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March 30, 2004

HAND DELIVERED

Ms. Blanca S. Bayo, Director
Division of Commission Clerk
and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Application of Tampa Electric Company for authority to issue and sell securities during the twelve months ending December 31, 2003, pursuant to Section 366.04, F.S. and Chapter 25-8, F.A.C.; Docket No. 021012-EI

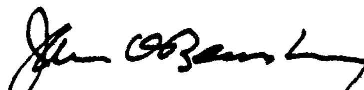
Dear Ms. Bayo:

Pursuant to Rule 25-8.009, Florida Administrative Code, and this Commission's Order No. PSC-01-2275-FOF-EI issued November 19, 2001, we enclose an original and three copies of Tampa Electric Company's Consummation Report regarding the issuance and sale of securities during the fiscal year ended December 31, 2003.

Please acknowledge receipt and filing of the above by stamping the duplicate copy of this letter and returning same to this writer.

Thank you for your assistance in connection with this matter.

Sincerely,



James D. Beasley

JDB/pp
Enclosures

DOCUMENT NUMBER-DATE
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FPSC-COMMISSION CLERK

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

IN RE: APPLICATION OF TAMPA ELECTRIC COMPANY FOR AUTHORITY TO ISSUE AND SELL SECURITIES PURSUANT TO SECTION 366.04, F.S., AND CHAPTER 25-8, F.A.C. DURING THE TWELVE MONTHS ENDING DECEMBER 31, 2003.

DOCKET NO. 021012-EI
FILED: 03/30/04

CONSUMMATION REPORT

The applicant, Tampa Electric Company (the "Company"), pursuant to Commission Order No. PSC-02-1633-FOF-EI dated November 25, 2002 submits the following information.

1. Facts of Issues

On April 11, 2003, the Company issued $250,000,000 of 6.25% Notes Due 2016 (the "2016 Notes") for the purpose of repaying maturing long-term debt, commercial paper and for general corporate purposes.

The Company issued commercial paper for terms up to 21 days. The commercial paper was sold at a discount, including the underwriting discount of the commercial paper dealer, at a rate comparable to interest rates being paid in the commercial paper market by borrowers of similar creditworthiness.

In addition, a one-year $300 million bank credit facility was in place until November 2003. On November 7, 2003, this credit facility was replaced by a $125 million one-year credit facility that matures in November 2004 and a $125 million three-year credit facility that matures in November 2006. The Company currently utilizes its credit facilities for its short-term borrowing needs.

Given the frequency of these short-term borrowing transactions, it is not practicable to give the details of each transaction. However, the Company's short term borrowing activity can be summarized as follows:

Short Term Borrowing Activity for the period beginning
January 1, 2003 and ending December 31, 2003
($ millions)

Minimum Outstanding:	$ - 0 -
Maximum Outstanding:	$ 138.5
Average Outstanding:	$ 18.4
Weighted Average Yield:	1.78 %

2. Terms and Conditions

The 2016 Notes bear interest at 6.25% per annum. Interest on the 2016 Notes is payable April 15 and October 15 of each year, commencing October 15, 2003.

3. Net Cash

2016 Notes:

$250,000,000	Note issue
1,625,000	Placement agent fee
$248,375,000	Net cash

4. Statement of Capitalization

Statements of capitalization, pretax interest coverage, debt interest requirements and preferred stock dividend requirements for the Company as of and for the year ending December 31, 2003 are as follows:

Capital Structure	
Short-term debt	$ - 0 -
Long-term debt	1,596,981,000
Preferred stock	- 0 -
Common equity	1,651,662,000
	$ 3,248,643,000

Pretax interest coverages	
Including AFUDC	2.86 times
Excluding AFUDC	2.48 times

Debt interest requirements	$108,181,000
Preferred stock dividends	$ - 0 -

5. Expenses of the Issues

The 2016 Notes were placed by a placement agent with a group of insurance companies who purchased the 2016 Notes for a purchase price equal to 100% of the face amount of the 2016 Notes, as indicated below.

	Amount Placed	Placement Agent Fee
SG Cowen Securities Corporation 1221 Avenue of the Americas New York, NY 10020	$250,000,000	$1,625,000

Actual expenses incurred to date for this issuance are as follows:

2016 Notes:

Placement agent fee and expenses	$1,634,325.00
Legal fees and expenses of placement agent counsel	190,059.82
Legal fees and expenses of Company counsel	37,991.54
Legal fees and expenses of trustees counsel	58,238.00
Rating agency fees	22,500.00
Trustee fees	1,500.00
Total	$1,944,614.36

The Company also submits the following exhibits:

See Exhibit List.

Respectfully submitted this
30th day of March 2004

TAMPA ELECTRIC COMPANY

By: Gordon A Brown

D. A. Brown
Vice President-Regulatory Affairs

Exhibit List
to
Consummation Report

Exhibits related to the Notes:

Tampa Electric Company Note Purchase Agreement dated as of April 11, 2003

Opinion of Palmer & Dodge LLP dated as of April 11, 2003

Opinion of Sheila M. McDevitt dated as of April 11, 2003

Opinion of Freshfields Bruckhaus Deringer LLP dated as of April 11, 2003

Current Report on Form 8-K filed with the SEC on April 14, 2003, filing the Note Purchase Agreement dated as of April 11, 2003 [1]

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[1] Exhibit 10.1 already reflected as an exhibit to this filing

Exhibits

	Bates Stamp Page Number
Exhibits related to the Notes	2
Securities and Exchange Filings	120

Execution Copy

Dated as of April 11, 2003

TAMPA ELECTRIC COMPANY

$250,000,000

6.25% Senior Notes due April 11, 2016

NOTE PURCHASE AGREEMENT

FRESHFIELDS BRUCKHAUS DERINGER LLP

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EXHIBIT 1		Form of 6.25% Senior Note due April 11, 2016
EXHIBIT 4.4(a)	--	Form of Opinion of Special Counsel for the Company
EXHIBIT 4.4(b)	--	Form of Opinion of Special Counsel for the Purchasers

TAMPA ELECTRIC COMPANY
702 North Franklin Street
Tampa, Florida 33602

6.25% Senior Notes due April 11, 2016

As of April 11, 2003

TO THE PURCHASER WHOSE NAME
APPEARS IN THE ACCEPTANCE FORM
AT THE END HEREOF:

Ladies and Gentlemen:

Tampa Electric Company, a Florida corporation (the "***Company***"), agrees with you as follows:

1. AUTHORIZATION OF NOTES.

The Company will authorize the issue and sale of $250,000,000 aggregate principal amount of its 6.25% Senior Notes due April 11, 2016 (the "***Notes***", such term to include any such notes issued in substitution therefor pursuant to Section 13 of this Agreement or the Other Agreements (as hereinafter defined)). The Notes shall be substantially in the form set out in Exhibit 1, with such changes therefrom, if any, as may be approved by you and the Company. Certain capitalized terms used in this Agreement are defined in Schedule B; references to a "Schedule" or an "Exhibit" are, unless otherwise specified, to a Schedule or an Exhibit attached to this Agreement.

2. SALE AND PURCHASE OF NOTES.

Subject to the terms and conditions of this Agreement, the Company will issue and sell to you and you will purchase from the Company, at the Closing provided for in Section 3, Notes in the principal amount specified opposite your name in Schedule A at the purchase price of 100% of the principal amount thereof. Contemporaneously with entering into this Agreement, the Company is entering into separate Note Purchase Agreements (the "***Other Agreements***") identical with this Agreement with each of the other purchasers named in Schedule A (the "***Other Purchasers***"), providing for the sale at such Closing to each of the Other Purchasers of Notes in the principal amount specified opposite its name in Schedule A. Your obligation hereunder and the obligations of the Other Purchasers under the Other Agreements are several and not joint obligations and you shall have no obligation under any Other Agreement and no liability to any Person for the performance or non-performance by any Other Purchaser thereunder.

3. CLOSING.

The sale and purchase of the Notes to be purchased by you and the Other Purchasers shall occur at the offices of Freshfields Bruckhaus Deringer LLP, 520 Madison Avenue, 34th Floor, New York, New York 10022, at 10:00 a.m., New York City time, at a closing (the "***Closing***") on April 11, 2003, or on such other Business Day thereafter on or prior to April 30, 2003 as may be agreed upon by the Company and you and the Other Purchasers. At the Closing the Company will deliver to you the Notes to be purchased by you in the form of a single Note (or such greater number of Notes in denominations of at least $100,000 as you may request) dated the date of the Closing and registered in your name (or in the name of your nominee), against delivery by you to the Company or its order of immediately available funds in the amount of the purchase price therefor by wire transfer of immediately available funds for the account of the Company to account number 3750593592, ABA#: 111000012 at Bank of America. If at the Closing the Company shall fail to tender such Notes to you as provided above in this Section 3, or any of the conditions specified in Section 4 shall not have been fulfilled to your satisfaction, you shall, at your election, be relieved of all further obligations under this Agreement, without thereby waiving any rights you may have by reason of such failure or such nonfulfillment.

4. CONDITIONS TO CLOSING.

Your obligation to purchase and pay for the Notes to be sold to you at the Closing is subject to the fulfillment to your satisfaction, prior to or at the Closing, of the following conditions:

4.1 Representations and Warranties.

The representations and warranties of the Company in this Agreement shall be correct when made and at the time of the Closing.

4.2 Performance; No Default.

The Company shall have performed and complied with all agreements and conditions contained in this Agreement required to be performed or complied with by it prior to or at the Closing and after giving effect to the issue and sale of the Notes (and the application of the proceeds thereof as contemplated by Schedule 5.14) no Default or Event of Default shall have occurred and be continuing. Neither the Company nor any Subsidiary shall have entered into any transaction since the date of the Memorandum that would have been prohibited by Section 10.1 or Section 10.3 hereof had such Section applied since such date.

4.3 Compliance Certificates.

(a) Officer's Certificate. The Company shall have delivered to you an Officer's Certificate, dated the date of the Closing, certifying that the conditions specified in Sections 4.1, 4.2 and 4.9 have been fulfilled.

(b) Secretary's Certificate. The Company shall have delivered to you a certificate certifying as to the resolutions attached thereto and other corporate proceedings relating to the

authorization, execution and delivery of the Notes, this Agreement and the Other Agreements.

4.4 Opinions of Counsel.

You shall have received opinions in form and substance satisfactory to you, dated the date of the Closing (a) from each of Palmer & Dodge LLP, special counsel for the Company, and Sheila M. McDevitt, Esquire, in-house counsel to the Company, covering the matters set forth in Exhibit 4.4(a) and covering such other matters incident to the transactions contemplated hereby as you or your counsel may reasonably request (and the Company hereby instructs its counsel to deliver such opinion to you), and (b) from Freshfields Bruckhaus Deringer LLP, your special New York counsel in connection with such transactions, substantially in the form set forth in Exhibit 4.4(b) and covering such other matters incident to such transactions as you may reasonably request.

4.5 Purchase Permitted By Applicable Law, etc.

On the date of the Closing your purchase of Notes shall (a) be permitted by the laws and regulations of each jurisdiction to which you are subject, without recourse to provisions (such as Section 1405(a)(8) of the New York Insurance Law) permitting limited investments by insurance companies without restriction as to the character of the particular investment, (b) not violate any applicable law or regulation (including, without limitation, Regulation U, T or X of the Board of Governors of the Federal Reserve System), and (c) not subject you to any tax, penalty or liability under or pursuant to any applicable law or regulation, which law or regulation was not in effect on the date hereof. If requested by you, you shall have received an Officer's Certificate certifying as to such matters of fact as you may reasonably specify to enable you to determine whether such purchase is so permitted.

4.6 Sale of Other Notes.

Contemporaneously with the Closing the Company shall sell to the Other Purchasers and the Other Purchasers shall purchase the Notes to be purchased by them at the Closing as specified in Schedule A.

4.7 Payment of Special Counsel Fees.

Without limiting the provisions of Section 15.1, the Company shall have paid on or before the Closing the fees, charges and disbursements of your special counsel referred to in Section 4.4 to the extent reflected in a statement of such counsel rendered to the Company at least one Business Day prior to the Closing.

4.8 Private Placement Number.

A Private Placement number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the Securities Valuation Office of the National Association of Insurance Commissioners) shall have been obtained for the Notes.

4.9 Changes in Corporate Structure.

Except as specified in Schedule 4.9, the Company shall not have changed its jurisdiction of incorporation or been a party to any merger or consolidation and shall not have succeeded to all or any substantial part of the liabilities of any other entity, at any time following the date of the most recent financial statements referred to in Schedule 5.5.

4.10 Proceedings and Documents.

All corporate and other proceedings in connection with the transactions contemplated by this Agreement and all documents and instruments incident to such transactions shall be satisfactory to you and your special counsel, and you and your special counsel shall have received all such counterpart originals or certified or other copies of such documents as you or they may reasonably request.

5. REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

The Company represents and warrants to you that:

5.1 Organization; Power and Authority.

The Company is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and is duly qualified as a foreign corporation and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The Company has the corporate power and authority to own or hold under lease the properties it purports to own or hold under lease, to transact the business it transacts and proposes to transact, to execute and deliver this Agreement and the Other Agreements and the Notes and to perform the provisions hereof and thereof.

5.2 Authorization, etc.

This Agreement and the Other Agreements and the Notes have been duly authorized by all necessary corporate action on the part of the Company, and this Agreement constitutes, and upon execution and delivery thereof each Note will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as such enforceability may be limited by (a) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and (b) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

5.3 Disclosure.

The Company, through its agent, SG Cowen Securities, has delivered to you and each Other Purchaser a copy of a Private Placement Memorandum, dated April 3, 2003 (the "***Memorandum***"), relating to the transactions contemplated hereby. The Memorandum fairly describes, in all material

respects, the general nature of the business and principal properties of the Company and its Subsidiaries. Except as disclosed in Schedule 5.3, this Agreement, the Memorandum, the documents, certificates or other writings delivered to you by or on behalf of the Company in connection with the transactions contemplated hereby and the financial statements listed in Schedule 5.5, taken as a whole, do not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading in light of the circumstances under which they were made. Except as disclosed in the Memorandum or as expressly described in Schedule 5.3, or in one of the documents, certificates or other writings identified therein, or in the financial statements listed in Schedule 5.5, since December 31, 2002, there has been no change in the financial condition, operations, business, properties or prospects of the Company or any Subsidiary except changes that individually or in the aggregate could not reasonably be expected to have a Material Adverse Effect. There is no fact known to the Company that could reasonably be expected to have a Material Adverse Effect that has not been set forth herein or in the Memorandum or in the other documents, certificates and other writings delivered to you by or on behalf of the Company specifically for use in connection with the transactions contemplated hereby.

5.4 Organization and Ownership of Shares of Subsidiaries; Affiliates.

(a) Schedule 5.4 contains (except as noted therein) complete and correct lists (i) of the Company's Subsidiaries, showing, as to each Subsidiary, the correct name thereof, the jurisdiction of its organization, and the percentage of shares of each class of its capital stock or similar equity interests outstanding owned by the Company and each other Subsidiary, (ii) of the Company's Affiliates, other than Subsidiaries, and (iii) of the Company's directors and senior officers.

(b) All of the outstanding shares of capital stock or similar equity interests of each Subsidiary shown in Schedule 5.4 as being owned by the Company and its Subsidiaries have been validly issued, are fully paid and nonassessable and are owned by the Company or another Subsidiary free and clear of any Lien (except as otherwise disclosed in Schedule 5.4).

(c) Each Subsidiary identified in Schedule 5.4 is a corporation or other legal entity duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and is duly qualified as a foreign corporation or other legal entity and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each such Subsidiary has the corporate or other power and authority to own or hold under lease the properties it purports to own or hold under lease and to transact the business it transacts and proposes to transact.

(d) No Subsidiary is a party to, or otherwise subject to any legal restriction or any agreement (other than this Agreement, the agreements listed on Schedule 5.4 and customary limitations imposed by corporate law statutes) restricting the ability of such Subsidiary to pay dividends out of profits or make any other similar distributions of profits to the

Company or any of its Subsidiaries that owns outstanding shares of capital stock or similar equity interests of such Subsidiary.

5.5 Financial Statements.

The Company has delivered to each Purchaser copies of the financial statements of the Company and its Subsidiaries listed on Schedule 5.5. All of said financial statements (including in each case the related schedules and notes) fairly present in all material respects the consolidated financial position of the Company and its Subsidiaries as of the respective dates specified in such Schedule and the consolidated results of their operations and cash flows for the respective periods so specified and have been prepared in accordance with GAAP consistently applied throughout the periods involved except as set forth in the notes thereto (subject, in the case of any interim financial statements, to normal year-end adjustments).

5.6 Compliance with Laws, Other Instruments, etc.

The execution, delivery and performance by the Company of this Agreement and the Notes will not (a) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien in respect of any property of the Company or any Subsidiary under, any indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, corporate charter or by-laws, or any other Material agreement or instrument to which the Company or any Subsidiary is bound or by which the Company or any Subsidiary or any of their respective properties may be bound or affected, (b) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority applicable to the Company or any Subsidiary or (c) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to the Company or any Subsidiary.

5.7 Governmental Authorizations, etc.

No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority, in each case that has not been obtained, is required in connection with the execution, delivery or performance by the Company of this Agreement or the Notes.

5.8 Litigation; Observance of Agreements, Statutes and Orders.

(a) Except as disclosed in Schedule 5.8, there are no actions, suits or proceedings pending or, to the knowledge of the Company, threatened against or affecting the Company or any Subsidiary or any property of the Company or any Subsidiary in any court or before any arbitrator of any kind or before or by any Governmental Authority that, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

(b) Neither the Company nor any Subsidiary is in default under any term of any agreement or instrument to which it is a party or by which it is bound, or any order, judgment, decree or ruling of any court, arbitrator or Governmental Authority or is in violation of any applicable law, ordinance, rule or regulation (including without limitation Environmental Laws) of any Governmental Authority, which default or violation, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

5.9 Taxes.

The Company and its Subsidiaries have filed all tax returns that are required to have been filed in any jurisdiction, and have paid all taxes shown to be due and payable on such returns and all other taxes and assessments levied upon them or their properties, assets, income or franchises, to the extent such taxes and assessments have become due and payable and before they have become delinquent, except for any taxes and assessments (a) the amount of which is not individually or in the aggregate Material or (b) the amount, applicability or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which the Company or a Subsidiary, as the case may be, has established adequate reserves in accordance with GAAP. The Company knows of no basis for any other tax or assessment that could reasonably be expected to have a Material Adverse Effect. The charges, accruals and reserves on the books of the Company and its Subsidiaries in respect of Federal, state or other taxes for all fiscal periods are adequate. The Federal income tax liabilities of the Company and its Subsidiaries have been agreed to by the Company and by the Internal Revenue Service and these liabilities have been paid for all fiscal years up to and including the fiscal year ended December 31, 1997.

5.10 Title to Property; Leases.

The Company and its Subsidiaries have good and sufficient title to their respective properties that individually or in the aggregate are Material, including all such properties reflected in the most recent audited balance sheet referred to in Section 5.5 or purported to have been acquired by the Company or any Subsidiary after said date (except as sold or otherwise disposed of in the ordinary course of business), in each case free and clear of Liens prohibited by this Agreement. All leases that the Company or any Subsidiary is party to as lessee and that individually or in the aggregate are Material are valid and subsisting and are in full force and effect in all material respects.

5.11 Licenses, Permits, etc.

Except as disclosed in Schedule 5.11,

(a) the Company and its Subsidiaries own or possess all licenses, permits, franchises, authorizations, patents, copyrights, service marks, trademarks and trade names, or rights thereto, that individually or in the aggregate are Material, without known conflict with the rights of others;

(b) to the best knowledge of the Company, no product of the Company or any of its Subsidiaries infringes in any Material respect any license, permit, franchise, authorization, patent, copyright, service mark, trademark, trade name or other right owned by any other Person; and

(c) to the best knowledge of the Company, there is no Material violation by any Person of any right of the Company or any of its Subsidiaries with respect to any patent, copyright, service mark, trademark, trade name or other right owned or used by the Company or any of its Subsidiaries.

5.12 Compliance with ERISA.

(a) The Company and each ERISA Affiliate have operated and administered each Plan in compliance with all applicable laws except for such instances of noncompliance as have not resulted in and could not reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any ERISA Affiliate has incurred any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans (as defined in section 3 of ERISA), and no event, transaction or condition has occurred or exists that could reasonably be expected to result in the incurrence of any such liability by the Company or any ERISA Affiliate, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate, in either case pursuant to Title I or IV of ERISA or to such penalty or excise tax provisions or to section 401(a)(29) or 412 of the Code, other than such liabilities or Liens as would not be individually or in the aggregate Material.

(b) The present value of the aggregate benefit liabilities under each of the Plans (other than Multiemployer Plans), determined as of the end of such Plan's most recently ended plan year on the basis of the actuarial assumptions specified for funding purposes in such Plan's most recent actuarial valuation report, did not exceed the aggregate current value of the assets of such Plan allocable to such benefit liabilities by more than $50,000,000 in the aggregate for all Plans. The term "*benefit liabilities*" has the meaning specified in section 4001 of ERISA and the terms "*current value*" and "*present value*" have the meaning specified in section 3 of ERISA.

(c) The Company and its ERISA Affiliates have not incurred withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under section 4201 or 4204 of ERISA in respect of Multiemployer Plans that individually or in the aggregate are Material.

(d) The expected postretirement benefit obligation (determined as of the last day of the Company's most recently ended fiscal year in accordance with Financial Accounting Standards Board Statement No. 106, without regard to liabilities attributable to continuation coverage mandated by section 4980B of the Code) of the Company and its Subsidiaries is as described in Schedule 5.12.

(e) The execution and delivery of this Agreement and the issuance and sale of the Notes hereunder will not involve any transaction that is subject to the prohibitions of section 406 of ERISA or in connection with which a tax could be imposed pursuant to section 4975(c)(1)(A)-(D) of the Code. The representation by the Company in the first sentence of this Section 5.12(e) is made in reliance upon and subject to the accuracy of your representation in Section 6.2 as to the sources of the funds used to pay the purchase price of the Notes to be purchased by you.

5.13 Private Offering by the Company.

Neither the Company nor anyone acting on its behalf has offered the Notes or any similar securities for sale to, or solicited any offer to buy any of the same from, or otherwise approached or negotiated in respect thereof with, any person other than you, the Other Purchasers and not more than 4 other Institutional Investors, each of which has been offered the Notes at a private sale for investment. Neither the Company nor anyone acting on its behalf has taken, or will take, any action that would subject the issuance or sale of the Notes to the registration requirements of Section 5 of the Securities Act.

5.14 Use of Proceeds; Margin Regulations.

The Company will apply the proceeds of the sale of the Notes for repayment of short-term indebtedness and for general corporate purposes. No part of the proceeds from the sale of the Notes hereunder will be used, directly or indirectly, for the purpose of buying or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System (12 CFR 221), or for the purpose of buying or carrying or trading in any securities under such circumstances as to involve the Company in a violation of Regulation X of said Board (12 CFR 224) or to involve any broker or dealer in a violation of Regulation T of said Board (12 CFR 220). Margin stock does not constitute more than 3% of the value of the consolidated assets of the Company and its Subsidiaries and the Company does not have any present intention that margin stock will constitute more than 3% of the value of such assets. As used in this Section, the terms "*margin stock*" and "*purpose of buying or carrying*" shall have the meanings assigned to them in said Regulation U.

5.15 Existing Indebtedness; Future Liens.

(a) Except as described therein, Schedule 5.15(a) sets forth a complete and correct list of all outstanding unsecured Indebtedness of the Company and its Subsidiaries as of December 31, 2002 and Schedule 5.15(b) sets forth a complete and correct list of all outstanding secured Indebtedness of the Company and its Subsidiaries as of December 31, 2002, since which date there has been no Material change in the amounts, interest rates, sinking funds, installment payments or maturities of the Indebtedness of the Company or its Subsidiaries. Neither the Company nor any Subsidiary is in default and no waiver of default is currently in effect, in the payment of any principal or interest on any Indebtedness of the Company or such Subsidiary and no event or condition exists with respect to any Indebtedness of the Company or any Subsidiary that would permit (or that with notice or the lapse of time, or both, would permit) one or more Persons to cause such Indebtedness to become due and payable before its stated maturity or before its regularly scheduled dates of payment.

(b) Except as disclosed in Schedule 5.15(b), neither the Company nor any Subsidiary has agreed or consented to cause or permit in the future (upon the happening of a contingency or otherwise) any of its property, whether now owned or hereafter acquired, to be subject to a Lien.

5.16 Foreign Assets Control Regulations, etc.

Neither the sale of the Notes by the Company hereunder nor its use of the proceeds thereof will violate (a) the Trading with the Enemy Act, as amended, (b) any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) or any enabling legislation or executive order relating thereto or (c) Executive Order No. 13,224, 66 Fed Reg 49,079 (2001), issued by the President of the United States (Executive Order Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit or Support Terrorism).

5.17 Status under Certain Statutes.

Neither the Company nor any Subsidiary is subject to regulation under the Investment Company Act of 1940, as amended or the Interstate Commerce Act, as amended. The Company and its Subsidiaries are exempt from regulation under the Public Utility Holding Company Act of 1935, as amended.

5.18 Environmental Matters.

Neither the Company nor any Subsidiary has knowledge of any claim or has received any notice of any claim, and no proceeding has been instituted raising any claim against the Company or any of its Subsidiaries or any of their respective real properties now or formerly owned, leased or operated by any of them or other assets, alleging any damage to the environment or violation of any Environmental Laws, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect. Except as otherwise disclosed to you in writing,

(a) neither the Company nor any Subsidiary has knowledge of any facts which would give rise to any claim, public or private, of violation of Environmental Laws or damage to the environment emanating from, occurring on or in any way related to real properties now or formerly owned, leased or operated by any of them or to other assets or their use, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect;

(b) neither the Company nor any of its Subsidiaries has stored any Hazardous Materials on real properties now or formerly owned, leased or operated by any of them and has not disposed of any Hazardous Materials in a manner contrary to any Environmental Laws in each case in any manner that could reasonably be expected to result in a Material Adverse Effect; and

(c) all buildings on all real properties now owned, leased or operated by the Company or any of its Subsidiaries are in compliance with applicable Environmental Laws, except where failure to comply could not reasonably be expected to result in a Material Adverse Effect.

6. REPRESENTATIONS OF THE PURCHASER.

6.1 Purchase for Investment.

You represent that you are purchasing the Notes for your own account or for one or more separate accounts maintained by you or for the account of one or more pension or trust funds and not with a view to the distribution thereof, *provided* that the disposition of your or their property shall at all times be within your or their control. You understand that the Notes have not been registered under the Securities Act and may be resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is available, except under circumstances where neither such registration nor such an exemption is required by law, and that the Company is not required to register the Notes.

6.2 Source of Funds.

You represent that at least one of the following statements is an accurate representation as to each source of funds (a "*Source*") to be used by you to pay the purchase price of the Notes to be purchased by you hereunder:

(a) the Source is an "insurance company general account" (as the term is defined in PTE 95-60 (issued July 12, 1995)) in respect of which the reserves and liabilities (as defined by the annual statement for life insurance companies approved by the National Association of Insurance Commissioners (the "*NAIC Annual Statement*")) for the general account contract(s) held by or on behalf of any employee benefit plan together with the amount of the reserves and liabilities for the general account contract(s) held by or on behalf of any other employee benefit plans maintained by the same employer (or affiliate thereof as defined in PTE 95-60) or by the same employee organization in the general account do not exceed 10% of the total reserves and liabilities of the general account (exclusive of separate account liabilities) plus surplus as set forth in the NAIC Annual Statement filed with your state of domicile; or

(b) the Source is a separate account that is maintained solely in connection with your fixed contractual obligations under which the amounts payable, or credited, to any employee benefit plan (or its related trust) that has any interest in such separate account (or to any participant or beneficiary of such plan (including any annuitant)) are not affected in any manner by the investment performance of the separate account; or

(c) the Source is either (i) an insurance company pooled separate account, within the meaning of PTE 90-1 (issued January 29, 1990), or (ii) a bank collective investment fund, within the meaning of the PTE 91-38 (issued July 12, 1991) and, except as you have disclosed to the Company in writing pursuant to this paragraph (c), no employee benefit plan or group of plans maintained by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or

(d) the Source constitutes assets of an "*investment fund*" (within the meaning of Part V of the QPAM Exemption) managed by a "*qualified professional asset manager*" or "*QPAM*"

(within the meaning of Part V of the QPAM Exemption), no employee benefit plan's assets that are included in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Section V(c)(1) of the QPAM Exemption) of such employer or by the same employee organization and managed by such QPAM, exceed 20% of the total client assets managed by such QPAM, the conditions of Part I(c) and (g) of the QPAM Exemption are satisfied, neither the QPAM nor a person controlling or controlled by the QPAM (applying the definition of "*control*" in Section V(e) of the QPAM Exemption) owns a 5% or more interest in the Company and (i) the identity of such QPAM and (ii) the names of all employee benefit plans whose assets are included in such investment fund have been disclosed to the Company in writing pursuant to this paragraph (d); or

(e) the Source constitutes assets of a "*plan(s)*" (within the meaning of Section IV of PTE 96-23 (the "*INHAM Exemption*")) managed by an "*in-house asset manager*" or "*INHAM*" (within the meaning of Part IV of the INHAM Exemption), the conditions of Part I(a), (g) and (h) of the INHAM Exemption are satisfied, neither the INHAM nor a person controlling or controlled by the INHAM (applying the definition of "*control*" in Section IV(h) of the INHAM Exemption) owns a 5% or more interest in the Company and (i) the identity of such INHAM and (ii) the name(s) of the employee benefit plan(s) whose assets constitute the Source have been disclosed to the Company in writing pursuant to this paragraph (e); or

(f) the Source is a governmental plan; or

(g) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which has been identified to the Company in writing pursuant to this paragraph (g); or

(h) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA.

As used in this Section 6.2, the terms "*employee benefit plan*" and "*separate account*" shall have the respective meanings assigned to such terms in Section 3 of ERISA.

7. INFORMATION AS TO COMPANY.

7.1 Financial and Business Information.

The Company shall deliver to each holder of Notes that is an Institutional Investor:

(a) Quarterly Statements. Within 60 days after the end of each quarterly fiscal period in each fiscal year of the Company (other than the last quarterly fiscal period of each such fiscal year), duplicate copies of (i) a consolidated balance sheet of the Company and its Subsidiaries as at the end of such quarter, and (ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries, for such quarter and (in the case of the second and third quarters) for the portion of the fiscal

year ending with such quarter, setting forth in each case in comparative form the figures for the corresponding periods in the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP applicable to quarterly financial statements generally, and certified by a Senior Financial Officer as fairly presenting, in all material respects, the financial position of the companies being reported on and their results of operations and cash flows, subject to changes resulting from year-end adjustments, *provided* that delivery within the time period specified above of copies of the Company's Quarterly Report on Form 10-Q prepared in compliance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this Section 7.1(a);

(b) Annual Statements. Within 105 days after the end of each fiscal year of the Company, duplicate copies of (i) a consolidated balance sheet of the Company and its Subsidiaries, as at the end of such year, and (ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries, for such year, setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP, and accompanied by (A) an opinion thereon of independent certified public accountants of recognized national standing, which opinion shall state that such financial statements present fairly, in all material respects, the financial position of the companies being reported upon and their results of operations and cash flows and have been prepared in conformity with GAAP, and that the examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards, and that such audit provides a reasonable basis for such opinion in the circumstances, and (B) a certificate of such accountants stating that they have reviewed this Agreement and stating further whether, in making their audit, they have become aware of any condition or event that then constitutes a Default or an Event of Default, and, if they are aware that any such condition or event then exists, specifying the nature and period of the existence thereof (it being understood that such accountants shall not be liable, directly or indirectly, for any failure to obtain knowledge of any Default or Event of Default unless such accountants should have obtained knowledge thereof in making an audit in accordance with generally accepted auditing standards or did not make such an audit), *provided* that the delivery within the time period specified above of the Company's Annual Report on Form 10-K for such fiscal year (together with the Company's annual report to shareholders, if any, prepared pursuant to Rule 14a-3 under the Exchange Act) prepared in accordance with the requirements therefor and filed with the Securities and Exchange Commission, together with the accountant's certificate described in clause (B) above, shall be deemed to satisfy the requirements of this Section 7.1(b);

(c) SEC and Other Reports. Promptly upon their becoming available, one copy of (i) each financial statement, report, notice or proxy statement sent by the Company or any Subsidiary to public securities holders generally, and (ii) each regular or periodic report, each registration statement (without exhibits except as expressly requested by such holder), and each prospectus and all amendments thereto filed by the Company or any Subsidiary with the Securities and Exchange Commission and of all press releases and

other statements made available generally by the Company or any Subsidiary to the public concerning developments that are Material;

(d) Notice of Default or Event of Default. Promptly, and in any event within five days after a Responsible Officer becoming aware of the existence of any Default or Event of Default or that any Person has given any notice or taken any action with respect to a claimed default hereunder or that any Person has given any notice or taken any action with respect to a claimed default of the type referred to in Section 11(f), a written notice specifying the nature and period of existence thereof and what action the Company is taking or proposes to take with respect thereto;

(e) ERISA Matters. Promptly, and in any event within five days after a Responsible Officer becoming aware of any of the following, a written notice setting forth the nature thereof and the action, if any, that the Company or an ERISA Affiliate proposes to take with respect thereto:

(i) with respect to any Plan, any reportable event, as defined in section 4043(c) of ERISA and the regulations thereunder, for which notice thereof has not been waived pursuant to such regulations as in effect on the date hereof; or

(ii) the taking by the PBGC of steps to institute, or the threatening by the PBGC of the institution of, proceedings under section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt by the Company or any ERISA Affiliate of a notice from a Multiemployer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan; or

(iii) any event, transaction or condition that could result in the incurrence of any liability by the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or such penalty or excise tax provisions, if such liability or Lien, taken together with any other such liabilities or Liens then existing, could reasonably be expected to have a Material Adverse Effect;

(f) Notices from Governmental Authority. Promptly, and in any event within 30 days of receipt thereof, copies of any notice to the Company or any Subsidiary from any Federal or state Governmental Authority relating to any order, ruling, statute or other law or regulation that could reasonably be expected to have a Material Adverse Effect; and

(g) Requested Information. With reasonable promptness, such other data and information relating to the business, operations, affairs, financial condition, assets or properties of the Company or any of its Subsidiaries or relating to the ability of the Company to perform its obligations hereunder and under the Notes as from time to time may be reasonably requested by any such holder of Notes.

7.2 Officer's Certificate.

Each set of financial statements delivered to a holder of Notes pursuant to Section 7.1(a) or Section 7.1(b) hereof shall be accompanied by a certificate of a Senior Financial Officer setting forth:

(a) Covenant Compliance. The information (including detailed calculations) required in order to establish whether the Company was in compliance with the requirements of Sections 9.6 and 10.3 hereof during the quarterly or annual period covered by the statements then being furnished (including with respect to each such Section, where applicable, the calculations of the maximum or minimum amount, ratio or percentage, as the case may be, permissible under the terms of such Sections, and the calculation of the amount, ratio or percentage then in existence); and

(b) Event of Default. The statement that such officer has reviewed the relevant terms hereof and has made, or caused to be made, under his or her supervision, a review of the transactions and conditions of the Company and its Subsidiaries from the beginning of the quarterly or annual period covered by the statements then being furnished to the date of the certificate and that such review shall not have disclosed the existence during such period of any condition or event that constitutes a Default or an Event of Default or, if any such condition or event existed or exists (including, without limitation, any such event or condition resulting from the failure of the Company or any Subsidiary to comply with any Environmental Law), specifying the nature and period of existence thereof and what action the Company shall have taken or proposes to take with respect thereto.

7.3 Inspection.

The Company shall permit the representatives of each holder of Notes that is an Institutional Investor:

(a) No Default. If no Default or Event of Default then exists, at the expense of such holder and upon reasonable prior notice to the Company, to visit the principal executive office of the Company, to discuss the affairs, finances and accounts of the Company and its Subsidiaries with the Company's officers, and (with the consent of the Company, which consent will not be unreasonably withheld) its independent public accountants, and (with the consent of the Company, which consent will not be unreasonably withheld) to visit the other offices and properties of the Company and each Subsidiary, all at such reasonable times and as often as may be reasonably requested in writing; and

(b) Default. If a Default or Event of Default then exists, at the expense of the Company, to visit and inspect any of the offices or properties of the Company or any Subsidiary, to examine all their respective books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers and independent public accountants (and by this provision the Company authorizes said accountants to discuss the affairs, finances and accounts of the Company and its Subsidiaries), all at such times and as often as may be requested.

8. PAYMENT OF THE NOTES.

8.1 Maturity; Prepayment.

As provided therein, the entire unpaid principal amount of the Notes shall be due and payable on the Maturity Date.

On each of April 11, 2014, and April 11, 2015, the Company shall prepay $83,333,333 principal amount (or such lesser principal amount as shall then be outstanding) of the Notes at par and without payment of the Make-Whole Amount or any premium, *provided* that upon any partial prepayment of the Notes pursuant to Section 8.2 the principal amount of each required prepayment of the Notes becoming due under this Section 8.1 on and after the date of such prepayment shall be reduced in the same proportion as the aggregate unpaid principal amount of the Notes is reduced as a result of such prepayment.

8.2 Optional Prepayments with Make-Whole Amount.

The Company may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the Notes, in an amount not less than 5% of the aggregate principal amount of the Notes then outstanding in the case of a partial prepayment, at 100% of the principal amount so prepaid, plus the Make-Whole Amount determined for the prepayment date with respect to such principal amount. The Company will give each holder of Notes written notice of each optional prepayment under this Section 8.2 not less than 30 days and not more than 60 days prior to the date fixed for such prepayment. Each such notice shall specify such date, the aggregate principal amount of the Notes to be prepaid on such date, the principal amount of each Note held by such holder to be prepaid (determined in accordance with Section 8.3), and the interest to be paid on the prepayment date with respect to such principal amount being prepaid, and shall be accompanied by a certificate of a Senior Financial Officer as to the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company shall deliver to each holder of Notes a certificate of a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified prepayment date.

8.3 Allocation of Partial Prepayments.

In the case of each partial prepayment of the Notes, the principal amount of the Notes to be prepaid shall be allocated among all of the Notes at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof not theretofore called for prepayment.

8.4 Maturity; Surrender, etc.

In the case of each prepayment of Notes pursuant to this Section 8, the principal amount of each Note to be prepaid shall mature and become due and payable on the date fixed for such prepayment, together with interest on such principal amount accrued to such date and the applicable Make-Whole Amount, if any. From and after such date, unless the Company shall fail to pay such

principal amount when so due and payable, together with the interest and Make-Whole Amount, if any, as aforesaid, interest on such principal amount shall cease to accrue. Any Note paid or prepaid in full shall be surrendered to the Company and cancelled and shall not be reissued, and no Note shall be issued in lieu of any prepaid principal amount of any Note.

8.5 Purchase of Notes.

The Company will not and will not permit any Affiliate to purchase, redeem, prepay or otherwise acquire, directly or indirectly, any of the outstanding Notes except upon the payment or prepayment of the Notes in accordance with the terms of this Agreement and the Notes. The Company will promptly cancel all Notes acquired by it or any Affiliate pursuant to any payment, prepayment or purchase of Notes pursuant to any provision of this Agreement and no Notes may be issued in substitution or exchange for any such Notes.

8.6 Make-Whole Amount.

The term "*Make-Whole Amount*" means, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Note over the amount of such Called Principal, *provided* that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

"*Called Principal*" means, with respect to any Note, the principal of such Note that is to be prepaid pursuant to Section 8.2 or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires.

"*Discounted Value*" means, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"*Reinvestment Yield*" means, with respect to the Called Principal of any Note, 0.50% over the yield to maturity implied by (i) the yields reported, as of 10:00 A.M. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page PX1" on Bloomberg Financial Markets Service (or such other display as may replace Page PX1 on Bloomberg Financial Markets Service) for actively traded U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable, the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield will be determined, if necessary,

by (a) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the actively traded U.S. Treasury security with the maturity closest to and greater than the Remaining Average Life and (2) the actively traded U.S. Treasury security with the maturity closest to and less than the Remaining Average Life.

"*Remaining Average Life*" means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"*Remaining Scheduled Payments*" means, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, *provided* that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Notes, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to Section 8.2 or 12.1.

"*Settlement Date*" means, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to Section 8.2 or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires.

8.7 Interest.

(a) Until the Maturity Date, the unpaid principal amount of each Note shall accrue interest for each day at the Applicable Rate.

(b) Any overdue principal of any Note and, to the extent permitted by applicable law, any interest payments thereon and any fees and other amounts in respect thereof not paid when due shall thereafter bear interest (including post-petition interest in any proceeding under the United States Bankruptcy Code or other applicable bankruptcy laws) for the period from and including the due date to but excluding the date such amount is paid in full at the Default Rate.

(c) Interest accrued on the Notes shall be payable in arrears on each Interest Payment Date; *provided* that (i) interest accrued pursuant to Section 8.7(b) shall be payable on demand, and (ii) upon any prepayment of any portion of the Notes, interest accrued on the principal amount prepaid shall be payable on the date of such prepayment.

(d) All interest hereunder shall be computed on the basis of a year of 360 days comprising twelve 30-day months.

9. AFFIRMATIVE COVENANTS.

The Company covenants that so long as any of the Notes are outstanding:

9.1 Compliance with Law.

The Company will and will cause each of its Subsidiaries to comply with all laws, ordinances or governmental rules or regulations to which each of them is subject, including, without limitation, Environmental Laws, and will obtain and maintain in effect all licenses, certificates, permits, franchises and other governmental authorizations necessary to the ownership of their respective properties or to the conduct of their respective businesses, in each case to the extent necessary to ensure that non-compliance with such laws, ordinances or governmental rules or regulations or failures to obtain or maintain in effect such licenses, certificates, permits, franchises and other governmental authorizations could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

9.2 Insurance.

The Company will and will cause each of its Subsidiaries to maintain, with financially sound and reputable insurers, insurance with respect to their respective properties and businesses against such casualties and contingencies, of such types, on such terms and in such amounts (including deductibles, co-insurance and self-insurance, if adequate reserves are maintained with respect thereto) as is customary in the case of entities of established reputations engaged in the same or a similar business and similarly situated.

9.3 Maintenance of Properties.

The Company will and will cause each of its Subsidiaries to maintain and keep, or cause to be maintained and kept, their respective properties in good repair, working order and condition (other than ordinary wear and tear), so that the business carried on in connection therewith may be properly conducted at all times, *provided* that this Section shall not prevent the Company or any Subsidiary from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business and the Company has concluded that such discontinuance could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

9.4 Payment of Taxes and Claims.

The Company will and will cause each of its Subsidiaries to file all tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges, or levies imposed on them or any of their properties, assets, income or franchises, to the extent such taxes and assessments have become due and payable and before they have become delinquent, and all claims for which sums have become due and payable that have or might become a Lien on properties or assets of the Company or any Subsidiary, *provided* that neither the Company nor any Subsidiary need pay any such tax or assessment or claims if (a) the amount, applicability or validity thereof is contested by the Company or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and the Company

or a Subsidiary has established adequate reserves therefor in accordance with GAAP on the books of the Company or such Subsidiary, or (b) the nonpayment of all such taxes, assessments and claims in the aggregate could not reasonably be expected to have a Material Adverse Effect.

9.5 Corporate Existence, etc.

Subject to Sections 10.2, the Company will at all times preserve and keep in full force and effect its corporate existence, and the Company will at all times preserve and keep in full force and effect the corporate existence of each of its Subsidiaries (unless merged into the Company or a Subsidiary) and all rights and franchises of the Company and its Subsidiaries unless, in the good faith judgment of the Company, the termination of or failure to preserve and keep in full force and effect the corporate existence of any Subsidiary or any such right or franchise could not, individually or in the aggregate, have a Material Adverse Effect.

9.6 Financial Covenant.

The Company shall maintain, as of the last day of each fiscal quarter, a ratio of Total Debt to Capitalization, for the fiscal quarter then ended, of less than or equal to 0.60 to 1.00.

10. NEGATIVE COVENANTS.

The Company covenants that so long as any of the Notes are outstanding:

10.1 Transactions with Affiliates.

The Company will not and will not permit any Subsidiary to enter into directly or indirectly any transaction or group of related transactions (including without limitation the purchase, lease, sale or exchange of properties of any kind or the rendering of any service) with any Affiliate (other than the Company or another Subsidiary), except (a) in the ordinary course and pursuant to the reasonable requirements of the Company's or such Subsidiary's business and upon fair and reasonable terms no less favorable to the Company or such Subsidiary than would be obtainable in a comparable arm's-length transaction with a Person not an Affiliate, or (b) in accordance with applicable Florida Public Service Commission requirements.

10.2 Merger, Consolidation, etc.

The Company shall not consolidate with or merge with any other corporation or convey, transfer or lease substantially all of its assets in a single transaction or series of transactions to any Person unless:

(a) the successor formed by such consolidation or the survivor of such merger or the Person that acquires by conveyance, transfer or lease substantially all of the assets of the Company as an entirety, as the case may be, shall be a solvent corporation organized and existing under the laws of the United States or any State thereof (including the District of Columbia) and, if the Company is not such corporation, (i) such corporation shall have executed and delivered to each holder of any Notes its assumption of the due and punctual performance and observance of each covenant and condition of this Agreement, the

Other Agreements and the Notes and (ii) the Company shall have caused to be delivered to each holder of any Notes an opinion of nationally recognized independent counsel, or other independent counsel reasonably satisfactory to the Required Holders, to the effect that all agreements or instruments effecting such assumption are enforceable in accordance with their terms and comply with the terms hereof; and

(b) immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing.

No such conveyance, transfer or lease of substantially all of the assets of the Company shall have the effect of releasing the Company or any successor corporation that shall theretofore have become such in the manner prescribed in this Section 10.2 from its liability under this Agreement or the Notes.

10.3 Liens/Subsidiary Indebtedness.

The Company (a) will not, and will not permit any of its Subsidiaries to, directly or indirectly create, incur, assume or permit to exist (upon the happening of a contingency or otherwise) any Lien securing the Indebtedness of any Person on or with respect to any property or asset (including, without limitation, any document or instrument in respect of goods or accounts receivable) of the Company or any such Subsidiary, whether now owned or held or hereafter acquired, or any income or profits therefrom or assign or otherwise convey any right to receive income or profits (including accounts receivable) and (b) will not at any time permit any Subsidiary to, directly or indirectly, create, incur, issue, assume, guarantee, have outstanding or otherwise become or remain directly or indirectly liable with respect to, any Indebtedness or any Redeemable Preferred Stock (unless, (i) in the case of clause (a) above with respect to a Lien on the property or assets of the Company, it makes, or causes to be made, effective provision whereby the Notes will be equally and ratably secured with any and all other obligations thereby secured, such security to be pursuant to an agreement reasonably satisfactory to the Required Holders and, in any such case, the Notes shall have the benefit of, to the fullest extent that, and with such priority as, the holders of the Notes may be entitled under applicable law, a Lien on such property regardless of any inaction of the Company to create such Lien, or (ii) in the case of clause (a) or (b) above, it makes, or causes to be made, effective provision whereby the Notes are secured by First Mortgage Bonds having a face value equal to the then outstanding principal amount of the Notes, pursuant to an agreement creating and perfecting such security reasonably satisfactory to the Required Holders, which First Mortgage Bonds in turn continue to be secured by substantially all of the property, plant and equipment of the electric business of the Company and no material part of such electric business has been transferred from the Company to a Subsidiary of the Company at any time after the date hereof), except:

(i) any Lien existing on property of a Person immediately prior to its being consolidated with or merged into the Company or a Subsidiary or its becoming a Subsidiary or any Lien existing on any property acquired by the Company or any Subsidiary at the time such property is so acquired (whether or not the Indebtedness secured thereby shall have been assumed), provided that (A) no such Lien shall have been created or assumed in contemplation of such consolidation or merger or such Person's becoming a Subsidiary or such acquisition of property, (B) each such Lien shall

extend solely to the item or items of property so acquired or so encumbered immediately prior to the time of the merger or consolidation or so encumbered immediately prior to the time such Person became a Subsidiary and, if required by the terms of the instrument originally creating such Lien, other property which is an improvement to or is acquired for specific use in connection with such acquired or encumbered property and (C) the principal amount of the obligations thereby secured by such Liens are not increased after such time; or

(ii) (A) other Liens not otherwise permitted by paragraph (i) above securing Indebtedness of the Company, its Subsidiaries or TECO, (B) Indebtedness of a Subsidiary of the Company or (C) Redeemable Preferred Stock of a Subsidiary of the Company; provided that the aggregate principal amount of Indebtedness plus the aggregate redemption value of all Redeemable Preferred Stock referred to in clauses (A), (B) and (C) of this subparagraph (ii) does not at any time exceed the greater of (x) $500,000,000 in aggregate plus existing secured Indebtedness outstanding as of the Closing Date referred to under the subheading "Installment Contracts Payable (3)" under the heading "(b) Existing Secured Indebtedness/Liens" in Schedule 5.15 to the extent such Indebtedness remains secured and outstanding as Indebtedness of the Company and (y) $700,000,000 in aggregate.

For purposes of this Section 10.3, any Person extending, renewing or refunding any Indebtedness secured by any Lien shall be deemed to have created such Lien at the time of such extension, renewal or refunding.

Any First Mortgage Bonds issued for the purposes of satisfying the requirements of clause (ii) of the introductory paragraph to this Section 10.3 shall (a) be issued in a separate series to a trustee or collateral agent selected by the Company with the approval of the Required Noteholders, not to be unreasonably withheld or delayed, (b) have payment terms that mirror the payment terms on the Notes (but without duplication), (c) contain no additional new covenants, and (d) otherwise include no other terms that apply to such First Mortgage Bonds and not to the First Mortgage Bonds held by the existing holders of the First Mortgage Bonds.

11. EVENTS OF DEFAULT.

An ***Event of Default*** shall exist if any of the following conditions or events shall occur and be continuing:

(a) the Company defaults in the payment of any principal or Make-Whole Amount, if any, on any Note when the same becomes due and payable, whether at maturity or at a date fixed for prepayment or by declaration or otherwise; or

(b) the Company defaults in the payment of any interest on any Note for more than five Business Days after the same becomes due and payable; or

(c) the Company defaults in the performance of or compliance with any term contained in Sections 9.6, 10.2 or 10.3; or

(d) the Company defaults in the performance of or compliance with any term contained herein (other than those referred to in paragraphs (a), (b) and (c) of this Section 11) and

such default is not remedied within 30 days after the earlier of (i) a Responsible Officer obtaining actual knowledge of such default and (ii) the Company receiving written notice of such default from any holder of a Note (any such written notice to be identified as a "notice of default" and to refer specifically to this paragraph (d) of Section 11); or

(e) any representation or warranty made in writing by or on behalf of the Company or by any officer of the Company in this Agreement or in any writing furnished in connection with the transactions contemplated hereby proves to have been false or incorrect in any material respect on the date as of which made; or

(f) (i) the Company or any Subsidiary is in default (as principal or as guarantor or other surety) in the payment of any principal of or premium or make-whole amount or interest on any Indebtedness that is outstanding in an aggregate principal amount of at least $50,000,000 beyond any period of grace provided with respect thereto, or (ii) the Company or any Subsidiary is in default in the performance of or compliance with any term of any evidence of any Indebtedness in an aggregate outstanding principal amount of at least $10,000,000 or of any mortgage, indenture or other agreement relating thereto or any other condition exists, and as a consequence of such default or condition such Indebtedness has become, or has been declared due and payable before its stated maturity or before its regularly scheduled dates of payment, or (iii) as a consequence of the occurrence or continuation of any event or condition (other than the passage of time or the right of the holder of Indebtedness to convert such Indebtedness into equity interests), the Company or any Subsidiary has become obligated to purchase or repay Indebtedness before its regular maturity or before its regularly scheduled dates of payment in an aggregate outstanding principal amount of at least $10,000,000; or

(g) the Company or any Subsidiary (i) is generally not paying, or admits in writing its inability to pay, its debts as they become due, (ii) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, (v) is adjudicated as insolvent or to be liquidated, or (vi) takes corporate action for the purpose of any of the foregoing; or

(h) a court or governmental authority of competent jurisdiction enters an order appointing, without consent by the Company or any of its Subsidiaries, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the Company or any of its Subsidiaries, or any such petition shall be filed against the Company or any of its Subsidiaries and such petition shall not be dismissed within 60 days; or

(i) a final judgment or judgments for the payment of money aggregating in excess of $50,000,000 are rendered against one or more of the Company and its Subsidiaries and which judgments are not, within 60 days after entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within 60 days after the expiration of such stay; or

(j) if (i) any Plan shall fail to satisfy the minimum funding standards of ERISA or the Code for any plan year or part thereof or a waiver of such standards or extension of any amortization period is sought or granted under section 412 of the Code, (ii) a notice of intent to terminate any Plan shall have been or is reasonably expected to be filed with the PBGC or the PBGC shall have instituted proceedings under ERISA section 4042 to terminate or appoint a trustee to administer any Plan or the PBGC shall have notified the Company or any ERISA Affiliate that a Plan may become a subject of any such proceedings, (iii) the aggregate "*amount of unfunded benefit liabilities*" (within the meaning of section 4001(a)(18) of ERISA) under all Plans, determined in accordance with Title IV of ERISA, shall exceed $50,000,000, (iv) the Company or any ERISA Affiliate shall have incurred or is reasonably expected to incur any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, (v) the Company or any ERISA Affiliate withdraws from any Multiemployer Plan, or (vi) the Company or any Subsidiary establishes or amends any employee welfare benefit plan that provides post-employment welfare benefits in a manner that would increase the liability of the Company or any Subsidiary thereunder; and any such event or events described in clauses (i) through (vi) above, either individually or together with any other such event or events, could reasonably be expected to have a Material Adverse Effect.

As used in Section 11(j), the terms "*employee benefit plan*" and "*employee welfare benefit plan*" shall have the respective meanings assigned to such terms in Section 3 of ERISA.

12. REMEDIES ON DEFAULT, ETC.

12.1 Acceleration.

(a) If an Event of Default with respect to the Company described in paragraph (g) or (h) of Section 11 (other than an Event of Default described in clause (i) of paragraph (g) or described in clause (vi) of paragraph (g) by virtue of the fact that such clause encompasses clause (i) of paragraph (g)) has occurred, all the Notes then outstanding shall automatically become immediately due and payable.

(b) If any other Event of Default has occurred and is continuing, the Required Holders may at any time at its or their option, by notice or notices to the Company, declare all the Notes then outstanding to be immediately due and payable.

(c) If any Event of Default described in paragraph (a) or (b) of Section 11 has occurred and is continuing, any holder or holders of Notes at the time outstanding affected by such Event of Default may at any time, at its or their option, by notice or notices to the Company, declare all the Notes held by it or them to be immediately due and payable.

Upon any Notes becoming due and payable under this Section 12.1, whether automatically or by declaration, such Notes will forthwith mature and the entire unpaid principal amount of such Notes, plus (x) all accrued and unpaid interest thereon and (y) the Make-Whole Amount determined in respect of such principal amount (to the full extent permitted by applicable law), shall all be immediately due and payable, in each and every case without presentment, demand, protest or further notice, all of which are hereby waived. The Company acknowledges, and the parties hereto agree, that each holder of a Note has the right to maintain its investment in the Notes free from repayment by the Company (except as herein specifically provided for) and that the provision for payment of a Make-Whole Amount by the Company in the event that the Notes are prepaid or are accelerated as a result of an Event of Default, is intended to provide compensation for the deprivation of such right under such circumstances.

12.2 Other Remedies.

If any Default or Event of Default has occurred and is continuing, and irrespective of whether any Notes have become or have been declared immediately due and payable under Section 12.1, the holder of any Note at the time outstanding may proceed to protect and enforce the rights of such holder by an action at law, suit in equity or other appropriate proceeding, whether for the specific performance of any agreement contained herein or in any Note, or for an injunction against a violation of any of the terms hereof or thereof, or in aid of the exercise of any power granted hereby or thereby or by law or otherwise.

12.3 Rescission.

At any time after any Notes have been declared due and payable pursuant to paragraph (b) or (c) of Section 12.1, the Required Holders, by written notice to the Company, may rescind and annul any such declaration and its consequences if (a) the Company has paid all overdue interest on the Notes, all principal of and Make-Whole Amount, if any, on any Notes that are due and payable and are unpaid other than by reason of such declaration, and all interest on such overdue principal and Make-Whole Amount, if any, and (to the extent permitted by applicable law) any overdue interest in respect of the Notes, at the Default Rate, (b) all Events of Default and Defaults, other than non-payment of amounts that have become due solely by reason of such declaration, have been cured or have been waived pursuant to Section 17, and (c) no judgment or decree has been entered for the payment of any monies due pursuant hereto or to the Notes. No rescission and annulment under this Section 12.3 will extend to or affect any subsequent Event of Default or Default or impair any right consequent thereon.

12.4 No Waivers or Election of Remedies, Expenses, etc.

No course of dealing and no delay on the part of any holder of any Note in exercising any right, power or remedy shall operate as a waiver thereof or otherwise prejudice such holder's rights, powers or remedies. No right, power or remedy conferred by this Agreement or by any Note upon any holder thereof shall be exclusive of any other right, power or remedy referred to herein or therein or now or hereafter available at law, in equity, by statute or otherwise. Without limiting the obligations of the Company under Section 15, the Company will pay to the holder of each Note on demand such further amount as shall be sufficient to cover all costs and expenses of such holder

incurred in any enforcement or collection under this Section 12, including, without limitation, reasonable attorneys' fees, expenses and disbursements.

13. REGISTRATION; EXCHANGE; SUBSTITUTION OF NOTES.

13.1 Registration of Notes.

The Company shall keep at The Bank of New York, in New York, New York a register for the registration and registration of transfers of Notes. The name and address of each holder of one or more Notes, each transfer thereof and the name and address of each transferee of one or more Notes shall be registered in such register. Prior to due presentment for registration of transfer, the Person in whose name any Note shall be registered shall be deemed and treated as the owner and holder thereof for all purposes hereof, and the Company shall not be affected by any notice or knowledge to the contrary. The Company shall give to any holder of a Note that is an Institutional Investor promptly upon request therefor, a complete and correct copy of the names and addresses of all registered holders of Notes.

13.2 Transfer and Exchange of Notes.

Upon surrender of any Note at the corporate trust office of The Bank of New York, Attention: Tampa Electric Administrator—Corporate Trust Department, in New York, New York for registration of transfer or exchange (and in the case of a surrender for registration of transfer, duly endorsed or accompanied by a written instrument of transfer duly executed by the registered holder of such Note or his attorney duly authorized in writing and accompanied by the address for notices of each transferee of such Note or part thereof), the Company shall execute and deliver, at the Company's expense (except as provided below), one or more new Notes (as requested by the holder thereof) in exchange therefor, in an aggregate principal amount equal to the unpaid principal amount of the surrendered Note. Each such new Note shall be payable to such Person as such holder may request and shall be substantially in the form of Exhibit 1. Each such new Note shall be dated and bear interest from the date to which interest shall have been paid on the surrendered Note or dated the date of the surrendered Note if no interest shall have been paid thereon. The Company may require payment of a sum sufficient to cover any stamp tax or governmental charge imposed in respect of any such transfer of Notes. Notes shall not be transferred in denominations of less than $100,000, *provided* that if necessary to enable the registration of transfer by a holder of its entire holding of Notes, one Note may be in a denomination of less than $100,000. Any transferee, by its acceptance of a Note registered in its name (or the name of its nominee), shall be deemed to have made the representation set forth in Section 6.2.

13.3 Replacement of Notes.

Upon receipt by the Company of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of any Note (which evidence shall be, in the case of an Institutional Investor, notice from such Institutional Investor of such ownership and such loss, theft, destruction or mutilation), and (a) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it (*provided* that if the holder of such Note is, or is a nominee for, an original Purchaser or another holder of a Note with a minimum net worth of at least $10,000,000 in excess of the outstanding principal amount of such Note, such Person's own unsecured agreement of

indemnity shall be deemed to be satisfactory), or (b) in the case of mutilation, upon surrender and cancellation thereof, the Company at its own expense shall execute and deliver, in lieu thereof, a new Note, dated and bearing interest from the date to which interest shall have been paid on such lost, stolen, destroyed or mutilated Note or dated the date of such lost, stolen, destroyed or mutilated Note if no interest shall have been paid thereon.

14. PAYMENTS ON NOTES.

14.1 Place of Payment.

Subject to Section 14.2, payments of principal, Make-Whole Amount, if any, and interest becoming due and payable on the Notes shall be made in New York, New York at the principal corporate trust office of The Bank of New York in such jurisdiction. The Company may at any time, by notice to each holder of a Note, change the place of payment of the Notes so long as such place of payment shall be either the principal office of the Company in such jurisdiction or the principal office of a bank or trust company in such jurisdiction.

14.2 Home Office Payment.

So long as you or your nominee shall be the holder of any Note, and notwithstanding anything contained in Section 14.1 or in such Note to the contrary, the Company will pay all sums becoming due on such Note for principal, Make-Whole Amount, if any, and interest by the method and at the address specified for such purpose below your name in Schedule A, or by such other method or at such other address as you shall have from time to time specified to the Company in writing for such purpose, without the presentation or surrender of such Note or the making of any notation thereon, except that upon written request of the Company made concurrently with or reasonably promptly after payment or prepayment in full of any Note, you shall surrender such Note for cancellation, reasonably promptly after any such request, to the Company at its principal executive office or at the place of payment most recently designated by the Company pursuant to Section 14.1. Prior to any sale or other disposition of any Note held by you or your nominee you will, at your election, either endorse thereon the amount of principal paid thereon and the last date to which interest has been paid thereon or surrender such Note to the Company in exchange for a new Note or Notes pursuant to Section 13.2. The Company will afford the benefits of this Section 14.2 to any Institutional Investor that is the direct or indirect transferee of any Note purchased by you under this Agreement and that has made the same agreement relating to such Note as you have made in this Section 14.2.

15. EXPENSES, ETC.

15.1 Transaction Expenses.

Whether or not the transactions contemplated hereby are consummated, the Company will pay all costs and expenses (including reasonable attorneys' fees of a special counsel and, if reasonably required, local or other counsel) incurred by you and each Other Purchaser or holder of a Note in connection with such transactions and in connection with any amendments, waivers or consents under or in respect of this Agreement or the Notes (whether or not such amendment, waiver or consent becomes effective), including, without limitation: (a) the costs and expenses

incurred in enforcing or defending (or determining whether or how to enforce or defend) any rights under this Agreement or the Notes or in responding to any subpoena or other legal process or informal investigative demand issued in connection with this Agreement or the Notes, or by reason of being a holder of any Note, and (b) the costs and expenses, including financial advisors' fees, incurred in connection with the insolvency or bankruptcy of the Company or any Subsidiary or in connection with any work-out or restructuring of the transactions contemplated hereby and by the Notes. The Company will pay, and will save you and each other holder of a Note harmless from, all claims in respect of any fees, costs or expenses if any, of brokers and finders (other than those retained by you).

15.2 Survival.

The obligations of the Company under this Section 15 will survive the payment or transfer of any Note, the enforcement, amendment or waiver of any provision of this Agreement or the Notes, and the termination of this Agreement.

16. SURVIVAL OF REPRESENTATIONS AND WARRANTIES; ENTIRE AGREEMENT.

All representations and warranties contained herein shall survive the execution and delivery of this Agreement and the Notes, the purchase or transfer by you of any Note or portion thereof or interest therein and the payment of any Note, and may be relied upon by any subsequent holder of a Note, regardless of any investigation made at any time by or on behalf of you or any other holder of a Note. All statements contained in any certificate or other instrument delivered by or on behalf of the Company pursuant to this Agreement shall be deemed representations and warranties of the Company under this Agreement. Subject to the preceding sentence, this Agreement and the Notes embody the entire agreement and understanding between you and the Company and supersede all prior agreements and understandings relating to the subject matter hereof.

17. AMENDMENT AND WAIVER.

17.1 Requirements.

This Agreement and the Notes may be amended, and the observance of any term hereof or of the Notes may be waived (either retroactively or prospectively), with (and only with) the written consent of the Company and the Required Holders, except that (a) no amendment or waiver of any of the provisions of Section 1, 2, 3, 4, 5, 6 or 21 hereof, or any defined term (as it is used therein), will be effective as to you unless consented to by you in writing, and (b) no such amendment or waiver may, without the written consent of the holder of each Note at the time outstanding affected thereby, (i) subject to the provisions of Section 12 relating to acceleration or rescission, change the amount or time of any prepayment or payment of principal of, or reduce the rate or change the time of payment or method of computation of interest or of the Make-Whole Amount on, the Notes, (ii) change the percentage of the principal amount of the Notes the holders of which are required to consent to any such amendment or waiver, or (iii) amend any of Sections 8, 11(a), 11(b), 12, 17 or 20.

17.2 Solicitation of Holders of Notes.

(a) Solicitation. The Company will provide each holder of the Notes (irrespective of the amount of Notes then owned by it) with sufficient information, sufficiently far in advance of the date a decision is required, to enable such holder to make an informed and considered decision with respect to any proposed amendment, waiver or consent in respect of any of the provisions hereof or of the Notes. The Company will deliver executed or true and correct copies of each amendment, waiver or consent effected pursuant to the provisions of this Section 17 to each holder of outstanding Notes promptly following the date on which it is executed and delivered by, or receives the consent or approval of, the requisite holders of Notes.

(b) Payment. The Company will not directly or indirectly pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, or grant any security, to any holder of Notes as consideration for or as an inducement to the entering into by any holder of Notes of any waiver or amendment of any of the terms and provisions hereof unless such remuneration is concurrently paid, or security is concurrently granted, on the same terms, ratably to each holder of Notes then outstanding even if such holder did not consent to such waiver or amendment.

17.3 Binding Effect, etc.

Any amendment or waiver consented to as provided in this Section 17 applies equally to all holders of Notes and is binding upon them and upon each future holder of any Note and upon the Company without regard to whether such Note has been marked to indicate such amendment or waiver. No such amendment or waiver will extend to or affect any obligation, covenant, agreement, Default or Event of Default not expressly amended or waived or impair any right consequent thereon. No course of dealing between the Company and the holder of any Note nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any holder of such Note. As used herein, the term "*this Agreement*" and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

17.4 Notes held by Company, etc.

Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Notes then outstanding approved or consented to any amendment, waiver or consent to be given under this Agreement or the Notes, or have directed the taking of any action provided herein or in the Notes to be taken upon the direction of the holders of a specified percentage of the aggregate principal amount of Notes then outstanding, Notes directly or indirectly owned by the Company or any of its Affiliates shall be deemed not to be outstanding.

18. NOTICES.

All notices and communications provided for hereunder shall be in writing and sent (a) by telecopy if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (b) by registered or certified mail with return receipt

requested (postage prepaid), or (c) by a recognized overnight delivery service (with charges pre-paid). Any such notice must be sent:

(i) if to you or your nominee, to you or it at the address specified for such communications in Schedule A, or at such other address as you or it shall have specified to the Company in writing,

(ii) if to any other holder of any Note, to such holder at such address as such other holder shall have specified to the Company in writing, or

(iii) if to the Company, to the Company at its address set forth at the beginning hereof to the attention of the Corporate Secretary, or at such other address as the Company shall have specified to the holder of each Note in writing.

Notices under this Section 18 will be deemed given only when actually received.

19. REPRODUCTION OF DOCUMENTS.

This Agreement and all documents relating thereto, including, without limitation, (a) consents, waivers and modifications that may hereafter be executed, (b) documents received by you at the Closing (except the Notes themselves), and (c) financial statements, certificates and other information previously or hereafter furnished to you, may be reproduced by you by any photographic, photostatic, microfilm, microcard, miniature photographic or other similar process and you may destroy any original document so reproduced. The Company agrees and stipulates that, to the extent permitted by applicable law, any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by you in the regular course of business) and any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence. This Section 19 shall not prohibit the Company or any other holder of Notes from contesting any such reproduction to the same extent that it could contest the original, or from introducing evidence to demonstrate the inaccuracy of any such reproduction.

20. CONFIDENTIAL INFORMATION.

For the purposes of this Section 20, "*Confidential Information*" means information delivered to you by or on behalf of the Company or any Subsidiary in connection with the transactions contemplated by or otherwise pursuant to this Agreement that is proprietary in nature and that was clearly marked or labeled or otherwise adequately identified when received by you as being confidential information of the Company or such Subsidiary, *provided* that such term does not include information that (a) was publicly known or otherwise known to you prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by you or any person acting on your behalf, (c) otherwise becomes known to you other than through disclosure by the Company or any Subsidiary or (d) constitutes financial statements delivered to you under Section 7.1 that are otherwise publicly available. You will maintain the confidentiality of such Confidential Information in accordance with procedures adopted by you in good faith to protect confidential information of third parties delivered to you, *provided* that you may deliver or disclose Confidential Information to (i) your directors, officers, employees, agents, attorneys and affiliates

(to the extent such disclosure reasonably relates to the administration of the investment represented by your Notes), (ii) your financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this Section 20, (iii) any other holder of any Note, (iv) any Institutional Investor to which you sell or offer to sell such Note or any part thereof or any participation therein (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20), (v) any Person from which you offer to purchase any security of the Company (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20), (vi) any federal or state regulatory authority having jurisdiction over you, (vii) the National Association of Insurance Commissioners or any similar organization, or any nationally recognized rating agency that requires access to information about your investment portfolio or (viii) any other Person to which such delivery or disclosure may be necessary or appropriate (w) to effect compliance with any law, rule, regulation or order applicable to you, (x) in response to any subpoena or other legal process, (y) in connection with any litigation to which you are a party or (z) if an Event of Default has occurred and is continuing, to the extent you may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under your Notes or this Agreement. Each holder of a Note, by its acceptance of a Note, will be deemed to have agreed to be bound by and to be entitled to the benefits of this Section 20 as though it were a party to this Agreement. On reasonable request by the Company in connection with the delivery to any holder of a Note of information required to be delivered to such holder under this Agreement or requested by such holder (other than a holder that is a party to this Agreement or its nominee), such holder will enter into an agreement with the Company embodying the provisions of this Section 20.

21. SUBSTITUTION OF PURCHASER.

You shall have the right to substitute any one of your Affiliates as the purchaser of the Notes that you have agreed to purchase hereunder, by written notice to the Company, which notice shall be signed by both you and such Affiliate, shall contain such Affiliate's agreement to be bound by this Agreement and shall contain a confirmation by such Affiliate of the accuracy with respect to it of the representations set forth in Section 6. Upon receipt of such notice, wherever the word "*you*" is used in this Agreement (other than in this Section 21), such word shall be deemed to refer to such Affiliate in lieu of you. In the event that such Affiliate is so substituted as a purchaser hereunder and such Affiliate thereafter transfers to you all of the Notes then held by such Affiliate, upon receipt by the Company of notice of such transfer, wherever the word "*you*" is used in this Agreement (other than in this Section 21), such word shall no longer be deemed to refer to such Affiliate, but shall refer to you, and you shall have all the rights of an original holder of the Notes under this Agreement.

22. MISCELLANEOUS.

22.1 Successors and Assigns.

All covenants and other agreements contained in this Agreement by or on behalf of any of the parties hereto bind and inure to the benefit of their respective successors and assigns (including, without limitation, any subsequent holder of a Note) whether so expressed or not.

22.2 Payments Due on Non-Business Days.

Anything in this Agreement or the Notes to the contrary notwithstanding, any payment of principal of or Make-whole Amount or interest on any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day.

22.3 Severability.

Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

22.4 Construction.

Each covenant contained herein shall be construed (absent express provision to the contrary) as being independent of each other covenant contained herein, so that compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with any other covenant. Where any provision herein refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person.

22.5 Counterparts.

This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto.

22.6 Governing Law.

This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

22.7 Jurisdiction

With respect to any suit, action or proceedings relating to this Agreement (***Proceedings***), the Company irrevocably:

(a) submits to the non-exclusive jurisdiction of the Supreme Court of the State of New York sitting in the Borough of Manhattan and of the United States District Court for the Southern District of New York, and any appellate court therefrom; and

(b) waives any objection which it may have at any time to the laying of venue of any Proceedings brought in any such court, waives any claim that such Proceedings have been brought in an inconvenient forum and further waives the right to object, with respect to such Proceedings, that such court does not have any jurisdiction over the Company.

Nothing in this Agreement precludes any holder of a Note from bringing Proceedings in any other jurisdiction, nor will the bringing of Proceedings by the holder of a Note in any one or more jurisdictions preclude the bringing of Proceedings by such holder in any other jurisdiction. The Company hereby agrees that a final judgment in any such Proceedings shall be conclusive and may be enforced in other jurisdictions otherwise having jurisdiction over the Company by suit on such final judgment or in any other manner provided by law.

* * * * *

If you are in agreement with the foregoing, please sign the form of agreement on the accompanying counterpart of this Agreement and return it to the Company, whereupon the foregoing shall become a binding agreement between you and the Company.

Very truly yours,

TAMPA ELECTRIC COMPANY

By: /s/ Sandra W. Callahan
Title: Treasurer and Assistant Secretary

The foregoing is hereby
agreed to as of the
date thereof.

AMERICAN GENERAL LIFE INSURANCE COMPANY

By: AIG Global Investment Corp., investment advisor

By: /s/ John Henry Pollock
Name: John Henry Pollock
Title: Vice President

The foregoing is hereby
agreed to as of the
date thereof.

AMERICAN INTERNATIONAL LIFE ASSURANCE COMPANY OF NEW YORK

By: AIG Global Investment Corp., investment advisor

By /s/ John Henry Pollock
Name: John Henry Pollock
Title: Vice President

The foregoing is hereby
agreed to as of the
date thereof.

THE VARIABLE ANNUITY LIFE INSURANCE COMPANY

By: AIG Global Investment Corp., investment advisor

By /s/ John Henry Pollock
Name: John Henry Pollock
Title: Vice President

Note Purchase Agreement Signature Page

The foregoing is hereby
agreed to as of the
date thereof.

TEACHERS INSURANCE AND ANNUITY ASSOCIATION OF AMERICA

By /s/ Marietta Moshiashvili
Name: Marietta Moshiashvili
Title: Associate Director

The foregoing is hereby
agreed to as of the
date thereof.

TIAA-CREF LIFE INSURANCE COMPANY
By: Teachers Insurance and Annuity Association of America, as Investment Manager

By /s/ Marietta Moshiashvili
Name: Marietta Moshiashvili
Title: Associate Director

The foregoing is hereby
agreed to as of the
date thereof.

JEFFERSON-PILOT LIFE INSURANCE COMPANY

By /s/ James E. McDonald, Jr.
Name: James E. McDonald, Jr.
Title: Vice President

The foregoing is hereby
agreed to as of the
date thereof.

JEFFERSON PILOT FINANCIAL INSURANCE COMPANY

By /s/ James E. McDonald, Jr.
Name: James E. McDonald, Jr.
Title: Vice President

The foregoing is hereby
agreed to as of the
date thereof.

NEW YORK LIFE INSURANCE COMPANY

By /s/ Grant H. Davis
Name: Grant H. Davis
Title: Investment Vice President

The foregoing is hereby
agreed to as of the
date thereof.

NEW YORK LIFE INSURANCE AND ANNUITY CORPORATION
By: New York Life Investment Management LLC, Its Investment Manager

By /s/ Grant H. Davis
Name: Grant H. Davis
Title: Director

The foregoing is hereby
agreed to as of the
date thereof.

NEW YORK LIFE INSURANCE AND ANNUITY CORPORATION
INSTITUTIONALLY OWNED LIFE INSURANCE SEPARATE ACCOUNT
By: New York Life Investment Management LLC, Its Investment Manager

By /s/ Grant H. Davis
Name: Grant H. Davis
Title: Director

Note Purchase Agreement Signature Page

The foregoing is hereby
agreed to as of the
date thereof.

METROPOLITAN LIFE INSURANCE COMPANY

By /s/ Timothy L. Powell ____
Name: Timothy L. Powell
Title: Director

The foregoing is hereby
agreed to as of the
date thereof.

JOHN HANCOCK LIFE INSURANCE COMPANY

By /s/ John C.S. Anderson
Name: John C.S. Anderson
Title: Managing Director

The foregoing is hereby
agreed to as of the
date thereof.

JOHN HANCOCK VARIABLE LIFE INSURANCE COMPANY

By /s/ John C.S. Anderson
Name: John C.S. Anderson
Title: Authorizing Signatory

SCHEDULE A

INFORMATION RELATING TO PURCHASER

Name and Address of Purchaser	Principal Amount of Notes to be Purchased
AMERICAN GENERAL LIFE INSURANCE COMPANY	$25,000,000

(1) All payments by wire transfer of immediately available funds, with sufficient information to identify the source and application of such funds, to:

ABA# 011000028
State Street Bank and Trust Company
Boston, MA 02101
Re: American General Life Insurance Company
A/C: 0125-880-5
OBI = PPN # and description of payment
Fund Number PA 40

(2) All notices of payments and written confirmations of such wire transfers:

American General Life Insurance Company and PA 40
c/o State Street Bank Corporation
Insurance Services
801 Pennsylvania
Kansas City, MO 64105
Fax: (816) 691-3619

(3) All other communications and duplicate payment notices to:

American General Life Insurance Company and PA 40
c/o AIG Global Investment Corporation
Attn: Private Placement Department, A36-04
P.O. Box 3247
Houston, Texas 77253-3247

Overnight Mail Address:

2929 Allen Parkway, A36-04
Houston, TX 77019-2155
Fax: (713) 831-1072

With copy to:

AIG Global Investment Corporation
Legal Department – Investment Management
2929 Allen Parkway, Suite A36-01
Houston, TX 77019-2155
Fax: (713) 831-2328

(4) Tax I.D. Number: 25-0598210

(5) Physical Delivery Instructions:

DTC / New York Window
55 Water Street
New York, N.Y. 10041
Attention: Robert Mendez
Account: State Street
Fund Name: AMERICAN GENERAL LIFE INSURANCE COMPANY
Fund Number: PA 40

Depositary Trust Company Instructions:

DTC Participant # 0997
Agent Bank ID # 20997
Institution ID # 39456
Fund Name: AMERICAN GENERAL LIFE INSURANCE COMPANY
Fund Number: PA 40

SCHEDULE A

INFORMATION RELATING TO PURCHASER

Name and Address of Purchaser	Principal Amount of Notes to be Purchased
AMERICAN INTERNATIONAL LIFE ASSURANCE COMPANY OF NEW YORK	$10,000,000

(1) All payments by wire transfer of immediately available funds, with sufficient information to identify the source and application of such funds, to:

ABA# 011001234/ BOS SAFE DEPO
Federal Reserve Bank of Boston
Boston, MA
DDA # 169064
Cost Center 1178
Account Name: AI LIFE ASSURANCE COMPANY OF NEW YORK
Account Number: AGIFLNY0012
OBI=PPN # and description of payment
P $ ____________, I $______________

(2) All notices of payments and written confirmations of such wire transfers:

AIG Global Investment Group
ATTN: Jennifer Lee / Kathleen Cosgrove
160 Water Street, 15th Floor
New York, NY 10038
Tel: 212-820-4899 / 4913
Fax: 212-820-4925

(3) All other communications and duplicate payment notices to:

American International Life Assurance Company of New York
c/o AIG Global Investment Corporation
Attn: Private Placement Department, A36-04
P.O. Box 3247
Houston, Texas 77253-3247

NY198838

Overnight Mail Address:

2929 Allen Parkway, A36-04
Houston, TX 77019-2155
Fax: (713) 831-1072

With copy to:

AIG Global Investment Corporation
Legal Department – Investment Management
2929 Allen Parkway, Suite A36-01
Houston, TX 77019-2155
Fax (713) 831-2328

(4) Tax I.D. Number: 13-6101875

(5) Physical Delivery Instructions:

Mellon Bank
Mellon Bank Securities Trust
120 Broadway - 13th Floor
New York, NY 10271
Attn: Sue Klein
Account Name: AI LIFE ASSURANCE COMPANY OF NEW YORK
Account Number: AGIFLNY0012

Depositary Trust Company Instructions:

Depository Trust Company (DTC) Instructions:
DTC Participation # 0954
Agent Bank ID # 26017
Institution ID # 30012
Account Name: AI LIFE ASSURANCE COMPANY OF NEW YORK
Account Number: AGIFLNY0012

SCHEDULE A

INFORMATION RELATING TO PURCHASER

Name and Address of Purchaser	Principal Amount of Notes to be Purchased
THE VARIABLE ANNUITY LIFE INSURANCE COMPANY	$24,000,000

(1) All payments by wire transfer of immediately available funds, with sufficient information to identify the source and application of such funds, to:

ABA # 011000028
State Street Bank and Trust Company
Boston, MA 02101
Re: The Variable Annuity Life Insurance Company
A/C: 0125-821-9
OBI = PPN # and description of payment
Fund Number PA 54

(2) All notices of payments and written confirmations of such wire transfers:

The Variable Annuity Life Insurance Company and PA 54
c/o State Street Bank Corporation
Insurance Services
801 Pennsylvania
Kansas City, MO 64105
Fax: (816) 691-3619

(3) All other communications and duplicate payment notices to:

The Variable Annuity Life Insurance Company and PA 54
c/o AIG Global Investment Corporation
Attn: Private Placement Department, A36-04
P.O. Box 3247
Houston, Texas 77253-3247

Overnight Mail Address:

NY198838

2929 Allen Parkway, A36-04
Houston, Texas 77019-2155
Fax: (713) 831-1072

With copy to:

AIG Global Investments Corporation
Legal Department – Investment Management
2929 Allen Parkway, Suite A36-01
Houston, TX 77019-2155
Fax: (713) 831-2328

(4) Tax I.D. Number: 74-1625348

(5) Physical Delivery Instructions:

DTC / New York Window
55 Water Street
New York, N.Y. 10041
Attention: Robert Mendez
Account: State Street
Fund Name: THE VARIABLE ANNUITY LIFE INSURANCE COMPANY
Fund Number: PA 54:

Depository Trust Company (DTC) Instructions:

DTC Participant # 0997
Agent Bank ID # 20997
Institution ID # 39456
Fund Name: THE VARIABLE ANNUITY LIFE INSURANCE COMPANY
Fund Number: PA 54

SCHEDULE A

INFORMATION RELATING TO PURCHASER

Name and Address of Purchaser	Principal Amount of Notes to be Purchased
TEACHERS INSURANCE AND ANNUITY ASSOCIATION OF AMERICA	$62,000,000

(1) All payments by wire transfer of immediately available funds, with sufficient information to identify the source and application of such funds, to:

Chase Manhattan Bank
ABA#021000021
New York, New York
For deposit to the account of:
Teachers Insurance and Annuity Association of America
Account No. 900-9-000200
For Further Credit to TIAA Account Number: GO7040
Reference: PPN #/Issuer/Mat. Date/Coupon Rate/P&I Breakdown

(2) All notices of payments and written confirmations of such wire transfers:

Contemporaneous with the electronic funds transfer, mail or fax the following information setting forth: (1) the full name, private placement number, interest rate and maturity date of the Notes, (2) the allocation of payment between principal, interest, premium and any special payment; and (3) the name and address of Bank (or Trustee) from which such transfer was sent, to:

Teachers Insurance and Annuity Association of America
730 Third Ave.
New York, New York 10017
Attn: Securities Accounting Division
Telephone: (212) 916-6004
Telecopy No. (212) 916-6955

With a copy to:
Teachers Insurance and Annuity Association of America

730 Third Ave.
New York, New York 10017
Attn: Marietta Moshiashvili
Securities Division—Private Placements
Telephone: (212) 916-4530
Telecopy No. (212) 916-6901

(3) All other communications and duplicate payment notices to:

Teachers Insurance and Annuity Association of America
730 Third Ave.
New York, New York 10017
Attn: Securities Division, Private Placements
Telecopy No. (212) 490-9000

(4) Tax ID No. 13-1624203

SCHEDULE A

INFORMATION RELATING TO PURCHASER

Name and Address of Purchaser	Principal Amount of Notes to be Purchased
TIAA-CREF LIFE INSURANCE COMPANY	$2,000,000

(1) All payments by wire transfer of immediately available funds, with sufficient information to identify the source and application of such funds, to:

Chase Manhattan Bank
ABA#021000021
New York, New York
For deposit to the account of:
TIAA-CREF Life Insurance Company
Account No. 900-9-000200
For Further Credit to Account Number: GO8956
Account Name: TC Life Insurance—Private Placements
Reference: PPN #/Issuer/Mat. Date/Coupon Rate/P&I Breakdown

(2) All notices of payments and written confirmations of such wire transfers:

Contemporaneous with the electronic funds transfer, mail or fax the following information setting forth: (1) the full name, private placement number, interest rate and maturity date of the Notes, (2) the allocation of payment between principal, interest, premium and any special payment; and (3) the name and address of Bank (or Trustee) from which such transfer was sent, to:

TIAA-CREF Life Insurance Company
c/o Teachers Insurance and Annuity Association of America
730 Third Ave.
New York, New York 10017
Attn: Securities Accounting Division
Telephone: (212) 916-6004
Telecopy No. (212) 916-6955

NY198838

With a copy to:
TIAA-CREF Life Insurance Company
c/o Teachers Insurance and Annuity Association of America
730 Third Ave.
New York, New York 10017
Attn: Marietta Moshiashvili
Securities Division—Private Placements
Telephone: (212) 916-4530
Telecopy No. (212) 916-6901

(3) All other communications and duplicate payment notices to:

TIAA-CREF Life Insurance Company
c/o Teachers Insurance and Annuity Association of America
730 Third Ave.
New York, New York 10017
Attn: Securities Division, Private Placements
Telecopy No. (212) 490-9000

(4) Tax ID No. 13-3917848

SCHEDULE A

INFORMATION RELATING TO PURCHASER

Name and Address of Purchaser	Principal Amount of Notes to be Purchased
JEFFERSON-PILOT LIFE INSURANCE COMPANY	$10,000,000

(1) All payments by wire transfer of immediately available funds, to:

Jefferson-Pilot Life Insurance Company
c/o The Bank of New York
ABA 021000018 BNF: IOC566
Custody Account 186100
Attention: P&I Department

Such wire transfer shall identify the issue to which the payment relates and shall identify the amount of principal interest and premium.

