BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 080317-EI

IN RE: TAMPA ELECTRIC COMPANY'S
PETITION FOR AN INCREASE IN BASE RATES
AND MISCELLANEOUS SERVICE CHARGES

TECO
TAMPA ELECTRIC

DIRECT TESTIMONY AND EXHIBIT
OF
GORDON L. GILLETTE

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PREPARED DIRECT TESTIMONY

OF

GORDON L. GILLETTE

Q. Please state your name, business address, occupation and employer.

A. My name is Gordon L. Gillette. My business address is 702 N. Franklin Street, Tampa, Florida 33602. I am Senior Vice President and Chief Financial Officer of Tampa Electric Company ("Tampa Electric" or "company") and Executive Vice President and Chief Financial Officer of TECO Energy, Inc ("TECO Energy" or "Parent Company").

Q. Please provide a brief outline of your educational background and business experience.

A. I received a Bachelor of Science in Mechanical Engineering in 1981 and a Masters of Science in Engineering Management in 1985 from the University of South Florida. In 2007, I completed the Advanced Management Program at Harvard Business School. I am a registered professional engineer in the state of Florida.

I joined Tampa Electric in 1981 as an engineer and worked in the production and planning areas. I was promoted to Manager of Generation Planning in May 1986 and later served as Manager of Bulk Power and Generation Planning. I then became Director of Project Services for TECO Power Services ("TPS"), responsible for fuel procurement, environmental permitting and compliance, and power sales contract administration.

In November 1994, I was promoted to Vice President of Regulatory Affairs for Tampa Electric, and in November 1995, was named Vice President of Regulatory and Business Strategy for Tampa Electric. In March 1998, I was appointed Vice President of Finance and Chief Financial Officer of TECO Energy and Tampa Electric. In 2001, I was appointed Senior Vice President and Chief Financial Officer for TECO Energy.

I was promoted to my current position of Executive Vice President and Chief Financial Officer of TECO Energy in July 2004. I also serve as the Senior Vice President and Chief Financial Officer of Tampa Electric. As Chief Financial Officer, I am responsible for financial planning and reporting, financing strategies and activities, and contact with the financial community, including investors and rating agencies.

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to provide financial background on Tampa Electric's base rate request by discussing some of the key financial, business and regulatory events that have occurred at the national and state levels and their impacts on Tampa Electric since its last base rate proceeding in 1992. I will describe how these events have affected the company's capital spending and the cost to serve customers. I will also explain the reasons for the requested base rate increase and the key financial components on which it is based. In addition, I will describe how Tampa Electric's projected 2009 through 2013 capital expenditure program will impact the need for external capital and explain the company's capital structure and financial targets. Finally, I will explain why a parent company debt adjustment is unwarranted.

Q. Have you prepared an exhibit for presentation in this proceeding?

A. Yes. Exhibit No. ___ (GLG-1) entitled "Exhibit of

Gordon L. Gillette", was prepared under my direction and supervision and consists of five documents. These documents include:

Document No. 1	List Of Minimum Filing Requirement Schedules Sponsored Or Co-Sponsored By Gordon L. Gillette
Document No. 2	1992 - 2007 Relative Rate Base And Base Revenue Comparison
Document No. 3	1992 - 2007 Relative Non-Fuel O&M And Base Revenue Comparison
Document No. 4	Utility Credit Ratings
Document No. 5	Tampa Electric's Credit Metrics (2004 - 2009 Test Year)

BACKGROUND

Q. Provide a brief overview of the major changes in the electric industry since Tampa Electric's last rate case and how they have impacted the company and its customers.

A. Since the company's last rate case in 1992, there have been major industry developments in the areas of environmental regulation and legislation, generation pricing, national and state requirements for generation and transmission reliability, and transmission and distribution ("T&D") storm hardening. These developments have impacted Tampa Electric's historical and current capital spending, operations and maintenance ("O&M") spending, and overall risk profile. As a result of these changes, Tampa Electric operates in a much riskier and more challenging environment than it did in 1992.

Q. How have environmental legislation and regulation affected Tampa Electric's cost of serving its customers?

A. Environmental legislation and regulation have affected the company in numerous ways, including in the areas of power plant site selection and permitting, new generating unit type selection, and transmission siting. For example, in response to claims by regulators under the Clean Air Act and New Source Review, the company settled with the Florida Department of Environmental Protection ("FDEP") in 1999 and with the U.S. Environmental Protection Agency ("EPA") in 2000, and began implementing a comprehensive $1.2 billion capital program to dramatically decrease emissions from the company's coal-fired power plants, becoming the first utility in the country to resolve the issues raised by these environmental agencies. These settlements and the associated benefits are discussed in more detail in the direct testimonies of Tampa Electric witnesses Charles R.

Black and Mark J. Hornick.

Q. Please describe how generation costs have affected Tampa Electric.

A. As discussed in more detail by witness Hornick, per unit generation construction costs have increased significantly for all types of power plants due to increases in the price of steel and other construction materials and labor. These increasing costs affect all of Tampa Electric's planned and proposed future generation additions. For example, in 2000, the installed cost of a General Electric 7F based combustion turbine was approximately \$300/kW. Today, the projected installed cost for a similar turbine is approximately \$500/kW, which represents more than a 60 percent increase. Similar increases have been experienced for the costs of combined cycle units.

Q. Please describe how T&D costs have affected Tampa Electric.

A. As discussed in the direct testimony of Tampa Electric witness Regan B. Haines, the approximate per mile cost of a 230 kV transmission line has increased from \$700,000 per mile in 2000 to almost three times that amount today. Moreover, the company has experienced dramatic increases in the cost of basic components essential to T&D construction and operations. In addition, the siting of transmission lines has become more challenging for the entire industry.

