped for the purpose of determining the impairment, if any, of goodwill and other intangible assets. The fair value for the reporting units evaluated is generally determined using discounted cash flows appropriate for the business model of each significant group of assets within each reporting unit. The models incorporate assumptions relating to future results of operations that are based on a combination of historical experience, fundamental economic analysis, observable market activity and independent market studies. Management periodically reviews and adjusts the assumptions, as necessary, to reflect current market conditions and observable activity. If a sale is expected in the near term or a similar transaction can be readily observed in the marketplace, then this information is used by management to estimate the fair value of the reporting unit.

At Dec. 31, 2007, the company has \$59.4 million of goodwill on its balance sheet, which is reflected in the TECO Guatemala segment. In conducting its annual impairment assessment, the company determined the fair value of the Guatemalan reporting unit supported the goodwill. The balance of goodwill arose from the purchase of multiple entities as a result of the company's investment in its operations in Guatemala.

Table of Contents**18. Asset Impairments**

The company accounts for asset impairments in accordance with FAS 144, which requires that long-lived assets be tested for recoverability whenever events or changes in circumstances indicate that its carrying value may not be recoverable. If it is determined that the carrying value is not recoverable, an impairment charge is made and the value of the asset is reduced to the recoverable amount. When the impaired asset is disposed of, if the consideration received is in excess of the reduced carrying value, a gain would then be recorded. (See **Note 16**) In accordance with FAS 144, the company assesses whether there has been an impairment of its long-lived assets and certain intangibles held and used by the company when such impairment indicators exist. No such indicators of impairment existed as of Dec. 31, 2007 or 2006.

In the fourth quarter of 2005, a pretax impairment charge of \$3.2 million (\$2.1 million after tax) was recognized related to the company's investment in the McAdams power station. The reduction in fair value resulted from an updated strategic review of the potential salvage options (including asset retirement obligations as a result of exiting the facility) following the decision to sell the combustion turbines and certain ancillary equipment to Tampa Electric.

19. Variable Interest Entities

TECO Energy accounts for variable interest entities (VIEs) under FIN 46R, *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51* (FIN 46R).

The company formed TCAE to own and construct the Alborada Power Station and the company formed CGESJ to own and construct the San José Power Station. Both power stations are located in Guatemala and both projects obtained long-term power purchase agreements (PPA) with EEGSA, a distribution utility in Guatemala. The terms of the two separate PPAs include EEGSA's right to the full capacity of the plants for 15 years, U.S. dollar based capacity payments, certain terms for providing fuel, and certain other terms including the right to extend the Alborada and San José contracts. Management believes that EEGSA is the primary beneficiary of the variable interests in TCAE and CGESJ due to the terms of the PPAs. Accordingly, both entities were deconsolidated as of Jan. 1, 2004. The TCAE deconsolidation resulted in the initial removal of \$25 million of debt and \$15.1 million of net assets from TECO Energy's Consolidated Balance Sheet. The San José deconsolidation resulted in the initial removal of \$65.5 million of debt and \$106.6 million of net assets from TECO Energy's Consolidated Balance Sheet. The results of operations for the two projects are classified as Income from equity investments on TECO Energy's Consolidated Statements of Income since the date of deconsolidation. TECO Energy's estimated maximum loss exposure is its equity investment of approximately \$188.8 million in these entities. (See Note 14 for additional financial information related to these projects).

Pike Letcher Synfuel, LLC was established as part of the Apr. 1, 2003, sale of TECO Coal's synthetic fuel production facilities. While TECO Energy's maximum loss exposure in this entity was its investment of approximately \$8.2 million, the company could have lost potential earnings and incurred losses related to the production costs for synthetic fuel, in the event that such production created non-conventional fuel tax credits in excess of TECO Energy's or the other buyers' capacity to generate sufficient taxable income to use such credits or fuel tax credits are reduced or eliminated due to high oil prices. Management believed that the company was the primary beneficiary of this VIE and continued to consolidate the entity under the guidance of FIN 46R through the expiration of synfuel production on Dec. 31, 2007.

In 1992, a subsidiary of the company, Hardee Power Partners, Ltd. commenced construction of the Hardee Power Station in central Florida. HPP obtained dual 20-year PPAs with Tampa Electric and another Florida utility company to provide peaking capacity. The company sold its interest in HPP to an affiliate of Invenergy LLC and GTCR Golder Rauner LLC in 2003. Under FIN 46R, the company is required to make an exhaustive effort to obtain sufficient information to determine if HPP is a VIE and which holder of the variable interests is the primary beneficiary. The new owners of HPP are not willing to provide the information necessary to make

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these determinations, have no obligation to do so and the information is not available publicly. As a result, the company is unable to determine if HPP is a VIE and if so, which variable interest holder, if any, is the primary beneficiary. The maximum exposure for the company is the ability to purchase electricity under terms of the PPA with HPP at rates unfavorable to the wholesale market.

**20. Discontinued Operations and Assets Held for Sale
Union and Gila River Project Companies (TPGC)**

Net income from discontinued operations in 2007 was \$14.3 million, after-tax, reflecting a favorable conclusion reached in the second quarter with taxing authorities for the 2005 disposition of the Union and Gila River merchant power plants, discussed below.

On Jun. 1, 2005, the company completed the previously announced sale and transfer of ownership of its indirect subsidiaries Union Power Partners, L.P., Panda Gila River, L.P., Trans-Union Interstate Pipeline, L.P., and UPP Finance Co., LLC, owners of the Union and Gila River power stations in Arkansas and Arizona, respectively (collectively, the Projects) to an entity owned by the Projects' lenders in the manner set forth in the Projects' confirmed Joint Plan of Reorganization. In connection with the transfer and the related release of liability, the company and its indirect subsidiaries paid an aggregate of \$31.8 million, consisting of \$30.0 million to the Projects' lenders as consideration for the release of liability and \$1.8 million as reimbursement of legal fees for two non-consenting lenders in the Chapter 11 proceeding. As a result of the transaction, the company recorded a non-cash, pretax gain of \$117.7 million (\$76.5 million after tax), which is reflected in discontinued operations. Through the May 31, 2005 effective date of the transfer to the lending group, the net equity of the Projects was reduced by accumulated unfunded operating losses primarily related to unpaid accrued interest expense on the Projects. As a result of the recognition of these subsequent losses, the book value of the assets was less than the book value of non-recourse project financing at the effective date of the sale and transfer to the lending group. Accordingly, the gain on the disposition represents the transfer of equity in the projects and the related non-recourse debt and other liabilities in excess of the asset value of the projects.

As an asset held for sale, the assets and liabilities that were expected to be transferred as part of the sale were reclassified on the balance sheet. The results from operations and the gain on sale have been reflected in discontinued operations for all periods presented. The following table provides selected components of discontinued operations for the Union and Gila River project companies.

Components of income from discontinued operations Union and Gila River Project Companies

(millions)

<i>For the years ended Dec. 31,</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>
Revenues	\$	\$	\$ 109.1
Loss from operations			(23.0)
Gain on sale before tax			117.7
Income (loss) before provision for income taxes			90.0
(Benefit) provision for income taxes		(14.3)	24.9
Net income from discontinued operations	\$ 14.3	\$	\$ 65.1

Interest Expense

In accordance with the Statement of Position 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code (SOP 90-7), and the provisions of the U.S. bankruptcy code and the Joint Plan, interest expense on the Project entities' non-recourse debt subsequent to the bankruptcy filing was not to be paid and was therefore not recorded. Had the bankruptcy proceeding not occurred, the Project entities would have recorded additional pretax interest expense of \$44.3 million during 2005, which would have been reported in income (loss) from discontinued operations.

Table of Contents**Other transactions**

Components of income from discontinued operations also include TECO Thermal (sold in 2006), CCC (sold in 2005), and BCH Mechanical (sold in 2005). See **Note 16** for additional details related to these sales. For all periods presented, the results from operations of each of these entities are presented as discontinued operations on the income statement.

The following table provides selected components of discontinued operations for transactions other than the Union and Gila River projects transactions:

Components of income from discontinued operations Other

(millions)

<i>For the years ended Dec. 31,</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>
Revenues	\$	\$ 0.8	\$ 10.6
Income (loss) from operations		1.5	(0.3)
(Loss) gain on sale		0.8	(2.1)
Income (loss) before provision for income taxes		2.3	(1.8)
Provision (benefit) for income taxes		0.4	(0.2)
Net income (loss) from discontinued operations	\$	\$ 1.9	\$ (1.6)

21. Derivatives and Hedging

From time to time, TECO Energy and its affiliates enter into futures, forwards, swaps and option contracts for the following purposes:

To limit the exposure to price fluctuations for physical purchases and sales of natural gas in the course of normal operations at Tampa Electric and PGS;

To limit the exposure to interest rate fluctuations on debt securities at TECO Energy and its affiliates;

To limit the exposure to price fluctuations for physical purchases of fuel at TECO Coal; and

To limit the exposure to synthetic fuel tax credits from TECO Coal's synthetic fuel produced as a result of changes to the reference price of domestically produced oil.

TECO Energy and its affiliates use derivatives only to reduce normal operating and market risks, not for speculative purposes. The company's primary objective in using derivative instruments for regulated operations is to reduce the impact of market price volatility on ratepayers.

The risk management policies adopted by TECO Energy provide a framework through which management monitors various risk exposures. Daily and periodic reporting of positions and other relevant metrics are performed by a centralized risk management group which is independent of all operating companies.

The company applies the provisions of SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activity* and SFAS 149, *Amendment on Statement 133 on Derivative Instruments and Hedging Activities*. These standards require companies to recognize derivatives as either assets or liabilities in the financial

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statements, to measure those instruments at fair value, and to reflect the changes in the fair value of those instruments as either components of OCI or in net income, depending on the designation of those instruments. The changes in fair value that are recorded in OCI are not immediately recognized in current net income. As the underlying hedged transaction matures or the physical commodity is delivered, the deferred gain or loss on the related hedging instrument must be reclassified from OCI to earnings based on its value at the time of the instruments' settlement. For effective hedge transactions, the amount reclassified from OCI to earnings is offset in net income by the amount paid or received on the underlying physical transaction.

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At Dec. 31, 2007 and 2006, respectively, TECO Energy and its affiliates had derivative assets (current and non-current) totaling \$2.2 million and \$7.2 million, and liabilities (current and non-current) totaling \$26.1 million and \$74.0 million. At Dec. 31, 2007, \$8.2 million of liabilities are related to interest rate swaps. The remaining \$2.2 million of assets and \$17.9 million in liabilities are related to natural gas swaps. At Dec. 31, 2006, \$7.0 million in derivative assets were related to crude oil options. The remaining \$0.2 million of assets and \$74.0 million of liabilities were related to natural gas swaps.

At Dec. 31, 2007 and 2006, accumulated other comprehensive income (AOCI) included an after-tax \$6.2 million unrealized loss and an after-tax \$0.1 million unrealized loss, respectively, representing the fair value of cash flow hedges whose underlying transactions will occur within the next 12 months. Amounts recorded in AOCI reflect the estimated fair value based on market prices as of the balance sheet date, of interest rate derivative instruments designated as hedges. These amounts are expected to fluctuate with movements in market prices and may or may not be realized as a loss upon future reclassification from OCI to earnings. The company does not currently have any cash flow hedges for transactions forecasted to take place in periods subsequent to 2010.

For the years ended Dec. 31, 2007, 2006 and 2005, TECO Energy and its affiliates reclassified amounts from OCI and recognized net pretax gains of \$6.5 million, \$0.5 million and \$5.7 million, respectively. (See **Note 10**) Amounts reclassified from OCI were primarily related to cash flow hedges for physical purchases of fuel oil at TECO Transport and TECO Coal. For these types of hedge relationships, the gain on the derivative at settlement is reclassified from OCI to earnings, which is offset by the increased cost of spot purchases for fuel oil.

As a result of applying the provisions of FAS 71 in accordance with the FPSC, the changes in value of natural gas derivatives of Tampa Electric and PGS are recorded as regulatory assets or liabilities to reflect the impact of the fuel recovery clause on the risks of hedging activities. (See **Note 3**) Based on the fair value of cash flow hedges at Dec. 31, 2007, net pretax losses of \$17.3 million are expected to be reclassified from regulatory assets or liabilities to the Consolidated Statement of Income within the next twelve months.

At Dec. 31, 2007, TECO Energy had a Crude oil options receivable, net asset totaling \$78.5 million for transactions that were not designated as either a cash flow or fair value hedge. This balance includes the full settlement value of the crude oil options of \$120.8 million, offset by the \$42.3 million of margin call collateral collected. These derivatives were marked-to-market with fair value gains and losses recognized in Other income on the Consolidated Statements of Income. For the years ended Dec. 31, 2007, 2006 and 2005, the company recognized gains on marked-to-market derivatives of \$82.7 million, \$2.9 million and \$0.5 million, respectively. The increase in the gain from 2006 to 2007 is reflective of the increase in oil prices and the total volume of barrels hedged, 2.8 million barrels in 2006 compared to 25.1 million barrels in 2007.