(2) All notices to:

Jefferson-Pilot Life Insurance Company
Post Office Box 20407
Greensboro, North Carolina 27420
Attention: Securities Administration
FAX: (336) 691-3025

For hand delivery:

100 North Greene Street
Greensboro, North Carolina 27401
Attention: Securities Administration

(3) All bank correspondence to::

Jefferson-Pilot Life Insurance Company
c/o The Bank of New York
Attention: P&I Department
Post Office Box 19266
Newark, New Jersey 07195

NY198838

With copy to Purchaser at address for all notices above.

(4) Tax I.D. Number: 56-0359860

(5) Physical Delivery Instructions:

Bank of New York
One Wall Street
3rd Floor Window A
For Jefferson-Pilot Life Account # 186100
New York, New York 10286

With copy to Purchaser at address for all notices above.

NY198838

SCHEDULE A

INFORMATION RELATING TO PURCHASER

Name and Address of Purchaser	Principal Amount of Notes to be Purchased
JEFFERSON PILOT FINANCIAL INSURANCE COMPANY	$10.000.000

(1) All payments by wire transfer of immediately available funds, to:

Jefferson Pilot Financial Insurance Company
c/o The Bank of New York
ABA 021000018 BNF: IOC566
FURTHER CREDIT ACCT 060352
Attention: P&I Department

Such wire transfer shall identify the issue to which the payment relates and shall identify the amount of principal interest and premium.

(2) All notices to:

Jefferson Pilot Financial Insurance Company
Post Office Box 20407
Greensboro, North Carolina 27420
Attention: Securities Administration
FAX: (336) 691-3025

For hand delivery:

100 North Greene Street
Greensboro, North Carolina 27401
Attention: Securities Administration

(3) All bank correspondence to::

Jefferson Pilot Financial Insurance Company
c/o The Bank of New York
Attention: P&I Department
Post Office Box 19266
Newark, New Jersey 07195

With copy to Purchaser at address for all notices above.

(4) Tax I.D. Number: 62-0395665

(5) Physical Delivery Instructions:

Bank of New York
One Wall Street
3rd Floor Window A
For Jefferson Pilot Financial Account # 060352
New York, New York 10286

With copy to Purchaser at address for all notices above.

SCHEDULE A

INFORMATION RELATING TO PURCHASER

Name and Address of Purchaser	Principal Amount of Notes to be Purchased
NEW YORK LIFE INSURANCE COMPANY	$25,500,000

(1) All payments by wire transfer of immediately available funds to:

Chase Manhattan Bank
New York, New York 10019
ABA No. 021-000-021
Credit: New York Life Insurance Company
General Account No. 008-9-00687

with sufficient information (including issuer, PPN number, interest rate, maturity and whether payment is of principal, premium, or interest) to identify the source and application of such funds.

(2) All notices of payments and written confirmations of such wire transfers:

New York Life Insurance Company
c/o New York Life Investment Management LLC
51 Madison Avenue
New York, New York 10010-1603

Attention: Financial Management and Operations Group
Securities Operations
2nd Floor
Fax #: (212) 447-4160

(3) All other communications to:

New York Life Insurance Company
c/o New York Life Investment Management LLC
51 Madison Avenue
New York, New York 10010

NY198838

Attention: Securities Investment Group
Private Finance
2nd Floor
Fax #: (212) 447-4122

With a copy of any notices regarding defaults or Events of Default under the operative documents to:

New York Life Insurance Company
c/o New York Life Investment Management LLC
51 Madison Avenue
New York, New York 10010

Attention: Office of General Counsel
Investment Section, Room 1107
Fax #: (212) 576-8340

(4) Tax I.D. Number: 13-5582869

NY198838

SCHEDULE A

INFORMATION RELATING TO PURCHASER

Name and Address of Purchaser	Principal Amount of Notes to be Purchased
NEW YORK LIFE INSURANCE AND ANNUITY CORPORATION	$8,000,000

(1) All payments by wire transfer of immediately available funds to:

Chase Manhattan Bank
New York, New York 10019
ABA No. 021-000-021
Credit: New York Life Insurance and Annuity Corporation
General Account No. 323-8-47382

with sufficient information (including issuer, PPN number, interest rate, maturity and whether payment is of principal, premium, or interest) to identify the source and application of such funds.

(2) All notices of payments and written confirmations of such wire transfers:

New York Life Insurance and Annuity Corporation
c/o New York Life Investment Management LLC
51 Madison Avenue
New York, New York 10010-1603

Attention: Financial Management and Operations Group
Securities Operations
2nd Floor
Fax #: (212) 447-4160

(3) All other communications to:

New York Life Insurance and Annuity Corporation
c/o New York Life Investment Management LLC
51 Madison Avenue
New York, New York 10010-1603

Attention: Securities Investment Group
Private Finance
2nd Floor
Fax #: (212) 447-4122

With a copy of any notices regarding defaults or Events of Default under the operative documents to:

New York Life Insurance Company
c/o New York Life Investment Management LLC
51 Madison Avenue
New York, New York 10010

Attention: Office of General Counsel
Investment Section, Room 1107
Fax #: (212) 576-8340

(4) Tax I.D. Number: 13-3044743

SCHEDULE A

INFORMATION RELATING TO PURCHASER

Name and Address of Purchaser	Principal Amount of Notes to be Purchased
NEW YORK LIFE INSURANCE AND ANNUITY CORPORATION INSTITUTIONALLY OWNED LIFE INSURANCE SEPARATE ACCOUNT	$500,000

(1) All payments by wire transfer of immediately available funds to:

Chase Manhattan Bank
New York, New York 10019
ABA No. 021-000-021
Credit: NYLIAC SEPARATE BOLI 3 BROAD FIXED
General Account No. 323-8-39002

with sufficient information (including issuer, PPN number, interest rate, maturity and whether payment is of principal, premium, or interest) to identify the source and application of such funds.

(2) All notices of payments and written confirmations of such wire transfers:

New York Life Insurance and Annuity Corporation
Institutionally Owned Life Insurance Separate Account
c/o New York Life Investment Management LLC
51 Madison Avenue
New York, New York 10010-1603

Attention: Financial Management and Operations Group
Securities Operations
2nd Floor
Fax #: (212) 447-4160

(3) All other communications to:

New York Life Insurance and Annuity Corporation
Institutionally Owned Life Insurance Separate Account
c/o New York Life Investment Management LLC

51 Madison Avenue
New York, New York 10010-1603

Attention: Securities Investment Group
Private Finance
2nd Floor
Fax #: (212) 447-4122

With a copy of any notices regarding defaults or Events of Default under the operative documents to:

New York Life Insurance Company
c/o New York Life Investment Management LLC
51 Madison Avenue
New York, New York 10010

Attention: Office of General Counsel
Investment Section, Room 1107
Fax #: (212) 576-8340

(4) Tax I.D. Number: 13-3044743

SCHEDULE A

INFORMATION RELATING TO PURCHASER

Name and Address of Purchaser	Principal Amount of Notes to be Purchased
METROPOLITAN LIFE INSURANCE COMPANY	$49,000,000

(1) All payments by wire transfer of immediately available funds to:

JPMorgan Chase Bank
ABA No. 021-000-021
Account No.: 002-2-410591
Account Name: Metropolitan Life Insurance Company
Ref: Tampa Electric Company Senior Unsecured Notes due 4/10/16

with sufficient information to identify the source and application of such funds, including issuer, PPN#, interest rate, maturity and whether payment is of principal, interest, make whole amount or otherwise.

For all payments other than scheduled payments of principal and interest, the Company shall seek instructions from the holder, and in the absence of instructions to the contrary, will make such payments to the account and in the manner set forth above.

(2) All notices and communications to:

Metropolitan Life Insurance Company
Investments, Private Placements
10 Park Avenue
Morristown, New Jersey 07962-1902
Attention: Director
Facsimile (973) 355-4250

With a copy other than with respect to deliveries of financial statements to:

Metropolitan Life Insurance Company
10 Park Avenue
Morristown, New Jersey 07962-1902
Attention: Chief Counsel-Securities Investments (PRIV)
Facsimile (973) 355-4338

(3) Tax I.D. Number: 13-5581829

(4) Physical Delivery Instructions:

Metropolitan Life Insurance Company
Securities Investments, Law Department
10 Park Avenue
Morristown, New Jersey 07962-1902
Attention: Sandip Khosla, Esq.

NY198838

SCHEDULE A

INFORMATION RELATING TO PURCHASER

Name and Address of Purchaser	Principal Amount of Notes to be Purchased
JOHN HANCOCK LIFE INSURANCE COMPANY	$19,500,000

(1) All payments by wire transfer of immediately available funds to:

Fleet Boston
ABA No. 011000390
Boston, Massachusetts 02110
Account of: John Hancock Life Insurance Co. Private Placement Collection Acct.
Account Number: 541-55417
On Order of: Tampa Electric Company, 875127 B# 8
Full Name, interest rate and maturity date of Notes or other obligations

Wire Deadline: 12 noon, Boston time

All payments on account of the Notes or other obligations in accordance with the provisions thereof shall be made by bank wire or transfer of immediately available funds for credit by 12 noon, Boston time.

(2) All notices and communications regarding scheduled payments, unscheduled prepayments and notice of maturity to:

John Hancock Life Insurance Company
200 Clarendon Street
Boston, MA 02117
Attn: Investment Accounting Division, B-3
Fax: (617) 572-0628

And

John Hancock Life Insurance Company
200 Clarendon Street
Boston, MA 02117
Attn: H. Paganis/K. Boyce, T-57
Fax: (617) 572-5495

NY198838

Include:

(a) full name, interest rate and maturity date of the Notes or other obligations
(b) allocation of payment between principal and interest and any special payment
(c) name and address of Bank (or Trustee) from which the wire transfer was sent

(3) All notices and communications regarding financial statements and certificates of compliance with financial covenants to:

John Hancock Life Insurance Company
200 Clarendon Street
Boston, MA 02117
Attn: Bond and Corporate Finance Group, T-57
Fax: (617) 572-1605

(4) All notices and communications regarding change in Issuer's name, address or principal place of business, change of location of collateral or copy of legal opinions to:

John Hancock Life Insurance Company
200 Clarendon Street
Boston, MA 02117
Attn: Investment Law Division, T-30
Fax: (617) 572-9269

(5) Tax I.D. Number: 04-1414660

(6) Physical Delivery Instructions:

All securities are to be sent for receipt the day after the closing to:

John Hancock Life Insurance Company
200 Clarendon Street, T-30
Boston, MA 02117
Attn: General Counsel

(7) Promptly after the closing (but no later than one week thereafter), one (1) fully executed original counterparty of the principal agreement (Note Purchase Agreement, Participation Agreement, etc.) and promptly after the closing (but no later than 2 months thereafter), one set of original closing documents and 5 sets of bound, conformed copies of the principal operative documents are to be sent to:

John Hancock Life Insurance Company
200 Clarendon Street
Boston, MA 02117
Attn: Investment Law Paralegal, Unit, T-30

SCHEDULE A

INFORMATION RELATING TO PURCHASER

Name and Address of Purchaser	Principal Amount of Notes to be Purchased
JOHN HANCOCK VARIABLE LIFE INSURANCE COMPANY	$4,500,000

(1) All payments by wire transfer of immediately available funds to:

Fleet Boston
ABA No. 011000390
Boston, Massachusetts 02110
Account of: John Hancock Life Insurance Co. Private Placement Collection Acct.
Account Number: 541-55417
On Order of: Tampa Electric Company, 875127 B# 8
Full Name, interest rate and maturity date of Notes or other obligations

Wire Deadline: 12 noon, Boston time

All payments on account of the Notes or other obligations in accordance with the provisions thereof shall be made by bank wire or transfer of immediately available funds for credit by 12 noon, Boston time.

(2) All notices and communications regarding scheduled payments, unscheduled prepayments and notice of maturity to:

John Hancock Variable Life Insurance Company
200 Clarendon Street
Boston, MA 02117
Attn: Investment Accounting Division, B-3
Fax: (617) 572-0628

And

John Hancock Life Insurance Company
200 Clarendon Street
Boston, MA 02117
Attn: H. Paganis/K. Boyce, T-57
Fax: (617) 572-5495

NY198838

Include:

(a) full name, interest rate and maturity date of the Notes or other obligations
(b) allocation of payment between principal and interest and any special payment
(c) name and address of Bank (or Trustee) from which the wire transfer was sent

(3) All notices and communications regarding financial statements and certificates of compliance with financial covenants to:

John Hancock Life Insurance Company
200 Clarendon Street
Boston, MA 02117
Attn: Bond and Corporate Finance Group, T-57
Fax: (617) 572-1605

(4) All notices and communications regarding change in Issuer's name, address or principal place of business, change of location of collateral or copy of legal opinions to:

John Hancock Life Insurance Company
200 Clarendon Street
Boston, MA 02117
Attn: Investment Law Division, T-30
Fax: (617) 572-9269

(5) Tax I.D. Number: 04-2664016

(6) Physical Delivery Instructions:

All securities are to be sent for receipt the day after the closing to:

John Hancock Life Insurance Company
200 Clarendon Street, T-30
Boston, MA 02117
Attn: General Counsel

(7) Promptly after the closing (but no later than one week thereafter), one (1) fully executed original counterparty of the principal agreement (Note Purchase Agreement, Participation Agreement, etc.) and promptly after the closing (but no later than 2 months thereafter), one set of original closing documents and 5 sets of bound, conformed copies of the principal operative documents are to be sent to:

John Hancock Life Insurance Company
200 Clarendon Street
Boston, MA 02117
Attn: Investment Law Paralegal, Unit, T-30

SCHEDULE B
DEFINED TERMS

As used herein, the following terms have the respective meanings set forth below or set forth in the Section hereof following such term:

"***Affiliate***" means, at any time, and with respect to any Person, (a) any other Person that at such time directly or indirectly through one or more intermediaries Controls, or is Controlled by, or is under common Control with, such first Person, and (b) any Person beneficially owning or holding, directly or indirectly, 10% or more of any class of voting or equity interests of the Company or any Subsidiary or any corporation of which the Company and its Subsidiaries beneficially own or hold, in the aggregate, directly or indirectly, 10% or more of any class of voting or equity interests. As used in this definition, "*Control*" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. Unless the context otherwise clearly requires, any reference to an "Affiliate" is a reference to an Affiliate of the Company.

"***Applicable Rate***" means 6.25% per annum, *provided* that if, and so long as, either the rating of S&P shall fall below BBB- or of Moody's shall fall below Baa3 with respect to the Company's long-term unsecured indebtedness, then "Applicable Rate" shall mean 7.50%.

"***Business Day***" means any day other than a Saturday, a Sunday or a day on which commercial banks in New York City are required or authorized to be closed.

"***Capital Lease***" means, at any time, a lease with respect to which the lessee is required concurrently to recognize the acquisition of an asset and the incurrence of a liability in accordance with GAAP.

"***Capitalized Lease Obligations***" means, as to any Person, all rental obligations as lessee which, under GAAP, are or will be required to be capitalized on the books of such Person, in each case taken at the amount thereof accounted for as indebtedness in accordance with GAAP.

"***Capitalization***" means, as to the Company, the sum of Total Debt and Consolidated Shareholders Equity, in each case, as of the date of any determination thereof.

"***Closing***" is defined in Section 3.

"***Code***" means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder from time to time.

"***Company***" means Tampa Electric Company, a Florida corporation, or any successor thereto that shall have become such in the manner prescribed in Section 10.2.

"***Confidential Information***" is defined in Section 20.

"***Consolidated Shareholders Equity***" means, as of the date of any determination, the consolidated tangible net worth of the Company and its Subsidiaries, and including amounts attributable to (a) junior subordinated debentures, *provided* that such junior subordinated debentures have subordination and deferral features substantially similar to those in the TECO Subordinated Debentures; and (b) preferred stock to the extent excluded from Total Debt, minus the value of minority interests in any of Company's subsidiaries, and disregarding unearned compensation associated with Company's employee stock ownership plan or other benefit plans, foreign currency translation adjustments and other comprehensive income adjustments, all determined in accordance with GAAP.

"***Contingent Obligation***" means, as to any Person, any obligation of such Person guaranteeing any Indebtedness or lease obligation (each a "primary obligation") of any other Person (the "primary obligor") in any manner, whether directly or indirectly, including any obligation of such Person, whether or not contingent, (a) to purchase any such primary obligation or any property constituting direct or indirect security therefor, (b) to advance or supply funds (i) for the purchase or payment of any such primary obligation or (ii) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor or (c) otherwise to assure or hold harmless the holder of such primary obligation against loss in respect thereof; provided, however, that the term Contingent Obligation shall not include endorsements of instruments for deposit or collection in the ordinary course of business. The amount of any Contingent Obligation shall be deemed to be the maximum probable liability in respect thereof (assuming such Person is required to perform thereunder) as determined in good faith by Borrower in accordance with GAAP.

"***Default***" means an event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

"***Default Rate***" means that rate of interest that is 2% per annum above the Applicable Rate.

"***Environmental Laws***" means any and all Federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including but not limited to those related to hazardous substances or wastes, air emissions and discharges to waste or public systems.

"***ERISA***" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"***ERISA Affiliate***" means any trade or business (whether or not incorporated) that is treated as a single employer together with the Company under section 414 of the Code.

"***Event of Default***" is defined in Section 11.

"***Exchange Act***" means the Securities Exchange Act of 1934, as amended.

"***First Mortgage Bonds***" means the first mortgage bonds of the Company issued under an Indenture of Mortgage dated as of August 1, 1946 as supplemented and amended.

"***GAAP***" means generally accepted accounting principles as in effect from time to time in the United States of America.

"***Governmental Authority***" means (a) the government of (i) the United States of America or any State or other political subdivision thereof, or (ii) any jurisdiction in which the Company or any Subsidiary conducts all or any part of its business, or which asserts jurisdiction over any properties of the Company or any Subsidiary, or (b) any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government (including the Florida Public Service Commission and any successor thereto).

"***Guaranty***" means, with respect to any Person, any obligation (except the endorsement in the ordinary course of business of negotiable instruments for deposit or collection) of such Person guaranteeing or in effect guaranteeing any indebtedness, dividend or other obligation of any other Person in any manner, whether directly or indirectly, including (without limitation) obligations incurred through an agreement, contingent or otherwise, by such Person:

(a) to purchase such indebtedness or obligation or any property constituting security therefor;

(b) to advance or supply funds (i) for the purchase or payment of such indebtedness or obligation, or (ii) to maintain any working capital or other balance sheet condition or any income statement condition of any other Person or otherwise to advance or make available funds for the purchase or payment of such indebtedness or obligation;

(c) to lease properties or to purchase properties or services primarily for the purpose of assuring the owner of such indebtedness or obligation of the ability of any other Person to make payment of the indebtedness or obligation; or

(d) otherwise to assure the owner of such indebtedness or obligation against loss in respect thereof.

In any computation of the indebtedness or other liabilities of the obligor under any Guaranty, the indebtedness or other obligations that are the subject of such Guaranty shall be assumed to be direct obligations of such obligor.

"***Hazardous Material***" means any and all pollutants, toxic or hazardous wastes or any other substances that might pose a hazard to health or safety, the removal of which may be required or the generation, manufacture, refining, production, processing, treatment, storage, handling, transportation, transfer, use, disposal, release, discharge, spillage, seepage, or filtration of which is or shall be restricted, prohibited or penalized by any applicable law (including, without limitation, asbestos, urea formaldehyde foam insulation and polychlorinated biphenyls).

"***Hedge Transactions***" means transactions under any interest swap agreements, caps, collars or other interest rate hedging mechanisms.

"***holder***" means, with respect to any Note, the Person in whose name such Note is registered in the register maintained by the Company pursuant to Section 13.1.

"***Indebtedness***" with respect to any Person means, at any time, without duplication, (a) all indebtedness of such Person for borrowed money, (b) the deferred purchase price of assets or services which in accordance with GAAP would be shown on the liability side of the balance sheet of such Person, (c) the face amount of all letters of credit issued for the account of such Person (other than letters of credit issued to secure a financial obligation of such Person to the extent such obligation is not outstanding at the time) and all unreimbursed drafts drawn thereunder, (d) all Indebtedness of another Person secured by any Lien on any property owned by such Person, whether or not such Indebtedness has been assumed by such Person, (e) all Capitalized Lease Obligations of such Person, (f) all obligations of such Person under any subscription or similar agreement, (g) the discounted present value of all obligations of such Person (other than the Borrower) payable under agreements for the payment of a specified purchase price for the purchase and resale of power whether or not delivered or accepted, i.e., take-or-pay and similar obligations, (h) any unfunded or underfunded obligation subject to the minimum funding standards of Section 412 of the Code of such Person to any "employee pension benefit plan" (as defined in Section 3(2) of ERISA) maintained at any time, or contributed to, by such Person or any other Person which is under common control (within the meaning of Section 414(b) or (c) of the Code) with such Person, (i) all Contingent Obligations of such Person and (j) all obligations of such Person in respect of Hedge Transactions; provided, however, that Indebtedness shall specifically exclude accounts payable arising in the ordinary course of business.

"***Institutional Investor***" means (a) any original purchaser of a Note, (b) any holder of a Note holding more than 5% of the aggregate principal amount of the Notes then outstanding, and (c) any bank, trust company, savings and loan association or other financial institution, any pension plan, any investment company, any insurance company, any broker or dealer, or any other similar financial institution or entity, regardless of legal form.

"***Interest Payment Date***" means (i) each April 15 and October 15, of each calendar year commencing on October 15, 2003 and (ii) the Maturity Date, or, in each such case, if such day is not a Business Day, then the next succeeding Business Day.

"***Lien***" means, with respect to any Person, any mortgage, lien, pledge, charge, security interest or other encumbrance, or any interest or title of any vendor, lessor, lender or other secured party to or of such Person under any conditional sale or other title retention agreement or Capital Lease, upon or with respect to any property or asset of such Person (including in the case of stock, stockholder agreements, voting trust agreements and all similar arrangements).

"***Make-Whole Amount***" is defined in Section 8.6.

"***Material***" means material in relation to the business, operations, affairs, financial condition, assets, properties, or prospects of the Company and its Subsidiaries taken as a whole.

"***Material Adverse Effect***" means a material adverse effect on (a) the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries taken as a whole, or (b) the ability of the Company to perform its obligations under this Agreement and the Notes, or (c) the validity or enforceability of this Agreement or the Notes.

"***Maturity Date***" means April 11, 2016.

"***Memorandum***" is defined in Section 5.3.

"***Moody's***" means Moody's Investor Service, Inc. or any successor thereto.

"***Multiemployer Plan***" means any Plan that is a "multiemployer plan" (as such term is defined in section 4001(a)(3) of ERISA).

"***Non-Recourse Indebtedness***" means Indebtedness which is not an obligation of, and is otherwise without recourse to, the assets or revenues of the Company or any Subsidiary of the Company.

"***Notes***" is defined in Section 1.

"***Officer's Certificate***" means a certificate of a Senior Financial Officer or of any other officer of the Company whose responsibilities extend to the subject matter of such certificate.

"***Other Agreements***" is defined in Section 2.

"***Other Purchasers***" is defined in Section 2.

"***PBGC***" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA or any successor thereto.

"***Person***" means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization, or a government or agency or political subdivision thereof.

"***Plan***" means an "employee benefit plan" (as defined in section 3(3) of ERISA) that is or, within the preceding five years, has been established or maintained, or to which contributions are or, within the preceding five years, have been made or required to be made, by the Company or any ERISA Affiliate or with respect to which the Company or any ERISA Affiliate may have any liability.

"***Preferred Stock***" means any class of capital stock of a corporation that is preferred over any other class of capital stock of such corporation as to the payment of dividends or the payment of any amount upon liquidation or dissolution of such corporation.

"***property***" or "***properties***" means, unless otherwise specifically limited, real or personal property of any kind, tangible or intangible, choate or inchoate.

"***PTE***" means a Prohibited Transaction Exemption issued by the Department of Labor.

"***QPAM Exemption***" means Prohibited Transaction Class Exemption 84-14 issued by the United States Department of Labor.

"***Redeemable Preferred Stock***" means, with respect to the Preferred Stock of any Person, each share of such Persons' Preferred Stock that is:

(a) redeemable, payable or required to be purchased or otherwise retired or extinguished, or convertible into Indebtedness of such Person (i) at a fixed or determinable date, whether by operation of sinking fund or otherwise, (ii) at the option of any Person other than such Person, or (iii) upon the occurrence of a condition not solely within the control of such Person; or

(b) convertible into other Redeemable Preferred Stock.

"***Required Holders***" means, at any time, the holders of at least 51% in principal amount of the Notes at the time outstanding (exclusive of Notes then owned by the Company or any of its Affiliates).

"***Responsible Officer***" means any Senior Financial Officer and any other officer of the Company with responsibility for the administration of the relevant portion of this agreement.

"***S&P***" means Standard and Poor's Rating Services, a division of the McGraw-Hill Companies, Inc., or any successor thereto.

"***Securities Act***" means the Securities Act of 1933, as amended from time to time.

"***Senior Financial Officer***" means the chief financial officer, principal accounting officer, treasurer or comptroller of the Company.

"***Subsidiary***" means, as to any Person, any corporation, association or other business entity in which such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) ordinarily, in the absence of contingencies, to elect a majority of the directors (or Persons performing similar functions) of such entity, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries (unless such partnership or joint venture can and does ordinarily take major business actions without the prior approval of such Person or one or more of its Subsidiaries). Unless the context otherwise clearly requires, any reference to a "Subsidiary" is a reference to a Subsidiary of the Company.

"***TECO***" means TECO Energy, Inc., a Florida corporation.

"***TECO Subordinated Debentures***" means the 8.50% Junior Subordinate Notes due 2041, issued by TECO on December 20, 2000, in the original principal amount of $206,200,000.

"***Total Debt***" means, without duplication, Indebtedness of the Company and its Subsidiaries determined on a consolidated basis outstanding at the date of any determination thereof, but expressly excluding (a) Non-Recourse Indebtedness of the Company and its Subsidiaries, and (b) junior subordinated debentures issued by the Company and its Subsidiaries, *provided* that such junior subordinated debentures have subordination and deferral features substantially similar to those in the TECO Subordinated Debentures, and (c) preferred stock of Company and its Subsidiaries in an amount not to exceed 10% of the Company's Capitalization on such date.

"***Wholly-Owned Subsidiary***" means, at any time, any Subsidiary one hundred percent (100%) of all of the equity interests (except directors' qualifying shares) and voting interests of which are owned by any one or more of the Company and the Company's other Wholly-Owned Subsidiaries at such time.

SCHEDULE 4.9

CHANGES IN CORPORATE STRUCTURE

None.

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SCHEDULE 5.3

DISCLOSURE MATERIALS

None.

SCHEDULE 5.4

SUBSIDIARIES OF THE COMPANY AND OWNERSHIP OF SUBSIDIARY STOCK

Officers and Directors
Tampa Electric Company

Directors	
D. Ausley	Director
S. L. Baldwin	Director
R. D. Fagan	Director
J. L. Ferman, Jr.	Director
L. Guinot, Jr.	Director
I. D. Hall	Director
S. W. Hudson	Director
T. L. Rankin	Director
W. D. Rockford	Director
W. P. Sovey	Director
J. T. Touchton	Director
J. A. Urquhart	Director
J. O. Welch, Jr.	Director

Officers	
R. D. Fagan	Chairman of the Board and Chief Executive Officer
J. B. Ramil	President
W. N. Cantrell	President-Peoples Gas System
G. L. Gillette	Senior Vice President-Finance and Chief Financial Officer
P. L. Barringer	Vice President-Controller (Principal Accounting Officer) and Assistant Secretary
C. E. Childress	Vice President-Human Resources
W. W. Hopkins	Vice President-Corporate Communications
S. W. Callahan	Treasurer and Assistant Secretary
S. M. McDevitt	General Counsel
D. E. Schwartz	Secretary
S. A. Myers	Tax Officer

Tampa Electric Division Officers	
C. R. Black	Vice President-Energy Supply, Engineering and Construction
M. N. Dominguez	Vice President-Chief Information Officer
T. L. Hernandez	Vice President-Energy Delivery
H. W. Smith	Vice President-Energy Supply, Trading and Services
W. T. Whale	Vice President-Energy Supply, Operations

K. M. Mincey	Assistant Vice President-Information Technology

Peoples Gas System Division Officers

W. N. Cantrell	President
M. J. Pennino	Vice President-Operations
F. J. Sivard	Vice President-Accounting and Regulatory

Subsidiaries of the Company

NAME/HEADQUARTER'S MAILING ADDRESS	JURISDICTION	PERCENTAGE OWNED
TERMCO, Inc. 702 N. Franklin Street Tampa, FL 33602	Florida	100 by Tampa Electric Company
Power Engineering & Construction, Inc. 702 N. Franklin Street Tampa, FL 33602	Florida	100 by Tampa Electric Company
See attached chart for a list of the Company's other Affiliates		

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SCHEDULE 5.5

FINANCIAL STATEMENTS

The Company's consolidated financial statements for the three fiscal years ended December 31, 2002 audited by PricewaterhouseCoopers, LLP contained in the Tampa Electric Company and TECO Energy, Inc. combined Annual Report on Form 10-K filed with the Securities and Exchange Commission, beginning on page 104 of such report.

SCHEDULE 5.8

CERTAIN LITIGATION

None.

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SCHEDULE 5.11

PATENTS, ETC.

None.

SCHEDULE 5.12

ERISA PLAN OBLIGATIONS

The post retirement net benefit obligation for the Company and its subsidiaries is described in Footnote H to the audited financial statements for the year ended December 31, 2002. The annual payments associated with other postretirement benefit obligations of the Company and its Subsidiaries are not Material. The Company has the right to terminate or modify the plans in whole or in part at any time.

SCHEDULE 5.15

EXISTING INDEBTEDNESS AND LIENS

(a) Existing Unsecured Indebtedness

Tampa Electric Company

(millions) *Unsecured Indebtedness outstanding as of Dec. 31, 2002*	*Due*		*Amount Outstanding*
Tampa Electric			
Installment contracts payable (1):			
5.1% Refunding bonds (effective rate of 5.78%) (2)	10/1/2013	$	60.7
5.5% Refunding bonds (effective rate of 6.35%) (2)	10/1/2023		86.4
Notes: 6.875% (effective rate of 6.98%) (3)	6/15/2012		210.0
Notes: 6.375% (effective rate of 7.34%) (3)	8/15/2012		330.0
Notes: 5.375% (effective rate of 5.58%) (3)	8/15/2007		125.0
			812.1
Peoples Gas System			
Senior Notes (4)			
10.35% (5)	7/2/2007		4.2
10.33% (6)	7/2/2008		5.6
10.3% (7)	7/2/2009		7.2
9.93% (8)	7/2/2010		7.4
8.0% (9)	7/2/2012		25.4
Notes: 6.875% (effective rate of 6.98%) (3)	6/15/2012		40.0
Notes: 6.375% (effective rate of 7.34%) (3)	8/15/2012		70.0
Notes: 5.375% (effective rate of 5.58%) (3)	8/18/2007		25.0
			184.8
Long-term debt		$	996.9
Short-term debt			
Commercial paper (10)		$	10.5
Other			
Letters of credit		$	0.9

1) Tax exempt securities.

2) Proceeds of these bonds were used to refund bonds with interest rates of 5.75%—8%.

3) These notes are subject to redemption in whole or in part, at any time, at the option of the company.

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4) These long-term debt agreements contain various restrictive covenants, including provisions related to interest coverage, maximum levels of debt to total capitalization and limitations on dividends.

5) Required prepayment of $0.8 million annually due July 2, 2003, July 2, 2004, July 2, 2005, July 2, 2006 and $1.0 million July 2, 2007.

6) Required prepayment of $0.8 million due July 2, 2003, July 2, 2004, and $1.0 million annually July 2, 2005, July 2, 2006, July 2, 2007, July 2, 2008.

7) Required prepayment of $0.8 million due July 2, 2003, July 2, 2004, July 2, 2005 , and $1.0 million annually July 2, 2006, July 2, 2007, July 2, 2008 and $1.8 million July 2, 2009.

8) Required prepayment of $0.8 million due July 2, 2003, July 2, 2004, July 2, 2005 , and $1.0 million annually July 2, 2006, July 2, 2007, July 2, 2008, July 2, 2009, July 2, 2010.

9) Required prepayment of $2.1 million due July 2, 2003, July 2, 2004, July 2, 2005, July 2, 2006, July 2, 2007, and $2.7 million annually July 2, 2008, July 2, 2009, July 2, 2010, and $3.4 million annually July 2, 2011, July 2, 2012.

10) The Company has an undrawn bank credit facility of $300 million with a maturity date of November 2003. On April 8, 2003 the Company's commercial paper balance was $138.5 million.

(b) Existing Secured Indebtedness / Liens

Substantially all of the property, plant and equipment of electric division of the Company is pledged as collateral to secure its first mortgage bonds, issued under the Indenture of Mortgage dated as of August 1, 1946, as supplemented and amended.

The installment contracts payable identified below are secured by the equipment and other project assets financed or refinanced with the proceeds of such installment contracts:

(millions) *Secured Indebtedness outstanding as of Dec. 31, 2002*	*Due*	*Amount Outstanding*
Tampa Electric		
First mortgage bonds (issuable in series):		
7.75% (effective rate of 7.96%) (1)	11/1/2022	$ 75.0
6.125% (effective rate of 6.61%)	5/1/2003	75.0
Installment contracts payable (3):		
6.25% Refunding bonds (effective rate of 6.81%) (4)	12/1/2034	86.0
5.85% (effective rate of 5.88%)	12/1/2030	75.0
4% for 2002 (effective rate of 4.21%) and variable rate of 1.45% for 2001 (2) (5)	9/1/2025	51.6
4% for 2002 (effective rate of 4.16%) and variable rate of 1.47% for 2001 (2) (5)	5/15/2018	54.2
4.25% for 2002 (effective rate of 4.43%) and variable rate of	11/1/2020	

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(millions) *Secured Indebtedness outstanding as of Dec. 31, 2002*	*Due*	*Amount Outstanding*
1.52% for 2001 (2) (5)		20.0
Long-term debt		$ 436.8

1) Required Sinking Fund Payments of $0.8 million are due by October 31 of each year. All such sinking fund payments may be satisfied by the substitution of property in lieu of cash payments.

2) Composite year-end interest rate.

3) Tax exempt securities.

4) Proceeds of these bonds were used to refund bonds with an interest rate of 9.9% in February 1995. For accounting purposes, interest expense has been recorded using a blended rate of 6.52% on the original and refunding bonds, consistent with regulatory treatment.

5) The interest rate on these bonds was fixed for a five-year term on Aug. 5, 2002.

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EXHIBIT 1

FORM OF NOTE

TAMPA ELECTRIC COMPANY

6.25% SENIOR NOTE DUE APRIL 11, 2016

No. [_____] [_________]

$[_______] PPN: 875127 B#8

FOR VALUE RECEIVED, the undersigned, TAMPA ELECTRIC COMPANY (herein called the "*Company*"), a corporation organized and existing under the laws of the State of Florida, hereby promises to pay to [__________], or registered assigns, the principal sum of [ ] DOLLARS (or so much thereof as shall not have been prepaid) on April 11, 2016, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the Applicable Rate (as defined in the Note Purchase Agreements referred to below), payable semiannually, on the 15th day of April and October in each year and on the Maturity Date (as defined in the Note Purchase Agreements referred to below), commencing with the 15th day of October next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) to the extent permitted by law, on any overdue payment (including any overdue prepayment) of principal, any overdue payment of interest and any overdue payment of any Make-Whole Amount (as defined in the Note Purchase Agreements referred to below), payable as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the Default Rate (as defined in the Note Purchase Agreements referred to below).

Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America at the principal corporate trust office of The Bank of New York in New York, New York or at such other place as the Company shall have designated by written notice to the holder of this Note as provided in the Note Purchase Agreements referred to below.

This Note is one of a series of Senior Notes (herein called the "Notes") issued pursuant to separate Note Purchase Agreements, dated as of April 11, 2003 (as from time to time amended, the "Note Purchase Agreements"), between the Company and the respective Purchasers named therein and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Note Purchase Agreements and (ii) to have made the representation set forth in Section 6.2 of the Note Purchase Agreements.

This Note is a registered Note and, as provided in the Note Purchase Agreements, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written

instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

The Company will make required prepayments of principal on the dates and in the amounts specified in the Note Purchase Agreements. This Note is also subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Note Purchase Agreements, but not otherwise.

If an Event of Default, as defined in the Note Purchase Agreements, occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount) and with the effect provided in the Note Purchase Agreements.

This Note shall be construed and enforced in accordance with the laws of the State of New York.

TAMPA ELECTRIC COMPANY

By________________________
Title:

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EXHIBIT 4.4(a)

FORM OF OPINION OF SPECIAL COUNSEL
TO THE COMPANY

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EXHIBIT 4.4(b)

FORM OF OPINION OF SPECIAL COUNSEL
TO THE PURCHASERS

PALMER & DODGE LLP
111 HUNTINGTON AVENUE AT PRUDENTIAL CENTER
BOSTON, MA 02199-7613

April 11, 2003

To the Purchasers Named on
the Attached Schedule I

Re: 6.25% Senior Notes Due April 11, 2016 of Tampa Electric Company

Ladies and Gentlemen:

We are furnishing this opinion to you pursuant to Section 4.4 of the Note Purchase Agreements (the "Purchase Agreements") dated April 11, 2003, between Tampa Electric Company (the "Company") and you, as a purchaser (the "Purchaser"), relating to the sale by the Company of $250,000,000 aggregate principal amount of its 6.25% Senior Notes due April 11, 2016 (the "Notes"). Capitalized terms not otherwise defined in this opinion have the meanings assigned to them in the Purchase Agreement.

We have examined the Notes and the Purchase Agreements (together, the "Transaction Documents"). We have also examined such other documents and certificates as we consider necessary to render this opinion. As to various questions of fact material to our opinion, we have relied upon the representations made in or pursuant to the Purchase Agreements and upon certificates and other inquiries of officers of the Company. We are also relying upon the certificates of public officials. We have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to original documents of all documents submitted to us as copies.

Our opinion in paragraph 2 below is subject to bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and remedies and to general equity principles (whether considered in a proceeding in equity or at law). We express no opinion with respect to any provision of the Transaction Documents to the extent that such provision purports to exculpate any person thereby or grants rights of indemnification which may violate public policy, and insofar as enforceability of such provision may be limited under state securities laws.

In giving this opinion, we have relied as to matters of Florida law on the opinion of Sheila M. McDevitt, Senior Vice President - General Counsel to the Company, being delivered to you today. We have examined such opinion, and in our opinion both you and we are justified in relying thereon.

The opinions rendered herein are limited to the laws of the Commonwealth of Massachusetts, the federal laws of the United States and, insofar as we have relied upon the foregoing opinion of Sheila M. McDevitt, the law of the State of Florida. For purposes of our

MAIN 617.239.0100 FAX 617.227.4420 www.palmerdodge.com

opinion as to the enforceability of the Transaction Documents, we are rendering such opinion as though the laws of Massachusetts governed, notwithstanding the recitations in such instruments that the laws of another jurisdiction govern.

References in this opinion to matters known to us mean the actual knowledge of the lawyers in this firm responsible for preparing this opinion and who were primarily responsible for the representation of the Company in connection with the Transaction Documents and the transaction contemplated thereby after consultation with such other lawyers in the firm and review of such documents in our possession as they considered appropriate.

Based on the foregoing, we are of opinion that:

1. The Company has been duly incorporated and is a validly existing corporation in good standing under the laws of the State of Florida and has corporate power and authority to issue and to sell the Notes and to enter into and perform its obligations under the Transaction Documents.

2. The Transaction Documents have been duly authorized, executed and delivered by the Company, and such Transaction Documents constitute its valid and binding obligations enforceable against it in accordance with their terms.

3. No filing, registration, or qualification with, or authorization, approval, consent, license, order or decree of, any court or governmental agency or body (including the Florida Public Service Commission) is necessary or required in connection with the due authorization, execution and delivery of the Purchase Agreements, for the offering, issuance, sale or delivery of the Notes by the Company or the performance by the Company of its obligations under the Transaction Documents, except such as have been obtained or made, or may be required under state securities laws as to which we express no opinion and assuming the accuracy of the Purchaser's representations set forth in Section 6 of the Purchase Agreement with respect to any resale of the Notes in conformity with such representations.

4. The execution and delivery by the Company of the Transaction Documents and the performance by the Company of its obligations under the Transaction Documents do not and will not (i) violate, constitute a breach of, or default under or require any prepayment of any indebtedness pursuant to the terms of any agreement or instrument that is listed as an exhibit to the Company's Form 10-K for the year ended December 31, 2002 or any of the Company's Forms 8-K filed thereafter but on or prior to the date hereof, or (ii) violate (x) the charter or by-laws of the Company, (y) any applicable federal law, statute, rule or regulation (including, without limitation, Regulations T, U or X of the Board of Governors of the Federal Reserve System), or (z) any judgment, order, arbitral award, writ or decree known to us of any government, government instrumentality, court or arbitral proceeding.

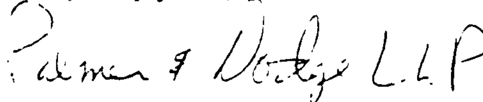
5. Neither the Company nor any Subsidiary is an "investment company" as such term is defined in the Investment Company Act of 1940, as amended. The Company and its Subsidiaries are exempt from regulation under the Public Utility Holding Company Act of 1935, as amended, except for Section 9(a) thereto relating to the acquisition of securities of other public utility companies.

6. To our knowledge, no action, suit or proceeding to which the Company is a party is pending or overtly threatened in writing that questions the validity of the Transaction Documents.

7. It is not necessary in connection with the offer, sale and delivery of the Notes by the Company to the Purchasers pursuant to the Purchase Agreements to register the Notes under the Securities Act or to qualify an indenture in respect thereof under the Trust Indenture Act of 1939, as amended, assuming the accuracy of the Purchaser's representations set forth in Section 6 of the Purchase Agreement including with respect to the resale of the Notes in conformity with such representations.

At the request of our client, this opinion is furnished to you in connection with the transaction described above and may not be relied on without our prior written consent for any other purpose or by anyone else except that permitted purchasers of the Notes, the Securities Valuation Office of the National Association of Insurance Commissioners (or any successor to the duties thereof) or any other governmental authority that regulates the holders of the Notes may rely on this opinion for any purpose.

Very truly yours,



PALMER & DODGE LLP

Schedule I

American General Life Insurance Company

American International Life Assurance Company of New York

The Variable Annuity Life Insurance Company

Teachers Insurance and Annuity Association of America

TIAA-CREF Life Insurance Company

Jefferson-Pilot Life Insurance Company

Jefferson Pilot Financial Insurance Company

New York Life Insurance Company

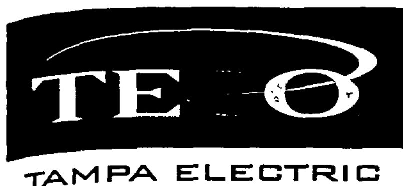
New York Life Insurance and Annuity Corporation

New York Life Insurance and Annuity Corporation
Institutionally Owned Life Insurance Separate Account

Metropolitan Life Insurance Company

John Hancock Life Insurance Company

John Hancock Variable Life Insurance Company



April 11, 2003

To the Purchasers Named
on the Attached Schedule I

Ladies and Gentlemen:

As General Counsel of Tampa Electric Company, a Florida corporation (the "Company"), I have acted as counsel to the Company in connection with the sale by the Company of $250,000,000 aggregate principal amount of its 6.25% Senior Notes due April 11, 2016 (the "Notes"). This opinion is being delivered pursuant to Section 4.4 of the Purchase Agreements (the "Purchase Agreements") dated April 11, 2003 (together with the Notes, the "Transaction Documents"), among the Company, and you, as a purchaser of the Notes (the "Purchaser").

In my examination I have assumed the genuineness of all signatures (other than signatures made on behalf of the Company), including endorsements, the legal capacity of natural persons, the authenticity of all documents submitted to me as originals, the conformity to original documents of all documents submitted to me as certified or photostatic copies and the authenticity of the originals of such copies. As to facts material to this opinion which I did not independently establish or verify, I have relied upon statements and representations of officers of the Company and other representatives and public officials. Also, with your approval, I have relied as to certain legal matters on advice of other lawyers employed by the Company who are more familiar with such matters.

In rendering the opinions set forth herein, I, or attorneys under my supervision, have examined and relied on originals or copies of the Transaction Documents and have also examined the governing documents and corporate records, agreements, certificates of public officials, orders, writs, judgments, awards, and decrees that affect or purport to affect the Company and such other documents and matters of law as I have deemed necessary or appropriate as a basis for the opinions set forth below.

Capitalized terms not otherwise defined in this opinion have the meanings assigned to them in the Purchase Agreements. When used in this opinion, the phrase "to the best of my knowledge" or equivalent words with respect to a matter means that nothing has come to my attention in the course of my representation of the Company which would lead me to question such matter but that, except as expressly stated, I have not made any special investigation with respect thereto.

I am a member of The Florida Bar, and I express no opinion as to the laws of any jurisdiction other than the applicable laws of the State of Florida.

TAMPA ELECTRIC COMPANY
P. O. BOX 111 TAMPA, FL 33601-0111

(813) 228-4111

AN EQUAL OPPORTUNITY COMPANY
HTTP://WWW.TAMPAELECTRIC.COM

CUSTOMER SERVICE:
HILLSBOROUGH COUNTY (813) 223-0800
OUTSIDE HILLSBOROUGH COUNTY 1 (888) 223-0800

I express no opinion with respect to any provision of the Transaction Documents to the extent that such provision purports to exculpate any person thereby or grants rights of indemnification which may violate public policy, and insofar as enforceability of such provision may be limited under state securities laws.

Based upon and subject to the foregoing and subject to the limitations, qualifications, exceptions and assumptions set forth herein, I am of the opinion that:

1. The Company has been duly incorporated and is a validly existing corporation in good standing under the laws of the State of Florida and has corporate power and authority to issue and to sell the Notes and to enter into and perform its obligations under the Transaction Documents.

2. The Transaction Documents have been duly authorized, executed and delivered by the Company.

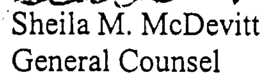
3. No filing with, or authorization, approval, consent, license, order, registration, qualification or decree of any governmental authority (including the Florida Public Service Commission) is necessary or required in connection with the due authorization, execution or delivery of the Transaction Documents by the Company or the performance by the Company of its obligations under the Transaction Documents, except such as have been already obtained or made and except as may be required under such state securities laws as to which I express no opinion.

4. The execution and delivery by the Company of the Transaction Documents and the performance by the Company of its obligations under the Transaction Documents do not and will not whether with or without the giving of notice or lapse of time or both (i) violate, constitute a breach of, or default under, require any prepayment of any indebtedness pursuant to the terms of, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company pursuant to any agreement or instrument that is listed as an exhibit to the Company's Form 10-K for the year ended December 31, 2002 or any of the Company's Forms filed thereafter but on or prior to the date of this opinion, or (ii) violate (x) the charter or by-laws of the Company, (y) any applicable law, statute, rule or regulation, or (z) any judgment, order, arbitral award, writ or decree known to me of any government, government instrumentality, court or arbitral proceeding.

5. To my knowledge, no action, suit or proceeding to which the Company is a party is pending or overtly threatened in writing that, if adversely determined, could reasonably be expected to negate the validity of the Transaction Documents.

This opinion is furnished to you as Purchasers and is solely for your benefit, except that (i) Palmer & Dodge LLP may rely on this opinion in rendering their opinions to you pursuant to the Purchase Agreements, and (ii) permitted purchasers of the Notes, the Securities Valuation Office of the National Association of Insurance Commissioners (or any successor to the duties thereof) or any other governmental authority that regulates the holders of the Notes may rely on this opinion for any purpose.

Very truly yours,



Sheila M. McDevitt
General Counsel

FRESHFIELDS BRUCKHAUS DERINGER LLP

NEW YORK
520 Madison Avenue
34th Floor
New York, NY 10022
T +1 212 277 4000
F +1 212 277 4001
W freshfields.com

To the Purchasers listed on Annex 1 hereto

DOC ID NY198948/14
OUR REF TBD/LMO
YOUR REF
CLIENT MATTER NO 085890-0025

April 11, 2003

Tampa Electric Company: 6.25% Senior Notes due April 11, 2016

Ladies and Gentlemen:

We have acted as your special New York counsel in connection with the issuance by Tampa Electric Company (the ***Company***) of its 6.25% Senior Notes due April 11, 2016 in the aggregate principal amount of U.S.$250,000,000 (collectively, the ***Notes***), and the purchase by you (each a ***Purchaser***), pursuant to the several Note Purchase Agreements made by you with the Company (the ***Note Purchase Agreements***), of Notes in the aggregate principal amounts set forth in Schedule A to the Note Purchase Agreements. All capitalized terms used but not defined in this opinion letter have the respective meanings given to such terms in each Note Purchase Agreement. This opinion letter is delivered to you pursuant to Section 4.4(b) of the Note Purchase Agreements.

In rendering the opinions expressed below, we have examined the following documents:

(a) each Note Purchase Agreement; and

(b) the Notes being purchased by you today.

In our examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity with authentic originals of all documents submitted to us as copies. When relevant facts were not independently established, we have relied upon the representations made in or pursuant to each Note Purchase Agreement.

The Freshfields Bruckhaus Deringer LLP partners include members of the Bars of the State of New York and the District of Columbia, Solicitors of the Supreme Court of England and Wales and Rechtsanwälte of Germany

Amsterdam Bangkok Barcelona Beijing Berlin Bratislava Brussels Budapest Cologne Düsseldorf Frankfurt am Main Hamburg Hanoi Ho Chi Minh City Hong Kong London Madrid Milan Moscow Munich New York Paris Rome Shanghai Singapore Tokyo Vienna Washington

In rendering the opinions expressed below, we have assumed, to the extent relevant with respect to the documents referred to in this opinion letter, that:

(i) such documents have been duly authorized by, have been duly executed and delivered by, and (except to the extent expressly set forth in the opinions expressed in paragraphs 1 and 2 below) constitute legal, valid, binding and enforceable obligations of, all of the parties to such documents;

(ii) all signatories to such documents have been duly authorized;

(iii) all of the parties to such documents are duly organized or formed and validly existing and have the power and authority (corporate, partnership, limited liability company or other) to execute, deliver and perform such documents; and

(iv) all of the parties to such documents have obtained all approvals, authorizations, consents and licenses (including any foreign exchange licenses), and have made all filings and registrations with all governmental or regulatory authorities or agencies, required for the execution or delivery of, or for the incurrence or performance of any obligations under, any of such documents, and the incurrence and performance by the Company of its obligations under each document to which the Company is a party do not violate the law of any jurisdiction where such obligations are to be incurred or performed.

Based upon and subject to the foregoing and subject also to the comments and qualifications set forth below, and having considered such questions of law as we have deemed necessary as a basis for the opinions expressed below, we are of the opinion that:

1. Each Note Purchase Agreement constitutes the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as may be limited by (a) bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or transfer or other similar laws relating to or affecting the rights of creditors generally (and by the possible judicial application of foreign laws or governmental action affecting the rights of creditors generally) and (b) the application of general principles of equity (regardless of whether considered in a proceeding in equity or at law), including, without limitation, (i) the possible

unavailability of specific performance, injunctive relief or any other equitable remedy and (ii) concepts of materiality, reasonableness, good faith and fair dealing.

2. Each of the Notes being purchased by you today constitutes the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its respective terms, except as may be limited by (a) bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or transfer or other similar laws relating to or affecting the rights of creditors generally (and by the possible judicial application of foreign laws or governmental action affecting the rights of creditors generally) and (b) the application of general principles of equity (regardless of whether considered in a proceeding in equity or at law), including, without limitation, (i) the possible unavailability of specific performance, injunctive relief or any other equitable remedy and (ii) concepts of materiality, reasonableness, good faith and fair dealing.

3. The execution and delivery by the Company of, and performance by the Company of its obligations under, the Note Purchase Agreements do not and will not violate any applicable law, rule or regulation of the State of New York.

4. It is not necessary in connection with the offer, sale and delivery of said Notes under the circumstances contemplated by the Note Purchase Agreements to register said Notes under the Securities Act or to qualify an indenture in respect of said Notes under the Trust Indenture Act of 1939, as amended (the ***Trust Indenture Act***).

The foregoing opinions are subject to the following comments and qualifications:

(A) The enforceability of provisions in each Note Purchase Agreement to the effect that terms may not be waived or modified except in writing may be limited under certain circumstances.

(B) We express no opinion as to (i) the effect of the laws of any jurisdiction in which any Purchaser or the Company is located (other than the State of New York) that limit the interest, fees or other charges a lender may impose for the loan or use of money or other credit; (ii) whether a court outside the State of New York will honor the choice of New York law to govern each Note Purchase Agreement or the Notes; (iii) Section 22.7(a) of the Note Purchase Agreements, insofar as such provision relates to the subject matter jurisdiction of the United

States District Court for the Southern District of New York to adjudicate any controversy related to the Note Purchase Agreements; and (iv) the waiver of inconvenient forum set forth in Section 22.7(b) of the Note Purchase Agreements with respect to proceedings in the United States District Court for the Southern District of New York.

(C) We express no opinion as to whether, if any Purchaser should resell any of the Notes, registration of the Notes under the Securities Act, qualification of an indenture with respect to the Notes under the Trust Indenture Act, qualification or registration under the securities laws of any State of the United States of America, any filing to perfect any exemption from any such qualification or registration, or any other consent, approval, authorization, registration, qualification or filing, would be required in connection with such resale. Except as expressly set forth in our opinion in paragraph 4 above, we express no opinion as to any Federal securities laws or regulations or any state "Blue Sky" laws or regulations.

(D) We express no opinion as to any consent, approval, authorization, registration or filing that may be required under any applicable law or regulation relating to the conduct of the business of insurance by any Purchaser.

We are members of the Bar of the State of New York and the foregoing opinions are limited to matters involving the Federal law of the United States of America and the law of the State of New York, and we do not express any opinion as to the law of any other jurisdiction.

At your request, this opinion letter is provided to you by us in our capacity as counsel to the purchasers under the Note Purchase Agreements, and this opinion letter may not be relied upon by any Person other than you or for any purpose other than in connection with the transactions contemplated by the Note Purchase Agreements without, in each instance, our prior written consent. The Securities Valuation Office of the National Association of Insurance Commissioners (or any successor to the duties thereof) may receive a copy of this opinion, but may not rely on this opinion without our prior written consent. At your request, we hereby consent to reliance hereon by any future transferees of the Notes purchased by you that is an Institutional Investor; provided that such person accepts that this opinion speaks only as of the date hereof and to its addressees and that we have no responsibility or obligation to update this

FRESHFIELDS BRUCKHAUS DERINGER LLP

opinion, to consider its applicability or correctness to other that its addressees, or to take into account changes in law, facts or any other development of which we may later become aware.

Very truly yours,

Freshfields Bruckhaus Deringer LLP

NY198948/14+

ANNEX 1

PURCHASERS

AMERICAN GENERAL LIFE INSURANCE COMPANY

AMERICAN INTERNATIONAL LIFE ASSURANCE COMPANY OF NEW YORK

JEFFERSON-PILOT LIFE INSURANCE COMPANY

JEFFERSON PILOT FINANCIAL INSURANCE COMPANY

JOHN HANCOCK LIFE INSURANCE COMPANY

JOHN HANCOCK VARIABLE LIFE INSURANCE COMPANY

METROPOLITAN LIFE INSURANCE COMPANY

NEW YORK LIFE INSURANCE COMPANY

NEW YORK LIFE INSURANCE AND ANNUITY CORPORATION

NEW YORK LIFE INSURANCE AND ANNUITY CORPORATION INSTITUTIONALLY OWNED LIFE INSURANCE SEPARATE ACCOUNT

TEACHERS INSURANCE AND ANNUITY ASSOCIATION OF AMERICA

TIAA-CREF LIFE INSURANCE COMPANY

THE VARIABLE ANNUITY LIFE INSURANCE COMPANY

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K
CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported):
April 11, 2003

TAMPA ELECTRIC COMPANY
(Exact name of registrant as specified in its charter)

Florida	**1-5007**	**59-0475140**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

702 North Franklin Street, Tampa Florida 33602
(Address of principal executive offices and zip code)

(813) 228-4111
(Registrant's telephone number, including area code)

Co-Registrant

Exact name of registrant as specified in its charter	State or other jurisdiction of incorporation	IRS Employer Identification No.
TECO Energy, Inc.	**Florida**	**59-2052286**

Item 5. Other

On April 11, 2003, Tampa Electric Company sold $250,000,000 principal amount of 6.25% Senior Notes due April 11, 2016 (the "Notes") pursuant to Note Purchase Agreements between Tampa Electric Company and each of the Purchasers of the Notes. The Note Purchase Agreement between Tampa Electric Company and each of the Purchasers whose names appear in the acceptance forms at the end thereof is filed as Exhibit 10.1.

Item 7. Exhibits.

10.1 Note Purchase Agreement dated as of April 11, 2003, between Tampa Electric Company and each of the Purchasers whose names appear in the acceptance forms at the end thereof.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrants have duly caused this report to be signed on their behalf by the undersigned hereunto duly authorized.

Date: April 11, 2003

TAMPA ELECTRIC COMPANY

By: /s/ P.H. Barringer
P.H. Barringer
Vice President - Controller

Date: April 11, 2003

TECO ENERGY, INC.

By: /s/ S. A. Myers
S. A. Myers
Vice President – Corporate Accounting and Tax

EXHIBIT INDEX

Exhibit No.	Description
10.1	Note Purchase Agreement dated as of April 11, 2003, between Tampa Electric Company and each of the Purchasers whose names appear in the acceptance forms at the end thereof.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

X Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2003

OR

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

Commission File No.	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
1-8180	**TECO ENERGY, INC.** (a Florida corporation) TECO Plaza 702 N. Franklin Street Tampa, Florida 33602 (813) 228-4111	**59-2052286**
1-5007	**TAMPA ELECTRIC COMPANY** (a Florida corporation) TECO Plaza 702 N. Franklin Street Tampa, Florida 33602 (813) 228-4111	**59-0475140**

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
Equity Security Units	New York Stock Exchange

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

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 [X] 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 amendments to this Form 10-K. [ ]

Indicate by check mark whether TECO Energy, Inc. is an accelerated filer (as defined in Exchange Act Rule 12b-2).
YES [X] NO [ ]

Indicate by check mark whether Tampa Electric Company is an accelerated filer (as defined in Exchange Act Rule 12b-2). YES [ ] NO [X]

The aggregate market value of TECO Energy, Inc.'s common stock held by nonaffiliates of the registrant as of June 30, 2003 was $2,117,879,345.

(continued)

The aggregate market value of Tampa Electric Company's common stock held by nonaffiliates of the registrant as of June 30, 2003 was zero.

The number of shares of TECO Energy, Inc.'s common stock outstanding as of February 29, 2004 was 188,175,926. As of February 29, 2004, 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 TECO Energy, Inc.'s 2003 Annual Report are incorporated by reference into Parts II and IV.

Portions of the Definitive Proxy Statement relating to the 2004 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.

Index to Exhibits begins on page 63

PART I

Item 1. BUSINESS.

TECO ENERGY

TECO Energy, Inc. (TECO Energy) was incorporated in Florida in 1981 as part of a restructuring in which it became the parent corporation of Tampa Electric Company. TECO Energy and its subsidiaries had 5,753 employees as of Dec. 31, 2003.

TECO Energy's Corporate Governance Guidelines, the charter of each committee of the Board of Directors, and the code of ethics applicable to all directors, officers and employees, *the Standards of Integrity*, are available on the Investor Relations page of TECO Energy's website, www.tecoenergy.com, or in print free of charge to any shareholder who requests the information. TECO Energy also makes its Securities and Exchange Commission (SEC) (www.sec.gov) filings available free of charge on the Investor Relations page of TECO Energy's web site.

TECO Energy currently owns no operating assets but holds all of the common stock of Tampa Electric Company and directly, or through its subsidiary TECO Diversified, Inc., the other subsidiaries listed below. Unless otherwise indicated by the context, "TECO Energy" means the holding company, TECO Energy, Inc., and its subsidiaries, and references to individual subsidiaries of TECO Energy, Inc. refer to that company and its respective subsidiaries. TECO Energy is a public utility holding company exempt from registration under the Public Utility Holding Company Act of 1935.

TECO Energy is a holding company for regulated utilities and other unregulated businesses. TECO Energy's significant business segments are identified below.

Tampa Electric Company, a Florida corporation and TECO Energy's largest subsidiary, through its Tampa Electric division (Tampa Electric) provides retail electric service to more than 612,000 customers in West Central Florida with a net system generating capability of 3,256 megawatts (MW). On Jan. 15, 2004, Tampa Electric commissioned Bayside 2 (rated at 1,022 MW) for a combined capacity of 4,278 MW. Peoples Gas System (PGS), a division of Tampa Electric Company, is engaged in the purchase, distribution and marketing of natural gas for residential, commercial, industrial and electric power generation customers in Florida. With more than 299,000 customers, PGS has operations in Florida's major metropolitan areas. Annual natural gas throughput (the amount of gas delivered to its customers, including transportation-only service) in 2003 was 1.2 billion therms.

TECO Transport Corporation, a Florida corporation, owns no operating assets but owns all of the common stock of four subsidiaries which provide waterborne transportation, storage and transfer services of coal and other dry-bulk commodities.

TECO Coal Corporation, a Kentucky corporation, owns no operating assets but owns all of the common stock of nine subsidiaries which own mineral rights, and own or operate surface and underground mines, synthetic fuel production facilities, and coal processing and loading facilities in eastern Kentucky, Tennessee and southwestern Virginia.

TECO Wholesale Generation, Inc. (TWG) (formerly TECO Power Services Corporation), a Florida corporation, has subsidiaries that have interests in independent power projects in Florida, Virginia, Hawaii, Arkansas, Mississippi, Texas, Arizona and Guatemala, and has investments in unconsolidated affiliates that participate in independent power projects and electric distribution in other parts of the United States (U.S.) and Guatemala. As part of its renewed focus on core utility operations, TECO Energy revised its internal reporting information used for evaluating, measuring and making decisions with respect to the components which previously comprised the TECO Power Services (TPS) operating segment. The revised operating segment, TWG Merchant, is comprised of all merchant operations which include the results of operations for the Frontera, Commonwealth Chesapeake, Dell and McAdams power plants, as well as the equity investment in other U.S. plants, and TECO EnergySource, Inc. (TES), the energy marketing operation for the merchant plants. The non-merchant assets that were formerly reported with TPS include the company's interests in Florida, Hawaii and Guatemala and are now reported with Other Unregulated Companies.

TECO Energy's other unregulated companies with continuing operations include the non-merchant operations of TECO Wholesale Generation as described above, TECO Solutions, Inc. (TECO Solutions), TECO Properties, Inc. (TECO Properties), and TECO Investments, Inc. The TECO Solutions' subsidiaries provide mechanical contracting, air conditioning, electrical and plumbing systems and repair and maintenance services in Florida.

Revenues for TECO Energy's significant business segments for the years indicated follow. For additional financial information regarding TECO Energy's significant business segments, see **Note 19** to the TECO Energy **Consolidated Financial Statements**.

Revenues from Continuing Operations

(millions)	*2003*	*2002*	*2001*
Tampa Electric	$ 1,586.1	$ 1,583.2	$ 1,412.7
Peoples Gas System	408.4	318.1	352.9
Total regulated businesses	1,994.5	1,901.3	1,765.6
TECO Wholesale Generation	95.9	111.1	81.8
TECO Transport	260.6	254.6	274.9
TECO Coal	296.3	317.1	303.5
Other unregulated businesses	263.5	297.7	298.8
	2,910.8	2,881.8	2,724.6
Other and eliminations	(170.8)	(216.9)	(241.3)
	$ 2,740.0	$ 2,664.9	$ 2,483.3

TWG's interest in the Union and Gila River Project Companies, which own merchant generation plants in Arkansas and Arizona, respectively, is held by an indirect wholly owned subsidiary of TWG, TECO-Panda Generating Company, L.P. (TPGC). TPGC was part of the TWG Merchant operating segment until designated as assets held for sale in December 2003. As of Dec. 31, 2003, TECO Energy management was committed to a plan to sell TECO Energy's indirect ownership of the equity or net assets of TPGC through a purchase and sale or other agreement, and expects to complete the transaction in 2004. TPGC's results are accounted for as discontinued operations for all periods reported. Revenues from the discontinued operations of TPGC in 2003 were $319.4 million.

TECO Energy's other unregulated companies completed several dispositions in 2003 and 2002, including the sale of Hardee Power Partners, Ltd. (HPP) in 2003 (part of the non-merchant operations of TWG) and the sale of TECO Coalbed Methane in 2002. Additionally in 2003, TECO Energy was committed to a plan to sell Prior Energy and TECO BGA (formerly a component of TECO Energy Services) as of Dec. 31, 2003. These sales were completed in early 2004. (See **Note 23** to the TECO Energy **Consolidated Financial Statements.**) The company also completed the sale of substantially all of the net assets of TECO Gas Services in 2003. Results for TECO Coalbed Methane, Prior Energy and TECO Gas Services have been accounted for as discontinued operations for all periods reported. HPP is accounted for in continuing operations because of the continuing involvement of Tampa Electric through a pre-existing agreement to purchase power from HPP. In January 2004, TECO Energy completed the sale of its general and limited partnership interests in Heritage Propane Partners, L.P. as a part of a larger transaction that involved the merging of privately held Energy Transfer Company with Heritage Propane Partners. Revenues from the discontinued operations of other unregulated companies were $21.6 million, $51.5 million and $60.1 million for the years ended Dec. 31, 2003, 2002 and 2001, respectively.

TAMPA ELECTRIC--Electric Operations

Tampa Electric Company was incorporated in Florida in 1899 and was reincorporated in 1949. 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. The retail territory served comprises an area of about 2,000 square miles in West Central Florida, including Hillsborough County and parts of Polk, Pasco and Pinellas Counties, and has an estimated population of over one million. The principal communities served are Tampa, Winter Haven, Plant City and Dade City. In addition, Tampa Electric engages in wholesale sales to utilities and other resellers of electricity. It has two electric generating stations in or near Tampa, one electric generating station in southwestern Polk County, Florida and two electric generating stations (one of which is on long-term standby) located near Sebring, a city located in Highlands County in South Central Florida.

Tampa Electric had 2,434 employees as of Dec. 31, 2003, of which 905 were represented by the International Brotherhood of Electrical Workers and 250 were represented by the Office and Professional Employees International Union.

In 2003, approximately 48 percent of Tampa Electric's total operating revenue was derived from residential sales, 29 percent from commercial sales, 10 percent from industrial sales and 13 percent from other sales, including bulk power sales for resale. The sources of operating revenue and megawatt-hour sales for the years indicated were as follows:

Operating Revenue

(millions)	*2003*	*2002*	*2001*
Residential	$ 767.4	$ 753.9	$ 659.8
Commercial	460.1	459.6	409.7
Industrial – Phosphate	65.3	74.3	57.0
Industrial – Other	88.5	83.8	71.8
Other retail sales of electricity	124.9	117.4	103.0
Total retail	1,506.2	1,489.0	1,301.3
Sales for resale	41.6	67.7	82.4
Other	38.3	26.5	29.0
	$ 1,586.1	$ 1,583.2	$ 1,412.7

Megawatt-hour Sales

(millions)	*2003*	*2002*	*2001*
Residential	8,265	8,046	7,594
Commercial	5,860	5,832	5,685
Industrial	2,579	2,612	2,329
Other retail sales of electricity	1,538	1,435	1,368
Total retail	18,242	17,925	16,976
Sales for resale	691	1,084	1,499
Total energy sold	18,933	19,009	18,475

No significant part of Tampa Electric's business is dependent upon a single customer or a few customers, the loss of any one or more of whom would have a significant adverse effect on Tampa Electric. IMC-Agrico, a large phosphate producer, is Tampa Electric's largest customer and represents less than 3 percent of Tampa Electric's 2003 base revenues.

Tampa Electric's business is not highly seasonal, but winter peak loads are experienced due to electric heating, fewer daylight hours and colder temperatures, and summer peak loads are experienced due to the use of air conditioning and other cooling equipment.

Regulation

The retail operations of Tampa Electric are regulated by the Florida Public Service Commission (FPSC), which has jurisdiction over retail rates, quality of service and reliability, issuances of securities, planning, siting and construction of facilities, accounting and depreciation practices, and other matters.

In general, the FPSC's pricing objective is to set rates at a level that allows the utility to collect total revenues (revenue requirements) equal to its cost of providing service, plus a reasonable return on invested capital.

The costs of owning, operating and maintaining the utility system, other than fuel, purchased power, conservation and certain environmental costs, are recovered through base rates. These costs include operation and maintenance expenses, depreciation and taxes, as well as a return on Tampa Electric's investment in assets used and useful in providing electric service (rate base). The rate of return on rate base, which is intended to approximate Tampa Electric's weighted cost of capital, primarily includes its costs for debt, deferred income taxes at a zero cost rate and an allowed return on common equity. Base rates are determined in FPSC rate setting hearings which occur at irregular intervals at the initiative of Tampa Electric, the FPSC or other parties. See the discussion of the FPSC-approved agreements covering 1995 through 1999 in the **Regulation – Tampa Electric Rate Strategy** section of **Management's Discussion & Analysis of Financial Condition & Results of Operations** (**MD&A**).

Tampa Electric's rates and allowed return on equity (ROE) range of 10.75 percent to 12.75 percent with a midpoint of 11.75 percent are in effect until such time as changes are occasioned by an agreement approved by the FPSC or other FPSC actions as a result of rate or other proceedings initiated by Tampa Electric, FPSC staff or other interested parties. Tampa Electric expects to continue earning within its allowed ROE range without a base rate increase, even with the rate base additions associated with the repowering of the Bayside Power Station.

Fuel, purchased power, conservation and certain environmental costs are recovered through levelized monthly charges established pursuant to the FPSC's cost recovery clauses. These charges, which are reset annually in an FPSC proceeding, are based on estimated costs of fuel, environmental compliance, conservation programs and purchased power and estimated customer usage for a specific recovery period, with a true-up adjustment to reflect the variance of actual costs from the projected charges. The FPSC may disallow recovery of any costs that it considers imprudently incurred.

In September 2003, Tampa Electric filed with the FPSC for approval of fuel and purchased power, capacity, environmental and conservation cost recovery rates for the period January through December 2004. In November, the FPSC approved Tampa Electric's requested changes except for the lower coal transportation rate driven by a new contract with TECO Transport described below. The resulting rates include the impacts of the increased use of natural gas at the Bayside Power Station and the collection of $91 million for under-recovery of fuel expense for 2002 and 2003. The filing also included estimated waterborne transportation rates for coal transportation services. The FPSC did not allow the recovery of $8.4 million it characterized as savings from shutting down the Gannon Station earlier than originally planned which the FPSC deemed generated operations and maintenance savings. Tampa Electric filed its objection to the disallowance of the recovery of the $8.4 million and a motion asking FPSC to reconsider its decision because all facts and law were not taken into account. The motion was filed on Jan. 6, 2004, and a decision on this matter is expected in the first quarter of 2004. See **Regulation – Cost Recovery Clauses** section of **MD&A**.

Tampa Electric is also subject to regulation by the Federal Energy Regulatory Commission (FERC) in various respects, including wholesale power sales, certain wholesale power purchases, transmission services, and accounting and depreciation practices. See the **Regulation – Transmission Rates** and **Regional Transmission Organization (RTO)** sections of **MD&A**.

Federal, state and local environmental laws and regulations cover air quality, water quality, land use, power plant, substation and transmission line siting, noise and aesthetics, solid waste and other environmental matters. See **Environmental Matters** on pages 7 and 8.

The transactions between Tampa Electric and its affiliates and the prices paid by Tampa Electric are subject to regulation by the FPSC and FERC, and any charges deemed to be imprudently incurred may be disallowed for recovery from Tampa Electric's customers. TECO Transport sells transportation services to Tampa Electric and other third parties. Tampa Electric's contract for coal transportation and storage services with TECO Transport expired on Dec. 31, 2003. In June 2003, Tampa Electric issued a Request For Proposal (RFP) to potential providers requesting services for the next five years. The results of the RFP process was the execution of a new contract between Tampa Electric and TECO Transport, effective Jan. 1, 2004, with market rates supported by the results of the RFP and an independent expert in maritime transportation matters. The prudence of the RFP process and final contract scheduled to be reviewed by the FPSC in the course of the normal fuel cost recovery hearings in November was deferred due to protests from other parties seeking more time to evaluate the contract information. The matter is scheduled to be heard by the FPSC in May with a decision expected in July. In the meantime, Tampa Electric is recovering fuel transportation costs at the rates from the

now expired contract, which are slightly higher than those in the contract effective Jan. 1, 2004. See the **Regulation – Coal Transportation Contract** section of **MD&A**. Except for transportation services performed by TECO Transport under the U.S. bulk cargo preference program, the prices charged by TECO Transport to third-party customers are not subject to regulatory oversight.

Competition

Tampa Electric's retail electric business is substantially free from direct competition with other electric utilities, municipalities and public agencies. At the present time, the principal form of competition at the retail level consists of self-generation available to larger users of electric energy. Such users may seek to expand their alternatives through various initiatives, including legislative and/or regulatory changes that would permit competition at the retail level. Tampa Electric intends to retain and expand its retail business by managing costs and providing high-quality service to retail customers.

In 1999, the FERC approved a market-based sales tariff for Tampa Electric, which allows Tampa Electric to sell excess power at market prices within Florida. The FERC had already approved market-based prices for interstate sales for Tampa Electric and the other investor-owned utilities (IOUs) operating in the state; however, Tampa Electric is the only IOU in the state with intrastate market-based sales authority.

There is presently competition in Florida's wholesale power markets, increasing largely as a result of the Energy Policy Act of 1992 and related federal initiatives. However, the state's Power Plant Siting Act, which sets the state's electric energy and environmental policy and governs the building of new generation involving steam capacity of 75 megawatts or more, requires that applicants demonstrate that a plant is needed prior to receiving construction and operating permits. In 2003, the FPSC implemented rules that modified rules from 1994 that required investor-owned electric utilities (IOUs) to issue RFP's prior to filing a petition for Determination of Need for construction of a power plant with a steam cycle greater than 75 megawatts. The new rules became effective for requests for proposal for applicable capacity additions, prospectively. See **Regulation – Utility Competition-Electric** section of **MD&A**.

FERC requires transmission system owners to operate an Open Access Non-discriminatory Transmission, Standard Costs, Same-time Information System (OASIS) providing, via the Internet, access to transmission service information (including price and availability) and to rely exclusively on their own OASIS system for such information for purposes of their own wholesale power transactions. This rule works to open access for wholesale power flows on transmission systems and requires utilities such as Tampa Electric, which own transmission facilities, to provide services to wholesale transmission customers comparable to those they provide to themselves on comparable terms and conditions, including price. Among other things, the rules require transmission services to be unbundled from power sales and owners of transmission systems to take transmission service under their own transmission tariffs. To facilitate compliance, owners must maintain Standards of Conduct to ensure that personnel involved in marketing wholesale power are functionally separated from personnel involved in transmission services and reliability functions. Tampa Electric, together with other utilities, has an OASIS system and believes it is in compliance with the Standards of Conduct. See **Regulation – Transmission Rates** section of **MD&A**.

In December 1999, the FERC issued Order No. 2000, dealing with FERC's continuing effort to affect open access to transmission facilities in large regional markets. In response, the peninsular Florida IOUs agreed to form an RTO to be known as GridFlorida LLC which would independently control the transmission assets of the filing utilities, as well as other utilities in the region that chose to join. In March 2001, the FERC conditionally approved GridFlorida. In May 2001, the FPSC questioned the prudence of the three filing utilities joining GridFlorida. After an October 2001 hearing, the FPSC found that the companies were prudent in forming GridFlorida, but ordered the companies to modify their proposal to develop a non-transmission owning RTO model. In August 2002, the FPSC voted to approve many of the compliance changes submitted, but set an October 2002 hearing on the market design changes proposed in the updated filing.

In October 2002, the process was delayed when the OPC filed an appeal with the Florida Supreme Court asserting that the FPSC could not relinquish its jurisdictional responsibility to regulate the IOUs and, by approving GridFlorida, they were doing just that. Oral arguments occurred in May 2003, and the Florida Supreme Court dismissed the OPC appeal citing that it was premature because certain portions of the FPSC GridFlorida order are not final. In September 2003, a joint meeting of the FERC and FPSC took place to discuss wholesale market and RTO issues related to GridFlorida and in particular, federal/state interactions. The FPSC has scheduled a series of collaborative meetings with all interested parties and, upon their conclusion, will set items for hearing and a hearing schedule. This is expected to occur throughout 2004.

Fuel

Approximately 78 percent of Tampa Electric's generation of electricity for 2003 was coal-fired, with natural gas representing approximately 21 percent and oil representing approximately 1 percent. Tampa Electric used its generating units to meet approximately 81 percent of the system load requirements, with the remaining 19 percent coming from purchased power. A lower level of coal generation as a percentage of total generation is anticipated for 2004 as a result of Gannon's repowering to the natural gas fueled Bayside Power Station.

Tampa Electric's average delivered fuel cost per million Btu and average delivered cost per ton of coal burned have been as follows:

Average cost per million Btu:	*2003*	*2002*	*2001*	*2000*	*1999*
Coal	$ 2.02	$ 1.93	$ 2.06	$ 1.92	$ 2.00
Oil	$ 6.42	$ 5.33	$ 5.79	$ 5.33	$ 3.09
Gas (Natural)	$ 6.45	$ 5.86	$ 4.84	$ 5.49	—
Composite	$ 2.83	$ 2.11	$ 2.19	$ 2.07	$ 2.03
Average cost per ton of coal burned	$ 48.32	$ 45.04	$ 47.53	$ 44.36	$ 44.63

Tampa Electric's generating stations burn fuels as follows: Bayside 1, which went into commercial operation in April of 2003, and Bayside 2, which went into commercial operation in January of 2004, burn natural gas; Big Bend Station, which has sulfur dioxide scrubber capabilities, burns a combination of high-sulfur coal, petroleum coke and No. 2 fuel oil; Polk Power Station burns a blend of low-sulfur coal, high-sulfur coal, and petroleum coke which is gasified and subject to sulfur and particulate matter removal prior to combustion, natural gas and oil; and Phillips Station burns residual fuel oil.

Coal. Tampa Electric used approximately 5.7 million tons of coal during 2003 and estimates that its fuel consumption will be about 5.0 million tons for 2004. During 2003, Tampa Electric purchased approximately 76 percent of its coal under long-term contracts with seven suppliers, and approximately 24 percent of its coal and petroleum coke in the spot market. Tampa Electric expects to obtain approximately 70 percent of its coal requirements in 2004 under long-term contracts with six suppliers and the remaining 30 percent in the spot market. The temporary change in the balance of long-term versus spot contracts is due to declining coal needs at Gannon Station in connection with the repowering to the Bayside Power Station. Tampa Electric's remaining long-term contracts provide for revisions in the base price to reflect changes in a wide range of cost factors and for suspension or reduction of deliveries if environmental regulations should prevent Tampa Electric from burning the coal supplied, provided that a good faith effort has been made to continue burning such coal. For information concerning transportation services by affiliated companies to Tampa Electric, see the **TECO Transport** section of **Business**.

In 2003, approximately 56 percent of Tampa Electric's coal supply was deep-mined, approximately 37 percent was surface-mined and the remainder was a processed oil by-product known as petroleum coke. Federal surface-mining laws and regulations have not had any material adverse impact on Tampa Electric's coal supply or results of its operations. Tampa Electric, however, cannot predict the effect of any future mining laws and regulations.

Natural Gas. In 2003, Tampa Electric contracted for 80 percent of winter 2003-2004 expected gas needs and 40 percent for the 2004 summer period. In the spring of 2004, Tampa Electric expects to contract for an additional 20-40 percent of the 2004 summer and 40 percent of the winter 2004-2005 requirements. Additional volumes are expected to be procured on the short-term spot market.

Oil. Tampa Electric is in the process of finalizing supply agreements for No. 2 fuel oil for its Polk and Big Bend Stations at prices based on Gulf Coast Cargo spot indices. No. 6 fuel oil is purchased on the spot market for its Phillips Station.

Franchises and Other Rights

Tampa Electric holds franchises and other rights that, together with its charter powers, give it the right to carry on its retail business in the localities it serves. The franchises give Tampa Electric rights to the use of rights of way and other public property to place its facilities, and are irrevocable and not subject to amendment without the consent of Tampa Electric, although, in certain events, they are subject to forfeiture.

Florida municipalities are prohibited from granting any franchise for a term exceeding 30 years. All of the municipalities, except for the cities of Tampa and Winter Haven, have reserved the right to purchase Tampa Electric's property used in the exercise of its franchise if the franchise is not renewed; otherwise, based on judicial precedent, Tampa Electric is able to keep its facilities in place subject to reasonable rules and regulations imposed by the municipalities.

Tampa Electric has franchise agreements with 13 incorporated municipalities within its retail service area. These agreements have various expiration dates ranging from November 2005 to March 2021.

Franchise fees payable by Tampa Electric, which totaled $27.6 million in 2003, are calculated using a formula based primarily on electric revenues and are collected on customers' bills.

Utility operations in Hillsborough, Pasco, Pinellas and Polk Counties outside of incorporated municipalities are conducted in each case under one or more permits to use state or county rights-of-way granted by the Florida Department of Transportation or the county commissioners of such counties. There is no law limiting the time for which such permits may be granted by counties. There are no fixed expiration dates for the Hillsborough County and Pinellas County agreements. The agreements covering electric operations in Polk and Pasco counties expire in 2004 and 2023, respectively. Tampa Electric expects to reach a renewal agreement for the Polk agreement.

Environmental Matters

Consent Decree

Tampa Electric Company, in cooperation with the Environmental Protection Agency (EPA) and the U.S. Department of Justice, signed a Consent Decree which became effective October 5, 2000, and a Consent Final Judgment with the Florida Department of Environmental Protection (FDEP), effective December 7, 1999. Pursuant to these agreements, allegations of violations of New Source Review requirements of the Clean Air Act were resolved, provision was made for environmental controls and pollution reductions, and Tampa Electric began implementing a comprehensive program that will dramatically decrease emissions from the company's power plants.

The emission reduction requirements included specific detail with respect to the availability of flue gas desulfurization systems (scrubbers) to help reduce sulfur dioxide (SO2), projects for nitrogen oxide (NOx) reduction efforts on Big Bend Units 1 through 4, and the repowering of the coal-fired Gannon Station to natural gas. The commercial operation dates for the two repowered Bayside units were on Apr. 24, 2003 and Jan. 15, 2004. The completed station has total station capacity of about 1,800 megawatts (nominal) of natural gas-fueled electric generation. By May 1, 2005, Tampa Electric must decide whether to install NOx controls, repower, or shutdown Big Bend Unit 4, and it must implement the chosen solution by June 1, 2007. By May 1, 2007, Tampa Electric will decide whether to install NOx controls, repower, or shutdown Big Bend Units 1, 2 and 3 and it must implement the chosen methodology beginning in 2008. Tampa Electric's capital investment forecast includes amounts in the 2006 through 2008 period for compliance with the NOx, SO2 and particulate matter reduction requirements.

Emission Reductions

Since 1998, Tampa Electric has reduced annual SO2, NOx, and particulate matter (PM) emissions from its facilities by 129,430 tons, 27,630 tons, and 2,865 tons, respectively. Reductions in SO2 emissions were accomplished through the installation of scrubber systems on Big Bend Units 1 and 2 in 1999. Big Bend Unit 4 was originally constructed with a scrubber. The Big Bend Unit 4 scrubber system was modified in 1994 to allow it to scrub emissions from Big Bend Unit 3. Currently, the scrubbers at Big Bend Station remove more than 95 percent of the SO2 emissions from the flue gas streams.

In addition, the Consent Decree and Consent Final Judgment related projects will result in significant reductions in emissions. Reductions have already resulted from the completion of the repowering of Gannon Station to Bayside Power Station in April 2003 (Bayside Unit 1) and January 2004 (Bayside Unit 2). Should Tampa Electric decide to continue to burn coal, the installation of additional NOx emissions controls on all Big Bend Units will result in the further reduction of emissions. By 2010, these projects are expected to result in the additional phased reduction of SO2 by 156,501 tons per year, NOx by 61,549 tons per year, and PM by 3,626 tons per year from 1998 levels. In total, Tampa Electric's emission reduction initiatives will result in the reduction of SO2, NOx and PM emissions by 90 percent, 89 percent, and 70 percent, respectively, below 1998 levels. With these improvements in place, Tampa Electric's facilities will meet the same standards required of new power generating facilities and help to significantly enhance the quality of the air in the community.

Due to pollution control co-benefits from the Consent Decree and Consent Final Judgment, reductions in mercury emissions have occurred due to the re-powering of Gannon Station to Bayside Station. At Bayside, where mercury levels have decreased 44 percent below 1998 levels, there are virtually zero mercury emissions. Additional mercury reductions are also anticipated from the installation of NOx controls at Big Bend Station, which would lead to a mercury removal efficiency of approximately 70 percent. Depending on the NOx control technology selected for Big Bend, the mercury reductions may vary and lead to lower than anticipated mercury removal efficiencies.

The repowering of Gannon Station to Bayside Station will also lead to a significant reduction in carbon dioxide (CO2) emissions. It is expected that by 2005, the repowering will bring an approximate 5.2 million ton decrease in CO2 emissions below 1998 levels. This reduction will result in the Tampa Electric system CO2 emissions being in line with its 1990 CO2 emission levels.