Q. Please provide an overview of the changing national and state requirements for generation and transmission reliability and T&D storm hardening and how they have impacted the cost to serve customers.

A. In Florida, the requirements for generation and T&D system reliability have increased and become more codified in state and federal legislation. This, in turn, has led to a need for increased investment in generation and T&D infrastructure. In 1999, the required aggregate reserve margins for Tampa Electric and other Florida utilities increased from 15 to 20 percent as a result of the Florida Public Service Commission's ("Commission") investigation into electric generation planning reserves. Transmission has received significant scrutiny over the past several years, which has resulted in new Federal Energy Regulatory Commission and North American Electric Reliability Corporation mandates aimed at strengthening the reliability of the current transmission system through expansions and upgrades.

As discussed in more detail by witness Haines, the extensive storm damage and resulting power outages in the 2004 and 2005 hurricane seasons led to an increased focus on T&D system hardening. The Commission issued a series of orders in an effort to improve the resilience of electric utility infrastructure to withstand severe weather. This has resulted in significant O&M and capital spending to comply with the required guidelines, which in turn, has increased external financing needs. As a result of these changes along with others, Tampa Electric currently operates in a much more costly and more risky environment than it did at the time of its last rate proceeding in 1992.

NEED FOR BASE RATE INCREASE

Q. Describe any significant investments the company has made since its last rate proceeding in 1992.

A. Tampa Electric has grown substantially since its last rate case due to significant investments, some of which were driven or impacted by the changes I described earlier. These investments have included the addition of

Polk Unit 1, the repowering of Gannon Station to the H. L. Culbreath Bayside Power Station, the addition of four combustion turbines at Polk Power Station, as well as numerous transmission, distribution, environmental and storm hardening projects.

Q. How has Tampa Electric avoided a base rate proceeding for the last 16 years?

A. The company has taken numerous actions and made significant changes to avoid a base rate increase. They include sound cost management, strong customer and revenue growth, innovative regulatory settlements, lowering of O&M costs through technology and process improvements, and the legislature's creation of the environmental cost recovery clause for recovering certain environmental related costs and investments that are not recovered through base rates.

Q. Why is Tampa Electric making its base rate request now after so many years of successfully avoiding an increase?

A. Tampa Electric is facing an extremely large capital expenditure program over the next five years. As a result, its credit parameters and return on equity

("ROE"), which have been declining in recent years, are expected to decline even further absent rate relief. As discussed in the direct testimony of Tampa Electric witness Susan D. Abbott, a continuing decline in credit quality could threaten the company's ability to raise the capital needed to serve customers reliably. The company needs sufficient new revenues to ensure its credit rating and ROE are adequate to provide the company the necessary access to external debt and equity capital markets and to maintain its financial integrity.

Q. Have you prepared any documents to help further explain the drivers causing this base rate filing?

A. Yes. Document Nos. 2 and 3 of my exhibit compare historical non-fuel O&M and rate base to base revenues as reported on the company's Surveillance Report filings. The analyses illustrate the trends that helped the company during the 1990's and early 2000 timeframe to avoid a base rate increase. During this timeframe, the increase in customers resulted in base revenues keeping pace with, and even exceeding in some years, the increase in non-fuel O&M and rate base. However, the analyses also show that the increases in rate base and non-fuel O&M started to exceed the increases in base revenues in

2004 and 2006, respectively. This recent trend has led to declining credit parameters and lower returns on equity and is expected to accelerate, given the company's significant capital spending program planned for 2009 through 2013, combined with slower base revenue growth.

Q. What is the company's requested revenue requirement increase and what are the key components of the increase?

A. The company is requesting a base revenue increase of \$228,167,000. The increase represents the amount necessary to raise the company's projected 2009 net operating income ("NOI") level to the required amount of \$322.5 million. The required NOI is based on the company's projected 2009 13-month average jurisdictional adjusted rate base of \$3.657 billion and a weighted average cost of capital of 8.82 percent. The 8.82 percent weighted cost of capital assumes a jurisdictional adjusted 13-month average capital structure consisting of 55.3 percent equity, assuming investor sources of capital, including off-balance sheet purchased power obligations. It also includes a ROE of 12.00 percent, a long-term debt rate of 6.80 percent, and a short-term debt rate of 4.63 percent. Tampa Electric witness Dr. Donald A. Murry, Ph.D. provides the support for the company's requested ROE in his direct testimony and witness Abbott supports the need to improve the company's financial integrity profile. Tampa Electric witness Jeffrey S. Chronister's direct testimony explains the details of the company's revenue requirement based on the 2009 projected test year, as well as the budget process used to develop sound and reliable projected test year financial statements.

Q. How will this base rate increase affect Tampa Electric's financial integrity?

A. The requested base rate increase will place Tampa Electric in an appropriate financial position to fund its significant capital program. Without the increase, the company will not be in a position to effectively raise the necessary capital to continue providing the high level of reliable service to its customer base that it has in the past. In order to raise the required capital, the company must be able to provide fair returns to investors commensurate with the risks they assume. The lowest cost and most reliable stream of external capital is achieved by maintaining a strong financial position, so that, in turn, the company's capital spending needs can be met in the most cost-effective and timely manner.