22. TECO Finance, Inc.

TECO Finance is a wholly owned subsidiary of TECO Energy, Inc. TECO Finance's sole purpose is to raise capital for TECO Energy's diversified businesses. TECO Energy is a full and unconditional guarantor of TECO Finance's securities. (See **Note 7**)

Table of Contents**TECO FINANCE, INC.****Condensed Balance Sheets**

<i>(in millions)</i>	<i>Dec. 31, 2007</i>	<i>Dec. 31, 2006</i>
Assets		
Current Assets		
Cash	\$ 0.2	\$ 0.1
Advances-intercompany	737.6	
Total Current Assets	737.8	0.1
Non-current Assets		
Deferred tax asset	1.8	0.9
Unamortized debt expense	29.0	
Total Non-Current Assets	30.8	0.9
Total Assets	\$ 768.6	\$ 1.0
Liabilities and Capital		
Current Liabilities		
Interest payable	\$ 1.8	\$
Advances payable-intercompany		133.4
Non-current Liabilities		
Long-term debt	900.5	
Total Liabilities	\$ 902.3	\$ 133.4
Capital		
Common stock and paid in capital	0.1	0.1
Retained deficit	(133.8)	(132.5)
Total Capital	(133.7)	(132.4)
Total Liabilities and Capital	\$ 768.6	\$ 1.0

TECO FINANCE, INC.**Condensed Statements of Operations***(in millions)*

<i>For the years ended Dec. 31,</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>
Revenues	\$	\$	\$
Other Income			
Interest Expense	2.2		

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Loss before benefit from income taxes	(2.2)		
Benefit (provision for) from income taxes	0.8		(0.9)
Net loss	\$ (1.4)	\$	\$ (0.9)

Table of Contents**TECO FINANCE, INC.****Condensed Statements of Cash Flows***(in millions)*

<i>For the years ended Dec. 31,</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>
Cash Flows from Operating Activities			
Net loss	\$ (1.4)	\$	\$ (0.9)
Adjustments to reconcile net loss to net cash from operating activities:			
Deferred taxes	(0.8)		0.9
Interest payable	1.8		
Other assets	(1.7)		
Cash Flows used in Operating Activities	(2.1)		
Cash Flows from Financing Activities			
Advances	2.2		
Cash Flows provided by Financing Activities	2.2		
Net increase (decrease) in cash	0.1		
Cash at the beginning of the year	0.1	0.1	0.1
Cash at end of the year	\$ 0.2	\$ 0.1	\$ 0.1

23. Subsequent Events**Tax-Exempt Auction Rate Bonds**

On Feb. 19 and Feb. 26, 2008 two series of tax-exempt auction-rate bonds totaling \$105.8 million issued for the benefit of Tampa Electric Company by the Hillsborough County Industrial Development Authority (HCIDA) experienced failed auctions and, in accordance with the terms of the bond indentures, the seven day interest rate on these series reset to 14%. Auctions on Feb. 19 for Tampa Electric's three other series of tax-exempt auction-rate bonds with interest periods of 7 and 35 days totaling \$181.0 million settled at interest rates of 10% to 12%. The interest rates set in the Feb. 19 auction of 11% and 12% on the Polk County Industrial Development Authority (PCIDA) Series 2007 and HCIDA Series 2007C, respectively, are in effect until Mar. 26. On Feb. 26, the auction for the HCIDA Series 2006 settled at an interest rate of 7.55% for the succeeding 7-day interest period. On Feb. 25 Tampa Electric Company notified the trustee for the tax-exempt bonds issued for the benefit of the company by the HCIDA and PCIDA that the company has elected to purchase in lieu of redemption the \$75 million PCIDA Solid Waste Disposal Revenue Refunding Bonds (Tampa Electric Company Project) Series 2007, and the \$125.8 million HCIDA Pollution Control Revenue Refunding Bonds (Tampa Electric Project) Series 2007 A, B and C, on Mar. 26, 2008, which is an interest payment date. The company does not intend to extinguish or cancel the bonds upon such purchase.

With respect to the company's remaining tax-exempt auction rate bonds, the \$86.0 million HCIDA Pollution Control Revenue Refunding Bonds (Tampa Electric Company Project), Series 2006, the company plans to convert such bonds on or after Mar. 19, 2008 to a fixed-rate mode pursuant to the terms of the Loan and Trust Agreement governing those bonds, which allows for their conversion from an auction rate mode to other interest rate modes.

Because the auction rates reset every 7 days for \$191.8 million of these bonds, and every 35 days for \$95.0 million, management determined that it would not be reasonable or practical to remeasure the fair value as of the date of this report, but that the values could be different than the amount included in the fair value disclosure in **Note 7**.

Table of Contents**Working Capital Settlement-TECO Transport Sale**

On Feb. 19, 2008, TECO Energy, through a wholly-owned subsidiary, paid \$3.7 million to adjust the working capital estimated at Dec. 31, 2007 related to the sale of TECO Transport Corporation to an unaffiliated investment group (see **Note 16**).

24. Quarterly Data (unaudited)

Financial data by quarter is as follows:

(millions, except per share amounts)

<i>Quarter ended</i>	<i>Dec. 31</i> ⁽²⁾	<i>Sep. 30</i>	<i>Jun. 30</i>	<i>Mar. 31</i>
2007				
Revenues	\$ 858.3	\$ 990.0	\$ 866.5	\$ 821.3
Income from operations	\$ 328.8	\$ 141.7	\$ 87.7	\$ 78.4
Net income				
Net income from continuing operations	\$ 173.9	\$ 92.8	\$ 59.4	\$ 72.8
Net income	\$ 173.9	\$ 92.8	\$ 73.7	\$ 72.8
Earnings per share (EPS) basic				
EPS from continuing operations	\$ 0.83	\$ 0.44	\$ 0.28	\$ 0.35
EPS	\$ 0.83	\$ 0.44	\$ 0.35	\$ 0.35
Earnings per share (EPS) diluted				
EPS from continuing operations	\$ 0.83	\$ 0.44	\$ 0.28	\$ 0.35
EPS	\$ 0.83	\$ 0.44	\$ 0.35	\$ 0.35
Dividends paid per common share	\$ 0.195	\$ 0.195	\$ 0.195	\$ 0.19
Stock price per common share ⁽¹⁾				
High	\$ 17.91	\$ 17.71	\$ 18.58	\$ 17.49
Low	\$ 15.58	\$ 14.84	\$ 16.40	\$ 16.22
Close	\$ 17.21	\$ 16.43	\$ 17.18	\$ 17.21
2006				
Revenues	\$ 826.2	\$ 922.9	\$ 862.6	\$ 836.4
Income from operations	\$ 78.4	\$ 135.3	\$ 118.3	\$ 86.2
Net income				
Net income from continuing operations	\$ 48.4	\$ 79.7	\$ 61.1	\$ 55.2
Net income	\$ 48.9	\$ 79.7	\$ 62.5	\$ 55.2
Earnings per share (EPS) basic				
EPS from continuing operations	\$ 0.23	\$ 0.38	\$ 0.29	\$ 0.27
EPS	\$ 0.23	\$ 0.38	\$ 0.30	\$ 0.27
Earnings per share (EPS) diluted				
EPS from continuing operations	\$ 0.23	\$ 0.38	\$ 0.29	\$ 0.26
EPS	\$ 0.23	\$ 0.38	\$ 0.30	\$ 0.26
Dividends paid per common share	\$ 0.19	\$ 0.19	\$ 0.19	\$ 0.19
Stock price per common share ⁽¹⁾				
High	\$ 17.50	\$ 16.20	\$ 16.75	\$ 17.73
Low	\$ 15.57	\$ 14.86	\$ 14.40	\$ 15.97
Close	\$ 17.23	\$ 15.65	\$ 14.94	\$ 16.12

(1) Trading prices for common shares

(2) Fourth quarter 2007 results include debt extinguishment charges and TECO Transport results through Dec. 3, 2007. See **Note 16** for information regarding the sale of TECO Transport.

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TAMPA ELECTRIC COMPANY

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All other financial statement schedules have been omitted since they are not required, are inapplicable or the required information is presented in the financial statements or notes thereto.

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TAMPA ELECTRIC COMPANY

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Securities Exchange Act of 1934, as amended. We conducted an evaluation of the effectiveness of Tampa Electric Company's internal control over financial reporting as of December 31, 2007 based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under this framework, our management concluded that Tampa Electric Company's internal control over financial reporting was effective as of December 31, 2007.

Report of Independent Registered Certified Public Accounting Firm

To the Board of Directors and Shareholders of Tampa Electric Company:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Tampa Electric Company and its subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 4 to the financial statements, the Company changed its method of evaluating its uncertain tax positions as of January 1, 2007. Also, as discussed in Note 5 to the financial statements, the Company changed its method of accounting for its defined benefit pension and other post-retirement plans as of December 31, 2006.

/s/ PricewaterhouseCoopers LLP

Tampa, Florida

February 27, 2008

Table of Contents**TAMPA ELECTRIC COMPANY****Consolidated Balance Sheets**

<i>Assets</i>	<i>2007</i>	<i>2006</i>
<i>(millions) Dec. 31,</i>		
Property, plant and equipment		
Utility plant in service		
Electric	\$ 5,262.0	\$ 5,026.8
Gas	917.4	877.7
Construction work in progress	363.6	318.9
Property, plant and equipment, at original costs	6,543.0	6,223.4
Accumulated depreciation	(1,808.6)	(1,760.5)
	4,734.4	4,462.9
Other property	4.5	4.4
Total property, plant and equipment (net)	4,738.9	4,467.3
Current assets		
Cash and cash equivalents	11.9	5.1
Receivables, less allowance for uncollectibles of \$1.4 and \$1.2 at Dec. 31, 2007 and 2006, respectively	238.8	234.9
Inventories, at average cost		
Fuel	66.2	63.7
Materials and supplies	58.0	51.3
Current regulatory assets	67.4	255.7
Current derivative assets	0.3	0.1
Taxes receivable	2.9	15.0
Prepayments and other current assets	11.6	11.2
Total current assets	457.1	637.0
Deferred debits		
Unamortized debt expense	22.9	20.8
Long-term regulatory assets	186.8	231.3
Long-term derivative assets	1.9	0.1
Other	11.7	8.6
Total deferred debits	223.3	260.8
Total assets	\$ 5,419.3	\$ 5,365.1

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents**TAMPA ELECTRIC COMPANY****Consolidated Balance Sheets (continued)***Liabilities and Capital*

<i>(millions) Dec. 31,</i>	<i>2007</i>	<i>2006</i>
Capital		
Common stock	\$ 1,510.4	\$ 1,428.6
Accumulated other comprehensive loss	(5.0)	
Retained earnings	295.6	284.9
Total capital	1,801.0	1,713.5
Long-term debt, less amount due within one year	1,844.8	1,601.4
Total capitalization	3,645.8	3,314.9
Current liabilities		
Long-term debt due within one year	5.7	156.1
Notes payable	25.0	48.0
Accounts payable	237.6	222.8
Customer deposits	138.1	129.5
Current regulatory liabilities	35.4	46.7
Current derivative liabilities	26.0	70.3
Current deferred income taxes	0.3	50.4
Interest accrued	23.5	26.6
Taxes accrued	16.8	19.4
Other	11.3	11.2
Total current liabilities	519.7	781.0
Deferred credits		
Non-current deferred income taxes	407.5	390.5
Investment tax credits	12.0	14.6
Long-term derivative liabilities	0.1	3.7
Long-term regulatory liabilities	582.7	555.3
Other	251.5	305.1
Total deferred credits	1,253.8	1,269.2
Total liabilities and capital	\$ 5,419.3	\$ 5,365.1

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents**TAMPA ELECTRIC COMPANY****Consolidated Statements of Income and Comprehensive Income***(millions)*

<i>For the years ended Dec. 31,</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>
Revenues			
Electric (includes franchise fees and gross receipts taxes of \$87.4 in 2007, \$81.4 in 2006, and \$70.6 million in 2005)	\$ 2,188.4	\$ 2,084.9	\$ 1,746.2
Gas (includes franchise fees and gross receipts taxes of \$23.8 in 2007, \$22.8 in 2006, and \$16.6 million in 2005)	599.1	577.0	549.5
Total revenues	2,787.5	2,661.9	2,295.7
Expenses			
Operations			
Fuel	947.9	906.8	546.8
Purchased power	271.9	221.3	269.7
Cost of natural gas sold	389.9	365.3	350.2
Other	279.8	293.5	269.7
Maintenance	113.9	111.8	91.8
Depreciation and amortization	218.7	222.8	222.1
Taxes, federal and state	99.8	96.8	107.8
Taxes, other than income	174.6	172.4	153.8
Total expenses	2,496.5	2,390.7	2,011.9
Income from operations	291.0	271.2	283.8
Other income			
Allowance for other funds used during construction	4.5	2.7	
Other income, net	10.5	14.3	6.3
Total other income	15.0	17.0	6.3
Interest charges			
Interest on long-term debt	118.3	106.7	98.3
Other interest	12.6	17.0	15.1
Allowance for borrowed funds used during construction	(1.7)	(1.1)	
Total interest charges	129.2	122.6	113.4
Net income	176.8	165.6	176.7
Other comprehensive loss, net of tax			
Net unrealized losses on cash flow hedges	(5.0)		
Other comprehensive loss, net of tax	(5.0)		
Comprehensive Income	\$ 171.8	\$ 165.6	\$ 176.7

The accompanying notes are an integral part of the consolidated condensed financial statements

Table of Contents**TAMPA ELECTRIC COMPANY****Consolidated Statements of Cash Flows***(millions)*