Superfund and Former Manufactured Gas Plant Sites

Tampa Electric Company, through its Tampa Electric and Peoples Gas divisions, is a potentially responsible party 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, 2003, Tampa Electric Company has estimated its ultimate financial liability to be approximately $20 million, and this amount has been reflected in the consolidated 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 potentially responsible parties (PRPs) is based on each parties' 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.

Capital Expenditures

During the five years ended Dec. 31, 2003, Tampa Electric spent $116.4 million, excluding the Gannon repowering, on capital additions to meet environmental requirements. A significant portion of the $83 million project for the Big Bend Units 1and 2 scrubbers is included in the five-year total. A new scrubber system was installed at Big Bend Units 1 and 2 to meet Phase 2 SO2 emission reduction requirements under the Clean Air Act Amendments of 1990.

In total, Tampa Electric spent an estimated $11.7 million in 2003 on environmental projects. Environmental expenditures are estimated at $18.2 million for 2004 and an additional $324 million in total for 2005 through 2008. These totals include the expenditures required to comply with the EPA Consent Decree, which are discussed below.

In 2003, Tampa Electric spent approximately $3.6 million for compliance with the EPA consent decree requirements at Big Bend station for reduction of NOx and PM emissions and to improve the scrubber systems to reduce SO2 emissions. Should Tampa Electric choose to continue to burn coal at Big Bend station, further NOx emission reductions would require expenditures in 2004 estimated at $3.7 million and as much as $221 million being spent during 2005 through 2008. Estimated expenditures for the continued improvement of electrostatic precipitators for PM emissions reductions will be $1.5 million in 2004 and an additional $6.5 million during 2005 through 2008. Tampa Electric has also spent $658 million, excluding allowance for funds used during construction (AFUDC) and dismantlement, on Bayside Power Station, the repowering of the company's coal-fired Gannon Station to use natural gas, to meet the EPA Consent Decree condition of eliminating coal-firing at Gannon Station.

PEOPLES GAS SYSTEM – Gas Operations

Peoples Gas System (PGS) operates as the Peoples Gas System division of Tampa Electric Company. PGS is engaged in the purchase, distribution and sale of natural gas for residential, commercial, industrial and electric power generation customers in the State of Florida.

PGS uses three interstate pipelines to receive gas for sale or other delivery to customers connected to its distribution system. PGS does not engage in the exploration for or production of natural gas. PGS operates a natural gas distribution system that serves over 299,000 customers. The system includes approximately 9,500 miles of mains and over 5,500 miles of service lines. (See PGS' **Franchise** section of **Business**.)

In 2003, the total throughput for PGS was 1.2 billion therms. Of this total throughput, 13 percent was gas purchased and resold to retail customers by PGS, 72 percent was third party supplied gas delivered for retail transportation only customers, and 15 percent was gas sold off-system. Industrial and power generation customers consumed approximately 65 percent of PGS' annual therm volume, commercial customers used approximately 30 percent and the balance was consumed by residential customers.

While the residential market represents only a small percentage of total therm volume, residential operations generally comprise 25 percent of total revenues. New residential construction including natural gas and conversions of existing residences to gas have steadily increased since the late 1980's.

Natural gas has historically been used in many traditional industrial and commercial operations throughout Florida, including production of products such as steel, glass, ceramic tile and food products. Within the PGS operating territory, large cogeneration facilities utilize gas-fired technology in the production of electric power and steam.

Revenues and therms for PGS for the years ended Dec. 31, are as follows:

	Revenues			*Therms*		
(millions)	*2003*	*2002*	*2001*	*2003*	*2002*	*2001*
Residential	$ 105.6	$ 76.6	$ 88.2	64.2	60.2	58.8
Commercial	143.6	122.3	163.6	354.8	327.6	308.9
Industrial	114.8	80.3	50.7	406.2	423.8	346.5
Power Generation	10.1	11.4	11.3	363.7	492.6	403.5
Other revenues	34.0	27.5	39.1	—	—	—
Total	$ 408.4	$ 318.1	$ 352.9	1,188.9	1,304.2	1,117.7

PGS had 565 employees as of Dec. 31, 2003. A total of 94 employees in six of PGS' 15 operating divisions are represented by various union organizations.

Regulation

The operations of PGS are regulated by the FPSC separate from the regulation of Tampa Electric's electric operations. The FPSC has jurisdiction over rates, service, issuance of securities, safety, accounting and depreciation practices and other matters. In general, the FPSC sets rates at a level that allows a utility such as PGS to collect total revenues (revenue requirements) equal to its cost of providing service, plus a reasonable return on invested capital.

The basic costs of providing natural gas service, other than the costs of purchased gas and interstate pipeline capacity, are recovered through base rates. Base rates are designed to recover the costs of owning, operating and maintaining the utility system. The rate of return on rate base, which is intended to approximate PGS' weighted cost of capital, primarily includes its cost for debt, deferred income taxes at a zero cost rate, and an allowed return on common equity. Base rates are determined in FPSC proceedings which occur at irregular intervals at the initiative of PGS, the FPSC or other parties. For a description of recent proceeding activity, see the **Regulation – Peoples Gas Rate Proceeding** section of **MD&A**.

PGS recovers the costs it pays for gas supply and interstate transportation for system supply through the Purchased Gas Adjustment (PGA) clause. This charge is designed to recover the costs incurred by PGS for purchased gas, and for holding and using interstate pipeline capacity for the transportation of gas it sells to its customers. These charges are adjusted monthly based on a cap approved annually in an FPSC hearing. The cap is based on estimated costs of purchased gas and pipeline capacity, and estimated customer usage for a specific recovery period, with a true-up adjustment to reflect the variance of actual costs and usage from the projected charges for prior periods. For a description of the most recent adjustment, see the **Regulation – Cost Recovery Clauses – Peoples Gas** section of **MD&A**.

In addition to its base rates and purchased gas adjustment clause charges for system supply customers, PGS customers (except interruptible customers) also pay a per-therm charge for all gas consumed to recover the costs incurred by PGS in developing and implementing energy conservation programs, which are mandated by Florida law and approved and supervised by the FPSC. PGS is permitted to recover, on a dollar-for-dollar basis, expenditures made in connection with these programs if it demonstrates that the programs are cost effective for its ratepayers.

In February 2000, the FPSC approved a rule that required natural gas utilities to offer transportation-only service to all non-residential customers. The net result of the unbundling is a shift from commodity sales to transportation sales. PGS continues to receive its base rate for distribution regardless of whether a customer decided to opt for transportation-only service or continue bundled service. PGS had over 10,500 transportation customers as of Dec. 31, 2003.

In addition to economic regulation, PGS is subject to the FPSC's safety jurisdiction, pursuant to which the FPSC regulates the construction, operation and maintenance of PGS' distribution system. In general, the FPSC has implemented this by adopting the Minimum Federal Safety Standards and reporting requirements for pipeline facilities and transportation of gas prescribed by the U.S. Department of Transportation in Parts 191, 192 and 199, Title 49, Code of Federal Regulations.

PGS is also subject to federal, state and local environmental laws and regulations pertaining to air and water quality, land use, noise and aesthetics, solid waste and other environmental matters.

Competition

PGS is not in direct competition with any other regulated distributors of natural gas for customers within its service areas. At the present time, the principal form of competition for residential and small commercial customers is from companies providing other sources of energy, including electricity. In general, PGS faces competition from other energy source suppliers offering fuel oil, electricity and in some cases, propane. PGS has taken actions to retain and expand its commodity and transportation business, including managing costs and providing high quality service to customers.

In Florida, gas service is unbundled for all non-residential customers. In 2000, PGS implemented its "NaturalChoice" program offering unbundled transportation service to all eligible customers. This means that non-residential customers can purchase commodity gas from a third party but continue to pay PGS for the transportation of the gas.

Competition is most prevalent in the large commercial and industrial markets. In recent years, these classes of customers have been targeted by competing companies seeking to sell alternate fuels or transport gas through other facilities, thereby bypassing PGS facilities. In response to this competition, PGS has developed various programs, including the provision of transportation services at discounted rates. See the **Regulation – Utility Competition – Gas** section of **MD&A**.

Gas Supplies

PGS purchases gas from various suppliers depending on the needs of its customers. The gas is delivered to the PGS distribution system through three interstate pipelines on which PGS has reserved firm transportation capacity for delivery by PGS to its customers.

Gas is delivered by Florida Gas Transmission Company (FGT) through more than 55 interconnections (gate stations) serving PGS' operating divisions. In addition, PGS' Jacksonville Division receives gas delivered by the South Georgia Natural Gas Company (South Georgia) pipeline through two gate stations located northwest of Jacksonville.

In 2003, Gulfstream Natural Gas Pipeline initiated gas delivery through four new gate stations. PGS entered into a service agreement for capacity in 2002, which increases in 2003 and 2004. The addition of the Gulfstream pipeline enhances reliability of service and helps meet the capacity needs for PGS' growing customer base.

Companies with firm pipeline capacity receive priority in scheduling deliveries during times when the pipeline is operating at its maximum capacity. PGS presently holds sufficient firm capacity to permit it to meet the gas requirements of its system commodity customers, except during localized emergencies affecting the PGS distribution system and on abnormally cold days.

Firm transportation rights on an interstate pipeline represent a right to use the amount of the capacity reserved for transportation of gas on any given day. PGS pays reservation charges on the full amount of the reserved capacity whether or not it actually uses such capacity on any given day. When the capacity is actually used, PGS pays a volumetrically-based usage charge for the amount of the capacity actually used. The levels of the reservation and usage charges are regulated by FERC. PGS actively markets any excess capacity available on a day-to-day basis to partially offset costs recovered through the Purchased Gas Adjustment Clause.

PGS procures natural gas supplies using base load and swing supply contracts with various suppliers along with spot market purchases. Pricing generally takes the form of either a variable price based on published indices, or a fixed price for the contract term.

Neither PGS nor any of the interconnected interstate pipelines have storage facilities in Florida. PGS occasionally faces situations when the demands of all of its customers for the delivery of gas cannot be met. In these instances, it is necessary that PGS interrupt or curtail deliveries to its interruptible customers. In general, the largest of PGS' industrial customers are in the categories that are first curtailed in such situations. PGS' tariff and transportation agreements with these customers give PGS the right to divert these customers' gas to other higher priority users during the period of curtailment or interruption. PGS pays these customers for such gas at the price they paid their suppliers, or at a published index price, and in either case pays the customer for charges incurred for interstate pipeline transportation to the PGS system.

Franchises

PGS holds franchise and other rights with approximately 100 municipalities throughout Florida. These include the cities of Lakeland, Jacksonville, Daytona Beach, Eustis, Fort Myers, Ocala, Brooksville, Orlando, Tampa, St. Petersburg, Sarasota, Avon Park, Frostproof, Palm Beach Gardens, Pompano Beach, Fort Lauderdale, Hollywood, North Miami, Miami Beach, Miami, and Panama City. These franchises give PGS a right to occupy municipal rights-of-way within the franchise area. The franchises are irrevocable and are not subject to amendment without the consent of PGS, although in certain events, they are subject to forfeiture.

Municipalities are prohibited from granting any franchise for a term exceeding 30 years. Several franchises contain purchase options with respect to the purchase of PGS' property located in the franchise area, if the franchise is not renewed; otherwise, based on judicial precedent, PGS is able to keep its facilities in place subject to reasonable rules and regulations imposed by the municipalities.

PGS' franchise agreements with the incorporated municipalities within its service area have various expiration dates ranging from the present through July 2031. PGS has two franchises in negotiations for 2004. One is a renewal and the second is a new franchise. Franchise fees payable by PGS, which totaled $8.0 million in 2003, are calculated using various formulas which are based principally on natural gas revenues. Franchise fees are collected from only those customers within each franchise area.

Utility operations in areas outside of incorporated municipalities are conducted in each case under one or more permits to use state or county rights-of-way granted by the Florida Department of Transportation or the county commissioners of such counties. There is no law limiting the time for which such permits may be granted by counties. There are no fixed expiration dates and these rights are, therefore, considered perpetual.

Environmental Matters

PGS' operations are subject to federal, state and local statutes, rules and regulations relating to the discharge of materials into the environment and the protection of the environment generally that require monitoring, permitting and ongoing expenditures.

Tampa Electric Company is one of several potentially responsible parties for certain superfund sites and, through PGS, for certain superfund and former manufactured gas plant sites. See the previous discussion in the **Environmental Matters** section of **Tampa Electric – Electric Operations** on pages 6 and 7.

Expenditures. During the five years ended Dec. 31, 2003, PGS has not incurred any material capital expenditures to meet environmental requirements, nor are any anticipated for 2004 through 2008.

TECO WHOLESALE GENERATION (FORMERLY TECO POWER SERVICES)

TECO Wholesale Generation, Inc. (TWG) has subsidiaries that have interests in independent power projects in Florida, Virginia, Hawaii, Mississippi, Arkansas, Texas, Arizona and Guatemala. TWG had 352 employees as of Dec. 31, 2003.

As discussed under the **TECO Energy** section of **Business**, the TWG operating segment is comprised of all continuing merchant operations, including the direct and indirect results from continuing operations of the independent power projects in

Virginia, Mississippi, Arkansas and Texas, as well as the energy marketing operation for these plants, TECO EnergySource, Inc. (TES). Prior to Dec. 31, 2003, the results of operations of Union and Gila River's independent power projects in Arkansas and Arizona, respectively, (TPGC) were included in TWG; however, these are now reported in discontinued operations. Included in the Other Unregulated companies operating segment are the results of operations of the non-merchant independent power projects in Florida, Hawaii and Guatemala (i.e., those with long-term power projects).

Like Tampa Electric, the U.S. operations of TWG are subject to federal, state and local environmental laws and regulations covering air quality, water quality, land use, power plant, substation and transmission line siting, noise and aesthetics, solid waste and other environmental matters.

See **Note 19** to the TECO Energy **Consolidated Financial Statements** for specific details of the results of operations for the TWG Merchant operating segment and the non-merchant power component of the Other Unregulated Companies segment described below.

TWG Merchant Operating Segment

In 1998, TM Power Ventures LLC (TMPV) was created by TWG and Mosbacher Power Partners, Ltd. (Mosbacher Power), an independent power company headquartered in Houston, to jointly develop, own and operate domestic and international independent power projects. Under this arrangement, TWG provided capital and technical expertise to TMPV. In 1998, TWG, through TMPV, made certain loans to Mosbacher Power. Also in 1998, TWG, through TMPV, acquired approximately a 13 percent interest in a re-powered independent power project in the Czech Republic (the ECKG project). The facility completed its expansion to a total of 344 megawatts in the first quarter of 2000. In 2002, TWG purchased Mosbacher Power's minority ownership interest in TMPV, thereby giving TWG a 100-percent ownership interest in TMPV. As part of the purchase, TWG received principal and interest due on its loans to Mosbacher Power. Also in 2002, TWG recorded a $5.8 million after-tax charge to adjust the valuation of the investment in the ECKG project in connection with the proposed sale of that investment. In 2003, TMPV sold its interest in the ECKG project. As a result of the sale, TMPV received for $33 million in cash.

TWG, through TMPV, has a 100-percent economic interest in Commonwealth Chesapeake Power Station (CCC), a 315-megawatt power plant on the Delmarva Peninsula of Virginia. The first phase of 134 megawatts went into service in the third quarter of 2000, and the second phase went into service in August 2001. In 2003, an after-tax charge of $26.7 million was recognized to establish a reserve against an arbitration award against TMDP, the indirect owner of CCC.

In the first quarter of 2001, TWG sold its minority interest in EGI, a Bermuda-based energy development firm. As part of the sale, TWG took an after-tax charge of $6.1 million ($9.3 million pre-tax) to adjust the asset valuation of the investment.

In September 2000, TWG provided a $93 million investment in the form of a loan related to Panda Energy International's (Panda) Texas Independent Energy projects (TIE). In February 2002, TWG provided an additional investment in the form of a loan in the amount of $44 million. These loans converted in accordance with their terms into an ownership interest on Jan. 3, 2003. Subsequently, in 2003, as part of the TPGC joint venture termination, described below, TWG foreclosed on an additional loan to a subsidiary of Panda Energy for $23 million. This foreclosure resulted in TWG obtaining an indirect effective economic interest of 50 percent in the aggregate of 2,000-megawatts in TIE. The two TIE projects, known as Guadalupe and Odessa, are located in Texas and operate as gas-fired, combined-cycle units. The projects were brought on line in phases beginning in December 2000, with all the capacity in service in August 2001.

In October 2000, TWG acquired from Genpower LLC full ownership of two independent power projects being developed in Arkansas and Mississippi with combined capacity of the two plants to be nearly 1,200 megawatts. The two 599-megawatt facilities, known as the Dell and McAdams projects, were designed to be natural gas-fired combined-cycle plants. Construction on these plants was suspended at the end of 2002 due to low energy prices in the markets that these plants were expected to serve. Market conditions will be monitored to determine when these plans will be completed. As of Dec. 31, 2003, approximately $690 million had been invested in these plants and TWG estimates that the construction cost to complete these projects would be approximately $100 million. (See the **TECO Wholesale Generation, Inc. – Merchant Generation Facilities** section of **MD&A**.)

In November 2000, TWG announced a joint venture with Panda to build, own and operate two natural gas power plants located in Arkansas and Arizona, known as the Union and Gila River projects. The first phase of the Union power plant began commercial operations in January 2003, and the entire facility was commercially operational in the second quarter of 2003. Union sells power primarily to utilities and industrial customers in Arkansas, Louisiana, eastern Texas and Mississippi. The first phase of the other project, in Gila Bend, Arizona, began commercial operations in the second quarter of 2003 and the entire facility was commercially operational in the third quarter of 2003. Electricity from Gila River is primarily sold in Arizona, Nevada and New Mexico. In February 2002, subsidiaries of TWG entered into an agreement requiring those subsidiaries to purchase 100 percent of Panda's interest in the joint venture for $60 million in 2007, unless Panda chose to remain a partner by canceling the agreement and paying a cancellation fee. In April 2003, subsidiaries of TWG and Panda agreed to amendments to this agreement which resulted in TWG indirectly consolidating the joint venture (TPGC) at that time. (See the **Transactions with Related and Certain Other Parties** section of **MD&A**.) In June 2003, subsidiaries of TWG terminated Panda's continued involvement in the partnership, resulting in the recognition of after-tax charges in the second quarter of 2003 of $155.9 million, as a direct result of the consolidation of TPGC.

In June 2001, the project entities owned by TWG and Panda closed on a bank financing for the Union and Gila River power stations. This $2.175 billion bank financing included $1.675 billion in five-year non-recourse debt and $500 million in equity

bridge loans guaranteed by TECO Energy. The equity bridge loans were repaid in 2002 and 2003. As a result of events in October 2003 and December 2003 (see the **TECO Wholesale Generation, Inc.** section of **MD&A**), and other economic factors impacting the general market conditions for independent power projects, TWG recognized a pre-tax asset impairment charge of $1,185.7 million in 2003. Subsequent to Dec. 31, 2003, discussions with the bank financing group have resulted in a non-binding letter of intent that would allow for an exit from the ownership of these project companies. (See also **Notes 10, 12, 20** and **23** to the TECO Energy **Consolidated Financial Statements** for additional details of the results of operations for these project companies.)

In March 2001, subsidiaries of TWG acquired American Electric Power's (AEP) Frontera Power Station, located near McAllen, Texas. Frontera is a 477-megawatt natural gas-fired combined-cycle plant. Frontera is capable of selling power domestically, as well as into the Mexican power market, through a direct interconnection with the Comision Federal de Electricidad, the Mexican power authority.

Other Unregulated Companies Operating Segment

Hardee Power Partners, Ltd. (HPP) is a Florida limited partnership which wholly owns the Hardee Power Station, a 370-megawatt combined cycle electric generating facility located in Hardee County, Florida, which began commercial operation in 1993. Until recently, HPP was an indirect wholly-owned subsidiary of TWG. In 1993, HPP began to fulfill 20-year power supply agreements for all the capacity and energy of the Hardee Power Station, with Tampa Electric and Seminole Electric Cooperative (Seminole Electric), a Florida electric cooperative that provides wholesale power to ten electric distribution cooperatives. Under the Seminole Electric agreements, HPP agreed to supply Seminole Electric with an additional 145 megawatts of capacity during the first ten years of the contract, which ended on Dec. 31, 2002. This additional capacity was purchased from Tampa Electric's coal-fired Big Bend Unit Four for resale to Seminole Electric. The 75-megawatt capacity expansion completed at Hardee Power Station in May 2000 is expected to serve Tampa Electric through 2012. The expansion consists of a General Electric combustion turbine operating in simple-cycle mode. In 2003, the company sold the partnership interests of HPP to a third party. (See **Note 21** to the TECO Energy **Consolidated Financial Statements** for a description of the sale and its impact on the results of continuing operations.) The sale did not impact the long-term power supply agreements with Tampa Electric or Seminole Electric.

As part of its non-merchant operations, TWG is a 50-percent indirect owner in the Hamakua Energy Project, a 60-megawatt combined cycle cogeneration facility in Hamakua, Hawaii. The facility was constructed and placed into service during 2000. A subsidiary of TWG jointly owns and operates the project under a 30-year power purchase agreement with Hawaii Electric Light Company. The interests of the previous joint owner, J.A. Jones Ventures, were auctioned to a third party in early 2004.

As part of its non-merchant operations, TWG indirectly owns 100 percent of Central Generadora Eléctrica San Jose, Limitada (CGESJ), the owner of a project located in Guatemala, which consists of a single-unit pulverized-coal baseload facility (the San Jose Power Station). This facility was the first coal-fueled plant in Central America and meets environmental standards set by the World Bank. In 1996, CGESJ signed a U.S. dollar-denominated power sales agreement (PPA) with Empresa Eléctrica de Guatemala, S.A. (EEGSA), a private distribution and generation company, to provide 120 megawatts of capacity for 15 years beginning in 2000. In 2001, CGESJ signed an option with EEGSA to extend that PPA for five years for approximately $2.5 million. In 2002, CGESJ began to transfer the port assets to Tecnología Marítima, S.A. (TEMSA), a new indirect wholly-owned subsidiary. This transaction was completed in the first quarter of 2003. TEMSA, in addition to receiving the coal shipments for CGESJ, provides unloading services to third parties. Political risk insurance has been obtained for currency inconvertibility, expropriation and political violence covering up to 100 percent of TWG's indirect equity investment and economic returns.

Tampa Centro Americana de Electricidad, Limitada (TCAE), an entity 96.06-percent owned by TPS Guatemala One, Inc., a subsidiary of TWG and the owners of the Alborada Power Station, have a U.S. dollar-denominated PPA with EEGSA to provide 78 megawatts of capacity for a 15-year period ending in 2010. In 2001, TCAE signed an option with EEGSA to extend that PPA for five years at the end of its current term for approximately $2.9 million. EEGSA is responsible for providing the fuel for the plant, with a subsidiary of TWG providing assistance in fuel administration. Affiliates of TWG had originally obtained $29 million of limited recourse financing from the Overseas Private Investment Corporation (OPIC) for the Alborada Power Station. In 2002, TCAE paid off its loan with OPIC with a portion of the proceeds from a non-recourse $25 million loan from Banco Industrial, a local bank in Guatemala. Political risk insurance has been obtained for currency inconvertibility, expropriation and political violence covering up to 100 percent of TWG's indirect equity investment and economic returns.

EEGSA serves more than 717,000 customers. EEGSA's service territory includes the capital of Guatemala, Guatemala City. In 1998, a consortium that includes affiliates of the company, Iberdrola, an electric utility in Spain, and Electricidade de Portugal, an electric utility in Portugal, completed the purchase of an 80-percent ownership interest in EEGSA for $520 million. The company indirectly owns a 24 percent interest in this consortium and contributed $100 million in equity. The consortium obtained limited-recourse debt financing for a portion of the purchase price. A subsidiary of TWG has obtained political risk insurance for currency inconvertibility, expropriation and political violence covering up to 100 percent of TWG's indirect equity investment and economic returns.

Competition and Markets

The U.S. power plants that TWG indirectly owns and operates and those for which construction has been suspended are located in markets with a history of high load growth. However, the general U.S. economic slowdown over the past several years has

slowed the growth in demand for power in some of these markets. In addition, the slowdown of electricity deregulation initiatives across the United States, including the markets that these facilities serve, caused in part by the failure of deregulation in California and other events, has allowed the traditional, incumbent utilities to continue to operate older, less efficient generating facilities in lieu of purchasing power from newer, more efficient independent power plants. These factors have combined with aggressive plans by the independent power industry to add merchant power facilities to cause excess generating capacity that is either being built or has come on line in many markets. This excess supply has depressed both spot and forward prices. Accordingly, TWG has ceased work on any new power plant developments, and is active in its efforts to reduce its merchant exposure.

TECO Energy's renewed focus is on core utility operations. In April 2003, TECO Energy announced that the company would seek to increase its flexibility to be able to mitigate the risk from the merchant portfolio through a number of steps, including the termination of joint ventures with Panda Energy in the TPGC plants and in the TIE plants. These terminations were accomplished in 2003. In October 2003, the company announced that little, if any, additional cash would be invested into the merchant generation portfolio. Significant steps have been achieved in 2003 with respect to TWG's ownership exit plan for the Union and Gila River project companies. See the **TWG – Energy Markets** section of **MD&A** for additional discussion of competition and the merchant energy markets.

See the discussion of the risks applicable to TWG in the **Investment Considerations** section of **MD&A**. For financial information about geographic areas, see **Note 19** to the TECO Energy **Consolidated Financial Statements**.

TECO TRANSPORT

TECO Transport owns all of the common stock of four subsidiaries which transport, store and transfer coal and other dry-bulk commodities. These subsidiaries include TECO Ocean Shipping, Inc. (Ocean Shipping), TECO Barge Line, Inc. (TECO Barge), TECO Bulk Terminal, LLC (Bulk Terminal) and TECO Towing Company. TECO Transport currently owns no operating assets. TECO Transport and its subsidiaries had 914 employees as of Dec. 31, 2003.

TECO Transport's subsidiaries perform substantial services for Tampa Electric. In 2003, approximately 62 percent of TECO Transport's revenues were from third-party customers and approximately 38 percent were from Tampa Electric. The pricing for services performed by TECO Transport's operating companies for Tampa Electric is based on a market-based fixed-price per ton, generally adjusted quarterly for changes in certain fuel and price indices. Most of the third-party utilization of the ocean-going barges is for domestic and international movements of other dry-bulk commodities and domestic phosphate movements. Both the terminal and river transport operations handle a variety of dry-bulk commodities for third party customers.

A substantial portion of TECO Transport's business is dependent upon Tampa Electric, phosphate customers, steel industry customers, grain customers, coal and petroleum coke customers, and participation in the U.S. Government's cargo preference programs.

Ocean Shipping transports products in the Gulf of Mexico and worldwide, and TECO Barge operates on the Mississippi, Ohio and Illinois rivers and their tributaries. Their primary competitors are other barge and shipping lines and railroads, as well as a number of other companies offering transportation services on the waterways used by TECO Transport's subsidiaries. Ocean Shipping is the largest US flag coastwise dry bulk operator based on capacity, while TECO Barge is in the top ten, based on number of barges, of companies in its business. To date, physical and technological improvements have allowed ship and barge operators to maintain competitive rate structures with alternate methods of transporting bulk commodities when the origin and destination of such shipments are contiguous to navigable waterways.

Bulk Terminal operates the largest transfer and storage terminal on the Gulf coast. Demand for the use of such terminals is dependent upon customers' use of water transportation versus alternate means of moving bulk commodities and the demand for these commodities. Competition consists primarily of mid-stream operators and other land-based terminals.

Competition within TECO Transport's markets is based primarily on geographic markets served, pricing, and service level. The majority of the ocean and all of the river business is subject to the Jones Act, which prohibits the use of non-US flag vessels for movement between US ports.

The business of TECO Transport's subsidiaries, taken as a whole, is not subject to significant seasonal fluctuation, but is sensitive to economic conditions.

The Interstate Commerce Act exempts from regulation water transportation of certain dry-bulk commodities. In 2003, all transportation services provided by TECO Transport's subsidiaries were within this exemption.

TECO Transport's subsidiaries are subject to the provisions of the Clean Water Act of 1977 which authorizes the Coast Guard and the EPA to assess penalties for oil and hazardous substance discharges. Under this Act, these agencies are also empowered to assess clean-up costs for such discharges. In 2003, TECO Transport spent $0.3 million for environmental compliance. Environmental expenditures are estimated at $0.2 million in 2004, primarily for work on solid waste disposal and storm water drainage at the Bulk Terminal facility in Louisiana and for expenses related to oil and bilge water disposal at its river-barge repair facility in Illinois.

TECO COAL

TECO Coal owns no operating assets but holds all of the common stock of Gatliff Coal Company, Rich Mountain Coal Company, Clintwood Elkhorn Mining Company, Pike-Letcher Land Company, Premier Elkhorn Coal Company, Bear Branch Coal Company, Perry County Coal Corporation, and TECO Synfuel Operations, LLC. The TECO Coal subsidiaries own or control mineral rights, and own or operate surface and underground mines, synthetic fuel production facilities and coal processing and loading facilities in eastern Kentucky, Virginia and Tennessee. TECO Coal and its subsidiaries had 713 employees as of Dec. 31, 2003.

In 2003, TECO Coal subsidiaries sold 9.2 million tons of coal, with 100 percent sold to parties other than Tampa Electric. Of the total sold, 5.8 million tons were produced and sold as synthetic fuel.

In 2000, TECO Coal acquired Perry County Coal Corporation (Perry County), which owns or controls in excess of 21 million tons of low sulfur reserves and operates both deep and surface contract mines along with a preparation plant and two loadouts. Perry County produced and sold 2.6 million tons of coal in 2003.

In April 2003, TECO Coal sold a 49.5-percent interest in its synthetic fuel production facilities located at its operations in eastern Kentucky. (See the **TECO Coal** section of **MD&A**) The 5.8 million tons of synfuel produced in 2003 replaced some of TECO Coal's conventional coal production in 2003. Sales of the fuel processed through these types of facilities are eligible for non-conventional fuels tax credits under Section 29 of the Internal Revenue Code, which are available through 2007. TECO Coal received Private Letter Rulings from the Internal Revenue Service confirming that the facilities produce a qualified fuel eligible for Section 29 tax credits available for the production of such non-conventional fuels and resolved any uncertainty related to the sale of its interest in the production facilities.

The Section 29 tax credit is determined annually and is estimated to be $1.11 per million Btu in 2003, $1.09 per million Btu in 2002 and $1.08 per million Btu in 2001. This rate escalates with inflation but could be limited by domestic oil prices. In 2003, domestic oil prices would have had to exceed $50 per barrel for the limitation to have been effective. In 2003, TECO Coal's Section 29 tax credits were $66.0 million, compared to $107.3 million in 2002 and $86.2 million in 2001.

Primary competitors of TECO Coal's subsidiaries are other coal suppliers, many of which are located in Central Appalachia. To date, TECO Coal has been able to compete for coal sales by mining high-quality steam and specialty coals and by effectively managing production and processing costs.

The operations of underground mines, including all related surface facilities, are subject to the Federal Coal Mine Safety and Health Act of 1977. TECO Coal's subsidiaries are also subject to various Kentucky, Tennessee and Virginia mining laws which require approval of roof control, ventilation, dust control and other facets of the coal mining business. Federal and state inspectors inspect the mines to ensure compliance with these laws. TECO Coal believes it is in substantial compliance with the standards of the various enforcement agencies. It is unaware of any mining laws or regulations that would materially affect the market price of coal sold by its subsidiaries.

TECO Coal's subsidiaries are subject to various federal, state and local air and water pollution standards in their mining operations. In 2003, TECO Coal spent approximately $1.5 million on environmental protection and reclamation programs. TECO Coal expects to spend a similar amount in 2004 on these programs.

Coal mining operations are also subject to the Surface Mining Control and Reclamation Act of 1977 which places a charge of $0.15 and $0.35 on every net ton of underground and surface coal mined, respectively, to create a fund for reclaiming land and water adversely affected by past coal mining. Other provisions establish standards for the control of environmental effects and reclamation of surface coal mining and the surface effects of underground coal mining and requirements for federal and state inspections.

TECO SOLUTIONS

TECO Solutions was formed during the early stages of Florida's proposed electric industry restructuring, as a vehicle through which to support TECO Energy's strategy of offering customers (primarily in Florida) a comprehensive and competitive package of energy services and products, including energy-efficient engineering and construction and gas management services. The subsequent rollback of the proposed deregulation and TECO Energy's refocus on the core utility operations has caused the company to reexamine its participation in these lines of business. The result was the sale of several of the entities that previously were part of TECO Solutions. Operating companies under TECO Solutions include TECO BCH Mechanical, TECO Gas Services Inc., TECO Propane Ventures LLC (TPV) and TECO Partners, Inc., with total employees of 655 as of Dec. 31, 2003.

TECO BCH Mechanical and its affiliated companies (BCH), one of Florida's leading mechanical contracting firms, is headquartered in Largo, Florida and has offices in Cocoa Beach and Ft. Lauderdale. It provides air-conditioning, electrical and plumbing systems, and repair and maintenance services to more than 750 institutional and commercial customers throughout Florida.

TECO Gas Services provides gas management services to cogeneration facilities in Florida. On July 21, 2003, TECO Solutions sold TECO Gas Services' commercial and industrial book of business. TECO Gas Services will continue to provide services to their cogeneration customers. TECO Gas Services owns no operating assets.

TECO BGA, Inc. (formerly a component of TECO Energy Services) (BGA) is an engineering energy services company headquartered in Tampa, providing engineering, construction management and energy services to more than 300 customers.

Effective Jan. 1, 2004, the company completed the sale of BGA to an entity owned by an employee group. BGA's results are accounted for as continuing operations for all periods reported.

Prior Energy, a leading natural gas management company headquartered in Mobile, Alabama, serves customers throughout the Southeast. Prior Energy owns no operating assets. In December 2003, TECO Solutions entered into an agreement to sell this end use gas marketing company; effective Feb. 1, 2004, the sale of Prior Energy was completed. Prior Energy's results are accounted for as discontinued operations for all periods reported.

TPV held TECO Energy's propane business investment. In 2000, TECO Energy combined its propane operations with three other southeastern propane companies to form U.S. Propane. In a series of transactions, U.S. Propane combined with Heritage Holdings, Inc. In January 2004, U.S. Propane completed the sale of its direct and indirect equity investments in Heritage Propane Partner, L.P. (Heritage). The sale, part of a larger transaction that involved the merging of privately held Energy Transfer Company with Heritage, was announced in November 2003. TPV owns no operating assets.

TECO COALBED METHANE

TECO Coalbed Methane, Inc. had developed jointly with another entity the natural gas production from coal seams in Alabama's Black Warrior Basin. In September 2002, TECO Energy initiated activities to sell the TECO Coalbed Methane gas assets. That sale was substantially completed in December 2002 to the Municipal Gas Authority of Georgia. Proceeds for the sale were $140 million, of which $42 million was paid in cash at closing and $98 million was paid in January 2003. TECO Coalbed Methane's results are accounted for as discontinued operations for all periods reported. Following the sale of substantially all of its assets, TECO Coalbed Methane, Inc. was merged with and into TECO Coalbed Methane Florida, Inc.

Production from TECO Coalbed Methane's reserves was eligible for Section 29 non-conventional fuels tax credits through 2002. The credit was $1.09 per million Btu for 2002 and $1.08 per million Btu in 2001. This rate escalated with inflation but could be limited by domestic oil prices. In 2002, domestic oil prices would have had to exceed $49 per barrel for this limitation to have been effective. In 2002, TECO Coalbed Methane's Section 29 tax credits were $15.9 million, compared to $16.1 million in 2001. TECO Coalbed Methane's operations are subject to federal, state and local regulations for air emissions and water and waste disposal.

Item 2. PROPERTIES.

TECO Energy believes that the physical properties of its operating companies are adequate to carry on their businesses as currently conducted. The properties of Tampa Electric and most of the subsidiaries of TECO Wholesale Generation are generally subject to liens securing long-term debt.

TAMPA ELECTRIC

At Dec. 31, 2003, Tampa Electric had five electric generating plants and four combustion turbine units in service with a total net winter generating capability of 3,256 megawatts, including Big Bend (1,759-MW capability from four coal units), Bayside (752-MW capability from one natural gas unit), Phillips (34-MW capability from two diesel units), Polk (260-MW capability from one integrated gasification combined cycle (IGCC) unit), two combustion turbine units (CTs) located at Big Bend (85-MW each) and two CTs at Polk (360-MW). Additionally, Tampa Electric has 6-MW of generating capability from generation units located at the Howard Curren Advanced Waste Water Treatment Plant in the City of Tampa. The capability indicated represents the demonstrable dependable load carrying abilities of the generating units during winter peak periods as proven under actual operating conditions. Units at Big Bend went into service from 1970-1985. The Polk IGCC unit began commercial operation in September 1996. In 1991, Tampa Electric purchased two power plants (Dinner Lake and Phillips) from the Sebring Utilities Commission (Sebring). Dinner Lake (11-MW capability from one natural gas unit) and Phillips were placed in service by Sebring in 1966 and 1983, respectively. In March 1994, Dinner Lake Station was placed on long-term reserve standby and was retired from service in January 2003. Hookers Point Station's Unit 5 (67-MW) was placed on long-term standby in January 2001. All units at Hookers Point were retired from service in January 2003.

The repowering of Gannon station to Bayside station was completed with the conversion of Gannon Unit 5 to Bayside Unit 1 in April 2003 and Gannon Unit 6 to Bayside Unit 2 in January 2004 (see the **Environmental Compliance** section of **MD&A**). Total capacity at Bayside has increased to 1,774 megawatts as a result of the operation of Bayside Unit 2. Gannon Units 1 and 2 were placed on long term reserve standby (LTRS) in April 2003 and retired in January 2004. Gannon Units 3 and 4 were placed on LTRS in September 2003 and retired from coal operation in January 2004, after which the assets may be utilized for future gas operations. The agreement between Tampa Electric and the U.S. Environmental Protection Agency (EPA), and the Florida Department of Environmental Protection (DEP) required all coal burning to cease by the end of 2004, but allows the units to be repowered on natural gas.

Tampa Electric owns 187 substations having an aggregate transformer capacity of 19,825 MVA. The transmission system consists of approximately 1,308 pole miles of high voltage transmission lines, and the distribution system consists of 7,038 pole miles of overhead lines and 3,252 trench miles of underground lines. As of Dec. 31, 2003, there were 612,465 meters in service. All of this property is located in Florida.

All plants and important fixed assets are held in fee except that title to some of the properties is subject to easements, leases, contracts, covenants and similar encumbrances and minor defects of a nature common to properties of the size and character of those of Tampa Electric.

Tampa Electric has easements for rights-of-way adequate for the maintenance and operation of its electrical transmission and distribution lines that are not constructed upon public highways, roads and streets. It has the power of eminent domain under Florida law for the acquisition of any such rights-of-way for the operation of transmission and distribution lines. Transmission and distribution lines located in public ways are maintained under franchises or permits.

Tampa Electric has a long-term lease for the office building in downtown Tampa which serves as headquarters for TECO Energy, Tampa Electric and numerous other TECO Energy subsidiaries.

PEOPLES GAS SYSTEM

PGS' distribution system extends throughout the areas it serves in Florida and consists of approximately 15,000 miles of pipe, including approximately 9,500 miles of mains and over 5,500 miles of service lines. Mains and service lines are maintained under rights-of-way, franchises or permits.

PGS' operating divisions are located in fourteen markets throughout Florida. While most of the operations and administrative facilities are owned, a small number are leased.

TECO WHOLESALE GENERATION (FORMERLY TECO POWER SERVICES)

TWG Merchant Operating Segment

TWG indirectly holds a 100-percent ownership interest in TECO-Panda Generating Company, LP, which owns Union Power Partners, LP, Panda Gila River, LP, and Trans-Union Interstate Pipeline, LP. Union Power Partners owns 330 acres of land in Union County, Arkansas, on which the 2,200 MW gas-fired combined-cycle Union electric generation plant is located. The first 550-megawatt power block of Union began operating in January 2003 with all power blocks in operation by June 2003. Panda Gila River, LP owns approximately 1,099 acres of land in Maricopa County, Arizona, on which the 2,145-megawatt gas-fired combined-cycle Gila River electric generation plant is located. Trans-Union owns an interstate pipeline associated with the Union facility. See the **TECO Wholesale Generation, Inc.** section of **MD&A** for a discussion of the expected transfer of the ownership of these projects.

Frontera Generation, LP owns 40 acres of land in Hidalgo County, Texas on which the 477-megawatt gas-fired combined cycle Frontera electric generation plant is located.

TM Delmarva Power, LLC has a 100-percent economic interest in Commonwealth Chesapeake Company, LLC, which owns approximately 105 acres of land outside of New Church, in Accomack County, Virginia on which the 315-megawatt oil-fired single cycle Commonwealth Chesapeake Power Station is located.

TPS Dell, LLC, owns approximately 100 acres in the City of Dell in Mississippi County, Arkansas, on which the 599-megawatt gas-fired combined-cycle Dell electric generation plant has been under construction. TPS McAdams, LLC, owns approximately 210 acres of land in McAdams and Sallis in Attala County, Mississippi, on which the 599-megawatt gas-fired combined cycle McAdams electric generation plant has been under construction. Construction on these projects was suspended at the end of 2002 due to projected low energy prices in the markets these plants were expected to serve. Markets will be monitored to determine when these plants will be completed.

Other Unregulated Companies Operating Segment

The company, through its indirect subsidiary TPS Hamakua Land, Inc., has a 50-percent indirect interest in Hamakua Land Partnership, LLP, which owns 140 acres in Hawaii on which the Hamakua Energy Project is located.

TPS Guatemala One, Inc. has a 96.06-percent interest in TCAE, which owns 7 acres in Guatemala on which the Alborada Power Station is located. TPS San Jose, LDC has a 100-percent ownership in a project entity, CGESJ, which owns 190 acres in Guatemala on which the San Jose Power Station is located.

In 2003, Hardee Power Partners, Ltd. (HPP), which owned a 370-MW gas-fired generation facility located in central Florida, was sold to an affiliate of Invenergy LLC and GTCR Golden Rauner LLC. Under the terms of the sale subsidiaries of the company will continue to provide service to HPP under the existing operation and maintenance agreement. The new owner may, at any time, choose to cancel this agreement.

TECO TRANSPORT

TECO Bulk Terminal's storage and transfer terminal is on a 1,070-acre site fronting on the Mississippi River, approximately 40 miles south of New Orleans. Bulk Terminal owns 342 of these acres in fee, with the remainder held under long-term leases.

TECO Barge operates a fleet of 18 towboats and 726 river barges, approximately 87 percent of which it owns, on the Mississippi, Ohio and Illinois rivers. TECO Barge owns 15 acres of land fronting on the Ohio River at Metropolis, Illinois on which its operating offices, warehouse and repair facilities are located. Fleeting and repair services for its barges and those of other barge lines are performed at this location. Additionally, TECO Barge performs fleeting and supply activities at leased facilities in Cairo, Illinois.

As of Dec. 31, 2003, TECO Ocean Shipping owned and operated a fleet of 8 ocean-going tug barge units, a 33,500 short ton ocean-going ship, a 40,900 short ton ocean-going ship, and a 41,400 short ton ocean-going ship, with a combined cargo capacity of over 335,000 tons.

TECO COAL

TECO Coal, through its subsidiaries, controls approximately 179,000 acres of coal reserves and mining property in Kentucky, Virginia and Tennessee.

Property

Gatliff Coal Company controls approximately 11,000 acres of coal and mining properties and has operations in Campbell County, Tennessee, as well as in Bell, Knox and Whitley Counties, Kentucky. Additionally, in east central Kentucky, Bear Branch Coal Company and Perry County Coal Corporation control 50,000 acres of coal reserves and operate in Perry, Leslie and Knott Counties. In eastern Kentucky, Premier Elkhorn Coal Company and Pike-Letcher Land Company are located in Letcher and Pike Counties where they control 50,000 acres of properties. Clintwood Elkhorn Mining also operates in Pike County, Kentucky, as well as in Buchanan County Virginia. Clintwood Elkhorn controls 68,000 acres of property.

In situations where property is controlled by lease, the lease terms are generally sufficient to insure that the reserves for the associated operation can be mined within the initial lease term. If, however, extensions are necessary, provisions have generally been made within the original lease, whereby extensions may be granted upon payment of minimum royalties.

Facilities

Coal mined by the operating companies of TECO Coal is processed and shipped from state-of-the art facilities located at each of the operating companies, with Clintwood Elkhorn having two facilities – one at Biggs, Kentucky and one at Hurley, Virginia. The equipment at each facility is in good condition and regularly maintained by qualified personnel. Major renovations are currently on-going at the Perry County Coal facility that will enable the plant to meet the additional production requirements brought about by the opening of the Bear Branch Elkhorn 4 seam underground mine. The following is a summary of the TECO Coal processing facilities:

Company	*Facility*	*Location*	*Railroad Service*	*Utility Service*
Gatliff Coal	Ada Tipple	Himyar, KY	CSX Railroad	RECC
Clintwood Elkhorn	Clintwood #2 Plant	Biggs, KY	Norfolk Southern	American Electric Power
Clintwood Elkhorn	Clintwood #3 Plant	Hurley, VA	Norfolk Southern	American Electric Power
Premier Elkhorn	Burk Branch Plant	Myra, KY	CSX Railroad	American Electric Power
Perry County Coal	Perry County Plant	Hazard, KY	CSX Railroad	American Electric Power

Significant projects completed in 2003 included completion of preparation plant upgrades at Perry County.

Coal Reserves

As of Dec. 31, 2003, the TECO Coal Corporation operating companies have a combined estimated 219.4 million tons of recoverable reserves, all of which are assigned. The reserves are proven and probable. All of the reserves consist of High Vol A Bituminous coal. Reserves are generally considered to be tonnages that are proven and probable and meet the generally accepted mining criteria including, but not limited to, mining height, preparation plant recovery, and strip ratio. These reserves are generally projected to be mined and sold at a profit, based on year-end price and cost levels. When calculating reserves, TECO Coal has assumed the following recovery rates for the various mining methods:

Mining Recovery Rates	
Underground	52%
Contour, Surface	85%
Point Removal/Mt. Top	90%
Auger	30%
Highwall Miner	50%

The following is a summary of the coal quality associated with each of the operations.

	Average Quality			*Assigned Reserves*		*Surface*	*Underground*	*Total*
Company	*BTU/lb.*	*% Ash*	*% Sulfur*	*% Owned*	*% Leased*	*Reserves (000s)*	*Reserves (000s)*	*Reserves (000s)*
Gatliff Coal	14,586	3.84	0.96	0	100	1,800	9,492	11,292
Perry County Coal	13,091	7.20	0.90	0	100	5,609	15,795	21,404
Bear Branch	13,227	6.23	0.92	0	100	—	69,899	69,899
Premier Elkhorn Coal/ Pike Letcher Land (1)	13,976	6.78	1.16	90	10	19,655	53,700	73,355
Clintwood Elkhorn Mining	14,198	7.35	1.05	10	90	12,141	31,345	43,486
Total Reserves	13,726	6.61	1.03			39,205	180,231	219,436

(1) The Premier Elkhorn/Pike Letcher Land reserves were reduced from the 2001 amounts due to unfavorable economic conditions.

The following table shows a further breakdown of product by geographic region with projected market type.

Region/Company	*Product*	*BTU/lb.*	*% Ash*	*% Sulfur*	*Reserves (000s)*	*% by Region*
East Central Kentucky						
Gatliff Coal	Steam coal	14,586	3.84	0.96	11,292	5.15
Perry County Coal	Steam coal	14,076	7.74	0.97	21,404	9.75
Bear Branch Coal	Steam coal	14,223	6.70	0.99	69,899	31.85
					102,595	46.75
Eastern Kentucky						
Premier/Pike Letcher Land	Steam coal	13,976	6.78	1.16	73,355	33.43
Clintwood	Steam coal	12,713	13.40	1.08	1,309	0.60
Clintwood	Metallurgical coal	14,429	6.51	1.08	20,521	9.35
					95,185	43.38
Southwestern Virginia						
Clintwood	Steam coal	12,713	13.40	1.08	6,650	3.03
Clintwood	Metallurgical coal	14,621	5.37	1.01	15,006	6.84
					21,656	9.87
Total					219,436	100.00

TECO Coal Corporation's reserves are based on over 1700 data points, including drill holes, prospect measurements, and mine measurements. Reserve classification is determined by evaluation of engineering and geologic information along with economic analysis. These reserves are adjusted periodically to reflect fluctuations in the economics in the market and/or changes in engineering parameters and/or geologic conditions. The information is assembled by qualified geologists and engineers located throughout the company. The information is constantly being updated to reflect new data for existing property as well as new acquisitions and depleted reserves. Information is entered into sophisticated computer modeling programs from which preliminary reserves estimations are generated. Final determinations of reserves are made after in-house geologists have reviewed the computer models and manipulated the grids to better reflect regional trends.

TECO COALBED METHANE

The sale of TECO Coalbed Methane's gas assets was substantially completed in December 2002, and the final proceeds were paid in January 2003. (See **Business – TECO Coalbed Methane** section.) TECO Coalbed Methane's gas production for 2002 was 14.2 billion cubic feet (Bcf), at an effective gas price, including the effect of hedging, of about $2.80 per million cubic feet (Mcf) compared to production of 15 Bcf in 2001 at an effective gas price, including the effects of hedging, of about $3.66 Mcf.

Item 3. LEGAL PROCEEDINGS.

TM Delmarva Power Arbitration Proceeding

A dispute resulting in an arbitration proceeding was brought against a TWG subsidiary, TM Delmarva Power, L.L.C. (TMDP), by the non-equity member, NCP of Virginia, L.L.C. (NCP), in the Commonwealth Chesapeake Project (CCC). The arbitration panel, in a 2-to-1 decision, found in favor of NCP and issued an interim award on Dec. 17, 2002 and, after several briefing cycles and a reopened hearing, issued its final award in September 2003.

Under the award TMDP is obligated to acquire NCP's voting and other rights, pay NCP interest on the deemed acquisition price from a pre-determined date, and pay NCP's legal fees as prescribed under the final award. The forced acquisition created a pre-tax loss of $32.0 million, representing the excess of the purchase price over the fair value of the interests acquired. TMDP is seeking to vacate the arbitration award in the U.S. District Court for the District of Columbia and has not yet paid the amount of the award. As of Dec. 31, 2003, the company has reserved for the full $46.9 million, representing the maximum payment obligation for the award plus accrued interest. The vacatur proceeding is still pending, and is expected to be completed in the third or fourth quarter of 2004.

Other Actions

In March 2001, TWG (under its former name of TECO Power Services) was served with a lawsuit filed in the Circuit Court for Hillsborough County by a Tampa-based firm called Grupo Interamerica, L.L.C. ("Grupo") in connection with a potential investment in a power project in Columbia in 1996. Grupo alleges, among other things, that TWG breached an oral contract with Grupo that would have allowed Grupo to acquire up to a 20-percent interest in the Columbian wholesale generation project when TWG declined to invest in such project. Grupo is seeking damages equal to the net present value of 20-percent of the project over its life. TWG disputes the allegations and denies liability since any understanding made regarding the investment in the project was subject to TECO Energy Board approval which was not obtained. A trial date has not been set.

Three lawsuits have been filed in the Circuit Court in Hillsborough County against Tampa Electric, in connection with the location of transmission structures in certain residential areas, by residents in the areas surrounding the structures. The high-voltage power lines are needed by Tampa Electric to move electricity to the northwest part of its service territory where population growth has been experienced. The residents are seeking to remove the poles or to receive monetary damages. Tampa Electric is working with the community to determine the feasibility of alternate routes or structures or some combination.

See also the **Enron Related Matters** and **Superfund and Former Manufactured Gas Plant Sites** sections of **MD&A** and the discussion of environmental matters in **Note 20** to the TECO Energy **Consolidated Financial Statements** and **Note 14** to the Tampa Electric Company **Consolidated Financial Statements**.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matter was submitted during the fourth quarter of 2003 to a vote of TECO Energy's security holders, through the solicitation of proxies or otherwise.

EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages, current positions and principal occupations during the last five years of the current executive officers of TECO Energy are described below.

Name	Age	Current Positions and Principal Occupations During Last Five Years
Robert D. Fagan	59	Chairman of the Board, President and Chief Executive Officer, December 1999 to date; President and Chief Executive Officer, May 1999 to December 1999; and prior thereto, President of PP&L Global, Inc. (diversified energy company), Fairfax, Virginia.
Charles R. Black	53	Senior Vice President-Generation, September 2003 to date; Vice President-Energy Supply, Energy and Construction, Tampa Electric Company, February 2000 to September 2003; Vice President-Energy Supply, Tampa Electric Company, November 1996 to February 2000.
William N. Cantrell	51	President, Tampa Electric Company, September 2003 to date, President, Peoples Gas System, April 2000 to date and President, TECO Solutions, Inc., September 2000 to date; President, Peoples Gas Companies, June 1997 to April 2000, and President, Bosek, Gibson and Associates, Inc., January 1998 to September 2000.
Clinton E. Childress	55	Senior Vice President-Human Resources and Services, September 2003 to date; Chief Human Resources Officer, July 2000 to September 2003; and prior thereto, Director of Compensation and Benefits.
Gordon L. Gillette	44	Senior Vice President-Finance and Chief Financial Officer, April 2001 to date; Vice President-Finance and Chief Financial Officer, April 1998 to April 2001.
Richard Lehfeldt	52	Senior Vice President-External Affairs, November 1999 to date; and prior thereto, Vice President and Assistant General Counsel of Edison Mission Energy (independent power company), Irvine, California.
Sheila M. McDevitt	57	Senior Vice President-General Counsel, April 2001 to date; Vice President-General Counsel, January 1999 to April 2001; and prior thereto, Vice President-Assistant General Counsel.
John B. Ramil	48	Executive Vice President and Chief Operating Officer, September 2003 to date; Executive Vice President, December 2002 to September 2003; President, Tampa Electric Company, April 1998 to September 2003.
D. Jeffrey Rankin	57	President of TECO Transport Corporation, since prior to 1999.
J. J. Shackleford	57	President of TECO Coal Corporation, since prior to 1999.

There is no family relationship between any of the persons named above. The term of office of each officer extends to the meeting of the Board of Directors following the next annual meeting of shareholders, scheduled to be held on April 28, 2004, and until such officer's successor is elected and qualified.

Item 5. MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The following table shows the high and low sale prices for shares of TECO Energy common stock, which is listed on the New York Stock Exchange, and dividends paid per share, per quarter.

		1st Quarter	*2nd Quarter*	*3rd Quarter*	*4th Quarter*
2003					
	High	$ 17.00	$ 13.69	$ 14.20	$ 14.85
	Low	$ 9.47	$ 10.05	$ 11.50	$ 11.80
	Close	$ 10.63	$ 11.99	$ 13.82	$ 14.41
	Dividend	$ 0.355	$ 0.19	$ 0.19	$ 0.19
2002					
	High	$ 28.94	$ 29.05	$ 24.71	$ 16.48
	Low	$ 23.40	$ 22.70	$ 14.20	$ 10.02
	Close	$ 28.63	$ 24.75	$ 15.88	$ 15.47
	Dividend	$ 0.345	$ 0.355	$ 0.355	$ 0.355

The approximate number of shareholders of record of common stock of TECO Energy as of Feb. 29, 2004 was 22,097.

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 to its common stockholders is dividends and other distributions from its operating companies. Tampa Electric's first mortgage bond indenture and certain long-term debt at PGS contain restrictions that limit the payment of dividends and distributions on the common stock of Tampa Electric Company. Tampa Electric's first mortgage bond indenture does not limit loans or advances. As of Dec. 31, 2003 and 2002, balances restricted as to transfers from Tampa Electric to TECO Energy under the first mortgage bonds were 3% and 20%, respectively, of consolidated common equity. Tampa Electric's new credit facilities include a covenant limiting cumulative distributions and outstanding affiliate loans. (See the **Restrictions on Dividend Payments and Transfer of Assets** section in **Note 1** to the TECO Energy **Consolidated Financial Statements.**)

TECO Energy's $380 million note indenture contains a covenant that requires the company to achieve certain interest coverage levels in order to pay dividends. TECO Energy's Merrill Lynch credit facility contains a covenant that could limit the payment of dividends exceeding $40 million in any quarter under certain circumstances if the facility is drawn. (See **Covenants in Financing Agreements** section of **MD&A**, and **Notes 6, 7** and **20** to the TECO Energy **Consolidated Financial Statements** for a more detailed description of significant financial covenants.

In addition, TECO Diversified, Inc., a wholly-owned subsidiary of TECO Energy and the holding company for TECO Transport, TECO Coal and TECO Solutions, 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.

TECO Energy has the right to defer payments on its subordinated notes issued in connection with the issuances of trust preferred securities by TECO Capital Trust I or TECO Capital Trust II. Should the company exercise this right, it would be prohibited from paying cash dividends on its common stock until the unpaid distributions on the subordinated notes are made. TECO Energy has not exercised that right.

All of Tampa Electric Company's common stock is owned by TECO Energy, Inc. and, therefore, there is no market for the stock. Tampa Electric Company pays dividends substantially equal to its net income applicable to common stock to TECO Energy. Such dividends totaled $151.4 million in 2003, $197.4 million in 2002 and $171.8 million for 2001. See the **Restrictions on Dividend Payments and Transfer of Assets** section in **Note 1** to the TECO Energy **Consolidated Financial Statements** for Tampa Electric Company for a description of restrictions on dividends on its common stock.

Item 6. SELECTED FINANCIAL DATA.

A summary of selected financial information for TECO Energy, Inc. for each of the last five fiscal years, is set forth under the heading **Selected Financial Data** in the **2003 Annual Report**, which information is hereby incorporated by reference and filed as part of **Exhibit 13** to this report.

Item 7. MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION & RESULTS OF OPERATIONS.

A discussion of TECO Energy, Inc.'s consolidated results of operations and financial condition is set forth on under the heading **Management's Discussion & Analysis of Financial Condition & Results of Operations** in the **2003 Annual Report**, which discussion is hereby incorporated by reference and filed as part of **Exhibit 13** to this report.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Information responding to Item 7A appears in the **2003 Annual Report** under the heading **Management's Discussion & Analysis of Financial Condition & Results of Operations — Disclosures About Market Risk**, which information is hereby incorporated by reference and filed as part of **Exhibit 13** to this report.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

TECO ENERGY, INC.

Information responding to Item 8 for TECO Energy, Inc., appears in the **2003 Annual Report** under the following headings: **Consolidated Financial Statements — Consolidated Balance Sheets**, **Consolidated Financial Statements — Consolidated Statements Of Income**, **Consolidated Financial Statements — Consolidated Statements of Comprehensive Income**, **Consolidated Financial Statements — Consolidated Statements of Cash Flows**, **Consolidated Financial Statement — Consolidated Statements of Common Equity**, **Notes to the Consolidated Financial Statements**, and **Report of Independent Certified Public Accountants**, which information is hereby incorporated by reference and filed as part of **Exhibit 13** to this report.

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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.

Report of Independent Certified Public Accountants on Financial Statement Schedules

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

Our audits of the consolidated financial statements referred to in our report dated March 2, 2004 appearing in the 2003 Annual Report to Shareholders of TECO Energy, Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedules listed in Item 15(a)(2) of this Form 10-K. In our opinion, these financial statement schedules present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

Tampa, Florida
March 2, 2004

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.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 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 index appearing under Item 15(a) (2) 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 auditing standards generally accepted in the United States of America, which 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.

/s/ PricewaterhouseCoopers LLP

Tampa, Florida
March 2, 2003

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TAMPA ELECTRIC COMPANY
CONSOLIDATED BALANCE SHEETS

Assets *(millions) Dec. 31,*	*2003*	*2002*
Property, plant and equipment		
Utility plant in service		
Electric	$ 4,693.5	$ 4,310.8
Gas	778.2	746.7
Construction work in progress	470.0	768.5
Property, plant and equipment, at original costs	5,941.7	5,826.0
Accumulated depreciation	(1,808.2)	(1,720.4)
	4,133.5	4,105.6
Other property	3.7	7.9
Total property, plant and equipment	4,137.2	4,113.5
Current assets		
Cash and cash equivalents	33.6	6.9
Receivables, less allowance for uncollectibles of $1.1 million and $1.1 million at Dec. 31, 2003 and 2002, respectively	186.0	186.5
Inventories		
Fuel, at average cost	71.2	79.1
Materials and supplies	43.8	48.1
Prepayments and other	22.8	18.4
Total current assets	357.4	339.0
Deferred debits		
Deferred income taxes	133.5	133.3
Unamortized debt expense	23.2	23.7
Regulatory assets	188.3	163.2
Other	0.1	5.6
Total deferred debits	345.1	325.8
Total assets	$ 4,839.7	$ 4,778.3

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

TAMPA ELECTRIC COMPANY
CONSOLIDATED BALANCE SHEETS (continued)

Liabilities and capital (millions) Dec. 31.	*2003*	*2002*
Capital		
Common stock	$ 1,376.8	$ 1,535.1
Retained earnings	274.9	302.9
Total capital	1,651.7	1,838.0
Long-term debt, less amount due within one year	1,590.9	1,345.6
Total capitalization	3,242.6	3,183.6
Current liabilities		
Long-term debt due within one year	6.1	81.0
Notes payable	—	10.5
Accounts payable	167.9	178.8
Customer deposits	101.4	94.6
Interest accrued	26.7	18.3
Taxes accrued	82.9	46.9
Total current liabilities	385.0	430.1
Deferred credits		
Deferred income taxes	474.5	483.1
Investment tax credits	22.6	27.1
Regulatory liabilities	560.2	538.7
Other	154.8	115.7
Total deferred credits	1,212.1	1,164.6
Total liabilities and capital	$ 4,839.7	$ 4,778.3

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

TAMPA ELECTRIC COMPANY
CONSOLIDATED STATEMENTS OF INCOME

(millions) *For the years ended Dec. 31,*	*2003*	*2002*	*2001*
Revenues			
Electric (includes franchise fees and gross receipts taxes of $64.4 million in 2003, $63.5 million in 2002, and $56.0 million in 2001)	$ 1,585.4	$ 1,582.5	$ 1,411.8
Gas (includes franchise fees and gross receipts taxes of $13.3 million in 2003, $10.3 million in 2002, and $15.1 million in 2001)	408.4	318.1	352.9
Total revenues	$ 1,993.8	1,900.6	1,764.7
Expenses			
Operations			
Fuel	443.3	424.1	346.5
Purchased power	234.9	253.7	209.7
Cost of natural gas sold	224.0	148.9	186.4
Other	257.7	256.4	249.1
Maintenance	94.3	112.0	103.2
Depreciation	243.0	220.1	201.3
Restructuring charges	14.0	16.6	—
Taxes, federal and state income	94.0	100.3	97.7
Taxes, other than income	136.7	132.6	129.3
Total expenses	1,741.9	1,664.7	1,523.2
Income from operations	251.9	235.9	241.5
Other (expense) income			
Allowance for other funds used during construction	19.8	24.9	6.6
Other income, net	1.2	1.5	4.1
Asset impairment (net of income tax benefit of $30.7 million)	(48.9)	—	—
Total other (expense) income	(27.9)	26.4	10.7
Interest charges			
Interest on long-term debt	102.7	77.5	62.5
Other interest	5.5	(1.6)	15.2
Allowance for borrowed funds used during construction	(7.6)	(9.6)	(2.6)
Total interest charges	100.6	66.3	75.1
Net income	$ 123.4	$ 196.0	$ 177.1

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(millions) *For the years ended Dec. 31,*	*2003*	*2002*	*2001*
Net income	$ 123.4	$ 196.0	$ 177.1
Other comprehensive (loss) income, net of tax			
Net unrealized gain (loss) on cash flow hedges	—	0.1	(0.1)
Other comprehensive income (loss), net of tax	—	0.1	(0.1)
Comprehensive income	$ 123.4	$ 196.1	$ 177.0

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

TAMPA ELECTRIC COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions) *For the years ended Dec. 31,*	*2003*	*2002*	*2001*
Cash flows from operating activities			
Net income	$ 123.4	$ 196.0	$ 177.1
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation	243.0	220.1	201.3
Deferred income taxes	(23.9)	23.6	(2.0)
Investment tax credits, net	(4.6)	(4.4)	(4.5)
Allowance for funds used during construction	(27.4)	(34.5)	(9.2)
Loss on sales of assets, pre-tax	0.8	—	—
Asset impairment, pre-tax	79.6	—	—
Deferred recovery clause	(27.3)	72.2	(19.0)
Refunded to customers	—	(6.4)	—
Receivables, less allowance for uncollectibles	0.5	(19.8)	19.1
Inventories	12.2	(7.2)	(10.8)
Prepayments and other deposits	(3.1)	(2.4)	(9.2)
Taxes accrued	36.0	(10.4)	(14.3)
Interest accrued	8.4	2.3	(18.1)
Accounts payable	(10.8)	43.1	(52.4)
Other	70.4	2.5	35.2
Cash flows from operating activities	477.2	474.7	293.2
Cash flows from investing activities			
Capital expenditures	(331.7)	(685.7)	(499.3)
Allowance for funds used during construction	27.4	34.5	9.2
Net proceeds from sales of assets	4.3	—	—
Cash flows from investing activities	(300.0)	(651.2)	(490.1)
Cash flows from financing activities			
Proceeds from contributed capital from parent	—	217.0	170.0
Return of contributed capital to parent	(158.3)	—	—
Proceeds from long-term debt	250.0	689.3	250.0
Repayment of long-term debt	(80.3)	(302.4)	(54.4)
Net (decrease) increase in short-term debt	(10.5)	(238.5)	17.8
Payment of dividends	(151.4)	(197.4)	(171.8)
Cash flows from financing activities	(150.5)	168.0	211.6
Net (decrease) increase in cash and cash equivalents	26.7	(8.5)	14.7
Cash and cash equivalents at beginning of year	6.9	15.4	0.7
Cash and cash equivalents at end of year	$ 33.6	$ 6.9	$ 15.4
Supplemental disclosure of cash flow information			
Cash paid during the year for:			
Interest	$ 109.4	$ 74.0	$ 85.3
Income taxes	$ 61.9	$ 143.9	$ 119.9

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

TAMPA ELECTRIC COMPANY
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(millions) *For the years ended Dec. 31,*	*2003*	*2002*	*2001*
Balance, beginning of year	$ 302.9	$ 304.3	$ 299.0
Add: Net income	123.4	196.0	177.1
	426.3	500.3	476.1
Deduct: Cash dividends on capital stock			
Common	151.4	197.4	171.8
	151.4	197.4	171.8
Balance, end of year	$ 274.9	$ 302.9	$ 304.3

CONSOLIDATED STATEMENTS OF CAPITALIZATION

	Current	*Capital Stock Outstanding Dec. 31,*		*Cash dividends paid (1)*	
(millions, except share amounts)	*Redemption Price*	*Shares*	*Amount*	*Per Share*	*Amount*
Common stock — without par value					
25 million shares authorized					
2003	N/A	10	$ 1,376.8	N/A	$ 151.4
2002	N/A	10	$ 1,535.1	N/A	$ 197.4
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. 15, May 15, Aug. 15 and Nov. 15.

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

Long-Term Debt (millions) Dec. 31,	*Due*	*2003*	*2002*
Tampa Electric			
First mortgage bonds (issuable in series):			
7.75% (effective rate of 7.96%)	2022	$ 75.0	$ 75.0
6.125% (effective rate of 6.61%)	2003	—	75.0
Installment contracts payable (1):			
6.25% Refunding bonds (effective rate of 6.81%) (2)	2034	86.0	86.0
5.85% Refunding bonds (effective rate of 5.88%)	2030	75.0	75.0
5.1% Refunding bonds (effective rate of 5.77%) (3)	2013	60.7	60.7
5.5% Refunding bonds (effective rate of 6.34%) (3)	2023	86.4	86.4
4% (effective rate of 4.22%) (4)	2025	51.6	51.6
4% (effective rate of 4.17%) (4)	2018	54.2	54.2
4.25% (effective rate of 4.44%) (4)	2020	20.0	20.0
Notes: 6.875% (effective rate of 6.98%) (5)	2012	210.0	210.0
6.375% (effective rate of 7.35%) (5)	2012	330.0	330.0
5.375% (effective rate of 5.59%) (5)	2007	125.0	125.0
6.25% (effective rate of 6.31%) (5)	2016	250.0	—
		1,423.9	1,248.9
Peoples Gas System			
Senior Notes: (6) 10.35%	2007	3.4	4.2
10.33%	2008	4.8	5.6
10.3%	2009	6.4	7.2
9.93%	2010	6.6	7.4
8.0%	2012	23.3	25.4
Notes: 6.875% (effective rate of 6.98%) (5)	2012	40.0	40.0
6.375% (effective rate of 7.34%) (5)	2012	70.0	70.0
5.375% (effective rate of 5.58%) (5)	2007	25.0	25.0
		179.5	184.8
		1,603.4	1,433.7
Unamortized debt premium (discount), net		(6.4)	(7.1)
		1,597.0	1,426.6
Less amount due within one year (7)		6.1	81.0
Total long-term debt		$ 1,590.9	$ 1,345.6

(1) Tax exempt securities.
(2) Proceeds of these bonds were used to refund bonds with an interest rate of 9.9% in February 1995. For accounting purposes, interest expense has been recorded using a blended rate of 6.52% on the original and refunding bonds, consistent with regulatory treatment.
(3) Proceeds on these bonds were used to refund bonds with interest rates of 5.75% to 8%.
(4) The interest rate on these bonds was fixed for a five-year term on Aug. 5, 2002.
(5) These notes are subject to redemption in whole or in part, at any time, at the option of the company.
(6) These long-term debt agreements contain various restrictive covenants, including provisions related to interest coverage, maximum levels of debt-to-total capitalization and limitations on dividends.
(7) Of the amount due in 2004, $0.8 million may be satisfied by the substitution of property in lieu of cash payments.

A substantial part of the tangible assets of Tampa Electric is pledged as collateral to secure its first mortgage bonds, and certain pollution control equipment is pledged to secure installment contracts payable. Maturities and annual sinking fund requirements of long-term debt for the years 2005, 2006, 2007 and 2008 are $5.5 million, $5.9 million, $156.1 million and $5.7 million, respectively.

At Dec. 31, 2003, total long-term debt had a carrying amount of $1,590.9 million and an estimated fair market value of $1,697.4 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.

In April 2003, Tampa Electric issued $250 million of 6.25% Senior Notes due in 2016, in a private placement. Net proceeds of approximately $250 million were used to repay short-term indebtedness and for general corporate purposes. The 6.25% Senior Notes contain covenants that (1) require Tampa Electric Company to maintain, as of the last day of each fiscal quarter, a debt-to-capital ratio, as defined in the agreement, that does not exceed 60%, and (2) prohibit the creation of any liens on any of its property in excess of $787 million in the aggregate, with certain exceptions, as defined, without equally and ratably securing the 6.25% Senior Notes.

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

TAMPA ELECTRIC COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies

The significant accounting policies are as follows:

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 Florida Public Service Commission (FPSC) and Federal Energy Regulatory Commission (FERC) regulations.

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. 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 2003, 2002 and 2001. Total AFUDC for 2003, 2002 and 2001 was $27.4 million, $34.5 million, and $9.2 million, respectively. The base on which AFUDC is calculated excludes construction work-in-progress which has been included in rate base.

Deferred Income Taxes

TECO Energy 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 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 Bulleting (SAB) 104, *Revenue Recognition in Financial Statements*. The interpretive criteria outlined in SAB 104 are that 1) there is persuasive evidence that an arrangement exists; 2) delivery has occurred or services have been rendered; 3) the fee is fixed and determinable; and 4) collectibility is reasonably assured. 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 Peoples Gas System) 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 Fuel Costs

Revenues include amounts resulting from cost recovery clauses which provide for monthly billing charges to reflect increase or decreases in fuel, purchase power, conservation and environmental costs for Tampa Electric and purchase 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-recovery 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, 2003 and 2002, unbilled revenues of $45.7 million and $41.3 million, respectively, are included in the "receivables" line item on the balance sheet.

Purchased Power

Tampa Electric purchases power on a regular basis primarily to meet the needs of its retail customers. As a result of the sale of Hardee Power Partners, Ltd. (HPP) in October 2003 (see **Notes 14** and **21** to the **TECO Energy Consolidated Financial Statements** in the **2003 Annual Report**), subsequent power purchases from HPP are reflected as non-affiliate purchases by Tampa Electric. Tampa Electric's long-term power purchase agreement from HPP was not affected by TPS' sale of HPP. Under the existing agreement, which has been approved by the FERC and FPSC, Tampa Electric has the right to purchase, on average, approximately 52% of the total output of the Hardee power station. Tampa Electric purchased power from non-TECO Energy affiliates, including HPP, at a cost of $234.9 million, $253.7 million, and $209.7 million, respectively, for the years ended Dec. 31, 2003, 2002 and 2001. These purchased power costs are recoverable through an FPSC-approved cost recovery clause.

Depreciation

Tampa Electric provides for 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. The provision for utility plant in service, expressed as a percentage of the original cost of depreciable property was 4.6% for 2003 and 4.2% for 2002 and 2001. For the year ended Dec. 31, 2003, Tampa Electric recognized depreciation expense of $36.6 million related to accelerated depreciation of certain Gannon power station coal-fired assets, in accordance with a regulatory order issued by the FPSC. Construction work-in-progress is not depreciated until the asset is completed or placed in service.

The implementation of FAS 143, *Accounting for Asset Retirement Obligations* in 2003 resulted in an increase in the carrying amount of long-lived assets and the reclassification of the accumulated reserve for cost of removal from accumulated depreciation to "Regulatory liabilities," for all periods presented. The adjusted capitalized amount is depreciated over the remaining useful life of the asset (see **Note 4**).

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 regulatory process. 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 $77.7 million, $73.8 million and $71.7 million, for the years ended Dec. 31, 2003, 2002 and 2001, 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, 2003, 2002 and 2001, these totaled $77.5 million, $73.7 million and $71.0 million, respectively.

Excise taxes paid by the regulated utilities are not material and are expenses when incurred.

Asset Impairments

Effective Jan. 1, 2002, Tampa Electric Company adopted 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 segment 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. Indicators of impairment existed for certain long-term turbine purchase contracts, triggering a requirement to ascertain the recoverability of these assets using undiscounted cash flows before interest expense. See **Note 7** for specific details regarding the results of these assessments.

Restrictions on Dividend Payments and Transfer of Assets

Tampa Electric's first mortgage bond indenture and certain long-term debt at PGS contain restrictions that limit the payment of dividends and distributions on the common stock of Tampa Electric Company. Tampa Electric's first mortgage bond indenture does not limit loans or advances. As of Dec. 31, 2003 and 2002, the balances restricted as to transfers from Tampa Electric to TECO Energy under the first mortgage bonds were 3% and 20%, respectively, of consolidated common equity. Tampa Electric's new credit facilities include a covenant limiting cumulative distributions and outstanding affiliate loans.

See **Notes 5** and **14** for a more detailed description of significant financial covenants.

2. Derivatives and Hedging

From time to time, Tampa Electric Company enters into futures, forwards, swaps and option contracts to limit the exposure to 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, natural gas production 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.

Effective Jan. 1, 2001, the company adopted FAS 133, *Accounting for Derivative Instruments and Hedging Activities*. The new standard requires 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 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 the 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, 2003 and 2002, respectively, the company had derivatives assets of $4.8 million and $3.5 million. The amounts recorded in accumulated other comprehensive income (OCI), as of Dec. 31, 2003 and 2002, are fully offset by regulatory assets or liabilities to reflect the impact of the fuel recovery clause on the results of hedging activities.

For the years ended Dec. 31, 2003, 2002 and 2001, Tampa Electric Company reclassified from OCI to earnings, pre-tax gains (losses) of $3.2 million, $0.2 million and $(0.7) million, respectively. Amounts reclassified were primarily related to cash flow hedges of physical purchases of natural gas. For these types of hedge relationships, the gain or loss on the derivative, reclassified from OCI to earnings, is offset by a regulatory asset or liability, reflecting the fact that all fuel hedging activity is subject to the fuel recovery clause (see **Note 3**).

Based on the fair values of derivatives at Dec. 31, 2003, pre-tax gains of $4.8 million are expected to be reversed from OCI to the Consolidated Statements of Income within the next twelve months. However, these gains and other future reclassifications from OCI 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 2004.

3. Regulatory

As discussed in **Note 1**, Tampa Electric's and PGS' retail business are regulated by the FPSC.

Base Rate – Tampa Electric

Since the expiration, in 1999, of agreements entered into in 1996 with Florida's Office of Public Counsel (OPC) and the Florida Industrial Power Users Group (FIPUG), which were approved by the FPSC, Tampa Electric is not under a new stipulation to stabilize prices while securing fair earnings opportunities. Tampa Electric's rates and allowed return on equity (ROE) range of 10.75 percent to 12.75 percent with a midpoint of 11.75 percent are in effect until such time as changes are occasioned by an agreement approved by the FPSC or other PFSC actions as a result of rate other proceedings initiated by Tampa Electric, FPSC staff or other interest parties. Tampa Electric expects to continue earnings within its allowed ROE range.

Tampa Electric has not sought a base rate increase to recover the investment in the Bayside Power Station, of which phase one entered service in April 2003.

Cost Recovery – Tampa Electric

2003 Proceedings

In February 2003, Tampa Electric filed a request for an additional fuel cost adjustment of almost $61 million due to continued increases in the cost of natural gas and oil and the plan to phase out Gannon Units 1 through 4 in 2003. In March 2003, the FPSC approved Tampa Electric's new fuel rates as well as new fuel rates for the other peninsular Florida investor-owned utilities.

In September 2003, Tampa Electric filed with the FPSC for approval of fuel and purchased power, capacity, environmental and conservation cost recovery rates for the period January through December 2004. In November, the FPSC approved Tampa Electric's requested changes except for the lower coal transportation rate as a results of a new contract with TECO Transport described below. The resulting rates include the impacts of increased use of natural gas at the Bayside Power Station and the collection of $91 million for under recovery of fuel expense for 2002 and 2003. The filing also included estimated waterborne transportation rates for coal transportation services (see **Note 12**). The FPSC did not allow the recovery of $8.4 million it characterized as savings from shutting down the Gannon Station earlier than originally planned which the FPSC deemed generated operations and maintenance savings. The rates include projected costs associated with environmental projects required under the Florida Department of Environmental Protection (FDEP) Consent Final Judgment (see **Note 14** for additional details regarding these environmental matters). The costs associated with this disallowance were recognized in 2003.

Tampa Electric filed its objection to the disallowance of the recovery of the $8.4 million and a motion asking FPSC to reconsider its decision because all facts and law were not taken into account. The motion was filed on Jan. 6, 2004, and a decision on this matter is expected in the first quarter of 2004. See **Regulation – Cost Recovery Clauses** section of **MD&A.**

As part of the regulatory process, it is reasonably likely that third parties may intervene on this or similar matters in the future. The company is unable to predict the timing, nature or impact of such future actions.

Base Rate – Peoples Gas

On June 27, 2002, PGS filed a petition with the FPSC to increase its service rates. The requested rates would have resulted in a $22.6 million annual base revenue increase, reflecting a ROE mid-point of 11.75 percent.

On the date of the FPSC hearing, PGS agreed to a settlement with all parties involved, and a final FPSC order was granted on Dec. 17, 2002. PGS received authorization to increase annual base revenues by $12.05 million. The new rates allow for an ROE range of 10.25 to 12.25 percent with an 11.25 percent midpoint ROE and a capital structure with 57.43 percent equity. The increase went into effect on Jan. 16, 2003.

Cost Recovery – Peoples Gas

In November 2003, the FPSC approved rates under Peoples' Gas Purchased Gas Adjustment (PGA) cap factor for the period January 2004 through December 2004. The PGA is a factor that can vary monthly due to changes in actual fuel costs but is not anticipated to exceed the annual cap.

Other Items

Coal Transportation Contract

Tampa Electric's contract for coal transportation and storage services with TECO Transport expired on Dec. 31, 2003. In June 2003, Tampa Electric issued a Request For Proposal (RFP) to potential providers requesting services for the next five years. The result of the RFP process was the execution of a new contract between Tampa Electric and TECO Transport with market rates supported by the results of the RFP and an independent expert in maritime transportation matters. The prudence of the RFP process and final contract is expected to be reviewed by the FPSC in May 2004, with a decision expected in July 2004.

Regional Transmission Organization (RTO)

In October 2002, the RTO process involving the proposed formation of GridFlorida, LLC, as initiated in response to the Federal Regulatory Commission's (FERC's) continuing effort to affect open access to transmission facilities in large regional markets, was delayed when the OPC filed an appeal with the Florida Supreme Court asserting that the FPSC could not relinquish its jurisdictional responsibility to regulate the IOUs and the approval of GridFlorida would result in such a relinquishment. Oral arguments occurred in May 2003, and the Florida Supreme Court dismissed the OPC appeal citing that it was premature because certain portions of the FPSC GridFlorida order are not final.

In September 2003, a joint meeting of the FERC and FPSC took place to discuss wholesale market and RTO issues related to GridFlorida and in particular federal/state interactions. The FPSC has scheduled a series of collaborative meetings with all interested parties upon their conclusion, will set items for hearing and a hearing schedule. This is expected to occur throughout 2004.

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 FERC. These policies conform with generally accepted accounting principles in all material respects.

Tampa Electric and PGS apply the accounting treatment permitted by FAS 71, *Accounting for the Effects of Certain Types of Regulation*. Areas of applicability include deferral of revenues 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 deferral of costs as regulatory assets when cost recovery is ordered over a period longer than a fiscal year, to the period that the regulatory agency recognizes them. Details of the regulatory assets and liabilities as of Dec. 31, 2003 and 2002 are presented in the following table:

Regulatory Assets and Liabilities *(millions)*

Dec. 31,	*2003*	*2002*
Regulatory assets:		
Regulatory tax asset (1)	$ 63.3	$ 54.9
Other:		
Cost recovery clauses	59.7	34.7
Coal contract buy-out (2)	2.7	5.4
Deferred bond refinancing costs (3)	32.2	35.9
Environmental remediation	20.7	20.3
Competitive rate adjustment	5.3	7.4
Other	4.4	4.6
	125.0	108.3
Total regulatory assets	$ 188.3	$ 163.2
Regulatory liabilities:		
Regulatory tax liability (1)	$ 29.9	$ 36.6
Other:		
Deferred allowance auction credits	1.9	2.1
Recovery clause related	—	2.2
Environmental remediation	20.7	20.3
Transmission and distribution storm reserve	40.0	36.0
Deferred gain on property sales (4)	1.9	0.9
Accumulated reserve – cost of removal	462.2	440.6
Other	3.6	—
	530.3	502.1
Total regulatory liabilities	$ 560.2	$ 538.7

(1) Related primarily to plant life. Includes excess deferred taxes of $17.0 million and $20.9 million as of Dec. 31, 2003 and 2002, respectively.
(2) Amortized over a 10-year period ending December 2004.
(3) Unamortized refinancing costs:

Related to debt transactions as follows (millions):	Amortized until:
$ 50.0	2004
$ 51.6	2005
$ 22.1	2007
$ 25.0	2011
$ 50.0	2011
$ 150.0	2012
$ 150.0	2012
$ 85.9	2014
$ 25.0	2021
$ 100.0	2022

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

4. Asset Retirement Obligations

On Jan. 1, 2003, Tampa Electric Company adopted FAS 143, *Accounting for Asset Retirement Obligations*. The company recognized liabilities for retirement obligations associated with certain long-lived assets, in accordance with the relevant accounting guidance. An asset retirement obligation 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 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.

As a result of the adoption of FAS 143, Tampa Electric Company recorded an increase to net property, plant and equipment of $0.1 million (net of accumulated depreciation), an increase in regulatory assets of $0.2 million, and an increase to asset retirement obligations of $0.3 million. The after-tax charge recorded as a change in accounting principle was not material.

For year ended Dec. 31, 2003, accretion expense associated with asset retirement obligations for Tampa Electric Company was not material. During this period, no new retirement obligations were incurred and no significant revisions to estimated cash flows used in determining the recognized asset retirement obligations were necessary. FAS 143 was not effective for years ended Dec. 31, 2002 and 2001.

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.

Upon adoption of FAS 143 at Jan. 1, 2003, the estimated accumulated cost of removal and dismantlement included in net accumulated depreciation at Dec. 31, 2003 and 2002 of $462.2 million and $440.6 million, respectively, was reclassified to a regulatory liability for all period presented (see also **Note 3**). 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 are charged to accumulated depreciation and the accumulated cost of removal reserve reported as a regulatory liability, respectively.

5. Short-Term Debt

At Dec. 31, 2003 and 2002, the following credit facilities and related borrowings existed:

Credit Facilities	*Dec. 31, 2003*			*Dec. 31, 2002*		
(millions)	*Credit Facilities*	*Borrowings Outstanding*	*Letters of Credit Outstanding*	*Credit Facilities*	*Borrowings Outstanding*	*Letters of Credit Outstanding*
Recourse:						
Tampa Electric:						
1-year facility	$ 125.0	$ —	$ —	$ 300.0	$ —	$ —
3-year facility	125.0	—	—	—	—	—
Total	$ 250.0	$ —	$ —	$ 300.0	$ —	$ —

The credit facility requirements commitment fees of 20 basis points, and drawn amounts are charged interest at LIBOR 105-117.5 basis points, depending upon the amount of the draw, at current ratings. Notes payable at Dec. 31, 2002 consisted of $10.5 million of commercial paper with a weighted average interest rate of 1.86%. There were no notes payables at Dec. 31, 2003.

On Nov. 7, 2003, Tampa Electric replaced its maturing $300 million credit facility with a $125 million one-year credit facility and a $125 million three-year credit facility, maturing in November 2004 and November 2006, respectively. In addition to the financial covenants described below and in **Notes 1** and **14**, the two new facilities include a covenant limiting cumulative distributions after Oct. 31, 2003 and outstanding loans to its parent to an amount representing an accumulation of net income after May 31, 2003 and capital contributions from the parent after Oct. 31, 2003, plus $450 million.