Financial strength is often referred to in regulatory circles as "financial integrity". If the company and its regulators act in ways that maintain or enhance the company's financial integrity, customers will ultimately benefit. The Commission has a history of performing the delicate balancing act between rate increases and maintaining financial integrity very well. The rating agencies and Wall Street alike have long recognized the Commission for its constructive regulatory decision making. The Commission is viewed by Wall Street and the public as being tough but fair in reaching an appropriate balance between the interests of customers and investors.

CREDIT RATING OBJECTIVE

Q. What is Tampa Electric's current credit rating?

A. Tampa Electric is currently rated in the BBB range by the three major rating agencies: Standard & Poor's ("S&P"), Moody's Investor Service ("Moody's") and Fitch Ratings ("Fitch"). In her direct testimony, witness Abbott explains in more detail how the rating agencies currently view Tampa Electric and how they have derived their ratings for the company.

Q. What credit rating is the company targeting in the future and why?

A. The company is targeting ratings in the single A range for two reasons. First, Tampa Electric is facing higher capital spending requirements and debt ratings in the single A range would ensure that Tampa Electric has adequate credit quality to raise the capital necessary to meet these requirements. Second, having ratings in the single A range will provide a ratings "safety net" in the event of a catastrophe, such as a hurricane.

Q. Why is a ratings "safety net" important?

A. Given the capital intensive nature of the utility industry, it is paramount that utilities maintain credit ratings well above the investment grade threshold to retain uninterrupted access to capital. The breakpoint between investment grade and non-investment grade is such that BBB- (S&P/Fitch) and Baa3 (Moody's) is the lowest investment grade rating and BB+ (S&P/Fitch) and Ba1 (Moody's) is the highest non-investment grade rating. A company raising debt that has non-investment grade ratings is subject to occasional lapses in availability of debt capital, onerous debt covenants and higher borrowing costs. Given the high capital needs and the obligation to serve existing and new customers that electric utilities have, having non-investment grade ratings is unacceptable. Since ratings in the single A range are above the BBB range, there would be sufficient room if an unanticipated event occurs, for the ratings to slip before becoming non-investment grade.

Document No. 4 of my exhibit shows overall industry credit ratings along with the ratings of the southeastern U.S. utilities. Utilities across the southeast are confronted with hurricane risk and have maintained ratings that, on average, are higher than the electric industry as a whole. In addition to hurricanes, these utilities have experienced higher customer growth compared to the rest of the industry. The stronger credit ratings help ensure that the utilities in the southeast can meet the required capital spending levels associated with this growth and have a "safety net" in the event of a catastrophic hurricane.

Q. Why are ratings in the single A range important in light of the company's future capital needs?

A. In order to reliably serve its customers, Tampa Electric is planning a very substantial construction program for the period 2009 through 2013. This capital expenditure program is driven by several factors including: 1) the need for continued investment in generation, 2) needed investment in hardening the T&D system to improve overall reliability, 3) funding the company's share of investment in transmission facilities supporting peninsular Florida and 4) continued compliance with environmental requirements mandated by the EPA and FDEP. The magnitude of this capital program is compounded by the impact of the significantly higher costs of materials and labor that have occurred in the last several years.

Q. How will this substantial construction program impact Tampa Electric and its need for external capital?

A. Tampa Electric has funded large capital programs in the past, but never as large as the one the company currently faces. Without base rate relief, only about half of the funding will come from internally generated funds on average over the next five years, with only 40 percent being internally generated in 2009 and 2010. The remainder of the funding must come from externally generated funds including debt from external capital markets and equity infusions from TECO Energy.

Q. Do the credit rating agencies publicly announce or publish what it takes to achieve certain credit ratings?

A. No. The processes used by the rating agencies to determine credit ratings are complex and consider many qualitative and quantitative factors. The ratings process typically provides little transparency, and the rating agencies publish no precise guidelines regarding how to achieve a certain rating. S&P is the only rating agency that has even attempted to provide some level of quantitative guidance. Some years ago, S&P published a matrix that identified ranges of credit parameters, such as coverage ratios, necessary to achieve certain credit ratings. However, S&P has recently modified this matrix, broadening the ranges for the ratings and leaving more room for judgment on their part, but creating greater uncertainty on the part of debt issuers, like Tampa Electric, on the exact quantitative targets needed to achieve certain credit ratings. In addition, since the rating agencies consider qualitative factors as well, achieving the quantitative parameters does not ensure that a particular rating will actually be achieved.

CAPITAL STRUCTURE

Q. What capital structure is Tampa Electric proposing in its test year?

A. Tampa Electric is projecting, for the 2009 test year, a jurisdictional adjusted 13-month average financial capital structure consisting of 44.7 percent debt, including off-balance sheet purchased power obligations, and 55.3 percent common equity. This 55.3 percent equity ratio is necessary since the company believes the combination of this capital structure and the resulting coverage ratios should enable the achievement of credit parameters commensurate with debt ratings in the single A range.

Q. What coverage ratios are important to rating agencies?

A. As part of their quantitative analyses, rating agencies focus on cash coverage ratios to determine a company's ability to meet its interest payments and debt obligations. Typical coverage ratios reviewed by the agencies are Funds from Operations to Interest (FFO/Interest) and Funds from Operations to Total Debt (FFO/Debt). Document No. 5 of my exhibit shows Tampa Electric's credit parameters on a historical and projected basis. It shows that there has been a significant deterioration in Tampa Electric's credit metrics as used by the credit rating agencies. If Tampa Electric's requested rate increase was not granted and the capital structure remained at the 2007 level, there would be another significant decline in the credit parameters. For Tampa Electric to improve its credit metrics, equity infusions from TECO Energy and base rate relief are needed. In her direct testimony, witness Abbott further addresses these credit parameters and the effect these factors have on Tampa Electric's credit ratings.