<i>For the years ended Dec. 31,</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>
Cash flows from operating activities			
Net income	\$ 176.8	\$ 165.6	\$ 176.7
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation	218.7	222.8	222.1
Deferred income taxes	(45.6)	(23.2)	72.2
Investment tax credits, net	(2.5)	(2.5)	(2.6)
Allowance for funds used during construction	(4.5)	(2.7)	
Gain on sale of business/assets, pretax	(0.4)		
Deferred recovery clause	123.7	53.4	(154.3)
Receivables, less allowance for uncollectibles	(3.9)	0.6	(32.4)
Inventories	(9.2)	(1.3)	(32.0)
Prepayments	(0.3)	(3.3)	3.0
Taxes accrued	9.5	24.5	0.1
Interest accrued	(3.1)	1.2	0.3
Accounts payable	(20.1)	(9.1)	67.5
Other	5.9	29.8	15.1
Cash flows from operating activities	445.0	455.8	335.7
Cash flows from investing activities			
Capital expenditures	(423.0)	(420.4)	(246.0)
Allowance for funds used during construction	4.5	2.7	
Net proceeds from sale of assets	0.4		5.3
Purchase of a business		(1.4)	
Cash flows used in investing activities	(418.1)	(419.1)	(240.7)
Cash flows from financing activities			
Common stock	81.8	51.8	
Proceeds from long-term debt	444.1	327.5	
Repayment of long-term debt	(356.9)	(91.9)	(5.5)
Net decrease in short-term debt	(23.0)	(167.0)	100.0
Dividends	(166.1)	(169.4)	(173.4)
Cash flows used in financing activities	(20.1)	(49.0)	(78.9)
Net increase in cash and cash equivalents	6.8	(12.3)	16.1
Cash and cash equivalents at beginning of period	5.1	17.4	1.3
Cash and cash equivalents at end of period	\$ 11.9	\$ 5.1	\$ 17.4
Supplemental disclosure of cash flow information			
Cash paid during the year for:			
Interest	\$ 123.3	\$ 106.9	\$ 100.7
Income taxes	\$ 135.0	\$ 100.1	\$ 30.3

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents**TAMPA ELECTRIC COMPANY****Consolidated Statements of Retained Earnings***(millions)*

<i>For the years ended Dec. 31,</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>
Balance, beginning of year	\$ 284.9	\$ 288.7	\$ 285.4
Add: Net income	176.8	165.6	176.7
	461.7	454.3	462.1
Deduct: Cash dividends on capital stock			
Common	166.1	169.4	173.4
Balance, end of year	\$ 295.6	\$ 284.9	\$ 288.7

Consolidated Statements of Capitalization

<i>(millions, except share amounts)</i>	<i>Current Redemption Price</i>	<i>Capital Stock Outstanding Dec. 31,</i>		<i>Cash Dividends Paid ⁽¹⁾</i>	
	<i>Share</i>	<i>Amount</i>	<i>Per Shares</i>	<i>Amount</i>	
Common stock without par value					
25 million shares authorized					
2007	N/A	10	\$ 1,510.4	(2)	\$ 166.1
2006	N/A	10	\$ 1,428.6	(2)	\$ 169.4
Preferred stock \$100 par value					

1.5 million shares authorized, none outstanding.

Preferred stock no par

2.5 million shares authorized, none outstanding.

Preference stock no par

2.5 million shares authorized, none outstanding.

(1) Quarterly dividends paid on Feb. 28, May 28, Aug. 28 and Nov. 28 during 2007

Quarterly dividends paid on Feb. 15, May 15, Aug. 15 and Nov. 15 during 2006

(2) Not meaningful.

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents**TAMPA ELECTRIC COMPANY****Consolidated Statements of Capitalization (continued)***Long-Term Debt*

<i>(millions) Dec. 31,</i> Tampa Electric		<i>Due</i>	<i>2007</i>	<i>2006</i>
	Installment contracts payable: ⁽¹⁾			
	5.1% Refunding bonds (effective rate of 5.70%)	2013	\$ 60.7	\$ 60.7
	4.4% Variable rate for 2007 ⁽²⁾⁽⁶⁾ (effective rate of 4.60%) and fixed rate 4.0% for 2006 ⁽³⁾	2018	54.2	54.2
	4.6% Variable rate for 2007 ⁽²⁾⁽⁶⁾ (effective rate of 4.81%) and fixed rate 4.25% for 2006 ⁽³⁾	2020	20.0	20.0
	5.5% Refunding bonds (effective rate of 6.27%)	2023	86.4	86.4
	4.7% Variable rate for 2007 ⁽²⁾⁽⁶⁾ (effective rate of 4.72%) and fixed rate 4.0% for 2006 ⁽³⁾	2025	51.6	51.6
	5.3% Variable rate for 2007 ⁽²⁾⁽⁶⁾ (effective rate of 5.52%) and fixed rate 5.85% for 2006	2030	75.0	75.0
	4.6% Variable rate for 2007 ⁽²⁾⁽⁷⁾ (effective rate of 5.30%) and 3.89% for 2006	2034	86.0	86.0
	Notes: 5.375%	2007		125.0
	6.875% (effective rate of 6.98%) ⁽⁴⁾	2012	210.0	210.0
	6.375% (effective rate of 7.35%) ⁽⁴⁾	2012	330.0	330.0
	6.25% (effective rate of 6.3%) ⁽⁴⁾⁽⁵⁾	2014-2016	250.0	250.0
	6.55% (effective rate of 6.6%) ⁽⁴⁾	2036	250.0	250.0
	6.15% (effective rate of 6.6%) ⁽⁴⁾	2037	190.0	
			1,663.9	1,598.9
Peoples Gas System	Senior Notes: ⁽⁴⁾⁽⁵⁾			
	10.35%	2007		1.0
	10.33%	2008	1.0	2.0
	10.30%	2008-2009	2.8	3.8
	9.93%	2008-2010	3.0	4.0
	8.00%	2008-2012	14.9	17.0
	Notes: 5.375%	2007		25.0
	6.875% (effective rate of 6.98%) ⁽⁴⁾	2012	40.0	40.0
	6.375% (effective rate of 7.35%) ⁽⁴⁾	2012	70.0	70.0
	6.15% (effective rate of 6.28%) ⁽⁴⁾	2037	60.0	
			191.7	162.8
			1,855.6	1,761.7
Unamortized debt premium (discount), net			(5.1)	(4.2)
			1,850.5	1,757.5
Less amount due within one year			5.7	156.1
Total long-term debt			\$ 1,844.8	\$ 1,601.4

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- (1) Tax-exempt securities.
- (2) Composite year-end interest rate.
- (3) The interest rate on these bonds was fixed for a five-year term on Aug. 5, 2002; upon expiration of that term the bonds were issued in an auction rate mode.
- (4) These securities are subject to redemption in whole or in part, at any time, at the option of the company.
- (5) These long-term debt agreements contain various restrictive financial covenants.
- (6) The notes pay interest at an auction rate since refinancing in 2007.
- (7) The notes pay interest at an auction rate since refinancing in 2006.

Table of Contents**TAMPA ELECTRIC COMPANY****Consolidated Statements of Capitalization (continued)**

At Dec. 31, 2007, total long-term debt had a carrying amount of \$1,855.6 million and an estimated fair market value of \$1,932.1 million. At Dec. 31, 2006, total long-term debt had a carrying amount of \$1,761.7 million and an estimated fair market value of \$1,833.2 million. The estimated fair market value of long-term debt was based on quoted market prices for the same or similar issues, on the current rates offered for debt of the same remaining maturities, or for long-term debt issues with variable rates that approximate market rates, at carrying amounts. The carrying amount of long-term debt due within one year approximated fair market value because of the short maturity of these instruments.

A substantial part of the tangible assets of Tampa Electric is pledged as collateral for the first mortgage bonds issued under Tampa Electric's first mortgage bond indentures. There are currently no bonds outstanding under Tampa Electric's first mortgage bond indenture, and Tampa Electric could cause the lien associated with this indenture to be released at any time. Maturities and annual sinking fund requirements of long-term debt for the years 2008 through 2012 and thereafter are as follows:

Long-Term Debt Maturities*Dec. 31, 2007*

<i>(millions)</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>Thereafter</i>	<i>Total Long-term debt</i>
Tampa Electric					540.0	1,123.9	1,663.9
Peoples Gas	5.7	5.5	3.7	3.4	113.4	60.0	191.7
Total long-term debt maturities	\$ 5.7	\$ 5.5	\$ 3.7	\$ 3.4	\$ 653.4	\$ 1,183.9	\$ 1,855.6

The accompanying notes are an integral part of the consolidated financial statements.

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TAMPA ELECTRIC COMPANY

Notes to Consolidated Financial Statements

1. Significant Accounting Policies

The significant accounting policies are as follows:

Basis of Accounting

Tampa Electric Company maintains its accounts in accordance with recognized policies prescribed or permitted by the Florida Public Service Commission (FPSC) and the Federal Energy Regulatory Commission (FERC). These policies conform with generally accepted accounting principles in all material respects.

The impact of Statement of Financial Accounting Standard (FAS) No. 71, *Accounting for the Effects of Certain Types of Regulation*, has been minimal in the company's experience, but when cost recovery is ordered over a period longer than a fiscal year, costs are recognized in the period that the regulatory agency recognizes them in accordance with FAS 71.

The company's retail and wholesale businesses are regulated by the FPSC and related FERC, respectively. Prices allowed by both agencies are generally based on recovery of prudent costs incurred plus a reasonable return on invested capital.

Principles of Consolidation

Tampa Electric Company is a wholly-owned subsidiary of TECO Energy, Inc, and is comprised of the Electric division, generally referred to as Tampa Electric, and the Natural Gas division, generally referred to as Peoples Gas System (PGS). All significant intercompany balances and intercompany transactions have been eliminated in consolidation.

The use of estimates is inherent in the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). Actual results could differ from these estimates.

Planned Major Maintenance

Tampa Electric and PGS expense major maintenance costs as incurred. Concurrent with a planned major maintenance outage, the cost of adding or replacing retirement units-of-property is capitalized in conformity with FPSC and FERC regulations.

Depreciation

Tampa Electric computes depreciation expense by applying composite, straight-line rates (approved by the state regulatory agency) to the investment in depreciable property. Total depreciation expense for the years ended Dec. 31, 2007, 2006 and 2005 was \$215.5 million, \$217.4 million and \$215.0 million, respectively. There were no plant acquisition adjustments in 2007 or 2006, however acquisition adjustments of \$10.0 million occurred in 2005. The provision for total regulated utility plant in service, expressed as a percentage of the original cost of depreciable property, was 3.7% for 2007, 3.9% for 2006 and 4.0% for 2005 as approved by the FPSC. Construction work-in progress is not depreciated until the asset is completed or placed in service.

Allowance for Funds Used During Construction (AFUDC)

AFUDC is a non-cash credit to income with a corresponding charge to utility plant which represents the cost of borrowed funds and a reasonable return on other funds used for construction. AFUDC is recorded in years when the capital expenditures on eligible projects exceed approximately \$36 million. The base on which AFUDC is calculated excludes construction work-in-progress which has been included in rate base. The rate used to calculate AFUDC is revised periodically to reflect significant changes in Tampa Electric's cost of capital. The rate was 7.79% for 2007 and 2006. No projects qualified for AFUDC in 2005, while total AFUDC for 2007 and 2006 was \$6.2 million and \$ 3.8 million, respectively.

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Deferred Income Taxes

Tampa Electric Company utilizes the liability method in the measurement of deferred income taxes. Under the liability method, the temporary differences between the financial statement and tax bases of assets and liabilities are reported as deferred taxes measured at current tax rates. Tampa Electric and PGS are regulated, and their books and records reflect approved regulatory treatment, including certain adjustments to accumulated deferred income taxes and the establishment of a corresponding regulatory tax liability reflecting the amount payable to customers through future rates.

Investment Tax Credits

Investment tax credits have been recorded as deferred credits and are being amortized as reductions to income tax expense over the service lives of the related property.

Revenue Recognition

Tampa Electric Company recognizes revenues consistent with the Securities and Exchange Commission's Staff Accounting Bulletin (SAB) 104, *Revenue Recognition in Financial Statements*. Except as discussed below, Tampa Electric Company recognizes revenues on a gross basis when earned for the physical delivery of products or services and the risks and rewards of ownership have transferred to the buyer.

The regulated utilities (Tampa Electric and PGS) retail businesses and the prices charged to customers are regulated by the FPSC. Tampa Electric's wholesale business is regulated by FERC. See **Note 3** for a discussion of significant regulatory matters and the applicability of Financial Accounting Standard No. (FAS) 71, *Accounting for the Effects of Certain Types of Regulation*, to the company.

Revenues and Cost Recovery

Revenues include amounts resulting from cost recovery clauses which provide for monthly billing charges to reflect increases or decreases in fuel, purchased power, conservation and environmental costs for Tampa Electric and purchased gas, interstate pipeline capacity and conservation costs for PGS. These adjustment factors are based on costs incurred and projected for a specific recovery period. Any over- or under-recovery of costs plus an interest factor are taken into account in the process of setting adjustment factors for subsequent recovery periods. Over-recoveries of costs are recorded as deferred credits, and under-recoveries of costs are recorded as deferred charges.

Certain other costs incurred by the regulated utilities are allowed to be recovered from customers through prices approved in the regulatory process. These costs are recognized as the associated revenues are billed. The regulated utilities accrue base revenues for services rendered but unbilled to provide a closer matching of revenues and expenses (see **Note 3**). As of Dec. 31, 2007 and 2006, unbilled revenues of \$46.6 million and \$47.8 million, respectively, are included in the Receivables line item on Tampa Electric Company's Consolidated Balance Sheets.