6. Common Stock

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

	Common Stock		*Issue*	
(millions, except per share amounts)	*Shares*	*Amount*	*Expense*	*Total*
Balance Dec. 31, 2000	10	$ 1,148.8	$ (0.7)	$ 1,148.1
Contributed capital from parent	—	170.0	—	170.0
Balance Dec. 31, 2001	10	1,318.8	(0.7)	1,318.1
Contributed capital from parent	—	217.0	—	217.0
Balance Dec. 31, 2002	10	1,535.8	(0.7)	1,535.1
Contributed capital returned to parent	—	(158.3)	—	(158.3)
Balance Dec. 31, 2003	10	$ 1,377.5	$ (0.7)	$ 1,376.8

7. Asset Impairments

In 2003, Tampa Electric Company recorded a $48.9 million after-tax charge ($79.6 million pre-tax) to reflect the impact of the cancellation of turbine purchase commitments. As reported previously and in **Note 12**, certain turbine rights had been transferred from Other Unregulated operations of TECO Energy to Tampa Electric in 2002 for use in Tampa Electric's generation expansion activities. These cancellations, made in April 2003, fully terminate all turbine purchase obligations.

8. Restructuring Costs

In September and October of 2003, TECO Energy announced a corporate reorganization to restructure the company along functional lines, consistent with its objectives to grow the core utility operation, maintain liquidity, generate cash and maximize the value in the existing assets. As a result of these actions, TECO Energy is now aligned to provide for centralized oversight along functional lines for power plant operations, energy delivery, energy management, and human resources and technology support services. The 2003 actions included the involuntary termination or retirement of 232 employees at Tampa Electric Company, including officers and other personnel from operations and support services.

In 2002, TECO Energy initiated a restructuring program that impacted approximately 182 employees at Tampa Electric. This program included retirements, the elimination of positions and other cost control measures. The total costs associated with this program included severance, salary continuation and other termination and retirement benefits.

Tampa Electric recognized a pre-tax expense of $14.0 million and $16.6 million for accrued benefits and other termination and retirement benefits for the years ended Dec. 31, 2003 and 2002, respectively. Tampa Electric Company completed these restructuring activities as of Dec. 31, 2003. As of Dec. 31, 2003 and 2002, respectively, no adjustments were made to the benefits initially accrued for and $8.4 million and $16.6 million, respectively, of the accrued benefits were paid or otherwise settled.

9. 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. Income tax expense consists of the following components:

Income Tax Expense

(millions)	*Federal*	*State*	*Total*
2003			
Currently payable	$ 74.9	$ 17.6	$ 92.5
Deferred	(16.0)	(7.9)	(23.9)
Amortization of investment tax credits	(4.6)	—	(4.6)
Total income tax expense	$ 54.3	$ 9.7	64.0
Included in other income, net			(30.0)
Included in operating expenses			$ 94.0
2002			
Currently payable	$ 66.7	$ 14.9	$ 81.6
Deferred	23.2	0.4	23.6
Amortization of investment tax credits	(4.4)	—	(4.4)
Total income tax expense	$ 85.5	$ 15.3	100.8
Included in other income, net			0.5
Included in operating expenses			$ 100.3
2001			
Currently payable	$ 88.6	$ 15.7	$ 104.3
Deferred	(1.3)	(0.7)	(2.0)
Amortization of investment tax credits	(4.4)	—	(4.4)
Total income tax expense	$ 82.8	$ 15.0	97.9
Included in other income, net			0.2
Included in operating expenses			$ 97.7

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

(millions) Dec. 31,	*2003*	*2002*
Deferred tax assets (1)		
Property related	$ 93.6	$ 90.3
Leases	3.1	3.5
Insurance reserves	20.5	17.7
Early capacity payments	3.5	6.0
Other	12.8	15.8
Total deferred income tax assets	133.5	133.3
Deferred income tax liabilities (1)		
Property related	(500.0)	(502.8)
Other	25.5	19.7
Total deferred income tax liabilities	(474.5)	(483.1)
Accumulated deferred income taxes	$ (341.0)	$ (349.8)

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

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

(millions)	*2003*	*2002*	*2001*
Net income (1)	$ 123.4	$ 196.0	$ 177.1
Total income tax provision (1)	64.0	100.8	97.9
Income before income taxes (1)	$ 187.4	$ 296.8	$ 275.0
Income taxes on above at federal statutory rate of 35%	$ 65.6	$ 103.8	$ 96.2
Increase (decrease) due to			
State income tax, net of federal income tax	6.3	10.0	9.8
Amortization of investment tax credits	(4.6)	(4.4)	(4.5)
Equity portion of AFUDC	(7.0)	(8.7)	(2.3)
Other	3.7	0.1	(1.3)
Total income tax provision	$ 64.0	$ 100.8	$ 97.9
Provision for income taxes as a percent of income before income taxes	34.2%	34.0%	35.6%

(1) Includes $48.9 million after-tax ($79.6 million pre-tax) charges associated with cancellation of turbine purchase commitments noted above.

10. Other Comprehensive Income

Tampa Electric Company reported the following comprehensive income (loss) for the years ended Dec. 31, 2003, 2002 and 2001 related to changes in the fair value of cash flow hedges:

Comprehensive income (loss) *(millions)*	*Gross*	*Tax*	*Net*
2003			
Unrealized gain on cash flow hedges	$ 3.2	$ 1.2	$ 2.0
Less: Gain reclassified to net income	(3.2)	(1.2)	(2.0)
Total other comprehensive income (loss)	$ —	$ —	$ —
2002			
Unrealized gain on cash flow hedges	$ 0.3	$ 0.1	$ 0.2
Less: Gain reclassified to net income	(0.2)	(0.1)	(0.1)
Total other comprehensive income (loss)	$ 0.1	$ —	$ 0.1
2001			
Unrealized (loss) on cash flow hedges	$ (0.8)	$ (0.3)	$ (0.5)
Less: Loss reclassified to net income	0.7	0.3	0.4
Total other comprehensive income (loss)	$ (0.1)	$ —	$ (0.1)

11. Employee Postretirement Benefits

Pension Benefits

Tampa Electric Company is a participant in the comprehensive retirement plans of TECO Energy (multi-employer plans), 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. On Apr. 1, 2000, the plan was amended to provide for benefits to be earned and payable substantially on a lump sum basis through an age and service credit schedule for eligible participants leaving the company on or after July 1, 2001. Other significant provisions of the plan, such as eligibility, definitions of credited service, final average earnings, etc., were largely unchanged. This amendment resulted in decreased pension expense at TECO Energy of approximately $0.8 million in 2001 and a reduction of benefit obligation of $6.2 million at Sept. 30, 2001.

TECO Energy's policy is to fund the plan within the guidelines set by ERISA for the minimum annual contribution and the maximum allowable as a tax deduction by the IRS. In 2004, TECO Energy expects to make a contribution of about $14.2 million, of which Tampa Electric Company's portion is expected to be about $9.1 million.

Amounts disclosed for pension benefits also include the unfunded obligations for the supplemental executive retirement plan, non-qualified, non-contributory defined benefit retirement plans available to certain senior management. In 2004, TECO Energy expects to make a contribution of about $1.7 million to these plans. TECO Energy reported other comprehensive loss of $43.9 million and $4.4 million in 2003 and 2002, respectively and other comprehensive income of $0.3 million in 2001 related to adjustments to the minimum pension liability associated with the supplemental executive retirement plan.

The asset allocation for the company's pension plan as of Sept. 30, 2003 and 2002, and the target allocation for 2004, by asset category, follows:

Asset Allocation

Asset category	Target Allocation of 2004	Percentage of Plan Assets at Sept. 30, 2003	2002
Equities	55% – 60%	57%	53%
Fixed income	40% – 45%	43%	47%
Real Estate	—	—	—
Other	—	—	—
Total	—	100%	100%

TECO Energy'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. TECO Energy'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 expense.

The assumptions for the expected return on plan assets were developed based on an analysis of historical market returns, the plan's past experience and current market conditions. Estimates of future market returns are lower than actual long-term historical returns of the plan but were factored into the expected return on asset assumptions to generate a conservative forecast.

In 2001, TECO Energy elected to change the measurement date for pension obligations and plan assets from Dec. 31 to Sep. 30. The effect of this accounting change was not material.

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

Pension Benefit Expense

(millions)	*2003*	*2002*	*2001*
Components of net periodic benefit expense			
Service cost (benefits earned during the period)	$ 14.3	$ 11.8	$ 11.2
Interest cost on projected benefit obligations	30.8	28.7	27.9
Expected return on assets	(42.1)	(42.9)	(42.0)
Amortization of:			
Transition obligation (asset)	(1.1)	(1.1)	(1.1)
Prior service cost (benefit)	(0.5)	(0.5)	(0.5)
Actuarial (gain) loss	1.4	(3.7)	(4.4)
Pension expense (benefit)	2.8	(7.7)	(8.9)
Special termination benefit charge	—	2.7	—
Additional amounts recognized	—	—	—
Net pension expense (benefit) recognized in the TECO Energy Consolidated Statements of Income (1)	$ 2.8	$ (5.0)	$ (8.9)
Assumptions used to determine net costs			
Discount rate	6.75%	7.50%	7.50%
Rate of compensation increase	4.82%	4.66%	4.69%
Expected return on plan assets	9.00%	9.00%	9.00%

(1) Tampa Electric Company's portion was $(1.9) million, ($7.8) million and ($10.4) million for 2003, 2002 and 2001, respectively.

The following table shows the funded status of the qualified and non-qualified pension plans for which the projected obligation exceeds the fair value to the plan assets:

Pension Plans – Projected Obligation Exceeds Plan Assets

(millions) Dec. 31,	2003	2002
Projected benefit obligation	$ 554.5	$ 455.1
Fair value of plan assets	391.8	371.9
Projected obligation in excess of plan assets	$ 162.7	$ 83.2
Accumulated benefit obligation	$ 480.0	$ 400.8

As of Dec. 31, 2003, for the qualified and non-qualified pension plans, the accumulated obligation exceeded the fair value of the plan assets. As of Dec. 31, 2002, the accumulated obligation exceeded the fair value of the plan assets for only the non-qualified pension plan. The table below shows the funded status at the end of 2003 and 2002 for the respective plans:

Pension Plans – Accumulated Obligation Exceeds Plan Assets

(millions) Dec. 31,	2003	2002 (1)
Projected benefit obligation	$ 480.0	$ 32.8
Fair value of plan assets	391.8	—
Accumulated obligation in excess of plan assets	$ 88.2	$ 32.8
Accumulated benefit obligation	$ 554.5	$ 41.3

(1) In 2002 only the non-qualified plan is presented due to the fact that the fair value of plan assets exceeded the accumulated obligation for the qualified plan.

Reconciliation of the funded status of the retirement plan and the accrued pension prepayment/(liability)

(millions)	*2003*	*2002*
Change in benefit obligation		
Net benefit obligation at prior measurement date	$ 455.1	$ 382.3
Service cost	14.3	11.8
Interest cost	30.8	28.7
Actuarial loss	89.7	58.3
Plan amendments	—	1.1
Special termination benefits	—	2.7
Curtailment	(1.9)	—
Gross benefits paid	(33.5)	(29.8)
Net benefit obligation at measurement date	$ 554.5	$ 455.1
Change in plan assets		
Fair value of plan assets at prior measurement date	$ 371.9	$ 428.0
Actual return on plan assets	51.7	(24.9)
Employer contributions	1.7	1.7
Gross benefits paid (including expenses)	(33.5)	(32.9)
Fair value of plan assets at measurement date	$ 391.8	$ 371.9
Funded status		
Fair value of plan assets	$ 391.8	$ 371.9
Benefit obligation	554.5	455.1
Funded status at measurement date	(162.7)	(83.2)
Net contributions after measurement date	6.7	0.4
Unrecognized net actuarial loss	165.6	88.9
Unrecognized prior service cost (benefit)	(6.9)	(7.4)
Unrecognized net transition obligation (asset)	(1.4)	(2.5)
Accrued liability at end of year	$ 1.3	$ (3.8)
Amounts recognized in the statement of financial position		
Prepaid benefit cost	$ 16.9	$ 14.8
Accrued benefit cost	(15.7)	(18.5)
Additional minimum liability	(82.7)	(13.8)
Intangible asset	1.3	1.5
Accumulated other comprehensive income	81.5	12.2
Net amount recognized at end of year	$ 1.3	$ (3.8)
Assumptions used in determining actuarial valuations		
Discount rate to determine projected benefit obligation	6.00%	6.75%
Rate of increase in compensation levels	4.25%	9.0%

Other Postretirement Benefits

Tampa Electric provides 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 June 30, 2001 is limited to a defined dollar benefit based on years of service. On April 1, 2000, the company adopted changes to this program for participants retiring from the company on or after July 1, 2001. The company contribution toward pre-65 and post-65 health care coverage for most employees retiring on or after July 1, 2001 is limited to a defined dollar benefit based on an age and service schedule. The impact of this amendment, including a change in the company's commitment for future retirees combined with a grandfathering provision for current retired participants, resulted in a reduction in the benefit obligation of $1.4 million in 2001. In 2004, TECO Energy expects to make a contribution of about $9.5 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, President Bush signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). Beginning in 2006, the new law adds 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 is continuing to analyze the potential impact the Act may have on the company's FAS 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, expense and what, if any, plan design changes should be made with respect to the company's retiree medical program in response to the Act.

The following charts summarize the income statement and balance sheet impact, as well as the benefit obligations, assets, funded status and rate assumptions associated with other postretirement benefits.

Other Postretirement Benefit Expense

(millions)	*2003*	*2002*	*2001*
Components of net periodic benefit expense			
Service cost (benefits earned during the period)	$ 2.6	$ 2.4	$ 2.3
Interest cost on projected benefit obligations	9.3	8.6	8.4
Amortization of:			
Transition obligation (straight line over 20 years)	2.1	2.1	2.1
Prior service cost	1.7	1.7	1.7
Actuarial loss	1.0	0.1	0.3
Pension expense	16.7	14.9	14.8
Special termination benefits	—	0.6	—
Additional amounts recognized	0.1	(0.1)	—
Net periodic postretirement benefit expense	$ 16.8	$ 15.4	$ 14.8

The accumulated postretirement benefit obligation exceeds plan assets for the postretirement health and welfare benefits plan.

Reconciliation of the funded status of the postretirement benefit plan and the accrued liability

(millions)	*2003*	*2002*
Change in benefit obligation		
Net benefit obligation at prior measurement date	$ 138.8	$ 114.8
Service cost	2.6	2.4
Interest cost	9.3	8.6
Plan participants' contributions	1.0	0.8
Actuarial loss	3.1	17.3
Special termination benefits	—	0.6
Gross benefits paid	(8.0)	(5.7)
Net benefit obligation at measurement date	$ 146.8	$ 138.8
Change in plan assets		
Fair value of plan assets at prior measurement date	—	—
Employer contributions	7.0	4.9
Plan participants contributions	1.0	0.8
Gross benefits paid (including expenses)	(8.0)	(5.7)
Fair value of plan assets at measurement date	$ —	$ —
Funded status		
Funded status at measurement date	$ (146.8)	$ (138.8)
Net contributions after measurement date	1.8	1.5
Unrecognized net actuarial loss	31.5	29.5
Unrecognized prior service cost	18.7	20.3
Unrecognized net transition obligation	19.0	21.1
Accrued liability at end of year	$ (75.8)	$ (66.4)
Assumptions Used in Determining Actuarial Valuations		
Discount rate to determine projected benefit obligation	6.00%	6.75%

Employer contributions and benefits paid in the above tables include both those amounts contributed directly to, and paid directly from both plan assets and directly to plan participants. The assumed health care cost trend rate for medical costs was 11.5% in 2003 and decreases to 5.0% in 2013 and thereafter.

A 100 basis point increase in the medical trend rates would produce a 3 percent ($0.4 million) increase in the aggregate service and interest cost for 2003, and a 4 percent ($5.4 million) increase in the accumulated postretirement benefit obligation as of Sept. 30, 2003.

A 100 basis point decrease in the medical trend rates would produce a 2 percent ($0.3 million) decrease in the aggregate service and interest cost for 2003 and a 2 percent ($3.5 million) decrease in the accumulated postretirement benefit obligation as of Sept. 30, 2003.

12. Related Party Transactions

In February 2002, Tampa Electric and TECO-Panda Generating Company (TPGC) II, an affiliate of TECO Wholesale Generation, entered into an assignment and assumption agreement under which Tampa Electric obtained TPGC II's rights and interests to four combustion turbines being purchased from General Electric, and assumed the corresponding liabilities and obligations for such equipment. In accordance with the terms of the assignment and assumption agreement, Tampa Electric paid $62.5 million to TPGC II as reimbursement for amounts already paid to General Electric by TPGC II for such equipment. No gain or loss was incurred on the transfer. In the first quarter of 2003, Tampa Electric recorded a $48.9 million after-tax charge related to the cancellation of these turbine purchase commitments (see **Note 7**).

In the second and third quarters of 2003, Tampa Electric returned approximately $158 million of capital to TECO Energy. TECO Energy had previously contributed capital to Tampa Electric in support of Tampa Electric's construction program in the wholesale business, which was subsequently scaled back.

In October 2003, Tampa Electric signed a five-year contract renewal with a TECO Energy affiliate company, TECO Transport Corporation, 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. See **Note 3** for additional details.

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

Net transactions with affiliates:

(millions)	*2003*	*2002*	*2001*
Fuel and interchange related, net	$ 152.4	$ 144.9	$ 162.0
Administrative and general, net	$ 13.7	$ 10.7	$ 22.1

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

(millions)	*2003*	*2002*
Accounts receivable (1)	$ 4.5	$ 6.6
Accounts payable (1)	$ 13.3	$ 23.6

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

13. 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 612,000 customers in West Central Florida. Its Peoples Gas System division is engaged in the purchase, distribution and marketing of natural gas for more than 299,000 residential, commercial, industrial and electric power generation customers in the state of Florida.

Segment Information

(millions)	*Tampa Electric*	*Peoples Gas*	*Other & Eliminations*	*Tampa Electric Company*
2003				
Revenues – outsiders	$1,582.7	$ 408.4	$ —	$1,991.1
Sales to affiliates	3.4	—	(0.7)	2.7
Total revenues	$1,586.1	$ 408.4	$ (0.7)	$1,993.8
Depreciation	210.3	32.7	—	243.0
Restructuring costs (1)	9.9	4.1	—	14.0
Interest charge	85.0	15.6	—	100.6
Provision for taxes	48.1 (2)	15.2	—	63.3 (2)
Net income	$ 98.9	$ 24.5	$ —	$ 123.4
Total assets	4,191.3	651.5	(7.1)	4,835.7
Capital expenditures	$ 289.1	$ 42.6	$ —	$ 331.7

Segment Information – continued

(millions)	*Tampa Electric*	*Peoples Gas*	*Other & Eliminations*	*Tampa Electric Company*
2002				
Revenues – outsiders	$1,548.9	$ 318.1	$ —	$1,867.0
Sales to affiliates	34.3	—	(0.7)	33.6
Total revenues	$1,583.2	$ 318.1	$ (0.7)	$1,900.6
Depreciation	189.8	30.5	(0.2)	220.1
Restructuring costs (2)	16.6	—	—	16.6
Interest charge	51.5	14.8	—	66.3
Provision for taxes	85.7	14.7	—	100.4
Net income	$ 171.8	$ 100.4	$ —	$ 196.0
Total assets	4,135.0	650.2	(6.9)	4,778.3
Capital expenditures	$ 632.2	$ 53.4	$ —	$ 685.6
2001				
Revenues – outsiders	$1,380.1	$ 352.9	$ —	$1,733.0
Sales to affiliates	32.6	—	(0.9)	31.7
Total revenues	$1,412.7	$ 352.9	$ (0.9)	$1,764.7
Depreciation	173.4	27.9	—	201.3
Restructuring costs	—	—	—	—
Interest charge	60.8	14.3	—	75.1
Provision for taxes	83.5	14.2	—	97.7
Net income	$ 154.0	$ 23.1	$ —	$ 177.1
Total assets	3,693.0	605.0	(6.0)	4,292.0
Capital expenditures	$ 426.3	$ 73.0	$ —	$ 499.3

(1) See **Note 8** for a discussion of restructuring charges in 2003 and 2002.

(2) Net income for 2003 includes a $48.9 million after-tax charge (79.6 million pre-tax) asset impairment charge related to the turbine purchase cancellations (see **Note 7**).

14. Commitments and Contingencies

Capital Investments

For 2004, Tampa Electric expects to spend $182.9 million, consisting of $9.4 million (committed as of Dec. 31, 2003) for the completion of the repowering project at the Gannon Station, $18.2 million for environmental expenditures and $155.3 million to support system growth and generation reliability. Tampa Electric's estimated capital expenditures over the 2005-2008 period are projected to be $1,006.4 million, including $323.8 million for environmental expenditures.

Capital expenditures for PGS are expected to be about $40 million in 2004 and $160 million during the 2005-2008 period. Included in these amounts are approximately $25 million annually for projects associated with customer growth and system expansion. The remainder represents capital expenditures for ongoing maintenance and system safety.

Legal Contingencies

Three lawsuits have been filed in the Circuit Court in Hillsborough County against Tampa Electric, in connection with the location of transmission structures in certain residential areas, by residents in the areas surrounding the structures. The high-voltage power lines are needed by Tampa Electric to move electricity to the northwest part of its service territory where population growth has been experienced. The residents are seeking to remove the poles or to receive monetary damages. Tampa Electric is working with the community to determine the feasibility of alternate routes or structures or some combination.

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 5, *Accounting for Contingencies*, to provide for matters that are reasonably likely to result in an estimable, material loss. While the outcome of such proceedings is uncertain, management does not believe that the ultimate resolution of pending matters 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 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, 2003, Tampa Electric Company has estimated its ultimate financial liability to be $20 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 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 and other potentially responsible parties (PRPs) is based on each party's relative ownership interest in or usage of a site. Accordingly, Tampa Electric'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 operating 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, 2003, 2002 and 2001 was $6.2 million, $6.1 million and $6.1 million, respectively. The following table is a schedule of future minimum lease payments at Dec. 31, 2003 for all operating leases with noncancelable lease terms in excess of one year:

Future Minimum Lease Payments for Operating Leases

Year ended Dec. 31:	*Amount (millions)*
2004	$ 4.6
2005	4.6
2006	4.1
2007	2.5
2008	0.3
Later Years	0.2
Total minimum lease payments	$ 16.3

In 1994, Tampa Electric bought out a long-term coal supply contract which would have expired in 2004 for a lump sum payment of $25.5 million. In February 1995, the FPSC authorized the recovery of this buy-out amount plus carrying costs through the Fuel and Purchase Power Cost Recovery Clause over the 10-year period beginning Apr. 1, 1995. In each of the years 2003, 2002 and 2001, $2.7 million of buy-out costs were amortized to expense.

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.

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.

As of Dec. 31, 2003, Tampa Electric Company had outstanding letters of credit of $0.9 million, which guarantee performance to third parties related to debt service.

Tampa Electric Company also enters into commercial agreements in the normal course of business that typically contain standard indemnification clauses. Tampa Electric Company may sometimes agree to make payments to compensate or indemnify the counterparty for legal fees, environmental remediation costs and other similar costs arising from possible future events or changes in laws or regulations. These agreements cover a variety of goods and services, and have varying triggering events dependent on actions by third parties.

Tampa Electric Company is unable to estimate the maximum potential future exposure under these clauses because the events that would obligate Tampa Electric Company have not occurred, or if such event has occurred, Tampa Electric Company has not been notified of any occurrence. As claims are made or changes in laws or regulations indicate, an amount related to the indemnification is reflected in the financial statements.

Financial Covenants

A summary of Tampa Electric's significant financial covenants is as follows:

Tampa Electric Significant Financial Covenants

(millions) *Instrument*	*Financial Covenant (1)*	*Requirement/Restriction*	*Calculation at Dec. 31, 2003*
Tampa Electric			
Mortgage bond indenture	Dividend restriction	Cumulative distributions cannot exceed cumulative net income plus $4	$5 unrestricted (2)
PGS senior notes	EBIT/interest (3)	Minimum of 2.0 times	3.5 times
	Restricted payments	Shareholder equity at least $500	$1,652
	Funded debt/capital	Cannot exceed 65%	50.5%
	Sale of assets	Less than 20% of total assets	—%
Credit facility	Debt/capital	Cannot exceed 60%	49.2%
	EBITDA/interest (3)	Minimum of 2.5 times	5.8 times
	Restriction on distributions	Limit on cumulative distributions and outstanding affiliate loans (4)	$483 unrestricted
6.25% senior notes	Debt/capital	Cannot exceed 60%	49.2%
	Limit on liens	Cannot exceed $787	$362

(1) As defined in applicable instrument.
(2) Reflects the determination as of Dec. 31, 2003, after giving effect to $158 million distributed to TECO Energy as a return of capital during 2003. There were $75 million of callable bonds outstanding under the indenture at Dec. 31, 2003.
(3) EBIT generally represents earnings before interest and taxes. EBITDA generally represents EBIT before depreciation and amortization. However, in each circumstance, the term is subject to the definition prescribed under the relevant legal agreements.
(4) Limits cumulative distributions after Oct. 31, 2003 and outstanding affiliate loans to an amount representing an accumulation of net income after May 31, 2003 and capital contributions from the parent after Oct. 31, 2003, plus $450 million.

15. New Accounting Pronouncements

Amendment to Derivatives Accounting

In April 2003, the FASB issued FAS 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, which clarifies the definition of a derivative and modifies, as necessary, FAS 133 to reflect certain decisions made by the FASB as part of the Derivatives Implementation Group (DIG) process. The majority of the guidance was already effective and previously applied by the company in the course of the adoption of FAS 133.

In particular, FAS 149 incorporates the conclusions previously reached in 2001 under DIG Issue C10, *"Can Option Contracts and Forward Contracts with Optionality Features Qualify for the Normal Purchases and Normal Sales Exception"*, and DIG Issue C15, *"Normal Purchases and Normal Sales Exception for Certain Option-Type Contracts and Forward Contracts in Electricity"*. In limited circumstances, when the criteria are met and documented, Tampa Electric Company designates option-type and forward contracts in electricity as a normal purchase or normal sale (NPNS) exception to FAS 133. A contract designated and documented as qualifying for the NPNS exception is not subject to the measurement and recognition requirements of FAS 133. The incorporation of the conclusions reached under DIG Issues C10 and C15 into the standard will not have a material impact on the consolidated financial statements of Tampa Electric Company.

FAS 149 establishes multiple effective dates based on the source of the guidance. For all DIG Issues previously cleared by the FASB and not modified under FAS 149, the effective date of the issue remains the same. For all other aspects of the standard, the guidance is effective for all contracts entered into or modified after June 30, 2003. The company does not anticipate that the adoption of the additional guidance in FAS 149 will have a material impact on the consolidated financial statements.

Financial Instruments with Characteristics of both Liabilities and Equity

In May 2003, the FASB issued FAS 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, which requires that an issuer classify certain financial instruments as a liability or an asset. Previously, many financial instruments with characteristics of both liabilities and equity were classified as equity. Financial instruments subject to FAS 150 include financial instruments with any of the following features:

- An unconditional redemption obligation at a specified or determinable date, or upon an event that is certain to occur;
- An obligation to repurchase shares, or indexed to such an obligation, and may require physical share or net cash settlement;
- An unconditional, or for new issuances conditional, obligation that may be settled by issuing a variable number of equity shares if either (a) a fixed monetary amount is known at inception, (b) the variability is indexed to something other than the fair value of the issuer's equity shares, or (c) the variability moves inversely to changes in the fair value of the issuer's shares.

The standard requires that all such instruments be classified as a liability, or an asset in certain circumstances, and initially measured at fair value. Forward contracts that require a fixed physical share settlement and mandatorily redeemable financial instruments must be subsequently re-measured at fair value on each reporting date.

This standard is effective for all financial instruments entered into or modified after May 31, 2003, and for all other financial instruments at the beginning of the first interim period beginning after June 15, 2003. The adoption of FAS 150 has had no material impact on the consolidated financial statements.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

During the period Jan. 1, 2002 to the date of this report, neither TECO Energy nor Tampa Electric Company has had or has filed with the Commission a report as to any changes in or disagreements with accountants on accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

Item 9A. CONTROLS AND PROCEDURES

TECO Energy, Inc.

(a) **Evaluation of Disclosure Controls and Procedures**. TECO Energy's Chief Executive Officer and Chief Financial Officer have 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, such officers have concluded that, as of the Evaluation Date, TECO Energy's disclosure controls and procedures are effective and designed to ensure that the information relating to TECO Energy (including its consolidated subsidiaries) required to be included in TECO Energy's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the requisite time periods.

(b) **Changes in Internal Controls**. There have not been any changes in TECO Energy's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, such controls.

Tampa Electric Company

(a) **Evaluation of Disclosure Controls and Procedures**. Tampa Electric Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of Tampa Electric'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 a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, Tampa Electric's disclosure controls and procedures are effective and designed to ensure that the information relating to Tampa Electric (including its consolidated subsidiaries) required to be included in Tampa Electric's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the requisite time periods.

(b) **Changes in Internal Controls**. There have not been any significant changes in Tampa Electric's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, such controls.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

(a) The information required by Item 10 with respect to the directors of the registrant is included under the caption "Election of Directors" on pages 1 through 2 of TECO Energy's definitive proxy statement, dated March 25, 2004, for its Annual Meeting of Shareholders to be held on April 28, 2004 (Proxy Statement) and is incorporated herein by reference.

(b) The information required by Item 10 concerning executive officers of the registrant is included under the caption "Executive Officers of the Registrant" on page 21 of this report.

(c) The information required by Item 10 concerning Section 16(a) Beneficial Ownership Reporting Compliance is included under that caption on page 20 of the Proxy Statement and is incorporated herein by reference.

(d) TECO Energy has had a code of ethics applicable to all of its employees and officers for many years. It was expanded to apply to the Board of Directors in 2002. The text of the *Standards of Integrity* is available on the company's website at www.tecoenergy.com under Investor Relations. Any amendments to or waivers of the *Standards of Integrity* for the benefit of any executive officer or director will also be posted on the website.

(e) Information regarding TECO Energy's Audit Committee is included on pages 3 and 19 of the Proxy Statement, and is incorporated herein by reference.

Item 11. EXECUTIVE COMPENSATION.

The information required by Item 11 is included in the Proxy Statement beginning on page 6 under that caption and ending on page 11 just above the caption "Approval of the 2004 Equity Incentive Plan", and under the caption "Compensation of Directors" on page 3, and is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required by Item 12 is included under the caption "Share Ownership" on pages 4 and 5 of the Proxy Statement and under the caption "Equity Compensation Plan Information" on page 15 of the Proxy Statement, and is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by Item 13 is included under the caption "Certain Relationships and Related Transactions" on page 4 of the Proxy Statement, and is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by Item 14 is included under the caption "Independent Public Accountants" on pages 19 and 20 of the Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

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

1. Financial Statements
   TECO Energy, Inc. Financial Statements – filed as part of Exhibit 13 of this report, and is hereby incorporated by reference.
   Tampa Electric Company Financial Statements – See index on page 25
2. Financial Statement Schedules
   Condensed Parent Company Financial Statements Schedule I – pages 54 – 57
   TECO Energy, Inc. Schedule II – page 58
   Tampa Electric Company Schedule II – page 59
3. Exhibits – See index beginning on page 63

(b) **Reports on Form 8-K – in process**

TECO Energy, Inc. filed or furnished the following reports on Form 8-K during the last quarter of 2003.

1. Current Report on Form 8-K of Oct. 23, 2003, filing under "Item 5. Other Events", to report TECO Energy, Inc.'s entering into on a Suspension Agreement in connection with TECO Energy's Construction Undertaking Agreements (Construction Undertakings) and other guaranty agreements for the Union and Gila River projects, and furnishing under "Item 12. Results of Operations and Financial Condition", TECO Energy's unaudited financial results for the three-month and nine-month periods ending Sept. 30, 2003.

2. Current Report on Form 8-K of Oct. 30, 2003, furnishing under "Item 12. Results of Operations and Financial Condition", unaudited financial and other unaudited financial data for the three-month, nine-month and 12-month periods ended Sept. 30, 2003 and 2002, and non-GAAP earnings per share information.

TECO Energy, Inc. filed or furnished the following reports on Form 8-K subsequent to Dec. 31, 2003.

1. Current Report on Form 8-K of Feb. 2, 2004, filing under "Item 5. Other Events", to announce that TECO Energy the Union and Gila River project companies and the lending banks had entered into a standstill agreement through Feb. 5, 2004 relating to matters covered by the Suspension Agreement.

2. Current Report on Form 8-K of Feb. 5, 2004, filing under "Item 5. Other Events", to announce TECO Energy's decision to exit from its ownership of the Union and Gila River projects and to cease further funding of these plants.

3. Current Report on Form 8-K of Feb. 9, 2004, furnishing under "Item 12. Results of Operations and Financial Condition", financial results for the three-month and twelve-month periods ended Dec. 31, 2003.

4. Current Report on Form 8-K of Mar. 3, 2004, furnishing under "Item 12. Results of Operations and Financial Condition", revised 2003 financial results for TECO Energy, Inc.

Tampa Electric Company did not file any reports on Form 8-K during or subsequent to the last quarter of 2003.

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

SCHEDULE I – CONDENSED PARENT COMPANY FINANCIAL STATEMENTS

TECO ENERGY, INC.
PARENT COMPANY ONLY
Condensed Balance Sheets

(millions) Dec. 31,	2003	2002
Assets		
Current assets		
Cash and cash equivalents	$ 28.0	$ 370.9
Restricted cash	6.9	—
Advances to affiliates	3,078.4	2,380.1
Accounts receivable from affiliates	3.4	—
Other current assets	11.4	13.0
Total current assets	3,128.1	2,764.0
Other assets		
Investment in subsidiaries	1,381.5	2,646.2
Deferred income taxes	293.5	220.7
Other assets	46.7	46.3
Total other assets	1,721.7	2,913.2
Total assets	$ 4,849.8	$ 5,677.2
Liabilities and capital		
Current liabilities		
Notes payable	$ 37.5	$ 350.0
Accounts payable to affiliates	0.3	19.1
Accounts payable	21.9	32.3
Interest payable	19.2	21.4
Other current liabilities	9.1	4.5
Total current liabilities	88.0	427.3
Other liabilities		
Advances from affiliates	233.9	221.0
Deferred income taxes	117.4	—
Long-term debt		
Junior subordinated	669.3	669.3
Others	1,958.8	1,656.5
Other liabilities	104.7	91.4
Total other liabilities	3,084.1	2,638.2
Capital		
Common equity	187.8	175.8
Additional paid in capital	1,220.8	1,094.5
Retained earnings	339.5	1,413.7
Accumulated other comprehensive income	(55.8)	(41.2)
Common equity	1,692.3	2,642.8
Unearned compensation	(14.6)	(31.1)
Total capital	1,677.7	2,611.7
Total liabilities and capital	$ 4,849.8	$ 5,677.2

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

TECO ENERGY, INC.
PARENT COMPANY ONLY
Condensed Statements of Income

(millions) For the years ended Dec. 31,	2003	2002	2001
Revenues	$ 4.4	$ 6.7	$ 2.0
Expenses			
Administrative and general expenses	7.2	8.6	6.8
Restructuring charges	2.6	—	—
Total expenses	9.8	8.6	6.8
Income from operations	(5.4)	(1.9)	(4.8)
Loss on debt extinguishment	—	(34.1)	—
(Losses) earnings from investments in subsidiaries	(873.2)	363.8	308.7
Interest income (expense)			
Interest income			
Affiliates	139.3	120.0	72.9
Interest expense			
Affiliates	(43.0)	(40.1)	(17.5)
Others	(171.9)	(103.4)	(56.6)
Total interest expense	(75.6)	(23.5)	(1.2)
(Loss) income before income taxes	(954.2)	304.3	302.7
(Benefit) for income taxes	(48.0)	(25.8)	(1.0)
Net (loss) income from operations	(906.2)	330.1	303.7
Cumulative effect of change in accounting principle, net of tax	(3.2)	—	—
Net (loss) income	$ (909.4)	$ 330.1	$ 303.7

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

SCHEDULE I – CONDENSED PARENT COMPANY FINANCIAL STATEMENTS

TECO ENERGY, INC.
PARENT COMPANY ONLY
Condensed Statements of Cash Flows

(millions) *For the years ended Dec. 31.*	*2003*	*2002*	*2001*
Cash flows from operating activities	$ 10.2	$ (82.4)	$ (128.0)
Cash flows from investing activities			
Investment in subsidiaries	156.7	(232.4)	(408.2)
Dividends from subsidiaries	296.0	316.1	307.6
Net change in affiliate advances	(741.2)	(1,230.8)	(841.3)
Cash flows from investing activities	(288.5)	(1,147.1)	(941.9)
Cash flows from financing activities			
Dividends to shareholders	(165.2)	(215.8)	(184.2)
Common stock	136.6	572.6	348.4
Proceeds from long-term debt – others	296.8	1,510.9	1,012.2
Repayment of long-term debt – others	—	(600.0)	(153.2)
Net increase (decrease) in short-term debt	(312.5)	350.0	—
Equity contract adjustment payments	(20.3)	(15.3)	—
Cash flows from financing activities	(64.6)	1,602.4	1,023.2
Net (decrease) increase in cash and cash equivalents	(342.9)	372.9	(46.7)
Cash and cash equivalents at beginning of period	370.9	(2.0)	44.7
Cash and cash equivalents at end of period	$ 28.0	$ 370.9	$ (2.0)

The accompanying notes are an integral part of the condensed 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 heading **Notes to Consolidated Financial Statements** in the **2003 Annual Report**, which information is hereby incorporated by reference and filed as part of **Exhibit 13**.

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.

2. Long-term Obligations

See **Note 7** to the TECO Energy **Consolidated Financial Statements** for a description and details of long-term debt obligations of the parent company. The preferred securities on TECO Energy's consolidated balance sheet are reflected as junior subordinated debt, as discussed in **Note 7** to the TECO Energy **Consolidated Financial Statements**, of $669.3 million on the parent company's financial statements.

3. Commitments and Contingencies

See **Note 20** to the TECO Energy **Consolidated Financial Statements** for a description of all material contingencies and guarantees outstanding of the parent company.

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

TECO ENERGY, INC
For the Years Ended Dec. 31, 2003, 2002 and 2001
(millions)

	Balance at Beginning of Period	Additions: Charged to Income	Additions: Other Charges	Deductions(1)	Balance at End of Period
Allowance for Uncollectible Accounts:					
2003	$ 6.6	$ 7.0	$ (1.8) (2)	$ 7.3	$ 4.5
2002	$ 7.1	$ 9.4	$ 0.3	$ 10.2	$ 6.6
2001	$ 8.7	$ 8.1	$ (0.3)	$ 9.4	$ 7.1

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(1) Write-off of individual bad debt accounts
(2) Includes $1.1 of bad debt reserves for Prior Energy and BGA that were moved to assets held for sale

	Balance at Beginning of Period	Additions: Charged to Income	Additions: Other Charges	Deductions(1)	Balance at End of Period
Restructuring Cost Reserve Accounts:					
2003	$ 6.0	$ 24.6	$ —	$ 19.9	$ 10.7
2002	$ 0.2	$ 17.8	$ —	$ 12.0	$ 6.0
2001	$ 2.3	$ 0.1	$ —	$ 2.2	$ 0.2

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

TAMPA ELECTRIC COMPANY
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
For the Years Ended Dec. 31, 2003, 2002 and 2001

(millions)

	Balance at Beginning of Period	Additions		Deductions(1)	Balance at End of Period
		Charged to Income	Other Charges		
Allowance for Uncollectible Accounts:					
2003	$ 1.1	$ 4.4	$ —	$ 4.4	$ 1.1
2002	$ 1.6	$ 7.7	$ —	$ 8.2	$ 1.1
2001	$ 2.0	$ 7.2	$ —	$ 7.6	$ 1.6

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(1) Write-off of individual bad debt accounts

	Balance at Beginning of Period	Charged to Income	Other Charges	Deductions	Balance at End of Period
Restructuring Cost Reserve Accounts:					
2003	$ 5.1	$ 14.0	$ —	$ 13.4	$ 5.7
2002	$ 0.2	$ 16.6	$ —	$ 11.7	$ 5.1
2001	$ 2.3	$ 0.1	$ —	$ 2.2	$ 0.2

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 15th day of March, 2004.

TECO ENERGY, INC.

By: /s/ R. D. FAGAN*

R. D. FAGAN, Chairman of the Board, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated on March 15, 2004:

Signature	Title
/s/ R. D. FAGAN R. D. FAGAN	Chairman of the Board, President, Director and Chief Executive Officer (Principal Executive Officer)
/s/ G. L. GILLETTE G. L. GILLETTE	Senior Vice President-Finance and Chief Financial Officer (Principal Financial Officer)
/s/ S. M. PAYNE S. M. PAYNE	Vice President-Corporate Accounting and Tax (Principal Accounting Officer)

Signature	Title	Signature	Title
C. D. AUSLEY* C. D. AUSLEY	Director	T. L. RANKIN* T. L. RANKIN	Director
S. L. BALDWIN* S. L. BALDWIN	Director	W. D. ROCKFORD* W. D. ROCKFORD	Director
J. L. FERMAN, JR.* J. L. FERMAN, JR.	Director	W. P. SOVEY* W. P. SOVEY	Director
L. GUINOT, JR.* L. GUINOT, JR.	Director	J. T. TOUCHTON* J. T. TOUCHTON	Director
I. D. HALL* I. D. HALL	Director	J. A. URQUHART* J. A. URQUHART	Director
S. W. HUDSON* S. W. HUDSON	Director	J. O. WELCH, JR. * J. O. WELCH, JR.	Director

*By: /s/ G. L. GILLETTE

G. L. GILLETTE, Attorney-in-fact

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 15th day of March, 2004.

TAMPA ELECTRIC COMPANY

By: /s/ R. D. FAGAN*

R. D. FAGAN, Chairman of the Board, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated on March 15, 2004:

Signature	Title
/s/ R. D. FAGAN* R. D. FAGAN	Chairman of the Board, President, Director and Chief Executive Officer (Principal Executive Officer)
/s/ G. L. GILLETTE* G. L. GILLETTE	Senior Vice President-Finance and Chief Financial Officer (Principal Financial Officer)
/s/ P. L. BARRINGER* P. L. BARRINGER	Vice President-Controller (Principal Accounting Officer)

Signature	Title	Signature	Title
C. D. AUSLEY* C. D. AUSLEY	Director	T. L. RANKIN* T. L. RANKIN	Director
S. L. BALDWIN* S. L. BALDWIN	Director	W. D. ROCKFORD* W. D. ROCKFORD	Director
J. L. FERMAN, JR.* J. L. FERMAN, JR.	Director	W. P. SOVEY* W. P. SOVEY	Director
L. GUINOT, JR.* L. GUINOT, JR.	Director	J. T. TOUCHTON* J. T. TOUCHTON	Director
I. D. HALL* I. D. HALL	Director	J. A. URQUHART* J. A. URQUHART	Director
S. W. HUDSON* S. W. HUDSON	Director	J. O. WELCH, JR. * J. O. WELCH, JR.	Director

*By: /s/ G. L. GILLETTE

G. L. GILLETTE, Attorney-in-fact

Supplemental Information to Be Furnished With Reports Filed Pursuant to Section 15(d) of the Act by Registrants Which Have Not Registered Securities Pursuant to Section 12 of the Act

No annual report or proxy material has been sent to Tampa Electric Company's security holders because all of its equity securities are held by TECO Energy, Inc.

INDEX TO EXHIBITS

Exhibit No.	Description	Page No.
3.1	Articles of Incorporation of TECO Energy, Inc., as amended on April 20, 1993 (Exhibit 3, Form 10-Q for the quarter ended March 31, 1993 of TECO Energy, Inc.).	*
3.2	Bylaws of TECO Energy, Inc., as amended effective Jan. 18, 2001 (Exhibit 3.2, Form 10-K 2000 of TECO Energy, Inc.).	*
3.3	Articles of Incorporation of Tampa Electric Company (Exhibit 3, to Registration Statement No. 2-70653).	*
3.2	Bylaws of Tampa Electric Company, as amended effective Apr. 16, 1997 (Exhibit 3 Form 10-Q for the quarter ended June 30, 1997 of Tampa Electric Company).	*
4.1	Indenture of Mortgage among Tampa Electric Company, State Street Trust Company and First Savings & Trust Company of Tampa, dated as of Aug. 1, 1946 (Exhibit 7-A to Registration Statement No. 2-6693).	*
4.2	Thirteenth Supplemental Indenture, dated as of Jan. 1, 1974, to Exhibit 4.1 (Exhibit 2-g-1, Registration Statement No. 2-51204).	*
4.3	Sixteenth Supplemental Indenture, dated as of Oct. 30, 1992, to Exhibit 4.1 (Exhibit 4.1, Form 10-Q for the quarter ended Sept. 30, 1992 of TECO Energy, Inc.).	*
4.4	Installment Purchase Contract between the Hillsborough County Industrial Development Authority and Tampa Electric Company, dated as of Jan. 31, 1984 (Exhibit 4.13, Form 10-K for 1993 of TECO Energy, Inc.).	*
4.5	First Supplemental Installment Purchase Contract, between Hillsborough County Industrial Development Authority and Tampa Electric Company, dated as of Aug. 2, 1984 ((Exhibit 4.14, Form 10-K for 1994 of TECO Energy, Inc.).	*
4.6	Second Supplemental Installment Purchase Contract, between Hillsborough County Industrial Development Authority and Tampa Electric Company, dated as of July 1, 1993 (Exhibit 4.3, Form 10-Q for the quarter ended June 30, 1993 of TECO Energy, Inc.).	*
4.7	Loan and Trust Agreement among the Hillsborough County Industrial Development Authority, Tampa Electric Company and NCNB National Bank of Florida, as trustee, dated as of Sept. 24, 1990 (Exhibit 4.1, Form 10-Q for the quarter ended Sept. 30, 1990 for TECO Energy, Inc.).	*
4.8	Loan and Trust Agreement among the Hillsborough County Industrial Development Authority, Tampa Electric Company and NationsBank of Florida, N.A., as trustee, dated as of Oct. 26, 1992 (Exhibit 4.2, Form 10-Q for the quarter ended Sept. 30, 1992 of TECO Energy, Inc.).	*
4.9	Loan and Trust Agreement among the Hillsborough County Industrial Development Authority, Tampa Electric Company and NationsBank of Florida, N.A., as trustee, dated as of June 23, 1993 (Exhibit 4.2, Form 10-Q for the quarter ended June 30, 1993 of TECO Energy, Inc.).	*
4.10	Loan and Trust Agreement among Hillsborough County Industrial Development Authority, Tampa Electric Company and The Bank of New York Trust Company of Florida, N.A., as trustee, dated as of June 1, 2002. (Exhibit 4.1, Form 10-Q for the quarter ended June 30, 2002 of TECO Energy, Inc.).	*
4.11	Loan and Trust Agreement, , among the Polk County Industrial Development Authority, Tampa Electric Company and The Bank of New York, as trustee, dated as of Dec. 1, 1996 (Exhibit 4.22, Form 10-K for 1996 of TECO Energy, Inc.).	*
4.12	Installment Sales Agreement between the Plaquemines Port, Harbor and Terminal District (Louisiana) and Electro-Coal Transfer Corporation, dated as of Sept. 1, 1985 (Exhibit 4.19, Form 10-K for 1986 of TECO Energy, Inc.).	*
4.13	First Supplemental Installment Sales Agreement, between Plaquemines Port, Harbor, and Terminal District (Louisiana) and Electro-Coal Transfer Corporation, dated Dec. 20, 2000 (Exhibit 4.20, Form 10-K for 2000 of TECO Energy, Inc.).	*
4.14	Amended and Restated Reimbursement Agreement between TECO Energy, Inc. and Electro-Coal Transfer LLC, dated as of Apr. 5, 2001 (Exhibit 4.1, Form 8-K date Apr. 5, 2001 of TECO Energy, Inc.).	*
4.15	Indenture between Tampa Electric Company and The Bank of New York, as trustee, dated as of July 1, 1998 (Exhibit 4.1, Registration Statement No. 333-55873).	*

4.16	Third Supplemental Indenture between Tampa Electric Company and The Bank of New York, as trustee, dated as of June 15, 2001 (Exhibit 4.2, Form 8-K dated June 25, 2001 of Tampa Electric Company).	*
4.17	Fourth Supplemental Indenture between Tampa Electric Company and The Bank of New York, as trustee, dated as of Aug. 15, 2002 (Exhibit 4.2, Form 8-K dated Aug. 26, 2002 of Tampa Electric Company).	*
4.18	Note Purchase Agreement among Tampa Electric Company and the Purchasers party thereto, dated as of Apr. 11, 2003 (Exhibit 10.1, Form 8-K dated Apr. 14, 2003 for Tampa Electric Company).	*
4.19	364-Day Revolving Facility Credit Agreement dated as of Nov. 7, 2003, among Tampa Electric Company as Borrower, Citibank, N.A., as Administrative Agent, Citigroup Global Markets, Inc. and SunTrust Capital Markets, Inc., as Co-Lead Arrangers, SunTrust Bank, as Syndication Agent, Morgan Stanley Bank, and The Bank of New York, as Documentation Agents, and the lenders parties thereto as Lenders.	[ ]
4.20	3-Year Revolving Facility Credit Agreement dated as of Nov. 7, 2003, among Tampa Electric Company as Borrower, Citibank, N.A., as Administrative Agent, Citigroup Global Markets, Inc. and SunTrust Capital Markets, Inc., as Co-Lead Arrangers, SunTrust Bank, as Syndication Agent, Morgan Stanley Bank, and The Bank of New York, as Documentation Agents, and the lenders parties thereto as Lenders.	[ ]
4.21	Indenture between TECO Energy, Inc. and The Bank of New York, as trustee, dated as of Aug. 17, 1998 (Exhibit 4.1, Form 8-K dated Sept. 20, 2000 of TECO Energy, Inc.).	*
4.22	Second Supplemental Indenture dated as of Aug. 15, 2000 between TECO Energy, Inc. and The Bank of New York (Exhibit 4.1, Form 8-K dated Sept. 28, 2000 of TECO Energy, Inc.).	*
4.23	Third Supplemental Indenture dated as of Dec. 1, 2000 between TECO Energy, Inc. and The Bank of New York, as trustee (Exhibit 4.21, Form 8-K dated Dec. 21, 2000 of TECO Energy, Inc.).	*
4.24	Amended and Restated Limited Liability Company Agreement of TECO Funding Company I, LLC dated as of Dec. 1, 2000 (Exhibit 4.24, Form 8-K dated Dec. 21, 2000 of TECO Energy, Inc.).	*
4.25	Amended and Restated Trust Agreement of TECO Capital Trust I among TECO Funding Company I, LLC, The Bank of New York and The Bank of New York (Delaware) dated as of Dec. 1, 2000 (Exhibit 4.22, Form 8-K dated Dec. 21, 2000 of TECO Energy, Inc.).	*
4.26	Guaranty Agreement between TECO Energy, Inc. and The Bank of New York, as trustee, dated as of Dec. 1, 2000 (Exhibit 4.25, Form 8-K dated Dec. 21, 2000 of TECO Energy, Inc.).	*
4.27	Fourth Supplemental Indenture dated as of Apr. 30, 2001 between TECO Energy, Inc. and The Bank of New York, as trustee (Exhibit 4.28, Form 8-K dated May 1, 2001 of TECO Energy, Inc.).	*
4.28	Fifth Supplemental Indenture dated as of Sept. 10, 2001 between TECO Energy, Inc. and The Bank of New York, as trustee (Exhibit 4.16, Form 8-K dated Sept. 26, 2001 of TECO Energy, Inc.).	*
4.29	Sixth Supplemental Indenture dated as of Jan. 15, 2002 between TECO Energy, Inc. and The Bank of New York, as trustee (Exhibit 4.28, Form 8-K dated Jan. 15, 2002 of TECO Energy, Inc.).	*
4.30	Purchase Contract Agreement between TECO Energy, Inc. and The Bank of New York, as Purchase Contract Agent, dated as of Jan. 15, 2002 (Exhibit 4.29, Form 8-K dated Jan. 15, 2002 of TECO Energy, Inc.).	*
4.31	Amended and Restated Trust Agreement of TECO Capital Trust II among TECO Funding Company II, LLC, The Bank of New York and The Bank of New York (Delaware), dated as of Jan. 15, 2002 (Exhibit 4.31, Form 8-K dated Jan. 15, 2002 of TECO Energy, Inc.).	*
4.32	Amended and Restated Limited Liability Agreement of TECO Funding Company II, LLC, dated as of Jan. 15, 2002 (Exhibit 4.33, Form 8-K dated Jan. 15, 2002 of TECO Energy, Inc.).	*
4.33	Guarantee Agreement by and between TECO Energy, Inc., as Guarantor and The Bank of New York, dated as of Jan. 15, 2002 (Exhibit 4.35, Form 8-K dated Jan. 15, 2002 of TECO Energy, Inc.).	*
4.34	Form of Remarketing Agreement by and between TECO Energy, Inc. and the Remarketing Agent (Exhibit 4.37, Form 8-K dated Jan. 15, 2002 of TECO Energy, Inc.).	*
4.35	Pledge Agreement among TECO Energy, Inc., The Bank of New York, as Collateral Agent, Custodial Agent and Securities Intermediary and The Bank of New York, as Purchase Contract Agent dated as of Jan. 15, 2002 (Exhibit 4.38, Form 8-K dated Jan. 15, 2002 of TECO Energy, Inc.).	*

4.36	Seventh Supplemental Indenture dated as of May 1, 2002 between TECO Energy, Inc. and The Bank of New York, as trustee (Exhibit 4.15, Form 8-K dated May 13, 2002 of TECO Energy, Inc.).	*
4.37	Eighth Supplemental Indenture dated as of Nov. 20, 2002 between TECO Energy, Inc. and The Bank of New York, as trustee (Exhibit 4.1, Form 8-K dated Nov. 20, 2002 for TECO Energy, Inc.).	*
4.38	Ninth Supplemental Indenture dated as of June 10, 2003 between TECO Energy, Inc. and The Bank of New York, as trustee (Exhibit 4.15, Form 8-K dated June 13, 2003 of TECO Energy, Inc.).	*
4.39	Credit Agreement dated as of Nov. 14, 2001, among TECO Energy, Inc., as Borrower, Citibank, N.A., as Administrative Agent, Salomon Smith Barney Inc. and Banc of America Securities, LLC, as Co-Lead Arrangers, Banc of America, as Syndication Agent, the Bank of Nova Scotia, BNP Paribas and SunTrust Bank, as Co-Documentation Agents, JP Morgan Chase Bank, LC Issuing Bank, and the lenders parties thereto as Lenders (Exhibit 4.41, Form 10-K for 2001 of TECO Energy, Inc.).	*
4.40	Renewed Rights Agreement between TECO Energy, Inc. and The Bank of New York., as Rights Agent, as amended and restated as of Feb. 2, 2004 (Exhibit 1, Form 8-A/A, of TECO Energy, Inc. filed on Feb. 23, 2004).	*
4.41	Credit Agreement dated June 24, 2003, among TECO Energy, Inc., as Borrower, Bayerische Hypo-Und Vereinsbank AG, as Administrative Agent and Co-Lead Arranger, Dexia Credit Local, New York Agency, as Co-Lead Arranger and Syndication Agent, BMO Nesbitt Burns Financings, Inc., as Arranger, and Royal Bank of Canada, as Arranger (Exhibit 4.1, Form 10-Q for the quarter ended June 30, 2003 of TECO Energy, Inc.).	*
4.42	Amended and Restated Credit Agreement dated as of Dec. 19, 2003, among TECO Energy, Inc., Merrill Lynch Bank USA, as Administrative Agent, JP Morgan Chase Bank, as LC Issuing Bank, and the financial institutions parties thereto as lenders.	[ ]
10.1	TECO Energy Group Supplemental Executive Retirement Plan, as amended and restated as of July 1, 1998, as further amended as of July 15, 1998. (Exhibit 10.1, Form 10-K for 2001 of TECO Energy, Inc.).	*
10.2	TECO Energy Group Supplemental Retirement Benefits Trust Agreement, as amended and restated as of Jan. 1, 1998, as further amended as of July 15, 1998. (Exhibit 10.2, Form 10-K for 2001 of TECO Energy, Inc.).	*
10.3	Annual Incentive Compensation Plan for TECO Energy and subsidiaries, revised as of April 17, 2002. (Exhibit 10.1, Form 10-Q for the quarter ended June 30, 2002 for TECO Energy, Inc.).	*
10.4	TECO Energy Group Supplemental Disability Income Plan, dated as of March 20, 1998 (Exhibit 10.22, Form 10-K for 1988 of TECO Energy, Inc.).	*
10.5	Forms of Severance Agreement between TECO Energy, Inc. and certain officers, as amended and restated as of Oct. 22, 1999 (Exhibit 10.7, Form 10-K for 1999 of TECO Energy, Inc.).	*
10.6	Loan and Stock Purchase Agreement between TECO Energy, Inc. and Barnett Banks Trust Company, N.A., as trustee of the TECO Energy Group Savings Plan Trust Agreement (Exhibit 10.3, Form 10-Q for the quarter ended March 31, 1990 for TECO Energy, Inc.).	*
10.7	TECO Energy Directors' Deferred Compensation Plan, as amended and restated effective as of April 1, 1994 (Exhibit 10.1, Form 10-Q for the quarter ended March 31, 1994 for TECO Energy, Inc.).	*
10.8	TECO Energy Group Deferred Compensation Plan (previously the TECO Energy Group Retirement Savings Excess Benefit Plan), as amended and restated effective as of Oct. 17, 2001. (Exhibit 10.8, Form 10-K for 2001 of TECO Energy, Inc.).	*
10.9	Compensation Committee's Determinations Regarding Credit Rates for the TECO Energy Group Deferred Compensation Plan. (Exhibit 10.2, Form 10-Q for the quarter ended Mar. 31, 2002 of TECO Energy, Inc.).	*
10.10	TECO Energy, Inc. 1996 Equity Incentive Plan as amended Apr. 18, 2001 (Exhibit 10.1, Form 10-Q for the quarter ended March 31, 2001 of TECO Energy, Inc.).	*
10.11	Form of Nonstatutory Stock Option under the TECO Energy, Inc. 1996 Equity Incentive Plan (Exhibit 10.1, Form 10-Q for the quarter ended June 30, 1996 of TECO Energy, Inc.).	*
10.12	Form of Amendment to Nonstatutory Stock Option, dated as of July 15, 1998, under the TECO Energy, Inc. 1996 Equity Incentive Plan (Exhibit 10.3, Form 10-Q for the quarter ended Sept. 30, 1998 of TECO Energy, Inc.).	*
10.13	Form of Nonstatutory Stock Option under the TECO Energy, Inc. 1996 Equity Incentive Plan (Exhibit 10.5, Form 10-Q for the quarter ended June 30, 1999 of TECO Energy, Inc.).	*
10.14	Form of Restricted Stock Agreement between TECO Energy, Inc. and certain officers under the TECO Energy, Inc. 1996 Equity Incentive Plan as amended and restated (Exhibit 10.2, Form 10-Q for the quarter ended Mar. 31, 2003 of TECO Energy, Inc.).	*

10.15	TECO Energy, Inc. 1997 Director Equity Plan (Exhibit 10.1, Form 8-K dated April 16, 1997 of TECO Energy, Inc.).	*
10.16	Form of Nonstatutory Stock Option under the TECO Energy, Inc. 1997 Director Equity Plan (Exhibit 10, Form 10-Q for the quarter ended June 30, 1997 of TECO Energy, Inc.).	*
10.17	Supplemental Executive Retirement Plan for R. K. Eustace as of Jan. 15, 1997 (Exhibit 10.24, Form 10-K for 1997 of TECO Energy, Inc.).	*
10.18	Supplemental Executive Retirement Plan for R. D. Fagan as amended (Exhibit 10.1, Form 10-Q for the quarter ended June 30, 2001 of TECO Energy, Inc.).	*
10.19	Nonstatutory Stock Option granted to R. D. Fagan, dated as of May 24, 1999, under the TECO Energy, Inc. 1996 Equity Incentive Plan (Exhibit 10.3, Form 10-Q for the quarter ended June 30, 1999 of TECO Energy, Inc.).	*
10.20	Restricted Stock Agreement between TECO Energy, Inc. and R. D. Fagan, dated as of May 24, 1999 (Exhibit 10.4, Form 10-Q for the quarter ended June 30, 1999 of TECO Energy, Inc.).	*
10.21	Severance Agreement between TECO Energy, Inc. and R.D. Fagan, as amended and restated as of Jan. 28, 2003 (Exhibit 10.1, form 10-Q for the quarter ended March 31, 2003 of TECO Energy, Inc.).	*
10.22	Form of Performance Shares Agreement between TECO Energy, Inc. and certain officers under the TECO Energy, Inc. 1996 Equity Incentive Plan. (Exhibit 10.7, Form 10-Q for the quarter ended June 30, 2000 of TECO Energy, Inc.).	*
10.23	Form of 2002 Amendment to TECO Performance Shares Agreements between TECO Energy, Inc., and certain officers under the TECO Energy Inc. 1996 Equity Incentive Plan. (Exhibit 10.25, Form 10-K for 2001 of TECO Energy, Inc.).	*
10.24	Supplemental Executive Retirement Plan for R. Lehfeldt as of Apr. 17, 2002. (Exhibit 10.2, Form 10-Q for the quarter ended June 30, 2002 of TECO Energy, Inc.).	*
10.25	Form of Restricted Stock Agreement between TECO Energy, Inc. and certain officers under the TECO Energy, Inc. 1996 Equity Incentive Plan, dated as of Jan. 28, 2003 (Exhibit 10.27, Form 10-K of 2002 for TECO Energy, Inc.).	*
10.26	Form of Nonstatutory Stock Option under the TECO Energy, Inc. 1997 Director Equity Plan, dated as of Jan. 29, 2003 (Exhibit 10.28, Form 10-K of 2002 for TECO Energy, Inc.).	*
10.27	Voluntary Retirement Agreement and General Release between TECO Power Services Corporation and Richard E. Ludwig, dated as of Oct. 15, 2003.	[ ]
10.28	Voluntary Retirement Agreement and General Release between TEO Energy, Inc. and Royston K. Eustace, dated as of Oct. 16, 2003.	[ ]
10.29	Consulting Agreement between TECO Energy, Inc., and Royston K. Eustace, amended and restated as of Mar. 11, 2004.	[ ]
10.30	Amended and Restated Construction Contract Undertaking by TECO Energy, Inc. in favor of Union Power Partners, L.P., as Borrower, and Citibank, N.A., as Administrative Agent under the Union Power Project Credit Agreement, dated as of May 14, 2002 (Exhibit 99.5 to Registration Statement No. 333-102019).	*
10.31	Amended and Restated Construction Contract Undertaking by TECO Energy, Inc. in favor of Panda Gila River, L.P., as Borrower, and Citibank, N.A., as Administrative Agent under the Gila River Project Credit Agreement, dated as of May 14, 2002 (Exhibit 99.4 to Registration Statement No. 333-102019).	*
10.32	Consent and Acceleration Agreement dated as of Feb. 7, 2002 by and among TECO Power Services Corporation, TECO Energy, Inc., TPS GP, Inc., TPS LP, Inc., Panda GS V, LLC, Panda GS VI, LLC, Panda Energy International, Inc. and Bayerische Hypo-Und Vereinsbank AG, New York Branch (Exhibit 10.38, Form 10-K for 2002 of TECO Energy, Inc.).	*
10.33	Suspension of Rights and Amendment Agreement dated Oct. 22, 2003, by and among Union Power Partners, L.P., and Panda Gila River, L.P., as Borrowers, TECO Energy, Inc., Societe Generale, as LC Bank, and Citibank, NA, as Administrative Agent (Exhibit 10.1, Form 10-Q for the quarter ended Sept. 30, 2003 of TECO Energy, Inc.).	*
10.34	Agreement to Acquire and Charter dated as of Dec. 21, 2001, among GTC Connecticut Statutory Trust, as Shipowner, Fleet Capital Corporation, as Owner Participant, Gulfcoast Transit Company, as Seller and Charterer and TECO Energy, Inc., as Guarantor.	[ ]
10.35	Demise charter dated as of Dec. 21, 2001, between State Street Bank And Trust Company of Connecticut, National Association , as trustee of the GTC Connecticut Statutory Trust, as Shipowner, and Gulfcoast Transit Company, as Charterer.	[ ]
10.36	First Amendment to Demise Charter dated as of Jan. 18, 2002, between State Street Bank And Trust Company of Connecticut, National Association, as trustee of the GTC Connecticut Statutory Trust, as Shipowner, and Gulfcoast Transit Company, as Charterer.	[ ]

10.37	Guarantee, dated as of Dec. 21, 2001, by TECO Energy, Inc., in favor of the Guaranteed Parties as defined therein.	[ ]
10.38	Agreement to Acquire and Charter dated as of Dec. 30, 2002, among TTC Trust, Ltd., as Shipowner, General Electric Capital Corporation, as Initial Owner Participant, TECO Barge Line, Inc., as Seller and Charterer, and TECO Energy, Inc. and TECO Transport Corporation, as Guarantors.	[ ]
10.39	Demise charter dated as of Dec. 30, 2002, between State Street Bank And Trust Company of Connecticut, National Association, as trustee of TTC Trust, Ltd., as Shipowner, and TECO Barge Line, Inc., as Charterer.	[ ]
10.40	Demise charter dated as of Dec. 30, 2002, between State Street Bank And Trust Company of Connecticut, National Association, as trustee of TTC Trust, Ltd., as Shipowner, and TECO Ocean Shipping, Inc., as Charterer.	[ ]
10.41	First Modification Agreement dated as of Mar. 28, 2003, among TTC Trust, Ltd., as Shipowner, General Electric Capital Corporation, as Initial Owner Participant, TECO Shipping, Inc., and TECO Barge Line, Inc., as Charterers, and TECO Energy, Inc. and TECO Transport Corporation, as Guarantors.	[ ]
10.42	Guarantee, dated as of Dec. 30, 2002, by TECO Energy, Inc., and TECO Transport Corporation, jointly and severally in favor of the Guaranteed Parties as defined therein.	[ ]
10.43	First Modification Agreement, dated as of Mar. 12, 2004, among State Street Bank And Trust Company of Connecticut, National Association, solely as Trustee of GTC Connecticut Statutory Trust, as Shipowner, Fleet Capital Corporation, as Owner Participant, TECO Ocean Shipping, Inc., as Charterers, and TECO Energy, Inc., and TECO Transport Corporation, as Guarantors.	[ ]
10.44	Second Modification Agreement, dated as of Mar. 9, 2004, among State Street Bank And Trust Company of Connecticut, National Association, solely as Trustee of TTC Trust, Ltd., as Shipowner, General Electric Capital Corporation and OFS Marine One, Inc., as Owner Participants, TECO Ocean Shipping, Inc., and TECO Barge Line, Inc., as Charterers, and TECO Energy, Inc., and TECO Transport Corporation as Guarantors.	[ ]
12.1	Ratio of Earnings to Fixed Charges – TECO Energy, Inc.	[ ]
12.2	Ratio of Earnings to Fixed Charges – Tampa Electric Company.	[ ]
13.	TECO Energy 2003 Annual Report to Shareholders	[ ]
21.	Subsidiaries of the Registrant.	[ ]
23.1	Consent of Independent Certified Public Accountants – TECO Energy, Inc.	[ ]
23.2	Consent of Independent Certified Public Accountants – Tampa Electric Company.	[ ]
24.1.1	Power of Attorney – TECO Energy, Inc.	[ ]
24.1.2	Power of Attorney – Tampa Electric Company.	[ ]
24.2.1	Certified copy of resolution authorizing Power of Attorney – TECO Energy, Inc.	[ ]
24.2.2	Certified copy of resolution authorizing Power of Attorney – Tampa Electric Company.	[ ]
31.1	Certification of the Chief Executive Officer of TECO Energy, Inc. pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 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 and 15d-14 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 and 15d-14 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 and 15d-14 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.

* Indicates exhibit previously filed with the Securities and Exchange Commission and incorporated herein by reference. Exhibits filed with periodic reports of TECO Energy, Inc. and Tampa Electric Company were filed under Commission File Nos. 1-8180 and 1-5007, respectively.

Certain instruments defining the rights of holders of long-term debt of TECO Energy, Inc. and its consolidated subsidiaries authorizing in each case a total amount of securities not exceeding 10 percent of total assets on a consolidated basis are not filed herewith. TECO Energy, Inc. will furnish copies of such instruments to the Securities and Exchange Commission upon request.

Certain instruments defining the rights of holders of long-term debt of Tampa Electric Company authorizing in each case a total amount of securities not exceeding 10 percent of total assets on a consolidated basis are not filed herewith. Tampa Electric Company will furnish copies of such instruments to the Securities and Exchange Commission upon request.

Executive Compensation Plans and Arrangements

Exhibits 10.1 through 10.5 and 10.7 through 10.29 above are management contracts or compensatory plans or arrangements in which executive officers or directors of TECO Energy, Inc. participate.

Exhibit 12.1

TECO ENERGY, INC.
RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth TECO Energy's ratio of earnings to fixed charges for the periods indicated.

$ millions	Year Ended December 31, (1) 2003	2002	2001	2000	1999
Income from continuing operations, before income taxes	$(149.9)	$ 225.5	$ 258.2	$ 253.7	$ 280.5
Interest expense (2)	359.5	255.3	212.5	180.7	130.1
Less: Capitalized interest	(17.4)	(63.2)	(23.0)	(6.5)	—
Plus: Amortization of capitalized interest	1.3	0.3	0.3	0.2	—
Less: (Income) loss from equity investments	0.4	(5.5)	(9.1)	(7.7)	(3.2)
Earnings before taxes and fixed charges	$ 193.9	$ 412.4	$ 438.9	$ 420.4	$ 407.4
Interest expense (2)	$ 359.5	$ 255.3	$ 212.5	$ 180.7	$ 130.1
Interest on refunding bonds	(0.8)	(0.9)	(1.0)	(1.0)	(1.0)
Total fixed charges	$ 358.7	$ 254.4	$ 211.5	$ 179.7	$ 129.1
Ratio of earnings to fixed charges	0.54x (3)	1.62x (4)	2.08x (5)	2.34x	3.16x (6)

For the purposes of calculating these ratios, earnings consist of income from continuing operations before income taxes, income or loss from equity investments and fixed charges, less capitalized interest. Fixed charges consist of interest expense on indebtedness and interest capitalized, amortization of debt premium, the interest component of rentals and preferred stock dividend requirements. Certain prior year amounts have been adjusted to conform to the current year presentation.

(1) All prior periods presented reflect the reclassifications of Prior Energy's, TECO-Panda Generating Company's (TPGC), and TECO Coalbed Methane's results from continuing operations to discontinued operations. The sale of Prior Energy was completed in February 2004. In the fourth quarter of 2003, TECO Energy committed to a plan to exit the merchant operations of TPGC. In December 2002, TECO Energy sold substantially all of its coalbed methane assets to the Municipal Gas Authority of Georgia.

(2) Interest expense includes total interest expensed and capitalized excluding AFUDC, and an estimate of the interest component of rentals.

(3) Includes the effect of pretax items totaling $310.4 million, including: $42.0 million for TMDP arbitration reserve at TWG, goodwill and intangible impairments totaling $114.6 million TWG, BGA and BCH, asset impairments totaling $125.2 million at Tampa Electric and TWG related to turbine purchase cancellations, asset impairments of $13.7 million related to the valuation of BGA due to its sale in Q1 2004 sale, $14.3 million at TWG to write-down development and licenses costs and $0.6 million at TECO Fiber. The effect of these items was to reduce the ratio of earnings to fixed charges. Had these items been excluded from the calculation, the ratio of earnings to fixed charges would have been 1.41x for the year ended Dec. 31, 2003. See **Footnote 7** below.

(4) Includes the effect of pretax items totaling $48.2 million, including $34.1 million at TECO Energy related to a debt refinancing, and asset valuations of $9.2 million and $4.9 million at TPS and TECO Investments, respectively. The effect of these items was to reduce the ratio of earnings to fixed charges. Had these items been excluded from the calculation, the ratio of earnings to fixed charges would have been 1.81x for the year ended Dec. 31, 2002. See **Footnote 7** below.

(5) Includes the effect of pretax items totaling $11.1 million for asset valuations recorded at TECO Power Services and TECO Investments. The effect of these items was to reduce the ratio of earnings to fixed charges. Had these items been excluded from the calculation, the ratio of earnings to fixed charges would have been 2.13x for the year ended Dec. 31, 2001 See **Footnote 7** below.

(6) Includes the effect of pretax items totaling $21.0 million recorded at Tampa Electric, TECO Investments and TECO Energy. The effect of these items was to reduce the ratio of earnings to fixed charges. Had these items been excluded from the calculation, the ratio of earnings to fixed charges would have been 3.50x for the year ended Dec. 31, 1999. See **Footnote 7** below.

(7) The following table sets forth a reconciliation of TECO Energy's ratio of earnings to fixed charges excluding certain charges and adjustments for the periods indicated.

$ millions	Year Ended December 31, 2003	2002	2001	2000	1999
Earnings before income taxes and fixed charges as reported above	$ 193.9	$ 412.4	$ 438.9	$ 420.4	$ 407.4
Adjustment for:					
Tax adjustment	—	—	—	—	1.0
Interest on tax adjustment	—	—	—	—	(9.4)
Asset impairments	145.7	14.1	11.1	—	—
Goodwill and intangible impairments	122.7	—	—	—	—
TMDP reserve	42.0	—	—	—	—
FPSC adjustment	—	—	—	—	10.5
Debt refinancing charges		34.1	—	—	—
Investment residuals	—	—	—	—	6.0
EPA resolution	—	—	—	—	3.5
Adjusted earnings before taxes and fixed charges, excluding other charges	$ 504.3	$ 460.6	$ 450.0	$ 420.4	$ 419.0
Total fixed charges – as reported	$ 358.7	$ 254.4	$ 211.5	$ 179.7	$ 129.1
Adjustments for:					
Interest on tax adjustment	—	—	—	—	(9.4)
Adjusted total fixed charges, excluding other charges	$ 358.7	$ 254.4	$ 211.5	$ 179.7	$ 119.7
Adjusted ratio of earnings to fixed charges, excluding other charges	1.41x	1.81x	2.13x	2.34x	3.50x

TAMPA ELECTRIC COMPANY
RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth Tampa Electric's ratio of earnings to fixed charges for the periods indicated.

	Year Ended December 31,				
$ millions	2003	2002	2001	2000	1999
Income from continuing operations, before income tax	$ 186.7	$ 296.3	$ 274.7	$ 261.8	$ 226.3
Interest expense (1)	112.6	80.4	81.8	84.7	81.7
Preferred stock dividends	—	—	—	—	—
Earnings before taxes and fixed charges	$ 299.3	$ 376.7	$ 356.5	$ 346.5	$ 308.0
Interest expense (1)	$ 112.6	$ 80.4	$ 81.8	$ 84.7	$ 81.7
Interest on refunding bonds	(0.7)	(0.9)	(1.0)	(1.0)	(1.0)
Preferred stock dividends	—	—	—	—	—
Total fixed charges	$ 111.9	$ 79.5	$ 80.8	$ 83.7	$ 80.7
Ratio of earnings to fixed charges	2.68x (2)	4.74x	4.41x	4.14x	3.82x (3)

For the purposes of calculating these ratios, earnings consist of income from continuing operations before income taxes, income or loss from equity investments and fixed charges. Fixed charges consist of interest expense on indebtedness, amortization of debt premium, the interest component of rentals and preferred stock dividend requirements.

(1) Interest expense includes total interest expense, excluding AFUDC, and an estimate of the interest component of rentals.

(2) Includes the effect of a $79.6 pretax charge recorded in the first quarter of 2003 related to turbine purchase cancellations. The effect of this charge was to reduce the ratio of earnings to fixed charges. Had this item been excluded from the calculation, the ratio of earnings to fixed charges would have been 3.39x for the year ended Dec. 31, 2003. See **Footnote 4** below.

(3) Includes the effect of other non-operating pretax items totaling $18.3 million recorded in the third and fourth quarters of 1999. Charges consisted of the following: $10.5 million recorded based on Florida Public Service Commission audits of Tampa Electric's 1997 and 1998 earnings, which limited Tampa Electric's equity ratio to 58.7 percent; $3.5 million to resolve litigation filed by the U.S. Environmental Protection Agency; and $4.3 million for corporate income tax settlements related to prior years' tax returns. The effect of these items was to reduce the ratio of earnings to fixed charges. Had these items been excluded from the calculation, the ratio of earnings to fixed charges would have been 4.61x for the year ended Dec. 31, 1999. See **Footnote 4** below.

(4) The following table sets forth a reconciliation of Tampa Electric's ratio of earnings to fixed charges excluding certain charges and adjustments for the periods indicated.

$ millions	Year Ended December 31, 2003	2002	2001	2000	1999
Earnings before income taxes and fixed charges as reported above	$ 299.3	$ 376.7	$ 356.5	$ 346.5	$ 308.0
Adjustment for:					
Tax adjustment	—	—	—	—	4.3
Interest on tax adjustment	—	—	—	—	(12.7)
Asset valuations/write-offs	79.6	—	—	—	—
FPSC adjustment	—	—	—	—	10.5
EPA resolution	—	—	—	—	3.5
Adjusted earnings before taxes and fixed charges, excluding other charges	$ 378.9	—	—	—	$313.6
Total fixed charges – as reported	$ 111.9	$ 79.5	$ 80.8	$ 83.7	$ 80.7
Adjustments for:					
Interest on tax adjustment	—	—	—	—	(12.7)
Adjusted total fixed charges, excluding other charges	$ 111.9	$ 79.5	$ 80.8	$ 83.7	$ 68.0
Adjusted ratio of earnings to fixed charges, excluding other charges	3.39x	4.74x	4.41x	4.14x	4.61x

TECO Energy, Inc. (NYSE: TE) is an integrated energy provider with core businesses in the utility sector, complemented by a family of unregulated businesses. In addition to the regulated operations of Tampa Electric and Peoples Gas System, TECO Energy has interests in waterborne transportation, coal and synthetic fuel production and independent power.

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(Cover) Tampa Electric's natural gas-fired Bayside Power Station.

This Management's Discussion and Analysis contains forward-looking statements, which are subject to the inherent uncertainties in predicting future results and conditions. These forward-looking statements include references to TECO Energy's anticipated capital investments, financing requirements, future transactions and other plans. Certain factors that could cause actual results to differ materially from those projected in these forward-looking statements include the following: energy price changes affecting the merchant plants at TECO Wholesale Generation, Inc. (formerly known as TECO Power Services) (TWG), TECO Energy's ability to complete the transfer of the ownership of the Union and Gila River power plants to the lending banks as described below or otherwise insulate itself from the adverse financial impact of those plants; TWG's ability to sell the output of its remaining merchant plants in the spot markets or to obtain power contracts to reduce earnings volatility; any unanticipated need for additional debt or equity capital that might result from lower than expected cash flow or higher than projected capital requirements; and TECO Coal's ability to successfully complete the sale of its synthetic fuel production facilities and to successfully operate its synthetic fuel production facilities in a manner qualifying for Section 29 federal tax credits which could be impacted by changes in law, regulation or administration. Other factors include: general economic conditions, particularly those in Tampa Electric's service area affecting energy sales; weather variations affecting energy sales and operating costs; regulatory actions affecting Tampa Electric, Peoples Gas System or TWG; commodity price changes affecting the competitive positions of Tampa Electric and Peoples Gas System, as well as the margins at TECO Coal; changes in and compliance with environmental regulations that may impose additional costs or curtail some activities; TWG's ability to successfully operate its projects; the ability of TECO Energy's subsidiaries to operate equipment without undue accidents, breakdowns or failures; and, interest rates, credit ratings and other factors that could impact TECO Energy's ability to obtain access to sufficient capital on satisfactory terms. Some of these factors and others are discussed more fully under ***"Investment Considerations."***

TECO Energy, Inc. is a holding company, and all of its business is conducted through its subsidiaries. In this Management's Discussion and Analysis "we," "our," "ours," and "us" refer to TECO Energy, Inc. and its consolidated group of companies unless the context otherwise requires.

Overview

Our results and many of our activities in 2003 were driven by the capital requirements to complete the construction of the Union and Gila River power stations and the Tampa Electric Bayside Station repowering; the initial operations of Union and Gila River power stations and the poor financial performance of these two large plants; the generally poor financial results from our other merchant power plants; and our decision to exit our ownership of the Union and Gila River power stations. (see the **TECO Wholesale Generation** company section). (Merchant power plants are power plants that do not have long-term contracts for the majority of their output. Most of the power from a merchant power plant is sold under short-term agreements or in the more volatile spot markets.) At the same time, we were focused on implementing plans that included the completion of our cash generation plan announced in September 2002 and the sale of common stock, debt securities and certain assets to provide adequate liquidity in 2003 and beyond.

In April, we announced that our strategy for the future was to return to basics and to focus on our regulated utility operations in the high-growth Florida markets and to minimize the risks from the merchant power plants. Our results in 2003 reflect the significant changes made in our strategic direction with respect to our merchant operations.

Driven by the poor financial performance of the Union and Gila River power plants, the diminished prospects for power price improvement in the near term, and increased rating agency concerns regarding our exposure to the merchant energy sector, in October, we announced that we would invest little, if any, additional cash in the merchant generation portfolio. Following this announcement we entered into negotiations with the Union and Gila River lending bank group. These negotiations resulted in a non-binding letter of intent containing a binding settlement agreement in February 2004 to transfer ownership to the lenders through a purchase and sale, or other, agreement. The letter of intent is described in the **TECO Wholesale Generation** company discussion.

Results Summary

Our financial results for 2003 reflect the write-offs associated with our decision to exit from our ownership of the two large merchant plants, which are included as discontinued operations, and losses incurred at the merchant plants. The net loss in 2003 was $909.4 million, primarily due to $1,084.1 million of charges detailed in the following table. These losses were partially offset by gains from the sale of Hardee Power Partners and the second installment on the sale of TECO Coalbed Methane. The net loss from continuing operations was $14.7 million, compared with net income from continuing operations of $277.2 million in 2002. Non-GAAP net income from continuing operations excluding the effects of Hardee Power Partners (HPP) and charges was $164.8 million in 2003, compared with $305.8 million in 2002. Results in 2003 from discontinued operations reflect the results from the Union and Gila River power stations and the associated charges; the results at the coalbed methane business, which was sold in December 2002; the results of Prior Energy, which was in the process of being sold at Dec. 31, 2003 and closed in February 2004 and the results of TECO Gas Services, whose gas marketing book of business was sold in the third quarter of 2003.

Results from continuing operations were lower primarily due to charges associated with rationalizing our remaining merchant portfolio, restructuring charges associated with a corporate restructuring and staffing reductions, valuation adjustments at the energy services companies and limitations on the use of tax credits. (See the table **2003 Non-operating Items Affecting Net Income.**) Results from continuing operations excluding charges were lower due to higher depreciation expense at Tampa Electric, as a result of a regulatory decision related to the timing of the shutdown of the Gannon Station and higher interest expense associated with the debt incurred to fund Tampa Electric's Bayside repowering project, continued weak results at TECO Transport due to lower coal tonnage for Tampa Electric due to the Bayside repowering to natural gas and continued weakness in the river business; higher interest expense associated with the debt incurred to fund the construction of the TWG power projects; lower results from TWG's Frontera Station in Texas due to power prices in that market; and the elimination of interest and support income from

Panda Energy related to the TIE projects. These results were partially offset by the gain on the sale of HPP and higher operating results at TECO Coal from increased synthetic fuel production and sales and the sale of the 49.5% interest in the synthetic fuel production facilities.

The net loss on a per-share basis was $5.05 in 2003, compared with earnings of $2.15 per share in 2002. The loss from continuing operations on a per-share basis was $0.08 in 2003, including charges and gains totaling $1.00 per share detailed below, compared with earnings per share from continuing operations of $1.81 per share in 2002, including charges totaling $0.18 per share. The number of average shares outstanding at Dec. 31, 2003 was more than 17 percent higher than at Dec. 31, 2002.

In 2002, net income was $330.1 million. Net income from continuing operations was $277.2 million, compared with $265.5 million in 2001. The 2002 results reflect continued customer growth and increased energy usage in the Florida utility operations, higher allowance for funds used during construction (AFUDC – a non-cash credit to income with a corresponding increase in utility plant which represents the cost of borrowed funds and a reasonable return on the equity funds used for construction) at Tampa Electric, the results at TWG, and increased synthetic fuel production and sales at TECO Coal. These improvements were partially offset by lower results at TECO Transport. Revenues in 2002 increased 7 percent to $2.7 billion.

Included in the 2002 results from continuing operations were a $20.9 million after-tax charge related to a debt refinancing, a $10.9 million after-tax charge associated with an employee staffing reduction program at Tampa Electric and others, and a $5.8 million after-tax asset valuation charge related to the sale of TWG's minority interest in power generating facilities in the Czech Republic.

In 2002, earnings per share from continuing operations were $1.81 per share, compared with $1.98 per share in 2001. The number of average shares outstanding at Dec. 31, 2002 was almost 14 percent higher than at Dec. 31, 2001. Total non-GAAP net income and earnings per share in 2002, excluding the restructuring, debt refinancing and asset valuation charges, the impact of HPP operations and the $7.7 million gain on the sale of TECO Coalbed Methane, were $305.8 million and $1.99 per share, respectively.