Q. Did you consider other credit parameters when targeting ratings in the single A range?

A. Yes. Although the rating agencies tend to focus on cash coverage ratios, another commonly used parameter in the utility industry is an Earnings Before Interest and Taxes to Interest (EBIT/Interest) coverage ratio. This coverage ratio is included in the company's MFR Schedule D-9 and is reported in Schedule 5 of the company's monthly Surveillance Report filings. Tampa Electric's coverage ratio for EBIT/Interest has been declining and is projected to be 2.1 times in 2009. This same coverage ratio averaged 4.6 times in 1992 through 2000 and 3.5 times in 2001 through 2007. The 2.1 times represents an unacceptable level and is expected to continue to decline without rate relief. The company believes that, given its extensive five-year capital spending program, a more appropriate coverage ratio for 2009 is in the range of 4 times, which can be achieved by providing the company's requested rate relief.

Q. How does the company's proposed 55.3 percent equity ratio compare with the allowed capital structures of other investor-owned electric utilities in Florida?

A. The proposed 55.3 percent equity ratio is consistent with past Commission decisions that approved equity ratios above the level requested in this case. In Tampa Electric's 1996 earnings review, the Commission capped the company's equity ratio at 58.7 percent. In Florida Power & Light's ("FP&L") recent rate settlement, the Commission confirmed an equity ratio of 55.83 percent. The Commission as part of Progress Energy Florida Inc.'s ("PEF") recent rate case settlement approved a similar equity ratio, capped at 57.83 percent.

Q. Has Tampa Electric included in its capital structure the effect of off-balance sheet obligations, like long-term purchased power agreements?

A. Yes. Since the rating agencies consider portions of long-term fixed payments associated with purchased power agreements as debt and analyze company credit profiles with an adjustment to its credit parameters, the company's proposed capital structure reflects an adjustment for this imputation of additional debt.

Q. Using the S&P methodology, please describe the calculation for the additional debt that reflects the associated risk of long-term purchased power agreements in Tampa Electric's capital structure.

A. S&P discounts future capacity payments using a discount rate based on the cost of debt, and then applies a "risk factor" to determine the amount of imputed debt to include in the adjusted debt to total capital. For similarly situated electric utilities as Tampa Electric, S&P uses a risk factor of 25 percent. S&P also imputes an annual amount for interest expense in cash coverage ratios for the imputed debt.

Q. Using S&P's methodology, how much debt and interest expense has been imputed to recognize the impact of purchased power agreements on Tampa Electric's capital structure for 2009?

A. The present value to January 2009 of Tampa Electric's future capacity payments for its purchased power agreements is $307 million, when multiplied by the S&P risk factor of 25 percent, results in approximately $77 million of imputed debt and $5 million of additional interest expense.

Q. Has the Commission recognized the effect of off-balance sheet obligations like purchased power agreements on a utility's capital structure in the past?

A. Yes. Rule 25-22.081(7), Florida Administrative Code ("F.A.C."), Contents of Petition requires utilities to include a discussion of the potential for increases or decreases in its cost of capital associated with purchased power in a petition for determination for need for new generation. Also, in both FP&L's and PEF's recent rate settlements, the Commission allowed off-balance sheet obligations for purchased power to be incorporated into the capital structure and weighted average cost of capital.

Q. Was Tampa Electric's capital structure adjusted to mitigate the effect of imputed debt associated with long-term purchased power contracts?

A. Yes. As the Commission has seen in the cases of other utilities in rate proceedings, Tampa Electric has adjusted its weighted average cost of capital to mitigate the effect of imputed off-balance sheet debt associated with long-term purchased power agreements. This was accomplished by recognizing, on a pro forma basis and as included in the direct testimony of witness Chronister, $77 million of additional equity necessary to offset the imputed debt. This, in effect, leaves the capital structure at the same common equity ratio before and after the imputation of the debt to account for purchased power obligations.

Q. Given the company's proposed capital structure of 55.3 percent equity, what are the equity infusions from TECO Energy for 2008 and 2009 that are necessary to achieve this capital structure?

A. The 2008 and 2009 planned equity infusions from TECO Energy to Tampa Electric are $350 million and $285 million, respectively. These significant equity infusions are in addition to the 2007 actual equity infusion of $82 million. Through July 2008, $150 million of the total $350 million of equity for 2008 has been contributed.

Q. What are TECO Energy's plans for making the remaining equity infusions in 2008 and 2009?

A. The remaining 2008 equity infusions of $200 million and the 2009 contribution of $285 million will be made from available operating cash flows of TECO Energy. TECO Energy is committed to making these contributions and anticipates they will be completed by year-end 2009. The timing of these contributions will depend on TECO Energy's actual monthly cash flows, which can be impacted by unexpected events, such as higher under-recoveries of fuel at the utility companies. Hence, the timing of the actual equity contributions may not occur precisely as assumed in Tampa Electric's 2009 test year and could result in the company not reaching its targeted 13-month average 55.3 percent equity ratio. However, the company believes that with adequate levels of fuel recovery and base rate increases, the 55.3 percent equity ratio can be achieved before year-end 2009.

PARENT COMPANY DEBT

Q. Did Tampa Electric make a parent company debt adjustment in accordance with F.A.C. Rule 25-14.004 F.A.C. ("Rule 25-14.004" or "the Rule")?

A. No. As in Tampa Electric's last rate case, an adjustment is inappropriate. Although the TECO Energy parent company currently has $404 million of long-term debt, this debt is related to TECO Energy's investments in its failed TPS merchant power projects and was not used to invest as equity in Tampa Electric. TPS was a subsidiary of TECO Energy that is no longer in existence.