Tampa Electric purchases power on a regular basis primarily to meet the needs of its retail customers. Tampa Electric purchased power from non-TECO Energy affiliates at a cost of \$271.9 million, \$221.3 million and \$269.7 million, for the years ended Dec. 31, 2007, 2006 and 2005, respectively. The prudently incurred purchased power costs at Tampa Electric have historically been recovered through an FPSC-approved cost recovery clause.

Table of Contents**Accounting for Excise Taxes, Franchise Fees and Gross Receipts**

Tampa Electric Company is allowed to recover certain costs incurred from customers through prices approved by the FPSC. The amounts included in customers' bills for franchise fees and gross receipt taxes are included as revenues on the Consolidated Statements of Income. These amounts totaled \$111.2 million, \$104.2 million and \$87.2 million, for the years ended Dec. 31, 2007, 2006 and 2005, respectively. Franchise fees and gross receipt taxes payable by the regulated utilities are included as an expense on the Consolidated Statements of Income in Taxes, other than income. For the years ended Dec. 31, 2007, 2006 and 2005, these totaled \$110.9 million, \$104.0 million and \$87.0 million, respectively. Excise taxes paid by the regulated utilities are not material and are expensed as incurred.

Asset Impairments

Tampa Electric Company accounts for long-lived assets in accordance with FAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which supersedes FAS 121, *Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of*. FAS 144 addresses accounting and reporting for the impairment or disposal of long-lived assets, including the disposal of a component of a business.

In accordance with FAS 144, the company assesses whether there has been impairment of its long-lived assets and certain intangibles held and used by the company when such impairment indicators exist. As of Dec. 31, 2007, the carrying value of all long lived assets was determined to be recoverable. No adjustments for asset impairments were recorded.

Restrictions on Dividend Payments and Transfer of Assets

Certain long-term debt at PGS contains restrictions that limit the payment of dividends and distributions on the common stock of Tampa Electric Company. See **Note 9** for additional information on significant financial covenants.

Receivables and Allowance for Uncollectible Accounts

Receivables consist of services billed to residential, commercial, industrial and other customers. An allowance for doubtful accounts is established based on Tampa Electric's and PGS's collection experience. Circumstances that could affect Tampa Electric's and PGS's estimates of uncollectible receivables include, but are not limited to, customer credit issues, the level of natural gas prices, customer deposits and general economic conditions. Accounts are written off once they are deemed to be uncollectible.

2. New Accounting Pronouncements**Noncontrolling Interests in Consolidated Financial Statements**

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (FAS 160). FAS 160 was issued to improve the relevance, comparability and transparency of the financial information provided by requiring: ownership interests be presented in the consolidated statement of financial position separate from parent equity; the amount of net income attributable to the parent and the noncontrolling interest be identified and presented on the face of the consolidated statement of income; changes in the parent's ownership interest be accounted for consistently; when deconsolidating, that any retained equity interest be measured at fair value; and that sufficient disclosures identify and distinguish between the interests of the parent and noncontrolling owners. The guidance in FAS 160 is effective for fiscal years beginning on or after Dec. 15, 2008. The company is currently assessing the impact of FAS 160, but does not believe it will be material to its results of operations, statement of position or cash flows.

Table of Contents**Business Combinations (Revised)**

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations* (FAS 141R). FAS 141R was issued to improve the relevance, representational faithfulness, and comparability of information disclosed in financial statements about business combinations. The Statement establishes principles and requirements for how the acquirer: 1) recognizes and measures the assets acquired, liabilities assumed and any noncontrolling interest in the acquiree; 2) recognizes and measures the goodwill acquired; and 3) determines what information to disclose for users of financial statements to evaluate the effects of the business combination. The guidance in FAS 141R is effective prospectively for any business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after Dec. 15, 2008. The company will assess the impact of FAS 141R in the event it enters into a business combination whose expected acquisition date is subsequent to the required adoption date.

Offsetting Amounts Related to Certain Contracts

In April 2007, the FASB issued FASB Staff Position (FSP) FIN 39-1. This FSP amends FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts* by allowing an entity to offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments executed with the same counterparty under a master netting arrangement. The guidance in this FSP is effective for fiscal years beginning after Nov. 15, 2007. The company adopted this FSP effective Jan. 1, 2008 without any effect on its results of operations, statement of position or cash flows.

Fair Value Option For Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (FAS 159). FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of FAS 159 is to provide opportunities to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply hedge accounting provisions. FAS 159 is effective for fiscal years beginning after Nov. 15, 2007. The company adopted FAS 159 effective Jan. 1, 2008, but did not elect to measure any financial instruments at fair value. Accordingly, its adoption did not have any effect on its results of operations, statement of position or cash flows.

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. FAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. FAS 157 applies under other accounting pronouncements that require or permit fair value measurements.

FAS 157, among other things, requires the company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value, and specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the company's market assumptions. SFAS 157 defines the following fair value hierarchy, based on these two types of inputs:

Level 1 Quoted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 Model derived valuations in which one or more significant inputs or significant value drivers are unobservable.

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The effective date is for fiscal years beginning after Nov. 15, 2007. In November of 2007, the FASB granted a one year deferral for non-financial assets and liabilities. As a result, the company adopted FAS 157 effective Jan. 1, 2008 for financial assets and liabilities. Financial assets and liabilities of the company measured at fair value include derivatives and certain investments, for which fair values are primarily based on observable inputs.

During 2008, the company will continue to evaluate FAS 157 for the remaining non-financial assets and liabilities to be included effective Jan. 1, 2009. The company does not believe the impact of adoption for the remaining non-financial assets and liabilities will be material to its results of operations, statement of position or cash flows.

3. Regulatory

As discussed in **Note 1**, Tampa Electric's and PGS's retail businesses are regulated by the FPSC. Tampa Electric is subject to regulation by the Federal Energy Regulatory Commission (FERC) under the Public Utility Holding Company Act of 2005 (PUHCA 2005), which replaced the Public Utility Holding Company Act of 1935 which was repealed. However, pursuant to a waiver granted in accordance with FERC's regulations, TECO Energy is not subject to certain of the accounting, record-keeping, and reporting requirements prescribed by FERC's regulations under PUHCA 2005.

Base Rates Tampa Electric

Tampa Electric's rates and allowed return on equity (ROE) range of 10.75% to 12.75% with a midpoint of 11.75% are in effect until such time as changes are occasioned by an agreement approved by the FPSC or other FPSC actions resulting from rate or other proceedings initiated by Tampa Electric, FPSC staff or other interested parties. Tampa Electric's base rates were last set in a 1992 proceeding.

Cost Recovery Tampa Electric

In September 2007, 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. In November 2007, the FPSC approved Tampa Electric's requested changes. The rates include the impacts of natural gas and coal prices expected in 2008, the refund of the overestimated 2007 fuel and purchased power expenses, the collection of previously unrecovered 2006 fuel and purchased power expenses, the proceeds from the actual and projected sale of excess sulfur dioxide (SO₂) 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. (See **Note 12** for additional details regarding projected environmental expenditures). In addition, the rates reflect the FPSC's September 2004 decision to reduce the annual cost recovery amount for water transportation services for coal and petroleum coke provided under Tampa Electric's contract with TECO Transport described below. As part of the regulatory process, it is reasonably likely that third parties may intervene on similar matters in the future. The company is unable to predict the timing, nature or impact of such future actions.

Base Rates PGS

PGS's rates and allowed ROE range of 10.25% to 12.25% with a midpoint of 11.25% are in effect until such time as changes are occasioned by an agreement approved by the FPSC or other FPSC actions resulting from rate or other proceedings initiated by PGS, FPSC staff or other interested parties. PGS's current base rates have been in effect since 2003.

Table of Contents**Cost Recovery PGS**

In September 2007, PGS filed its annual request with the FPSC to change its Purchased Gas Adjustment (PGA) cap factor for 2008. The PGA rate can vary monthly due to changes in actual fuel costs but is not expected to exceed the FPSC approved annual cap. In November 2007, the FPSC approved the cap factor under PGS' PGA for the period January 2008 through December 2008.

SO₂ Emission Allowances

The Clean Air Act Amendments of 1990 established SO₂ allowances to manage the achievement of SO₂ emissions requirements. The legislation also established a market-based SO₂ allowance trading component.

An allowance authorizes a utility to emit one ton of SO₂ during a given year. The EPA allocates allowances to utilities based on mandated emissions reductions. At the end of each year, a utility must hold an amount of allowances at least equal to its annual emissions. Allowances are fully marketable and, once allocated, may be bought, sold, traded or banked for use currently or in future years. In addition, the EPA withholds a small percentage of the annual SO₂ allowances it allocates to utilities for auction sales. Any resulting auction proceeds are then forwarded to the respective utilities. Allowances may not be used for compliance prior to the calendar year for which they are allocated. Tampa Electric accounts for these using an inventory model with a zero basis for those allowances allocated to the company. Tampa Electric recognizes a gain at the time of sale, approximately 95% of which accrues to retail customers through the environmental cost recovery clause.

Over the years, Tampa Electric has acquired allowances through EPA allocations. Also, over time, Tampa Electric has sold unneeded allowances based on compliance and allowances available. The SO₂ allowances unneeded and sold resulted from lower emissions at Tampa Electric brought about by environmental actions taken by the company under the Clean Air Act.

For the year ended Dec. 31, 2007, Tampa Electric sold approximately 168,000 allowances, resulting in proceeds of \$91.1 million, the majority of which is included as a cost recovery clause regulatory liability. In the years ended Dec. 31, 2006 and 2005, approximately 44,500 and 100,000 allowances were sold for \$45.0 million and \$79.7 million in proceeds, respectively.

Other Items*Storm Damage Cost Recovery*

Tampa Electric accrues \$4 million annually to fund a FERC authorized self-insured storm damage reserve. This reserve was created after Florida's investor owned utilities (IOUs) were unable to obtain transmission and distribution insurance coverage due to destructive acts of nature.

The FPSC approved Tampa Electric to reclassify approximately \$39 million of 2004 hurricane restoration costs as plant in service (rate base). With this adjustment and the normal \$4 million annual storm accrual, Tampa Electric's storm reserve was \$20.0 and \$16.0 million as of Dec. 31, 2007 and 2006, respectively.

Coal Transportation Contract

In September 2004, the FPSC voted to disallow a portion of the costs that Tampa Electric can recover from its customers for water transportation services under a five year transportation agreement ending Dec. 31, 2008. The amounts disallowed, and excluded from the recovery under the fuel adjustment clause, were \$15.1million, \$15.3 million and \$14.1 million for the years ended Dec. 31, 2007, 2006 and 2005, respectively.

Regulatory Assets and Liabilities

Tampa Electric and PGS maintain their accounts in accordance with recognized policies of the FPSC. In addition, Tampa Electric maintains its accounts in accordance with recognized policies prescribed or permitted by the Federal Energy Regulatory Commission (FERC).

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Tampa Electric and PGS apply the accounting treatment permitted by SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*. Areas of applicability include: deferral of revenues and expenses under approved regulatory agreements; revenue recognition resulting from cost recovery clauses that provide for monthly billing charges to reflect increases or decreases in fuel, purchased power, conservation and environmental costs; and the deferral of costs as regulatory assets to the period that the regulatory agency recognizes them when cost recovery is ordered over a period longer than a fiscal year. Details of the regulatory assets and liabilities as of Dec. 31, 2007 and 2006 are presented in the following table:

Regulatory Assets and Liabilities

(millions)	Dec. 31, 2007	Dec. 31, 2006
Regulatory assets:		
Regulatory tax asset ⁽¹⁾	\$ 62.5	\$ 49.5
Other:		
Cost recovery clauses	47.2	239.2
Post-retirement benefit asset	97.5	148.9
Deferred bond refinancing costs ⁽²⁾	25.5	26.7
Environmental remediation	11.4	12.3
Competitive rate adjustment	5.4	5.5
Other	4.7	4.9
Total other regulatory assets	191.7	437.5
Total regulatory assets	254.2	487.0
Less: Current portion	67.4	255.7
Long-term regulatory assets	\$ 186.8	\$ 231.3
Regulatory liabilities:		
Regulatory tax liability ⁽¹⁾	\$ 18.8	\$ 20.6
Other:		
Deferred allowance auction credits	0.1	0.8
Cost recovery clauses	18.9	28.9
Environmental remediation	11.4	12.3
Transmission and delivery storm reserve	20.3	16.3
Deferred gain on property sales ⁽³⁾	4.7	6.8
Accumulated reserve-cost of removal	543.5	516.1
Other	0.4	0.2
Total other regulatory liabilities	599.3	581.4
Total regulatory liabilities	618.1	602.0
Less: Current portion	35.4	46.7
Long-term regulatory liabilities	\$ 582.7	\$ 555.3

(1) Related to plant life and derivative positions.

(2) Amortized over the term of the related debt instrument.

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(3) Amortized over a 5-year period with various ending dates.

All regulatory assets are being recovered through the regulatory process. The following table further details our regulatory assets and the related recovery periods:

Table of Contents**Regulatory assets**

<i>(millions) Dec. 31,</i>	<i>2007</i>	<i>2006</i>
Clause recoverable ⁽¹⁾	\$ 52.6	\$ 244.7
Earning a rate of return ⁽²⁾	101.7	152.6
Regulatory tax assets ⁽³⁾	62.5	49.5
Capital structure and other ⁽³⁾	37.4	40.2
Total	\$ 254.2	\$ 487.0

- (1) To be recovered through cost recovery clauses approved by the FPSC on a dollar for dollar basis in the next year. The decrease between years is principally due to the recovery of previously unrecovered fuel costs.
- (2) Primarily reflects allowed working capital, which is included in rate base and earns an 8.2 % rate of return as permitted by the FPSC.
- (3) Regulatory tax assets and Capital structure and other regulatory assets have a recoverable period longer than a fiscal year and are recognized over the period authorized by the regulatory agency. Also included are unamortized loan costs which are amortized over the life of the related debt instruments. See footnotes 1 and 2 in the prior table for additional information.