Our 2003 results reflect the gain on the sale of HPP and the 2003 net income from HPP's operations through the date of sale in continuing operations. The gain on the sale and the operations were originally reported in discontinued operations for the quarter ended Sept. 30, 2003. A re-evaluation of the accounting originally applied to the sale, by us and our independent auditors caused us to reclassify the results from HPP to continuing operations and record the gain on the sale in the fourth quarter. This change did not impact our overall results for 2003. See **Note 24** to the **Consolidated Financial Statements** for a comparison of revised results to previously reported results.

2003 Earnings Summary

(millions)	*2003*	*2002*	*2001*
Consolidated revenues	$2,740.0	$2,664.9	$2,483.3
Earnings (loss) per share – basic			
Earnings per share	$ (5.05)	$ 2.15	$ 2.26
Less: Discontinued operations	(4.95)	0.34	0.28
Cumulative effect of change in accounting principle	(0.02)	–	–
Earnings from continuing operations before cumulative effect of change in accounting principle	$ (0.08)	$ 1.81	$ 1.98
Less: Charges and gains from continuing operations	(1.00)	(0.18)	–
Earnings per share from continuing operations before charges and gains	$ 0.92	$ 1.99	$ 1.98
Earnings (loss) per share – diluted			
Earnings per share	$ (5.05)	$ 2.15	$ 2.24
Less: Discontinued operations	(4.95)	0.34	0.28
Cumulative effect of change in accounting principle	(0.02)	–	–
Earnings from continuing operations before cumulative effect of change in accounting principle	$ (0.08)	$ 1.81	$ 1.96
Less: Charges and gains from continuing operations	(1.00)	(0.18)	–
Earnings per share from continuing operations before charges and gains	$ 0.92	$ 1.99	$ 1.96
Net income (loss)	$ (909.4)	$ 330.1	$ 303.7
Less: Net income (loss) from discontinued operations	(890.4)	52.9	38.2
Cumulative effect of change in accounting principle	(4.3)	–	–
Charges and gains from continuing operations	(179.5)	(28.6)	9.0
Net income from continuing operations before charges and gains	$ 164.8	$ 305.8	$ 256.5
Average common shares outstanding			
Basic	179.9 [3]	153.2	134.5 [1]
Diluted	179.9	153.3 [2]	135.4

(1) Average shares outstanding for 2001 reflects the issuance of 8.625 million shares in March 2001 and 3.5 million shares in October 2001.
(2) Average shares outstanding for 2002 reflects the issuance of 15.525 million shares in June 2002 and 19.385 million shares in October 2002.
(3) Average shares outstanding for 2003 reflects the issuance of 11 million shares in September 2003.

2003 Non-operating Items Affecting Net Income

Net income impact (millions)	*Tampa Electric*	*TWG*	*Peoples Gas*	*TECO Transport*	*TECO Coal*	*Coalbed Methane*	*Other Unregulated*	*TECO Energy*	*Total*
Merchant power valuation	$ –	$ 762.0	$ –	$ –	$ –	$ –	$ –	$ –	$ 762.0
Turbine valuations	48.9	–	–	–	–	–	28.5	–	77.4
Goodwill impairment	–	61.2	–	–	–	–	12.8	–	74.0
Loss on joint venture termination	–	94.7	–	–	–	–	–	–	94.7
TMDP arbitration reserve	–	26.7	–	–	–	–	–	–	26.7
Restructuring costs	6.1	0.3	2.6	1.0	–	–	3.6	1.6	15.2
Project cancellation costs	–	–	–	–	–	–	9.0	–	9.0
Valuation adjustment	–	–	–	–	–	–	11.1	–	11.1
Tax credit reversals	–	–	–	–	7.0	–	2.7	–	9.7
Change in accounting	–	–	–	0.8 (1)	0.3	–	–	3.2	4.3
Total Charges	$ 55.0	$ 944.9	$ 2.6	$ 1.8	$ 7.3	$ –	$ 67.7	$ 4.8	$1,084.2
Gain on Asset sales	$ –	$ –	$ –	$ 3.5	$ –	$ 23.5	$ 35.2	$ –	$ 62.2

(1) Included in discontinued operations

The table below reconciles GAAP net income to non-GAAP net income after elimination of Hardee Power Partners and the charges referred to above that are not expected to recur. Management believes that this non-GAAP presentation provides useful supplemental information by providing a measure that is more closely related to the company's ongoing operations.

Net Income Reconciliation

(millions)		*2003*	*2002*	*2001*
GAAP net income (loss)		**$ (909.4)**	$ 330.1	$ 303.7
Add change in accounting		**4.3**	–	–
Exclude discontinued operations		**(890.4)**	52.9	38.2
GAAP net income (loss) from continuing operations		**$ (14.7)**	$ 277.2	$ 265.5
Add:	Tax credit reversals	**9.7**	–	–
	Project cancellation costs	**9.0**	–	–
	TECO Solutions valuation adjustment	**7.9**	–	–
	Hamakua FIN 46 accounting valuation adjustment	**3.2**	–	–
	Restructuring costs	**15.2**	10.9	–
	TMDP arbitration reserve	**26.7**	–	–
	Debt extinguishment costs	**–**	20.9	–
	ECKG valuation adjustment	**–**	5.8	–
	Goodwill impairments	**74.0**	–	–
	Turbine valuations	**77.4**	–	–
Subtract:	Hardee gain on sale	**(34.6)**	–	–
	Hardee operating results	**(9.0)**	(9.0)	(9.0)
Non-GAAP net income from continuing operations (1) (2)		**$ 164.8**	$ 305.8	$ 256.5

(1) Excludes adoption of FAS 143, FAS 142 adjustments and items noted in table above

(2) A non-GAAP financial measure is a numerical measure of historical or future financial performance, financial position or cash flow that includes that amounts, or is subject to adjustments that have the effect of including amounts that are excluded from the most directly comparable measure GAAP so calculated and presented

Strategy and Outlook

In late 1999, TECO Energy announced a three-pronged business strategy which was to focus on its Florida operations, which included Tampa Electric, Peoples Gas System (PGS) and the Florida energy services businesses, TECO Solutions; to expand its domestic independent power operations at TWG; and to use the returns of its family of other profitable unregulated businesses to support growth. Since that time, the company undertook a number of initiatives to advance the announced strategy. These initiatives included continued development of the regulated electric and gas businesses in Florida, including significant additions to Tampa Electric's electric generation facilities, development of independent power generation projects in the Sunbelt of the United States and continued good operations and returns on investments from the other unregulated businesses.

However, conditions in energy markets and the independent power business have changed since the announcement of this strategy, which have dramatically changed the prospects for the investments in the domestic independent power generation facilities. Starting in 2001, future wholesale power prices declined significantly in markets across the country driven by high profile events such as the failure of deregulation in California and the Enron bankruptcy combined with a general slowing of wholesale electric competition; less than full economic dispatch in some areas of the country; the U.S. economic slowdown, and the large amount of new generating capacity that came online in 2002 and 2003 that contributed to significant excess generating capacity in many areas of the country. While wholesale power prices improved in a few markets in 2003, in general they remained weak and the prospects for long-term price recovery remained uncertain for the next several years in markets where we had made major investments. In addition to the impacts of lower prices, potential buyers of firm power under long-term contracts have been unwilling to enter into such longer-term contracts for a variety of reasons, including the current excess capacity in many areas. The low power prices and lack of long-term contracts have caused weaker earnings and cash flow expectations from merchant power projects and caused us, and other developers, to cancel or delay projects in some markets.

In April 2003, we announced that we were ceasing any new

development activities in the independent power business, and that we were changing our strategy to refocus on the regulated utility operations. At the time of the decision to expand the independent power operations, our announced strategy was to construct facilities and sign contracts for the majority of the output and have only a small percentage of the output in the spot, or merchant market. This is not consistent with the current wholesale power market model, where most transactions are short term agreements and spot sales. The weakened wholesale power markets and the changing market dynamics resulted in a change in our strategy.

Following the completion of the large Union and Gila River power stations, in the face of weak conditions in the merchant energy markets, in October 2003, we announced that we would invest little, if any, additional cash in the existing merchant generating plants. Following a thorough review of the outlook for the non-recourse project-financed Union and Gila River power plants, and assessment of our ability to continue to support the plants, we determined to cease providing equity funding to the projects, and to sell our ownership interest in these projects to the lending banks or others.

With the reduction of business risk and elimination of the associated losses expected from these plants over the next several years, we will be positioned to focus on our electric and gas utilities, which operate in one of the best energy markets in the country, the high-growth Florida market. In addition, we will have the earnings and cash flow from our long-term profitable unregulated coal and transportation businesses and those wholesale power generating plants with contracts.

Over the last two years, we have taken significant steps, including asset sales, dividend reduction and capital markets transactions to meet our cash and liquidity needs associated with our large construction program. As discussed in the **Liquidity and Capital Resource** section, we have made significant progress in improving our liquidity position over the past few years and look forward in 2004 to having to meet our needs for significantly lower levels of capital expenditures which should result in positive cash flow. Accordingly, the strong cash-producing assets previously considered for potential sale, TECO Transport and the Guatemalan assets are not being offered for sale. It is possible, however, that unforeseen cash shortfalls or increased capital spending requirements could cause us to revisit our liquidity plans. (See the **Investment Considerations** section.)

Without the losses from the large merchant power projects we expect improved financial results primarily from our regulated businesses, Tampa Electric and PGS. Our major capital expenditure program is complete, and capital expenditures are expected to be at maintenance levels for the next several years. We have no significant corporate debt maturities due until 2007. We expect to use free cash flow generated in the 2004 through 2006 period to reduce the levels of debt outstanding and therefore the refinancing needs in 2007. We continue to take steps as necessary to position ourselves for a return to a stronger financial position and a return to earnings growth in the future.

Operating Results

Management's Discussion & Analysis of Financial Condition and Results of Operations utilizes TECO Energy's consolidated financial statements, which have been prepared in accordance with GAAP, to analyze the financial condition of the company.

TECO Energy's reported operating results are affected by a number of critical accounting estimates such as those involved in our accounting for regulated activities, asset impairment testing, accounting for unconsolidated affiliates and others. (See the **Critical Accounting Policies and Estimates** section.)

The following table shows the unconsolidated revenues, net income and earnings per share contributions from continuing operations of the significant business segments (as we have redefined them). (See Note 19 to the **Consolidated Financial Statements**.)

(millions: Except per share amounts)		2003	2002	2001
Unconsolidated Revenues				
Regulated Companies	Tampa Electric	$ 1,586.1	$ 1,583.2	$ 1,412.7
	Peoples Gas System	408.4	318.1	352.9
Total Regulated		$ 1,994.5	$ 1,901.3	$ 1,765.6
Unregulated Companies	TWG	$ 95.9	$ 111.1	$ 81.8
	TECO Transport	260.6	254.6	274.9
	TECO Coal	296.3	317.1	303.5
	Other unregulated businesses	263.5	297.7	298.8
Total Unregulated		$ 916.3	$ 980.5	$ 959.0
Net Income (2)				
Regulated Companies	Tampa Electric	$ 98.9	$ 171.8	$ 154.0
	Peoples Gas System	24.5	24.2	23.1
Total Regulated		$ 123.4	$ 196.0	$ 177.1
Unregulated Companies	TWG	$ (147.6)	$ (7.9)	0.5
	TECO Transport	15.3	21.0	27.6
	TECO Coal	77.1	76.4	59.0
	Other unregulated businesses	(5.4)	27.8	22.1
Total Unregulated		(60.6)	117.3	109.2
Financing/Other		(77.5)	(36.1)	(20.8)
Net income (loss) from continuing operations		(14.7)	277.2	265.5
Discontinued operations		(890.4)	52.9	38.2
Net income (loss) before cumulative effect of change in accounting principle		(905.1)	330.1	303.7
Cumulative effect of a change in accounting principle		(4.3)	–	–
Net income		$ (909.4)	$ 330.1	$ 303.7

Earnings per Share - Basic (2)		2003	2002	2001
Regulated Companies	Tampa Electric	$ 0.55	$ 1.12	$ 1.15
	Peoples Gas System	0.14	0.16	0.17
Total Regulated		0.69	$ 1.28	$ 1.32
Unregulated Companies	TWG	$ (0.82)	$ (0.05)	$ 0.00
	TECO Transport	0.08	0.14	0.20
	TECO Coal	0.43	0.50	0.44
	Other unregulated businesses	(0.03)	0.18	0.17
Total Unregulated		(0.34)	0.77	0.81
Financing/Other		(0.43)	(0.24)	(.15)
Earnings (loss) per share from continuing operations		(0.08)	1.81	1.98
Discontinued operations		(4.95)	0.34	0.28
Earnings (loss) per share before cumulative effect of change in accounting principle		(5.03)	2.15	2.26
Cumulative effect of a change in accounting principle		(0.02)	–	–
EPS Total		$ (5.05)	$ 2.15	$ 2.26

(1) Revenues for all periods have been adjusted to reflect the presentation of energy marketing related revenues on a net basis, the reclassification of TECO Coalbed Methane, Hardee Power Partners, Prior Energy and TECO Gas Services results to discontinued operations, and the reclassification of earnings from equity investments from Revenues to Other Income

(2) Segment net income is reported on a basis that includes internally allocated financing costs. Internally allocated finance costs for 2003, 2002 and 2001 were at pre-tax rates of 8%, 7%, and 7%, respectively, based on the average investment in each subsidiary

Tampa Electric - Electric Operations Results

Tampa Electric's net income decreased 42 percent in 2003 to $98.9 million, reflecting a $48.9 million after-tax write-off associated with combustion turbine purchase cancellations, accelerated depreciation related to Gannon Station coal fired assets of $15.6 million after tax, a $5.1 million after-tax disallowance by the Florida Public Service Commission (FPSC) in the November 2003 fuel adjustment hearings for operations and maintenance expenses for the Gannon Station (see the **Regulation** section), lower AFUDC equity, a $6.1 million after-tax restructuring charge associated with a staffing reduction program and higher interest expense. Tampa Electric's net income before the restructuring and turbine cancellation charges was $153.9 million. The expense items previously noted and lower sales to other utilities and decreased sales to phosphate customers more than offset continued good residential and commercial customer growth, lower operations and maintenance expenses and more favorable summer weather. The equity component of AFUDC, primarily from the Gannon to Bayside Units 1 and 2 repowering project, decreased to $19.8 million, compared to $24.9 million in 2002.

Tampa Electric's net income increased almost 12 percent in 2002, reflecting good customer growth, slightly higher residential and commercial per-customer energy usage, and a favorable customer mix, lower interest expense and higher AFUDC equity, primarily from the Gannon to Bayside Units 1 and 2 repowering project, partially offset by higher operations, maintenance and depreciation expenses. AFUDC equity increased to $24.9 million, compared with $6.6 million in 2001. Net income increased in 2002 while operating income decreased, due to higher AFUDC and lower interest expense which affect net income but not operating income.

Summary of Operating Results – Tampa Electric

(millions)	2003	Change	2002	Change	2001
Revenues	$ 1,586.1	0.2%	$ 1,583.2	12.1%	$ 1,412.7
Other operating expenses	202.8	-4.5%	212.3	11.3%	190.7
Maintenance	90.8	-16.4%	108.7	9.2%	99.5
Depreciation	210.3	10.8%	189.8	9.5%	173.4
Taxes, other than income	112.6	0.3%	112.3	7.2%	104.8
Non-fuel operating expenses	616.5	-1.1%	623.1	9.6%	568.4
Fuel	443.3	4.5%	424.1	22.4%	346.5
Purchased power	234.9	-7.4%	253.7	21.0%	209.7
Total fuel expense	678.2	0.1%	677.8	21.9%	556.2
Turbine valuation adjustment	79.6	–	–	–	–
Total operating expenses	$ 1,374.3	5.6%	$ 1,300.9	15.7%	$ 1,124.6
Operating income	$ 211.8	-25.0%	$ 282.3	-2.0%	$ 288.[illegible]
Net income	$ 98.9	-42.4%	$ 171.8	11.6%	$ 154.0
Turbine cancellation charges after tax	48.9	–	–	–	–
Restructuring charges after tax	6.1	–	10.3	–	–
Net income before charges	$ 153.9	-15.5%	$ 182.1	18.2%	$ 154.0

Tampa Electric Operating Revenues

Retail megawatt hour sales rose 1.8 percent in 2003, primarily from increased residential and commercial sales from customer growth and higher per-customer usage among residential customers. Electricity sales to the lower-margin industrial customers in the phosphate industry decreased 7.4 percent in 2003 after an 18.2 percent increase in 2002. Low prices for phosphate fertilizers and high raw material costs contributed to temporary closures of phosphate production facilities during the year. Domestic phosphate consumption is expected to remain relatively stable for the next several years with increased demand from China driving the export market. The company's phosphate customers have indicated that prices have improved from the low levels experienced in 2003, but production may vary to maintain stable prices in 2004. Base revenues from phosphate sales represented slightly less than 3 percent of base revenues in 2003 and 2002. Non-phosphate industrial sales increased in 2003 and 2002, primarily reflecting continued economic growth in the area.

Base rates for all customers were unchanged in 2003. Fuel-related revenues increased in 2003 under the FPSC approved fuel adjustment clause due to the recovery of a previous under recovery of fuel expense in 2002 and higher natural gas prices starting in late 2002 and continuing in 2003. Rates under the fuel adjustment clause will increase in 2004 under the rates approved by the FPSC in November 2003 to reflect the increased use and higher cost of natural gas with the completion of the Bayside Power Station repowering to natural gas.

Sales to other utilities for resale declined in 2003, primarily as a result of lower coal-fired generating unit availability due to the shut down of the Gannon Station coal fired generation in preparation of the conversion to natural gas, and the scheduled Jan. 1, 2003 expiration of the Big Bend Station power sales agreement with Hardee Power Partners. Energy sales to other utilities are expected to remain stable in 2004, due to incremental generation being gas fired, which is at a higher cost due to gas prices.

Based on projected growth from continued population increases and business expansion, Tampa Electric expects average retail energy sales growth of more than 2.5 percent annually over the next five years, with combined energy sales growth in the residential and commercial sectors of 3 percent annually. Tampa Electric's forecasts indicate that summer retail demand growth is expected to average more than 100 megawatts per year for the next five years. These growth projections assume continued local area economic growth, normal weather and a continuation of the current energy market structure. (See the **Investment Considerations** section.)

The economy in Tampa Electric's service area continued to grow in 2003, aided by the region's relatively low labor rates, attractive cost of living and affordable housing. The Tampa metropolitan area's employment grew slightly in 2003, in spite of the continued U.S. economic slowdown in the first half of the year. The local Tampa area unemployment rate peaked in January 2003 at 4.9 percent before falling to 3.7 percent in December 2003, (compared with 4.3 percent in December 2002), and 4.7 percent for the State of Florida and 5.7 percent for the nation. The Tampa area, with its diverse service-based economy, did not experience the same drop in economic activities as those areas of the country with manufacturing-based economies. Studies by local economic development agencies have shown that the Tampa Bay region has been one of the last regions in Florida to enter a recession and one of the first to recover from an economic slowdown.

Megawatt-Hour Sales

(thousands)	2003	Change	2002	Change	2001
Residential	8,265	2.7%	8,046	6.0%	7,594
Commercial	5,860	0.5%	5,832	2.6%	5,685
Industrial	2,579	-1.2%	2,612	12.2%	2,329
Other	1,538	7.2%	1,435	4.9%	1,368
Total retail	18,242	1.8%	17,925	5.6%	16,976
Sales for resale	691	-36.2%	1,084	-27.7%	1,499
Total energy sold	18,933	-0.4%	19,009	2.9%	18,475
Retail customers (average)	604.9	2.5%	590.2	2.5%	575.8

Tampa Electric Operating Expenses

Total operating expenses, excluding the $79.6 million pre-tax charge for combustion turbine purchase cancellations, were almost unchanged in 2003 as lower non-fuel operations and maintenance expenses for power generation plants and lower purchased power expenses virtually offset higher fuel costs from increased use of higher cost natural gas; higher depreciation from normal plant additions and accelerated depreciation on the Gannon coal assets, which ceased operations in 2003, and increased employee benefits costs. Operating expenses increased almost 16 percent in 2002, reflecting higher fuel costs from an increased amount of power generated with higher-cost oil and natural gas, increased purchased power due to lower unit availability, higher operating expenses due to higher employee benefit costs and costs associated with a staffing reduction program which resulted in a 7 percent reduction in the workforce, higher depreciation from normal plant additions to serve the growing customer base and the addition of a new peaking combustion turbine at the Polk Power Station in mid-2002, and accelerated depreciation

associated with phasing out coal-related assets at the Gannon Power Station.

Non-fuel operations and maintenance expenses are expected to decrease in 2004 as a result of workforce reductions in 2003 and 2002 and the operation of Bayside Power Station, which has lower manpower and maintenance requirements.

Depreciation expense is projected to decrease in 2004 due to the end of the accelerated depreciation on the now retired Gannon Station coal-fired assets, partially offset by normal plant additions and the completion of the Bayside repowering project where commercial service began on the first phase in April 2003 and the second phase on Jan. 15, 2004. (See the **Environmental Compliance** section.) Accelerated depreciation on the Gannon Station coal fired assets was $25 million pre-tax in 2003.

Fuel costs increased 4.5 percent in 2003, primarily due to increased use of natural gas at the first phase of the Bayside Power Station and across the board increases for fuel costs that ranged from 5 percent per million BTU for coal to 10 percent for natural gas. Fuel costs increased 22 percent in 2002 despite lower coal costs, reflecting primarily increased generation with oil and natural gas due to lower coal unit availability. Coal prices have varied from year to year from a 5 percent increase in 2003, a 6 percent decrease in 2002 and a 7 percent increase in 2001 due to supply and demand and the prices of other fuels.

Purchased power decreased in 2003, primarily due to the operations of the first phase of the Bayside Power Station in time for summer peak loads. Purchased power expense increased in 2002 due to lower unit availability, primarily as a result of planned maintenance outages on base load generating units and unplanned outages during peak load periods. The effects of higher fuel and purchased power costs are also reflected in the higher operating revenues, as these costs are recovered through the fuel adjustment clause. Purchased power is expected to decline significantly in 2004, due to the operation of the newly repowered Bayside Station.

Prior to 2003, nearly all of Tampa Electric's own generation was produced from coal. Starting in April 2003, the mix started to shift with increased use of natural gas at the Bayside Station. Coal is expected to be more than half of the fuel in the Tampa Electric mix due to the base-load units at Big Bend and the coal gasification unit, Polk Unit One. Natural gas use is expected to increase again in 2004 with the commercial operation of the second phase of the Bayside Station on Jan. 15, 2004. (See the **Environmental Compliance** section.) On a total energy supply basis, company generation accounted for 85 percent, 83 percent and 84 percent of the total system energy requirements in 2003, 2002 and 2001, respectively.

Peoples Gas System Operations Results

PGS is the largest investor-owned gas distribution utility in Florida. It serves almost 292,000 customers in all of the major metropolitan areas of Florida.

Net income increased in 2003 from customer growth of 5.2 percent and a $12 million base revenue increase effective in January 2003, which more than offset the impact of milder than normal late winter weather, the effects of higher natural gas prices and higher operations expenses.

Gas prices rose significantly in the second half of 2002 and again in 2003 and have remained high compared to 2001 levels. The higher cost of gas has had a negative impact on sales to larger interruptible and power generation customers, especially in the second half of 2003. Many of these customers have the ability to switch to alternative fuels or to alter consumption patterns. Initially the gas price increases in 2003 did not cause significant fuel switching as the differential between natural gas and other fuels remained relatively constant; however, the persistent high natural gas prices and the forecast for continued high prices caused fuel switching to increase in the second half of 2003.

PGS net income rose almost 5 percent in 2002. Contributing to these results were 4.1 percent customer growth, operations and maintenance expenses which were essentially unchanged from 2001, and higher volumes sold for off-system sales and higher volumes transported for power generation customers which more than offset the impact of mild winter weather.

Historically, the natural gas market in Florida has been underserved with the lowest market penetration in the southeastern U.S. PGS is expanding its gas distribution system into areas of Florida not previously served and within areas currently served

Summary of Operating Results – Peoples Gas System

(millions)		2003	Change	2002	Change	2001
Revenues		$ 408.4	28.4%	$ 318.1	-9.9%	$ 352.9
Cost of gas sold		224.0	50.3%	149.0	-20.1%	186.4
Operating expenses		130.0	12.5%	115.6	.2%	115.4
Operating income		$ 54.4	1.7%	$ 53.5	4.7%	$ 51.1
Net Income		$ 24.5	1.2%	$ 24.2	4.8%	$ 23.1
Restructuring charges		$ 2.6	—	$ 0.0	—	$ 0.0
Net income before charges		$ 27.1	12.0%	$ 24.2	4.8%	$ 23.1
Therms sold - by customer segment	Residential	64.2	6.6%	60.2	2.4%	58.8
	Commercial	354.8	8.3%	327.6	6.0%	308.9
	Industrial	406.3	-4.1%	423.8	22.3%	346.5
	Power Generation	363.7	-26.2%	492.6	22.1%	403.5
Total		1,189.0	-8.8%	1,304.2	16.7%	1,117.7
Therms sold - by sales type	System Supply	337.3	1.4%	332.5	13.8%	292.2
	Transportation	851.7	-12.3%	971.7	17.7%	825.5
Total		1,189.0	-8.8%	1,304.2	16.7%	1,117.7
Customers (thousands) - average		291.9	5.2%	277.5	4.1%	266.6

In 2003, residential and commercial therm sales increased from customer growth of over 5 percent in 2003, and colder than normal early winter weather. Therm sales to large industrial and power generation customers decreased, primarily from significantly higher gas prices.

Residential therm sales increased in 2002, the result of customer growth of more than 4 percent and increased per-customer usage, more than offsetting milder-than-normal weather. Commercial therm sales also increased, primarily from increased per-customer use.

The actual cost of gas and upstream transportation purchased and resold to end-use customers is recovered through a Purchased Gas Adjustment (PGA) clause approved by the FPSC annually.

In Florida, natural gas service is unbundled for all non-residential customers, affording these customers the opportunity to purchase gas from any provider. The net result of this unbundling is a shift from commodity sales to transportation sales. Because commodity sales are included in operating revenues at the cost of the gas on a pass-through basis, there is no net financial impact to the company when a customer shifts to transportation-only sales. PGS markets its services to these customers through its "NaturalChoice" program. At year-end 2003, 10,500 customers had elected to take service under this program.

Operating expenses increased in 2003, driven primarily by higher employee-related costs, including restructuring costs. Operating expenses in 2002 were essentially unchanged from 2001 levels. Depreciation expense increased in both years, in line with the increased capital expenditures made over the past several years to expand the system.

On June 27, 2002, PGS requested a $22.6 million annual base revenue increase. On Dec. 17, 2002, the FPSC authorized PGS to increase annual base revenues by $12.05 million. The new rates allow for a return on equity range of 10.25 to 12.25 percent with an 11.25 percent midpoint, which is the same as its previously allowed return on equity, and a capital structure of 57.43 percent equity. The increase went into effect on Jan. 16, 2003. (See the **Regulation** section.)

In May 2002, Gulfstream Natural Gas Pipeline initiated service. This interstate pipeline starts in Mobile Bay, Alabama, crosses the Gulf of Mexico and comes ashore in Florida just south of Tampa. Gulfstream is the first new pipeline serving peninsular Florida since 1959. This pipeline increases gas transportation capacity into Florida by 30 percent. PGS entered into a service agreement for capacity in 2002, which increases in 2003 and 2004. The addition of the Gulfstream pipeline enhances reliability of service and helps to meet the capacity needs for PGS' growing customer base.

In 2003, PGS decreased the level of capital expenditures to expand its system into areas of Florida previously unserved by natural gas to $42 million, a level below the prior three years. PGS expansion strategy for the next several years is to take advantage of the significant capital investments in main pipeline expansions made over the past five years and connect customers to that existing infrastructure. PGS expects increases in sales volumes and corresponding revenues in 2004, and continued customer additions and related revenues from its build-out efforts throughout the state of Florida. These growth projections assume continued local economic growth, normal weather and other factors. (See the **Investment Considerations** section.)

TECO Wholesale Generation, Inc.

(Formerly TECO Power Services)

In 1999 we announced that a component of our strategy was to expand our presence in the domestic independent energy industry. (See the **Strategy and Outlook** section.) Our decision to invest in this industry was made more than three years ago, based on the outlook then for the energy markets beyond 2001. Many states were opening their markets to more competitive models, electric demand was growing with the growing economy, and we saw opportunities to earn attractive returns on our investments.

We have rethought our independent power strategy in the face of many factors. These factors include lack of support for deregulation that was originally anticipated to materialize, the existence of supply well in excess of demand, and the outlook for a continuing weak power price environment in the markets where we have built plants.

In September 2002, we announced that we had ceased all new project development at TWG. In April 2003, we announced that we would seek to increase our flexibility to be able to mitigate the risk from the merchant portfolio through a number of steps, including the termination of joint ventures with Panda Energy in the Union and Gila River power stations (TPGC) and in the Texas Independent Energy (TIE) plants. The termination of the joint venture with Panda Energy was accomplished by mid-year for the Union and Gila River projects and in the third quarter for the TIE projects.

In October 2003, we announced that we would put little if any additional cash into the merchant generation portfolio. In February 2004, we established a plan to exit from our ownership of the Union and Gila River plants that included a non-binding letter of intent with the lending banks for those projects that would allow such an exit. Completion of the plan is subject to the lender group's approval and execution of definitive agreements, which will contain customary closing conditions and require certain regulatory approvals. Definitive agreements are expected by the end of the second quarter with final closing targeted for the end of the third quarter of 2004. Until closing, TWG will continue to operate the plants consistent with previous operations and be compensated for these operations, while working with the lenders to effect a smooth transition upon change of ownership. Our decision to exit from our ownership of these projects is not dependent on reaching a final agreement with the lenders for a consensual transfer.

As part of our renewed focus on our utility operations, we have revised certain internal reporting information used for decision-making purposes. The results of TWG are now focused on the results of operations for the Frontera, Commonwealth Chesapeake, Dell and McAdams power plants, as well as the equity investment in the TIE, the Odessa and Guadalupe power plants, and TECO EnergySource, Inc. (TES), the energy marketing operation for the merchant plants. The non-merchant power assets that were formerly reported with TECO Power Services include our interest in the Hamakua Power Station in Hawaii, the Guatemalan operations (which include the San José and Alborada power stations and our interest in the Guatemalan distribution utility, EEGSA) and Hardee Power Partners, which was sold in October 2003. These are now reported with **Other Unregulated Companies**.

TWG Project Summary

	Project	Location	TWG Economic Size MW	TWG Net Interest	In Service Participation Size MW	Date
Operating:	Frontera Power Station	Texas	477	100%	477	5/00, 3/01
	Odessa and Guadalupe	Texas	2,000	50%	1,000	9/00, 8/01
	Commonwealth Chesapeake Power Station	Virginia	315	100%	315	9/00, 8/01
			2,792		1,792	
Suspended:	Dell	Arkansas	599	100%	599	
	McAdams	Mississippi	599	100%	599	
			1,198		1,198	
Held for Sale:	Union	Arkansas	2,200	100%	2,200	1/03-6/03
	Gila River	Arizona	2,145	100%	2,145	2/03-8/03
			4,345		4,345	

(1) Unless otherwise indicated, each date appearing in this column is an in-service date. When more than one in-service date appears, it indicates when different phases of the project went into operation.
(2) Dates on which TWG acquired its economic interest in the project.

Merchant Generation Facilities

Continuing operations at TWG recorded a $147.6 million loss in 2003, primarily due to its portion of the $61.2 million after-tax goodwill write-offs associated with the Frontera and Commonwealth Chesapeake plants, the $26.7 million after-tax arbitration reserve associated with the ownership of the Commonwealth Chesapeake Power Station and the operating losses from the merchant generating plants. Other factors influencing results in 2003 were the loss of interest income from the TIE plants when the loan to Panda Energy converted into an equity ownership position in January 2003, and the cessation of capitalization of interest on the Dell and McAdams plants.

The loss for the merchant portfolio in 2002 (restated to reflect continuing operations) was $7.9 million, primarily from full year of ownership of the Frontera Power Station. The results included a $5.8 million after-tax charge related to the sale of TWG's minority interest in generating assets in the Czech Republic, higher operations and maintenance expense, lower energy prices and sales from the Commonwealth Chesapeake Station and higher financing costs.

Results in 2001 included earnings from the Commonwealth Chesapeake and Frontera generating stations and higher returns on TWG's investment through Panda in the TIE projects, and a $6.1 million after-tax valuation reserve recognized in connection with the sale of TWG's minority interest in EGI, which owns small generating projects in Central America.

TWG's two investments, in the form of a loan to Panda, converted into an indirect ownership interest in TIE in early 2003, totaled $137 million. In September 2003, TWG completed the foreclosure on Panda's interest in TIE for a default on a $23 million note receivable which resulted in TWG becoming a 50-percent owner in the plants and a total investment of $160 million. In 2003, improved peak season power prices and a new power and gas manager retained to increase the energy sales from these plants resulted in improved financial performance; however, the plants still had a negative impact on earnings. The interest on the loans to TIE was reflected in 2002 and 2001 earnings.

In 2003, the 477 megawatt, natural gas-fired, combined-cycle Frontera Power Station, located near McAllen, Texas sold its output in the spot market in Texas. While prices in Texas improved during the peak summer months due to an outage at a large nuclear facility in south Texas, the plant had a negative impact on earnings due to power prices and increased maintenance expenses. In 2002, the Frontera plant facility sold energy and ancillary services to the Electric Reliability Council of Texas (ERCOT) under a reliability-must-run contract which contributed to higher earnings that year.

In 2003, weaker results for the 315 megawatt simple-cycle, oil-fired Commonwealth Chesapeake Power Station on the Delmarva Peninsula in Virginia were impacted by the mild and wet summer weather in that area of the nation, which reduced peak summer load. 2003's results also included its portion of a $61.2 million after-tax goodwill write off required under FAS 142, *Goodwill and Other Intangible Assets*, and a $26.7 million after-tax reserve for an arbitration award against TMDP, the indirect owner of this plant. This plant is a peaking plant that is designed to operate primarily in the summer and sell in the PJM market. The plant's location on the Delmarva Peninsula gives it a location advantage due to few competing generating resources in the area and transmission system constraints on the peninsula. In addition to electric energy, the plant sells ancillary services such as spinning reserve and capacity in the PJM market.

TWG owns two 599-megawatt, natural gas-fired, combined-cycle projects, Dell and McAdams, located in Arkansas and Mississippi, respectively. Construction on these projects was suspended at the end of 2002 due to projected low energy prices in the markets that these plants were expected to serve. The carrying costs, primarily due to the cessation of interest capitalization, associated with these suspended plants reduced TWG earnings in 2003. Market conditions will be monitored to determine when these plants will be completed. At the time of suspension, approximately $690 million had been invested in these plants. It is estimated that the total construction cost to complete these projects would be approximately $100 million.

Energy Markets

TWG's operating merchant power plants are located in markets with a history of high load growth. However, the general U. S. economic slowdown over the past several years slowed the growth in demand for power in some of these markets. In addition, the slowdown of electricity deregulation initiatives across the United States, including the markets that TWG serves, caused in part by the failure of deregulation in California and other events, has allowed the traditional, incumbent utilities to continue to operate older, less efficient generating facilities in lieu of purchasing power from newer, more efficient independent power plants. These factors have combined with aggressive plans by the independent power industry to add merchant power facilities to cause excess generating capacity that is either being built or has come on line in many markets. This excess supply has depressed both spot and forward wholesale power prices.

Studies by numerous outside groups, such as Cambridge Energy Research Associates, Standard & Poor's and others, present conflicting outlooks on power price improvement , but most experts indicate that while spot power prices stabilized in some markets in 2003, power prices are expected to remain low well beyond 2004

TWG has been unable to secure long-term contracts for the output of these plants; therefore, their production has been sold under a mix of spot market sales and shorter-term transactions in 2003 and 2002. TECO Energy's policy is to balance power contract

commitments with necessary purchases of natural gas in order to know the margins for such sales at the time of commitment. These sales usually do not include the value for capacity payments, ancillary services, dispatchability and the premium associated with owning physical assets. These incremental value components are often captured in the spot market at the time of physical sales or through more structured transactions.

In 2001, TECO EnergySource (TES) began entering into power marketing and fuel procurement transactions. TES is actively seeking both short- and long-term contracts with purchasers for the output from the Frontera Power Station. Our current below investment grade credit rating limits TES' ability to hedge significant amounts of forward sales without posting collateral, which it is not doing.

The merchant operations normally balance their fixed-price physical and financial fuel purchase and energy sales contracts in terms of contract volumes and the timing of performance and delivery obligations. Net open positions may exist for short periods due to the origination of new transactions. When net open positions exist, the merchant operations will be exposed to fluctuating market prices. All fuel purchase and energy sales contracts and open positions are monitored closely by the TECO Energy risk management function, which is independent of the merchant operations.

In addition to price risk, credit risk is inherent in TWG's energy risk management activities. The marketing business may be exposed to counterparty credit risk from a counterparty not fulfilling its obligations. Credit policies and procedures, administered by TECO Energy, attempt to limit overall credit risk. The credit procedures include a thorough review of potential counterparties' financial position, collateral requirements under certain circumstances, monitoring net exposure to each counterparty and the use of standardized agreements.

Significant factors that could influence results at TWG include energy prices in its markets, weather, domestic economic conditions and commodity price changes. (See the **Investment Considerations** section.)

Union and Gila River Power Stations

In February 2004, we announced our decision to exit from our ownership of the Union and Gila River projects and to cease further funding of these plants. We, as the equity investor, and the project companies that own the two large plants have entered into a non-binding letter of intent containing a binding settlement agreement with the lenders that provided the non-recourse project financing for these projects that contemplates negotiation of an agreement for the purchase and sale or other agreement to transfer ownership of the plants to these banks. As part of the contemplated transaction, the outstanding non-recourse project debt (owed by the project companies) would be satisfied. The decision to end the ownership of the plants and cease further funding is not, however, dependent on reaching final agreement with the lenders for a consensual transfer. Even without such an agreement, the project companies, which are currently indirect subsidiaries of TECO Energy, could pursue other disposition alternatives that would ultimately end TECO Energy's ownership of the plants.

Letter of Intent

The lending group for the Union and Gila River projects approved a non-binding letter of intent containing a binding settlement agreement on Feb. 5, 2004. Under the agreement, we and the project companies will work toward a definitive agreement with the lenders for a purchase and sale or other agreement to transfer of the ownership of the projects to the lenders in exchange for a release of all obligations under the project loan agreements. The letter of intent specifies target dates for a definitive agreement by Jun. 30, 2004 and for closing by Sep. 30, 2004. The settlement agreement provides for the treatment of the $66 million of letters of credit posted by us under the Construction Undertaking with $35 million drawn in February 2004 for the benefit of the project companies and the remaining $31 million of letters of credit to be cancelled and returned to us. Under the letter of intent, all parties have specified a target completion of due diligence for final acceptance under the construction and undertaking contracts for both projects within 45 days from Feb. 6, 2004; however, we and the project companies will remain responsible to address certain permit issues at the Gila River project. We will make no new investment in the projects. Since the projects have achieved commercial operation on all facilities at Union and Gila River, we believe that we have met all but limited warranty and final acceptance responsibilities to the project companies. We and certain of our subsidiaries plan to continue to provide services and continue to provide expertise and operating support to help the project companies operate the facilities consistent with past practices at least through the completion of the transfer of ownership. The lenders and we and our affiliates have reserved the right to assert certain claims against one another until a definitive agreement is reached.

Expiration of Suspension / Standstill Agreement

The letter of intent permits the parties to reserve their rights against each other, including with respect to our failure to comply with the 3.0 times EBITDA-to-interest ratio coverage requirement in our Construction Undertakings for the quarters ending Sep. 30 and Dec. 31, 2003 (a cross default to the non-recourse credit agreements) that were covered by the Suspension Agreement, which has expired, and the failure of the project companies to make interest payments on the non-recourse project debt and payments under interest rate swap agreements due Dec. 31, 2003 when the project lenders declined to fund the debt service reserve.

As a result, the lending group could seek to exercise remedies against the project companies due to defaults in connection with the non-recourse project debt, including accelerating the non-recourse debt, foreclosing on the project collateral and suspending further funding; subject to the defenses we may have. While there can be no assurance that the lenders group will not exercise these rights, we believe that the lenders would prefer to effect a consensual transfer of the projects in accordance with the letter of intent.

Accounting Treatment

Based on our short-term view of these projects and the efforts to dispose of them, our consolidated financial results include, as of Dec. 31, 2003, an asset impairment of $762 million, after tax, for previous investments to reflect adjustments to the value of the subsidiaries that own the interests in the two plants. These after-tax impairment charges include the asset valuation adjustments resulting in the write off of the full equity investment in the facilities, costs related to the related accelerated impact of the change in hedge accounting for interest rate swaps and a related valuation allowance for certain state tax benefits. The Union and Gila River power stations are considered "Held for Sale" and are included in discontinued operations for income statement purposes, and the assets and liabilities are separately stated as "Held for Sale" on the balance sheet. This accounting treatment could be affected in future periods, depending on the ultimate disposition of our ownership in the plants.

TECO Transport

Net income in 2003 was $15.3 million, before a $0.8 million charge for a change in accounting principle, compared with $21 million in 2002. The decrease was primarily due to lower tonnage for Tampa Electric due to the conversion of the Gannon Station from coal to the natural gas fired Bayside Station, continued weak results from the river transportation and terminal businesses due to lower northbound shipments and a very competitive pricing environment, higher labor and repair costs, and a $1.0 million

after tax restructuring charge. Results for 2003 also include a $3.5 million after-tax gain associated with the disposition of ocean-going assets no longer used by TECO Ocean Shipping and scrap river barges at TECO Barge Line.

In 2002, net income declined 24 percent from 2001. 2002 results reflected continued weakness in the U.S. economy as low levels of imported raw materials reduced northbound river shipments and drove pricing lower for all river shipments. These conditions also reduced volumes of petroleum coke and steel-related product volumes through the transfer terminal. These conditions combined to more than offset increased ocean-going phosphate shipments and lower repair and fuel costs.

Northbound river shipments of steel-related raw materials did not improve in 2003 as expected due to continued weakness in the U.S. economy and production problems for furnace coke, which is imported from China for domestic steel production. Additionally, northbound petroleum coke shipments were reduced for six months due to production problems at a major producer. Southbound river shipments of grain products increased in 2003, with much better pricing during the fall grain shipping season. The recovery of the U.S. economy is expected to increase the volumes in 2004 at the same time that consolidation in the river shipping business is expected to reduce capacity. This combination is expected to improve pricing slightly.

The phosphate fertilizer industry, an important business segment for TECO Ocean Shipping, continued its efforts to balance supply and demand to support prices in 2003. TECO Ocean Shipping expects phosphate shipments to be at 2003 levels in 2004.

TECO Transport operating companies expect to be impacted by lower shipments for Tampa Electric, but expect to replace a portion of this tonnage with increased third-party business, as well as lower operations and maintenance expenses in 2004.

TECO Transport expects to continue diversifying into new markets and cargoes. Future growth at TECO Transport is dependent on improved pricing, higher asset utilization, and asset additions at both the river and ocean-going businesses. Significant factors that could influence results include weather, bulk commodity prices, fuel prices and domestic and international economic conditions. (See the **Investment Considerations** section.)

TECO Transport has two operating leases with an aggregate value of about $100 million as a result of sale-leaseback transactions entered into in 2001 and 2002 that provide for a cross-default in the event TECO Energy or any of its affiliates defaults in the payment of certain obligations. The failure of the Union and Gila River project companies to make payments on the non-recourse project debt, could result in a cross default entitling the lessors to terminate the leases and recover certain amounts. However, we have reached agreement in principle, subject to definitive agreements being executed, with the lessors on amendments to the leases that would eliminate this possible cross-default.

TECO Coal

In 2003, net income increased slightly to $77.1 million before a $0.3 million after-tax charge for a change in accounting principle on total coal sales of almost 9.2 million tons. These results were driven by expensing $7.0 million after tax for the loss of unutilized Section 29 tax credits, lower volumes and prices for conventional coals and higher mining costs due to the use of marginal and waste coals for the production of synthetic fuel, which were more than offset by higher volumes of synthetic fuel production and sales and the sale of a 49.5% interest in the synthetic fuel production facilities. The loss of the tax credits is due to generating tax credits in excess of the company's current regular income tax expense as the tax rules only qualify synthetic fuel tax credits up to a taxpayer's current regular income tax expense.

Synthetic fuel production and sales increased to 5.8 million tons in 2003 from 3.8 million tons and 3.2 million tons in 2002 and 2001, respectively. In April 2003, TECO Coal sold a 49.5% interest in its synthetic fuel production facilities. Under this transaction, TECO Coal is paid to provide feedstock, operate the synthetic fuel production facilities and sell the output while the purchaser has the risks and rewards of ownership including being allocated 49.5% of the tax credits and operating costs. In addition to funding the operating costs of the 49.5% share, TECO Coal recognizes a gain on the sale of the facilities for each installment sale payment. The net income for the year includes $55.8 million of gain from this sale.

Net income was $76.4 million in 2002 compared with $59.0 million in 2001. The 30% increase was driven primarily by better margins and higher synthetic fuel (synfuel) production and sales and the resulting higher Section 29 tax credits. Total coal sales, including synthetic fuel, were 9.3 million tons in 2002. Synthetic fuel production displaced some of the conventional coal production in all years.

In 2004, total coal sales and synthetic fuel production are expected to remain at about 2003 levels, with virtually all planned production sold forward under a variety of contracts of varying terms. Coal prices for 2004 have improved after declining in 2003 and 2002. Higher prices for competing fuels, better balance in supply and demand, lower producer inventories and consolidation in the mining industry are contributing to the improved prices. Late in 2003 and early 2004 spot coal prices increased sharply. TECO Coal contracts much of its coal production for the coming year in the preceding year and is less affected by the rapid price changes, both upward and downward than those companies that sell a higher percentage in the spot markets.

In January 2000, TECO Coal purchased synthetic fuel facilities from Headwaters Technologies, Inc. The facilities were relocated to the company's Premier Elkhorn and Clintwood Elkhorn mines in Kentucky, and were producing by the second quarter of 2000. These facilities produce synthetic fuel from coal, coal fines and waste coal using a technology licensed from Headwaters. The facilities were subsequently sited at all three of TECO Coal's complexes.

TECO Coal has received private letter rulings (PLRs) from the Internal Revenue Service regarding the qualification of synthetic fuel production from its facilities. The PLRs confirm that the facilities are located appropriately and produce a qualified fuel eligible for Section 29 tax credits which are available for the production of such non-conventional fuels through 2007.

In June 2003, the Internal Revenue Service (IRS) suspended the issuance of PLRs to taxpayers seeking certainty regarding the use of the Section 29 tax credits for the production of synthetic fuel from coal. The suspension was due to questions raised within the IRS regarding the validity of the production of a significant chemical change in the production of synthetic fuel as required under Section 29. TECO Coal's sale of the 49.5% interest of its production facilities required an updated PLR. During the suspension period, all cash paid to TECO Coal by the purchaser was held in escrow pending resolution of the PLR issue. In October 2003, the IRS concluded its review and resumed issuing PLRs. TECO Coal received a PLR from the IRS on Oct. 31, 2003 that resolved any uncertainty related to the sale, triggered the release of $70.7 million of cash held in escrow and confirmed that the synthetic fuel produced by TECO Coal is eligible for Section 29 tax credits and that its test procedures are in compliance with the requirements of the IRS.

Significant factors that could influence TECO Coal's results include weather, general economic conditions, commodity price changes, continued generation of Section 29 tax credits, the sale of interest in the synthetic fuel production facilities, the ability to use Section 29 tax credits and changes in laws, regulations or administration. (See the **Investment Considerations** section.)

Other Unregulated Companies

Independent Power Project Summary

Project	Location	Size MW	Economic Interest	Net Size MW	In Service Participation Date
Alborada Power Station	Guatemala	78	96%	75	9/95
Empresa Electrica de Guatemala S.A. (EEGSA), a distribution utility	Guatemala		24%		9/98
San Jose Power Station	Guatemala	120	100%	120	1/00
Hamakua Energy Project	Hawaii	60	50%	30	8/00–12/00
Total non-merchant		258		225	

(1) Unless otherwise indicated, each date appearing in this column is an in-service date. When more than one in-service date appears, it indicates when different phases of the project went into operation.
(2) Dates on which TWG acquired its economic interest in the project.

We now include the non-merchant independent power operations in our Other Unregulated Companies segment for financial reporting purposes. These include the San José and Alborada power stations in Guatemala, our ownership interest in EEGSA, the Guatemalan distribution utility, our 50 percent ownership of the Hamakua Power Station in Hawaii, and HPP, which was sold in October 2003. Other unregulated companies include, TECO Solutions, TECO Partners and TECO Investments.

In 2003, the other unregulated companies reported a loss of $5.4 million, which included $67.7 million of after-tax charges previously discussed partially offset by the $34.6 million after-tax gain on the sale of HPP. (See the **Earning Summary** section.) Excluding charges, gains and $9.0 million of net income from nine months of operations at HPP, net income was $18.7 million which included $24.7 million from the independent power operations and a $7.0 million loss at TECO Solutions. The loss at TECO Solutions was driven primarily by project losses. Results from the independent power operations reflect higher net income from EEGSA from increased energy sales at higher prices and favorable currency translation gains, more than offset by unfavorable tax adjustments on the Guatemalan assets and increased maintenance costs for scheduled maintenance at the San José Power Station.

Many of the other unregulated companies were formed or acquired during the early stages of Florida's proposed electric industry restructuring, as a vehicle through which we could potentially expand our services to other parts of the state. The subsequent rollback of the proposed deregulation and our refocus on our core utility operations has caused us to reexamine our continued participation in these lines of business. As a result of this reexamination, in the third quarter we sold TECO Gas Services' book of business; in November we announced the sale of our interest in TECO Propane Ventures (TPV) which closed in January 2004 (see below); in December we entered into an agreement to sell our end use gas marketing company Prior Energy and closing was completed in February 2004; and, in January 2004 we sold TECO Energy Services (formerly TECO BGA) to an employee group.

TPV held the company's propane business investment. In 2000, TECO Energy combined its propane operations with three other southeastern propane companies to form U.S. Propane. In a series of transactions, U.S. Propane combined with Heritage Holdings, Inc. In January 2004, U.S. Propane completed the sale of its direct and indirect equity investments in Heritage Propane Partners, L.P. (Heritage). The sale, part of a larger transaction that involved the merging of privately held Energy Transfer Company with Heritage, was announced in November 2003. Our portion of the sale generated $49.4 million of cash and a $17.2 million pre-tax book gain.

Liquidity, Capital Resources

At Dec. 31, 2003, we had cash and cash equivalents of $108.2 million, excluding all restricted cash, and $590.1 million of availability under our bank credit facilities, net of letters of credit of $109.9 million outstanding under these facilities. The availability under the bank credit facilities included the $250 million undrawn Tampa Electric facility; the undrawn Merrill Lynch facility; and the $350 million TECO Energy multi-year facility, undrawn except for the $110.1 million of outstanding letters of credit.

Restricted cash is comprised of $15.4 million of cash held in escrow under the sale agreement for the 49.5% interest of TECO Coal's synthetic fuel production facilities to provide credit support for the company's obligations under the sale agreement due to the company's current credit rating, and $36.0 million held in escrow from the sale of Hardee Power Partners. In February 2004, $29.0 million of the Hardee escrow amounts were returned as expected.

2003 sources of cash included cash from operations of $329 million, net cash proceeds from asset sales of $245 million, and proceeds from debt and equity sales of $792 million. Cash was used to fund $638 million of capital investing, long term debt repayments of $526 million, short term debt reduction of $323 million and common dividends of $165 million.

TECO Energy met 2002 cash needs with a mix of externally and internally generated funds. Cash from operations was $656 million, and proceeds from the sale of debt and equity were $2.8 billion. Cash was used to fund $1.7 billion of capital spending (net of $103 million from asset sales), debt maturities of $788 million and refinancings of $162 million, net reduction of short term debt of $278 million and dividends to common shareholders of $216 million.

Cash from Operations

In 2003, cash flow from operations was affected by the accounting for the sale of interests in the synthetic fuel production facilities at TECO Coal, the benefits of which are recorded in financing and investing activities as described more fully below, the payment of taxes associated with asset sales in 2002 and 2003, the under recovery of fuel expense at Tampa Electric, and the impact on working capital due to the consolidation of the Union and Gila River power projects, which were previously recorded as unconsolidated joint ventures. The substantial charges for asset and goodwill impairments, loss on the Panda joint venture termination and the TWG arbitration reserve did not affect cash from operations.

In April 2003, TECO Coal sold a 49.5% interest in its synthetic fuel production facilities located at its operations in eastern

Kentucky. Cash flow from operations includes the operating losses of $9.00 - $11.00 per ton (pre-tax) associated with the production of synthetic fuel, while the cash benefits from the sale of the synthetic fuel production facilities of approximately $30 per ton (pretax) are included in the investing and financing activities on the Consolidated Statement of Cash Flows. Investing activity includes cash from the gain on the sale of the synthetic fuel facilities. The company expects to record a quarterly gain associated with the sale of the assets through the life of the contract. The cash paid by the owner for its portion of the operating loss from the production of synthetic fuel is included in Financing Activities as a minority interest.

TES and Prior Energy were required to post collateral to contract counterparties due to the downgrade of TECO Energy's credit rating to non-investment grade in April 2003. As of Dec. 31, 2003, collateral posted of $12 million is included in working capital as a prepaid item.

Cash from operations in 2004 will be affected by lower cash payments of income taxes and collection by Tampa Electric of the under-recovered fuel expense from 2003, offset in part by greater operating losses associated with synthetic fuel. We anticipate selling additional interests in our synthetic fuel facilities in 2004 which, as described previously, will decrease cash from operations but substantially benefit cash from investing and financing.

We have not made a contribution to our defined benefit pension plan since the 1995 plan year because investment returns had been more than sufficient to cover liability growth. Negative stock market returns in 2001 and 2002 reduced the overfunding of the plan and, based on plan asset values at Jan. 1, 2003 and 2004, it is estimated that TECO Energy will be required to make a $14.2 million contribution to its defined benefit plan in September 2004 and a cash contribution of a similar amount in 2005. (See **Note 16** to the **Consolidated Financial Statements.**)

Cash from Investing Activities

Investing activities of $393 million in 2003 included capital investments totaling $638 million, reduced by net asset sales proceeds of $245 million. Asset sales included $98 million from the second installment on the sale of our coalbed methane gas production assets, $72 million from the sale of Hardee Power Partners (net of cash escrows), and installments of $35 million (net of escrows) from the sale of the 49.5% interest in TECO Coal's synthetic fuel facilities.

Capital spending in 2003 represented the completion of a substantial capital investment program both for TWG's merchant power facilities and for Tampa Electric's Bayside Station. In 2004 and for the next several years, we expect capital spending at a "maintenance" level supporting customer growth, safety and reliability, and renewal and replacement of capital. (See **Capital Investment** section.) In January 2004 we sold TECO Propane Ventures, realizing $49.4 million of proceeds, and also received $29 million from the release of escrow in February 2004 from the Hardee sale. We also closed the sale of Prior Energy in February 2004 and received total proceeds of $30 million, including payment for the value of gas inventory.

Cash from Financing Activities

Cash proceeds from long-term debt in 2003 included a $250 million Tampa Electric note issue, a $300 million TECO Energy note issue, and draws of $111 million under the Union and Gila River non-recourse bank facilities. We raised $137 million from the sale of common stock consisting primarily of the direct placement of 11 million shares to Franklin Advisors in September 2003. Debt repayments included the $375 million equity bridge loan for the Union and Gila River power projects, Tampa Electric's $75 million mortgage bond maturity, a $25 million Transport capital lease maturity, and scheduled principal installments of PGS debt and non-recourse project debt. We also reduced short-term borrowings by $323 million in 2003, including the November repayment of a $350 million bank term loan maturity.

We have no significant corporate debt maturities until 2007. Long-term debt maturities in 2004 are $31.6 million, consisting primarily of installment payments of non-recourse project debt, but excluding the project debt of the Union and Gila River power stations. (See **Note 7** to the **Consolidated Financial Statements.**) Our $37.5 million drawn credit facility was repaid in February 2004. We do not expect to issue debt in 2004, except for the planned refinancing of the San José non-recourse project debt in Guatemala, expected to provide net cash proceeds of $40 million and a planned refinancing of $75 million of Tampa Electric First Mortgage Bonds with a 7.75% coupon.

Liquidity Outlook

In 2002 and 2003, our cash and liquidity needs were significant as we faced the funding obligations associated with large construction programs at TWG and Tampa Electric, significant debt maturities, and the liquidity requirements associated with a merchant power business strategy in a difficult power price market. We took significant steps in this time period to meet these needs, including selling assets, raising external capital, reducing capital spending by canceling or delaying for an extended period generation projects, reducing our exposure to merchant power and reducing our common dividend.

Our future liquidity needs will be lower because the major construction programs at TWG and Tampa Electric are now complete, we have no significant upcoming debt maturities, and our business risk will be reduced because of our planned exit from the large Union and Gila River power stations. Tampa Electric currently targets available liquidity (cash plus available undrawn credit lines) of $250 million and, in November, replaced its maturing bank credit facility with new facilities totaling $250 million. While TECO Energy has previously targeted available liquidity of $325 million, we expect to target available liquidity of approximately $200 million in the future, for the reasons described above. We expect that we will replace the expiring $350 million TECO Energy credit facility prior to its expiration with a smaller facility.

Bank Credit Facilities

At Dec. 31, 2003, we had a bank credit facility of $350 million with a maturity date of November 2004 and a $100 million credit facility with Merrill Lynch, and Tampa Electric had bank credit facilities totaling $250 million with maturity dates in November 2004 and November 2006, described below. All were undrawn at Dec. 31, 2003, except for outstanding letters of credit under the $350 million TECO Energy facility. In November 2002, we converted another $350 million bank credit line then in effect into a one-year term loan which was repaid on Nov. 13, 2003.

Our bank credit facility maturing November 2004 includes a $250 million sublimit for letters of credit. At Dec. 31, 2003, $109.9 million of letters of credit were outstanding against that line, of which $66 million related to the construction of the Union and Gila River power stations. These letters of credit represented the remaining amounts of letters of credit posted in May 2003 under the Construction Undertaking posting requirements upon our downgrade to non-investment grade in April 2003. In February 2004, by agreement of the parties, $35 million of these letters of credit were drawn by the lending banks, and the remaining $31 million were cancelled and returned to us. (See the **Covenants in Financing Agreements** section.) In addition, at Dec. 31, 2003, we and our subsidiaries had $0.2 million of letters of credit outside of our bank credit line facility outstanding, and the Union and Gila River project companies had $144.2 million outstanding under the letter of credit facilities included in their non-recourse bank financing.

At TECO Energy, we have not had access to the commercial paper market since the September 2002 downgrade by Standard & Poor's Ratings Service (S&P) of our commercial paper program to A-3. Tampa Electric continued to have access to the commercial paper market until the S&P downgrade in June 2003 of its commercial paper program to A-3. The lack of access to the commercial paper market has caused us to utilize bank credit facilities for short-term borrowing needs.

In April 2003, we entered into a $350 million unsecured credit facility with Merrill Lynch for a term of up to eighteen months. The facility contained certain financial covenants described in the **Covenants in Financing Agreements** Section. In November 2003, we amended this credit facility to allow $100 million of credit capacity to remain in place subsequent to the repayment of the $350 million bank term maturity on Nov. 13, 2003. Under the terms of the original agreement, the facility would have been extinguished upon that repayment. The amendment made the $100 million commitment of undrawn line capacity available through April 8, 2004, at which time the facility can be drawn up to $100 million and remain outstanding to Oct. 8, 2004. The $100 million facility is required to be reduced for certain asset sales and financings. As a result of cash proceeds from asset sales in early 2004 this facility has been reduced to $20.6 million.

On Dec. 19, 2003, TECO Energy and Merrill Lynch further amended the existing credit facility to put in place with Merrill and JP Morgan a contingent credit facility of $200 million. The contingent facility will become effective only if our existing $350 million bank credit facility becomes unavailable because of non-compliance with the 65% debt-to-total-capital covenant or transfer of assets covenant as a result of write-offs or disposition of TWG assets. Upon the occurrence of these certain events, we would pledge the common stock of TECO Transport Corporation as security under the amended credit facility and the commitment available under the facility would be increased to $200 million, all of which would be available for letters of credit or cash draws. If the terms of the facility change as a result of these certain events, the amended facility would mature in December 2004. The contingent facility, if activated, would replace the existing Merrill Lynch facility. See the **Covenants in Financing Agreements** section for a summary of our performance against significant financial covenant requirements.

In June 2003, we entered into a one-year $37.5 million credit facility with four banks, collateralized by 50 percent of the interests in Union and Gila River projects. The proceeds from the credit facility were used in the termination of the joint venture agreement with Panda Energy. The facility was paid in full in February 2004.

On Nov. 7, 2003, Tampa Electric Company replaced its maturing $300 million credit facility with a $125 million one-year credit facility and a $125 million three-year credit facility maturing in November 2004 and November 2006, respectively. In addition to the financial covenants described in the **Covenants in Financing Agreements** section, the two new facilities include a covenant limiting cumulative distributions after Oct. 31, 2003 and outstanding loans to its parent to an amount representing an accumulation of net income after May 31, 2003 and capital contributions from the parent after Oct. 31, 2003, plus $450 million.

The Tampa Electric bank credit facilities require commitment fees of 20 - 25 basis points, and drawn amounts are charged interest at LIBOR plus 100 - 117.5 basis points at current credit ratings. TECO Energy's $350 million three-year credit facility requires commitment fees of 25 basis points, and drawn amounts incur interest expense at LIBOR plus 55 – 75 basis points at current ratings. The Merrill Lynch credit facility requires commitment fees of 50 basis points and drawn amounts incur interest at LIBOR plus a borrowing spread derived from the borrowing spread of our 7.2% Notes due in 2011.

We expect that the replacement TECO Energy credit facility will be at a higher cost reflecting our current credit ratings, that it will contain restrictive covenants and that it may require security.

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Covenants in Financing Agreements

In order to utilize their respective bank credit facilities, TECO Energy and Tampa Electric must meet certain financial tests as defined in the applicable agreements. In addition, TECO Energy, Tampa Electric and other operating companies have certain restrictive covenants in specific agreements and debt issuances. The table below lists the covenants and the performance relative to them at Dec. 31, 2003.

TECO Energy Significant Financial Covenants

(millions, unless otherwise indicated) *Instrument*	*Financial Covenant*	*Requirement/Restriction*	*Calculation at Dec. 31, 2003*
Tampa Electric			
Mortgage bond indenture	Dividend restriction	Cumulative distributions cannot exceed cumulative net income plus $4	$5 unrestricted[2]
PGS senior notes	EBIT/interest	Minimum of 2.0 times	3.5 times
	Restricted payments	Shareholder equity at least $500	$1,652
	Funded debt/capital	Cannot exceed 65%	50.5%
	Sale of assets	Less than 20% of total assets	–%
Credit facility	Debt/capital	Cannot exceed 60%	49.2%
	EBITDA/interest	Minimum of 2.5 times	5.8 times
	Restriction on distributions	Limit on cumulative distributions and outstanding affiliate loans[4]	$483 unrestricted
6.25% senior notes	Debt/capital	Cannot exceed 60%	49.2%
	Limit on liens	Cannot exceed $787	$362
TECO Energy			
Credit facilities[5]	Debt/capital	Cannot exceed 65%	61.9%
$37.5 credit facility[6]	EBITDA/interest[3]	Minimum of 2.5 times	2.4 times
	Limit on liens	Cannot exceed 60% of fair value of assets	24.9%[7]
	Debt/capital	Cannot exceed 65%	61.9%
$380 million note indenture	Limit on restricted payments[8]	Cumulative operating cash flow in excess of 1.7 times interest	$284 unrestricted
	Limit on liens	Cannot exceed 5% of tangible assets	$206 unrestricted[9]
	Limit on indebtedness	Interest coverage at least 2.0 times	2.6 times
$300 million note indenture	Limit on liens	Cannot exceed 5% of tangible assets	$206 unrestricted[9]
TPGC guarantees[10]	Debt/capital	Cannot exceed 65%	61.9%
	EBITDA/interest[3]	Minimum of 3.0 times	(11)
TECO Diversified			
Energy management services agreement guarantee	Consolidated tangible net worth	Minimum of $200 net worth	$548
	Consolidated funded debt	Cannot exceed 60%	17.8%
Coal supply agreement guarantee	Dividend restriction	Tangible net worth not less than $200 or $424 (40% of tangible net assets)	$548

(1) As defined in each applicable instrument.
(2) Reflects the determination as of Dec. 31, 2003, after giving effect to $158 million distributed to TECO Energy as a return of capital during 2003. There were $75 million of callable bonds outstanding under the indenture at Dec. 31, 2003.
(3) EBIT generally represents earnings before interest and taxes. EBITDA generally represents EBIT before depreciation and amortization. However, in each circumstance, the term is subject to the definition prescribed under the relevant legal agreements.
(4) Limits cumulative distributions after Oct. 31, 2003 and outstanding affiliate loans to an amount representing an accumulation of net income after May 31, 2003 and capital contributions from the parent after Oct. 31, 2003, plus $450 million.
(5) One of TECO Energy's credit facilities, if drawn upon, can limit payment of dividends each quarter to $40 million, unless the company provides the lender with satisfactory liquidity projections demonstrating the company's ability to pay both the dividends contemplated and each of the three quarterly dividends next scheduled to be paid.
(6) This facility was repaid in full in February 2004 prior to a default under the agreements. (See the **Bank Credit Facilities** section.)
(7) The fair market value of the assets has not been calculated. This calculation represents total collateralized debt, including TWG non-recourse debt, divided by the book value of total assets.
(8) The limitation on restricted payments restricts the company from paying dividends or making distributions or certain investments unless there is sufficient cumulative operating cash flow, as defined, in excess of 1.7 times interest to make such distribution or investment. The operating cash flow and restricted payments are calculated on a cumulative basis since the issuance of the 10.5% Notes in the fourth quarter of 2002. This calculation, at Dec. 31, 2003, reflects the amount accumulated and available for future restricted payments, representing the accumulation of four quarters' activities.
(9) The repayment of the collateralized $37.5 million credit facility in early 2004 (see the **Bank Credit Facilities** section) increases this unrestricted amount to $244 million.
(10) Includes the Construction Undertaking Guarantees related to the TPGC projects.
(11) This calculation was not required for Sep. 30 or Dec. 31, 2003, as provided by the terms of the Suspension Agreement entered into between the lenders, the project companies and TECO Energy, as discussed in the **TECO Wholesale Generation** section. (See the **Investment Considerations, Financing Risks** section.)

Credit Ratings/Senior Unsecured Debt

(As of Feb. 10, 2004)	Fitch	Moody's	Standard & Poor's
Tampa Electric	BBB-	Baa2	BBB-
TECO Energy/TECO Finance	BB-	Ba2	BB-

In February 2004, Moody's lowered the ratings on TECO Energy's senior unsecured debt securities, and those of TECO Finance and Tampa Electric. The ratings assigned to TECO Energy and TECO Finance were below investment grade, while the rating assigned to Tampa Electric remained investment grade. These ratings changes followed actions taken by Moody's, S&P and Fitch in April and May 2003. The outlook assigned by all of the rating agencies to both TECO Energy and Tampa Electric is negative. The ratings actions were attributed to increased debt levels and the changing risk profile associated with the expansion of TECO Energy's investment in merchant generation facilities through TWG, as well as the required capital outlays of Tampa Electric, the outlook for low power prices in the merchant energy sector and the resulting impacts on earnings and cash flow, and the additional risks and obligations undertaken by TECO Energy with respect to the Union and Gila River power stations. These downgrades followed downgrades in 2002 and 2001 by all of the rating agencies due to the changing risk profile of TECO Energy related to the increased emphasis on merchant power.

The reduction in credit ratings below investment grade by Moody's in April 2003 accelerated the repayment of the outstanding $250 million balance on the equity bridge loan associated with the construction of the TPGC projects and the requirement to post letters of credit satisfactory to the lending banks under the Construction Undertaking guarantees. The company and the banks agreed that the amount of security to be posted for the remaining construction, liquidated damages for delay and performance shortfalls was $172 million. This amount was subsequently reduced to $66 million following the successful commercial operation of both power plants. (See the **Liquidity, Capital Resources** section.)

In November 2003, S&P affirmed TECO Energy's current credit ratings and removed the ratings from Credit Watch with negative implications following the resolution of the Private Letter Ruling issues related to the production of synthetic fuel at TECO Coal (See the **TECO Coal** section.) At that time, S&P stated that future ratings stability was directly correlated with TECO Energy's exit from the merchant energy business and the use of future cash flows to reduce debt. S&P went on to state that a failure to exit the Union and Gila River power projects would result in credit rating downgrades. Such downgrades by S&P could result in Tampa Electric's S&P credit rating falling below investment grade. In February 2004, S&P stated that our announcement to exit the Union and Gila River projects was favorable for credit quality but took no ratings action and maintained its negative outlook.

Any downgrades in credit ratings may affect TECO Energy's ability to borrow and may increase financing costs, which may decrease earnings. TECO Energy's interest expense is likely to increase when maturing debt is replaced with new debt with higher interest rates due to the lower credit ratings.

Summary of Contractual Obligations

The following table lists the obligations of TECO Energy and its subsidiaries for cash payments to repay debt, lease payments and unconditional commitments related to capital expenditures. This table does not include contingent obligations discussed in the following table

Contractual Obligations

		Payments Due by Period			
(millions)	Total	2004	2005	2006-2008	After 2008
Long-term debt:					
Recourse	$ 3,666.4	$ 6.1	$ 5.5	$ 958.3	$ 2,696.5
Non-recourse [1]	108.7	25.5	20.7	51.6	10.9
Preferred security	649.1	–	–	449.1	200.0
Operating leases/rentals [2]	169.5	24.1	21.3	44.9	79.2
Purchase obligations/commitments	9.4	9.4	–	–	–
Total contractual obligations	$ 4,603.1	$ 65.1	$ 47.5	$ 1,503.9	$ 2,986.6

(1) Excludes the non-recourse debt associated with the Union and Gila River projects which is included in liabilities associated with assets held for sale.
(2) Includes payments under the two TECO Transport operating leases discussed in the **TECO Transport** section.

Summary of Contingent Obligations

The following table summarizes the letters of credit and guarantees outstanding that are not included in the Summary of Contractual Obligations table above and not otherwise included in the company's Consolidated Financial Statements.

			Commitment Expiration			
(millions)		Total [2]	2004	2005	2006-2008	After 2008
Letters of Credit [1]		$ 110.1	$78.7 [3]	$ –	$ 4.7	$ 26.7
Guarantees:	Debt related	24.5	–	–	–	24.5
	Fuel purchase/energy management [4]	363.9	183.2 [5]	–	–	180.7
	Other	8.8	5.0	–	–	3.8

(1) Expected final expiration date with annual renewals.
(2) Expected maximum exposure.
(3) In February 2004, by agreement of the parties, $35 million of these letters of credit were drawn by the Union and Gila River non-recourse lending bank group, and the remaining $31 million cancelled and returned to TECO Energy. (See the **TWG, Union and Gila River** section.)
(4) These guarantee amounts renew annually and are shown on the basis they will continue to renew beyond 2007.
(5) As a result of the sale of Prior Energy in February 2004, $173.2 million of guarantees are expected to be eliminated in early 2004.

Capital Investments

Capital Investments

		Forecast			
$ (millions)	Actual 2003	2004	2005	2006-2008	2004-2008 Total
Florida Operations	$ 337	$224	$ 255	$ 916	$ 1,395
Independent Power	276	14	25	75	114
Transportation	20	20	20	60	100
Other	21	21	19	53	93
Total	$ 654	$279	$ 319	$ 1,104	$ 1,702

TECO Energy's 2003 capital investments of $654 million (without reduction for asset and business sale proceeds) included $289 million for Tampa Electric (including $27 million of AFUDC), $43 million for PGS and $5 million for the unregulated Florida operations. Tampa Electric's electric division capital investments in 2003 were $152 million for equipment and facilities to meet its growing customer base and generating equipment maintenance and $137 million for the repowering and conversion of the coal-fired Gannon Station to the natural gas-fired Bayside Station (see the **Environmental Compliance** section). Capital expenditures for PGS were approximately $28 million for system expansion and approximately $15 million for maintenance of the existing system. TECO Transport invested $20 million in 2003 for river barge replacements and capitalized maintenance of ocean-going vessels. TECO Coal's capital expenditures included $7 million for normal mining expansions and equipment replacements. TWG's capital investments totaled $276 million, net of $31 million received from the sale of its Enron bankruptcy claims (see the **Enron Related Matters** in the **TWG** section), primarily related to the Union and Gila River power stations. This $276 million includes $33 million classified as Other Non-Current Investments, representing the costs associated with the Panda Energy joint venture termination for Union and Gila River and $29 million classified as investment in Unconsolidated Affiliates representing the cost associated with the buyout of Panda's interest in the TIE projects (see the **Transactions With Related and Certain Other Parties** section).

Asset sale proceeds in 2003 were $245 million net of cash escrows of $51 million. Proceeds included the sale of TECO Coalbed Methane's assets, the sale of Hardee Power Partners, TECO Transport's sale of equipment no longer used at TECO Ocean Shipping, the sale of interest in the ECK Generating project in the Czech Republic, and a portion of the proceeds from TECO Coal's sale of a 49.5% interest in its synthetic fuel production facilities. (See the **TECO Coal** and **Liquidity, Capital Resources** sections.)

TECO Energy estimates capital spending for ongoing operations, without reduction for proceeds from asset sales, to be $279 million for 2004, $319 million for 2005 and $1,104 million during the 2006-2008 period.

For 2004, Tampa Electric's electric division expects to spend $183 million, consisting of $9 million for the completion of the repowering project at the Bayside Station and $174 million to support system growth and generation reliability. At the end of 2003, Tampa Electric had outstanding commitments of about $9 million for the Bayside Station repowering project. Tampa Electric's total capital expenditures over the 2005-2008 period are projected to be $1,006 million, including $141 million for compliance with the Environmental Consent Decree. The environmental compliance expenditures are eligible for recovery of depreciation and a return on investment through the Environmental Cost Recovery Clause. (See the **Environmental Compliance** section.)

Capital expenditures for PGS are expected to be about $40 million in 2004 and $160 million during the 2005-2008 period. Included in these amounts are approximately $25 million annually for projects associated with customer growth and system expansion. The remainder represents capital expenditures for ongoing renewal, replacement and system safety.

TWG expects to invest $14 million in 2004 for capitalized maintenance, and $100 million in the 2005-2008 period for the completion of the Dell and McAdams power stations when market conditions justify the expenditures. (See the **TECO Wholesale Generation** section.)

The other unregulated companies expect to invest $42 million in 2004 and $156 million during the 2005-2008 period. Included in these amounts is normal renewal and replacement capital, including coal mining equipment and river barge replacements.

Financing Activity

Our 2003 year-end capital structure, excluding the effect of unearned compensation, was 71.6 percent senior debt, 7.9 percent company preferred securities and 20.5 percent common equity. TWG has typically financed its power projects with non-recourse project debt. Excluding this non-recourse debt of $2,196 million, the year-end capital structure was 61.3 percent debt, 10.7 percent company preferred securities and 28.0 percent common equity. The debt-to-total-capital ratio increased from last year primarily due to the impairment charges taken in 2003 associated with our investments in merchant power.

In 2003, we accessed the debt and equity markets on three occasions raising $792 million to provide funds for general liquidity purposes, to repay $526 million of long-term debt, and reduce short-term debt balances by $323 million. In addition, debt proceeds in 2003 included non-recourse proceeds of $111 million associated with the Union and Gila River power projects.

In 2002, we were active in the debt and equity capital markets raising $1 billion through the sale of equity or equity-linked securities and issuing $1.8 billion of debt to refinance $788 million of maturing debt, to refinance $162 million of higher-cost debt, to reduce short-term borrowing by $278 million and to fund capital investments at the operating companies.

In 2004, TECO Energy plans to remarket the Trust Preferred debt securities within TECO Capital Trust II, as required. We have been advised that other companies remarketing similar securities have not been successful due to changing company specific and market conditions. In addition, there is expected to be a large number of other issuers seeking to remarket similar securities at the same time. In the event that these securities cannot be successfully remarketed, a possible consequence could be the loss of the tax deductibility of the interest payments made on these securities retroactive to the time of issue in January 2002. The loss of this tax deduction to TECO Energy could result in a non-cash reduction in earnings of approximately $9 million for the year 2002, but due to the level of taxable income, any earnings reduction in 2003 is expected to be significantly lower. We are exploring various remarketing strategies to avoid the loss of the tax deductibility of these payments.

The following table provides details of the financing activities for the years 2003, 2002 and 2001.

Date	Security	Company	Net Proceeds millions	Coupon	Use
Sep. 2003	Common equity	TECO Energy	$129	–	Repay short-term debt, and general corporate purposes
Jun. 2003	7-year notes	TECO Energy	$293	7.5%	Repay short-term debt, and general corporate purposes
Apr. 2003	13-year notes	Tampa Electric	$250	6.25%	Repay maturing short-term debt, and general corporate purposes
Dec. 2002	7-year non-recourse bank loan	TECO Wholesale Generation	$30	6%	Refinance Alborada Power Station and general corporate purposes
Nov. 2002	5-year notes	TECO Energy	$352	10.5%	Repay short- and long-term debt, and general corporate purposes
Oct. 2002	Common Equity	TECO Energy	$207	–	Repay short-term debt
Aug. 2002	5-year notes	Tampa Electric	$149	5.375%	Repay maturing long-and short-term debt, and general corporate purposes
Aug. 2002	10-year notes	Tampa Electric	$394	6.375%	Repay maturing long-and short-term debt, and general corporate purposes
Jun. 2002	Pollution control bonds	Tampa Electric	$61	5.1%	Refinance higher cost debt
Jun. 2002	Pollution control bonds	Tampa Electric	$86	5.5%	Refinance higher cost debt
Jun. 2002	Common Equity	TECO Energy	$346	–	Repay short-term debt, and general corporate purposes
May 2002	5-year notes	TECO Energy	$297	6.125%	Repay maturing short-term debt, and general corporate purposes
May 2002	10-year notes	TECO Energy	$397	7.0%	Repay maturing short-term debt, and general corporate purposes
Jan. 2002	Mandatorily Convertible equity units	TECO Energy	$436	9.5%	Repay short-term debt, and general corporate purposes
Oct. 2001	Common Equity	TECO Energy	$93	–	General corporate purposes
Sep. 2001	10-year notes	TECO Energy	$206	7.2%	Repay maturing debt, and general corporate purposes
Jun. 2001	11-year notes	Tampa Electric	$247	6.875%	Repay long- and short-term debt, and general corporate purposes
Jun. 2001	2-year equity bridge facility	Union & Gila River	$500	LIBOR + 162.5 BP	Construction of the Union and Gila River power stations
May 2001	1-year notes	TECO Energy	$399	Variable	Repay short-term debt
May 2001	10-year notes	TECO Energy	$396	7.2%	Repay short-term debt, and general corporate purposes
Apr. 2001	6-year notes	TECO Transport	$111	5.0%	Convert floating rate debt to fixed rate debt
Mar. 2001	Common Equity	TECO Energy	$232	–	Repay short-term debt, and general corporate purposes

Off-Balance Sheet Financing

Unconsolidated affiliates with a 50% ownership interest or less have project debt balances as follows at Dec. 31, 2003. TECO Energy has no debt payment obligations with respect to these financings, except as indicated by the maximum potential obligation under a related guarantee issued by TECO Energy or its consolidated subsidiaries. Although TECO Energy is not directly obligated on the debt, TECO Energy's equity interest in those unconsolidated affiliates and its commitments with respect to those projects are at risk if those projects are not successfully developed or operated.

Affiliate	*Long-term Debt (millions)*	*Indirect Maximum Guarantee*	*Indirect Ownership Interest*
TIE	$ 545.4	$ –	50%
EEGSA	$ 234.6	$ 15.0 [1]	24%
Hamakua	$ 86.0	$ –	50%

(1) Represents a subsidiary of TECO Energy's 30% ownership interest in the guarantor

The equity method of accounting is used to account for investments in partnership and corporate entities in which TECO Energy or its subsidiary companies do not have either a majority ownership or exercise control. On Jan. 17, 2003, the Financial Accounting Standards Board issued FASB Interpretation (FIN) No. 46, *Consolidation of Variable Interest Entities, an interpretation of ARB No 51*, which requires a new approach in determining if a reporting entity should consolidate certain legal entities, including partnerships, limited liability companies, or trusts, among others, collectively defined as variable interest entities or VIEs. On Dec. 24, 2003, the FASB published a revision to FIN 46 (FIN 46R), to clarify some of the provisions of FIN 46 and exempt certain entities from its requirements. TECO Energy believes it is reasonably possible that FIN 46R may impact the accounting for certain unconsolidated affiliates. (See the **Other Accounting Standards – Variable Interest Entities** section.)

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements requires management to make various estimates and assumptions that affect revenues, expenses, assets, liabilities and the disclosure of contingencies. The policies and estimates identified below are, in the view of management, the more significant accounting policies and estimates used in the preparation of our consolidated financial statements. These estimates and assumptions are based on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and judgments under different assumptions or conditions.

(See **Note 1** to the **Consolidated Financial Statements** for a description of our significant accounting policies and the estimates and assumptions used in the preparation of the consolidated financial statements.)

Asset Impairments

We and our subsidiaries periodically evaluate whether there has been a permanent impairment of an asset as follows:

- Long-lived assets, when indicators of impairment exist or an asset group is held for sale, in accordance with Financial Accounting Standard (FAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (see the **Long-Lived Assets** section); and
- Recognized goodwill and other intangible assets with indefinite lives, at least annually, in accordance with FAS 142, *Goodwill and Other Intangible Assets* (see the **Goodwill and Other Intangible Assets** section); and
- Equity investments, when a decline in fair value below the carrying value is determined to be other than temporary, in accordance with Accounting Principles Board Opinion (APB) No. 18, *The Equity Method of Accounting for Investments in Common Stock*.

We believe that the accounting estimate related to asset impairments is a critical estimate for the following reasons: 1) it is highly susceptible to change each reporting period as management is required to make assumptions based on expectations of the results of operations for significant/indefinite future periods and/or the then-current market conditions in such periods; 2) electricity markets continue to experience significant uncertainty with respect to market fundamentals; 3) the ongoing expectations of management regarding probable future uses and holding periods of assets; and 4) the impact of an impairment on reported assets and earnings would be material. Our assumptions relating to future results of operations are based on a combination of historical experience, fundamental economic analysis, observable market activity and independent market studies. Management's expectations regarding uses and holding periods of assets are based on internal long-term budgets and strategic plans, which give consideration to external factors and market forces, as of the end of each reporting period. The assumptions made are consistent with generally accepted industry approaches and assumptions used for valuation and pricing activities. (See **Notes 1, 3 and 10** to the **Consolidated Financial Statements**.)

Long-Lived Assets

Effective Jan. 1, 2002, we and our subsidiaries adopted FAS 144, which superseded 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 segment or component of a business.

In accordance with FAS 144, we assess whether there has been an other-than-temporary impairment of our long-lived assets and certain intangibles held and used by us when such indicators exist. When specific criteria are met, a disposal group, comprised of assets and liabilities expected to be transferred in a sale within one year, is classified as assets and liabilities, respectively, held for sale. Furthermore, the income associated with a disposal group may, if additional criteria are met, be presented as discontinued operations in the statement of income. Under FAS 144, the company records an asset impairment charge associated with a disposal group when the estimated fair value, less costs to sell, is less than the net carrying value of the related assets and liabilities. We recognized impairments associated with certain long-lived assets held for use and a disposal group, comprised of the assets and liabilities associated with the Union and Gila River projects. (See **Notes 1** and **10** to the **Consolidated Financial Statements**.)

Goodwill and Other Intangible Assets

In accordance with FAS 142, we continue to review goodwill and intangibles at least annually for each reporting unit. Reporting units are generally determined as one level below the operating segment level; however, reporting units with similar characteristics may be grouped under the accounting standard for the purpose of determining the impairment, if any, of goodwill and other intangible assets. For each reporting unit evaluated, the fair value exceeded the carrying value, including goodwill, as of the annual assessment date, except as indicated below. The fair value for the reporting units evaluated was generally determined using discounted cash flow models appropriate for the business model of each significant group of assets within each reporting unit. During the year ended Dec. 31, 2003, a $74.0 million after-tax ($113.9 million pre-tax) impairment charge was recorded to write off all goodwill associated with the Frontera and Commonwealth Chesapeake power stations and reduce the goodwill associated with BCH Mechanical. (See **Note 3** to the **Consolidated Financial Statements**.)

Equity Investments

We only record an impairment of an equity investment when a decline in the fair value below the carrying value of the investment is determined to be other than temporary. Management assesses other than temporary based on: 1) the magnitude of the difference of the fair value below the carrying value; 2) the period of time in which the decline in the fair value is less than the carrying value; and 3) other reasonably available qualitative or quantitative information that provides evidence to indicate that a decline in fair value is temporary. As of Dec. 31, 2003, the company did not record an other-than-temporary impairment of an equity investment.

Asset Retirement Obligations

On Jan. 1, 2003, we adopted FAS 143, *Accounting for Asset Retirement Obligations*, which requires the recognition of a liability at fair value for an asset retirement obligation in the period in which it is incurred. Retirement obligations associated with long-lived assets included within the scope of FAS 143 are those for which there is a legal obligation to settle 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 included in the scope of the standard 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 future value. The corresponding amount capitalized at inception is depreciated over the useful life of the asset. The liability must be revalued each period based on current market prices. FAS 143 was effective for fiscal years beginning after June 15, 2002.