The intent of the rule is to require an adjustment to the income tax expense of a regulated company to reflect the income tax expense benefit of the parent debt that may have been invested as equity of the subsidiary. The rule also states that it shall be a rebuttable presumption that a parent's investment in any subsidiary or in its own operations shall be considered to have been made in the same ratios as exist in the parent's overall capital structure. However, the rule allows a utility to demonstrate to the Commission that in certain circumstances it is appropriate not to make the adjustment. TECO Energy did not raise debt to invest in Tampa Electric, nor did it invest the proceeds of the debt it did raise as equity in Tampa Electric. Therefore, a parent company debt adjustment is not appropriate.

Q. Please explain further why the Commission should not make the parent company debt adjustment in this proceeding.

A. The Commission should not make the adjustment for the following reasons: 1) as stated above, the debt that exists at the parent was raised for TECO Energy's merchant power plant investments at TPS and was not used to invest in Tampa Electric, 2) imputing parent debt would result in an inappropriate imputed capital structure given how TECO Energy raises capital on behalf of its regulated and unregulated companies, 3) imputing debt for the cumulative equity infused to Tampa Electric over time ignores that the vast majority of the equity that exists at Tampa Electric was invested by TECO Energy in Tampa Electric during times when either no parent debt existed or at a time when parent debt was actually being repaid, and 4) TECO Energy's internal subsidiary 100 percent net income dividend policy results in an overstatement of the paid in capital equity amounts that have required the investment of parent capital as used in the parent company debt rule calculation.

Q. How does TECO Energy support the funding needs for Tampa

Electric?

A. TECO Energy provides only equity contributions to Tampa Electric. Tampa Electric raises its own debt and has separate credit ratings for this purpose. Tampa Electric's credit ratings have been and are expected to remain higher than TECO Energy's ratings.

Q. How does TECO Energy fund its unregulated operations?

A. Since TECO Energy's unregulated companies do not have their own credit ratings, TECO Energy raises both debt and equity capital for these companies. A large amount of both equity and debt capital was raised at the parent company for investments in TPS to fund significant merchant power plant investments from 1998 through 2003, which subsequently failed and/or were sold. Some of this debt remains at the parent company, but should be ignored when considering the capital structure used to fund equity for Tampa Electric since this debt was raised for investment in TPS.

Q. Please describe the debt at TECO Energy.

A. Prior to 1998, the only debt at the parent was $100 million and it was specifically related to the company's Employee Stock Option Plan trust. This debt existed during the time of the company's last rate case in 1992, and it was not imputed as debt to Tampa Electric. TECO Energy currently has about $400 million of debt at the parent level associated with its investments in TPS. This debt is part of a larger amount of capital (both equity and debt) raised for investment in TPS.

Q. You mentioned the $400 million of existing debt was part of a larger overall capital amount raised for investment in TPS. Please describe this further.

A. Beginning in 1998 and through 2003, the parent company raised a total of $3.4 billion of external capital (both equity and debt) to invest in TPS and other unregulated operations. Specifically, the parent company raised approximately $2.1 billion of debt and $1.3 billion of equity and also had internally generated funds of $300 million.

During this very same period, TECO Energy invested $3.3 billion in its unregulated operations. About $3.1 billion of the $3.3 billion went to TPS, with the remainder being invested in the other unregulated entities. During this time, $285 million of equity was infused to Tampa Electric and $119 million to Peoples Gas, the other regulated utility company. Since only $2.1 billion of the total $3.3 billion invested in the unregulated companies was raised in the form of debt, the remainder of the unregulated investment was made from external equity capital and internally generated funds. In addition, since Tampa Electric raised its own debt, the $285 million of equity that it received from the parent company represented only a small portion of the $1.4 billion of externally raised equity capital and $300 million of internally generated funds.

Q. Has the parent company raised any debt outside of this timeframe?

A. No. The period from 1998 through 2003 was the only period of time since the company's last rate case when the parent company raised any amount of new incremental external debt. During the period from 2004 to 2007, the parent company actually paid down significant amounts of debt and wrote off equity associated with its failed TPS merchant power investments. Since 2003, TECO Energy has not increased and, in fact, has significantly decreased its debt obligations. Thus, the $285 million of equity infused to Tampa Electric during 1998 through 2003 represents the only equity infusions that could have been possibly funded from debt at the parent level. Tampa Electric is projected to have a 13-month average paid in capital balance in 2009 of $1.9 billion or $2.0 billion by year-end 2009. Hence, the vast majority of the equity that exists at Tampa Electric was infused by TECO Energy during times when either no parent debt existed or at a time when parent debt was actually being repaid. Out of the total paid in capital, the amount infused in 1998 through 2003 total $285 million.

Q. Was any part of the debt raised during 1998 through 2003 actually used by TECO Energy to invest the $285 million of equity in Tampa Electric?

A. No. Although tracing funds is a complicated and difficult exercise, it is clear that the need for external capital was driven by the large investments in TPS. The equity infusions to Tampa Electric were funded with the parent company's internally generated funds and externally raised equity.

Q. How much of the total $2.1 billion of debt raised by TECO Energy still remains at the parent company?

A. Only $400 million. Since 2003, the parent company has reduced the debt associated with the merchant power investment through a comprehensive debt management plan. Many unregulated operating companies of TECO Energy, including various subsidiaries of TPS and TECO Transport, were sold to generate cash to reduce the debt burden. Most recently, TECO Energy used the proceeds from the sale of TECO Transport to execute a debt redemption and exchange offer that reduced the overall debt balance by another $300 million, extended the maturity of $300 million of debt and transferred, as part of a bond exchange offer, $900 million of TECO Energy debt to TECO Finance.