4. Income Tax Expense

Tampa Electric Company is included in the filing of a consolidated federal income tax return with TECO Energy and its affiliates. Tampa Electric Company's income tax expense is based upon a separate return computation. Tampa Electric Company's effective tax rates for the twelve months ended Dec. 31, 2007 and 2006 differ from the statutory rate principally due to state income taxes, amortization of investment tax credits, and the domestic activity production deduction. The decrease in the effective tax rate between years is principally due to lower permanent differences including a favorable increase in the domestic activity production applicable statutory percentage from 2006 to 2007.

In June 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109, Accounting for Income Taxes*. FIN 48 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, Tampa Electric Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. FIN 48 provides that the tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on derecognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures.

Tampa Electric Company adopted the provisions of FIN 48 effective Jan. 1, 2007 with no impact. Tampa Electric Company recognizes accrued interest and penalties associated with uncertain tax positions in Operation other expense other in the Consolidated Statements of Income. For the twelve months ended Dec. 31, 2007, Tampa Electric Company did not record any amounts of interest or penalties.

The Internal Revenue Service (IRS) concluded its examination of federal income tax returns for the years 2005 and 2006 during the year ended 2007. The U.S. federal statute of limitations remains open for the year 2007 and onward. Year 2007 is currently under examination by the IRS under the Compliance Assurance Program, a program in which TECO Energy is a participant. State jurisdictions have statutes of limitations generally ranging from 3 to 5 years from the filing of an income tax return. The state impact of any federal changes remains subject to examination by various states for a period of up to one year after formal notification to the states. Years still open to examination by tax authorities in major state jurisdictions include 2002 and onward.

The company does not currently have any uncertain tax positions and does not anticipate that the total amount of unrecognized tax benefits will significantly increase or decrease within the next twelve months.

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Tampa Electric Company's income tax expense is based upon a separate return computation. Income tax expense consists of the following components:

Income Tax Expense

<i>(millions)</i>	<i>Federal</i>	<i>State</i>	<i>Total</i>
2007			
Currently payable	\$ 128.5	\$ 21.2	\$ 149.7
Deferred	(39.2)	(6.4)	(45.6)
Amortization of investment tax credits	(2.5)		(2.5)
Total income tax expense	\$ 86.8	\$ 14.8	\$ 101.6
Included in other income, net			(1.8)
Included in operating expenses			\$ 99.8
2006			
Currently payable	\$ 107.4	\$ 17.4	\$ 124.8
Deferred	(20.3)	(2.9)	(23.2)
Amortization of investment tax credits	(2.5)		(2.5)
Total income tax expense	\$ 84.6	\$ 14.5	\$ 99.1
Included in other income, net			(2.3)
Included in operating expenses			\$ 96.8
2005			
Currently payable	\$ 33.9	\$ 5.6	\$ 39.5
Deferred	61.7	10.5	72.2
Amortization of investment tax credits	(2.6)		(2.6)
Total income tax expense	\$ 93.0	\$ 16.1	\$ 109.1
Included in other income, net			(1.3)
Included in operating expenses			\$ 107.8

Deferred taxes result from temporary differences in the recognition of certain liabilities or assets for tax and financial reporting purposes. The principal components of the company's deferred tax assets and liabilities recognized in the balance sheet are as follows:

Deferred Income Tax Assets and Liabilities

<i>(millions) As of Dec. 31,</i>	<i>2007</i>	<i>2006</i>
Deferred income tax assets ⁽¹⁾		
Medical benefits	\$ 44.0	\$ 42.8
Insurance reserves	18.7	17.2
Investment tax credits	7.5	8.9
Hedging activities	3.2	
Pension and post-retirement benefits	37.6	57.5
Other	27.3	33.0

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Total deferred income tax assets	\$ 138.3	\$ 159.4
Deferred income tax liabilities ⁽¹⁾		
Property related	\$ (494.0)	\$ (477.3)
Deferred fuel	(14.6)	(65.5)
Pension and post-retirement benefits	(37.5)	(57.5)
Total deferred income tax liabilities	\$ (546.1)	\$ (600.3)
Net deferred income tax liability	\$ (407.8)	\$ (440.9)

(1) Certain property related assets and liabilities have been netted.

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Deferred income tax assets and liabilities above are included in the balance sheet as follows:

<i>(millions) As of Dec. 31,</i>	2007	2006
Current deferred tax liabilities	\$ (0.3)	\$ (50.4)
Non-current deferred tax liabilities	(407.5)	(390.5)
Total	\$ (407.8)	\$ (440.9)

The total income tax provisions differ from amounts computed by applying the federal statutory tax rate to income before income taxes for the following reasons:

Effective Income Tax Rate

<i>(millions)</i>	2007	2006	2005
Net income	\$ 176.8	\$ 165.6	\$ 176.7
Total income tax provision	101.6	99.1	109.1
Income before income taxes	\$ 278.4	\$ 264.7	\$ 285.8
Income taxes on above at federal statutory rate of 35%	\$ 97.4	\$ 92.7	\$ 100.0
Increase (decrease) due to			
State income tax, net of federal income tax	9.5	9.4	10.5
Amortization of investment tax credits	(2.5)	(2.5)	(2.6)
Equity portion of AFUDC	(1.5)	(1.0)	
Domestic production deduction	(2.8)	(1.5)	
Other	1.5	2.0	1.2
Total income tax provision	\$ 101.6	\$ 99.1	\$ 109.1
Provision for income taxes as a percent of income from continuing operations, before income taxes	36.5%	37.4%	38.2%

Consolidated Statements of Cash Flows

Cash paid during the year for income taxes	\$ 135.0	\$ 100.1	\$ 30.3
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5. Employee Postretirement Benefits

In September 2006, the FASB issued FAS No.158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)*. The company adopted FAS 158 on Dec. 31, 2006. This standard requires the recognition in the statement of financial position the over-funded or under-funded status of a defined benefit postretirement plan, measured as the difference between the fair value of plan assets and the benefit obligation in the case of a defined benefit plan, or the accumulated postretirement benefit obligation in the case of other postretirement benefit plans. As a result of the application of FAS 71 to the impacts of FAS 158, Tampa Electric Company recorded \$91.9 million in both benefit liabilities and regulatory assets as of Dec. 31, 2006. This standard did not affect the results of operations.

Pension Benefits

Tampa Electric Company is a participant in the comprehensive retirement plans of TECO Energy, including a non-contributory defined benefit retirement plan which covers substantially all employees. Where appropriate and reasonably determinable, the portion of expenses, income, gains or losses allocable to Tampa Electric Company are presented. Otherwise, such amounts presented reflect the amount allocable to all participants of the TECO Energy retirement plans. Benefits are based on employees' age, years of service and final average earnings. In 2007, Tampa Electric Company made contributions totaling \$21.4 million to this non-contributory defined benefit plan.

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Amounts disclosed for pension benefits also include the unfunded obligations for the supplemental executive retirement plans. These are non-qualified, non-contributory defined benefit retirement plans available to certain members of senior management. In 2007, Tampa Electric Company made a contribution of \$0.8 million to these plans.

Tampa Electric Company recorded regulated assets totaling \$57.0 million related to the additional minimum pension liability adjustment at Dec. 31, 2006 and \$42.1 million for the unfunded pension liability related to the adoption of FAS 158. There were no additional minimum pension liability adjustments recorded at Tampa Electric Company in 2005.

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Components of net pension expense, reconciliation of the funded status and the accrued pension liability for TECO Energy, Inc. are presented below.

TECO Energy Consolidated**Obligations and Funded Status**

<i>(millions)</i>	Pension Benefits	
	2007	2006
Change in benefit obligation		
Net benefit obligation at prior measurement date	\$ 569.9	\$ 562.1
Service cost	16.0	15.8
Interest cost	33.0	30.7
Plan participants' contributions		
Actuarial (gain) loss	(21.9)	(4.5)
Plan amendments	0.3	
Curtailement	(6.1)	
Special termination benefits	0.6	
Gross benefits paid	(34.6)	(34.2)
Federal subsidy on benefits paid	n/a	n/a
Net benefit obligation at measurement date ⁽¹⁾	\$ 557.2	\$ 569.9
Change in plan assets		
Fair value of plan assets at prior measurement date	\$ 435.2	\$ 434.7
Actual return on plan assets	56.6	27.0
Employer contributions	35.5	7.7
Plan participants' contributions		
Settlement		
Gross benefits paid	(34.6)	(34.2)
Fair value of plan assets at measurement date ⁽¹⁾	\$ 492.7	\$ 435.2
Funded status		
Fair value of plan assets	\$ 492.7	\$ 435.2
Benefit obligation	557.2	569.9
Funded status at measurement date	(64.5)	(134.7)
Net contributions after measurement date	26.1	30.8
Unrecognized net actuarial loss	81.9	138.8
Unrecognized prior service (benefit) cost	(3.2)	(4.5)
Unrecognized net transition (asset) obligation		
Accrued liability at end of year	\$ 40.3	\$ 30.4
Amounts Recognized in Balance Sheet		
Long-term regulatory assets	\$ 57.2	\$ 99.1
Prepaid benefit cost	n/a	n/a
Intangible assets	n/a	n/a
Accrued benefit costs and other current liabilities	(4.5)	(1.3)
Deferred credits and other liabilities	(34.0)	(103.3)
Accumulated other comprehensive (income) loss pretax	21.6	35.9
Net amount recognized at end of year	\$ 40.3	\$ 30.4

Tampa Electric Company

	Pension Benefits	
	2007	2006
Amounts recognized in balance sheet		
Long-term regulatory assets	\$ 57.2	\$ 99.1
Prepaid benefit cost		
Intangible assets		
Accrued benefit costs and other current liabilities	(1.0)	(1.0)
Deferred credits and other liabilities	(22.8)	(72.9)
Net amount recognized at end of year	\$ 33.4	\$ 25.2

(1) The measurement date was Sept. 30, 2007 and 2006.

The accumulated benefit obligation for all defined benefit pension plans was \$493.0 million and \$508.3 million at Sep. 30, 2007 and 2006 (the measurement dates), respectively.

Table of Contents**Information for the TECO Energy consolidated pension plans with an accumulated benefit obligation in excess of plan assets**

Accumulated benefit in excess of plan assets (millions)	2007	2006
Project benefit obligation, measurement date	\$ 557.2	\$ 569.9
Accumulated benefit obligation, measurement date	\$ 493.0	\$ 508.3
Fair value of plan assets, measurement date	\$ 492.7	\$ 435.2

Components of TECO Energy consolidated Net Periodic Benefit Cost

(millions)	Pension Benefits		
	2007	2006	2005
Net periodic benefit cost:			
Service cost	\$ 16.0	\$ 15.8	\$ 16.2
Interest cost	33.0	30.7	32.7
Expected return on plan assets	(36.3)	(35.7)	(37.2)
Amortization of:			
Actuarial loss	9.1	8.8	4.3
Prior service (benefit) cost	(0.5)	(0.5)	(0.5)
Transition (asset) obligation			(0.2)
Curtailement (gain) loss	(0.4)		
Settlement (gain) loss			1.4
Net periodic benefit cost	\$ 20.9	\$ 19.1	\$ 16.7

In addition to the costs shown above, \$0.6 million of special termination benefit costs were recognized in 2007. Tampa Electric Company's portion of the net periodic benefit costs was \$14.1 million, \$13.6 million and \$9.7 million for 2007, 2006 and 2005, respectively.

The estimated net loss and prior service net (benefits) for the defined benefit pension plans that will be amortized by Tampa Electric Company from regulatory assets into net periodic benefit cost over the next fiscal year total \$1.5 million.

Other Postretirement Benefits

TECO Energy and its subsidiaries currently provide certain postretirement health care and life insurance benefits for substantially all employees retiring after age 50 meeting certain service requirements. Tampa Electric Company's contribution toward health care coverage for most employees who retired after the age of 55 between Jan. 1, 1990 and Jun. 30, 2001 is limited to a defined dollar benefit based on service. The company contribution toward pre-65 and post-65 health care coverage for most employees retiring on or after Jul. 1, 2001 is limited to a defined dollar benefit based on an age and service schedule. In 2008, the company expects to make a contribution of about \$10.5 million to this program. Postretirement benefit levels are substantially unrelated to salary. The company reserves the right to terminate or modify the plans in whole or in part at any time.

In 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the MMA) was signed into law. Beginning in 2006, the new law added prescription drug coverage to Medicare, with a 28% tax-free subsidy to encourage employers to retain their prescription drug programs for retirees, along with other key provisions. TECO Energy's current retiree medical program for those eligible for Medicare (generally over age 65) includes coverage for prescription drugs. The company has determined that prescription drug benefits available to certain Medicare-eligible participants under its defined-dollar-benefit postretirement health care plan are at least actuarially equivalent to the standard drug benefits to be offered under Medicare Part D.

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In 2004, the FASB issued FSP 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* (FSP 106-2). The guidance in FSP 106-2 requires (a) that the effects of the federal subsidy be considered an actuarial gain and recognized in the same manner as other actuarial gains and losses and (b) certain disclosures for employers that sponsor postretirement health care plans that provide prescription drug benefits. TECO Energy and its subsidiaries adopted FSP 106-2 retroactive for the second quarter of 2004.