Asset retirement obligations are comprised of significant estimates which, if different, could materially impact our results. We believe these are critical estimates because: 1) the fair value of the

costs associated with meeting the obligation are impacted by assumptions on discount rates and estimated profit mark-ups by third-party contractors; 2) probability factors associated with the future sale, abandonment or retirement of an asset must be forecasted and considered in the calculations; 3) the expectations and intent of management regarding the future use of long-lived assets; and 4) the impact of the recognition of an asset impairment obligation could be significant. In connection with the adoption of the guidance on Jan. 1, 2003, we and our affiliates maintain and periodically review all new legal arrangements and contractual commitments to ensure that any new potential asset retirement obligations are reviewed and recognized as appropriate. (See **Note 5** to the **Consolidated Financial Statements**.)

Employee Postretirement Benefits

We have a funded non-contributory defined benefit retirement plan covering substantially all employees. Our policy is to fund the plan based on actuarially determined contributions within the guidelines set by the Employee Retirement Income Security Act of 1974, as amended (ERISA), for the minimum annual contribution and the maximum allowable as a tax deduction by the Internal Revenue Service (IRS). Plan assets are invested in a mix of equity and fixed income securities. In addition, we and our subsidiaries currently provide certain postretirement health care and life insurance benefits for substantially all employees retiring after age 50 meeting certain service requirements. In addition, we have unfunded supplemental executive retirement benefit plans—non-qualified, non-contributory defined benefit retirement plans available to certain senior management.

The determination of the benefit expense is a critical estimate due to the following factors: 1) management must make significant assumptions regarding the discount rate, return on assets, rate of salary increases and health care cost trend rates; 2) costs are based on actual employee demographics, including the turnover rate, retirement rate, mortality rate, employment periods, compensation levels and age, each of which are subject to change in any given period; 3) the plan provisions may be changed by management action in future periods; and 4) the impact of changes in any of these assumptions is likely to result in a material impact on the recorded pension obligation and expense. Management reviews these assumptions periodically to assure the consistency with our actual experience.

The assumed health care cost trend rate for medical costs was 11.5% in 2003 and decreases to 5.0% in 2013 and thereafter.

A 100 basis point increase in the medical trend rates would produce a 4 percent ($0.6 million) increase in the aggregate service and interest cost for 2003 and a 4 percent ($7.5 million) increase in the accumulated postretirement benefit obligation as of Sep. 30, 2003.

A 100 basis point decrease in the medical trend rates would produce a 3 percent ($0.4 million) decrease in the aggregate service and interest cost for 2003 and a 3 percent ($5.3 million) decrease in the accumulated postretirement benefit obligation as of Sep. 30, 2003.

Deferred Income Taxes

We use the liability method in the measurement of deferred income taxes. Under the liability method, we estimate our current tax exposure and assesses the temporary differences resulting from differing 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 we determine 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.

At Dec. 31, 2003, we had net deferred income tax assets of $1,051.5 million attributable primarily to property-related items and an alternative minimum tax credit carryover of Section 29 non-conventional fuel tax credits. Based primarily on historical income levels and the steady-growth expectations for future earnings of the company's core utility operations, management has determined that the net deferred tax assets recorded at Dec. 31, 2003 will be realized in future periods.

We believe that the accounting estimate related to deferred income taxes, and any related valuation allowance, is a critical estimate for the following reasons: 1) administrative actions of the IRS or the U.S. Treasury or changes in law or regulation could eliminate or reduce the availability of alternative minimum tax credits arising from Section 29 tax credits; 2) realization of the deferred tax asset is dependent upon the generation of sufficient taxable income in future periods; and 3) a change in the estimated valuation reserves could have a material impact on reported assets and results of operations. (See **Note 13** to the **Consolidated Financial Statements**.)

Cost Capitalization

During 2003, our subsidiaries devoted resources to the completion and construction of additional generation capacity at Tampa Electric and TWG, extension of the transmission network and enhancement to the system's reliability at Tampa Electric, expansion of the pipeline distribution infrastructure at PGS, normal ocean equipment improvements at TECO Transport and expansion of production capacity at TECO Coal. (See the **Capital Investments** section.) The cost of additions, including improvements and replacements of property, is charged to plant. We capitalize direct costs and certain indirect costs, including the cost of debt and equity capital as appropriate, associated with its construction and retirement activity as prescribed by generally accepted accounting principles and recognized policies prescribed or permitted by the FPSC and/or the FERC. The amount of capitalized overhead construction costs is based upon analysis of company and affiliate construction activity. Costs are capitalized based on the activity level of resources allocated to construction activities. As a result, our net income could be impacted by the manner and timing of the deployment of resources to construction activities. However, total cash flow is not impacted by the allocation of these costs to the various construction or maintenance activities. Due to the magnitude of construction undertakings, fluctuations in net income, as a result of cost capitalization, could be significant. Capitalized costs are expensed as a component of depreciation when the assets are placed in service. (See **Note 1** to the **Consolidated Financial Statements**.)

Depreciation Expense

We provide for depreciation primarily by the straight-line method at annual rates that amortize the original cost, less net salvage, of depreciable property over its estimated service life. The provision for utility plant in service, expressed as a percentage of the original cost of depreciable property, was 4.5% and 4.2% for the years ended Dec. 31, 2003 and 2002. We believe the estimated service life corresponds to the anticipated physical life for most assets. However, our estimation of service life is a critical estimate for the following reasons: 1) forecasting the salvage value for long-lived assets over a long timeframe is subjective; 2) changes may take place that could render a technology obsolete or uneconomical; and 3) a change in the useful life of a long-lived asset could have a material impact on reported results of operations and reported assets. Although it is difficult to predict values far into the future, we have a long history of actual costs and values that are considered in reaching a conclusion as to the appropriate useful life of an asset. (See **Note 1** to the **Consolidated Financial Statements**.)

Regulatory Accounting

Tampa Electric's and PGS' retail businesses and the prices charged to customers are regulated by the FPSC. Tampa Electric's wholesale business is regulated by the FERC. As a result, the regulated utilities qualify for the application of FAS 71, *Accounting for the Effects of Certain Types of Regulation*. This statement recognizes that the actions of a regulator can provide reasonable assurance of the existence of an asset or liability. Regulatory assets and liabilities arise as a result of a difference between generally accepted accounting principles and the accounting principles imposed by the regulatory authorities. Regulatory assets generally represent incurred costs that have been deferred as they are probable of future recovery in customer rates. Regulatory liabilities generally represent obligations to make refunds to customers from previous collections for costs that are not likely to be incurred.

We periodically assess whether the regulatory assets are probable of future recovery by considering factors such as regulatory environment changes, recent rate orders to other regulated entities in the same jurisdiction, the current political climate in the state, and the status of any pending or potential deregulation legislation. The assumptions and judgments used by regulatory authorities continue to have an impact on the recovery of costs, the rate earned on invested capital and the timing and amount of assets to be recovered by rates. A change in these assumptions may result in a material impact on reported assets and the results of operations. (See Notes 1 and 4 to the **Consolidated Financial Statements**.)

Revenue Recognition

We and our subsidiaries recognize revenues, except as discussed below, on a gross basis when the risks and rewards of ownership have transferred to the buyer and the products are physically delivered or services provided. Revenues for any financial or hedge transactions that do not result in physical delivery are reported on a net basis.

The determination of the physical delivery of energy sales to individual customers is based on the reading of meters, which occurs on a regular basis. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading may be estimated and the corresponding unbilled revenue is estimated. Unbilled revenue is estimated each month primarily based on historical experience, customer-specific factors, customer rates, and daily generation volumes, as applicable. These revenues are subsequently adjusted to reflect actual results. Revenues for regulated activities at Tampa Electric and PGS are subject to the actions of regulatory agencies.

The percentage of completion method is used to recognize revenues for certain transportation services at TECO Transport and for long-term construction-type contracts. The percentage of completion method requires management to make estimates regarding the distance traveled and/or time elapsed for TECO Transport and total costs and work-in-progress for BCH Mechanical. Revenue is recognized by comparing the estimated current total distance traveled or work completed with the total distance or cost estimate for each project. Each month, revenue recognition and realized profit are adjusted to reflect only the percentage of distance traveled or work completed.

Revenues for merchant power sales and expenses for fuel purchases at TWG are reported on a gross basis, except for derivative gains or losses related to hedge accounting, which are reported net of the hedged item or transaction. Likewise, expenses arising from purchased power or revenues arising from fuel sales at TWG are reported net of power revenues and fuel expense, respectively.

We estimate certain amounts related to revenues on a variety of factors, as described above. Actual results may be different from these estimates. (See Note 1 to the **Consolidated Financial Statements**.)

Recently Issued Accounting Standards

In accordance with recently issued accounting pronouncements, we will be required to comply with certain changes in accounting rules and regulations. (See Note 22 to the **Consolidated Financial Statements**.

Gains and Losses on Energy Trading Contracts

On Oct. 25, 2002, the Emerging Issues Task Force released EITF 02-3, Recognition and Reporting of Gains and Losses on Energy Trading Contracts Under Issues No. 98-10 and 00-17, which 1) precludes mark-to-market accounting for energy trading contracts that are not derivatives pursuant to FAS 133, 2) requires that gains and losses on all derivative instruments within the scope of FAS 133 be presented on a net basis in the income statement if held for trading purposes, and 3) limits the circumstances in which a reporting entity may recognize a "day one" gain or loss on a derivative contract. The measurement provisions of the issue are effective for all fiscal periods beginning after Dec. 15, 2002. The net presentation provisions are effective for all financial statements issued after Dec. 15, 2002. The adoption of the measurement provisions on Jan. 1, 2003 did not have a material impact. (See Note 14 to the **Consolidated Financial Statements** for additional details of amounts presented on a net basis.)

Consolidation of Variable Interest Entities

The equity method of accounting is generally used to account for significant investments in arrangements in which we or our subsidiary companies do not have a majority ownership interest or exercise control. On Jan. 17, 2003, the FASB issued FIN 46, *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51*, which imposes a new approach in determining if a reporting entity should consolidate certain legal entities, including partnerships, limited liability companies, or trusts, among others, collectively defined as variable interest entities or VIEs. On Dec. 24, 2003, the FASB published a revision to FIN 46 (FIN 46R), to clarify some of the provisions of FIN 46 and exempt certain entities from its requirements.

Under FIN 46R, a legal entity is considered a VIE, with some exemptions if specific criteria are met, if it does not have sufficient equity at risk to finance its own activities without relying on financial support from other parties. Additional criteria must be applied to determine if this condition is met or if the equity holders, as a group, lack any one of three stipulated characteristics of a controlling financial interest. If the legal entity is a VIE, then the reporting entity determined to be the primary beneficiary of the VIE must consolidate it. Even if a reporting entity is not obligated to consolidate a VIE, then certain disclosures must be made about the VIE if the reporting entity has a significant variable interest. Certain transition disclosures are required for all financial statements issued after Jan. 31, 2003. The effective date of the interpretation was modified under FIN 46R. A reporting entity is required to apply the provisions of FIN 46R to all VIEs that previously were subject to certain previously issued special purpose entity, or SPE, accounting pronouncements for all reporting periods ending after Dec. 15, 2003. For all other VIEs, a reporting entity is required to adopt the provisions of FIN 46R for all reporting periods after Mar. 15, 2004.

Based on its review under the existing approved guidance, we believe that FIN 46R will impact the accounting for certain unconsolidated affiliates. Below is a discussion of the legal entities as of Dec. 31, 2003 that we believe will be subject to either additional disclosure requirements or consolidation by the company, in accordance with FIN 46R.

In November 2000 and January 2002, respectively, we established TECO Funding I, LLC and TECO Funding II, LLC. Each of these limited-liability companies are wholly-owned subsidiaries of TECO Energy. These companies sold preferred securities to Capital Trust I and Capital Trust II, respectively. The funding com-

panies used the proceeds to purchase subordinated notes from us. The subordinated notes are not secured by specific assets of the company. The terms of these notes are similar to the terms of the preferred securities. The funding companies are expected to be considered VIEs in accordance with FIN 46R. As of Dec. 31, 2003, management expects the potential impact of the adoption of FIN 46R to not be material for the funding companies.

Pike Letcher Synfuel, LLC was established as part of the Apr. 1, 2003, sale of TECO Coal's synthetic fuel production facilities. TECO Energy's maximum loss exposure in this entity is its equity investment of approximately $10.9 million and losses related to the production costs for the future production of synthetic fuel, in the event that such production creates Section 29 non-conventional fuel tax credits in excess of our capacity to generate sufficient taxable income to use such credits.

TECO Transport entered into two separate sale-leaseback transactions for certain vessels which were recognized as sales in December 2001 and December 2002, and are currently recognized as operating leases for the assets. The sale-leaseback transactions were entered into with separate third parties that the company believes meet the definition of a VIE. TECO Transport currently leases two ocean-going tugboats, four ocean-going barges, five river towboats and 49 river barges through these two trusts. The estimated maximum loss exposure faced by TECO Transport is the incremental cost of obtaining suitable equipment to meet the company's contractual shipping obligations. The company does not expect to consolidate upon the effective date of FIN 46R because TECO Transport is not the primary beneficiary of the trusts.

TECO Properties formed a limited liability company with a project developer which meets the definition of a VIE. Hernando Oaks, LLC was formed by TECO Properties with the Pensacola Group to buy and develop 627 acres of land in Hernando County, Florida into a residential golf community comprised of an 18-hole golf course and 975 single-family lots for sale to homebuilders. TECO Properties has provided subordinated financial support in the form of a guarantee on behalf of the limited liability company. Hernando Oaks, LLC had total assets at Dec. 31, 2003 of $21.6 million. TECO Properties' estimated maximum loss exposure in this project is approximately $10.6 million. The company expects to consolidate Hernando Oaks, LLC for all financial reporting periods ending after Mar. 15, 2004.

TECO Solutions owns a partnership formed to construct, own and operate a water cooling plant to produce and distribute chilled water to customers via a local distribution loop primarily for use in air conditioning systems. The partnership, TECO AGC, Ltd., meets the definition of a VIE. The company is the primary beneficiary, in accordance with FIN 46R, due to subordinated financing of $3.3 million provided to the partnership as of Dec. 31, 2003, in addition to the company's equity investment. This note receivable from the partnership is collateralized by the assets in the partnership. The estimated maximum loss exposure associated with this partnership is approximately $3.8 million as of Dec. 31, 2003, representing substantially all of the assets of the partnership. The company expects to consolidate TECO AGC, Ltd. for all financial reporting periods ending after Mar. 15, 2004.

Amendment to Derivatives Accounting

In April 2003, the FASB issued FAS 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, which clarifies the definition of a derivative and modifies, as necessary, FAS 133 to reflect certain decisions made by the FASB as part of the Derivatives Implementation Group (DIG) process. The majority of the guidance was already effective and previously applied by the company in the course of the adoption of FAS 133.

In particular, FAS 149 incorporates the conclusions previously reached in 2001 under DIG Issue C10, *"Can Option Contracts and Forward Contracts with Optionality Features Qualify for the Normal Purchases and Normal Sales Exception"*, and DIG Issue C15, *"Normal Purchases and Normal Sales Exception for Certain Option-Type Contracts and Forward Contracts in Electricity."* In limited circumstances when the criteria are met and documented we designate option-type and forward contracts in electricity as a normal purchase or normal sale (NPNS) exception to FAS 133. A contract designated and documented as qualifying for the NPNS exception is not subject to the measurement and recognition requirements of FAS 133. The incorporation of the conclusions reached under DIG Issues C10 and C15 into the standard will not have a material impact on our consolidated financial statements.

FAS 149 establishes multiple effective dates based on the source of the guidance. For all DIG Issues previously cleared by the FASB and not modified under FAS 149, the effective date of the issue remains the same. For all other aspects of the standard, the guidance is effective for all contracts entered into or modified after June 30, 2003. We do not anticipate that the adoption of the additional guidance in FAS 149 will have a material impact on the consolidated financial statements.

Financial Instruments with Characteristics of Both Liabilities and Equity

In May 2003, the FASB issued FAS 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, which requires that an issuer classify certain financial instruments as a liability or an asset. Previously, many financial instruments with characteristics of both liabilities and equity were classified as equity. Financial instruments subject to FAS 150 include financial instruments with any of the following features:

- An unconditional redemption obligation at a specified or determinable date, or upon an event that is certain to occur;
- An obligation to repurchase shares, or indexed to such an obligation, and may require physical share or net cash settlement;
- An unconditional, or for new issuances conditional, obligation that may be settled by issuing a variable number of equity shares if either (a) a fixed monetary amount is known at inception, (b) the variability is indexed to something other than the fair value of the issuer's equity shares, or (c) the variability moves inversely to changes in the fair value of the issuer's shares.

The standard requires that all such instruments be classified as a liability, or an asset in certain circumstances, and initially measured at fair value. Forward contracts that require a fixed physical share settlement and mandatorily redeemable financial instruments must be subsequently re-measured at fair value on each reporting date.

This standard is effective for all financial instruments entered into or modified after May 31, 2003, and for all other financial instruments, at the beginning of the first interim period beginning after June 15, 2003. (See **Note 7** to the **Consolidated Financial Statements** for a discussion of the impact of the adoption of this standard on July 1, 2003.)

Disclosures About Market Risk

Risk Management Infrastructure

We and our affiliates are subject to various types of market risk in the course of daily operations, as discussed below. We have adopted an enterprise-wide approach to the management and control of market and credit risk. Middle Office risk management functions, including credit risk management and risk control, are independent of each transacting entity (Front Office) and report to the senior risk officer at TECO Energy. Front Office functions report independently from the senior risk officer.

Our Risk Management Policy (Policy) governs all energy transacting activity at the TECO Energy group of companies. The Policy is approved by our Board of Directors and administered by a Risk Authorizing Committee (RAC) that is comprised of senior management, and advised by the Vice President of Energy Risk

Management. Within the bounds of the Policy, the RAC approves specific hedging strategies, new transaction types or products, limits, and transacting authorities. The Policy further requires that, for all merchant generation asset management activities, power sales and gas purchases must be substantially matched, and that the volume of power sales commitments is limited to the volume of owned and available generating capacity. Transaction activity is reported daily and measured against limits. For all other commodity risk management activities, derivative transaction volumes are limited to the anticipated volume for customer sales or supplier procurement activities.

The TECO Energy Authorizing Committee, administers the risk management policy with respect to interest rate risk exposures. Under the policy for interest rate risk management, the committee operates and oversees transaction activity. Interest rate derivative transaction activity is directly correlated to borrowing activities.

Risk Management Objectives

The Front Office is responsible for reducing and mitigating the market risk exposures which arise from the ownership of physical assets and contractual obligations, such as merchant power plants, debt instruments and firm customer sales contracts. The primary objectives of the risk management organization, the Middle Office, is to quantify, measure and monitor the market risk exposures arising from the activities of the Front Office and the ownership of physical assets. In addition, the Middle Office is responsible for enforcing the limits and procedures established under the approved risk management policies. Based on the policies approved by the company's Board of Directors and the procedures established by the RAC, from time to time members of the TECO Energy group of companies 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, and prior to their dispositions, TECO Gas Services and Prior Energy;
- To limit the exposure to interest rate fluctuations on debt issuances at TECO Energy and its other affiliates;
- To limit the exposure to electricity, natural gas and fuel oil price fluctuations related to the operations of natural gas-fired and fuel oil-fired power plants at TWG; and
- To limit the exposure to price fluctuations for physical purchases of fuel at TECO Transport.

The TECO Energy group of companies 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. For unregulated operations, the companies use derivative instruments primarily to optimize the value of physical assets, primarily generation capacity and natural gas delivery.

Derivatives and Hedge Accounting

Effective Jan. 1, 2001, we adopted FAS 133, *Accounting for Derivative Instruments and Hedging Activities*, as subsequently amended and interpreted. FAS 133 requires us and our affiliates 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 instruments. The effect of the adoption of FAS 133, at Jan. 1, 2001 on continuing operations was not material.

Designation of a hedging relationship requires management to make assumptions about the future probability of the timing and amount of the hedged transaction, and the future effectiveness of the derivative instrument in offsetting the change in fair value or cash flows of the hedged item or transaction. The determination of fair value is dependent upon certain assumptions and judgments, as described more fully below. (See **Unregulated Companies** section below, and **Note 2** to the **Consolidated Financial Statements**.)

Interest Rate Risk

We and our affiliates are exposed to changes in interest rates primarily as a result of our borrowing activities. We or our affiliates may enter into futures, swaps and option contracts, in accordance with the approved risk management policies and procedures, to moderate this exposure to interest rate changes and achieve a desired level of fixed and variable rate debt. As of Dec. 31, 2003, a hypothetical 10% increase in the consolidated group's weighted average interest rate on its variable rate debt during 2004, as compared to 2003, would not result in a material impact on pre-tax earnings. Comparatively, as of Dec. 31, 2002, a hypothetical 10% increase in the consolidated group's weighted average interest rate on its variable rate debt during 2003, as compared to 2002, would not have resulted in a material impact on pre-tax earnings. These amounts were determined based on the variable rate obligations existing on the indicated dates at TECO Energy and its subsidiaries. Due to the uncertainty of future events, as discussed in the **Investment Considerations** section, and our responses to those events, the above sensitivities assume no changes to our financial structure or our affiliates. A hypothetical 10% decrease in interest rates would increase the fair value of long-term debt by approximately 3.1 percent and 5.6 percent at Dec. 31, 2003 and 2002, respectively. (See Financing Activity section, and **Notes 6** and **7** to the **Consolidated Financial Statements**.)

Credit Risk

We have adopted a rigorous process for the establishment of new trading counterparties. This process includes an evaluation of each counterparty's financial statements, with particular attention paid to liquidity and capital resources, establishment of counterparty-specific credit limits, optimization of credit terms, and execution of standardized enabling agreements. Our Credit Guidelines require transactions with counterparties below investment grade to be collateralized. The Credit Guidelines are administered and monitored within the Middle Office, independent of the Front Office.

Financial instability and significant uncertainties relating to liquidity in the entire merchant energy sector have increased the perceived credit risk. Credit exposures for merchant generation activities are calculated, compared to limits and reported to management on a daily basis. Contracts with different legal entities affiliated with the same counterparty are consolidated and managed as appropriate, considering the legal structure and any netting agreements in place. Below is a summary of the TECO Energy group of companies credit risk exposure on energy contracts related to merchant generation activities at Dec. 31, 2003.

(millions) Rating	Exposure Before Credit Collateral [2]	Credit Collateral [3]	Net Exposure	Number of Counterparties >10% [4]	Net Exposure Counterparties >10% [4]
Investment grade	$ 24.4	$ –	$ 24.4	1	$ 7.4
Split rating	8.4	–	8.4	1	8.4
Non-investment grade	–	–	–	–	–
No external ratings (internally rated)					
Investment grade	0.8	–	0.8	–	–
Non-investment grade	–	–	–	–	–
Total	$ 33.6	$ –	$ 33.6	2	$ 15.8

(1) Ratings are principally determined based on publicly available credit ratings, as determined by independent ratings agencies. If the counterparty has provided a guarantee by a higher rated entity, the assigned rating is that of the guarantor. Included in investment grade are those counterparties with a minimum S&P or Fitch's rating of BBB- or higher and a Moody's rating of Baa3 or higher.
(2) Exposure before credit collateral includes the fair value of net energy contract assets for open positions and the net accounts receivable for realized energy contracts. Exposures are offset by a legal counterparty where legally enforceable netting and set-off arrangements are in place.
(3) Credit collateral is required from time-to-time based on contractual provisions and may generally include cash deposits and letters of credit.
(4) The number of counterparties that individually, after considering legally enforceable netting arrangements, represent a significant concentration of credit risk (i.e., more than 10% of the total credit exposure) at TECO EnergySource. Also, the combined exposure, less credit collateral, if any, of each significant concentration.

Commodity Risk

We and our affiliates face varying degrees of exposure to commodity risks—including coal, natural gas, fuel oil and other energy commodity prices. Any changes in prices could affect the prices these businesses charge, their operating costs and the competitive position of their products and services. We assess and monitor risk using a variety of state-of-the-art measurement tools. Management uses different risk measurement and monitoring tools based on the degree of exposure of each operating company to commodity risk.

Regulated Utilities

At Tampa Electric, fuel costs used for generation have been affected primarily by the cost of coal and, to a lesser degree, the cost of natural gas. With the completion of the repowering of the Bayside Power Station to natural gas, the use of natural gas, with its more volatile pricing, increased in 2003 and is expected to increase again in 2004. (See the **Environmental Compliance** section.) PGS is primarily subject to costs for purchased gas and pipeline capacity. Increasing costs for the regulated utilities impact their competitive position in the marketplace versus other energy sources and suppliers.

Currently, Tampa Electric and PGS are subject to relatively little commodity price risk exposure. This is primarily due to the fact that commodity price increases due to changes in market conditions for fuel, purchased power and natural gas are recovered through cost recovery clauses, with no anticipated effect on earnings. Commodity price risk is mitigated by the use of long-term fuel supply agreements, prudent operation of plant facilities to reduce the reliance on purchased power, and derivative instruments designated as cash flow hedges of anticipated purchases of natural gas. At Dec. 31, 2003 and 2002, a change in commodity prices would not have a material impact on earnings for Tampa Electric or PGS.

Unregulated Companies

Most of the unregulated subsidiaries at TECO Energy are subject to significant commodity risk. These include TECO Coal, TECO Transport, and TWG. The unregulated companies do not speculate using derivative instruments. However, not all derivative instruments receive hedge accounting treatment due to the strict requirements and narrow applicability of the accounting rules to dynamic transactions.

TECO Coal is exposed to commodity price risk through coal sales as a part of its daily operations. Fixed-price sales agreements are used, where possible and economical, to mitigate the variability in coal prices. At Dec. 31, 2003 and 2002, a hypothetical 10% increase in the average annual market price of coal for each year would have resulted in a decrease to pre-tax earnings of approximately $1 million and $5 million, respectively.

Fuel price risk exists at TECO Transport as a result of periodic purchases of diesel fuel. Haulage and freight agreements often include fuel price adjustments to transfer the risk of market fuel price movements to the customer. The projected fuel price risk for 2004 was reduced via price adjustment clauses. As a result, as of Dec. 31, 2003, a hypothetical 10% change in the average annual market price of fuel would result in an estimated impact on pre-tax earnings in 2004 of approximately $2.1 million. As of Dec. 31, 2002, the impact of a hypothetical 10% change in the average annual market price of fuel would not have had a material impact due to price adjustment clauses and derivative instruments used to significantly reduce the risk of price variability of anticipated fuel purchases in excess of fuel purchases subject to fuel adjustment clauses.

For TWG, results of operations are impacted primarily by changes in the market prices for electricity and natural gas. The profitability of merchant power plants is heavily dependent on the spread between electric and gas prices (spark spread) in the markets they serve.

The spark spread calculates the relative profitability of converting gas into electricity, which exists as the best indicator of a gas-fired plant's profitability. The variable cost of producing electricity is primarily a function of gas commodity prices and the heat rate of the plant. The heat rate is the measure of efficiency in converting the input fuel into electricity. When the conversion price equals the market price, the spark spread would be zero. A power plant operating at this level would theoretically break even with respect to variable costs.

Wholesale power prices are set by the market assuming a cost for the input energy and conversion efficiency, but the fixed costs are not necessarily reflected in the market-observed spark spread. TWG uses derivative instruments to reduce the commodity price risk exposure of the merchant plants. The commodity price risk of each plant is managed on both a portfolio and asset-specific basis. The following table summarizes the impact of a hypothetical 10% change in commodity prices on the fair value of merchant energy derivative contracts at Dec. 31, 2003 and Dec. 31, 2002.

Sensitivity of the Fair Value of Merchant Energy Derivative Contracts

(millions) Dec. 31,	2003	2002
Change in Fair Value due to a 10%: [1]		
Decrease in natural gas prices	$ (3.2)	$ (16.9)
Increase in electricity prices	(4.3)	(24.4)
Increase in electricity and natural gas prices	(7.5)	(7.5)

(1) Reflects the fair value associated with merchant energy derivative contracts only. The change shown for the contracts due to price movements would be more than offset by a change in the fair value of the underlying physical plant assets.

Below is a summary of the percentage of merchant plant output and fuel requirements hedged

Estimated Merchant Plant Hedging Information

	2004	*2005*
Forecasted plant output and fuel requirements hedged	15%	13%

The following tables summarize the changes in and the fair value balances of energy derivative assets (liabilities) for the year ended Dec. 31, 2003:

Changes in Fair Value of Energy Derivatives (millions)

Net fair value of derivatives as of Dec. 31, 2002	$	8.4
Net change in unrealized fair value of derivatives		1.7
Changes in valuation techniques and assumptions		–
Realized net settlement of derivatives		1.0
Net fair value of energy derivatives as of Dec. 31, 2003	$	9.1

Roll-Forward of Energy Derivative Net Assets (Liabilities) (millions)

Total energy derivative net assets (liabilities) as of Dec. 31, 2002	$ 8.4
Change in fair value of net derivative assets (liabilities):	
Recorded in OCI	12.8
Recorded in earnings	(15.5)
Net option premium payments	10.2
Net purchase (sale) of existing contracts	(6.8)
Net fair value of energy derivatives as of Dec. 31, 2003	$ 9.1

When available, the company uses quoted market prices to record the fair value of energy derivative contracts. However, certain energy derivative contracts are not exchange-traded, but rather, are traded in the over-the-counter (OTC) market, through multiple-party on-line trading platforms, or in the bilateral market. We use industry-accepted valuation techniques based on pricing models or matrix pricing for energy derivative contracts when third-party price data is infrequent or not available. Prices, inputs, assumptions and the results of valuation techniques are validated by the Middle Office, independently of the Front Office, on a daily basis. Significant inputs and assumptions used by the company to determine the fair value of energy derivative contracts are: 1) the physical delivery location of the commodity; 2) the correlation between different basis points and/or different commodities; 3) rational, economic behavior in the markets and by counterparties; 4) on- and off-peak curve shapes and correlations; 5) observed market information; and 6) volatility forecasts and estimates for and between commodities. Mathematical approaches are applied on a frequent basis to validate and corroborate the results of valuation calculations.

Below is a summary table of sources of fair value, by maturity period, for energy derivative contracts at Dec. 31, 2003.

Maturity and Source of Energy Derivative Contracts Net Assets (Liabilities) at Dec. 31, 2003

Contracts Maturing in	*Current*	*Non-current*	*Total Fair Value*
Source of fair value (millions)			
Actively quoted prices	$ 13.8	$ –	$ 13.8
Other external sources [1]	(4.9)	–	(4.9)
Model prices [2]	2.0	1.8	0.2
Total	$ 10.9	$ 1.8	$ 9.1

(1) Information from external sources includes information obtained from OTC brokers, industry price services or surveys and multiple-party on-line platforms.
(2) Model prices are used for determining the fair value of energy derivatives where price quotes are infrequent or the market is illiquid. Significant inputs to the models are derived from market observable data and actual historical experience.

For all unrealized energy derivative contracts, the valuation is an estimate based on the best available information. Actual cash flows could be materially different from the estimated value upon maturity.

Other Items Impacting Net Income

2003 Items

In 2003, our results from continuing operations included $223.1 million of charges related to valuation adjustments, project cancellation costs, turbine valuation adjustments, tax credit reversals and corporate restructuring at the various operating companies and $43.6 million related to the sale of HPP and its operating net income through the date of the sale. (See the **Earnings Summary** section.) In addition, we recognized $1.1 million in after-tax charges related a change in accounting principle for the implementation of FAS 143, *Accounting for Asset Retirement Obligations*, and a $3.2 million after-tax charge for the implementation FAS 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*.

2002 Items

In 2002, our results included a $3.0 million after-tax charge at TECO Investments related to an aircraft leased to US Airways, which filed for bankruptcy. Results at TWG included a $5.8 million after-tax asset valuation charge for the sale of its interests in generating facilities in the Czech Republic. Results at TECO Energy included a $34.1 million pre-tax ($20.9 million after-tax) charge related to a debt refinancing.

2001 Items

In 2001, our results included charges to adjust asset valuations totaling $7.2 million after-tax. The adjustments included a $6.1 million after-tax charge related to the sale of a minority interest in EGI, which owns smaller power generation projects in Central America, and a $1.1 million after-tax charge related to the sale of leveraged leases at TECO Investments.

Discontinued Operations

Discontinued operations include the operational losses and charges for the Union and Gila River power stations and operations of Prior Energy and TECO Gas Services.

The 2003 loss from discontinued operations of $890.4 million reflects primarily the $762.0 million after-tax impairment charges for the Union and Gila River power stations and their $62.0 million operating losses, partially offset by net income of $5.5 million from Prior Energy and TECO Gas Services and a $23.5 million after-tax gain on the final installment of the TECO Coalbed Methane sale in January 2003.

In September 2002, as a component of its cash raising plans, TECO Energy initiated activities to sell the TECO Coalbed Methane gas assets. That sale was substantially completed in December 2002 to the Municipal Gas Authority of Georgia. Proceeds from the sale were $140 million, of which $42 million was paid in cash at

closing and $98 million was paid in January 2003. TECO Coalbed Methane's results are accounted for as discontinued operations for all periods reported.

TECO Coalbed Methane's 2002 net income was $31.4 million including a $7.7 million after-tax net gain on the $42 million portion of the sale proceeds. These results reflected production of 14.2 billion cubic feet (Bcf), compared to 15 Bcf in 2001 at an effective gas price, including the effects of hedging, of about $2.80 per thousand cubic feet (Mcf), an almost 20 percent lower realized price than in 2001.

Production from TECO Coalbed Methane's reserves was eligible for Section 29 non-conventional fuels tax credits through 2002. The credit was $1.09 per million Btu for 2002 and $1.08 per million Btu in 2001. This rate escalated with inflation and could have been limited by domestic oil prices. In 2002, domestic oil prices would have had to exceed $50 per barrel for this limitation to have been effective. In 2002, TECO Coalbed Methane's Section 29 tax credits were $15.9 million, compared to $16.1 million in 2001.

Other Income (Expense)

In 2003, Other Income (Expense) of $101.9 million reflects the income related to the gain on the sale of Hardee Power Partners and the sale of the 49.5% interest in the synthetic fuel production facilities at TECO Coal, partially offset by an arbitration reserve established for TMDP, the indirect owner of the Commonwealth Chesapeake Power Station, and lower AFUDC Equity at Tampa Electric. Results in 2002 included income from loans to Panda Energy for the TIE projects which converted to an equity ownership position in January 2003. (See the **TWG** section.)

In 2002, Other Income (Expense) of $15.2 million included $60.7 million from construction-related and loan agreements with Panda Energy and earnings on the equity investment in EEGSA at TWG, and income from the investment in TPV, partially offset by the $9.4 million pre-tax ($5.8 million after-tax) asset valuation charge for TWG's sale of its minority interest in generating facilities in the Czech Republic and a $34.1 million ($20.9 million after-tax) pre-tax charge related to a TECO Energy debt refinancing completed in 2002.

In 2001, Other Income (Expense) of $38.7 million included income from loan agreements with Panda Energy related to the TIE projects and earnings on the equity investment in EEGSA, and income from the investment in TPV, partially offset by a $9.9 million pre-tax ($6.1 million after-tax) charge for TWG's sale of its minority interest in EGI.

AFUDC equity at Tampa Electric, which is included in Other Income, was $19.8 million in 2003, $24.9 million in 2002 and $6.6 million in 2001. AFUDC is expected to drop to almost zero in 2004, with the completion of Tampa Electric's Bayside repowering.

Interest Charges

Interest expense was $288.4 million in 2003, compared with $142.3 million in 2002 and $164.1 million in 2001. Interest expense increased in 2003 reflecting higher debt balances at both Tampa Electric and TECO Energy associated with the completion of major construction programs. In addition, $45 million less interest was capitalized in 2003, because of the completion of the Union and Gila River construction and the suspension of construction of Dell and McAdams. The decline in 2002 was primarily because of lower short-term debt rates and balances and a favorable settlement with the Internal Revenue Service regarding disputed income tax amounts for which interest had been previously paid.

Income Taxes

Income taxes decreased in 2003 as the result of a loss from continuing operations, continuing non-taxable AFUDC equity, and substantial tax credits associated with the production of non-conventional fuels. Income tax expense decreased in 2002, reflecting greater AFUDC Equity and a substantial increase in tax credits associated with the production of non-conventional fuels. In 2001 income tax expense decreased, reflecting higher taxable income offset by an increase in tax credits associated with the production of non-conventional fuels. Income tax expense as a percentage of income from continuing operations before taxes was 90.2 percent in 2003, -22.9 percent in 2002, and -2.8 percent in 2001. During 2004, we expect the effective tax rate to be in the range of 35-40%.

The cash payment for income taxes, as required by the Alternative Minimum Tax Rules, was $58.8 million, $71.9 million and $52.4 million in 2003, 2002, and 2001, respectively.

Total income tax expense was reduced by the Federal tax credits related to the production of non-conventional fuels, under Section 29 of the Internal Revenue Code. This tax credit totaled $66.0 million in 2003, $107.3 million in 2002, and $86.2 in 2001. These tax credits are generated annually on qualified production at TECO Coal through Dec. 31, 2007, subject to changes in law, regulation or administration that could impact the qualification of Sec. 29 tax credits. (See the **TECO Coal** section.)

The tax credit is determined annually and is estimated to be $1.11 per million Btu for 2003 and was $1.09 per million Btu in 2002 and $1.08 per million Btu in 2001. This rate escalates with inflation but could be limited by domestic oil prices. In 2003, domestic oil prices would have had to exceed $50 per barrel for this limitation to have been effective.

In 2003, 2002, and 2001, the decreased income tax expense also reflected the impact of increased overseas operations with deferred U.S. tax structures. The decrease related to these deferrals was $12.3 million, $8.1 million, and $7.2 million for 2003, 2002, and 2001, respectively.

The income tax effect of gains and losses from discontinued operations is shown as a component of results from discontinued operations.

Enron Related Matters

TWG filed a claim in the Enron bankruptcy proceeding associated with the NEPCO "swept cash" for the four projects in the amount of $214 million. TWG and others have filed adversary proceedings in the bankruptcy to try to establish a constructive trust with respect to the cash used by Enron that belonged to its subsidiary, NEPCO, the engineering, procurement and construction contractor of four TWG projects.

In 2003, TWG sold its bankruptcy claims for approximately 15.5 cents on the dollar which amounted to a recovery of about $42 million. There was a holdback of 20% to be released at the time of payment by Enron to the purchaser. The cash received in excess of the holdback was approximately $33.4 million. Under the arrangement, the pending adversary proceedings would still be prosecuted to the extent practicable with the excess recovery, if any, shared by us and the purchaser. This recovery would primarily offset increases in construction costs associated with the effect of Enron's bankruptcy on its subsidiary NEPCO.

Environmental Compliance

Consent Decree

Tampa Electric Company, in cooperation with the Environmental Protection Agency (EPA) and the U.S. Department of Justice, signed a Consent Decree which became effective Oct. 5, 2000, and a Consent Final Judgment with the Florida Department of Environmental Protection (FDEP), effective Dec. 7, 1999. Pursuant to these agreements, allegations of violations of New Source Review requirements of the Clean Air Act were resolved, provision was made for environmental controls and pollution reductions, and Tampa Electric began implementing a comprehensive program to dramatically decrease emissions from its power plants.

The emission reduction requirements included specific detail with respect to the availability of flue gas desulfurization systems (scrubbers) to help reduce sulfur dioxide (SO_2), projects for nitro-

gen oxides (NOx) reduction efforts on Big Bend Units 1 through 4, and the repowering of the coal-fired Gannon Station to natural gas. The commercial operation dates for the two repowered Bayside units were on April 24, 2003 and Jan. 15, 2004. The completed station has total station capacity of about 1,800 megawatts (nominal) of natural gas-fueled electric generation. By May 1, 2005, Tampa Electric must decide whether to install NOx controls, repower, or shutdown Big Bend Unit 4, and it must implement the chosen methodology by June 1, 2007. By May 1, 2007, Tampa Electric will decide whether to install NOx controls, repower, or shutdown Big Bend Units 1, 2 and 3, and it must implement the chosen methodology beginning in 2008. Tampa Electric's capital investment forecast includes amounts in the 2006 through 2008 period for compliance with the NOx SO2 and particulate matter reduction requirements.

Emission Reductions

Since 1998, Tampa Electric has reduced annual SO2, NOx, and particulate matter (PM) emissions from its facilities by 129,430 tons, 27,630 tons, and 2,865 tons, respectively.

Reductions in SO2 emissions were accomplished through the installation of scrubber systems on Big Bend Units 1 and 2 in 1999. Big Bend Unit 4 was originally constructed with a scrubber. The Big Bend Unit 4 scrubber system was modified in 1994 to allow it to scrub emissions from Big Bend Unit 3. Currently, the scrubbers at Big Bend Station remove more than 95 percent of the SO2 emissions from the flue gas streams.

In addition, Consent Decree and Consent Final Judgment related projects will result in significant reductions in emissions. Reductions have already resulted from the completion of the repowering of Gannon Station to Bayside Power Station in April 2003 (Bayside Unit 1) and January 2004 (Bayside Unit 2). Should Tampa Electric decide to continue to burn coal, the installation of additional NOx emissions controls on all Big Bend Units will result in the further reduction of emissions. By 2010, these projects will result in the additional phased reduction of SO2 by 156,501 tons per year, NOx by 61,549 tons per year, and PM by 3,626 tons per year from 1998 levels. In total, Tampa Electric's emission reduction initiatives will result in the reduction of SO2, NOx, and PM emissions by 90 percent, 89 percent, and 70 percent, respectively, below 1998 levels. With these improvements in place, Tampa Electric's facilities will meet the same standards required of new power generating facilities and help to significantly enhance the quality of the air in the community.

Due to pollution control co-benefits from the Consent Final Judgment and Consent Decree, reductions in mercury emissions have occurred due to the re-powering of Gannon Station to Bayside Station. At Bayside, where mercury levels have decreased 44 percent below 1998 levels, there are virtually zero mercury emissions. Additional mercury reductions are also anticipated from the installation of NOx controls at Big Bend Station, which would lead to a mercury removal efficiency of approximately 70 percent. Depending on the NOx control technology selected for Big Bend, the mercury reductions may vary and lead to lower than anticipated mercury removal efficiencies.

The repowering of Gannon Station to Bayside Station will also lead to a significant reduction in carbon dioxide (CO2) emissions. It is expected, that by 2005, the repowering will bring an approximate 5.2 million ton decrease in CO2 emissions below 1998 levels. This reduction will result in the Tampa Electric system CO2 emissions being in line with its 1990 CO2 emission levels.

Superfund and Former Manufactured Gas Plant Sites

Tampa Electric Company, through its Tampa Electric and Peoples Gas divisions, is a potentially responsible party 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, 2003, Tampa Electric Company has estimated its ultimate financial liability to be approximately $20 million, and this amount has been reflected 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 potentially responsible parties (PRPs) is based on each parties' 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.

Regulation

Tampa Electric Rate Strategy

In 1996, during the construction of Polk Unit one, Tampa Electric entered into a series of agreements with Florida's Office of Public Counsel (OPC) and the Florida Industrial Power Users Group (FIPUG), which were approved by the FPSC to stabilize prices while securing fair earnings opportunities through 1999.

Since the expiration of the agreements, Tampa Electric has not been under a new stipulation. Therefore, its rates and allowed return on equity (ROE) range of 10.75 percent to 12.75 percent with a midpoint of 11.75 percent are in effect until such time as changes are occasioned by an agreement approved by the FPSC or other FPSC actions as a result of rate or other proceedings initiated by Tampa Electric, FPSC staff or other interested parties. Tampa Electric expects to continue earning within its allowed ROE range even with the rate base additions associated with the repowering of the Bayside Power Station.

Tampa Electric has not sought a base rate increase to recover the investment in the Bayside Power Station which entered service in two phases, with the first in April 2003 and the second in January 2004.

Cost Recovery Clauses – Tampa Electric

In February 2003, Tampa Electric filed a request for a mid-period fuel cost adjustment of almost $61 million due to continued increase in the cost of natural gas and oil. The request also reflected Tampa Electric's operational plan to phase out Gannon Units 1 through 4 in 2003. In March 2003, the FPSC approved Tampa Electric's new fuel rates as well as new fuel rates for the other peninsular Florida investor-owned utilities.

In September 2003, Tampa Electric filed with the FPSC for approval of fuel and purchased power, capacity, environmental and conservation cost recovery clause rates for the period January through December 2004. In November, the FPSC approved Tampa Electric's requested changes. The resulting rates include the impacts of increased use of natural gas at the Bayside Power Station and the collection of $91 million for under recovery of fuel expense for 2003. The filing also included estimated waterborne

transportation rates for coal transportation services, discussed below. The FPSC did not allow the recovery of $8.4 million it characterized as "savings" from shutting down the Gannon Station earlier than originally planned which the FPSC deemed generated operations and maintenance savings. Accordingly, Tampa Electric's residential customer rate per 1,000-kilowatt hours increased to $99.01. The rates include projected costs associated with environmental projects required under the EPA Consent Decree and the FDEP Consent Final Judgment.

Tampa Electric filed its objection to the disallowance of the recovery of the $8.4 million and a motion asking the FPSC to reconsider its decision because all facts and law were not taken into account. The motion was filed on Jan. 6, 2004, and a decision on this matter is expected in the first quarter of 2004.

Coal Transportation Contract

Tampa Electric's contract for coal transportation and storage services with TECO Transport expired on Dec. 31, 2003. TECO Transport had been providing river, cross-gulf transportation services and storage services under that contract since 1999 and under a series of contracts for more than 40 years. In June, Tampa Electric issued a Request For Proposal (RFP) to potential providers requesting services for the next five years. The result of the RFP process was the execution of a new contract between Tampa Electric and TECO Transport, effective Jan. 1, 2004, with market rates supported by the results of the RFP and an independent expert in maritime transportation matters. The prudence of the RFP process and final contract were originally scheduled to be reviewed by the FPSC in the course of the normal fuel cost recovery hearings in November 2003. That hearing was deferred due to protests from other parties seeking more time to evaluate the contract information. The matter is scheduled to be heard by the FPSC in April 2004 with a decision expected in June 2004.

In the meantime, Tampa Electric is recovering fuel transportation costs at the rates from the now expired contract, which are slightly higher than those in the contract effective Jan. 1, 2004.

Cost Recovery Clauses – Peoples Gas

In November 2003, the FPSC approved rates under Peoples' Gas Purchased Gas Adjustment (PGA) cap factor for the period January 2004 through December 2004. The PGA is a factor that can vary monthly due to changes in actual fuel costs but is not anticipated to exceed the annual cap. The approved cap includes an under-recovery of $7.5 million for 2002 and a projected over-recovery of $10.3 million in 2003.

Utility Competition – Electric

Tampa Electric's retail electric business is substantially free from direct competition with other electric utilities, municipalities and public agencies. At the present time, the principal form of competition at the retail level consists of self-generation available to larger users of electric energy. Such users may seek to expand their alternatives through various initiatives, including legislative and/or regulatory changes that would permit competition at the retail level. Tampa Electric intends to retain and expand its retail business by managing costs and providing high-quality service to retail customers.

There is presently competition in Florida's wholesale power markets, increasing largely as a result of the Energy Policy Act of 1992 and related federal initiatives. However, the state's Power Plant Siting Act, which sets the state's electric energy and environmental policy and governs the building of new generation involving steam capacity of 75 megawatts or more, requires that applicants demonstrate that a plant is needed prior to receiving construction and operating permits.

In 2003, the FPSC implemented rules that modified rules from 1994 that required investor-owned electric utilities (IOUs) to issue RFPs prior to filing a petition for Determination of Need for construction of a power plant with a steam cycle greater than 75 megawatts. The modified rules provide a mechanism for expedited dispute resolution; allow bidders to submit new bids whenever the IOU revises its cost estimates for its self-build option; require IOUs to disclose the methodology and criteria to be used to evaluate the bids; and provide more stringent standards for the IOUs to recover cost overruns in the event the self-build option is deemed the most cost-effective. The new rules became effective for requests for proposal for applicable capacity additions, prospectively.

Transmission Rates

In October 2002, Tampa Electric submitted a FERC filing to increase its transmission and ancillary services rates under the company's open access transmission tariff. These rates apply to wholesale transmission users of Tampa Electric's transmission system and do not affect retail service rates. In December, the FERC accepted the filing and set the matter for settlement negotiations and a potential hearing should the settlement process fail. Settlement discussions that began in January 2003 resulted in a settlement agreement that approved increased rates and resolved all disputed issues and was certified by the FERC in June 2003. In compliance with the FERC order approving the settlement, Tampa Electric made timely refunds, plus interest, for amount collected in excess of the settlement rates.

Regional Transmission Organization (RTO)

In December 1999, the Federal Energy Regulatory Commission (FERC) issued Order No. 2000, dealing with FERC's continuing effort to affect open access to transmission facilities in large regional markets. In response, the peninsular Florida IOUs (Florida Power & Light, Progress Energy Florida and Tampa Electric) agreed to form an RTO to be known as GridFlorida LLC which would independently control the transmission assets of the filing utilities, as well as other utilities in the region that chose to join. In March 2001, the FERC conditionally approved GridFlorida.

In May 2001, the FPSC questioned the prudence of the three filing utilities joining GridFlorida. After an October 2001 hearing, the FPSC found that the companies were prudent in forming GridFlorida, but ordered the companies to modify their proposal to develop a non-transmission owning RTO model. An updated filing was submitted to the FPSC. In August 2002, the FPSC voted to approve many of the compliance changes submitted, but set an October 2002 hearing on the market design changes proposed in the updated filing.

In October 2002, the process was delayed when the OPC filed an appeal with the Florida Supreme Court asserting that the FPSC could not relinquish its jurisdictional responsibility to regulate the IOUs and, by approving GridFlorida, they were doing just that. Oral arguments occurred in May 2003, and the Florida Supreme Court dismissed the OPC appeal citing that it was premature because certain portions of the FPSC GridFlorida order are not final.

In September 2003, a joint meeting of the FERC and FPSC took place to discuss wholesale market and RTO issues related to GridFlorida and in particular federal/state interactions. The FPSC has scheduled a series of collaborative meetings with all interested parties and, upon their conclusion, will set items for hearing and a hearing schedule. This is expected to occur throughout 2004.

Peoples Gas Rate Proceeding

On Jun. 27, 2002, PGS filed a petition with the FPSC to increase its service rates. The requested rates would have resulted in a $22.6 million annual base revenue increase, reflecting a ROE midpoint of 11.75 percent.

On the date of the FPSC hearing, PGS agreed to a settlement with all parties involved, and a final Commission order was granted on Dec. 17, 2002. PGS received authorization to increase annual base revenues by $12.05 million. The new rates allow for an allowed ROE range from 10.25 percent to 12.25 with an 11.25 percent midpoint and a capital structure with 57.43 percent equity

and were effective after Jan. 16, 2003

Utility Competition – Gas

Although PGS is not in direct competition with any other regulated distributors of natural gas for customers within its service areas, there are other forms of competition. At the present time, the principal form of competition for residential and small commercial customers is from companies providing other sources of energy, including electricity.

In Florida, gas service is unbundled for all non-residential customers. In November 2000, PGS implemented its "NaturalChoice" program offering unbundled transportation service to all eligible customers. This means that non-residential customers can purchase commodity gas from a third party but continue to pay PGS for the transportation of the gas.

Competition is most prevalent in the large commercial and industrial markets. In recent years, these classes of customers have been targeted by companies seeking to sell gas directly, by transporting gas through other facilities, thereby bypassing PGS facilities. In response to this competition, PGS has developed various programs, including the provision of transportation services at discounted rates.

In general, PGS faces competition from other energy source suppliers offering fuel oil, electricity and in some cases, propane. PGS has taken actions to retain and expand its commodity and transportation business, including managing costs and providing high-quality service to customers.

TWG Federal and State Regulatory and Legislative Involvement

Along with TECO Energy's active involvement in restructuring initiatives, TWG has been proactively involved in regulatory and legislative forums in the markets in which it competes, including Arizona, Texas, Arkansas, Mississippi, and Louisiana. This has included repeal of retail deregulation rules and laws in Arkansas and restructured regulatory rules regarding the settlement agreement that governs retail and wholesale competition in Arizona.

TWG was an active intervener in Arizona Public Service Company's (APS) regulatory proceedings regarding a request to be exempt from its obligation, beginning on Jan. 1, 2003, to purchase at least 50 percent (about 3,000 MW) of its load requirements through a formal, arms-length, competitive procurement process and instead to purchase almost all of its load requirements from its unregulated affiliate, Pinnacle West Energy Corporation. Tucson Electric Power Company (TEP) filed a similar variance request with the Arizona Corporate Commission, although it only sought a postponement of the implementation date. As a result, in early 2003 APS and TEP were required to competitively procure their unmet needs through separate RFP processes, which were held during the spring. During those competitive solicitations, Gila River Power Station was selected to provide power to both of these entities for three years. Power deliveries began under the agreements last year.

During the 2003 regular legislative session, the Arkansas Legislature repealed its earlier legislation, which was to initiate retail electric deregulation in Arkansas sometime between October 2003 and October 2005. TWG and other independent power producers, embarked on a strategy that would displace the region's older, less efficient, more polluting generating units so that state-of-the-art, gas-fired, combined-cycle units, such as the Union Power Station, could serve the growing needs of the area. This is a strategy that TWG has advanced at the federal level and within other markets it serves. As a result, the Louisiana Public Service Commission ordered its Staff to conduct a unit displacement/retirement study to achieve the identified economic and environmental benefits. This study should be completed during the first half of 2004.

TWG is working on behalf of both the Frontera and TIE facilities to effectuate change at ERCOT, (Electric Reliability Council of Texas) the Public Utility Commission of Texas (PUCT) and Legislature on matters of common interest for the two facilities. Despite the advent of competition in Texas, the market design does not yet result in the dispatch of the region's most economical resources namely, newer more-efficient, gas-fired capacity.

TWG has taken an active role on ERCOT committees, in proceedings at the PUCT and in the Legislature, whose next session begins in mid-January 2005. Transmission congestion remains a major concern in the ERCOT market, and has affected Frontera's ability to economically operate. Several initiatives within the ERCOT committees and at the PUCT are underway to address these ongoing congestion problems, and fundamental market redesign issues.

In the meantime until market changes are implemented, local congestion remains a significant issue for the load-serving entities and generation facilities within ERCOT. The new market design will directly assign congestion costs to those who cause the transmission system congestion. TWG is advocating interim market solutions that would eliminate Reliability-Must-Run (RMR) contracts and provide adequate compensation for Frontera when called upon by ERCOT to alleviate congestion in the Rio Grande Valley.

Corporate Governance

In the last several years, the Congress, the Securities and Exchange Commission (SEC), the New York Stock Exchange (NYSE), and other interested groups have focused extensively on improving corporate accountability and corporate governance in an effort to restore investor confidence. The rules passed by the SEC, as well as the listing standards adopted by the NYSE that become effective after the 2004 Annual Meeting of Shareholders, are already a part of our corporate culture and we have been voluntarily complying with them. These rules require, among other things, independence by the Board of Directors and various Board committees, a statement of governance guidelines and detailed committee charters, an internal audit function, a code of ethics for the CEO, senior financial officers and directors, adequate internal controls to detect fraud, increased oversight of financial disclosure by the Audit Committee, and certification by the CEO and CFO of the financial results.

For many years, the vast majority of our Board of Directors have been independent, and the required independent Board committees have been in place. In addition, we have had a rigorous internal audit and compliance function, including an anonymous reporting system which now has been expanded to cover matters required to be disclosed to the Audit Committee and the non-management directors, and a code of ethics for all employees and officers, the *Standards of Integrity*. The code was expanded in 2002 to include directors and is posted on the company's website. Our long-standing controls for full and complete financial reporting and disclosure have been formalized and are reviewed quarterly for effectiveness. The CEO and CFO have filed sworn statements with the SEC quarterly, as required by law, to certify without exception the accuracy of the financial results, and the CEO will be signing the required certification as to compliance with the NYSE's corporate governance listing standards following the next annual meeting.

The Board of Directors operates under a set of guidelines that clearly establish the Board's responsibilities, and each committee has a charter that defines its purpose, duties and responsibilities. The Corporate Governance Guidelines and the committee charters are reviewed regularly to ensure that they comply with all of the relevant regulations and meet the needs of the Board. More information about the members of the Board of Directors, as well as copies of the Corporate Governance Guidelines, the various committee charters, and the *Standards of Integrity*, can be found in the corporate governance section of the Investor Relations page on our website, **www.tecoenergy.com**.

Transactions with Related and Certain Other Parties

We and our subsidiaries had certain transactions, in the ordinary course of business, with entities in which directors of the company had interests that are reported in our annual proxy statement and Tampa Electric's annual regulatory filings. These transactions, primarily for legal services, were not material for the periods ended Dec. 31, 2003, 2002 and 2001. There are no material transactions of this type where the payments are in excess of those that would be paid under an arms-length transaction. We have interests in unconsolidated affiliates, which are discussed in the **TECO Wholesale Generation**, **Other Unregulated Companies** and **Off-Balance Sheet Financing** sections.

In October 2003, Tampa Electric signed a five-year contract renewal with an affiliate company, TECO Transport Corporation, 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.

TWG Arkansas Operations Company and TWG Arizona Operations Company, both wholly-owned subsidiaries of TWG, had a combined receivable from Union and Gila River of $0.8 million as of Dec. 31, 2002.

TWG's position in the Odessa and Guadalupe power stations in Texas was in the form of a $137 million loan to a Panda Energy International subsidiary, which is a partner in TIE at Dec. 31, 2002. In September 2003, TWG completed the foreclosure on Panda's interest in TIE for a default on a $23 million note receivable which resulted in TWG becoming a 50-percent owner in the plants and a total investment in TIE of $160 million. In 2003, improved peak season power prices and a new power and gas manager retained to increase the energy sales from these plants resulted in improved financial performance, however; the plants still had a negative impact on earnings. The interest earned on the loans to TIE was reflected in 2002 and 2001 earnings.

In February 2002, the TWG and Panda affiliates that comprised the joint venture that owned the Union and Gila River projects entered into an arrangement obligating TWG to purchase and Panda to sell Panda's interest in the joint venture in 2007 for $60 million. In July 2003, TWG acquired Panda's interest in these plants through a modification of the Purchase Agreement and termination of the joint venture.

Investment Considerations

The following are certain factors that could affect TECO Energy's future results. They should be considered in connection with evaluating forward-looking statements contained in this report and otherwise made by or on behalf of TECO Energy because these factors could cause actual results and conditions to differ materially from those projected in those forward-looking statements.

Financing Risks

We have substantial indebtedness, which could adversely affect our financial condition and financial flexibility.

In recent years, we have significantly increased our indebtedness which has resulted in an increase in the amount of fixed charges we are obligated to pay. The level of our indebtedness and restrictive covenants contained in our debt obligations could limit our ability to obtain additional financing or refinance existing debt and could prevent the repayment of subordinated debt and the payment of dividends if those payments would cause a violation of the covenants.

In order for us to use our credit facilities, we must meet certain financial tests. Our credit facilities require that at the end of each quarter our debt-to-capital ratio, as defined in the applicable agreements, not exceed 65%. Tampa Electric Company's credit facility requires that at the end of each quarter Tampa Electric Company's debt-to-capital ratio, as defined in the agreement, not exceed 60% and its earnings before interest, taxes, depreciation and amortization (EBITDA) to interest coverage ratio (as defined in the applicable agreement) not be less than 2.5 times. At Dec. 31, 2003, our debt-to-capital ratio was 61.9% and Tampa Electric Company's debt-to-capital ratio was 49.2% and its interest coverage ratio was 5.8 times. Similarly, certain long-term debt at Tampa Electric Company's Peoples Gas System division contains a prohibition on the incurrence of funded debt if Tampa Electric Company's debt-to-capital ratio, as defined in the applicable agreement, exceeds 65%. The Tampa Electric Company debt related to Peoples Gas also carries a requirement that Tampa Electric Company's interest coverage ratio, as defined in the applicable agreement, be 2.0 times or greater for four consecutive quarters.

Our construction undertaking obligations associated with TWG's Gila River and Union Power Projects, in effect until twelve months after commercial operation, require our consolidated EBITDA to interest coverage ratio, as defined in the applicable agreement, to equal or exceed 3.0 times for the twelve-month period ended each quarter and a debt-to-capital ratio not to exceed 65% at the end of each fiscal quarter. Under the suspension agreement between TECO Energy, the project companies and the lenders, TECO Energy was not required to calculate the EBITDA to interest coverage ratio required in the undertaking for the quarters ended Sep. 30, 2003 and Dec. 31, 2003 until Feb. 1, 2004 which was orally extended until Feb. 5, 2005. On that date, the calculations were made resulting in 2.7 and 2.4 times for the two quarters, respectively. Non-compliance with this covenant could accelerate the $1.395 billion of non-recourse construction debt absent the sale of the projects to the lenders. (See **TECO Wholesale Generation – Letter of Intent** section.)

Our 10.5% Notes due 2007 issued in November 2002, contain covenants that limit our ability to incur additional liens and require us to achieve certain interest coverage levels in order to pay dividends, make distributions or certain investments, or issue additional indebtedness. The 7.5% Notes issued in June 2003 contain the same limitation on liens covenant. The covenants apply only if either the notes are rated non-investment grade by either S&P or Moody's or the notes are rated below the level required by the equity bridge loan and Union and Gila River Construction Undertaking while those obligations are outstanding. The covenants became applicable upon Moody's downgrade of TECO Energy's senior unsecured debt in April 2003. The limitation on restricted payments restricts us from paying dividends or making distributions or certain investments unless there is sufficient cumulative operating cash flow, as defined in the agreement applicable to the 10.5% Notes, in excess of 1.7 times interest coverage to make contemplated dividend payments, distributions or investments. Our operating cash flow, restricted payments and interest coverage are calculated on a cumulative basis from the issuance of the 10.5% Notes in November 2002. As of Dec. 31, 2003, $285 million was accumulated and available for future restricted payments, representing a four quarter accumulation. Further, we are not permitted, with certain exceptions as stated in that agreement, to create any lien upon any of our property in excess of 5% of consolidated net tangible assets as defined, without equally and ratably securing the 10.5% Notes. As of Dec. 31, 2003 this limitation would apply to the creation of covered liens exceeding $206 million. Finally, our operating cash flow to interest coverage ratio, as defined in that agreement, for the immediate preceding four quarters must exceed 2.0 times for us to be able to issue additional indebtedness, with certain exceptions as provided in that agreement. As of Dec. 31, 2003, our operating cash flow to interest coverage ratio for the immediate preceding four quarters, with pro forma adjustments as provided in the agreement, was 2.6 times.

Tampa Electric Company's 6.25% Senior Notes Due 2016 contain covenants that require Tampa Electric Company to maintain, as of the last day of each fiscal quarter, a debt-to-capital ratio, as

defined in the agreement, that does not exceed 60%, and prohibit the creation of any covered lien on any of its property in excess of $787 million, with certain exceptions as defined in the agreement, without equally and ratably securing the 6.25% Senior Notes.

Finally, in addition to our debt-to-capital ratio requirement discussed above, our credit facility with an affiliate of Merrill Lynch has covenants that, if the facility is drawn, could limit the payment of dividends exceeding $40 million in any quarter unless, prior to the payment of any dividends, we deliver to Merrill Lynch liquidity projections demonstrating that we will have sufficient cash or cash equivalents to pay both the dividends contemplated and each of the three quarterly dividends next scheduled to be paid on our common stock.

We cannot assure you that we will be in compliance with these financial covenants in the future. Our failure to comply with any of these covenants or to meet our payment obligations could result in an event of default which, if not cured or waived, could result in the acceleration of other outstanding debt obligations. We may not have sufficient working capital or liquidity to satisfy our debt obligations in the event of an acceleration of all or a portion of our outstanding obligations. In addition, if we had to defer interest payments on our subordinated notes that support the distributions on our outstanding trust preferred securities, we would be prohibited from paying cash dividends on our common stock until all unpaid distributions on those subordinated notes were made.

We also incur obligations in connection with the operations of our subsidiaries and affiliates, which do not appear on our balance sheet, including obligations related to the development of power projects by unconsolidated affiliates. These obligations take the form of guarantees, letters of credit and contractual commitments, as described in the sections titled **Off Balance Sheet Financing** and **Liquidity, Capital Resources** section. In addition, our unconsolidated affiliates from time to time incur non-recourse debt to finance their power projects. Although we are not obligated on that debt, our investments in those unconsolidated affiliates are at risk if the affiliates default on their debt.

Our financial condition and ability to access capital may be materially adversely affected by further ratings downgrades.

In February 2004, Moody's Investor Service, Inc. lowered the ratings on our senior unsecured debt to Ba2 with a negative outlook. This followed actions in April 2003, when Moody's and Fitch Ratings lowered their ratings on our senior unsecured debt to Ba1 and BB+, respectively, both with a negative outlook. In May 2003, Standard & Poor's Ratings Services lowered the ratings on our senior unsecured debt to BB+ with a negative outlook. These agencies also lowered the ratings on other of our securities, as well as those of TECO Finance and Tampa Electric. Tampa Electric Company's senior secured and unsecured debt ratings were lowered to Baa1 and Baa2, respectively, by Moody's, to A- and BBB+, respectively, by Fitch and to BBB- for both senior secured and unsecured debt by Standard & Poor's. Currently the outlook for Tampa Electric, TECO Energy and TECO Finance at all of the credit rating agencies is negative. The 2003 and 2004 downgrades and any future downgrades may affect our ability to borrow and may increase our financing costs, which may decrease our earnings. We are also likely to experience greater interest expense than we may have otherwise if, in future periods, we replace maturing debt with new debt bearing higher interest rates due to our lower credit ratings. In addition, such downgrades could adversely affect our relationships with customers and counterparties.

In addition, as a result of the 2003 ratings actions, TES, Prior Energy and TECO Gas Services were required to post collateral with counterparties in order to continue to transact in the forward markets for electricity and natural gas. Collateral or margin postings may fluctuate based on either the fair value of open forward positions or credit assurance assessments negotiated with counterparties. Based on the fair value of existing contractual obligations as of Dec. 31, 2003, the maximum collateral obligation, if all counterparties exercised their full rights, would be approximately $16 million. Counterparties with the right to call for collateral or margin postings are not obligated to do so. Based on our analysis of the rights of those counterparties that have the right to call for collateral or margin postings, we believe the maximum collateral obligation would be approximately $16.0 million, including actual collateral posted of $11.8 million.

In November 2003, S&P affirmed TECO Energy's current credit ratings and removed the ratings from Credit Watch with negative implications following the resolution of the Private Letter Ruling issues related to the production of synthetic fuel at TECO Coal (see the TECO Coal section). At that time, S&P stated that future ratings stability was directly correlated with TECO Energy's exit from the merchant energy business and the use of future cash flows to reduce debt. S&P went on to state that a failure to exit the merchant energy business would likely result in addition credit rating reductions. Such reductions could result in Tampa Electric's credit rating falling below investment grade. In February 2004, S&P stated that the announcement to exit the Union and Gila River projects was favorable to credit quality but took no ratings action and maintained its negative outlook.

If we are unable to limit capital expenditure levels as forecasted or successfully complete planned facility sales to the extent anticipated, our financial condition and results could be adversely affected.

Part of our plans includes capital expenditures at the operating companies at maintenance levels for the next several years. We cannot be sure that we will be successful in limiting capital expenditures to the planned amount. Our plan also includes the sale of an additional 40% portion of our interest in facilities that produce synthetic fuel which qualifies for Section 29 tax credits at TECO Coal. We cannot be certain, however, that we will find purchasers or be able to sell these synthetic fuel production facilities at the prices we expect. If we are unable to limit capital expenditures to the forecasted levels or to sell the synthetic fuel production facilities at the prices we expect or at all, we may need to draw on credit facilities or access the capital markets on unfavorable terms or ultimately sell additional assets to improve our financial position. We cannot be sure that we will be able to obtain additional financings or sell such assets, in which case our financial position, earnings and credit ratings could be adversely affected.

Because we are a holding company, we are dependent on cash flow from our subsidiaries, which may not be available in the amounts and at the times we need it.

We are a holding company and dependent on cash flow from our subsidiaries to meet our cash requirements that are not satisfied from external funding sources. Some of our subsidiaries have indebtedness containing restrictive covenants which, if violated, would prevent them from making cash distributions to us. In particular, Tampa Electric Company's first mortgage bonds indenture contains restrictions on distributions on its common stock, and certain long-term debt at Tampa Electric Company's Peoples Gas System division prohibits payment of dividends to us if Tampa Electric Company's consolidated shareholders' equity is not at least $500 million. At Dec. 31, 2003, Tampa Electric Company's unrestricted retained earnings available for dividends on its common stock were approximately $5 million and its consolidated shareholders' equity was approximately $1.7 billion. Also, our wholly-owned subsidiary, TECO Diversified, the holding company for TECO Transport, TECO Coal and TECO Solutions, has a guarantee related to a coal supply agreement that could limit the payment of dividends by TECO Diversified to us.

Various factors could affect our ability to sustain our dividend.

Our ability to pay a dividend or sustain it at current levels could be affected by such factors as (i) the level of our earnings and therefore our dividend payout ratio, (ii) the level of our retained

earnings could be affected by payment of dividends in excess of earnings and further write-offs of our merchant generation investments or other assets, (iii) pressures on our liquidity needs, including unplanned debt repayments, unexpected capital needs and shortfalls in operating cash flow and (iv) a breach of our 65% debt-to-total capital financial covenant, which could occur in the event of further erosion of our retained earnings without infusion of additional capital. These are in addition to any restrictions on dividends from our subsidiaries to us discussed above.

We are vulnerable to interest rate changes and may not have access to capital at favorable rates, if at all.

Changes in interest rates and capital markets generally affect our cost of borrowing and access to these markets. We cannot be sure that we will be able to accurately predict the effect those changes will have on our cost of borrowing or access to capital markets.

Merchant Power Project Risks

We and the project companies have not yet reached a definitive agreement with the non-recourse project lending banks for the transfer of our ownership of the Union and Gila River projects through a purchase and sale or other agreement to the lending group.

Our decision to exit from the ownership of the projects is not conditioned on reaching a consensual agreement with the lenders for the sale of the projects. If a definitive agreement cannot be reached, however, there could be a delay in the ultimate forgiveness of the non-recourse debt and there could be a change in the accounting treatment from discontinued operations back to continuing operations in a future period.

Under the letter of intent, the parties have retained the right to assert certain claims they may have against one another until a definitive agreement is reached. Assertion of such claims and defense against them could be time consuming and costly and delay the ultimate disposition of our interest in the projects.

The failure of the project companies to make interest payment on the project debt, which they failed to do beginning December 31, 2003, could permit a claim of a cross default under two leases of TECO Transport. (See the **TECO Transport** section.)

TECO Wholesale Generation's (TWG) power plants are affected by market conditions, and they may not be able to sell power at prices that enable it to recover its investments in the plants.

The TWG power plants that are in operation currently sell most of their power based on market conditions at the time of sale, so TWG cannot predict with certainty:

- the amount or timing of revenue it may receive from power sales from operating plants;
- the differential between the cost of operations (in particular, natural gas prices) and power sales revenue;
- the effect of competition from other suppliers of power;
- regulatory actions that may affect market behavior, such as price limitations or bidding rules imposed by the Federal Energy Regulatory Commission (FERC) or state regulatory bodies or reimposition of regulation in power markets;
- the demand for power in a market served by TWG's plants relative to available supply;
- the availability of transmission to accommodate the sale of power; or
- whether TWG will recover its initial investment in these plants.

At present, several of the wholesale markets supplied by so-called "merchant" power plants are experiencing significant pricing declines due to excess supply and weak economies. The excess supply is partially due to the slowdown of electric deregulation in many states, or the outright repeal of electric competition legislation as occurred in Arkansas in 2003 (where the Dell and Union power stations are sited or located). This has allowed incumbent utilities to continue to operate older, less efficient generating facilities in lieu of purchasing power from newer, more efficient independent power plants. Consequently, only a small portion of the output of TWG's plants has been sold forward or hedged under short-term agreements. TWG's results could be adversely affected if it is unable to sufficiently sell the output of its plants under longer-term contracts or at a premium to forward curve prices for short-term sales or if we need to write off any of the capital already invested in the projects.

Our outlook assumes that TWG will manage these risks by:

- optimizing among a mix of forward on-peak energy sales, daily and hourly spot market sales of capacity, energy and ancillary services, and longer-term structured transactions;
- avoiding short positions; and
- retaining flexibility to continue to defer, where advisable, construction of output capacity in a market that has become oversupplied.

However, we cannot be sure how successfully TWG will be able to implement these risk management measures. For instance, in oversupplied markets, entering into long-term contracts could be difficult.

TWG may be unable to successfully complete current projects on schedule or within budget, and the book value of uncompleted projects could be impaired.

TWG currently has new power generating facilities where construction has been suspended. The construction and maintenance of these facilities involves risks of shortages and inconsistent qualities of equipment and material, labor shortages and disputes, engineering problems, work stoppages, unanticipated cost increases and environmental or geological problems. Any of these events could delay a project's construction schedule or increase its costs, which may impact TWG's ability to generate sufficient cash flow. In addition, if these projects remain suspended beyond the currently anticipated time frame, the book value of those projects would likely be impaired.

Asset valuation adjustments or sales of these facilities at prices below the book value would reduce our equity levels and could potentially result in a breach of our 65 percent debt-to-total capital covenant in our bank credit facility.

TWG's marketing and risk management policies may not work as planned, and it may suffer economic losses despite such policies.

TWG seeks to actively manage the market risk inherent in its energy and fuel positions. Nonetheless, adverse changes in energy and fuel prices may result in losses in our earnings or cash flows and adversely affect our balance sheet. TWG's marketing and risk management procedures may not always be followed or may not work as planned. As a result, we cannot predict with precision the impact that its marketing, energy management and risk management decisions may have on its business, operating results or financial position. In addition, to the extent it does not cover its positions to market price volatility, or the hedging procedures do not work as planned, fluctuating commodity prices would cause our sales and net income to be volatile.

TWG's and its affiliates' marketing and risk management activities also are exposed to the credit risk that counterparties to its transactions will not perform their obligations. Should counterparties to these arrangements fail to perform, it may be forced to enter into alternative hedging arrangements, honor underlying commitments at then-current market prices or otherwise satisfy its obligations on unfavorable terms. In that event, its financial results would likely be adversely affected.

General Business and Operational Risks

General economic conditions may adversely affect our businesses.

Our businesses are affected by general economic conditions. In particular, the projected growth in Tampa Electric's service area and in Florida is important to the realization of Tampa Electric's and Peoples Gas System's forecasts for annual energy sales growth. An unanticipated downturn in the local area's or Florida's economy could adversely affect Tampa Electric's or Peoples Gas System's expected performance.

Our unregulated businesses, particularly TWG, TECO Transport and TECO Coal, are also affected by general economic conditions in the industries and geographic areas they serve, both nationally and internationally.

Potential competitive changes may adversely affect our gas and electricity businesses.

The U.S. electric power industry has been undergoing restructuring. Competition in wholesale power sales has been introduced on a national level. Some states have mandated or encouraged competition at the retail level and, in some situations, required divestiture of generating assets. While there is active wholesale competition in Florida, the retail electric business has remained substantially free from direct competition. Changes in the competitive environment occasioned by legislation, regulation, market conditions or initiatives of other electric power providers, particularly with respect to retail competition, could adversely affect Tampa Electric's business and its performance.

The gas distribution industry has been subject to competitive forces for several years. Gas services provided by Peoples Gas System are now unbundled for all non-residential customers. Because Peoples Gas System earns margins on distribution of gas, but not on the commodity itself, unbundling has not negatively impacted Peoples Gas System's results. However, future structural changes that we cannot predict could adversely affect Peoples Gas System.

Our gas and electricity businesses are highly regulated, and any changes in regulatory structures could lower revenues or increase costs or competition.

Tampa Electric and Peoples Gas System operate in highly regulated industries. Their retail operations, including the prices charged, are regulated by the FPSC, and Tampa Electric's wholesale power sales and transmission services are subject to regulation by the FERC. Changes in regulatory requirements or adverse regulatory actions could have an adverse effect on Tampa Electric's or Peoples Gas System's performance by, for example, increasing competition or costs, threatening investment recovery or impacting rate structure.

Tampa Electric is seeking regulatory approval for the costs associated with a new contract for coal transportation services.

Tampa Electric has executed a new 5-year contract for coal transportation services with TECO Transport. These services have been provided by TECO Transport historically and represent about 40% of TECO Transport's revenues. The costs associated with the transportation services are subject to FPSC review and a number of parties, including alternative transportation providers have intervened in the proceedings, which are scheduled for hearings in April 2004. Failure to gain regulatory approval for the recovery of the costs associated with these services could adversely impact Tampa Electric's financial results.

Our businesses are sensitive to variations in weather and have seasonal variations.

Most of our businesses are affected by variations in general weather conditions and unusually severe weather. Tampa Electric's, Peoples Gas System's and TWG's energy sales are particularly sensitive to variations in weather conditions. Those companies forecast energy sales on the basis of normal weather, which represents a long-term historical average. Significant variations from normal weather could have a material impact on energy sales. Unusual weather, such as hurricanes, could adversely affect operating costs and sales.

Peoples Gas System, which has a single winter peak period, is more weather sensitive than Tampa Electric, which has both summer and winter peak periods. Mild winter weather in Florida can be expected to negatively impact results at Peoples Gas System.

Variations in weather conditions also affect the demand and prices for the commodities sold by TECO Coal, as well as electric power sales from TECO Wholesale Generation's merchant power plants. TECO Transport is also impacted by weather because of its effects on the supply of and demand for the products transported. Severe weather conditions could interrupt or slow service and increase operating costs of those businesses.

Electric power marketing may be seasonal. For example, in some parts of the country, demand for, and market prices of, electricity peak during the hot summer months, while in other parts of the country such peaks occur in the cold winter months. As a result, our power marketing results may fluctuate on a seasonal basis. The pattern of this fluctuation may change depending on the nature and location of the facilities we operate and the terms under which we sell electricity.

Commodity price changes may affect the operating costs and competitive positions of our businesses.

Most of our businesses are sensitive to changes in coal, gas, oil and other commodity prices. Any changes could affect the prices these businesses charge, their operating costs and the competitive position of their products and services.

In the case of Tampa Electric, fuel costs used for generation have been affected primarily by the cost of coal. Tampa Electric's fuel costs will be increasingly impacted by the cost of natural gas with the completion of the Bayside repowering. Tampa Electric is able to recover the cost of fuel through retail customers' bills, but increases in fuel costs affect electric prices and, therefore, the competitive position of electricity against other energy sources.

Regarding wholesale sales of electricity, the ability to make sales and margins on power sales is affected by the cost of fuel to Tampa Electric, particularly as it compares to the costs of other power producers.

In the case of TECO Wholesale Generation, results are impacted by changes in the cost of fuel and the market price for electricity. The profitability of merchant power plants is heavily dependent on the price for power in the markets they serve. Wholesale power prices are set by the market assuming a cost for the input energy and conversion efficiency, but the fixed costs may not be reflected in the price for spot, or excess, power.

In the case of Peoples Gas System, costs for purchased gas and pipeline capacity are recovered through retail customers' bills, but increases in gas costs affect total retail prices and therefore the competitive position of Peoples Gas System relative to electricity, other forms of energy and other gas suppliers.

We rely on some transmission and distribution assets that we do not own or control to deliver wholesale electricity, as well as natural gas. If transmission is disrupted, or if capacity is inadequate, our ability to sell and deliver power and natural gas may be hindered.

We depend on transmission and distribution facilities owned and operated by utilities and other energy companies to deliver the electricity and natural gas we sell to the wholesale market, as well as the natural gas we sell and purchase for use in our electric generation facilities. If transmission is disrupted, or if capacity is inadequate, our ability to sell and deliver products and satisfy our contractual and service obligations may be hindered.

The FERC has issued regulations that require wholesale electric transmission services to be offered on an open-access, non-discriminatory basis. Although these regulations are designed to encourage competition in wholesale market transactions for electricity, there is the potential that fair and equal access to transmission systems will not be available or that sufficient transmission capacity will not be available to transmit electric power as we desire. We cannot predict the timing of industry changes as a result of these initiatives or the adequacy of transmission facilities in specific markets.

In addition, the independent system operators that oversee the transmission systems in certain wholesale power markets have from time to time been authorized to impose price limitations and other mechanisms to address volatility in the power markets. These types of price limitations and other mechanisms may adversely impact the profitability of our wholesale power marketing business.

The uncertain outcome regarding the creation of regional transmission organizations, or RTOs, may impact our operations, cash flows or financial condition.

Although Tampa Electric Company continues to make progress towards the development of its RTO, GridFlorida, which would independently control the transmission assets of participating utilities in peninsular Florida, progress has slowed considerably. Given the regulatory uncertainty of the ultimate timing, structure and operations of GridFlorida or an alternate combined transmission structure, we cannot predict what effect its creation will have on our future consolidated results of operations, cash flow or financial condition.

We may be unable to take advantage of our existing tax credits.

We derive a portion of our net income from Section 29 tax credits related to the production of non-conventional fuels. Although we sold a significant portion of our interest in the production facilities in April 2003 and plan to sell the majority of our remaining interest in the production capacity, until and unless we successfully do so, our use of these tax credits is dependent on our generating sufficient taxable income against which to use the credits. The future results of this business could be negatively impacted by administrative actions of the Internal Revenue Service or the U.S. Treasury or changes in law, regulation or administration.

Problems with operations could cause us to incur substantial costs.

Each of our subsidiaries is subject to various operational risks including accidents or equipment breakdown or failure and operations below expected levels of performance or efficiency. As operators of power generation facilities, Tampa Electric and TECO Wholesale Generation could incur problems such as the breakdown or failure of power generation equipment, transmission lines, pipelines or other equipment or processes which would result in performance below assumed levels of output or efficiency. Our outlook assumes normal operations and normal maintenance periods for our subsidiaries' facilities.

The international projects and operations of TECO Transport are subject to risks that could result in losses or increased costs.

Our subsidiaries are involved in certain international projects. These projects involve numerous risks that are not present in domestic projects, including expropriation, political instability, currency exchange rate fluctuations, repatriation restrictions, and regulatory and legal uncertainties. The international subsidiaries attempt to manage these risks through a variety of risk mitigation measures, including specific contractual provisions, obtaining non-recourse financing and obtaining political risk insurance where appropriate.

TECO Transport is exposed to operational risks in international ports, primarily in the form of its need to obtain suitable labor and equipment to safely discharge its cargoes in a timely manner. TECO Transport attempts to manage these risks through a variety of risk mitigation measures, including retaining agents with local knowledge and experience in successfully discharging cargoes and vessels similar to those used.

Changes in the environmental laws and regulations to which our regulated businesses are subject could increase our costs or curtail our activities.

Our businesses are subject to regulation by various governmental authorities dealing with air, water and other environmental matters. Changes in compliance requirements or the interpretation by governmental authorities of existing requirements may impose additional costs on us or require us to curtail some of our businesses' activities.