Q. Why wasn't the $400 million transferred to TECO Finance along with the $900 million?

A. The majority of the $400 million was included as part of the exchange offer to bondholders in 2007; however, not all bondholders chose to exchange their TECO Energy bonds for TECO Finance bonds. Therefore, the $400 million of the debt raised at TECO Energy for TPS remains.

Q. You stated that TECO Energy's internal subsidiary 100 percent net income dividend policy results in an overstatement of the paid in capital equity amounts that have required the investment of parent capital as used in the parent company debt rule calculation. Please explain.

A. TECO Energy's internal 100 percent dividend policy ("dividend policy") requires all subsidiaries, including Tampa Electric, to dividend to TECO Energy cash amounts equal to 100 percent of each subsidiary's net income. TECO Energy uses these internally generated funds for two purposes. It uses the majority of these funds to pay dividends to its shareholders. TECO Energy pays about 60 to 80 percent of its consolidated net income to its external shareholders in the form of a quarterly dividend. The remainder of the internal dividends from TECO Energy's subsidiaries is invested back in the subsidiaries.

Although these funds are invested back in the regulated companies in the form of equity infusions, the accounting treatment changes the equity classification of this amount from retained earnings to paid in capital at the subsidiary level. By doing so, this inappropriately increases the impact of a parent company debt adjustment under the rule. In other words, this simple reclassification of funds that were paid out of and then invested back into Tampa Electric causes the paid in capital balance at Tampa Electric to be effectively overstated and, in turn, the balance of retained earnings to be understated for these purposes. The accounting for the dividends and equity contributions does not change the source of these funds, i.e., the funds that were paid as dividends to TECO Energy and, in turn, reinvested, were actually internally generated by Tampa Electric and, in essence, did not require funding from the parent company.

From most financial and regulatory perspectives, the distinction between retained earnings and paid in capital are not important. For instance, both retained earnings and paid in capital are considered to be owner's equity within the capital structure for regulatory and financial integrity purposes. However, in the instance of the parent company debt rule, the distinction is very important, due to the focus on paid in capital.

Since the parent company debt rule excludes retained earnings and focuses solely on paid in capital, the relative amount of owners' equity that is classified as retained earnings versus paid in capital becomes important. TECO Energy's internal dividend policy creates a situation whereby the imputation of any parent debt percentage would be incorrectly applied to a portion of owners' equity that has actually been internally generated.

Q. What is Tampa Electric's paid in capital balance, and how has it been impacted by TECO Energy's dividend policy?

A. The company's paid in capital balance is expected to be approximately $1.9 billion by 2009. Because of the dividend policy, Tampa Electric's retained earnings balance has remained relatively flat since 1981, the year that TECO Energy was formed, and all of the company's growth in common equity has occurred in the form of paid in capital. Had Tampa Electric paid less dividends and "retained" more of its earnings, "paid in capital" would be less and, therefore, any potential adjustment under the rule would be less.

Q. Why does the parent company debt rule focus solely on paid in capital?

A. The intent of the rule is to focus on the external capital of the parent that may have been raised to support the external capital needs of the utility. To accomplish this goal, Rule 25-14.004 excludes the retained earnings of both the utility and the parent company. Since TECO Energy's dividend policy overstates paid in capital and the external capital needs of Tampa Electric, applying the Rule overstates the intended impact of the Rule. Hence, before any type of adjustment is considered under Rule 25-14.004, an adjustment should be made to reduce the paid in capital balance to reflect a dividend based on Tampa Electric's share of TECO Energy's dividend.

As I stated above, of the $1.9 billion of the "paid in capital" expected to reside on Tampa Electric's books by 2009, only $285 million was infused as equity by TECO Energy during the 1998 through 2003 period when it was raising debt and equity. If this $285 million were adjusted using the Massachusetts Method of allocation to reflect only Tampa Electric's allocated share of TECO Energy's dividend, the net equity infusion requirement would be $72 million. Thus, Tampa Electric's equity needs from 1998 through 2003, when adjusted to remove the dividend policy effects and net out internally generated funds, were $72 million. Even if a parent debt adjustment was to be applied, it should be applied to only $72 million of "paid in capital".

Q. Please summarize your position on the parent company debt adjustment.

A. Although the TECO Energy parent company currently has $400 million of debt, this debt is related to TECO Energy's investments in its failed TPS merchant power projects. When all of the facts and circumstances are considered, it is clear that this debt was not used to invest as equity in Tampa Electric. This debt exists because of the parent company's investments in its unregulated subsidiaries, specifically the failed TPS merchant power investments. The intent of Rule 25-14.004 is to adjust the tax expense of the regulated company when the holding company raises debt to invest as equity in the regulated company. TECO Energy did not raise debt to invest in Tampa Electric nor did it invest the proceeds from the debt it did raise as equity in Tampa Electric. Furthermore, given TECO Energy's and Tampa Electric's internal and external dividend policies, the application of the rule would impute parent company debt to an overstated paid in capital balance. A parent company debt adjustment is inappropriate.

SUMMARY

Q. Please summarize your direct testimony.

A. Since its last base rate case in 1992, Tampa Electric has had significant customer and revenue growth and has worked to manage costs and undertake innovative regulatory settlements to avoid the need to raise base rates. This has been done in an environment in which significant generation additions were required to meet customer growth. The company has made these significant generation additions and other asset additions while being able to keep itself within its allowed ROE range and maintain its financial integrity until recently.