The company received its first subsidy payment under Part D in 2006 for the 2006 plan year. It has filed and is awaiting approval for its 2007 Part D subsidy application with the Centers for Medicare and Medicaid Services (CMS).

The following charts summarize the income statement and balance sheet impact for Tampa Electric Company, as well as the benefit obligations, assets and funded status.

Obligations and Funded Status Other Postretirement Benefits

(millions)	2007	2006
Change in benefit obligation		
Net benefit obligation at prior measurement date	\$ 145.6	\$ 141.5
Service cost	2.3	2.3
Interest cost	8.3	7.7
Plan participants' contributions	2.6	2.3
Actuarial (gain) loss	(3.4)	2.3
Curtailement	(1.5)	
Gross benefits paid	(11.5)	(10.0)
Federal subsidy on benefits paid	0.8	(0.5)
Net benefit obligation at measurement date (Sep. 30)	\$ 143.2	\$ 145.6
Change in plan assets		
Employer contributions	\$ 8.9	\$ 7.7
Plan participants' contributions	2.6	2.3
Gross benefits paid	(11.5)	(10.0)
Fair value of plan assets at measurement date (Sep. 30)	\$	\$
Funded status		
Fair value of plan assets	\$	\$
Benefit obligation	143.2	145.7
Funded status at measurement date	(143.2)	(145.7)
Net contributions after measurement date	2.2	1.7
Unrecognized net actuarial loss	20.9	21.6
Unrecognized prior service (benefit) cost	10.3	13.7
Unrecognized net transition (asset) obligation	9.1	12.9
Accrued liability at end of year	\$ (100.7)	\$ (95.8)
Amounts Recognized in Balance Sheet		
Long-term regulatory assets	\$ 40.3	\$ 49.8
Current liabilities	(10.2)	(10.2)
Non-current liabilities	(130.8)	(135.4)
Prepaid benefit cost	n/a	n/a
Accrued benefit cost	n/a	n/a
Additional minimum liability	n/a	n/a

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Intangible assets	n/a	n/a
Accumulated other comprehensive income	n/a	n/a
Net amount recognized at end of year	\$ (100.7)	\$ (95.8)

Table of Contents**Components of Net Periodic Other Postretirement Benefit Cost**

Net periodic benefit cost (millions):	2007	2006	2005
Service cost	\$ 2.3	\$ 2.3	\$ 2.4
Interest cost	8.3	7.7	7.3
Amortization of:			
Actuarial loss		0.4	
Prior service (benefit) cost	1.7	1.7	1.7
Transition (asset) obligation	2.2	2.1	2.1
Net periodic benefit cost	\$ 14.5	\$ 14.2	\$ 13.5

Other Changes in Plan Assets and Benefit Obligations Recognized in Regulatory Assets

(millions)	2007	2006	2005
Net actuarial loss (gain)	\$ 20.9	\$ 21.6	n/a
Prior service cost (credit)	10.3	13.8	n/a
Transition obligation (asset)	9.1	12.8	n/a
Total recognized in regulatory assets	\$ 40.3	\$ 48.2	n/a

The estimated prior service cost and transition obligation for the other postretirement benefit plans that will be amortized at Tampa Electric Company from regulatory assets into net periodic benefit cost over the next fiscal year is \$3.2 million.

Other Postretirement Benefit Plan Assets

There are no assets associated with Tampa Electric Company's other postretirement benefit plan.

Additional Information for Pensions and Other Postretirement Benefits

(millions)	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Increase in minimum liability included in regulatory assets	\$	\$ 57.0	\$	\$

Weighted-average assumptions used to determine benefit obligations at Sep. 30, (the measurement date)

	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Discount Rate	6.20%	5.85%	6.20%	5.85%
Rate of compensation increase	4.25%	4.00%	4.25%	4.00%

Weighted-average assumptions used to determine net periodic benefit cost for years ended Dec. 31,

	Pension Benefits			Other Benefits		
	2007	2006	2005	2007	2006	2005
Discount Rate	5.85%	5.50%	6.00%	5.85%	5.50%	6.00%

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Expected long-term return on plan assets	8.25%	8.50%	8.75%	n/a	n/a	n/a
Rate of compensation increase	4.00%	3.75%	4.25%	4.00%	3.75%	4.25%

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The expected return on assets assumption was based on expectations of long-term inflation, real growth in the economy, fixed income spreads and equity premiums consistent with our portfolio, with provision for active management and expenses paid. The salary increase assumption was based on the same underlying expectation of long-term inflation together with assumptions regarding real growth in wages and company-specific merit and promotion increases. The discount rate assumption was based on a cash flow matching technique developed by our outside actuaries and a review of current economic conditions. This technique matches the yields from high-quality (Aa-graded, non-callable) corporate bonds to the company's projected cash flows for the pension plan to develop a present value that is converted to a discount rate.

	2007	2006	2005
Healthcare cost trend rate			
Initial rate	9.25%	9.50%	9.50%
Ultimate rate	5.25%	5.00%	5.00%
Year rate reaches ultimate	2015	2014	2013

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

(millions)	1% Increase	1% Decrease
Effect on total service and interest cost	\$ 0.2	\$ (0.2)
Effect on postretirement benefit obligation	\$ 3.3	\$ (2.8)

Contributions

On Aug. 17, 2006, the President signed the Pension Protection Act of 2006, which it generally introduces new minimum funding requirements beginning Jan. 1, 2008. TECO Energy's policy is to fund the plan at or above amounts determined by its actuaries to meet ERISA guidelines for minimum annual contributions and minimize PBGC premiums paid by the plan. TECO Energy contributed \$30.0 million to the plan in 2007, which included a \$25.8 million contribution in addition to the \$4.2 million minimum contribution required. TECO Energy expects to make a \$9.0 million contribution in 2008 and average annual contributions of \$11 million in 2009–2012. Tampa Electric Company's portion of the pension contribution in 2008 is estimated at \$7.2 million.

Information about TECO Energy's expected benefit payments for the pension and postretirement benefit plans follows:

Expected Benefit Payments – TECO Energy

(including projected service and net of employee contributions)

	Pension Benefits	Gross	Other Postretirement Benefits
			Expected Federal Subsidy
Expected benefit payments (millions):			
2008	\$ 65.4	\$ 14.6	\$ (1.1)
2009	\$ 44.3	\$ 15.8	(1.2)
2010	\$ 45.7	\$ 16.8	(1.4)
2011	\$ 47.0	\$ 17.7	(1.5)
2012	\$ 48.0	\$ 18.2	(1.7)
2013-2017	\$ 258.5	\$ 93.1	(11.1)

Table of Contents**Defined Contribution Plan**

The company has a defined contribution savings plan covering substantially all employees of TECO Energy and its subsidiaries (the Employers) that enables participants to save a portion of their compensation up to the limits allowed by IRS guidelines. The company and its subsidiaries match up to 6% of the participant's payroll savings deductions. Effective July 2004, employer matching contributions were 30% of eligible participant contributions with additional incentive match of up to 70% of eligible participant contributions based on the achievement of certain operating company financial goals. In April 2007, the employer matching contributions were changed to 50% of eligible participant contributions with an additional incentive match of up to 50%. For the years ended Dec. 31, 2007, 2006 and 2005, Tampa Electric Company recognized expense totaling \$5.8 million, \$4.5 million and \$6.3 million, respectively, related to the matching contributions made to this plan.

6. Short-Term Debt

At Dec. 31, 2007 and 2006, the following credit facilities and related borrowings existed:

Credit Facilities

(millions)	Dec. 31, 2007			Dec. 31, 2006		
	Credit Facilities	Borrowings Outstanding ⁽¹⁾	Letters of Credit Outstanding	Credit Facilities	Borrowings Outstanding	Letters of Credit Outstanding
Recourse:						
Tampa Electric Company:						
5-year facility	\$ 325.0	\$	\$	\$ 325.0	\$ 13.0	\$
1-year accounts receivable facility	150.0	25.0		150.0	35.0	
Total	\$ 475.0	\$ 25.0	\$	\$ 475.0	\$ 48.0	\$

(1) Borrowings outstanding are reported as notes payable.

These credit facilities require commitment fees ranging from 9.0 - 17.5 basis points. The weighted average interest rate on outstanding notes payable at Dec. 31, 2007 and 2006 was 4.76% and 5.45%, respectively.

Tampa Electric Company Credit Facility

On May 9, 2007, Tampa Electric Company amended its \$325 million bank credit facility, entering into a Second Amended and Restated Credit Agreement. The amendment (i) extended the maturity date of the credit facility from Oct. 11, 2010 to May 9, 2012 (subject to further extension with the consent of each lender); (ii) continued to allow Tampa Electric Company to borrow funds at an interest rate equal to the federal funds rate, as defined in the agreement, plus a margin, as well as a rate equal to either the London interbank deposit rate plus a margin or Citibank's prime rate (or the federal funds rate plus 50 basis points, if higher) plus a margin; (iii) allowed Tampa Electric Company to request the lenders to increase their commitments under the credit facility by up to \$175 million in the aggregate (compared to \$50 million under the previous agreement); (iv) continued to include a \$50 million letter of credit facility; (v) reduced the commitment fees and borrowing margins; and (vi) made other technical changes. The facility requires that at the end of each quarter the ratio of debt to capital, as defined in the agreement, not exceed 65%. As of Dec. 31, 2007, Tampa Electric Company was in compliance with this requirement.

Tampa Electric Company Accounts Receivable Facility

On Jan. 6, 2005, Tampa Electric Company and TEC Receivables Corp (TRC), a wholly-owned subsidiary of Tampa Electric Company, entered into a \$150 million accounts receivable collateralized borrowing facility. The assets of TRC are not intended to be generally available to the creditors of Tampa Electric Company. Under the

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Purchase and Contribution Agreement entered into in connection with that facility, Tampa Electric Company sells and/or contributes to TRC all of its receivables for the sale of electricity or gas to its retail customers and related rights (the Receivables), with the exception of certain excluded receivables and related rights defined in the agreement, and assigns to TRC the deposit accounts into which the proceeds of such Receivables are paid. The Receivables are sold by Tampa Electric Company to TRC at a discount. Under the Loan and Servicing Agreement among Tampa Electric Company as Servicer, TRC as Borrower, certain lenders named therein and Citicorp North America, Inc. as Program Agent, TRC may borrow up to \$150 million to fund its acquisition of the Receivables under the Purchase Agreement. TRC has secured such borrowings with a pledge of all of its assets including the Receivables and deposit accounts assigned to it. Tampa Electric Company acts as Servicer to service the collection of the Receivables. TRC pays program and liquidity fees based on Tampa Electric Company's credit ratings. The receivables and the debt of TRC are included in the consolidated financial statements of TECO Energy and Tampa Electric Company.

On Dec. 20, 2007, Tampa Electric Company and TRC extended the maturity of Tampa Electric Company's \$150 million accounts receivable collateralized borrowing facility from Dec. 21, 2007 to Dec. 19, 2008. As part of this extension, the EBITDA to interest covenant was eliminated and the debt to capital covenant was increased from 60% to 65%.

7. Common Stock

Tampa Electric Company is a wholly owned subsidiary of TECO Energy, Inc.

<i>(millions, except per share amounts)</i>	<i>Common Stock</i>		<i>Issue</i>	<i>Total</i>
	<i>Shares</i>	<i>Amount</i>	<i>Expense</i>	
Balance Dec. 31, 2007 ⁽¹⁾	10	\$ 1,510.4	\$	\$ 1,510.4
Balance Dec. 31, 2006 ⁽¹⁾	10	\$ 1,428.6	\$	\$ 1,428.6

- (1) TECO Energy, Inc. made equity contributions to Tampa Electric of \$81.8 million and \$51.8 million in 2007 and 2006, respectively, to support capital needs associated with generation expansion and environmental projects.

8. Commitments and Contingencies**Legal Contingencies**

From time to time, Tampa Electric Company is involved in various other legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies in the ordinary course of its business. Where appropriate, accruals are made in accordance with FAS No. 5, *Accounting for Contingencies*, to provide for matters that are probable of resulting in an estimable, material loss. While the outcome of such proceedings is uncertain, management does not believe that their ultimate resolution will have a material adverse effect on the company's results of operations or financial condition.

Superfund and Former Manufactured Gas Plant Sites

Tampa Electric Company, through its Tampa Electric and Peoples Gas divisions, is a potentially responsible party (PRP) for certain superfund sites and, through its Peoples Gas division, for certain former manufactured gas plant sites. While the joint and several liability associated with these sites presents the potential for significant response costs, as of Dec. 31, 2007, Tampa Electric Company has estimated its ultimate financial liability to be approximately \$11.5 million, and this amount has been accrued in the company's financial statements. The environmental remediation costs associated with these sites, which are expected to be paid over many years, are not expected to have a significant impact on customer prices.

The estimated amounts represent only the estimated portion of the cleanup costs attributable to Tampa Electric Company. The estimates to perform the work are based on actual estimates obtained from contractors, or

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Tampa Electric Company's experience with similar work adjusted for site specific conditions and agreements with the respective governmental agencies. The estimates are made in current dollars, are not discounted and do not assume any insurance recoveries.

Allocation of the responsibility for remediation costs among Tampa Electric Company and other PRPs is based on each party's relative ownership interest in or usage of a site. Accordingly, Tampa Electric Company's share of remediation costs varies with each site. In virtually all instances where other PRPs are involved, those PRPs are considered creditworthy.