Consolidated Balance Sheets

Assets *(millions, except share amounts) Dec. 31,*	*2003*	*2002*
Current assets		
Cash and cash equivalents	$ 108.2	$ 411.1
Restricted cash	51.4	1.6
Receivables, less allowance for uncollectibles of $4.5 and $6.6 at Dec. 31, 2003 and 2002, respectively	280.4	422.7
Current notes receivable	-	235.1
Current derivative assets	21.1	12.5
Inventories, at average cost		
Fuel	88.2	113.7
Materials and supplies	82.5	96.1
Prepayments and other current assets	68.6	30.4
Assets held for sale	169.4	-
Total current assets	869.8	1,323.2
Property, plant and equipment		
Utility plant in service		
Electric	5,245.6	5,054.4
Gas	778.1	746.7
Construction work in progress	1,193.3	1,556.8
Other property	823.2	857.4
Property, plant and equipment, at original cost	8,040.2	8,215.3
Accumulated depreciation	(2,361.2)	(2,310.7)
Total property, plant and equipment (net)	5,679.0	5,904.6
Other assets		
Deferred income taxes	1,051.5	340.2
Other investments	16.5	845.3
Regulatory assets	188.3	163.2
Investment in unconsolidated affiliates	343.5	149.2
Goodwill	71.2	193.7
Deferred charges and other assets	165.1	159.0
Assets held for sale	2,077.4	-
Total other assets	3,913.5	1,850.6
Total assets	$10,462.3	$ 9,078.4

Liabilities and capital *(millions, except share amounts) Dec. 31,*	*2003*	*2002*
Current liabilities		
Long-term debt due within one year		
Recourse	$ 6.1	$ 106.3
Non-recourse	25.5	20.8
Notes payable	37.5	360.5
Accounts payable	313.8	377.4
Customer deposits	101.4	94.6
Current derivative liabilities	12.0	3.9
Interest accrued	56.6	49.8
Taxes accrued	149.9	95.9
Liabilities associated with assets held for sale	1,544.4	-
Total current liabilities	2,247.2	1,109.2
Other liabilities		
Deferred income taxes	498.0	495.0
Investment tax credits	22.8	27.5
Regulatory liabilities	560.2	538.7
Deferred credits and other liabilities	364.1	321.7
Liabilities associated with assets held for sale	697.8	-
Long-term debt, less amount due within one year		
Recourse	3,660.3	3,112.7
Non-recourse	83.2	211.6
Preferred securities	649.1	-
Minority interest	1.9	1.2
Total other liabilities	6,537.4	4,708.4
Commitments and contingencies	-	-
Preferred securities	-	649.1
Capital		
Common equity (400 million shares authorized; par value $1; 187.8 million shares and 175.8 million shares outstanding at Dec. 31, 2003 and 2002, respectively	187.8	175.8
Additional paid in capital	1,220.8	1,094.5
Retained earnings	339.5	1,413.7
Accumulated other comprehensive income	(55.8)	(41.2)
Common equity	1,692.3	2,642.8
Unearned compensation	(14.6)	(31.1)
Total capital	1,677.7	2,611.7
Total liabilities and capital	$10,462.3	$ 9,078.4

Consolidated Statements of Income

(millions, except per share amounts) *For the years ended Dec. 31,*		*2003*	*2002*	*2001*
Revenues	Regulated electric and gas (includes franchise fees and gross receipts taxes of $77.7 million in 2003, $73.8 million in 2002 and $71.1 million in 2001)	$ 1,991.1	$ 1,867.0	$ 1,733.0
	Unregulated	748.9	797.9	750.3
	Total revenues	2,740.0	2,664.9	2,483.3
Expenses	Regulated operations			
	Fuel	344.9	312.7	218.2
	Purchased power	184.8	202.3	144.7
	Cost of natural gas sold	224.0	149.0	186.4
	Other	258.4	257.2	250.0
	Other operations	761.8	705.7	688.8
	Maintenance	152.4	162.1	151.4
	Depreciation	326.0	303.2	284.6
	Asset impairment	145.1	-	-
	Goodwill and intangible asset impairment	122.7	-	-
	Restructuring charges	24.6	17.8	-
	Taxes, other than income	175.2	173.1	161.3
	Total expenses	2,719.9	2,283.1	2,085.4
Income (loss) from operations		20.1	381.8	397.9
Other income (expense)	Allowance for other funds used during construction	19.8	24.9	6.6
	Other income	114.5	19.0	23.1
	Loss on debt extinguishment	-	(34.1)	-
	Contingent arbitration reserve	(32.0)	-	-
	Earnings (loss) from equity investments	(0.4)	5.5	9.1
	Total other income (expense)	101.9	15.3	38.8
Interest charges	Interest expense	288.4	142.3	164.1
	Distribution on preferred securities	39.9	38.9	17.0
	Allowance for borrowed funds used during construction	(7.6)	(9.6)	(2.6)
	Total interest charges	320.7	171.6	178.5
(Loss) income from continuing operations before provision for income taxes		(198.7)	225.5	258.2
(Benefit) for income taxes		(135.2)	(51.7)	(7.3)
Net (loss) income from continuing operations before minority interests		(63.5)	277.2	265.5
Minority interest		48.8	-	-
Net (loss) income from continuing operations		(14.7)	277.2	265.5
Discontinued operations	Income (loss) from discontinued operations	(1,394.6)	60.3	35.4
	Income tax (benefit) provision	(504.2)	7.4	(2.8)
	Total discontinued operations	(890.4)	52.9	38.2
Cumulative effect of change in accounting principle, net of tax		(4.3)	-	-
Net (loss) income		$ (909.4)	$ 330.1	$ 303.7
Average common shares outstanding				
	Basic	179.9	153.2	134.5
	Diluted	179.9	153.3	135.4
Earnings per share from continuing operations				
	Basic	$ (0.08)	$ 1.81	$ 1.98
	Diluted	$ (0.08)	$ 1.81	$ 1.96
Earnings per share				
	Basic	$ (5.05)	$ 2.15	$ 2.26
	Diluted	$ (5.05)	$ 2.15	$ 2.24
Dividends paid per common share outstanding		$ 0.925	$ 1.41	$ 1.37

Consolidated Statements of Comprehensive Income

(millions) *For the years ended Dec. 31,*		*2003*	*2002*	*2001*
Net (loss) income		$ (909.4)	$ 330.1	$ 303.7
Other comprehensive loss, net of tax				
	Foreign currency translation adjustments	1.2	(1.2)	-
	Net unrealized gains (losses) on cash flow hedges	28.1	(13.2)	(19.2)
	Minimum pension liability adjustments	(43.9)	(4.4)	0.3
	Other comprehensive loss, net of tax	(14.6)	(18.8)	(18.9)
Comprehensive (loss) income		$ (924.0)	$ 311.3	$ 284.8

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

Consolidated Statements of Cash Flows

(millions) *For the years ended Dec. 31,*	*2003*	*2002*	*2001*
Cash flows from operating activities			
Net (loss) income	$ (909.4)	$ 330.1	$ 303.7
Adjustments to reconcile net (loss) income to net cash from operating activities:			
Depreciation	382.0	303.2	284.6
Deferred income taxes	(709.4)	(96.5)	102.9
Investment tax credits, net	(4.7)	(4.8)	(4.9)
Allowance for funds used during construction	(27.4)	(34.5)	(9.2)
Amortization of unearned compensation	18.3	13.9	9.7
Cumulative effect of change in accounting principle, pre-tax	7.1	–	–
Gain on sales of business/assets, pre-tax	(147.5)	13.1	–
Equity in earnings of unconsolidated affiliates	13.8	15.3	(3.1)
Minority loss	(48.8)	–	–
Asset impairment, pre-tax	1,330.8	–	–
Goodwill and intangible asset impairment, pre-tax	122.7	–	–
Loss on joint venture termination, pre-tax	153.9	–	–
Contingent arbitration reserve	32.0	–	–
Deferred recovery clause	(27.3)	72.2	(19.0)
Refunded to customers	–	(6.4)	–
Receivables, less allowance for uncollectibles	96.4	(64.1)	57.1
Inventories	7.0	(39.4)	(22.8)
Prepayments and other deposits	(16.5)	6.3	(14.3)
Taxes accrued	34.5	24.1	16.4
Interest accrued	(60.7)	14.2	(6.3)
Accounts payable	(17.5)	98.3	(51.3)
Other	99.3	38.9	65.0
Cash flows from operating activities	328.6	655.7	502.7
Cash flows from investing activities			
Capital expenditures	(590.6)	(1,065.2)	(965.9)
Allowance for funds used during construction	27.4	34.5	9.2
Purchase of minority interest	–	(9.9)	–
Net proceeds from sales of business/assets	296.5	103.3	(272.6)
Restricted cash	(63.5)	–	–
Investment in unconsolidated affiliates	(30.6)	(7.6)	27.6
Other non-current investments	(32.4)	(715.6)	95.7
Cash flows from investing activities	(393.2)	(1,660.5)	(1,106.0)
Cash flows from financing activities			
Dividends	(165.2)	(215.8)	(184.2)
Common stock	136.6	572.6	348.4
Proceeds from long-term debt	655.1	1,758.4	1,255.9
Minority interest	44.4	–	–
Restricted cash	(5.9)	–	–
Repayment of long-term debt	(526.5)	(949.7)	(236.5)
Settlement of joint venture termination obligation	(33.5)	–	
Net decrease in short-term debt	(323.0)	(278.4)	(570.0)
Issuance of preferred securities	–	435.6	–
Equity contract adjustment payments	(20.3)	(15.3)	–
Cash flows from financing activities	(238.3)	1,307.4	613.6
Net (decrease) increase in cash and cash equivalents	(302.9)	302.6	10.3
Cash and cash equivalents at beginning of year	411.1	108.5	98.2
Cash and cash equivalents at end of year	$ 108.2	$ 411.1	$ 108.5

Supplemental disclosure of cash flow information			
Cash paid during the year for:			
Interest (net of amounts capitalized)[1]	$ 493.1	$ 160.2	$ 178.1
Income taxes	$ 58.8	$ 71.9	$ 52.4

(1) Included in interest paid during the year is interest paid on debt obligations for discontinued operations of $166.6 million for 2003. There was no interest paid on debt obligations for discontinued operations in 2002 or 2001.

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

Consolidated Statements of Common Equity

(millions)	Shares	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation	Total Common Equity
Balance, Dec. 31, 2000	126.3	$133.3	$ 397.3	$ 144.7	$ 1,177.1	$ 3.5	$ 52.6	$ 1,506.9
Net income for 2001					303.7			303.7
Other comprehensive loss, after tax						(18.9)		(18.9)
Common stock issued	13.3	6.3	203.2	144.7			(5.8)	348.4
Cash dividends declared					(184.2)			(184.2)
Amortization of unearned compensation							9.7	9.7
Tax benefits - ESOP dividends and stock options			0.2		1.4			1.6
Performance shares							4.4	4.4
Balance, Dec. 31, 2001	139.6	$139.6	$ 600.7	$ –	$ 1,298.0	$ (22.4)	$ 44.3	$ 1,971.6
Net income for 2002					330.1			330.1
Other comprehensive loss, after tax						(18.8)		(18.8)
Common stock issued	36.2	36.2	544.4				(8.0)	572.6
Cash dividends declared					(215.8)			(215.8)
Amortization of unearned compensation							13.9	13.9
Convertible preferred stock – present value of contract adjustment payments			(53.1)					(53.1)
Tax benefits - ESOP dividends and stock options			2.5		1.4			3.9
Performance shares							7.3	7.3
Balance, Dec. 31, 2002	175.8	$175.8	$ 1,094.5	$ –	$ 1,413.7	$ (41.2)	$ (31.1)	$2,611.7
Net (loss) for 2003					(909.4)			(909.4)
Other comprehensive loss, after tax						(14.6)		(14.6)
Common stock issued	12.0	12.0	125.0				(0.4)	136.6
Cash dividends declared					(165.2)			(165.2)
Amortization of unearned compensation							18.3	18.3
Tax benefits - ESOP dividends and stock options			1.3		0.4			1.7
Performance shares							(1.4)	(1.4)
Balance, Dec. 31, 2003	**187.8**	**$187.8**	**$ 1,220.8**	**$ –**	**$ 339.5**	**$(55.8)**	**$ (14.6)**	**$1,677.7**

(1) TECO Energy had 400 million shares of $1 par value common stock authorized in 2003, 2002 and 2001.
The accompanying notes are an integral part of the consolidated financial statements.

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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 intercompany balances and intercompany transactions have been eliminated in consolidation. The equity method of accounting is used to account for investments in partnership or other arrangements in which TECO Energy or its subsidiary companies do not have majority ownership or exercise control.

Results of operations for the proportional share of expenses, revenues and assets reflecting TECO Coalbed Methane's undivided interest in joint venture property are included in the consolidated financial statements through Dec. 31, 2002.

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.

Revised Segment Reporting

As more fully described in **Note 14**, the Union and Gila River projects' results have been reflected in discontinued operations. This reclassification, as well as other changes described below, significantly revised operating segments used for decision-making purposes.

In 2003, the company, as part of its renewed focus on core utility operations, revised internal reporting information used for decision making purposes. With this change, management focused on the results and performance of TECO Wholesale Generation, Inc. (formerly TECO Power Services Corporation), or TWG, as a segment comprised of all merchant operations, from which the Union and Gila River projects' operations have been reclassified to discontinued operations. TWG includes the results of operations for the Frontera, Commonwealth Chesapeake, Dell and McAdams power plants, as well as the equity investment in the Odessa and Guadalupe power plants, held through PLC Development Holdings, LLC (PLC), and TECO EnergySource (TES), the energy marketing operation for the merchant plants.

The non-merchant operations, formerly included in the TECO Power Services operating segment, are comprised of the results from Hardee Power Partners, Ltd. (HPP), up to the date of the sale (see **Note 21** for details), the Hamakua power plant in Hawaii, the Guatemalan operations which include the San José and Alborada power plants and an equity investment in the Guatemalan distribution company, EEGSA, and other non-merchant activities. These non-merchant operations are reported in the Other Unregulated segment (see **Note 19**).

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, 2003 is comprised of $15.4 million of cash accumulated in escrow under the sale agreement of the 49.5-percent interest of TECO Coal's synthetic fuel production facilities to provide credit support for the company's obligation under the sale agreement due to the company's current credit rating, and $36.0 million held in escrow from the sale HPP (see **Note 21**). Over time, up to $50 million of cash from the synthetic fuel facility sale will accumulate in escrow to support the company's obligation under the sale agreement due to the company's current credit rating.

Cost Capitalization

Development costs – TECO Energy capitalizes the external costs of construction-related development activities after achieving certain project-related milestones that indicate that completion of a project is probable. Such costs include direct incremental amounts incurred for professional services (primarily legal, engineering and consulting services), permits, options and deposits on land and equipment purchase commitments, capitalized interest and other related costs. Capitalized costs are transferred to construction in progress when financing has been obtained and construction activity has commenced. In accordance with Statement of Position (SOP) 98-5, *Reporting on the Costs of Start-up Activities*, start-up costs and organization costs are expensed as incurred.

Debt issuance costs – The company capitalizes the external costs of obtaining debt financing and amortizes such costs over the life of the related debt.

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 $17.3 million, $63.2 million, and $23.0 million of interest costs in 2003, 2002 and 2001, respectively.

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, Peoples Gas System (PGS) and TWG 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 implicit 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.

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. 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 2003, 2002 and 2001. Total AFUDC for 2003, 2002 and 2001 was $27.4 million, $34.5 million, and $9.2 million, respectively. The base on which AFUDC is calculated excludes construction work-in-progress which has been included in rate base.

Other Investments

Other investments, which include longer-term passive investments, at Dec. 31, 2003 and 2002 were as follows:

Other Investments

(millions) Dec. 31	Rate	Due Date	2003	2002
Notes receivable from:				
Panda Energy	14.00%	1/3/03	$ –	$ 137.0
EEGSA	6.14%	9/11/07	8.1	11.1
TECO-Panda Generating Company, L.P. (TPGC)	7.79%	11/30/04	–	369.5
TECO-Panda Generating Company, L.P.	6.58%	11/30/04	–	426.3
Municipal Gas Authority of Georgia	1.38%	3/31/03	–	98.1
Continuing investments in leveraged leases	–	–	8.4	9.4
Other investments	–	–	–	29.0
			16.5	1,080.4
Current notes receivable			–	235.1
Other non-current investments			$16.5	$ 845.3

(1) On Jan. 3, 2003, this note receivable was converted to an ownership interest (see **Note 21**).
(2) Current rate at Dec. 31, 2003.
(3) Current rate at Dec. 31, 2002.
(4) As of Apr. 1, 2003, TPGC was consolidated as part of the TWG consolidated group. See **Note 12** for additional details regarding the consolidation.
(5) Received payment of this note receivable, relating to the sale of TECO Coalbed Methane, on Jan. 30, 2003 (see **Note 21**).

These financial investments have no quoted market prices and, accordingly, a reasonable estimate of fair market value could not be made without incurring excessive costs. However, the company believes by reference to stated interest rates and security description, the fair value of these assets would not differ significantly from the carrying value.

Investments in Unconsolidated Affiliates

Investments in unconsolidated affiliates are accounted for using the equity method of accounting. The percentage ownership interest for each investment at Dec. 31, 2003 and 2002 is presented in the following table:

TECO Energy and Subsidiaries' Percent Ownership in Unconsolidated Affiliates

Dec. 31,	2003	2002
TECO Wholesale Generation (TWG)		
TPGC (1)	100%	50%
Texas Independent Energy, L.P. (TIE) (2)	50	–
Other unregulated		
Empresa Eléctrica de Guatemala, S.A. (EEGSA)	24%	24%
Hamakua Energy Partners, L.P.	50	50
Hamakua Land Partnership, LLP	50	50
US Propane, LLC (3)	38	38
TECO AGC, Ltd.	50	50
Litestream Technologies, LLC	36	65
Hernando Oaks, LLC	50	50
Brandon Properties Partners, Ltd.	50	50
Walden Woods Business Center, Ltd.	50	50
B-T One, LLC (4)	80	50

(1) TWG consolidated TPGC effective Apr. 1, 2003 and received Panda's 50-percent interest in June 2003. See **Note 12** for a detailed discussion.
(2) The TIE investment is held by PLC Development Holdings, LLC (PLC). TWG indirectly obtained 50-percent of PLC in January 2003 and the remaining ownership interests outstanding in September 2003. See **Notes 12, 17** and **21** for a complete description of these transactions.
(3) See **Note 23** for information regarding the recent sale of interests held by US Propane.
(4) During April 2003, the company renegotiated the terms of the partnership agreement of B-T One, LLC, to reflect the economic interests of the partners. Effective Apr. 1, 2003, the company indirectly owns an 80-percent interest in the partnership.

Deferred Income Taxes

TECO Energy 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 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 Staff Accounting Bulletin (SAB) 104, *Revenue Recognition in Financial Statements*. The interpretive criteria outlined in SAB 104 are that 1) there is persuasive evidence that an arrangement exists; 2) delivery has occurred or services have been rendered; 3) the fee is fixed and determinable; and 4) collectibility is reasonably assured. 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 4** 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 for certain transportation services at TECO Transport are recognized using the percentage of completion method, which includes estimates of the distance traveled and/or the time elapsed, compared to the total estimated contract. Revenues for long-term engineering or construction-type contracts at BCH Mechanical (formerly part of TECO Energy Services) are recognized under the same method, which includes estimates of the total costs for the project compared to the estimated progress of the work required to complete the contract.

Revenues and Fuel Costs

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-recovery 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 4**.

As of Dec. 31, 2003 and 2002, unbilled revenues of $45.7 million and $41.3 million, respectively, are included in the "Receivables" line item on the balance sheet.

Purchased Power

Tampa Electric purchases power on a regular basis primarily to meet the needs of its retail customers. As a result of the sale of HPP in 2003 (see **Notes 14** and **21**), power purchases from HPP subsequent to the sale, are reflected as non-affiliate purchases by Tampa Electric. Tampa Electric's long-term power purchase agreement from HPP was not affected by the sale of HPP. Under the existing agreement, which has been approved by the FPSC, Tampa Electric has the right to purchase, on average, approximately 52% of the total output of the Hardee power station. Tampa Electric purchased power from non-TECO Energy affiliates, including purchases from HPP, at a cost of $234.9 million, $253.7 million, and $209.7 million, respectively, for the years ended Dec. 31, 2003, 2002 and 2001. The associated revenue at HPP from power sold to Tampa Electric of $50.1 million, $51.4 million and $65.0 million for 2003, 2002 and 2001, respectively, is offset against "Regulated operations – Purchased power" in the income statement. The purchased power costs at Tampa Electric are recoverable through an FPSC-approved cost recovery clause.

In order to meet firm commitments or maintain acceptable operating conditions, TWG's power plants may also purchase power in the ordinary course of business. Total unregulated purchases of power at TWG for continuing operations, for the years ended Dec. 31, 2003, 2002 and 2001, were $26.6 million, $20.2 million, and $4.2 million, respectively. Unregulated power purchases are reported in "Other operations" in the income statement.

Depreciation

TECO Energy provides for 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. Unregulated electric generating, pipeline and transmission facilities are depreciated over the expected useful lives of the related equipment, a period of up to 40 years. The provision for total regulated and unregulated plant in service, expressed as a percentage of the original cost of depreciable property, was 4.5% for 2003 and 4.2% for 2002 and 2001. For the year ended Dec. 31, 2003, Tampa Electric recognized depreciation expense of $36.6 million related to accelerated depreciation of certain Gannon power station coal-fired assets, in accordance with a regulatory order issued by the FPSC. Construction work-in-progress is not depreciated until the asset is completed or placed in service.

The implementation of FAS 143, *Accounting for Asset Retirement Obligations*, in 2003 resulted in an increase in the carrying amount of long-lived assets and the reclassification of the accumulated reserve for cost of removal from accumulated depreciation to "Regulatory liabilities" for all periods presented. The adjusted capitalized amount is depreciated over the remaining useful life of the asset. See **Note 5**.

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 $77.7 million, $73.8 million and $71.1 million for the years ended Dec. 31, 2003, 2002 and 2001, 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, 2003, 2002 and 2001, these totaled $77.5 million, $73.7 million and $71.0 million, respectively.

Asset Impairments

Effective Jan. 1, 2002, TECO Energy and its subsidiaries adopted FAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which superseded 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 an impairment of its long-lived assets and certain intangibles held and used by the company when such impairment indicators exist. During 2003, certain events, including market conditions, third-party actions, operating results and changes in the company's long-term strategic plan have occurred, requiring management to assess the likelihood of an impairment for certain long-lived assets and certain intangibles held and used by the company. Indicators of impairment existed for certain asset groups, including long-term turbine purchase contracts, finite-lived intangible assets and merchant power plants, triggering a requirement to ascertain the recoverability of these assets using undiscounted cash flows before interest expense. See **Note 10** for specific details regarding the results of these assessments.

Deferred Credits and Other Liabilities

Other deferred credits primarily include the accrued postretirement benefit liability, the pension liability, deferred gains and the liability for future contract adjustment payments related to the mandatorily convertible equity securities.

Stock-Based Compensation

TECO Energy has adopted the disclosure-only provisions of FAS 123, *Accounting for Stock-Based Compensation*, but applies Accounting Principles Board Opinion No. (APB) 25, *Accounting for Stock Issued to Employees*, and related interpretations in accounting for its stock-based compensation plans. See **Note 9** for the pro forma impact that the application of the recognition provisions of FAS 123 would have on reported net income and earnings per share.

Effective Jan. 1, 2003, the company adopted FAS 148, *Accounting for Stock-Based Compensation–Transition and Disclosure, an amendment of FASB Statement No. 123.* This standard amends FAS 123 to provide alternative methods of transition for companies that voluntarily change to the fair value-based method of accounting for stock-based employee compensation. It also requires prominent disclosure about the effects on reported net income of the company's accounting policy decisions with respect to stock-based employee compensation in both annual and interim financial statements. The adoption of the disclosure provisions of this standard did not have a material impact on the company's financial position.

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 $380 million note indenture contains a covenant that requires the company to achieve certain interest coverage levels in order to pay dividends. TECO Energy's Merrill Lynch credit facility contains a covenant that could limit the payment of dividends exceeding $40 million in any quarter under certain circumstances if the facility is drawn. Tampa Electric's first mortgage bond indenture and certain long-term debt at PGS contain restrictions that limit the payment of dividends and distributions on the common stock of Tampa Electric. Tampa Electric's first mortgage bond indenture does not limit loans or advances. As of Dec. 31, 2003 and 2002, the balances restricted as to transfers from Tampa Electric to TECO Energy under the first mortgage bonds were 3% and 20%, respectively, of consolidated common equity. Tampa Electric's new credit facilities include a covenant limiting cumulative distributions and outstanding affiliate loans.

In addition, TECO Diversified, Inc., a wholly-owned subsidiary of TECO Energy and the holding company for TECO Transport, TECO Coal and TECO Solutions, 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 20** for a more detailed description of significant financial covenants.

TECO Energy holds the right to defer payments on its subordinated notes issued in connection with the issuance of trust preferred securities by TECO Capital Trust I or TECO Capital Trust II. Should the company exercise this right, it would be prohibited from paying cash dividends on its common stock until the unpaid distributions on the subordinated notes are made. TECO Energy has not exercised that right.

Foreign Operations

The functional currency of the company's foreign investments is primarily the U.S. dollar. Transactions in the local currency are remeasured to the U.S. dollar for financial reporting purposes. The aggregate remeasurement gains or losses included in net income in 2003, 2002 and 2001 were not significant. 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.

Reclassifications

Certain prior year amounts were reclassified to conform with the current year presentation. Results for all prior periods have been reclassified from continuing operations to discontinued operations as appropriate for each of the entities as discussed in **Note 14**.

2. 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 issuances at TECO Energy and its other affiliates,
- To limit the exposure to electricity, natural gas and fuel oil price fluctuations related to the operations of natural gas-fired and fuel oil-fired power plants at TWG, and
- To limit the exposure to price fluctuations for physical purchases of fuel at TECO Transport.

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. For unregulated operations, the company uses derivative instruments primarily to optimize the value of physical assets, including generation capacity, natural gas production, and natural gas delivery.

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 FAS 133, *Accounting for Derivative Instruments and Hedging Activities.* The standard requires 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 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 the 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 adoption on Jan. 1, 2001, the company had derivatives in place at TECO Coalbed Methane that qualified for cash flow hedge accounting treatment under FAS 133, and recorded an opening swap liability of $19.0 million and an after-tax reduction to OCI of $12.6 million. TECO Coalbed Methane was subsequently reclassified to discontinued operations, reflecting the December 2002 sale of the company's investment in the entity, as discussed in **Notes 14 and 21**.

At Dec. 31, 2003 and 2002, respectively, TECO Energy and its affiliates had derivative assets (current and non-current) totaling $21.1 million and $12.6 million, and liabilities (current and non-current) totaling $12.0 million and $4.1 million. At Dec. 31, 2003 and 2002, accumulated other comprehensive income (OCI) included $4.3 million and $32.4 million, respectively, of unrealized after-tax losses, representing the fair value of cash flow hedges whose transactions will occur in the future. Included in OCI at Dec. 31, 2003 is an unrealized after-tax loss of $14.6 million on

interest rate swaps designated as cash flow hedges, reflecting the remaining amount included in OCI related to cash flow hedges for the period preceding the expected disposition of TPGC (see **Note 14**). At Dec. 31, 2002 the unrealized after-tax loss of $37.3 million, included in OCI, represented the company's proportionate share of OCI at TPGC, in accordance with the equity method of accounting. Amounts recorded in OCI reflect the estimated fair value of derivative instruments designated as hedges, based on market prices as of the balance sheet date. 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.

For the years ended Dec. 31, 2003, 2002 and 2001, TECO Energy and its affiliates reclassified amounts from OCI (excluding certain reclassifications for interest rate swaps described below) and recognized net pre-tax losses of $12.6 million, $29.0 million and $19.7 million, respectively. Amounts reclassified from OCI were primarily related to cash flow hedges of physical purchases of natural gas and physical sales of electricity. For these types of hedge relationships, the loss on the derivative, reclassified from OCI to earnings, is offset by the reduced expense arising from lower prices paid or received for spot purchases of natural gas or decreased revenue from sales of electricity. Conversely, reclassification of a gain from OCI to earnings is offset by the increased cost of spot purchases of natural gas or sales of electricity.

As a result of 1) the suspension of construction on the Dell and McAdams power plants at TWG in 2003 and 2) the maintenance activity on the Frontera Power Station at TWG in early 2003, the company discontinued hedge accounting for purchases of natural gas and sales of electricity which were no longer anticipated to take place within two months of the originally designated time period for delivery. The discontinuation of hedge accounting resulted in a reclassification of a pre-tax gain of $0.2 million from OCI to earnings, reflecting the fair value of the related derivatives as of the discontinuation date. This gain is included in the net pre-tax loss reported above for 2002. In addition, as a result of the designation of TPGC as an asset held for sale, the company concluded that the hedged interest expense for periods beyond the expected disposition date are no longer probable. As a result, the company reclassified a pre-tax loss of $63.8 million ($41.5 million after tax) from OCI to income from discontinued operations (see **Note 14**). Gains and losses on these derivative instruments, subsequent to the discontinuation of hedge accounting treatment, were recorded in earnings.

Based on the fair value of cash flow hedges at Dec. 31, 2003, pre-tax losses of $9.0 million are expected to be reversed from OCI to the Consolidated Statements of Income within the next twelve months. However, these losses and other future reclassifications from OCI 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 2006.

At Dec. 31, 2003, Prior Energy, a subsidiary of TECO Energy, had transactions in place to hedge gas storage inventory that qualify for fair value hedge accounting treatment under FAS 133. During the years ended Dec. 31, 2003, 2002 and 2001, respectively, the company recognized pre-tax gains (losses) of $(1.3) million, $0.7 million and $0.1 million, respectively. These gains and losses are included in discontinued operations as a result of the expected sale of Prior Energy (see **Notes 14** and **21**). See **Note 23** for details regarding the subsequent sale of Prior Energy. For the years ended Dec. 31, 2003, 2002 and 2001, respectively, the company also recognized pre-tax losses of $6.5 million, $2.4 million and $1.5 million, relating to derivatives that were not designated as either a cash flow or fair value hedge.

3. Goodwill and Other Intangible Assets

Effective Jan. 1, 2002, TECO Energy and its subsidiaries adopted FAS 141, *Business Combinations*, and FAS 142, *Goodwill and Other Intangible Assets*. FAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting. With the adoption of FAS 142, goodwill is no longer 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, *Goodwill and Other Intangible Assets*, TECO Energy reviews recorded goodwill and intangible assets at least annually 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.

As a result of the consolidation of TPGC, effective Apr. 1, 2003 (see **Note 12**), the completion and commercial operation of the Union Power Partners (UPP) plant in June 2003, and the termination of the partnership with Panda Energy in June 2003, management initiated an interim review for the possible impairment of goodwill associated with TWG's reporting units. This evaluation indicated that an impairment of goodwill existed. Accordingly, the fair value of the reporting unit was determined, in accordance with the policy described above, to calculate the goodwill impairment. Consequently, the company recorded a pre-tax impairment charge in June 2003 of $95.2 million to write off all of the goodwill previously recorded at these reporting units based on the implied fair value of the goodwill for each respective reporting unit. This goodwill arose from the previous acquisitions of the Commonwealth Chesapeake power station in Virginia and the Frontera power station in Texas. TWG has no remaining goodwill.

In connection with the annual goodwill assessment, the company determined that the goodwill recognized and associated with TECO Energy Services, relating to BCH Mechanical and BGA, was impaired. The company recognized a goodwill impairment pre-tax loss of $19.4 million. Additionally, goodwill of $9.6 million related to Prior Energy has been reclassified to "Assets held for sale" (see **Notes 14** and **23**).

The amount of intangible assets recorded in "Other assets" at Dec. 31, 2003 and 2002 was $4.9 million and $12.6 million, respectively (net of accumulated amortization in 2002 of $13.3 million). For the years ended Dec. 31, 2003 and 2002, the company recognized amortization expense of $4.7 million and $23.1 million, respectively. TECO Energy expects to recognize amortization expense of $0.2 million each year for 2004-2009.

Intangible assets at Dec. 31, 2002 included $8.1 million relating to an indefinite-lived intangible asset arising from gasification technology licenses held by TWG and a long-term customer arrangement at BGA. However, in 2003, due to changes in management's long-term strategic plan and the expected disposal of BGA, a pre-tax impairment charge of $8.1 million was recognized to write off the value of these intangible assets.

The pro forma reconciliation of reported net income and earnings per share to adjusted net income excluding goodwill amortization expense for the years ended Dec. 31, 2003, 2002 and 2001 follows

Pro Forma Effect of FAS 142 Adoption

(millions, except per share amounts)	*2003*	*2002*	*2001*
Net (loss) income:			
As reported	$(909.4)	$ 330.1	$ 303.7
Add: Goodwill amortized, net of tax	–	–	3.7
Adjusted net (loss) income	$(909.4)	$ 330.1	$ 307.4
Earnings per share – basic:			
As reported	$ (5.05)	$ 2.15	$ 2.26
Add: Goodwill amortized, net of tax	–	–	0.03
Adjusted basic earnings per share	$ (5.05)	$ 2.15	$ 2.29
Earnings per share – diluted:			
As reported	$ (5.05)	$ 2.15	$ 2.24
Add: Goodwill amortized, net of tax	–	–	0.03
Adjusted diluted earnings per share	$ (5.05)	$ 2.15	$ 2.27

4. Regulatory

As discussed in Note 1, Tampa Electric's and PGS' retail businesses are regulated by the FPSC.

Base Rate – Tampa Electric

Since the expiration, in 1999, of agreements entered into in 1996 with Florida's Office of Public Counsel (OPC) and the Florida Industrial Power Users Group (FIPUG), which were approved by the FPSC, Tampa Electric is not under a new stipulation to stabilize prices while securing fair earnings opportunities. Tampa Electric's rates and allowed return on equity (ROE) range of 10.75 percent to 12.75 percent with a midpoint of 11.75 percent are in effect until such time as changes are occasioned by an agreement approved by the FPSC or other FPSC actions as a result of rate or other proceedings initiated by Tampa Electric, FPSC staff or other interested parties. Tampa Electric expects to continue earning within its allowed ROE range.

Tampa Electric has not sought a base rate increase to recover the investment in the Bayside Power Station, of which phase one entered service in April 2003.

Cost Recovery – Tampa Electric

2003 Proceedings

In February 2003, Tampa Electric filed a request for an additional fuel cost adjustment of almost $61 million due to continued increases in the cost of natural gas and oil and the plan to phase out Gannon Units 1 through 4 in 2003. In March 2003, the FPSC approved Tampa Electric's new fuel rates as well as new fuel rates for the other peninsular Florida investor-owned utilities.

In September 2003, Tampa Electric filed with the FPSC for approval of fuel and purchased power, capacity, environmental and conservation cost recovery clause rates for the period January through December 2004. In November 2003, the FPSC approved Tampa Electric's requested changes. The resulting rates included the impact of increased use of natural gas at the Bayside Power Station, the collection of approximately $91 million for under-recovery of fuel expense for 2002 and 2003, and estimated water-borne transportation rates for coal transportation services (see Note 17). The FPSC did not allow recovery of $8.4 million it characterized as savings from shutting down the Gannon Station earlier than originally planned which the FPSC asserted generated operations and maintenance savings. The rates include projected costs associated with environmental projects required under the Environmental Protection Agency (EPA) Consent Decree and the Florida Department of Environmental Protection (FDEP) Consent Final Judgment (see Note 20 for additional details regarding these environmental matters). The costs associated with this disallowance were recognized in 2003.

Tampa Electric filed its objection to the disallowance of the recovery of the $8.4 million and a motion asking the FPSC to reconsider its decision because all facts and law were not taken into account. The motion was filed on Jan. 6, 2004, and a decision on this matter is expected in the first quarter of 2004.

As part of the regulatory process, it is reasonably likely that third parties may intervene on this or similar matters in the future. The company is unable to predict the timing, nature or impact of such future actions.

Base Rate – Peoples Gas

On June 27, 2002, PGS filed a petition with the FPSC to increase its service rates. The requested rates would have resulted in a $22.6 million annual base revenue increase, reflecting a ROE midpoint of 11.75 percent.

On the date of the FPSC hearing, PGS agreed to a settlement with all parties involved, and a final FPSC order was granted on Dec. 17, 2002. PGS received authorization to increase annual base revenues by $12.05 million. The new rates allow for an ROE range of 10.25 to 12.25 percent with an 11.25 percent midpoint ROE and a capital structure with 57.43 percent equity. The increase went into effect on Jan. 16, 2003.

Cost Recovery – Peoples Gas

In November 2003, the FPSC approved rates under Peoples' Gas Purchased Gas Adjustment (PGA) cap factor for the period January 2004 through December 2004. The PGA is a factor that can vary monthly due to changes in actual fuel costs but is not anticipated to exceed the annual cap.

Other Items

Coal Transportation Contract

Tampa Electric's contract for coal transportation and storage services with TECO Transport expired on Dec. 31, 2003. In June 2003, Tampa Electric issued a Request For Proposal (RFP) to potential providers requesting services for the next five years. The result of the RFP process was the execution of a new contract between Tampa Electric and TECO Transport with market rates supported by the results of the RFP and an independent consultant in maritime transportation matters. The prudence of the RFP process and final contract is expected to be reviewed by the FPSC in May 2004, with a decision expected in July 2004.

Regional Transmission Organization (RTO)

In October 2002, the RTO process involving the proposed formation of GridFlorida LLC, as initiated in response to the Federal Regulatory Commission's (FERC's) continuing effort to affect open access to transmission facilities in large regional markets, was delayed when the OPC filed an appeal with the Florida Supreme Court asserting that the FPSC could not relinquish its jurisdictional responsibility to regulate the IOUs and the approval of GridFlorida would result in such a relinquishment. Oral arguments occurred in May 2003, and the Florida Supreme Court dismissed the OPC appeal citing that it was premature because certain portions of the FPSC GridFlorida order are not final.

In September 2003, a joint meeting of the FERC and FPSC took place to discuss wholesale market and RTO issues related to GridFlorida and in particular federal/state interactions. The FPSC has scheduled a series of collaborative meetings with all interested parties and upon their conclusion, will set items for hearing and a hearing schedule. This is expected to occur throughout 2004.

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 FERC. These policies conform with generally accepted accounting principles in all material respects.

Tampa Electric and PGS apply the accounting treatment permitted by FAS 71, *Accounting for the Effects of Certain Types of Regulation*. Areas of applicability include deferral of revenues 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 deferral of costs as regulatory assets, when cost recovery is ordered over a period longer than a fiscal year, to the period that the regulatory agency recognizes them. Details of the regulatory assets and liabilities as of Dec. 31, 2003 and 2002 are presented in the following table:

Regulatory Assets and Liabilities *(millions)*

Dec. 31,	*2003*	*2002*
Regulatory assets:		
Regulatory tax asset	$ 63.3	$ 54.9
Other:		
Cost recovery clauses	59.7	34.7
Coal contract buy-out (2)	2.7	5.4
Deferred bond refinancing costs	32.2	35.9
Environmental remediation	20.7	20.3
Competitive rate adjustment	5.3	7.4
Other	4.4	4.6
	125.0	108.3
Total regulatory assets	$ 188.3	$ 163.2
Regulatory liabilities:		
Regulatory tax liability	$ 29.9	$ 36.6
Other:		
Deferred allowance auction credits	1.9	2.1
Recovery clause related	–	2.2
Environmental remediation	20.7	20.3
Transmission and distribution storm reserve	40.0	36.0
Deferred gain on property sales (4)	1.9	0.9
Accumulated reserve – cost of removal	462.2	440.6
Other	3.6	–
	530.3	502.1
Total regulatory liabilities	$ 560.2	$ 538.7

(1) Related primarily to plant life. Includes $17.0 million and $20.9 million of excess deferred taxes as of Dec. 31, 2003 and 2002, respectively.

(2) Amortized over a 10-year period ending December 2004.

(3) Unamortized refinancing costs:

Related to debt transactions as follows (millions):	Amortized until
$ 30.0	2004
$ 51.6	2005
$ 22.1	2007
$ 25.0	2011
$ 50.0	2011
$ 150.0	2012
$ 150.0	2012
$ 85.9	2014
$ 25.0	2021
$ 100.0	2022

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

5. Asset Retirement Obligations

On Jan. 1, 2003, TECO Energy adopted FAS 143, *Accounting for Asset Retirement Obligations*. The company recognized liabilities for retirement obligations associated with certain long-lived assets in accordance with the relevant accounting guidance. An asset retirement obligation 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 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.

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 modifies the valuation and accrual methods used to estimate the fair value of asset retirement obligations.

As a result of the adoption of FAS 143, TECO Energy recorded an increase to net property, plant and equipment of $7.8 million (net of accumulated depreciation of $6.6 million) and an increase to asset retirement obligations of $22.1 million, partially offset by previously recognized accrued reclamation obligations associated with coal mining activities of $12.3 million. A pre-tax charge of $1.8 million, net of a $0.2 million offset due to a regulatory asset at Tampa Electric, ($1.1 million after tax) was recognized as a change in accounting principle.

For the year ended Dec. 31, 2003, TECO Energy recognized $1.2 million of accretion expense associated with asset retirement obligations. During this period, no new retirement obligations were incurred and no significant revisions to estimated cash flows used in determining the recognized asset retirement obligations were necessary. FAS 143 was not effective for the years ended Dec. 31, 2002 and 2001.

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.

Upon adoption of FAS 143 at Jan. 1, 2003, the estimated accumulated cost of removal and dismantlement included in net accumulated depreciation as of Dec. 31, 2003 and 2002 of $462.2 million and $440.6 million, respectively, was reclassified to a regulatory liability for all periods presented (see also **Note 4**). 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.

6. Short-Term Debt

At Dec. 31, 2003 and 2002, the following credit facilities and related borrowings existed

Credit Facilities

	Dec. 31, 2003			Dec. 31, 2002		
(millions)	*Credit Facilities*	*Borrowings Outstanding*	*Letters of Credit Outstanding*	*Credit Facilities*	*Borrowings Outstanding*	*Letters of Credit Outstanding*
Recourse:						
Tampa Electric:						
1-year facility	$ 125.0	$ –	$ –	$ 300.0	$ –	$ –
3-year facility	125.0	–	–	–	–	–
TECO Energy:						
1-year term loan	–	–	–	350.0	350.0	–
18-month facility	100.0	–	–	–	–	
1-year facility	37.5	37.5	–	–	–	–
3-year facility(1)	350.0	–	109.9	350.0	–	179.8
Total	$ 737.5	$ 37.5	$ 109.9	$ 1,000.0	$ 350.0	$ 179.8

(1) See **Note 23** for details regarding the subsequent reduction of this credit facility.

These credit facilities require commitment fees ranging from 20 to 50 basis points. The weighted average interest rate on outstanding notes payable at Dec. 31, 2003 and 2002 was 6.63% and 1.88%, respectively. At Dec. 31, 2003 and 2002, notes payable consisted of the following.

Notes Payable

(millions) Dec. 31,	*2003*	*2002*
Credit facilities outstanding	$ 37.5	$ 350.0
Commercial paper	–	10.5
Total notes payable	$ 37.5	$ 360.5

Tampa Electric 1-year and 3-year facilities

On Nov. 7, 2003, Tampa Electric Company replaced its maturing $300 million credit facility with a $125 million one-year credit facility and a $125 million three-year credit facility, maturing in November 2004 and November 2006, respectively. In addition to the financial covenants described below and in **Notes 1** and **20**, the two new facilities include a covenant limiting cumulative distributions after Oct. 31, 2003 and outstanding affiliate loans to an amount representing an accumulation of net income after May 31, 2003 and capital contributions from the parent after Oct. 31, 2003, plus $450 million.

TECO Energy 1-year term loan

On Nov. 13, 2003, TECO Energy repaid the $350 million one-year credit facility maturing on that date.

TECO Energy 18-month facility

On Apr. 9, 2003, TECO Energy entered into a $350 million unsecured credit facility with Merrill Lynch for a term of up to eighteen months. The Merrill Lynch credit facility requires TECO Energy's debt-to-capital ratio, as defined in the credit agreement, not to exceed 65%. This facility also has covenants that, if the facility is drawn, could limit the payment of dividends exceeding $40 million in any quarter unless, prior to the payment of any dividends, the company delivers to Merrill Lynch liquidity projections satisfactory to Merrill Lynch demonstrating that the company will have sufficient cash or cash equivalents to pay both the dividends contemplated and each of the three quarterly dividends next scheduled to be paid on its common stock. Current quarterly dividends are $34.8 million.

On Nov. 12, 2003, TECO Energy and Merrill Lynch amended the existing $350 million credit facility to allow $100 million of credit capacity to remain in place subsequent to the repayment of the $350 million bank term maturity on Nov. 13, 2003. Under the terms of the original agreement, the facility would have been extinguished upon that repayment. The amendment made the $100 million commitment of undrawn line capacity available through Apr. 8, 2004, at which time the facility can be drawn up to $100 million and remain outstanding to Oct. 8, 2004. The $100 million facility is required to be reduced for certain asset sales and financings. See **Note 23** for details regarding the subsequent reduction of this facility due to subsequent asset sales.

On Dec. 19, 2003, TECO Energy and Merrill Lynch further amended the existing Merrill Lynch credit facility to put in place with Merrill and JP Morgan a contingent credit facility of $200 million. The contingent facility becomes effective only if the existing $350 million bank credit facility becomes unavailable because of non-compliance with the 65% debt-to-total-capital covenant or transfer of assets covenant as a result of write-offs or the disposition of TWG assets. Upon the occurrence of these particular events, TECO Energy would pledge the common stock of TECO Transport Corporation as security under the amended credit facility and the commitment available under the facility would be increased to $200 million, all of which would be available for letters of credit or cash draws. If the terms of the facility change as a result of these particular events, the amended facility would mature in December 2004. The contingent facility, if activated, would replace the existing $100 million Merrill Lynch facility. See **Note 20** for a summary of performance against significant financial covenant requirements.

TECO Energy 1-year facility

On June 24, 2003, TECO Energy entered into a one-year $37.5 million credit facility with four banks, collateralized by 50% of the Union and Gila River assets. The proceeds from the credit facility were used in the termination of the partnership with Panda. This credit facility has a debt-to-capital covenant similar to those of the other TECO Energy credit facilities, but also includes an earnings before interest, taxes, depreciation and amortization (EBITDA) to interest coverage requirement of 2.5 times, a limitation on liens of not more than 60% of the fair value of assets, and a restriction on the sale of any of the company's interest in the Union and Gila River projects. This loan can be repaid without penalty at any time with three business days' notice. See **Note 20** for a summary of performance against significant financial covenant requirements. Subsequent to Dec. 31, 2003, this obligation was repaid (see **Note 23**).

7. Long-Term Debt

At Dec. 31, 2003, total long-term debt had a carrying amount of $4,392.6 million and an estimated fair market value of $4,503.6 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 to secure its first mortgage bonds, and certain pollution control equipment is pledged to secure certain installment contracts payable.

TECO Energy's maturities and annual sinking fund requirements of long-term debt for 2004 through 2008 are as follows:

Long-Term Debt Maturities For Continuing Operations

Dec. 31, 2003 (millions)	*2004*	*2005*	*2006 – 2008*	*Total 2004 – 2008*
TECO Energy				
Debt securities	$ –	$ –	$ 680.0	$ 680.0
Preferred securities [1]	–	–	449.1	449.1
Tampa Electric	0.8	–	125.0	125.8
Peoples Gas	5.3	5.5	42.7	53.5
TWG	–	–	–	–
TECO Transport	–	–	110.6	110.6
TECO Coal	–	–	–	–
Other [2]	25.5	20.7	31.6	97.8
	31.6	26.2	1,459.0	1,516.8
Liabilities associated with assets held for sale	2,087.3	–	–	2,087.3
Total long-term debt maturities	$ 2,118.9	$26.2	$ 1,459.0	$ 3,604.1

(1) FAS 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, which was adopted on July 1, 2003, requires the classification of the preferred securities as debt.
(2) Includes debt maturities for the Guatemalan operations of $17.8 million, $20.7 million, and $31.6 million for 2004, 2005 and 2006-2008, respectively.

Debt

TECO Energy – $300 million 7.5% Senior Unsecured Notes

On June 13, 2003, TECO Energy issued $300 million of 7.5% Senior Unsecured Notes due in 2010. These notes contain a covenant that limits the ability of the company to create any lien upon any of its property in excess of 5% of consolidated tangible net assets, as defined in the agreement, without equally and ratably securing the 7.5% Notes. Net proceeds of $293 million were used to repay short-term debt and for general corporate purposes. See Note 20 for a summary of performance against significant financial covenant requirements.

TECO Energy – $380 million 10.5% Senior Unsecured Notes

In November 2002, the proceeds from the issuance of TECO Energy notes were used for general corporate purposes and to pay the $34.1 million option premium associated with the refinancing of $200 million of notes. The $34.1 million option premium ($20.9 million after tax) was recognized as a charge in 2002.

Tampa Electric – $250 million 6.25% Senior Notes

In April 2003, Tampa Electric issued $250 million of 6.25% Senior Notes due in 2016, in a private placement. Net proceeds of approximately $250 million were used to repay short-term indebtedness and for general corporate purposes at Tampa Electric. The 6.25% Senior Notes contain covenants that (1) require Tampa Electric Company to maintain, as of the last day of each fiscal quarter, a debt-to-capital ratio, as defined in the agreement, that does not exceed 60%, and (2) prohibit the creation of any liens on any of its property in excess of $787 million in the aggregate, with certain exceptions, as defined, without equally and ratably securing the 6.25% Senior Notes.

Preferred Securities

As a result of the adoption of FAS 150, on July 1, 2003, the preferred securities issued by the company were reclassified and presented as long-term debt for external financial reporting purposes only. The cumulative effect of the adoption of FAS 150 was an after-tax loss of $3.2 million ($5.3 million pre-tax), reflecting an adjustment to recognize interest expense ratably over the life of the instruments in accordance with the new guidance. See Note 22 for a discussion of the estimated impact of new accounting guidance in 2004.

Capital Trust I

In December 2000, TECO Capital Trust I, a trust established for the sole purpose of issuing Trust Preferred Securities (TRuPS) and purchasing company preferred securities, issued 8 million shares of $25 par, 8.5% TRuPS, due 2041, with an aggregate liquidation value of $200 million. Each TRuPS represents an undivided beneficial interest in the assets of the Trust. The TRuPS represent an indirect interest in a corresponding amount of TECO Energy 8.5% junior subordinated notes due 2041. TECO Energy's proceeds from the sale of the junior subordinated notes were used to reduce the commercial paper outstanding and for general corporate purposes. Distributions are payable quarterly in arrears on January 31, Apr. 30, July 31, and October 31 of each year. Distributions were $17.0 million in 2003 and 2002 and $14.6 million in 2001.

The junior subordinated notes may be redeemed at the option of TECO Energy at any time on or after Dec. 20, 2005 at 100% of their principal amount plus accrued interest through the redemption date. Upon any liquidation of the company preferred securities, holders of the TRuPS would be entitled to the liquidation preference of $25 per share plus all accrued and unpaid dividends through the date of redemption.

Capital Trust II

In January 2002, TECO Energy sold 17.965 million mandatorily convertible equity security units in the form of 9.5% equity units at $25 per unit resulting in $436 million of net proceeds. Each equity unit consisted of $25 in principal amount of a trust preferred security of TECO Capital Trust II, a Delaware business trust formed for the purpose of issuing these securities, with a stated liquidation amount of $25 and a contract to purchase shares of common stock of TECO Energy in January 2005 at a price per share of between $26.29 and $30.10 based on the market price at that time. If the equity units had been converted as of Dec. 31, 2003, the company would have been required to issue 17.1 million shares of common stock to satisfy the mandatory conversion obligation. This is also the maximum number of shares issuable under the conversion feature. The equity units represent an indirect interest in a corresponding amount of TECO Energy 5.11% subordinated debt. The holders of these contracts are entitled to quarterly contract adjustment payments at the annualized rate of 4.39% of the stated amount of $25 per year through and including Jan. 15, 2005. The net proceeds from the offering were used to repay short-term debt and for general corporate purposes.

At Dec. 31, 2003 and 2002, TECO Energy had the following long-term debt outstanding.

Long-Term Debt (millions) Dec. 31		Due	2003	2002
TECO Energy	Notes: 7.2% (effective rate of 7.38%)	2011	$ 600.0	$ 600.0
	6.125% (effective rate of 6.31%)	2007	300.0	300.0
	7% (effective rate of 7.08%)	2012	400.0	400.0
	10.5% (effective rate of 12.37%)	2007	380.0	380.0
	7.5% (effective rate of 7.85%)	2010	300.0	–
	Preferred securities: 8.50%	2041	200.0	–
	9.50%	2007	449.1	–
			2,629.1	1,680.0
Tampa Electric	First mortgage bonds (issuable in series):			
	7.75% (effective rate of 7.96%)	2022	75.0	75.0
	6.125% (effective rate of 6.61%)	2003	–	75.0
	Installment contracts payable:			
	6.25% Refunding bonds (effective rate of 6.81%)	2034	86.0	86.0
	5.85% Refunding bonds (effective rate of 5.88%)	2030	75.0	75.0
	5.1% Refunding bonds (effective rate of 5.77%)	2013	60.7	60.7
	5.5% Refunding bonds (effective rate of 6.34%)	2023	86.4	86.4
	4% (effective rate of 4.22%)	2025	51.6	51.6
	4% (effective rate of 4.17%)	2018	54.2	54.2
	4.25% (effective rate of 4.44%)	2020	20.0	20.0
	Notes: 6.875% (effective rate of 6.98%)	2012	210.0	210.0
	6.375% (effective rate of 7.35%)	2012	330.0	330.0
	5.375% (effective rate of 5.59%)	2007	125.0	125.0
	6.25% (effective rate of 6.31%)	2016	250.0	–
			1,423.9	1,248.9
Peoples Gas System	Senior Notes: 10.35%	2007	3.4	4.2
	10.33%	2008	4.8	5.6
	10.3%	2009	6.4	7.2
	9.93%	2010	6.6	7.4
	8%	2012	23.3	25.4
	Notes: 6.875% (effective rate of 6.98%)	2012	40.0	40.0
	6.375% (effective rate of 7.35%)	2012	70.0	70.0
	5.375% (effective rate of 5.59%)	2007	25.0	25.0
			179.5	184.8
TECO Wholesale Generation	Non-recourse secured facility notes, Series A: 7.8%	2003	–	111.0
	Non-recourse secured facility notes, variable rate:			
	4.38% for 2003 and 4.36% for 2002	2004-2007	36.7	50.1
	6.63% for 2003 and 6.88% for 2002	2004-2009	16.0	16.0
	4.75% for 2003 and 5.00% for 2002	2004-2009	14.0	14.0
	Non-recourse secured facility notes: 10.1%	2004-2009	15.3	16.4
	9.629%	2004-2009	19.1	24.8
	Non-recourse secured facility note, variable rate: 3.00% weighted average	2004-2006	1,395.0	–
	Non-recourse financing facility - Union County 7.5%	2004-2021	692.3	–
			2,188.4	232.3
Diversified companies	Dock and wharf bonds, 5%	2007	110.6	110.6
	Non-recourse mortgage notes: 4.45% (effective rate of 4.62%)	2004	4.6	–
	3.95% (effective rate of 4.16%)	2004	3.0	–
	Capital lease: implicit rate of 8.5%	2003	–	25.3
			118.2	135.9
Unamortized debt premium (discount), net			(27.6)	(30.5)
			6,511.5	3,451.4
Less amount due within one year			31.6	127.1
Less long-term liabilities held for sale			2,087.3	–
Total long-term debt			$4,392.6	$3,324.3

(1) These notes 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 covenants, such as limitations on restricted payments, liens and indebtedness (see **Note 20**).
(3) These securities may be redeemed in whole or in part, by action of the company on or after Dec. 20, 2005.
(4) These securities are comprised of two components–an equity contract which pays a coupon of 4.39%, adjusted quarterly, and a note obligation which pays a coupon of 5.11% (effective rate of 5.85%). The note obligation is subject to a potential rate reset on Oct. 15, 2004.
(5) Tax-exempt securities.
(6) Proceeds of these bonds were used to refund bonds with an interest rate of 9.9% in February 1995. For accounting purposes, interest expense has been recorded using a blended rate of 6.52% on the original and refunding bonds, consistent with regulatory treatment.
(7) Proceeds of these bonds were used to refund bonds with interest rates of 5.75%-8%.
(8) The interest rate on these bonds was fixed for a five-year term on Aug. 5, 2002.
(9) Composite year-end interest rate.
(10) This obligation is expected to be transferred in the disposition of the Union and Gila River power plants. As a result, the liability has been reclassified to "Liabilities associated with assets held for sale". See **Note 14** for additional details.
(11) These notes represent 100% of the debt for BT-One, LLC, an 80-percent owned unconsolidated affiliate. In total, the company has a $1.0 million guarantee on these notes.
(12) Of the amount due in 2004, $0.8 million may be satisfied by the substitution of property in lieu of cash payments.

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8. *Preferred Stock*

Preferred stock of TECO Energy – $1 par 10 million shares authorized, none outstanding.

Preference 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 value 1.5 million shares authorized, none outstanding.

9. *Common Stock*

Stock-Based Compensation

In April 1996, the shareholders approved the 1996 Equity Incentive Plan (1996 Plan). The 1996 Plan superseded the 1990 Equity Incentive Plan (1990 Plan), and no additional grants will be made under the 1990 Plan. The rights of the holders of outstanding options under the 1990 Plan were not affected. The purpose of the 1996 Plan is to attract and retain key employees of the company, to provide an incentive for them to achieve long-range performance goals and to enable them to participate in the long-term growth of the company. The 1996 Plan amended the 1990 Plan to increase the number of shares of common stock subject to grants by 3,750,000 shares, expand the types of awards available to be granted and specify a limit on the maximum number of shares with respect to which stock options and stock appreciation rights may be made to any participant under the plan. Under the 1996 Plan, the Compensation Committee of the Board of Directors may award stock grants, stock options and/or stock equivalents to officers and key employees 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.

In 2003, under the 1996 Plan, 2,828,806 stock options were granted, with a weighted average option price of $11.10 and a maximum term of 10 years. In addition, 561,050 shares of restricted stock were awarded, each with a weighted average fair value of $11.14. Compensation expense recognized for stock grants awarded under the 1996 Plan was $1.6 million, $1.7 million and $2.8 million in 2003, 2002 and 2001, respectively. Approximately half of the stock grants awarded in 2003 and 2002 and all of the stock grants awarded in 2001 are performance shares, restricted subject to meeting specified total shareholder return goals, vesting in three years with final payout ranging from zero to 200% of the original grant. Adjustments are made to reflect contingent shares which could be issuable based on current period results. The consolidated balance sheets at Dec. 31, 2003 and 2002 reflected a $(4.7) million and a $(6.3) million liability, respectively, classified as other deferred credits, for these contingent shares. The remaining stock grants are restricted subject to continued employment generally, with the 2003 and 2002 stock grants vesting in three years, and the 1997 and 1996 stock grants vesting at normal retirement age.

In April 2001, the shareholders approved an amendment to the 1996 Plan to increase the number of shares of common stock subject to grants by 6.3 million.

Stock option transactions during the last three years under the 1996 Plan and the 1990 Plan (collectively referred to as the "Equity Plans") are summarized as follows:

Stock Options - Equity Plans

	Option Shares (thousands)	*Weighted Avg. Option Price*
Balance at Dec. 31, 2000	4,559	$22.54
Granted	1,268	$31.39
Exercised	(605)	$21.53
Cancelled	(32)	$26.88
Balance at Dec. 31, 2001	5,190	$24.79
Granted	1,770	$27.97
Exercised	(487)	$20.93
Cancelled	(57)	$27.03
Balance at Dec. 31, 2002	6,416	$25.94
Granted	2,829	$11.10
Exercised	(14)	$11.09
Cancelled	(306)	$23.35
Balance at Dec. 31, 2003	8,925	$21.35
Exercisable at Dec. 31, 2003	–	–
Available for future grant at Dec. 31, 2003	1,447	

As of Dec. 31, 2003, the 8.9 million options outstanding under the Equity Plans are summarized below:

Stock Options Outstanding at Dec. 31, 2003

Option Shares (thousands)	*Range of Option Prices*	*Weighted Avg. Option Price*	*Weighted Avg. Remaining Contractual Life*
2,783	$11.09 - $11.78	$11.10	9 Years
2,070	$19.44 - $22.48	$21.16	5 Years
535	$23.55 - $25.97	$24.22	4 Years
3,537	$27.56 - $31.58	$29.08	7 Years

In April 1997, the 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 rights of the holders of outstanding options under the 1991 Plan will not be affected. 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 is administered by the Board of Directors. The 1997 Plan amended the 1991 Plan to increase the number of shares of common stock subject to grants by 250,000 shares, expanded the types of awards available to be granted and replaced the fixed formula grant by giving the Board discretionary authority to determine the amount and timing of awards under the plan.

In 2003, 40,000 options were granted, with a weighted average option price of $11.73. Transactions during the last three years under the 1997 Plan are summarized as follows:

Stock Options - Director Equity Plans

	Option Shares (thousands)	*Weighted Avg. Option Price*
Balance at Dec. 31, 2000	258	$21.68
Granted	35	$31.26
Exercised	(91)	$19.12
Cancelled	–	–
Balance at Dec. 31, 2001	202	$24.49
Granted	28	$27.97
Exercised	(22)	$20.95
Cancelled	(2)	$27.56
Balance at Dec. 31, 2002	206	$25.31
Granted	40	$11.73
Exercised	–	–
Cancelled	(10)	$23.41
Balance at Dec. 31, 2003	236	$23.08
Exercisable at Dec. 31, 2003	40	$11.72
Available for future grant at Dec. 31, 2003	230	

As of Dec. 31, 2003, the 236,000 options outstanding under the 1997 Plan with option prices of $11.09 – $31.58, had a weighted average option price of $23.08 and a weighted average remaining contractual life of six years.

TECO Energy has adopted the disclosure-only provisions of FAS 123, *Accounting for Stock-Based Compensation*, as amended by FAS 148, but applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its plans. Therefore, since stock options are granted with an option price greater than or equal to the fair value on the grant date, no compensation expense has been recognized for stock options granted under the 1996 Plan and the 1997 Plan. If the company had elected to recognize compensation expense for stock options based on the fair value at grant date, consistent with the method prescribed by FAS 123, net income and earnings per share would have been reduced to the pro forma amounts as follows. These pro forma amounts were determined using the Black-Scholes valuation model with weighted average assumptions as set forth below.

Pro Forma Stock-Based Compensation Expense

(millions, except per share amounts)		*2003*	*2002*	*2001*
Net (loss) income from continuing operations	As reported	$ (14.7)	$ 277.2	$ 265.5
	Pro forma expense	2.7	5.1	4.3
	Pro forma	$ (17.4)	$ 272.1	$ 261.2
Net (loss) income	As reported	$(909.4)	$ 330.1	$ 303.7
	Pro forma expense	2.7	5.1	4.3
	Pro forma	$(912.1)	$ 325.0	$ 299.4
Net (loss) income from continuing operations - EPS, basic	As reported	$ (0.08)	$ 1.81	$ 1.98
	Pro forma	$ (0.10)	$ 1.78	$ 1.95
Net (loss) income from continuing operations - EPS, diluted	As reported	$ (0.08)	$ 1.81	$ 1.96
	Pro forma	$ (0.10)	$ 1.78	$ 1.93
Net income (loss) - EPS, basic	As reported	$ (5.05)	$ 2.15	$ 2.26
	Pro forma	$ (5.07)	$ 2.12	$ 2.23
Net income (loss) - EPS, diluted	As reported	$ (5.05)	$ 2.15	$ 2.24
	Pro forma	$ (5.07)	$ 2.12	$ 2.21
Assumptions				
Risk-free interest rate		3.52%	5.09%	4.89%
Expected lives (in years)		7	6	6
Expected stock volatility		32.68%	25.92%	27.45%
Dividend yield		6.87%	5.47%	5.46%

(1) Compensation expense for stock options determined using the fair-value based method, after tax.

Dividend Reinvestment Plan

In 1992, TECO Energy implemented a Dividend Reinvestment and Common Stock Purchase Plan. TECO Energy raised $8.0 million, $11.2 million and $8.6 million of common equity from this plan in 2003, 2002 and 2001, respectively.

Common Stock and Treasury Stock

On Mar. 12, 2001, the company completed a public offering of 8.625 million common shares at $27.75 per share, 7.0 million shares of which were reissued from treasury shares.

On Oct. 4, 2001, S&P announced the inclusion of TECO Energy shares in the S&P 500 index effective as of the market close on Oct. 9, 2001. On Oct. 12, 2001, TECO Energy issued 3.5 million additional common shares at $26.72 per share. The sales of the common shares resulted in total net proceeds to TECO Energy of $325.5 million in 2001, which were used to fund capital expenditures, for working capital requirements, general corporate purposes and to repay short-term debt.

In June 2002, the company completed a public offering of 15.525 million common shares at a price to the public of $23.00 per share. The sale of these shares resulted in net proceeds to the company of approximately $346.4 million, which were used to repay short-term debt and for general corporate purposes. In October 2002, the company issued 19.385 million common shares at a price to the public of $11.00 per share. The sale of these shares resulted in net proceeds to the company of approximately $206.8 million, which were used to repay short-term debt.

On Sep. 10, 2003, TECO Energy sold 11 million shares of common stock to funds managed by Franklin Advisers, Inc. of San Mateo, California at a price of $11.76 per share. Net proceeds of approximately $129 million were used to repay short-term indebtedness and for general corporate purposes.

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 percent or more of the company's outstanding common stock or commences a tender offer that would result in such person owning 10 percent or more of such stock. If any person acquires 10 percent 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 percent or more of the outstanding common stock.

Employee Stock Ownership Plan

Effective Jan. 1, 1990, TECO Energy amended the TECO Energy Group Retirement Savings Plan, a tax-qualified benefit plan available to substantially all employees, to include an employee stock ownership plan (ESOP). During 1990, the ESOP purchased 7 million shares of TECO Energy common stock on the open market for $100 million. The share purchase was financed through a loan from TECO Energy to the ESOP. This loan is at a fixed interest rate of 9.3% and will be repaid from dividends on ESOP shares and from TECO Energy's contributions to the ESOP.

TECO Energy's contributions to the ESOP were $21.1 million, $13.6 million and $5.6 million in 2003, 2002 and 2001, respectively.

TECO Energy's annual contribution equals the interest accrued on the loan during the year plus additional principal payments needed to meet the matching allocation requirements under the plan, less dividends received on the ESOP shares. The components of net ESOP expense recognized for the past three years are as follows:

ESOP Expense

(millions)	*2003*	*2002*	*2001*
Interest expense	$ 2.6	$ 4.3	$ 5.2
Compensation expense	16.0	12.2	7.4
Dividends	(5.3)	(8.5)	(8.5)
Net ESOP expense	$ 13.3	$ 8.0	$ 4.1

Compensation expense was determined by the shares allocated method.

At Dec. 31, 2003, the ESOP had 4.8 million allocated shares, 0.3 million committed-to-be-released shares, and 0.6 million unallocated shares. Shares are released to provide employees with the company match in accordance with the terms of the TECO Energy Group Retirement Savings Plan and in lieu of dividends on allocated ESOP shares. The dividends received by the ESOP are used to pay debt service on the loan between TECO Energy and the ESOP.

For financial statement purposes, the unallocated shares of TECO Energy stock are reflected as a reduction of common equity, classified as unearned compensation. Dividends on all ESOP shares are recorded as a reduction of retained earnings, as are dividends on all TECO Energy common stock. The tax benefit related to the dividends paid to the ESOP in 2003 for allocated shares ($1.6 million) is a reduction of income tax expense and for unallocated shares ($0.4 million) is an increase in retained earnings. All ESOP shares are considered outstanding for earnings per share computations.

10. Asset Impairments

In September 2003, as a result of the market conditions for merchant assets, management tested the merchant plants for impairment. This test was performed using undiscounted cash flows based on assumptions which included long-term gross margin projections, long-term forecasts of supply and demand growth rates, and reasonably available information to develop long term expectations. As of Sep. 30, 2003, based on the then-current assumptions and expectations of management, no impairment was indicated based on the undiscounted cash flows of the merchant assets tested, in accordance with FAS 144.

As of Dec. 31, 2003, based on the negotiations with potential buyers, including the project lenders, a change in management's expectations regarding an exit strategy in the near term, and management's designation of the Union and Gila River project companies as held for sale, a pre-tax asset impairment charge of $1,099.3 million was recognized and reflected in discontinued operations, in accordance with FAS 144 (see **Note 14** for additional details). The impairment charge was calculated as the difference between the carrying value of the net assets and liabilities held for sale and the respective estimated fair value of those net assets and liabilities. The fair value was estimated using available market information, corroborated by discounted cash flow analyses. The discounted cash flow analyses included significant assumptions relating to long-term price and economic forecasts, refinancing of the non-recourse debt and an appropriate discount rate.

In December 2003, additional pre-tax asset impairment charges of $41.0 million ($25.6 million after tax) were recognized primarily related to certain steam turbines and licenses, originally planned for use in a cogeneration project, and an estimated pre-tax loss on the disposal of BGA (see **Notes 14** and **23** for additional details of the disposition).

In 2003, TECO Energy recognized a pre-tax asset impairment charge of $104.1 million ($64.2 million after tax) relating to installment payments made and capitalized under turbine purchase commitments in prior periods. As reported previously and in **Note 17**, certain turbine rights had been transferred from Other Unregulated operations to Tampa Electric in 2002 for use in Tampa Electric's generation expansion activities. These cancellations, made in April 2003, fully terminate all turbine purchase obligations for these entities.

11. Restructuring Costs

In September and October of 2003, TECO Energy announced a corporate reorganization to restructure the company along functional lines, consistent with its objectives to grow the core utility operations, maintain liquidity, generate cash and maximize the value in the existing assets. As a result of these actions, the company is now aligned to provide for centralized oversight along functional lines for power plant operations, energy delivery, energy management, terminal operations, human resources and technology support services. The 2003 actions included the involuntary termination or retirement of 337 employees, including officers and other personnel from operations and support services.

In 2002, TECO Energy initiated a restructuring program that impacted approximately 250 employees across multiple operations and services within, primarily, Tampa Electric. This program included retirements, the elimination of positions and other cost control measures. The total costs associated with this program, included severance, salary continuation and other termination and retirement benefits.

The company recognized a pre-tax expense of $24.6 million and $17.8 million for accrued benefits and other termination and retirement benefits for the years ended Dec. 31, 2003 and 2002, respectively. The company completed these restructuring activities as of Dec. 31, 2003. As of Dec. 31, 2003 and 2002, respectively, no adjustments were made to the benefits initially accrued for and $14.0 million and $17.8 million, respectively, of the accrued benefits were paid or otherwise settled. The table below details the pre-tax expense recognized by the operating segments.

Restructuring Charges

For the year ended Dec. 31, (millions)	*2003*	*2002*
Tampa Electric	$ 9.9	$16.6
Peoples Gas	4.1	–
TWG	0.4	–
TECO Transport	1.7	–
TECO Coal	–	–
Other Unregulated	5.9	1.2
Eliminations and other [1]	2.6	–
Total TECO Energy	$24.6	$17.8

(1) This amount relates to charges at TECO Energy parent.

12. TPGC Joint Venture Termination

In January 2002, TWG (formerly TECO Power Services Corporation) subsidiaries agreed to purchase the interests of Panda Energy in the TPGC projects in 2007 for $60 million, and TECO Energy guaranteed payment of this obligation. Panda Energy obtained bank financing using the purchase obligation and assigned TECO Energy's guarantee as collateral. Under certain circumstances, the purchase obligation could have been accelerated for a reduced price based on the timing of the acceleration. In connection with this purchase obligation, Panda Energy retained a cancellation right, exercisable in 2007 for $20 million by the holder, with early exercise permitted for a reduced price of $8 million.

On Apr. 9, 2003, the TWG subsidiaries and Panda Energy amended the agreements related to the purchase obligation. The modified terms accelerated the purchase obligation to occur on or before July 1, 2003, and reduced the overall purchase obligation to $58 million. Under the guarantee, TWG became obligated to make interest and certain principal payments to or on behalf of Panda related to the collateralized loan obligation of Panda. The purchase obligation of $58 million included $35 million for Panda Energy's interest in TPGC, and a short-term receivable from Panda, collateralized by Panda's remaining interests in PLC (see **Notes 1** and **17** for additional details on TECO Energy's indirect ownership interest in PLC). Both modifications to the purchase obligation were subject to the condition, which TECO Energy could waive, that bank financing be obtained by TECO Energy. Panda Energy's cancellation right was accelerated to expire on June 16, 2003. TECO Energy's guarantee of the TWG subsidiaries' obligation was modified to reflect the amendments to the purchase obligation. In April 2003, TECO Energy recognized the fair value of the guarantee as a pre-tax loss of $35.0 million ($21.4 million after tax), included in discontinued operations, as a result of the expected disposition of the project companies (see **Note 14**). From April 2003 through June 2003, TECO Energy made and accrued certain principal payments under the guarantee commitment.

As a result of the amendments to these agreements in early April 2003, management believed the exercise of the modified guarantee and the related purchase obligation been highly probable. The likelihood of the exercise of the purchase obligation created a presumption of effective control. When combined with TECO Energy's exposure to the majority of risk of loss under the previously disclosed letters of credit and contractor undertakings, management believed that consolidation of TPGC was appropriate as of the date of the modifications to the agreements. For convenience of reporting periods and accounting cycles, management selected Apr. 1, 2003 as the initial date of consolidation. Prior to Apr. 1, 2003, TWG recognized assets of $839.1 million, liabilities of $48.9 million and an unrealized loss in OCI of $69.0 million, to reflect the equity method of accounting for its investment in TPGC. As a result of the consolidation on Apr. 1, 2003, the company recognized additional assets of $2,446.9 million, primarily relating to utility plant and construction work in progress, additional liabilities of $1,976.8 million (including non-recourse debt), and an additional unrealized loss in OCI of $69.0 million for interest rate swaps designated as hedges. See **Note 14** for a discussion of the subsequent designation of the TPGC projects as assets and liabilities held for sale.

In June 2003, TECO Energy satisfied the bank financing condition resulting in the acceleration of TECO Energy's guarantee obligation and executed a final agreement with Panda to effect the termination of Panda's involvement in the partnership. Proceeds from the bank financing obtained in June 2003, which is more fully discussed in **Note 6**, were used to fund the net termination payment to Panda. Upon acceleration of the guarantee obligation and the resulting partnership termination, TWG indirectly received the 50-percent outstanding partnership interests in TPGC. As previously discussed, under the amended agreements, $35.0 million, pre-tax, had been recognized in April 2003 as the fair value of the guarantee obligation. The remaining amount was recorded as due from Panda and collateralized by Panda's remaining interests in PLC. Foreclosure proceedings were consummated on Panda's remaining interests in PLC in September 2003 (see **Notes 1, 17** and **21** for additional details). As of Dec. 31, 2003 substantially all of the assets and liabilities associated with the TPGC projects (Union and Gila River) were classified as held for sale. All results of operations for these two projects have been reclassified to discontinued operations for all periods presented.

For the year ended Dec. 31, 2003, TWG recorded total pre-tax charges of $249.1 million ($155.9 million after tax) as a direct result of the consolidation of TPGC. Of the total charges recorded, $95.2 million pre-tax ($61.2 million after tax), was recorded in continuing operations to reflect a goodwill impairment discussed in **Note 3**. See **Note 14** for a discussion of the remaining amount recorded in discontinued operations.

13. Income Tax Expense

Income tax expense consists of the following components:

Income Tax Expense

(millions)	*Federal*	*Foreign*	*State*	*Total*
2003				
Continuing operations				
Current payable	$ 49.7	$ 2.2	$ 6.3	$ 58.2
Deferred	(175.4)	5.3	(18.6)	(188.7)
Amortization of investment tax credits	(4.7)	–	–	(4.7)
Income tax benefit from continuing operations	(130.4)	7.5	(12.3)	(135.2)
Discontinued operations				
Current payable	8.4	–	8.0	16.4
Deferred	(487.3)	–	(33.3)	(520.6)
Income tax benefit from discontinued operations	(478.9)	–	(25.3)	(504.2
Total income tax expense (benefit)	$ (609.3)	$ 7.5	$ (37.6)	$ (639.4)
2002				
Continuing operations				
Current payable	$ 17.8	$ 1.0	$ 10.4	$ 29.2
Deferred	(70.9)	–	(5.2)	(76.1)
Amortization of investment tax credits	(4.8)	–	–	(4.8)
Income tax benefit from continuing operations	(57.9)	1.0	5.2	(51.7)
Discontinued operations				
Current payable	22.2	–	5.6	27.8
Deferred	(18.2)	–	(2.2)	(20.4)
Income tax benefit from discontinued operations	4.0	–	3.4	7.4
Total income tax expense (benefit)	$ (53.9)	$ 1.0	$ 8.6	$ (44.3)
2001				
Continuing operations				
Current payable	$ 81.3	$ –	$ 17.5	$ 98.8
Deferred	(94.1)	–	(7.1)	(101.2)
Amortization of investment tax credits	(4.9)	–	–	(4.9)
Income tax benefit from continuing operations	(17.7)	–	10.4	(7.3)
Discontinued operations				
Current payable	(3.5)	–	2.4	(1.1)
Deferred	(1.4)	–	(0.3)	(1.7)
Income tax benefit from discontinued operations	(4.9)	–	2.1	(2.8)
Total income tax expense (benefit)	$ (22.6)	$ –	$ 12.5	$ (10.1)

TECO Energy uses the liability method to determine deferred income taxes. Under the 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. In accordance with the policy, at Dec. 31, 2003 a valuation reserve of $64.2 million was established and charged to income to reflect the estimated amount of state deferred tax assets which may not be realized due to the lack of future taxable income.

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, 2003 will be realized in future periods.

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

(millions) Dec. 31,	*2003*	*2002*
Deferred income tax assets[1]		
Property related	$ 578.8	$ 86.8
Alternative minimum tax credit forward	224.6	201.3
Goodwill writedown	107.5	–
Other	204.8	52.1
Valuation allowance	(64.2)	–
Total deferred income tax assets	$ 1,051.5	$ 340.2
Deferred income tax liabilities[1]		
Property related	$ (521.8)	$ (565.3)
Basis difference in oil and gas properties	4.4	(13.9)
Other	19.4	84.2
Total deferred income tax liabilities	$ (498.0)	$ (495.0)
Net deferred tax assets	$ 553.5	$ (154.8)

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

Included in the "Property related" component of the deferred tax asset, as of Dec. 31, 2003, is the impact of the asset impairments and the related effect on hedge accounting discussed in Notes 2, 10 and 14.

Effective Income Tax Rate

(millions) For the years ended Dec. 31,	2003	2002	2001
Net (loss) income from continuing operations before minority interest	$ (63.5)	$ 277.2	$ 265.5
Plus: minority interest	48.8	–	–
Net (loss) income from continuing operations	(14.7)	277.2	265.5
Total income tax provision (benefit)	(135.2)	(51.7)	(7.3)
(Loss) income from continuing operations before income taxes	(149.9)	225.5	258.2
Income taxes on above at federal statutory rate of 35%	(52.4)	78.9	90.4
Increase (decrease) due to			
State income tax, net of federal income tax	(8.0)	3.4	6.8
Foreign income taxes	7.5	1.0	–
Amortization of investment tax credits	(4.7)	(4.8)	(4.9)
Permanent reinvestment – foreign income	(12.3)	(8.1)	(7.2)
Non-conventional fuels tax credit	(66.0)	(107.3)	(86.2)
AFUDC Equity	(6.9)	(8.7)	(2.3)
Other	7.6	(6.1)	(3.9)
Total income tax provision from continuing operations	$(135.2)	$ (51.7)	$ (7.3)
Provision for income taxes as a percent of income from continuing operations, before income taxes	90.2%	-22.9%[1]	-2.8%[1]

(1) This calculation is not necessarily meaningful as a result of the interaction between tax losses and tax credits for the period.

During 2003, pre-tax losses from continuing operations, Sec. 29 credits and the reclassification of results of operations to discontinued operations as described in Note 14, caused variations in the overall effective income tax rate throughout the year and at year-end.

The provision for income taxes as a percent of income from discontinued operations was 36.2%, 12.3% and -8.0%, respectively, in 2003, 2002 and 2001. The total effective income tax rate differs from the federal statutory rate due to state income tax, net of federal income tax, the non-conventional fuels tax credit and other miscellaneous items. The actual cash paid for income taxes as required by the alternative minimum tax rules in 2003, 2002, and 2001 was $38.8 million, $71.9 million and $32.4 million, respectively.

14. Discontinued Operations and Assets Held for Sale

Union and Gila River Project Companies (TPGC)

In October 2003, the company, the bank financing group and the Union and Gila River project companies entered into a suspension agreement (see **Note 20**) in order to continue discussions regarding the operating budgets and performance of the two power plants. In late December 2003, a stand-still agreement was entered into by the same parties to continue to facilitate the discussions (see **Note 20**). See **Note 23** for a discussion of subsequent events which impact both the suspension and the stand-still agreements. As of Dec. 31, 2003, management was committed to a plan to sell TECO Energy's ownership of the equity or net assets of the project companies. The company expects to complete the transfer of TPGC in 2004. The Union and Gila River project companies comprised part of the TWG operating segment until designated as assets held for sale in December 2003.

See **Note 23** regarding subsequent events relating to the Union and Gila River project companies.

As an asset held for sale, the assets and liabilities that are expected to be transferred as part of the sale, as of Dec. 31, 2003, have been reclassified, respectively, in the balance sheet. Furthermore, the company has determined that TPGC meets the criteria of a discontinued operation. Results from operations for the Union and Gila River project companies have been reclassified to "Discontinued operations" for all periods presented. For the years ended Dec. 31, 2002 and 2001, TPGC was a development stage company. The following table provides selected components of discontinued operations for TPGC.

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

(millions) For the years ended Dec. 31,	2003	2002	2001
Revenues	$ 319.4	$ –	$ –
Asset impairment (1)	(1,185.7)	–	–
(Loss) income from operations	(1,239.8)	–	–
(Loss) on joint venture termination	(153.9)	–	–
(Loss) income before provision for income taxes	(1,441.4)	27.4	13.1
(Benefit) provision for income taxes	(522.7)	10.6	5.0
Net (loss) income from discontinued operations	$ (918.7)	$ 16.8	$ 8.1

(1) Includes charges recognized in accordance with FAS 133.

Asset impairment charge

The pre-tax asset impairment charge of $1,185.7 million ($762.0 million after tax) is comprised of an impairment in long-lived assets and a related charge to reflect the impacts of hedge accounting. The pre-tax asset impairment charge of $1,099.3 million was recognized in accordance with FAS 144. The recognition of the asset impairment effectively accelerated the recognition of previously capitalized interest. As a result, in accordance with cash flow hedge accounting under FAS 133, a reversal from OCI of $22.6 million of pre-tax losses on the interest rate swaps was required to give effect in the income statement to the previously hedged interest which was capitalized during construction.

In addition, the change in future expectations regarding the probability of the company retaining the long-term, non-recourse debt resulted in the reversal of an additional $63.8 million pre-tax losses which were previously deferred in OCI and related to the future recognition of capitalized interest amortization and future interest expense on the non-recourse debt, anticipated to be recognized in periods subsequent to 2004. See **Note 10** for a full description of the asset impairment component and **Note 2** for additional details on the hedge accounting (OCI reversal) components.

Loss on joint venture termination

As discussed in greater detail in **Note 12**, the consolidation of TPGC on Apr. 1, 2003 resulted in the recognition of a pre-tax charge of $153.9 million ($94.7 million after tax) which was record-

ed in discontinued operations. This pre-tax charge included: $35.0 million ($21.4 million after tax) related to the partnership termination under the guarantee; and $118.9 million ($73.3 million after tax) related to the consolidation of TPGC to reflect the impact of Panda's portion of TPGC's partnership deficit and the elimination of certain related-party liabilities (see **Note 17**).

The following table provides a summary of the carrying amounts of the significant assets and liabilities reported in the combined current and non-current "Assets held for sale" and "Liabilities associated with assets held for sale" line items:

Assets held for sale – Union and Gila River Project Companies

(millions)	*Dec. 31, 2003*
Current assets	$ 72.9
Net property, plant and equipment	1,367.9
Other investments	676.1
Other non-current assets	23.7
Total assets held for sale	$2,140.6

Liabilities associated with assets held for sale – Union and Gila River Project Companies

(millions)	*Dec. 31, 2003*
Current liabilities	$ 94.0
Long-term debt, non-recourse:	
Secured facility note [1]	1,395.0
Financing facility note	676.1
Other non-current liabilities	21.7
Total liabilities associated with assets held for sale	$2,186.8

(1) As defined in the legal documents

Current and non-current assets

Current assets include $18.8 million of restricted cash which, under the terms of the lending agreements for the projects, is primarily related to cash to be used for construction-related purposes only. Also included in current assets is $16.2 million, representing the current portion of the investment in Union County bonds, described in Other investments below.

Net property, plant and equipment

Net property, plant and equipment has been reduced by accumulated depreciation of $49.4 million and an asset impairment charge of $1,099.3 million. This impairment charge arose as a result of changes in management's expectations, including its long-term strategic outlook, and is more fully described in **Note 10**. The decline of the fair value of the disposal group (comprised of the assets and liabilities expected to be transferred upon disposition) below the carrying value is directly attributable to the decline in future wholesale power price expectations as a result of the repercussions of the failure of deregulation in California and the Enron bankruptcy; less than economic dispatch in some areas of the country; the U.S. economic slowdown; uncertainty with respect to long-term price recovery; and the significant excess generating capacity in the many areas of the country. The primary triggering event for the recognition of the charge by the company was the significant change in management's expectations regarding the company's long-term future involvement in the Union and Gila River project companies and the decision, during the fourth quarter of 2003, to sell the project companies.

Other investments

Other investments includes industrial revenue bonds from Union County, Arkansas, which were acquired by Union Power Partners, L.P. (UPP), a subsidiary of TPGC, with financing obtained by borrowings from Union County (the County). As of Dec. 31, 2003, UPP's investment in the bonds from the County totaled $692.3 million, which equals the non-recourse financing facility from Union County. Union County's debt service payments on the bonds equal UPP's debt service obligations to the County. This agreement provides an incentive to and a means through which the company can invest in the County. For periods prior to Dec. 31, 2003, TECO Energy did not include TPGC in the Consolidated Balance Sheet (see **Note 12**).

Interest income on the investment and interest expense on the related long-term, non-recourse financing have no net impact on the company's results of discontinued operations. The obligation to pay cash under the long-term debt is fully offset by the right to receive cash from the bond issuer. The interest rate and maturity date on both the bonds and the related long-term debt is 7.5% per year and June 2021.

Current and non-current liabilities

Included in current liabilities is the current portion of the financing facility due to Union County, described in Other investments above, of $16.2 million and $58.6 million ($26.4 million current and $32.2 million non-current) for interest rate swaps entered into by the Union and Gila River projects in connection with the non-recourse collateralized borrowings.

The purpose of the interest rate swap agreement is to effectively convert a portion of the floating-rate debt to a fixed rate. At Dec. 31, 2003 and 2002, the notional amount of the interest rate swap agreements was $697.5 million and $1,035.0 million, respectively. The interest rate swap agreements have terms ranging from 2 to 5 years with the majority maturing in June 2006. As more fully described in **Note 2**, the designation of the secured facility note as a liability associated with assets held for sale resulted in the prospective loss of hedge accounting for the periods beyond the expected effective date of the sale.

Non-recourse, secured facility note

In 2001, the Union and Gila River project companies obtained construction financing of $1,395.0 million in the form of floating rate, non-recourse senior secured credit facilities from a bank group. The construction loans will convert to term loans upon the completion and full commercial operation of the Union and Gila River projects, however, conversion will not occur during the Suspension Period, as agreed under the Suspension Agreement described in **Note 20**. The Union and Gila River project companies each jointly and severally guarantee and cross-collateralize the loans and debts of the other. The loans are non-recourse to TECO Energy, TWG and its subsidiaries that own the project entities.

Credit Facilities

The Union and Gila River project companies have credit facilities for commercial letters of credit and debt service as part of the non-recourse project financing. These facilities are recourse only to the project companies, and not to TECO Energy or its other subsidiaries. Each project company's commercial letter of credit facility of $100 million is to facilitate gas purchases and power sales. Total aggregate letters of credit outstanding under the two commercial facilities at Dec. 31, 2003 was $144.2 million. Each project company also has a $40 million debt service reserve facility, neither of which has been drawn upon at Dec. 31, 2003. The Union and Gila River project companies' non-recourse project facilities have maturity dates of June 2006.

See Note 23 regarding subsequent events relating to the Union and Gila River projects companies.