More recently, the company has faced new environmental, reliability and storm hardening requirements. In addition, the cost for new equipment has increased considerably in recent years.

These factors have now come together to make an increase in Tampa Electric's base rates necessary in order to stop significant recent erosion in Tampa Electric's financial integrity. Tampa Electric needs to be financially strong to be able to raise the capital required to meet its significant capital investment requirements in 2009 and beyond.

Tampa Electric is requesting a base revenue increase of $228,167,000. The financial basis for this revenue requirement is a weighted cost of capital of 8.82 percent, which includes a 12.00 percent ROE and a financial equity ratio, with appropriate purchased power adjustments, of 55.3 percent. The requested ROE and equity ratio are important for the company to maintain and enhance its financial position to target credit parameters and debt ratings in the single A range. Finally, a parent company debt adjustment is inappropriate in the case of Tampa Electric and TECO Energy, as all equity infusions to Tampa Electric in the relevant time periods were made from internally generated funds or externally raised equity at the parent level.

Q. Does this complete your direct testimony?

A. Yes.

EXHIBIT

OF

GORDON L. GILLETTE

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LIST OF MINIMUM FILING REQUIREMENT SCHEDULES

SPONSORED OR CO-SPONSORED BY GORDON L. GILLETTE

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D-1a	Cost Of Capital - 13-Month Average
D-1b	Cost Of Capital - Adjustments
D-2	Cost Of Capital - 5-Year History
D-3	Short-Term Debt
D-4a	Long-Term Debt Outstanding
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D-9	Financial Indicators - Summary
F-1	Annual And Quarterly Reports To Shareholders
F-2	SEC Reports
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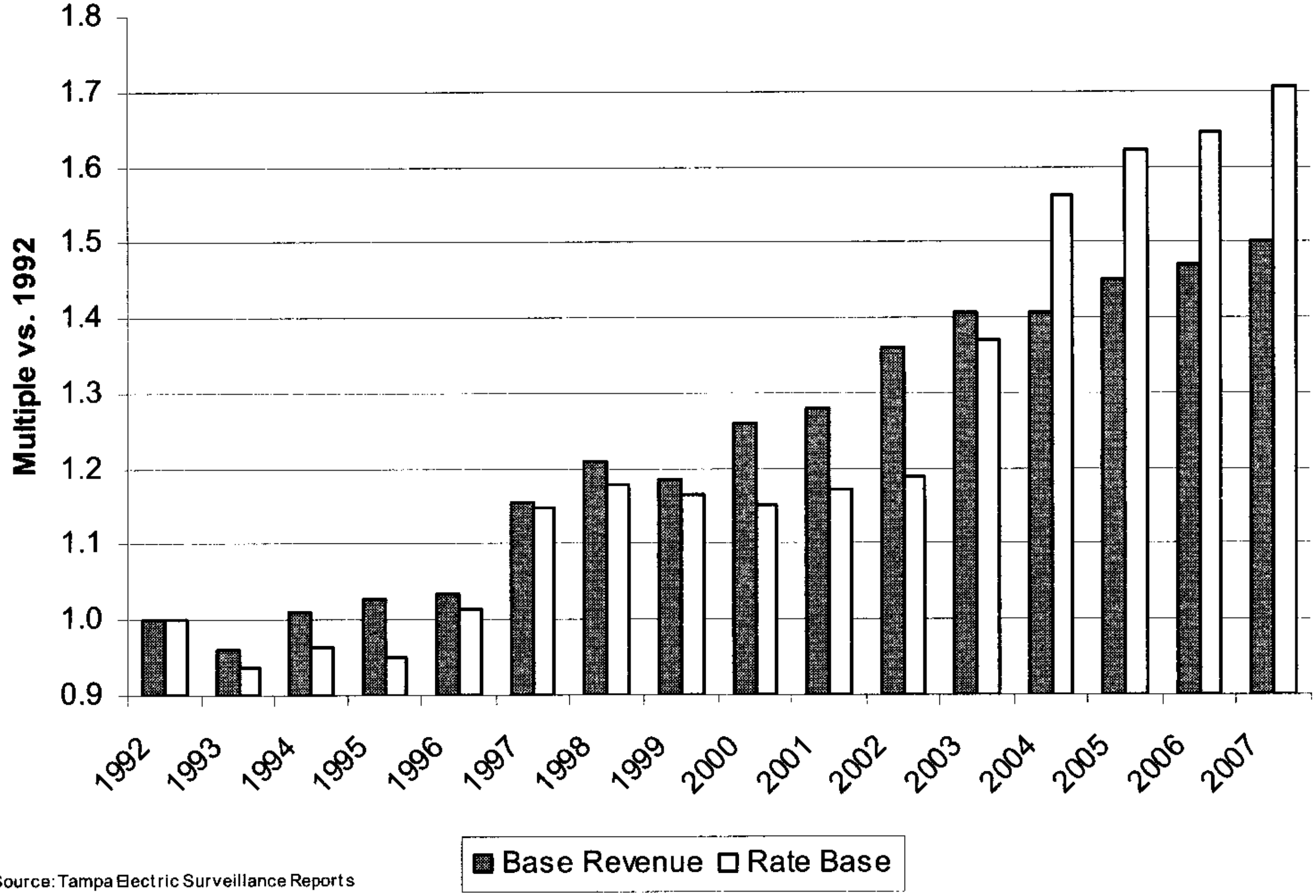
1992 - 2007 Relative Rate Base and Base Revenue Comparison