Factors that could impact these estimates include the ability of other PRPs to pay their pro-rata portion of the cleanup costs, additional testing and investigation which could expand the scope of the cleanup activities, additional liability that might arise from the cleanup activities themselves or changes in laws or regulations that could require additional remediation. These costs are recoverable through customer rates established in subsequent base rate proceedings.

Long-Term Commitments

Tampa Electric Company has commitments under long-term leases, primarily for building space, office equipment and heavy equipment. Total rental expense included in the Consolidated Statements of Income for the years ended Dec. 31, 2007, 2006 and 2005 was \$1.9 million, \$4.2 million and \$2.1 million, respectively.

The following table is a schedule of future minimum lease payments at Dec. 31, 2007 for all leases with non-cancelable lease terms in excess of one year:

Future Minimum Lease Payments for Leases ⁽¹⁾

<i>Year ended Dec. 31:</i>	<i>Amount (millions)</i>
2008	\$ 2.2
2009	10.6
2010	10.6
2011	10.8
2012	10.9
Later Years	82.4
Total minimum lease payments	\$ 127.5

- (1) This schedule includes the fixed capacity payments required under a capacity and tolling agreement of Tampa Electric which commences Jan. 1, 2009. In accordance with the provisions of EITF 01-08, *Determining Whether an Arrangement Contains a Lease*, the company evaluated the agreement and concluded based on the criteria that the arrangement met the lease definition. Prudently incurred capacity payments are recoverable under an FPSC-approved cost recovery clause (See **Note 3**).

Guarantees and Letters of Credit

On Jan. 1, 2003, Tampa Electric Company adopted the prospective initial measurement provisions for certain types of guarantees, in accordance with FASB Interpretation No. (FIN) 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34). Upon issuance or modification of a guarantee after Jan. 1, 2003, the company must determine if the obligation is subject to either or both of the following:

Initial recognition and initial measurement of a liability; and/or

Disclosure of specific details of the guarantee.

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Generally, guarantees of the performance of a third party or guarantees that are based on an underlying (where such a guarantee is not a derivative subject to FAS 133) are likely to be subject to the recognition and measurement, as well as the disclosure provisions, of FIN 45. Such guarantees must initially be recorded at fair value, as determined in accordance with the interpretation.

Alternatively, guarantees between and on behalf of entities under common control or that are similar to product warranties are subject only to the disclosure provisions of the interpretation. The company must disclose information as to the term of the guarantee and the maximum potential amount of future gross payments (undiscounted) under the guarantee, even if the likelihood of a claim is remote.

At Dec. 31, 2007, Tampa Electric was not obligated under guarantees or letters of credit for the benefit of third parties, including entities under common control. At Dec. 31, 2007, TECO Energy had provided a fuel purchase guarantee on behalf of Tampa Electric and had outstanding letters of credit on behalf of Tampa Electric in the face amounts of \$20.0 million and \$0.3 million, respectively.

Financial Covenants

In order to utilize its bank credit facilities, Tampa Electric Company must meet certain financial tests as defined in the applicable agreements. In addition, Tampa Electric Company has certain restrictive covenants in specific agreements and debt instruments. At Dec. 31, 2007, Tampa Electric Company was in compliance with required financial covenants.

9. Related Party Transactions

In January 2006, Tampa Electric purchased two 150-megawatt combustion turbines and other ancillary equipment from TPS McAdams for \$20.6 million. This has been included in capital expenditures on the Tampa Electric Company **Consolidated Statements of Cash Flows** for the period ended Dec. 31, 2006.

In October 2003, Tampa Electric signed a five-year contract renewal with an affiliate company, TECO Transport, for integrated waterborne fuel transportation services effective Jan. 1, 2004. The contract calls for inland river and ocean transportation along with river terminal storage and blending services for up to 5.5 million tons of coal annually through 2008. In December 2007, TECO Energy sold TECO Transport to an unaffiliated party. (See **Note 16, Mergers, Acquisitions and Dispositions in Notes to the Consolidated Financial Statements** of TECO Energy, Inc.'s Annual Report on Form 10-K)

A summary of activities between Tampa Electric Company and its affiliates follows:

Net transactions with affiliates:

<i>(millions)</i>	2007	2006	2005
Fuel and interchange related, net	\$ 93.2 ⁽²⁾	\$ 103.1	\$ 82.5
Administrative and general, net	\$ 19.6	\$ 14.5	\$ 13.3

Amounts due from or to affiliates of the company at Dec. 31,

<i>(millions)</i>	2007	2006
Accounts receivable ⁽¹⁾	\$ 0.7	\$ 2.6
Accounts payable ⁽¹⁾	\$ 5.5	\$ 11.7

(1) Accounts receivable and accounts payable were incurred in the ordinary course of business and do not bear interest.

(2) Amounts related to the transportation, transfer and storage of coal by TECO Transport.

Table of Contents**10. Segment Information**

Tampa Electric Company is a public utility operating within the state of Florida. Through its Tampa Electric division, it is engaged in the generation, purchase, transmission, distribution and sale of electric energy to more than 668,000 customers in West Central Florida. Its Peoples Gas System division is engaged in the purchase, distribution and marketing of natural gas for more than 334,000 residential, commercial, industrial and electric power generation customers in the state of Florida.

Segment Information

<i>(millions)</i>	<i>Tampa Electric</i>	<i>Peoples Gas</i>	<i>Other & eliminations</i>	<i>Tampa Electric Company</i>
2007				
Revenues outsiders	\$ 2,186.6	\$ 599.7	\$	\$ 2,786.3
Sales to affiliates	1.8		(0.6)	1.2
Total revenues	\$ 2,188.4	\$ 599.7	\$ (0.6)	\$ 2,787.5
Depreciation and amortization	178.6	40.1		218.7
Total interest charges	112.2	17.1	(0.1)	129.2
Provision for taxes	85.2	16.4		101.6
Net income	\$ 150.3	\$ 26.5	\$	\$ 176.8
Total assets	4,672.5	754.3	(7.5)	5,419.3
Capital expenditures	\$ 373.8	\$ 49.2	\$	\$ 423.0
2006				
Revenues outsiders	\$ 2,082.7	\$ 577.6	\$	\$ 2,660.3
Sales to affiliates	2.2		(0.6)	1.6
Total revenues	\$ 2,084.9	\$ 577.6	\$ (0.6)	\$ 2,661.9
Depreciation and amortization	186.3	36.5		222.8
Total interest charges	107.4	15.2		122.6
Provision for taxes	80.3	18.8		99.1
Net income	\$ 135.9	\$ 29.7	\$	\$ 165.6
Total assets	4,620.7	748.9	(4.5)	5,365.1
Capital expenditures	\$ 366.4	\$ 54.0	\$	\$ 420.4
2005				
Revenues outsiders	\$ 1,744.3	\$ 549.5	\$	\$ 2,293.8
Sales to affiliates	2.5		(0.6)	1.9
Total revenues	\$ 1,746.8	\$ 549.5	\$ (0.6)	\$ 2,295.7
Depreciation and amortization	187.1	35.0		222.1
Total interest charges	98.3	15.1		113.4
Provision for taxes	90.6	18.5		109.1
Net income	\$ 147.1	\$ 29.6	\$	\$ 176.7
Total assets	4,438.2	721.5	(3.5)	5,156.2
Capital expenditures	\$ 203.5	\$ 42.5	\$	\$ 246.0

11. Asset Retirement Obligations

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Tampa Electric Company accounts for asset retirement obligations under FAS 143, *Accounting for Asset Retirement Obligations*. An asset retirement obligation (ARO) for a long-lived asset is recognized at fair value at inception of the obligation if there is a legal obligation under an existing or enacted law or statute, a written or

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oral contract, or by legal construction under the doctrine of promissory estoppel. Retirement obligations are recognized only if the legal obligation exists in connection with or as a result of the permanent retirement, abandonment or sale of a long-lived asset.

When the liability is initially recorded, the carrying amount of the related long-lived asset is correspondingly increased. Over time, the liability is accreted to its estimated future value. The corresponding amount capitalized at inception is depreciated over the remaining useful life of the asset. The liability must be revalued each period based on current market prices.

For the years ended Dec. 31, 2007 and 2005, accretion expense was immaterial and no significant revisions to estimated cash flows were necessary. For the year ended Dec. 31, 2006, significant revisions to estimated cash flows used in determining the recognized asset retirement obligations were adjusted by \$7.3 million at Tampa Electric Company. The amount is attributed to the increased cost of removal of materials used in the generation and transmission of electricity.

Reconciliation of beginning and ending carrying amount of asset retirement obligations:

<i>(in millions)</i>	<i>Dec. 31,</i>	
	<i>2007</i>	<i>2006</i>
Beginning Balance	\$ 26.5	\$ 18.6
Revisions to estimated cash flows		7.3
Other ⁽¹⁾	0.6	0.6
Ending Balance	\$ 27.1	\$ 26.5

(1) Accretion expense recorded as a deferred regulatory asset.

As regulated utilities, Tampa Electric and PGS must file depreciation and dismantlement studies periodically and receive approval from the FPSC before implementing new depreciation rates. Included in approved depreciation rates is either an implicit net salvage factor or a cost of removal factor, expressed as a percentage. The net salvage factor is principally comprised of two components – a salvage factor and a cost of removal or dismantlement factor. The company uses current cost of removal or dismantlement factors as part of the estimation method to approximate the amount of cost of removal in accumulated depreciation.

12. Derivatives and Hedging

Tampa Electric Company enters into futures, forwards, swaps and option contracts to limit the exposure to interest rate changes for future debt issuance and price fluctuations for physical purchases and sales of natural gas in the course of normal operations. The company uses derivatives only to reduce normal operating and market risks, not for speculative purposes. The company's primary objective is to reduce the impact of market price volatility on ratepayers, and uses derivative instruments primarily to optimize the value of physical assets, including generation capacity and natural gas delivery. The risk management policies adopted by the company provide a framework through which management monitors various risk exposures. Daily and periodic reporting of positions and other relevant metrics are performed by a centralized risk management group which is independent of all operating companies.

The company applies the provisions of FAS 133, *Accounting for Derivative Instruments and Hedging Activities, as amended by FAS 138, Accounting for Certain Derivative Instruments and Certain Hedging Activity* and FAS 149, *Amendment on Statement 133 on Derivative Instruments and Hedging Activities*. These standards require companies to recognize derivatives as either assets or liabilities in the financial statements, to measure those instruments at fair value, and to reflect the changes in the fair value of those instruments as either components of other comprehensive income (OCI) or in net income, depending on the designation of those

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instruments. The changes in fair value that are recorded in OCI are not immediately recognized in current net income. As the underlying hedged transaction matures or the physical commodity is delivered, the deferred gain or loss on the related hedging instrument must be reclassified from OCI to earnings based on its value at the time of its reclassification. For effective hedge transactions, the amount reclassified from OCI to earnings is offset in net income by the amount paid or received on the underlying physical transaction. Additionally, amounts deferred in OCI related to an effective designated cash flow hedge must be reclassified to current earnings if the anticipated hedged transaction is no longer probable of occurring.

At Dec. 31, 2007 and Dec. 31, 2006, Tampa Electric Company and its affiliates had derivative assets (current and non-current) totaling \$2.2 million and \$0.2 million, respectively, and liabilities (current and non-current) totaling \$26.1 million and \$74.0 million, respectively. At Dec. 31, 2007, \$8.2 million of liabilities are related to interest rate swaps. The remaining \$2.2 million of assets and \$17.9 million in liabilities are related to natural gas swaps. At Dec. 31, 2006, all assets and liabilities were related to natural gas swaps.

As a result of applying the provisions of FAS 71 in accordance with the FPSC, the changes in value of natural gas derivatives are recorded as regulatory assets or liabilities to reflect the impact of the fuel recovery clause on the risks of hedging activities. Included in the net derivative liability as of Dec. 31, 2007 are \$8.4 million in interest rate swaps related to the forecasted issuance of debt in 2008. These swaps qualify and are accounted for as cash flow hedges and the changes in fair value are recorded in other comprehensive income.

Based on the fair values of derivatives at Dec. 31, 2007, net pretax losses of \$17.3 million are expected to be reclassified from regulatory assets or liabilities and accumulated other comprehensive income to the Consolidated Statement of Income within the next twelve months. However, these amounts and other future reclassifications from regulatory assets or liabilities and accumulated other comprehensive income will fluctuate with movements in the underlying market price of the derivative instruments. The company does not currently have any cash flow hedges for transactions forecasted to take place in periods subsequent to 2009.

13. Subsequent Events

Tax-Exempt Auction Rate Bonds

On Feb. 19 and Feb. 26, 2008 two series of tax-exempt auction-rate bonds totaling \$105.8 million issued for the benefit of Tampa Electric Company by the Hillsborough County Industrial Development Authority (HCIDA) experienced failed auctions and, in accordance with the terms of the bond indentures, the seven day interest rate on these series reset to 14%. Auctions on Feb. 19 for Tampa Electric's three other series of tax-exempt auction-rate bonds with interest periods of 7 and 35 days totaling \$181.0 million settled at interest rates of 10% to 12%. The interest rates set in the Feb. 19 auction of 11% and 12% on the Polk County Industrial Development Authority (PCIDA) Series 2007 and HCIDA Series 2007C, respectively, are in effect until Mar. 26. On Feb. 26, the auction for the HCIDA Series 2006 settled at an interest rate of 7.55% for the succeeding 7-day interest period. On Feb. 25 Tampa Electric Company notified the trustee for the tax-exempt bonds issued for the benefit of the company by the HCIDA and PCIDA that the company has elected to purchase in lieu of redemption the \$75 million PCIDA Solid Waste Disposal Revenue Refunding Bonds (Tampa Electric Company Project) Series 2007, and the \$125.8 million HCIDA Pollution Control Revenue Refunding Bonds (Tampa Electric Project) Series 2007 A, B and C, on Mar. 26, 2008, which is an interest payment date. The company does not intend to extinguish or cancel the bonds upon such purchase.