Other transactions

In 2003 and 2002, the company completed several sales transactions and achieved significant milestones towards additional transactions anticipated to be completed, as of Dec. 31, 2003, in 2004. The completed transactions include: the sale of Hardee Power Partners, Ltd. (HPP) in 2003; and the sale of TECO Coalbed Methane in 2002 (see **Note 21**). As a result of the accounting treatment of the sale of HPP, the results from operations of HPP through the date of the sale and for all prior periods presented are included in continuing operations. For all periods presented, the results from operations of TECO Coalbed Methane are presented as discontinued operations on the income statement. As of Dec. 31, 2003, no significant assets or liabilities remained relating to

these two entities, with the exception of certain cash proceeds held by TECO Energy which are subject to restriction, as described in Note 1.

As of Dec. 31, 2003, management was committed to a plan to sell Prior Energy and BGA (formerly a component of TECO Energy Services). The company expects to complete these sales in early 2004 (see Note 23 for details of these subsequent transactions). As of the same date, a subsidiary of TECO Energy completed the sale of substantially all of the net assets of TECO Gas Services. These entities comprised part of TECO Energy's Other unregulated businesses segment. In accordance with FAS 144, the assets and liabilities that have yet to be transferred as part of these transactions, as of Dec. 31, 2003, have been reclassified, respectively, in the balance sheet. Results from operations for Prior Energy and TECO Gas Services have been reclassified to "Discontinued operations".

Below is a table which provides selected components of discontinued operations for transactions other than the Union and Gila River projects (TPGC) transaction:

Components of income from discontinued operations – Other

(millions) *For the years ended Dec. 31,*	*2003*	*2002*	*2001*
Revenues	$ 21.6	$ 51.5	$ 60.1
Income from operations	9.1	22.1	24.6
Gain on sale	39.7	12.7	–
Income before provision for income taxes	46.8	32.9	22.3
Provision for income taxes	18.5	(3.2)	(7.8)
Net income from discontinued operations	$ 28.3	$ 36.1	$ 30.1

(1) Includes internal financing costs, allocated prior to discontinued operations designation. Internally allocated costs for 2003, 2002 and 2001 were at pre-tax rates of 8%, 7% and 7%, respectively, based on the average investment in each subsidiary.

Revenues

Revenues for energy marketing operations at Prior Energy and 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, 2003, 2002 and 2001 were $853.4 million, $568.3 million and $105.5 million, respectively.

Gain on sale

As a result of the sale of TECO Coalbed Methane in December 2002, the company recognized pre-tax gains of $39.7 million ($24.1 million after tax) and $12.7 million ($7.7 million after tax) for the years ended Dec. 31, 2003 and 2002, respectively.

The following table provides a summary of the carrying amounts of the significant assets and liabilities reported in the combined current and non-current "Assets held for sale" and "Liabilities associated with assets held for sale" line items for all other transactions described above:

Assets held for sale – Other

(millions)	*Dec. 31, 2003*
Current assets	$ 96.5
Net property, plant and equipment	1.5
Other non-current assets	8.2
Total assets held for sale	$106.2

Liabilities associated with assets held for sale – Other

(millions)	*Dec. 31, 2003*
Current liabilities	$ 55.4
Other non-current liabilities	–
Total liabilities associated with assets held for sale	$ 55.4

15. Other Comprehensive Income

TECO Energy reported the following other comprehensive income (loss) for the years ended Dec. 31, 2003, 2002 and 2001 related to changes in the fair value of cash flow hedges, foreign currency adjustments and adjustments to the minimum pension liability associated with the company's supplemental executive retirement plan.

Comprehensive Income (Loss) *(millions)*	*Gross*	*Tax*	*Net*
2003			
Unrealized (loss) gain on cash flow hedges	$ (31.8)	$ (10.6)	$ (21.2)
Less: Loss (gain) reclassified to net income	76.4	27.1	49.3
Gain (loss) on cash flow hedges	$ 44.6	$ 16.5	$ 28.1
Foreign currency adjustments	1.2	—	1.2
Pension adjustments (2)	(69.3)	(25.4)	(43.9)
Total other comprehensive (loss) income	$ (23.5)	$ (8.9)	$ (14.6)
2002			
Unrealized (loss) gain on cash flow hedges	$ (51.2)	$ (20.4)	$ (30.8)
Less: Loss (gain) reclassified to net income	29.0	11.4	17.6
Gain (loss) on cash flow hedges	$ (22.2)	$ (9.0)	$ (13.2)
Foreign currency adjustments	(1.2)	–	(1.2)
Pension adjustments (2)	(7.2)	(2.8)	(4.4)
Total other comprehensive (loss) income	$ (30.6)	$ (11.8)	$ (18.8)
2001			
Initial adoption of FAS 133	$ (19.0)	$ (7.3)	$ (11.7)
Unrealized (loss) gain on cash flow hedges	(32.1)	(12.5)	(19.6)
Less: Loss (gain) reclassified to net income	19.7	7.6	12.1
Gain (loss) on cash flow hedges	$ (31.4)	$ (12.2)	$ (19.2)
Pension adjustments (2)	0.5	0.2	0.3
Total other comprehensive (loss) income	$ (30.9)	$ (12.0)	$ (18.9)

(1) Amounts include interest rate swaps designated as cash flow hedges at TPGC, which was consolidated effective Apr. 1, 2003 as a result of the termination of the partnership. Prior to Apr. 1, 2003, only the company's proportionate share of its equity investees comprehensive loss was included. See Notes 12 and 14 for additional details regarding the OCI balances for cash flow hedges.

(2) See Note 16 for additional details regarding pension adjustments.

16. Employee Postretirement Benefits

Pension Benefits

TECO Energy has a non-contributory defined benefit retirement plan which covers substantially all employees. Benefits are based on employees' age, years of service and final average earnings. On Apr. 1, 2000, the plan was amended to provide for benefits to be earned and payable substantially on a lump sum basis through an age and service credit schedule for eligible participants leaving the company on or after July 1, 2001. Other significant provisions of the plan, such as eligibility, definitions of credited service, final average earnings, etc., were largely unchanged. This amendment resulted in decreased pension expense of approximately $0.8 million in 2001 and a reduction of benefit obligation of $6.2 million at Sep. 30, 2001.

The company's policy is to fund the plan within the guidelines set by ERISA for the minimum annual contribution and the maximum allowable as a tax deduction by the IRS. In 2004, the company expects to make a contribution of about $14.2 million.

Amounts disclosed for pension benefits also include the unfunded obligations for the supplemental executive retirement plans, non-qualified, non-contributory defined benefit retirement plans available to certain senior management. In 2004, the company expects to make a contribution of about $1.7 million to these plans. TECO Energy reported other comprehensive losses of $43.9 million and $4.4 million in 2003 and 2002, respectively, and other comprehensive income of $0.3 million in 2001, related to adjustments to the minimum pension liability associated with the pension plan and supplemental executive retirement plans.

The asset allocation for the company's pension plan as of Sep. 30, 2003 and 2002, and the target allocation for 2004, by asset category, follows:

Asset Allocation

Asset category	*Target Allocation for 2004*	*Percentage of Plan Assets at Sep. 30,* 2003	2002
Equities	55% – 60%	57%	53%
Fixed income	40% – 45%	43%	47%
Real Estate	–	–	–
Other	–	–	–
Total		100%	100%

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.

The assumptions for the expected return on plan assets were developed based on an analysis of historical market returns, the plan's past experience and current market conditions. Estimates of future market returns are lower than actual long-term historical returns of the plan but were factored into the expected return on asset assumptions to generate a conservative forecast.

In 2001, TECO Energy elected to change the measurement date for pension obligations and plan assets from Dec. 31 to Sep. 30. The effect of this accounting change was not material.

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 June 30, 2001, is limited to a defined dollar benefit based on years of service. On Apr. 1, 2000, the company adopted changes to this program for participants retiring from the company on or after July 1, 2001. The company contribution toward pre-65 and post-65 health care coverage for most employees retiring on or after July 1, 2001, is limited to a defined dollar benefit based on an age and service schedule. The impact of this amendment, including a change in the company's commitment for future retirees combined with a grandfathering provision for current retired participants, resulted in a reduction in the benefit obligation of $1.4 million in 2001. In 2004, the company expects to make a contribution of about $9.5 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, President Bush signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). Beginning in 2006, the new law adds 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 is continuing to analyze the potential impact the Act may have on the company's FAS 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* expense and what, if any, plan design changes should be made with respect to the company's retiree medical program in response to the Act.

In 2001, TECO Energy elected to change the measurement date for benefit obligations from Dec. 31 to Sep. 30. The effect of this accounting change was not material.

The following charts summarize the income statement and balance sheet impact, as well as the benefit obligations, assets, funded status and rate assumptions associated with the pension and other postretirement benefits.

Benefit Expense

	Pension Benefits			*Other Postretirement Benefits*		
(millions)	*2003*	*2002*	*2001*	*2003*	*2002*	*2001*
Components of net periodic benefit expense						
Service cost (benefits earned during the period)	$ 14.3	$ 11.8	$ 11.2	$ 4.2	$ 3.5	$ 3.4
Interest cost on projected benefit obligations	30.8	28.7	27.9	12.5	11.2	10.9
Expected return on assets	(42.1)	(42.9)	(42.0)	–	–	–
Amortization of:						
Transition obligation (asset)	(1.1)	(1.1)	(1.1)	2.7	2.7	2.7
Prior service cost (benefit)	(0.5)	(0.5)	(0.5)	1.8	1.9	2.0
Actuarial (gain) loss	1.4	(3.7)	(4.4)	1.5	0.1	0.4
Pension expense (benefit)	2.8	(7.7)	(8.9)	22.7	19.4	19.4
Special termination benefit charge	–	2.7	–	–	0.6	–
Additional amounts recognized	–	–	–	0.1	–	–
Net pension expense (benefit)recognized in the Consolidated Statements of Income	$ 2.8	$ (5.0)	$ (8.9)	$ 22.8	$ 20.0	$ 19.4
Assumptions used to determine net cost						
Discount rate	6.75%	7.50%	7.50%	6.75%	7.50%	7.50%
Rate of compensation increase	4.82%	4.66%	4.69%	4.82%	4.66%	4.69%
Expected return on plan assets	9.00%	9.00%	9.00%	N/A	N/A	N/A

The following table shows the funded status of the qualified and non-qualified pension plans for which the projected obligation exceeds the fair value of the plan assets

Pension Plans – Projected Obligation Exceeds Plan Assets

(millions) Dec. 31,	*2003*	*2002*
Projected benefit obligation	$ 554.5	$ 455.1
Fair value of plan assets	391.8	371.9
Projected obligation in excess of plan assets	$ 162.7	$ 83.2
Accumulated benefit obligation	$ 480.0	$ 400.6

As of Dec. 31, 2003, for the qualified and non-qualified pension plans, the accumulated obligation exceeded the fair value of the plan assets. As of Dec. 31, 2002 the accumulated obligation exceeded the fair value of the plan assets for only the non-qualified pension plan. The table below shows the funded status at the end of 2003 and 2002 for the respective plans.

Pension Plans – Accumulated Obligation Exceeds Plan Assets

(millions) Dec. 31	*2003*	*2002* [1]
Accumulated benefit obligation	$ 480.0	$ 32.8
Fair value of plan assets	391.8	–
Accumulated obligation in excess of plan assets	$ 88.2	$ 32.8
Projected benefit obligation	$ 554.5	$ 41.3

1 In 2002 only the non-qualified plan is presented due to the fact that the fair value of plan assets exceeded the accumulated obligation for the qualified plan

The accumulated postretirement benefit obligation exceeds plan assets for the postretirement health and welfare benefits plan

Employee Postretirement Benefits

	Pension Benefits		*Other Postretirement Benefits*	
(millions)	*2003*	*2002*	*2003*	*2002*
Change in benefit obligation				
Net benefit obligation at prior measurement date	$ 455.1	$ 382.3	$ 184.6	$ 150.2
Service cost	14.3	11.8	4.2	3.5
Interest cost	30.8	28.7	12.5	11.2
Plan participants' contributions	–	–	1.4	1.0
Actuarial loss	89.7	58.3	6.5	25.6
Plan amendments	–	1.1	–	–
Special termination benefits	–	2.7	–	0.6
Curtailment	(1.9)	–	–	–
Gross benefits paid	(33.5)	(29.8)	(10.5)	(7.5)
Net benefit obligation at measurement date	$ 554.5	$ 455.1	$ 198.7	$ 184.6
Change in plan assets				
Fair value of plan assets at prior measurement date	$ 371.9	$ 428.0	$ –	$ –
Actual return on plan assets	51.7	(24.9)	–	–
Employer contributions	1.7	1.7	9.1	6.5
Plan participants' contributions	–	–	1.4	1.0
Gross benefits paid (including expenses)	(33.5)	(32.9)	(10.5)	(7.5)
Fair value of plan assets at measurement date	$ 391.8	$ 371.9	$ –	$ –
Funded status				
Fair value of plan assets	$ 391.8	$ 371.9	$ –	$ –
Benefit obligation	554.5	455.1	198.7	184.6
Funded status at measurement date	(162.7)	(83.2)	(198.7)	(184.6)
Net contributions after measurement date	6.7	0.4	2.4	1.9
Unrecognized net actuarial loss	165.6	88.9	47.4	42.4
Unrecognized prior service cost (benefit)	(6.9)	(7.4)	20.5	22.4
Unrecognized net transition obligation (asset)	(1.4)	(2.5)	24.7	27.4
Accrued liability at end of year	$ 1.3	$ (3.8)	$(103.7)	$ (90.5)
Amounts recognized in the statement of financial position				
Prepaid benefit cost	$ 16.9	$ 14.8	$ –	$ –
Accrued benefit cost	(15.7)	(18.5)	(103.7)	(90.5)
Additional minimum liability	(82.7)	(13.8)	–	–
Intangible asset	1.3	1.5	–	–
Accumulated other comprehensive income	81.5	12.2	–	–
Net amount recognized at end of year	$ 1.3	$ (3.8)	$(103.7)	$ (90.5)
Assumptions used in determining benefit obligations, end of year				
Discount rate to determine projected benefit obligation	6.00%	6.75%	6.00%	6.75%
Rate of increase in compensation levels	4.25%	4.82%		

Employer contributions and benefits paid in the above table include both those amounts contributed directly to, and paid directly from both plan assets and directly to plan participants.

The assumed health care cost trend rate for medical costs was 11.5% in 2003 and decreases to 5.0% in 2013 and thereafter.

A 100 basis point increase in the medical trend rates would produce a 4 percent ($0.6 million) increase in the aggregate service and interest cost for 2003 and a 4 percent ($7.5 million) increase in the accumulated postretirement benefit obligation as of Sep. 30, 2003.

A 100 basis point decrease in the medical trend rates would produce a 3 percent ($0.4 million) decrease in the aggregate service and interest cost for 2003 and a 3 percent ($5.3 million) decrease in the accumulated postretirement benefit obligation as of Sep. 30, 2003.

17. Related Parties

In February 2002, Tampa Electric and TECO-PANDA Generating Company II (TPGC II) entered into an assignment and assumption agreement under which Tampa Electric obtained TPGC II's rights and interests to four combustion turbines being purchased from General Electric, and assumed the corresponding liabilities and obligations for such equipment. In accordance with the terms of the assignment and assumption agreement, Tampa Electric paid $62.5 million to TPGC II as reimbursement for amounts already paid to General Electric by TPGC II for such equipment. No gain or loss was incurred on the transfer. In the first quarter of 2003, Tampa Electric recorded a $48.9 million after-tax charge related to the cancellation of these turbine purchase commitments (see **Note 10**).

In the second and third quarters of 2003, Tampa Electric returned approximately $158 million of capital to TECO Energy. TECO Energy had previously contributed capital to Tampa Electric in support of Tampa Electric's construction program in the wholesale business, which was subsequently scaled back.

In October 2003, Tampa Electric signed a five-year contract renewal with an affiliate company, TECO Transport Corporation, 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. See **Note 4** for additional details.

At Dec. 31, 2002, notes receivable from unconsolidated affiliates included the following: $795.8 million due from TPGC; $137.0 million due from PLC; $1.4 million due from Energeticke Centrum Kladno (ECKG); $13.7 million due from Mosbacher Power Partners L.P.; and $11.1 million due from EEGSA.

As of Dec. 31, 2003, a note receivable of $8.1 million due from EEGSA, an unconsolidated affiliate, bearing a current effective interest rate of 6.14%, was recorded on the balance sheet.

On Jan. 3, 2003, the $137.0 million loan receivable from PLC, a wholly-owned subsidiary of Panda Energy, converted to a 50-percent ownership interest in PLC, leading to a joint venture with Panda Energy. This joint venture holds a 50-percent ownership interest in Texas Independent Energy, L.P. (TIE). The TIE partnership owns and operates the Odessa and Guadalupe power stations in Texas. In September 2003, TWG completed foreclosure proceedings against Panda Energy for their ownership interest in PLC as a result of Panda's default under a $23.0 million note receivable. Consequently, as of Sep. 30, 2003, PLC is fully consolidated and the $23.0 million note receivable was converted to an equity interest. See also **Notes 1, 12 and 21** for additional information regarding PLC.

The company and its subsidiaries had certain transactions, in the ordinary course of business, with entities in which directors of the company had interests. These transactions were not material for the years ended Dec. 31, 2003, 2002 and 2001. No material balances were payable as of Dec. 31, 2003 or 2002.

18. Earnings Per Share

For the years ended Dec. 31, 2003, 2002 and 2001, stock options for 9.2 million shares, 4.5 million shares and 1.2 million shares, respectively, were excluded from the computation of diluted earnings per share due to their antidilutive effect. Additionally, 17.1 million common shares issuable under the purchase contract associated with the mandatorily convertible equity units issued in January 2002 were also excluded from the computation of diluted earnings per share for each of the years ended Dec. 31, 2003 and 2002, due to their antidilutive effect.

Earnings Per Share

(millions, except per share amounts)			*2003*	*2002*	*2001*
Numerator	Net (loss) income from continuing operations, basic and diluted		$ (14.7)	$277.2	$ 265.5
	Discontinued operations, net of tax		(890.4)	52.9	38.2
	Cumulative effect of a change in accounting principle, net		(4.3)	–	–
	Net (loss) income, basic and diluted		$(909.4)	$330.1	$ 303.7
Denominator	Average number of shares outstanding - basic		179.9	153.2	134.5
	Plus: Incremental shares for assumed conversions:				
	Stock options at end of period and contingent performance shares		–	2.1	4.2
	Less: Treasury shares which could be purchased		–	(2.0)	(3.3)
	Average number of shares outstanding - diluted		179.9	153.3	135.4
Earnings per share from continuing operations		Basic	$ (0.08)	$ 1.81	$ 1.98
		Diluted	$ (0.08)	$ 1.81	$ 1.96
Earnings per share from discontinued operations, net		Basic	$ (4.95)	$ 0.34	$ 0.28
		Diluted	$ (4.95)	$ 0.34	$ 0.28
Earnings per share from cumulative effect of change in accounting principle, net		Basic	$ (0.02)	$ –	$ –
		Diluted	$ (0.02)	$ –	$ –
Earnings per share		Basic	$ (5.05)	$ 2.15	$ 2.26
		Diluted	$ (5.05)	$ 2.15	$ 2.24

19. 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.

As more fully described in Note 1, in 2004, the company revised internal reporting information for the purpose of evaluating, measuring and making decisions with respect to the components which previously comprised the TECO Power Services operating segment. The revised operating segment, TECO Wholesale Generation, is comprised of all merchant operations. The non-merchant components are now included in Other Unregulated operations.

The information presented in the following table excludes all discontinued operations. See **Note 14** for additional details of the components of discontinued operations.

Segment Information [1]

(millions)		Tampa Electric	Peoples Gas	TWG Merchant	TECO Transport	TECO Coal	Other Unregulated	Eliminations & Other	Total TECO Energy
2003	Revenues - outsiders	$ 1,582.7	$ 408.4	$ 95.9	$ 162.2	$ 296.3	$ 194.0	$ 0.5	$ 2,740.0
	Sales to affiliates	3.4	–	–	98.4	–	69.5	(171.3)	–
	Total revenues	$ 1,586.1	$ 408.4	$ 95.9	$ 260.6	$ 296.3	$ 263.5	$ (170.8)	$ 2,740.0
	Depreciation	210.3	32.7	12.3	20.6	34.2	15.9	–	326.0
	Restructuring costs [2]	9.9	4.1	0.4	1.7	–	5.9	2.6	24.6
	Interest charges	85.0	15.6	50.6	4.9	11.0	34.7	118.9	320.7
	(Benefit) provision for taxes	48.1	15.2	(27.0) [4]	9.7	(64.4)	(85.6)	(31.2)	(135.2)
	Net (loss) income from continuing operations	$ 98.9 [5]	$ 24.5	$ (147.6) [6]	$ 15.3	$ 77.1	$ (5.4) [7]	$ (77.5)	$ (14.7)
	Goodwill, net	–	–	–	–	–	71.2	–	71.2
	Investment in unconsolidated affiliates	–	–	158.9	–	–	184.6	–	343.5
	Other non-current investments	–	–	–	–	–	16.5	–	16.5
	Total assets	4,178.6	651.5	3,398.7	315.8	340.8	958.7	618.2	10,462.3
	Capital expenditures	289.1	42.6	194.3	19.6	20.6	24.3	0.1	590.6
2002	Revenues - outsiders	$ 1,548.9	$ 318.1	$ 111.1	$ 143.9	$ 316.4	$ 226.5	$ –	$ 2,664.9
	Sales to affiliates	34.3	–	–	110.7	0.7	71.2	(216.9)	–
	Total revenues	$ 1,583.2	$ 318.1	$ 111.1	$ 254.6	$ 317.1	$ 297.7	$ (216.9)	$ 2,664.9
	Depreciation	189.8	30.5	12.0	22.3	31.4	17.2	–	303.2
	Restructuring costs [2]	16.6	–	–	–	–	1.2	–	17.8
	Interest charges	51.5	14.8	24.3	6.3	8.2	37.1	29.4	171.6
	(Benefit) provision for taxes	85.7	14.7	5.8 [4]	10.8	(22.9)	(9.7)	(136.1)	(51.7)
	Net income (loss) from continuing operations	$ 171.8	$ 24.2	$ 7.9	$ 21.0	$ 76.4	$ 27.8	$ (36.1)	$ 277.2
	Goodwill, net	–	–	95.1	–	–	98.6	–	193.7
	Investment in unconsolidated affiliates	–	–	(38.2)	–	–	187.4	–	149.2
	Other non-current investments	–	–	795.8	–	–	49.2	0.3	845.3
	Total assets	4,119.4	629.9	2,020.1	355.1	283.5	1,167.3	503.1	9,078.4
	Capital expenditures	632.2	53.4	223.1	25.2	48.2	79.9	3.2	1,065.2
2001	Revenues - outsiders	$ 1,380.1	$ 352.9	$ 81.8	$ 151.7	$ 298.4	$ 218.4	$ –	$ 2,483.3
	Sales to affiliates	32.6	–	–	123.2	5.1	80.4	(241.3)	–
	Total revenues	$ 1,412.7	$ 352.9	$ 81.8	$ 274.9	$ 303.5	$ 298.8	$ (241.3)	$ 2,483.3
	Depreciation	173.4	27.9	9.8	24.1	28.3	21.1	–	284.6
	Restructuring costs	–	–	–	–	–	–	–	–
	Interest charges	60.8	14.3	17.3	8.9	7.6	39.1	30.5	178.5
	(Benefit) provision for taxes	83.5	14.2	4.6 [4]	14.2	(19.0)	(6.1)	(98.7)	(7.3)
	Net income (loss) from continuing operations [3]	$ 154.0	$ 23.1	$ 0.5	$ 27.6	$ 59.0	$ 22.1	$ (20.8)	$ 265.5
	Goodwill, net	–	–	70.0	–	–	95.8	–	165.8
	Investment in unconsolidated affiliates	–	–	(14.1)	–	–	187.0	–	172.9
	Other non-current investments	–	–	124.1	–	–	85.7	0.6	210.4
	Total assets	3,674.5	582.6	1,129.7	333.1	258.5	1,101.3	96.5	7,176.2
	Capital expenditures	426.3	73.0	368.4	38.8	25.8	29.0	4.6	965.9

(1) From continuing operations. All periods have been adjusted to reflect the reclassification of results from operations to discontinued operations for the Union and Gila River projects (formerly part of TWG), and TECO Coalbed Methane, Prior Energy and substantially all of TECO Gas Services (formerly part of Other Unregulated).
(2) See **Note 11** for a discussion of restructuring charges in 2003 and 2002.
(3) Segment net income is reported on a basis that includes internally allocated financing costs. Internally allocated costs for 2003, 2002 and 2001 were at pre-tax rates of 8%, 7% and 7%, respectively, based on the average investment in each subsidiary.
(4) Taxes have been allocated, for segment reporting purposes, to TWG based on the weighted-average tax rates of the TWG components.
(5) Net income for 2003 includes a $48.9 million after-tax ($79.6 million pre-tax) asset impairment charge related to the turbine purchase cancellations (see **Note 10**).
(6) Net income for 2003 includes a $25.9 million after-tax charge ($40.7 million pre-tax) related to a contingent arbitration proceeding (see the **Legal Contingencies** section of **Note 20**), a $61.2 million after-tax charge ($95.2 million pre-tax) for goodwill impairment (see **Note 3**), and a $15.3 million after-tax asset impairment charge ($24.5 million pre-tax) related to the turbine purchase cancellations (see **Note 10**).
(7) Net income for 2003 includes a $40.9 million after-tax asset impairment charge ($65.5 million pre-tax).

Tampa Electric Company provides retail electric utility services to more than 612,000 customers in West Central Florida. Its Peoples Gas System division is engaged in the purchase, distribution and marketing of natural gas for more than 299,000 residential, commercial, industrial and electric power generation customers in the state of Florida.

TECO Transport, through its wholly-owned subsidiaries, transports, stores and transfers coal and other dry bulk commodities for third parties and Tampa Electric. TECO Transport's subsidiaries operate on the Mississippi, Ohio and Illinois rivers, in the Gulf of Mexico and worldwide.

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. In 2000, these subsidiaries began operating two synthetic fuel processing facilities, whose production qualifies for the non-conventional fuels tax credit. TECO Coal transferred the synthetic fuel operations 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 a 49.5 percent interest in this entity.

TWG has subsidiaries that have interests in independent power projects in Virginia, Texas, Arkansas, Mississippi and Arizona.

TECO Energy's other unregulated businesses are primarily engaged in energy services, engineering and owning and operating independent power projects with long-term contracts, in Hawaii, Guatemala, and, until the date of the sale of HPP, Florida (see Note 21).

Foreign Operations

Other Unregulated includes independent power operations and investments in Guatemala. TECO Energy, through its subsidiaries, has a 96 percent ownership interest and operates a 78-megawatt power station that supplies energy to EEGSA, an electric utility in Guatemala, under a U.S. dollar-denominated power sales agreement.

At Dec. 31, 2003, TECO Energy, through a wholly-owned subsidiary, had a 100 percent ownership interest in a 120-megawatt power station and in transmission facilities in Guatemala. The plant provides capacity under a U.S. dollar-denominated power sales agreement to EEGSA.

TECO Energy, through a subsidiary, owns a 30 percent interest in a consortium that includes Iberdrola, an electric utility in Spain, and Electricidad de Portugal, an electric utility in Portugal. The consortium owns an 80.9 percent interest in EEGSA.

Total assets at Dec. 31, 2003, 2002 and 2001 included $445.8 million, $415.9 million and $454.2 million, respectively, related to these Guatemalan operations and investments. Revenues included $91.5 million, $88.5 million and $79.9 million for the years ended Dec. 31, 2003, 2002 and 2001, respectively, and operating income included $53.1 million, $33.0 million and $38.0 million for the same periods from these Guatemalan operations and investments.

20. Commitments and Contingencies

Capital Investments

TECO Energy has made certain commitments in connection with its continuing capital expenditure program. At Dec. 31, 2003, these estimated capital investments total approximately $1.7 billion for the years 2004 through 2008 and are summarized as follows.

Forecasted Capital Investments

As of Dec. 31, 2003 (millions)	*2004*	*2005*	*2006 – 2008*	*Total 2004 – 2008*
Tampa Electric	$182.9	$213.5	$ 792.9	$1,189.3
Peoples Gas	40.0	40.0	120.0	200.0
TWG	14.9	25.0	75.0	114.9
TECO Transport	19.9	20.0	60.0	99.9
TECO Coal	20.7	19.4	53.3	93.4
Other	1.2	1.0	2.4	4.6
Total capital investments	$279.6	$318.9	$1,203.6	$1,702.1

For 2004, Tampa Electric expects to spend $182.9 million, consisting of $9.4 million (committed as of Dec. 31, 2003) for the completion of the repowering project at the Gannon Station, $18.2 million for environmental expenditures and $155.3 million to support system growth and generation reliability. Tampa Electric's estimated capital expenditures over the 2005-2008 period are projected to be $1,006.4 million, including $323.8 million for environmental expenditures.

Capital expenditures for PGS are expected to be about $40 million in 2004 and $160 million during the 2005-2008 period. Included in these amounts are approximately $25 million annually for projects associated with customer growth and system expansion. The remainder represents capital expenditures for ongoing maintenance and system safety.

TWG expects to invest $14.9 million in 2004, $6.2 million of ongoing maintenance and warranty related items on the TECO Undertaking for Union and Gila River power stations plus $8.7 million of net contributions to projects of unconsolidated affiliates. Capital expenditures at TWG for 2005 through 2008 are expected to be about $100 million for the completion of the Dell and McAdams power stations. TWG had outstanding commitments of approximately $13.3 million primarily for contributions to projects of unconsolidated affiliates and maintenance projects.

The other unregulated companies expect to invest $41.8 million in 2004 and $156.1 million during 2005 through 2008, mainly for normal renewal and replacement capital.

Legal Contingencies

TM Delmarva Power Arbitration Proceeding

A dispute resulting in an arbitration proceeding was brought against a TWG subsidiary, TM Delmarva Power, L.L.C. (TMDP), by the non-equity member, NCP of Virginia, L.L.C. (NCP), in the Commonwealth Chesapeake Project (CCC). The arbitration panel, in a 2-to-1 decision, found in favor of NCP and issued an interim award on Dec. 17, 2002 and, after several briefing cycles and a reopened hearing, issued its final award in September 2003.

Under the award TMDP is obligated to acquire NCP's voting and other rights, pay NCP interest on the deemed acquisition price from a pre-determined date, and pay NCP's legal fees as prescribed under the final award. The forced acquisition created a pre-tax loss of $32.0 million, representing the excess of the purchase price over the fair value of the interests acquired. TMDP is seeking to vacate the arbitration award in the U.S. District Court for the District of Columbia and has not yet paid the amount of the award. As of Dec. 31, 2003, the company has reserved for the full $46.9 million, representing the maximum payment obligation for the award plus accrued interest. The vacatur proceeding is still pending, and is expected to be completed in the third or fourth quarter of 2004.

Other Actions

In March 2001, TWG (under its former name of TECO Power Services) was served with a lawsuit filed in the Circuit Court for Hillsborough County by a Tampa-based firm called Grupo Interamerica, LLC. ("Grupo") in connection with a potential investment in a power project in Columbia in 1996. Grupo alleges, among other things, that TWG breached an oral contract with Grupo that would have allowed Grupo to acquire up to a 20-percent interest in the Columbian wholesale generation project when TWG declined to invest in such project. Grupo is seeking damages equal to the net present value of the value of 20-percent of the project over its life. TWG disputes the allegations and denies liability since any understanding made regarding the investment in the project was subject to TECO Energy Board approval which was not obtained. A trial date has not been set.

Three lawsuits have been filed in the Circuit Court in Hillsborough County against Tampa Electric, in connection with the location of transmission structures in certain residential areas, by residents in the areas surrounding the structures. The high-voltage power lines are needed by Tampa Electric to move electricity to the northwest part of its service territory where population growth has been experienced. The residents are seeking to remove the poles or to receive monetary damages. Tampa Electric is working with the community to determine the feasibility of alternate routes or structures or some combination.

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 5, *Accounting for Contingencies*, to provide for matters that are reasonably likely to result in an estimable, material loss. While the outcome of such proceedings is uncertain, management does not believe that the ultimate resolution of pending matters 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 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, 2003, Tampa Electric Company has estimated its ultimate financial liability to be approximately $20 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 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 potentially responsible parties (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

TECO Energy has commitments under long-term operating leases, primarily for building space, office equipment and heavy equipment, and marine assets at TECO Transport. On Dec. 30, 2002, TECO Transport completed a sale-leaseback transaction to be accounted for as an operating lease covering one ocean-going tug and barge, five river towboats and 49 river barges. On Dec. 21, 2001, TECO Transport sold three ocean-going barges and one ocean-going tug boat in a sale-leaseback transaction to be accounted for as an operating lease. Both lease terms are 12 years with early buyout options after 5 years.

Total rental expense for these operating leases, included in the Consolidated Statements of Income for the years ended Dec. 31, 2003, 2002 and 2001 was $29.5 million, $26.0 million and $20.4 million, respectively. The following is a schedule of future minimum lease payments at Dec. 31, 2003 for all operating leases with noncancelable lease terms in excess of one year:

Future Minimum Lease Payments For Operating Leases

Year ended Dec. 31.	*Amount (millions)*
2004	$ 24.1
2005	21.3
2006	17.6
2007	14.9
2008	12.4
Later Years	79.2
Total minimum lease payments	$ 169.5

In 1994, Tampa Electric bought out a long-term coal supply contract which would have expired in 2004 for a lump sum payment of $25.5 million. In February 1995, the FPSC authorized the recovery of this buy-out amount plus carrying costs through the Fuel and Purchased Power Cost Recovery Clause over the 10-year period beginning Apr. 1, 1995. In each of the years 2003, 2002 and 2001, $2.7 million of buy-out costs were amortized to expense.

Guarantees and Letters of Credit

On Jan. 1, 2003, TECO Energy 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.

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.

A summary of the face amount or maximum theoretical obligation under TECO Energy's letters of credit and guarantees as of Dec. 31, 2003 are as follows:

Letters of Credit and Guarantees

($ millions) Letters of Credit and Guarantees for the Benefit of	2004	2005	2006-2008	After 2008	Total	Liabilities Recognized at Dec. 31, 2003
Tampa Electric						
Letters of credit	$ –	$ –	$ –	$ 0.9	$ 0.9	$ –
Guarantees:						
Fuel purchase/energy management	–	–	–	15.0	15.0	–
	–	–	–	15.9	15.9	–
TECO Wholesale Generation						
Letters of credit (2)	67.2	–	–	–	67.2	–
Guarantees:						
Debt related	–	–	–	–	–	–
Tax related	–	–	–	1.3	1.3	–
Fuel purchase/energy management	10.0	–	–	149.5	159.5	14.6
Construction/Investment related	5.0	–	–	–	5.0	–
	82.2	–	–	150.8	233.0	14.6
TECO Transport						
Letters of credit	–	–	–	1.5	1.5	–
TECO Coal						
Letters of credit	–	–	–	20.0	20.0	–
Guarantees: Fuel purchase related	–	–	–	1.5	1.5	1.5
	–	–	–	21.5	21.5	1.5
Other unregulated subsidiaries						
Letters of credit	11.5	–	4.7	4.3	20.5	–
Guarantees:						
Debt related	–	–	–	24.5	24.5	–
Tax related	–	–	–	2.5	2.5	–
Fuel purchase/energy management (3)	173.2	–	–	14.7	187.9	33.4
	184.7	–	4.7	46.0	235.4	33.4
Total	$266.9	$ –	$ 4.7	$235.7	$ 507.3	$49.5

(1) These guarantees renew annually and are shown on the basis that they will continue to renew beyond 2008. 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, 2003. The obligations under these letters of credit and guarantees include net accounts payable and net derivative liabilities.
(2) Primarily includes letters of credit for construction support for the Gila River and Union power stations.
(3) These guarantees will be eliminated as a result of the sale of Prior Energy subsequent to Dec. 31, 2003. See **Note 23**.

TECO Energy and its subsidiaries also enter into commercial agreements in the normal course of business that typically contain standard indemnification clauses. TECO Energy may sometimes agree to make payments to compensate or indemnify the counterparty for legal fees, environmental remediation costs and other similar costs arising from possible future events or changes in laws or regulations. These agreements cover a variety of goods and services, and have varying triggering events dependent on actions by third parties.

TECO Energy is unable to estimate the maximum potential future exposure under these clauses because the events that would obligate TECO Energy have not occurred, or if such event has occurred, TECO Energy has not been notified of any occurrence. As claims are made or changes in laws or regulations indicate, an amount related to the indemnification is reflected in the financial statements.

Financial Covenants

A summary of TECO Energy's significant financial covenants as of Dec. 31, 2003 is as follows:

TECO Energy Significant Financial Covenants

(millions, unless otherwise indicated) Instrument	*Financial Covenant* [1]	*Requirement/Restriction*	*Calculation at Dec. 31, 2003*
Tampa Electric			
Mortgage bond indenture	Dividend restriction	Cumulative distributions cannot exceed cumulative net income plus $4	$5 unrestricted (2)
PGS senior notes	EBIT/interest (3)	Minimum of 2.0 times	3.5 times
	Restricted payments	Shareholder equity at least $500	$1,652
	Funded debt/capital	Cannot exceed 65%	50.5%
	Sale of assets	Less than 20% of total assets	–
Credit facility	Debt/capital	Cannot exceed 60%	49.2%
	EBITDA/interest	Minimum of 2.5 times	5.8 times
	Restriction on distributions	Limit on cumulative distributions and outstanding affiliate loans (4)	$483 unrestricted
6.25% senior notes	Debt/capital	Cannot exceed 60%	49.2%
	Limit on liens	Cannot exceed $787	$362
TECO Energy			
Credit facilities (5)	Debt/capital	Cannot exceed 65%	61.9%
$37.5 credit facility (6)	EBITDA/interest (3)	Minimum of 2.5 times	2.4 times (6)
	Limit on liens	Cannot exceed 60% of fair value of assets	24.9% (7)
	Debt/capital	Cannot exceed 65%	61.9%
$380 million note indenture	Limit on restricted payments (8)	Cumulative operating cash flow in excess of 1.7 times interest	$284 unrestricted
	Limit on liens	Cannot exceed 5% of tangible assets	$206 unrestricted (9)
	Limit on indebtedness	Interest coverage at least 2.0 times	2.6 times
$300 million note indenture	Limit on liens	Cannot exceed 5% of tangible assets	$206 unrestricted (9)
TPGC guarantees (10)	Debt/capital	Cannot exceed 65%	61.9%
	EBITDA/interest (3)	Minimum of 3.0 times	– (11)
TECO Diversified			
Energy management services agreement guarantee	Consolidated tangible net worth	Minimum of $200 net worth	$548
	Consolidated funded debt	Cannot exceed 60%	17.8%
Coal supply agreement guarantee	Dividend restriction	Tangible net worth not less than $200 or $424 (40% of tangible net assets)	$548

(1) As defined in each applicable instrument.
(2) Reflects the determination as of Dec. 31, 2003, after giving effect to $158 million distributed to TECO Energy as a return of capital during 2003. There were $75 million of callable bonds outstanding under the indenture at Dec. 31, 2003.
(3) EBIT generally represents earnings before interest and taxes. EBITDA generally represents EBIT before depreciation and amortization. However, in each circumstance, the term is subject to the definition prescribed under the relevant legal agreements.
(4) Limits cumulative distributions after Oct. 31, 2003 and outstanding affiliate loans to an amount representing an accumulation of net income after May 31, 2003 and capital contributions from the parent after Oct. 31, 2003, plus $450 million.
(5) One of TECO Energy's credit facilities, if drawn upon, can limit payment of dividends each quarter to $40 million, unless the company provides the lender with satisfactory liquidity projections demonstrating the company's ability to pay both the dividends contemplated and each of the three quarterly dividends next scheduled to be paid. See **Note 6** for the details regarding this credit facility.
(6) This facility was repaid in full in February 2004 prior to a declaration of default under the agreements. See **Note 23**.
(7) The fair market value of the assets has not been calculated. This calculation represents total collateralized debt, including TWG non-recourse debt, divided by the book value of total assets.
(8) The limitation on restricted payments restricts the company from paying dividends or making distributions or certain investments unless there is sufficient cumulative operating cash flow, as defined, in excess of 1.7 times interest to make such distribution or investment. The operating cash flow and restricted payments are calculated on a cumulative basis since the issuance of the 10.5% Notes in the fourth quarter of 2002. This calculation, at Dec. 31, 2003, reflects the amount accumulated and available for future restricted payments, representing the accumulation of four quarters' activities.
(9) The repayment of the collateralized $37.5 million credit facility in early 2004 increases this unrestricted amount to $244 million. See **Note 23**.
(10) Includes the Construction Undertaking Guarantees related to the TPGC projects.
(11) This calculation was not required for Sep. 30 or Dec. 31, 2003, as provided by the terms of the Suspension Agreement entered into between the lenders, the project companies and TECO Energy, as discussed below. The related long-term obligation is a component of the disposal group reported as a current liability on the balance sheet in the "Liabilities associated with assets held for sale" line item (see **Note 14**). Also, see **Note 23** for subsequent events relating to this covenant.

In April 2003, Moody's lowered TECO Energy's senior unsecured debt rating to Ba1 with a negative outlook. This debt rating change triggered the payment of the $250 million equity bridge loan balance associated with the construction of the Union and Gila River power projects. In addition, this ratings change required the company to post letters of credit, in an amount satisfactory to the majority of lenders, to secure the projects and project lenders for the remaining potential cost to complete the projects.

Suspension / Standstill Agreement

On Oct. 28, 2003, TECO Energy and the Union and Gila River project companies entered into a Suspension Agreement with the lending group for the Union and Gila River projects to suspend until Feb. 1, 2004 (see **Note 23** – subsequently, orally extended to Feb. 5, 2004) the quarterly calculation of the 3.0 times EBITDA-to-interest coverage ratio covenant included in the "TPGC guarantees" line in the table above. The Suspension Agreement contemplated discussions among TECO Energy, the Union and Gila River project companies and the lending group to reach an understanding regarding the projects' operating budgets and performance before expiration of the suspension period on Jan. 31, 2004. At the end of the suspension period, the Sep. 30 and Dec. 31, 2003 quarterly calculations would be performed.

In December 2003, the Union and Gila River project companies were unable to make interest payments on the non-recourse debt and payments under interest rate swap agreements due Dec. 31, 2003 when the project lenders declined to fund the debt service reserve. On Dec. 31, 2003, TECO Energy and the Union and Gila River project companies entered into a Standstill Agreement with the lending group for the Union and Gila River projects under which the lending group agreed to not exercise its rights or pursue remedies until after Jan. 31, 2004, while preserving such rights and remedies, relating to this payment default.

Subsequent to Dec. 31, 2003, the bank group for the Union and Gila River projects approved a non-binding letter of intent containing a binding Settlement Agreement which impacted these two agreements. See **Note 23** for additional details of these subsequent events and their impact.

21. Mergers, Acquisitions and Dispositions

Hardee Power Partners

In 2003, Hardee Power Partners, Ltd. (HPP), which holds a 370-MW gas-fired generation facility located in central Florida, was sold to an affiliate of Invenergy LLC and GTCR Golden Rauner LLC. Under the terms of the sale, subsidiaries of the company will continue to provide service to HPP under the existing operation and maintenance agreement. The new owner may, at any time, choose to cancel this agreement. Additionally, Tampa Electric's long-term power purchase obligation to receive electricity from HPP remains in effect with no changes as a result of the transaction (see **Note 1**). The sale proceeds of approximately $107 million exceeded the net book value of $51.5 million (including assets of $149.1 million and liabilities of $97.6 million) resulting in a pre-tax gain of $56.3 million.

Due to the anticipated power purchases by Tampa Electric from HPP under the pre-existing long-term power purchase agreement (see the **Purchased Power** section of **Note 1**) resulting in cash outflows, the results from operations are precluded from being presented as discontinued operations.

PLC Development/TIE

At Dec. 31, 2002, TWG had a loan receivable of $137 million from PLC, a subsidiary of Panda Energy International. On Jan. 3, 2003, this loan was converted to a partnership interest in PLC. See **Notes 1** and **17** for additional details regarding the conversion of this loan to an equity interest in PLC. Furthermore, in September 2003, the company consummated the foreclosure on Panda Energy's interest in PLC for a default under a $23 million note receivable leading to TWG's 100-percent ownership in PLC which owns 50 percent of TIE (see **Notes 1, 12** and **17**). As of Sep. 30, 2003, TWG consolidated PLC, resulting in a net increase in investment in unconsolidated affiliates of approximately $18 million. For additional details related to this transaction see **Note 12**.

Synthetic Fuel Facilities

Effective Apr. 1, 2003, TECO Coal sold a 49.5-percent interest in its synthetic fuel production facilities located at its operations in eastern Kentucky. No significant gain or loss was recognized at the time of the sale. The company, through its various affiliates, will provide feedstock supply, and operating, sales and management services to the buyer through 2007, the current expiry date for the related Section 29 credit for which the production qualifies. Because the transaction was structured on a "pay-as-you-go" basis typical of similar transactions in the industry, TECO Coal received no significant cash at the time of sale. The sale required receipt of a positive response to a Private Letter Ruling (PLR) request, and the proceeds from this transaction were held in escrow pending resolution of this contingency. On Oct. 31, 2003, TECO Coal received a PLR from the IRS that resolved any uncertainty related to the previous sale of the 49.5-percent interest in its synthetic fuel facilities; triggered the release of certain cash escrows related to this sale; and confirmed that synthetic fuel produced by TECO Coal is eligible for Section 29 credits and that its testing procedures are in compliance with the requirements of the IRS. On Nov. 5, 2003, $58.9 million of restricted cash that had been held in escrow was released following receipt of the PLR.

TECO Coalbed Methane

TECO Coalbed Methane, a subsidiary of TECO Energy, produced natural gas from coal seams in Alabama's Black Warrior Basin. In September 2002, the company announced its intent to sell the TECO Coalbed Methane gas assets. On Dec. 20, 2002, substantially all of TECO Coalbed Methane's assets in Alabama were sold to the Municipal Gas Authority of Georgia. Proceeds from the sale were $140 million, $42 million paid in cash at closing, and a $98 million note receivable which was paid in January 2003. Net income for the year ended Dec. 31, 2003 included a $23.5 million after-tax gain for the final cash installment from the sale of these assets. TECO Coalbed Methane's results are included in discontinued operations for all periods presented (see **Note 14**).

Commonwealth Chesapeake

In May 2002, TWG purchased Mosbacher Power Partners' interest in TM Power Ventures (TMPV) for $29.3 million. The majority of the purchase price was allocated to TMPV's investment in the 312-megawatt Commonwealth Chesapeake Power Station located on the Delmarva Peninsula in Virginia, and was initially recorded as an increase in goodwill. The acquisition increased the company's ownership interest in TMPV to 100 percent. In 2003, the goodwill initially recorded was written off. See **Note 3** for additional details.

Prior Energy

In November 2001, TECO Solutions acquired Prior Energy Corporation, a natural gas management company serving customers in Alabama, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee and Texas. Prior Energy handles all facets of natural gas energy management services, including natural gas purchasing and marketing. The company has an established market base in the Southeast and one of the top customer service reputations in the region. The acquisition was accounted for by the purchase method of accounting with Nov. 1, 2001 as the acquisition date. The final working capital adjustment and purchase price allocation was completed in 2002. The total cost of the acquisition was $23.0 million plus a net working capital payment of $6.4 million. Goodwill of $9.6 million was initially recorded. Net intangible assets of $39.8 million were recorded, representing the value of customer backlog and supply agreements as well as the open cash flow hedges as of Nov. 1, 2001.

At Dec. 31, 2003, the assets and liabilities expected to be transferred in the disposition of Prior Energy have been presented as held for sale on the balance sheet. The results of operations have been included in discontinued operations for all periods presented (see **Note 14**). See **Note 23** for details regarding the recent sale of Prior Energy.

Frontera Power Station

In March 2001, TWG acquired the Frontera Power Station located near McAllen, Texas, accounting for the transaction using the purchase method of accounting. This 477-megawatt, natural gas-fired combined-cycle plant, originally developed by CSW Energy (CSW), began commercial operation in May 2000. As a condition of the merger of Central & South West Corporation, CSW's parent company, with American Electric Power Company, Inc., the FERC required CSW to divest its ownership in this facility. The total cost of the acquisition was $265.3 million. Goodwill of $70.4 million, representing the excess of purchase price over the fair market value of assets acquired, was recorded, and was amortized on a straight-line basis over 40 years until the requirements of FAS 142 became effective on Jan. 1, 2002 (see **Note 3**). The results of operations of Frontera Power Station are included as part of TWG's results beginning Mar. 16, 2001.

The following pro forma disclosure includes the Frontera Power Station as if it had been included in TECO Energy's financial statements for the year ended Dec. 31, 2001.

Pro Forma Disclosure

(millions, except per share data) *Year ended Dec. 31,*	*Pro Forma* *2001*
Revenues	$2,506.5
Net income from continuing operations	262.2
Earnings per share from continuing operations – basic	$ 1.95

This pro forma information is not necessarily indicative of the operating results that would have occurred had the acquisitions been completed as of the dates indicated, nor are they indicative of future operating results.

22. New Accounting Pronouncements

Gains and Losses on Energy Trading Contracts

On Oct. 25, 2002, the Emerging Issues Task Force released EITF 02-3, *Recognition and Reporting of Gains and Losses on Energy Trading Contracts Under Issues No. 98-10 and 00-17*, which 1) precludes mark-to-market accounting for energy trading contracts that are not derivatives pursuant to FAS 133, 2) requires that gains and losses on all derivative instruments within the scope of FAS 133 be presented on a net basis in the income statement if held for trading purposes, and 3) limits the circumstances in which a reporting entity may recognize a "day one" gain or loss on a derivative contract. The measurement provisions of the issue are effective for all fiscal periods beginning after Dec. 15, 2002. The net presentation provisions are effective for all financial statements issued after Dec. 15, 2002. The adoption of the measurement provisions on Jan. 1, 2003 did not have a material impact. See **Note 14** for additional details of amounts presented on a net basis.

Consolidation of Variable Interest Entities

The equity method of accounting is generally used to account for significant investments in partnership arrangements in which TECO Energy or its subsidiary companies do not have a majority ownership interest or exercise control. On Jan. 17, 2003, the FASB issued FIN 46, *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51*, which imposes a new approach in determining if a reporting entity should consolidate certain legal entities, including partnerships, limited liability companies, or trusts, among others, collectively defined as variable interest entities or VIEs. On Dec. 24, 2003, the FASB published a revision to FIN 46 (FIN 46R), to clarify some of the provisions of FIN 46 and exempt certain entities from its requirements.

Under FIN 46R, a legal entity is considered a VIE, with some exemptions if specific criteria are met, if it does not have sufficient equity at risk to finance its own activities without relying on financial support from other parties. Additional criteria must be applied to determine if this condition is met or if the equity holders, as a group, lack any one of three stipulated characteristics of a controlling financial interest. If the legal entity is a VIE, then the reporting entity determined to be the primary beneficiary of the VIE must consolidate it. Even if a reporting entity is not obligated to consolidate a VIE, then certain disclosures must be made about the VIE if the reporting entity has a significant variable interest. Certain transition disclosures are required for all financial statements issued after Jan. 31, 2003. The effective date of the interpretation was modified under FIN 46R. A reporting entity is required to apply the provisions of FIN 46R to all VIEs that previously were subject to certain previously issued special purpose entity, or SPE, accounting pronouncements for all reporting periods ending after Dec. 15, 2003. For all other VIEs, a reporting entity is required to adopt the provisions of FIN 46R for all reporting periods after Mar. 15, 2004.

Based on its review under the existing approved guidance, TECO Energy believes that FIN 46R will impact the accounting for certain unconsolidated affiliates. Below is a discussion of the legal entities as of Dec. 31, 2003 that TECO Energy believes will be subject to either additional disclosure requirements or consolidation by the company, in accordance with FIN 46R.

In November 2000 and January 2002, respectively, TECO Energy established TECO Funding I, LLC and TECO Funding II, LLC. Each of these limited-liability companies are wholly-owned subsidiaries of TECO Energy. These companies sold preferred securities to Capital Trust I and Capital Trust II, respectively. The funding companies used the proceeds to purchase subordinated notes from TECO Energy. The subordinated notes are not secured by specific assets of the company. The terms of these notes are similar to the terms of the preferred securities (see **Note 7** for additional details, including the impact of FAS 150 on the preferred securities). The funding companies are expected to be considered VIEs in accordance with FIN 46R. As of Dec. 31, 2003, management expects the potential impact of the adoption of FIN 46R to not be material for the funding companies.

Pike Letcher Synfuel, LLC was established as part of the Apr. 1, 2003 sale of TECO Coal's synthetic fuel production facilities. See **Note 21** for additional details regarding the terms of the sale and purpose of the entity. TECO Energy's maximum loss exposure in this entity is its equity investment of approximately $10.9 million and potential losses related to the production costs for the future production of synthetic fuel, in the event that such production creates Section 29 non-conventional fuel tax credits in excess of TECO Energy's capacity to generate sufficient taxable income to use such credits.

TECO Transport entered into two separate sale-leaseback transactions for certain vessels which were recognized as sales in December 2001 and December 2002, and are currently recognized as operating leases for the assets. The sale-leaseback transactions were entered into with separate third parties that the company believes meet the definition of a VIE. TECO Transport currently leases two ocean-going tugboats, four ocean-going barges, five river towboats and 49 river barges through these two trusts. The estimated maximum loss exposure faced by TECO Transport is the incremental cost of obtaining suitable equipment to meet the company's contractual shipping obligations. The company does not expect to consolidate upon the effective date of FIN 46R.

TECO Properties formed a limited liability company with a project developer which meets the definition of a VIE. Hernando Oaks, LLC was formed by TECO Properties with the Pensacola Group to buy and develop 627 acres of land in Hernando County, Florida into a residential golf community comprised of an 18-hole golf course and 975 single-family lots for sale to homebuilders. The company has provided subordinated financial support in the form of a guarantee on behalf of the limited liability company. Hernando Oaks, LLC had total assets at Dec. 31, 2003 of $21.6 million. TECO Properties' estimated maximum loss exposure in this project is approximately $10.6 million, representing the sum of its guarantee and equity investment. The company expects to consolidate Hernando Oaks, LLC for all financial reporting periods ending after Mar. 15, 2004.

TECO Energy Services (formerly TECO BGA) formed a partnership to construct, own and operate a water cooling plant to produce and distribute chilled water to customers via a local distribution loop primarily for use in air conditioning systems. The partnership, TECO AGC, Ltd., meets the definition of a VIE. The company is the primary beneficiary, in accordance with FIN 46R, due to subordinated financing and other funding of $3.3 million provided to the partnership as of Dec. 31, 2003, in addition to the company's equity investment. This note receivable from the partnership is collateralized by the assets in the partnership. The estimated maximum loss exposure associated with this partnership is approximately $3.8 million as of Dec. 31, 2003, representing substantially all of the assets of the partnership. The company expects to consolidate TECO AGC, Ltd. for all financial reporting periods ending after Mar. 15, 2004.

Amendment to Derivatives Accounting

In April 2003, the FASB issued FAS 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, which clarifies the definition of a derivative and modifies, as necessary, FAS 133 to reflect certain decisions made by the FASB as part of the Derivatives Implementation Group (DIG) process. The majority of the guidance was already effective and previously applied by the company in the course of the adoption of FAS 133.

In particular, FAS 149 incorporates the conclusions previously reached in 2001 under DIG Issue C10, *"Can Option Contracts and Forward Contracts with Optionality Features Qualify for the Normal Purchases and Normal Sales Exception"*, and DIG Issue C15, *"Normal Purchases and Normal Sales Exception for Certain Option-Type Contracts and Forward Contracts in Electricity"*. In limited circumstances when the criteria are met and documented, TECO Energy designates option-type and forward contracts in electricity as a normal purchase or normal sale (NPNS) exception to FAS 133. A contract designated and documented as qualifying for the NPNS exception is not subject to the measurement and recognition requirements of FAS 133. The incorporation of the conclusions reached under DIG Issues C10 and C15 into the standard will not have a material impact on the consolidated financial statements of TECO Energy.

FAS 149 establishes multiple effective dates based on the source of the guidance. For all DIG Issues previously cleared by the FASB and not modified under FAS 149, the effective date of the issue remains the same. For all other aspects of the standard, the guidance is effective for all contracts entered into or modified after June 30, 2003. The company does not anticipate that the adoption of the additional guidance in FAS 149 will have a material impact on the consolidated financial statements.

Financial Instruments with Characteristics of both Liabilities and Equity

In May 2003, the FASB issued FAS 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, which requires that an issuer classify certain financial instruments as a liability or an asset. Previously, many financial instruments with characteristics of both liabilities and equity were classified as equity. Financial instruments subject to FAS 150 include financial instruments with any of the following features:

- An unconditional redemption obligation at a specified or determinable date, or upon an event that is certain to occur;
- An obligation to repurchase shares, or indexed to such an obligation, and may require physical share or net cash settlement,
- An unconditional, or for new issuances conditional, obligation that may be settled by issuing a variable number of equity shares if either (a) a fixed monetary amount is known at inception, (b) the variability is indexed to something other than the fair value of the issuer's equity shares, or (c) the variability moves inversely to changes in the fair value of the issuer's shares.

The standard requires that all such instruments be classified as a liability, or an asset in certain circumstances, and initially measured at fair value. Forward contracts that require a fixed physical share settlement and mandatorily redeemable financial instruments must be subsequently re-measured at fair value on each reporting date.

This standard is effective for all financial instruments entered into or modified after May 31, 2003, and for all other financial instruments, at the beginning of the first interim period beginning after June 15, 2003. See **Note 7** for a discussion of the impact of the adoption of this standard on July 1, 2003.

23. Subsequent Events

Sale of TECO BGA, Inc. (formerly a component of TECO Energy Services)

Effective Jan. 1, 2004, the company completed the sale of TECO BGA, Inc. (formerly a component of TECO Energy Services) to an entity owned by an employee group for a pre-tax loss on disposal of $12.2 million ($7.5 million after tax). This loss was recorded as part of the asset impairment charge reported in the income statement for the year ended Dec. 31, 2003, in accordance with FAS 144 (see Note 10 and the **Other transactions** section of Note 14 for additional details relating to this disposition).

Repayment of $37.5 million one-year TECO Energy credit facility

On Jan. 5, 2004, TECO Energy repaid $20 million of the $37.5 million one-year credit facility collateralized by the Union and Gila River assets. On Feb. 4, 2004, TECO Energy repaid the remaining $17.5 million of the one-year credit facility.

Sale of TECO Propane Ventures' Indirect Interest in Heritage Propane Partners, L.P.

On Jan. 20, 2004, US Propane LP, in which TECO Propane Ventures holds a 38% equity interest, completed the sale of its direct and indirect equity investments in Heritage Propane Partners, L.P. (Heritage). The sale, part of a larger transaction that involved the merging of privately held Energy Transfer Company with Heritage, was announced Nov. 7, 2003. TECO Propane Ventures received $49.4 million in cash on Jan. 20, 2004 related to the sale and will record a $17.2 million pre-tax gain.

Recent Agreements Related to the Union and Gila River Project Exit Activities

Letter of Intent

On Feb. 5, 2004, the bank group for the Union and Gila River projects approved a non-binding letter of intent containing a binding Settlement Agreement. Under the agreement, TECO Energy and the project companies will work toward a definitive agreement with the lending banks for a purchase and sale or other agreement to transfer the ownership of the projects to the lending banks in exchange for a release of all obligations under the project loan agreements. The letter of intent specifies target dates for a definitive agreement by Jun. 30, 2004 and for closing by Sep. 30, 2004. The Settlement Agreement provides for the treatment of the $66 million of letters of credit posted by TECO Energy under the Construction Undertaking, with $35 million for the benefit of the project companies (drawn in February 2004) and the remaining $31 million of letters of credit to be cancelled and returned to TECO Energy. Under the letter of intent, all parties have specified a target completion of due diligence for final acceptance under the construction and undertaking contracts for both projects within 45 days; however, TECO Energy and the project companies will remain responsible to address certain permit issues at the Gila River project. No new investment in the projects will be made by TECO Energy. Since the projects have achieved commercial operation on all facilities at Union and Gila River, TECO Energy believes that it has met all but limited warranty and final acceptance responsibilities to the project companies. TECO Energy and various of its subsidiaries plan to continue to provide services and continue to provide expertise and operating support to help the project companies operate the facilities consistent with past practices at least through the completion of the transfer of ownership. The lending banks and TECO Energy and its affiliates have reserved their rights to assert certain claims they may have against one another until a definitive agreement is reached.

Expiration of Suspension (Standstill) Agreement

The letter of intent permits the parties to reserve their rights against each other, including with respect to TECO Energy's failure to comply with the 3.0-times EBITDA-to-interest ratio coverage requirement in its Construction Undertakings for the quarters ending Sep. 30 and Dec. 31, 2003 (a cross default to the non-recourse credit agreements) that were covered by the Suspension Agreement, which has expired, and the failure of the project companies to make interest payments on the non-recourse project debt and payments under interest rate swap agreements due Dec. 31, 2003 when the project lenders declined to fund the debt service reserve.

The Construction Undertakings permit TECO Energy to terminate its obligations thereunder, including the requirement to comply with the covenants, by providing a Substitute Guarantor reasonably satisfactory to the lending group. On Sept. 22, 2003, TECO Energy tendered a Substitute Guarantor, which it believes satisfied the requirements of the Construction Undertakings. The lending group declined to accept this tender as being satisfactory. Under the letter of intent, TECO Energy has retained its right to assert that the Construction Undertakings were terminated in the event that the lending group seeks to exercise its rights thereunder based on a violation of the EBITDA-to-interest coverage ratio covenant.

As a result, the lending bank group could seek to exercise remedies against the project companies as a result of defaults in connection with the non-recourse project debt, including accelerating the non-recourse debt, foreclosing on the project collateral and suspending further funding; subject to the defenses that TECO Energy and its affiliates may have.

Under the Suspension Agreement between TECO Energy, the project companies and the lending bank group, TECO Energy was not required to calculate the EBITDA to interest coverage ratio required in the undertaking for the quarters ended Sep. 30, 2003 and Dec. 31, 2003 until Feb. 1, 2004 (orally extended until Feb. 5, 2004). On that date, the calculations were made resulting in a 2.7 and 2.4 times interest coverage ratio for the two quarters, respectively. Due to non-compliance with this covenant, the lenders could accelerate the $1.395 billion of non-recourse construction debt, absent the sale of the projects to the bank group.

Sale of Prior Energy

Effective Feb. 1, 2004, a subsidiary of TECO Energy completed the sale of Prior Energy for net proceeds of approximately $30 million. This sale did not result in a material gain or loss to the company. Outstanding guarantees related to the operations of Prior Energy are expected to be eliminated as a result of this transaction (see Note 20). See the **Other transactions** section of Note 14 for additional details relating to this disposition.

TECO Energy 18-Month Credit Facility

As a result of receipt of cash proceeds from certain asset sales in early 2004, the existing $100 million unsecured credit facility with Merrill Lynch has been reduced to $20.6 million per the terms of the amended facility. The $200 million contingent credit facility with Merrill Lynch and JP Morgan, if activated would replace the existing Merrill Lynch facility. See Note 6.

24. Quarterly Data (unaudited)

The results for the three months ended Sep. 30, 2003 have been restated from amounts previously reported in the Form 10-Q for the quarter then ended due to a re-evaluation of the accounting for the HPP sale transaction subsequent to the filing date. The "Restated" column for Sep. 30, 2003 below:

(1) Reflects the results of operations for HPP as a component of continuing operations, rather than discontinued operations, due to a pre-existing long-term power purchase agreement from HPP to Tampa Electric, in accordance with FAS 144 (see the **Purchased Power** section of **Note 1**); and

(2) Reflects in the fourth quarter, rather than the third quarter, the gain on the sale of HPP to a third party, in accordance with SAB 104 (see **Note 21**).

The reclassification of HPP's operating results for the three months ended Sep. 30, 2003, after intercompany eliminations, increased a) revenues by $7.3 million, b) income from operations by $7.1 million and c) net income from continuing operations by $2.8 million. The recognition of the gain on the sale of HPP in the fourth quarter, rather than the third quarter, reduced net income in the third quarter by $34.6 million ($0.19 per share). The $34.6 million after-tax ($56.3 million pre-tax) gain on the sale of HPP was recognized in the fourth quarter. These revisions had no impact on TECO Energy's net loss for the year ended Dec. 31, 2003.

millions, except per share amounts		*Restated*			
Quarter ended	*Dec. 31*	*Sep 30*	*Sep. 30* [1]	*June 30* [2]	*Mar 31* [2]
2003					
Revenues	$ 633.8	$759.1	$751.8	$ 695.3	$651.8
Income from operations	$ (63.8)	$ 92.2	$ 85.1	$ 0.5	$ (8.8)
Net income					
Net income from continuing operations	$ (4.0)	$ 4.6	$ 1.8	$ 5.0	$ (20.3)
Net income	$(790.7)	$ (19.5)	$ 15.0	$(101.9)	$ 2.7
Earnings per share (EPS) - basic					
EPS from continuing operations	$ (0.02)	$ 0.03	$ 0.01	$ 0.03	$ (0.12)
EPS	$ (4.21)	$ (0.11)	$ 0.08	$ (0.58)	$ 0.02
Earnings per share (EPS) - diluted					
EPS from continuing operations	$ (0.02)	$ 0.03	$ 0.01	$ 0.03	$ (0.12)
EPS	$ (4.21)	$ (0.11)	$ 0.08	$ (0.58)	$ 0.01
Dividends paid per common share [3]	$ 0.19	$ 0.19	$ 0.19	$ 0.19	$ 0.355
Stock price per common share [4]					
High	$ 14.85	$ 14.20	$ 14.20	$ 13.69	$ 17.00
Low	$ 11.80	$ 11.50	$ 11.50	$ 10.05	$ 9.47
Close	$ 14.41	$ 13.82	$ 13.82	$ 11.99	$ 10.63

Quarter ended	*Dec. 31*	*Sep. 30*	*June 30*	*Mar. 31*
2002 [5]				
Revenues	$ 665.2	$727.2	$ 672.7	$599.8
Income from operations	$ 58.0	$141.5	$ 95.7	$ 86.6
Net income				
Net income from continuing operations	$ 28.5	$106.6	$ 76.0	$ 66.1
Net income	$ 50.1	$118.9	$ 85.7	$ 75.4
Earnings per share (EPS) - basic				
EPS from continuing operations	$ 0.17	$ 0.68	$ 0.53	$ 0.47
EPS	$ 0.29	$ 0.76	$ 0.59	$ 0.54
Earnings per share (EPS) - diluted				
EPS from continuing operations	$ 0.17	$ 0.68	$ 0.53	$ 0.47
EPS	$ 0.29	$ 0.76	$ 0.59	$ 0.54
Dividends paid per common share [3]	$ 0.355	$ 0.355	$ 0.355	$ 0.345
Stock price per common share [4]				
High	$ 16.48	$ 24.71	$ 29.05	$ 28.94
Low	$ 10.02	$ 14.20	$ 22.70	$ 23.40
Close	$ 15.47	$ 15.88	$ 24.75	$ 28.63

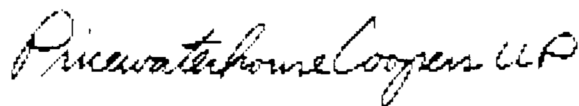
(1) The amounts which were reported in the Form 10-Q for the quarter ended Sep. 30, 2003 (which amounts were subsequently changed to reflect both the revisions for the HPP sale and the reclassifications for the discontinued operations occurring in the fourth quarter as further discussed in **Note 14**) were as follows: revenues of $940.7 million; income from operations of $74.4 million; net income (loss) from continuing operations of $(19.2) million; net income of $15.0 million; EPS from continuing operations – basic and diluted of $(0.11); and EPS – basic and diluted of $0.08.
(2) Amounts shown reflect reclassifications to reflect discontinued operations as discussed in **Note 14**.
(3) Dividend paid on TECO Energy common stock.
(4) Trading prices for common shares.
(5) Amounts shown for 2002 reflect reclassifications to conform with the current year presentation. In particular, reclassifications have been made from continuing operations to discontinued operations as discussed in **Note 14**.

REPORT *of Independent Certified Public Accountants*

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, common equity and cash flows present fairly, in all material respects, the financial position of TECO Energy, Inc. and its subsidiaries at Dec. 31, 2003 and Dec. 31, 2002, and the results of their operations and their cash flows for each of the three years in the period ended Dec. 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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 7 to the consolidated financial statements, the Company changed the manner in which it accounts for mandatorily redeemable securities as of July 1, 2003. As discussed in Note 5 to the consolidated financial statements, the Company changed the manner in which it accounts for asset retirement costs as of Jan. 1, 2003. As discussed in Note 3 to the consolidated financial statements, the Company changed the manner in which it accounts for goodwill and other intangible assets as of Jan. 1, 2002. As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for derivative instruments as of Jan. 1, 2001.



Tampa, Florida
March 2, 2004

Selected Financial Data

(millions, except per share amounts) *Year ended Dec. 31,*	*2003*	*2002*	*2001*	*2000*	*1999*
Revenues	S 2,740.0	S 2,664.9	S 2,483.3	S 2,223.2	S 1,932.6
Net (loss) income from continuing operations	S (14.7)	S 277.2	S 265.5	S 225.6	S 179.2
Net (loss) income from discontinued operations	(890.4)	52.9	38.2	25.3	6.9
Cumulative effect of change in accounting principle, net	(4.3)	–	–	–	–
Net (loss) income	S (909.4)	S 330.1	S 303.7	S 250.9	S 186.1
Total assets	S 10,462.3	S 9,078.4	S 7,176.2	S 6,167.8	S 5,103.2
Long-term debt	S 4,392.6	S 3,324.3	S 1,842.5	S 1,374.6	S 1,207.8
Earnings per share (EPS) – basic					
From continuing operations	S (0.08)	S 1.81	S 1.98	S 1.79	S 1.37
From discontinued operations	(4.95)	0.34	0.28	0.20	0.05
From cumulative effect of change in accounting principle	(0.02)	–	–	–	–
EPS basic	S (5.05)	S 2.15	S 2.26	S 1.99	S 1.42
Dividends paid per common share	S 0.925	S 1.41	S 1.37	S 1.33	S 1.285

Internet
Current information about TECO Energy is on the Internet at **www.tecoenergy.com**

TECO Energy is listed on the New York Stock Exchange symbol: TE

TECO Energy Offices
702 N. Franklin Street
Tampa, FL 33602
813-228-1111
Fax 813-228-1670

Auditors
PricewaterhouseCoopers LLP
Tampa, FL

Annual Meeting
The Annual Meeting of Shareholders will be held on April 28, 2004, 11:30 a.m. at
Hilton Tampa Airport Westshore
2225 N. Lois Avenue
Tampa, FL 33607

Shareholder Inquiries
Communication concerning transfer requirements, lost certificates, dividends and change of address should be directed to the Transfer Agent.

Transfer Agent & Registrar
The Bank of New York
Receive and Deliver Department
P.O. Box 11002
Church Street Station
New York, NY 10286
www.stockbny.com

Dividend Reinvestment
The company offers a Dividend Reinvestment and Common Stock Purchase Plan which allows common shareholders of record to purchase additional shares of common stock at the current market price. All correspondence concerning this Plan should be directed to the Plan Agent:
The Bank of New York
Investment Services Department
P.O. Box 1958
Newark, NJ 07101-9774

Form 10-K Available
TECO Energy's Annual Report on Form 10-K, which is filed with the Securities and Exchange Commission, is available to shareholders at no charge on the Internet at **www.sec.gov** or through the Investor Relations page at **www.tecoenergy.com**. Requests should be addressed to:
TECO Energy, Inc.
Investor Relations
P.O. Box 111
Tampa, FL 33601
813-228-1326
800-810-2032

Analyst Contacts
Gordon L. Gillette, Senior Vice President - Finance and Chief Financial Officer

Sandra W. Callahan, Vice President - Treasury and Risk Management

Mark M. Kane, Director - Investor Relations
813-228-1111

TECO Energy Offices
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Fax 813-228-1670
www.tecoenergy.com

10% Post consumer fiber

SUBSIDIARIES OF THE REGISTRANT

All of the following subsidiaries of TECO Energy, Inc., are organized under the laws of Florida except as indicated. The following list omits certain subsidiaries pursuant to paragraph (b)(21)(ii) of Regulation S-K Item 601.

- Tampa Electric Company
- TECO Diversified, Inc.
  - TECO Transport Corporation
    - TECO Bulk Terminal, LLC (formerly Electro-Coal Transfer, LLC a Louisiana limited liability company)
    - TECO Ocean Shipping, Inc. (formerly Gulfcoast Transit Company)
    - TECO Barge Line, Inc. (formerly Mid-South Towing Company)
    - TECO Towing Company
  - TECO Coal Corporation (a Kentucky corporation)
    - Gatliff Coal Company (a Kentucky corporation)
    - Bear Branch Coal Company (a Kentucky Corporation)
    - Rich Mountain Coal Company (a Tennessee corporation)
    - Clintwood Elkhorn Mining Company (a Kentucky corporation)
    - Pike-Letcher Land Company (a Kentucky corporation)
    - Premier Elkhorn Coal Company (a Kentucky corporation)
    - Perry County Coal Corporation (a Kentucky corporation)
  - TECO Solutions, Inc.
    - TECO Energy Services, Inc. (formerly TECO BGA, Inc.)
    - BCH Mechanical, Inc.
    - TECO Gas Services, Inc.
    - Prior Energy Corporation (a Delaware Corporation)
    - TECO Partners, Inc.
    - TECO Propane Ventures, LLC (a Delaware limited liability company)
  - TECO Coalbed Methane Florida, Inc. (formerly TECO Coalbed Methane, Inc. an Alabama corporation)
  - TECO Properties Corporation
- TECO Stevedoring Services, Inc. (formerly GC Services Company, Inc.)
- TECO Finance, Inc.
- TECO Investments, Inc.
- TECO Funding Company I, LLC (a Delaware limited liability company)
- TECO Funding Company II, LLC (a Delaware limited liability company)
- TECO Wholesale Generation, Inc. (formerly TECO Power Services Corporation)
  - TPS Guatemala One, Inc.
  - TPS Hamakua, Inc.
  - TPS Hawaii, Inc.
  - TM Power Ventures, LLC (a Delaware limited liability company)
    - TM Delmarva Power LLC (a Delaware limited liability company)
  - TECO Power Ventures, Inc.
    - TPS TriCo., LLC (a Delaware limited liability company)
      - TPS Dell, LLC (a Delaware limited liability company)
      - TPS McAdams, LLC (a Delaware limited liability company)
      - TPS Tejas GP, LLC (a Delaware limited liability company)
      - TPS Tejas LP, LLC (a Delaware limited liability company)
  - TPS LP, Inc.
  - TPS GP, Inc.
    - TECO-Panda Generating Company, L.P. (a Delaware partnership)
      - Union Power I, LLC (a Delaware limited liability company)
      - Union Power II, LLC (a Delaware limited liability company)
      - Panda Gila River I, LLC (a Delaware limited liability company)
      - Panda Gila River II, LLC (a Delaware limited liability company)
      - Trans-Union Interstate I, LLC (a Delaware limited liability company)
      - Trans-Union Interstate II, LLC (a Delaware limited liability company)
  - TPS International Power, Inc. (a Cayman Islands limited liability company)
    - TPS San Jose International, Inc. (a Cayman Islands company)
    - TPS San Jose, LDC (a Cayman Islands company)
  - TECO EnergySource, Inc.

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (File Nos. 33-43512, 333-83958 and 333-110273) and on Form S-8 (File Nos. 333-02563, 333-25563, 333-60776 and 333-72542) of TECO Energy, Inc. of our report dated March 2, 2004 relating to the financial statements, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated March 2, 2004 relating to the financial statement schedules, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Tampa, Florida
March 9, 2004

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (File Nos. 33-61636, 333-55090 and 333-91602) of Tampa Electric Company of our report dated March 2, 2004, relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Tampa, Florida
March 9, 2004

Exhibit 24.1.1

TECO ENERGY, INC.
POWER OF ATTORNEY

Each of the undersigned in his capacity as a Director or officer or both, as the case may be, of said Corporation, does hereby appoint R. D. Fagan, G. L. Gillette and D. E. Schwartz, and each of them, severally, his true and lawful attorneys or attorney to execute in his name, place and stead, in his capacity as Director or officer or both, as the case may be, of said Corporation, the Annual Report on Form 10-K for year ended December 31, 2003, and any and all amendments thereto and all instruments necessary or incidental in connection therewith, and to file the same with the Securities and Exchange Commission. Each of said attorneys has the power to act hereunder with or without the other of said attorneys and shall have full power of substitution and resubstitution.

IN TESTIMONY WHEREOF, the undersigned have executed this instrument on the dates set forth below.

/s/ R. D. Fagan
R. D. Fagan, Chairman of the Board, President, Director and Chief Executive Officer (Principal Executive Officer)
January 27, 2004

/s/ G. L. Gillette
G. L. Gillette, Senior Vice President-Finance and Chief Financial Officer (Principal Financial Officer)
February 20, 2004

/s/ S. M. Payne
S. M. Payne, Vice President-Corporate Accounting and Tax and Assistant Secretary (Principal Accounting Officer)
February 10, 2004

/s/ C. D. Ausley
C. D. Ausley, Director
January 27, 2004

/s/ S. L. Baldwin
S. L. Baldwin, Director
January 27, 2004

/s/ J. L. Ferman, Jr.
J. L. Ferman, Jr., Director
January 27, 2004

/s/ L. Guinot, Jr.
L. Guinot, Jr., Director
January 27, 2004

/s/ I. D. Hall
I. D. Hall, Director
January 27, 2004

/s/ S. W. Hudson
S. W. Hudson, Director
January 27, 2004

/s/ T. L. Rankin
T. L. Rankin, Director
January 27, 2004

/s/ W. D. Rockford
W. D. Rockford, Director — January 27, 2004

/s/ W. P. Sovey
W. P. Sovey, Director — January 27, 2004

/s/ J. T. Touchton
J. T. Touchton, Director — January 27, 2004

/s/ J. A. Urquhart
J. A. Urquhart, Director — January 27, 2004

/s/ J. O. Welch, Jr.
J. O. Welch, Jr., Director — February 13, 2004

Exhibit 24_1_2

TAMPA ELECTRIC COMPANY
POWER OF ATTORNEY

Each of the undersigned in his capacity as a Director or officer or both, as the case may be, of said Company, does hereby appoint R. D. Fagan, G. L. Gillette and D. E. Schwartz, and each of them, severally, his true and lawful attorneys or attorney to execute in his name, place and stead, in his capacity as Director or officer or both, as the case may be, of said Company, the Annual Report on Form 10-K for year ended December 31, 2003, and any and all amendments thereto and all instruments necessary or incidental in connection therewith, and to file the same with the Securities and Exchange Commission. Each of said attorneys has the power to act hereunder with or without the other of said attorneys and shall have full power of substitution and resubstitution

IN TESTIMONY WHEREOF, the undersigned have executed this instrument on the dates set forth below.

/s/ R. D. Fagan
R. D. Fagan, Chairman of the Board, Director and Chief Executive Officer (Principal Executive Officer) — January 27, 2004

/s/ G. L. Gillette
G. L. Gillette, Senior Vice President-Finance and Chief Financial Officer (Principal Financial Officer) — February 20, 2004

/s/ P. L. Barringer
P. L. Barringer, Chief Accounting Officer (Principal Accounting Officer) — February 10, 2004

/s/ C. D. Ausley
C. D. Ausley, Director — January 27, 2004

/s/ S. L. Baldwin
S. L. Baldwin, Director — January 27, 2004

/s/ J. L. Ferman, Jr.
J. L. Ferman, Jr., Director — January 27, 2004

/s/ L. Guinot, Jr.
L. Guinot, Jr., Director — January 27, 2004

/s/ I. D. Hall
I. D. Hall, Director — January 27, 2004

/s/ S. W. Hudson
S. W. Hudson, Director — January 27, 2004

/s/ T. L. Rankin
T. L. Rankin, Director — January 27, 2004

/s/ W. D. Rockford **W. D. Rockford Director**	January 27, 2004
/s/ W. P. Sovey **W. P. Sovey, Director**	January 27, 2004
/s/ J. T. Touchton **J. T. Touchton, Director**	January 27, 2004
/s/ J. A. Urquhart **J. A. Urquhart, Director**	January 27, 2004
/s/ J. O. Welch, Jr. **J. O. Welch, Jr., Director**	February 13, 2004

Exhibit 24.2.1

TECO ENERGY, INC.

Transcript from Records of Board of Directors

January 27, 2004

****

RESOLVED, that the preparation and filing with the Securities and Exchange Commission of the Annual Report on Form 10-K for the year ended December 31, 2003 pursuant to the Securities Exchange Act of 1934, as amended, including any amendments thereto and containing the information required by such form and any additional information as the officers of the Corporation, with the advice of counsel, deem necessary, advisable or appropriate (the "10-K"), are hereby authorized and approved; that the Chief Executive Officer, the President and any Vice President of the Corporation be, and each of them acting singly hereby is, authorized for and in the name and on behalf of the Corporation to execute the 10-K and cause it to be filed with the Securities and Exchange Commission; and that the officers referred to above be, and each of them hereby is, authorized to execute the 10-K through or by R. D. Fagan, G. L. Gillette or D. E. Schwartz, or any of them, as duly authorized attorneys pursuant to a Power of Attorney in such form as shall be approved by the Corporation's general counsel.

****

I, D. E. Schwartz, hereby certify that I am Secretary of TECO Energy, Inc., a Florida corporation (the "Corporation"), and set forth above is a true and correct copy of certain resolutions from the minutes of the meeting of the Board of Directors of the Corporation convened and held on January 27, 2004, at which meeting a quorum for the transaction of business was present and acting throughout.

I further certify that the resolutions set forth above have not been altered, amended or rescinded and the same are now in full force and effect.

EXECUTED this 24th day of February, 2004.

/s/ D. E. Schwartz

Secretary
TECO ENERGY, INC.

Corporate Seal

Exhibit 24.2.2

TAMPA ELECTRIC COMPANY

Transcript from Records of Board of Directors

January 27, 2004

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RESOLVED, that the preparation and filing with the Securities and Exchange Commission of the Annual Report on Form 10-K for the year ended December 31, 2003 pursuant to the Securities Exchange Act of 1934, as amended, including any amendments thereto and containing the information required by such form and any additional information as the officers of the Company, with the advice of counsel, deem necessary, advisable or appropriate (the "10-K"), are hereby authorized and approved; that the Chief Executive Officer, the President and any Vice President of the Company be, and each of them acting singly hereby is, authorized for and in the name and on behalf of the Company to execute the 10-K and cause it to be filed with the Securities and Exchange Commission; and that the officers referred to above be, and each of them hereby is, authorized to execute the 10-K through or by R. D. Fagan, G. L. Gillette or D. E. Schwartz, or any of them, as duly authorized attorneys pursuant to a Power of Attorney in such form as shall be approved by the Company's general counsel.

****

I, D. E. Schwartz, hereby certify that I am Secretary of Tampa Electric Company, a Florida corporation (the "Company"), and set forth above is a true and correct copy of certain resolutions from the minutes of the meeting of the Board of Directors of the Company convened and held on January 27, 2004, at which meeting a quorum for the transaction of business was present and acting throughout.

I further certify that the resolutions set forth above have not been altered, amended or rescinded and that the same are now in full force and effect.

EXECUTED this 24th day of February, 2004.

/s/ D. E. Schwartz

Secretary
TAMPA ELECTRIC COMPANY

Corporate Seal

CERTIFICATIONS

I, Robert D. Fagan, certify that:

1. I have reviewed this annual report on Form 10-K of TECO Energy, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2004

/s/ R. D. FAGAN
R. D. FAGAN
Chairman of the Board, President,
Director and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS

I, Gordon L. Gillette, certify that:

1. I have reviewed this annual report on Form 10-K of TECO Energy, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2004

/s/ G. L. GILLETTE
G. L. GILLETTE
Senior Vice President - Finance
and Chief Financial Officer
(Principal Financial Officer)

CERTIFICATIONS

I, Robert D. Fagan, certify that:

1. I have reviewed this annual report on Form 10-Q of Tampa Electric Company.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2003

/s/ R. D. FAGAN
R. D. FAGAN
Chairman of the Board, President,
Director and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS

I, Gordon L. Gillette, certify that:

1. I have reviewed this annual report on Form 10-K of Tampa Electric Company.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2004

/s/ G. L. GILLETTE
G. L. GILLETTE
Senior Vice President - Finance
and Chief Financial Officer
(Principal Financial Officer

Exhibit 32.1

TECO ENERGY, INC

Certification of Periodic Financial Report
Pursuant to 18 U.S.C. Section 1350

Each of the undersigned officers of TECO Energy, Inc. (the "Company") certifies, under the standards set forth in and solely for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge, the Annual Report on Form 10-K of the Company for the year ended Dec. 31, 2003 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in that Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 15, 2004

/s/ R. D. Fagan
Robert D. Fagan
Chief Executive Officer

Dated: March 15, 2004

/s/ G. L. Gillette
Gordon L. Gillette
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to TECO Energy, Inc. and will be retained by TECO Energy, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

TAMPA ELECTRIC COMPANY

Certification of Periodic Financial Report Pursuant to 18 U.S.C. Section 1350

Each of the undersigned officers of Tampa Electric Company (the "Company") certifies, under the standards set forth in and solely for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge, the Annual Report on Form 10-K of the Company for the year ended Dec. 31, 2003 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in that Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 15, 2004

/s/ R. D. Fagan
Robert D. Fagan
Chief Executive Officer

Dated: March 15, 2004

/s/ G. L. Gillette
Gordon L. Gillette
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Tampa Electric Company and will be retained by Tampa Electric Company and furnished to the Securities and Exchange Commission or its staff upon request.