Source: Tampa Electric Surveillance Reports

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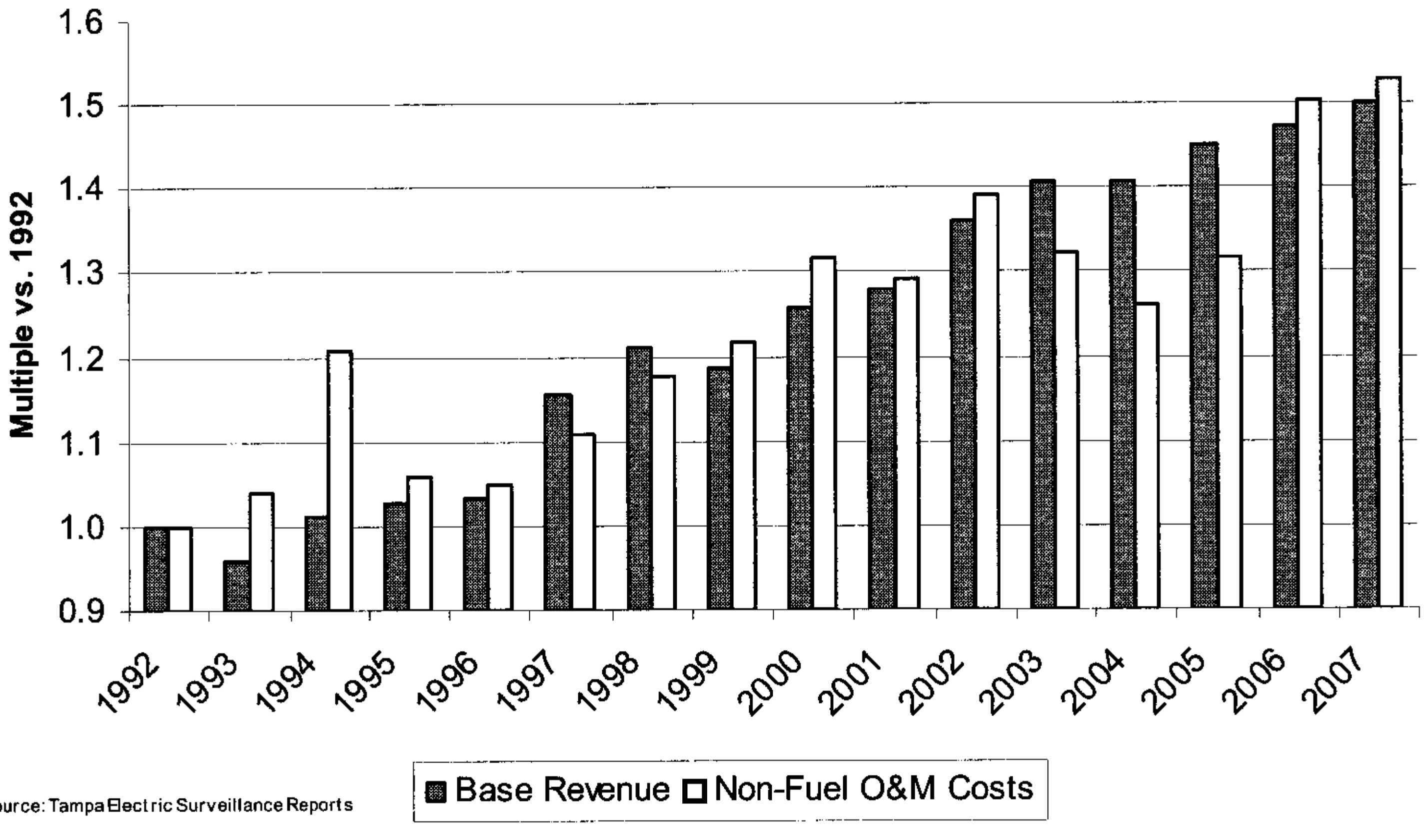
1992 - 2007 Relative Non-Fuel O&M and Base Revenue Comparison



Source: Tampa Electric Surveillance Reports

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Utility Credit Ratings*

	S&P	%	Moody's	%	Fitch	%
Nationwide number of utilities at ratings level of:						
AA	0	0.0%	0	0.0%	0	0.0%
A	24	25.0%	29	33.8%	19	24.0%
BBB	60	62.5%	50	58.1%	47	59.5%
BB	12	12.5%	7	8.1%	13	16.5%
B	0	0.0%	0	0.0%	0	0.0%
	96	100.0%	86	100.0%	79	100.0%
Southeast number of utilities at ratings level of:						
AA	0	0.0%	0	0.0%	0	0.0%
A	8	53.3%	9	60.0%	8	61.5%
BBB	7	46.7%	5	33.3%	4	30.8%
BB	0	0.0%	1	6.7%	1	7.7%
B	0	0.0%	0	0.0%	0	0.0%
	15	100.0%	15	100.0%	13	100.0%

*Derived from the Regulatory Research Associates Credit Rating Report as of May 30, 2008. Excludes Tampa Electric.

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Tampa Electric's Credit Metrics

2004 - 2009 Test Year

	Actual				Proforma Adjusted Test Year		
					w/o rates	wo/rates	w/rates (1)
					@ 2007 Equity Ratio	55% as filed	55% as filed
	2004	2005	2006	2007	2009	2009	2009
FFO/Debt	36%	34%	30%	30%	25%	30%	39%
FFO/Interest	4.8x	4.3x	3.8x	3.7x	3.0x	3.4x	4.5x
Debt/Capital	51%	51%	54%	54%	54%	45%	45%

1) Reflects full year of requested revenue increase of $228,167,000.

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