With respect to the company's remaining tax-exempt auction rate bonds, the \$86.0 million HCIDA Pollution Control Revenue Refunding Bonds (Tampa Electric Company Project), Series 2006, the company plans to convert such bonds on or after Mar. 19, 2008 to a fixed-rate mode pursuant to the terms of the Loan and Trust Agreement governing those bonds, which allows for their conversion from an auction rate mode to other interest rate modes.

Because the auction rates reset every 7 days for \$191.8 million of these bonds, and every 35 days for \$95.0 million, management determined that it would not be reasonable or practical to remeasure the fair value as of the date of this report, but that the values could be different than the amount included in the fair value disclosure in the **Consolidated Statements of Capitalization**.

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Item 9A. CONTROLS AND PROCEDURES.
TECO Energy, Inc.

Conclusions Regarding Effectiveness of Disclosure Controls and Procedures.

TECO Energy's management, with the participation of its principal executive officer and principal financial officer, has evaluated the effectiveness of TECO Energy's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this annual report (the Evaluation Date). Based on such evaluation, TECO Energy's principal executive officer and principal financial officer have concluded that, as of the Evaluation Date, TECO Energy's disclosure controls and procedures are effective.

Management's Report on Internal Control over Financial Reporting.

TECO Energy's Management's Report on Internal Control Over Financial Reporting is on page 2 of this report.

TECO Energy, Inc.'s internal control over financial reporting as of Dec. 31, 2007 has been audited by PricewaterhouseCoopers LLP, an independent registered certified public accounting firm, as stated in their report which is on page 3 of this report.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. A control system, no matter how well designed and operated, can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control over Financial Reporting.

There was no change in TECO Energy's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation of TECO Energy's internal controls that occurred during TECO Energy's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, such controls.

Tampa Electric Company

Conclusions Regarding Effectiveness of Disclosure Controls and Procedures.

Tampa Electric Company's management, with the participation of its principal executive officer and principal financial officer, has evaluated the effectiveness of Tampa Electric Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this annual report (the Evaluation Date). Based on such evaluation, Tampa Electric Company's principal executive officer and principal financial officer have concluded that, as of the Evaluation Date, Tampa Electric Company's disclosure controls and procedures are effective.

Management's Report on Internal Control over Financial Reporting.

Tampa Electric Company Management's Report on Internal Control Over Financial Reporting is on page 63 of this report.

This annual report does not include an attestation report of PricewaterhouseCoopers, LLP regarding Tampa Electric Company's internal control over financial reporting. Management's report was not subject to attestation by PricewaterhouseCoopers pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this annual report.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. A control system, no matter how well designed and operated, can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control over Financial Reporting.

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There was no change in Tampa Electric Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation of Tampa Electric Company's internal controls that occurred during Tampa Electric Company's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, such controls.

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Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a) Certain Documents Filed as Part of this Form 10-K

1. Financial Statements

TECO Energy, Inc. Financial Statements See index on page 1

Tampa Electric Company Financial Statements See index on page 62

2. Financial Statement Schedules

Condensed Parent Company Financial Statements Schedule I pages 96-99

TECO Energy, Inc. Schedule II page 100

Tampa Electric Company Schedule II page 101

3. Exhibits See index beginning on page 206 of the Original Form 10-K, as supplemented by the index on page 103 of this report.

(b) The exhibits filed as part of this Form 10-K/A are listed on the Exhibit Index immediately preceding such Exhibits. The Exhibit Index is incorporated herein by reference.

(c) The financial statement schedules filed as part of the Original Form 10-K are listed in paragraph (a)(2) above, and are contained in the Original Form 10-K.

All other schedules and exhibits not indicated above are contained in the Original Form 10-K.

Table of Contents**SCHEDULE I CONDENSED PARENT COMPANY FINANCIAL STATEMENTS****TECO ENERGY, INC.****PARENT COMPANY ONLY****Condensed Balance Sheets**

<i>(millions)</i>	<i>Dec. 31,</i> <i>2007</i>	<i>Dec. 31,</i> <i>2006</i>
Assets		
Current assets		
Cash and cash equivalents	\$ 99.8	\$ 402.3
Restricted cash	7.3	7.1
Advances to affiliates	395.8	377.7
Accounts receivable from affiliates	4.4	5.2
Accounts receivable		0.2
Interest receivable from affiliates	2.3	1.9
Other current assets	1.2	5.8
Total current assets	510.8	800.2
Property, plant and equipment		
Property, plant and equipment	0.7	0.5
Accumulated depreciation	(0.1)	(0.1)
Total property, plant and equipment	0.6	0.4
Other assets		
Investment in subsidiaries	2,637.0	2,403.1
Deferred income taxes	782.2	912.1
Other assets	3.2	16.7
Total other assets	3,422.4	3,331.9
Total assets	\$ 3,933.8	\$ 4,132.5
Liabilities and capital		
Current liabilities		
Long-term debt, current	\$	\$ 371.4
Accounts payable to affiliates	1.0	1.3
Accounts payable	11.4	6.6
Margin call collateral	42.3	
Interest payable	5.0	20.5
Taxes accrued	3.8	
Advances from affiliates	1,416.9	358.8
Other current liabilities	4.4	0.5
Total current liabilities	1,484.8	759.1
Other liabilities		
Long-term debt-others	404.1	1,600.8
Other liabilities	12.3	21.2

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Total other liabilities	416.4	1,622.0
Capital		
Common equity	210.9	209.5
Additional paid in capital	1,489.2	1,466.3
Retained earnings (deficit)	334.2	83.7
Accumulated other comprehensive income	(1.7)	(8.1)
Common equity	2,032.6	1,751.4
Total capital	2,032.6	1,751.4
Total liabilities and capital	\$ 3,933.8	\$ 4,132.5

The accompanying notes are an integral part of the condensed financial statements.

Table of Contents**SCHEDULE I CONDENSED PARENT COMPANY FINANCIAL STATEMENTS****TECO ENERGY, INC.****PARENT COMPANY ONLY****Condensed Statements of Income**

For the years ended Dec. 31,

(millions)	2007	2006	2005
Revenues	\$	\$	\$
Expenses			
Administrative and general expenses	5.7	6.8	10.1
Other taxes	0.9		
Transaction costs related to sale of business	27.1		
Depreciation and amortization	0.4		
Restructuring charges			0.1
Total expenses	34.1	6.8	10.2
Income from operations	(34.1)	(6.8)	(10.2)
Loss on debt extinguishment	(32.9)	(2.5)	(74.2)
Other income	1.4		
Earnings from investments in subsidiaries	504.6	319.4	433.6
Interest income (expense)			
Interest income			
Affiliates	27.3	23.1	36.8
Others	9.3	20.3	9.6
Interest expense			
Others	(121.3)	(148.7)	(166.7)
Total interest expense	(84.7)	(105.3)	(120.3)
Income before income taxes	354.3	204.8	228.9
Benefit for income taxes	(58.9)	(41.5)	(45.6)
Net income	\$ 413.2	\$ 246.3	\$ 274.5

The accompanying notes are an integral part of the condensed financial statements.

Table of Contents**SCHEDULE I CONDENSED PARENT COMPANY FINANCIAL STATEMENTS****TECO ENERGY, INC.****PARENT COMPANY ONLY****Condensed Statements of Cash Flows***For the years ended Dec. 31,*

<i>(millions)</i>	2007	2006	2005
Cash flows from operating activities	\$ 56.8	\$ 10.2	\$ (59.9)
Cash flows from investing activities			
Restricted cash	(0.2)	0.1	(0.3)
Capital expenditures	(0.1)		
Investment in subsidiaries	(67.8)	(43.3)	
Dividends from subsidiaries	338.7	282.3	275.6
Net change in affiliate advances	166.7	75.4	189.7
Other non-current investments	42.3		
Cash flows from investing activities	479.6	314.5	465.0
Cash flows from financing activities			
Dividends to shareholders	(163.0)	(158.7)	(157.7)
Common stock	14.0	12.5	196.4
Proceeds from long-term debt			297.8
Repayment of long-term debt	(668.7)	(106.2)	(480.0)
Debt exchange premium	(21.2)		
Equity contract adjustment payments			(2.0)
Cash flows used in financing activities	(838.9)	(252.4)	(145.5)
Net (decrease) increase in cash and cash equivalents	(302.5)	72.3	259.6
Cash and cash equivalents at beginning of period	402.3	330.0	70.4
Cash and cash equivalents at end of period	\$ 99.8	\$ 402.3	\$ 330.0

The accompanying notes are an integral part of the condensed financial statements.

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SCHEDULE I CONDENSED PARENT COMPANY FINANCIAL STATEMENTS

TECO ENERGY, INC.

PARENT COMPANY ONLY

Notes to Condensed Financial Statements

1. Basis of Presentation

TECO Energy, Inc., on a stand alone basis, (the parent company) has accounted for majority-owned subsidiaries using the equity basis of accounting. These financial statements are presented on a condensed basis. Additional disclosures relating to the parent company financial statements are included under the TECO Energy **Notes to Consolidated Financial Statements**, which information is hereby incorporated by reference.

The use of estimates is inherent in the preparation of financial statements in accordance with generally accepted accounting principles. Actual results could differ from those estimates. Certain prior year amounts were reclassified to conform to the current year presentation.

2. Long-term Obligations

In connection with debt tender and exchange transactions, \$32.9 million of premiums and fees were expensed and are included in **Loss on debt extinguishment** on the Condensed Parent Income Statement for the year ended Dec. 31, 2007. See **Note 7** to the TECO Energy **Consolidated Financial Statements** for a description and details of long-term debt obligations of the parent company.

3. Commitments and Contingencies

See **Note 12** to the TECO Energy **Consolidated Financial Statements** for a description of all material contingencies and guarantees outstanding of the parent company.

4. Derivatives and Hedging

At Dec. 31, 2007, TECO Energy had a **Crude oil options receivable, net asset** totaling \$78.5 million for transactions that were not designated as either a cash flow or fair value hedge. This balance includes the full settlement value of the crude oil options of \$120.8 million, offset by the \$42.3 million of margin call collateral collected. (See **Note 2**, **New Accounting Pronouncements Offsetting Amounts Related to Certain Contracts** and **Note 21**, **Derivatives and Hedging**, to the TECO Energy **Consolidated Financial Statements**.)

5. Sale of TECO Transport

On Dec. 4, 2007, TECO Diversified, Inc., a wholly-owned subsidiary of the company, sold its entire interest in TECO Transport Corporation for cash to an unaffiliated investment group. In connection with this sale, TECO Energy Parent Only incurred transaction-related charges of \$27.1 million.

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SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

TECO ENERGY, INC.

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

For the Years Ended Dec. 31, 2007, 2006 and 2005

(millions)

	Balance at Beginning of Period	Additions Charged to Income	Other Charges	Payments & Deductions ⁽¹⁾	Balance at End of Period
Allowance for Uncollectible Accounts:					
2007	\$ 4.6	\$ 6.8	\$	\$ 8.1	\$ 3.3
2006	\$ 6.9	\$ 6.9	\$	\$ 9.2	\$ 4.6
2005	\$ 8.0	\$ 7.0	\$	\$ 8.1	\$ 6.9

(1) Write-off of individual bad debt accounts

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SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

TAMPA ELECTRIC COMPANY

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

For the Years Ended Dec. 31, 2007, 2006 and 2005

(millions)

	Balance at Beginning of Period	Additions Charged to Income	Other Charges	Payments & Deductions ⁽¹⁾	Balance at End of Period
Allowance for Uncollectible Accounts:					
2007	\$ 1.2	\$ 6.8	\$	\$ 6.6	\$ 1.4
2006	\$ 1.3	\$ 6.3	\$	\$ 6.4	\$ 1.2
2005	\$ 1.0	\$ 6.8	\$	\$ 6.5	\$ 1.3

(1) Write-off of individual bad debt accounts

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: March 7, 2008

TECO ENERGY, INC.

(Registrant)

/s/ G. L. GILLETTE

G. L. GILLETTE

Senior Vice President-Finance and Chief Financial Officer (Principal
Financial Officer)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: March 7, 2008

TAMPA ELECTRIC COMPANY

(Registrant)

/s/ G. L. GILLETTE

G. L. GILLETTE

Senior Vice President-Finance and Chief Financial Officer (Principal
Financial Officer)

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INDEX TO EXHIBITS

- 23.1 Consent of Independent Registered Certified Public Accounting Firm TECO Energy, Inc.
- 23.2 Consent of Independent Registered Certified Public Accounting Firm Tampa Electric Company
- 31.1 Certification of the Chief Executive Officer of TECO Energy, Inc. pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer of TECO Energy, Inc. pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.3 Certification of the Chief Executive Officer of Tampa Electric Company pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.4 Certification of the Chief Financial Officer of Tampa Electric Company to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Chief Executive Officer and Chief Financial Officer of TECO Energy, Inc. pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (1)
- 32.2 Certification of the Chief Executive Officer and Chief Financial Officer of Tampa Electric Company pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (1)

(1) This certification accompanies the Annual Report on Form 10-K and is not filed as part of it.