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

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

DIRECT TESTIMONY AND EXHIBIT

OF

SUSAN D. ABBOTT

ON BEHALF OF TAMPA ELECTRIC COMPANY

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PREPARED DIRECT TESTIMONY

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Q. Please state your name, occupation and employer.

A. My name is Susan D. Abbott, and I am a managing director of New Harbor Incorporated. New Harbor is an investment-banking firm engaged in strategic advisory services to the electric, gas and water utilities sectors.

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

A. I have a Bachelor's Degree in Literature from Syracuse University, and an M.B.A. in Finance from The University of Connecticut. I sit on the Board of Directors of the Student Managed Funds for the University of Connecticut ("UConn"), and am a member of the UConn Business School Hall of Fame. I have worked in the financial services industry for 30 years, first as an institutional investor, and most recently as an investment banker.

For 20 years, I worked for Moody's Investor Service. For 13 of those years, I was either a member or the Managing Director of the Power and Project Finance Group. Since leaving Moody's and joining New Harbor, I have been involved in rating agency advisory work. I chair the rating agency panel for the Edison Electric Institute/Gee Strategies "Dialogue with Wall Street" series, and I provide consulting and other services relative to credit and rating issues on behalf of clients in the United States.

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

A. Yes. Exhibit No. ___ (SDA-1) entitled "Exhibit of Susan D. Abbott on Behalf of Tampa Electric", consisting of five documents, was prepared under my direction and supervision. These documents consist of:

Document No. 1	Testimony
Document No. 2	Rating Agencies' Rating Symbols
Document No. 3	Public Utility Commission Rankings
Document No. 4	Standard & Poor's Corporate Ratings Matrix
Document No. 5	Tampa Electric's Credit Metrics Versus Standard & Poor's Metrics

Q. Have you previously testified before state public service commissions?

A. Yes, I have. A list of previous cases in which I have testified is attached as Document No. 1 of my exhibit.

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to describe how rating agencies rate companies, the importance of regulation to ratings, and the basis of Tampa Electric Company's ("Tampa Electric" or "company") current and targeted ratings. In particular, I have analyzed Tampa Electric's current creditworthiness, its ratings, the reasons the company is rated as it is and the likely implications of its current rate request to its future ratings. I discuss the consequences of regulatory actions relative to Tampa Electric's current rate filing. Finally, I provide support for Tampa Electric's targeted credit ratings.

Q. What are rating agencies and what do they do?

A. There are three principal U.S. rating agencies: Moody's Investors Service ("Moody's"), Fitch Ratings ("Fitch"), and Standard and Poor's ("S&P"). They have been in business since the turn of the 20th century or shortly thereafter, and they function as gatekeepers to financial marketplaces. Their primary function is to evaluate the creditworthiness of companies wishing to access capital in the public debt markets.

Their ratings, expressed as a series of letters and numbers, are used to indicate to investors the likelihood that a company issuing debt will pay principal and interest on time, and in amounts expected. S&P, one of the largest rating agencies in the world, defines its ratings as an "evaluation of default risk over the life of a debt issue, incorporating an assessment of all future events to the extent they are known or can be anticipated"[i].

The "rating symbols" are English alphabet letters used by all three major U.S. rating agencies and are recognizable regardless of an investor's native language. The rating scales of each major U.S. rating agency are shown in Document No. 2 of my exhibit. Each rating level represents the probability of default. The lower the rating, the higher the probability of default. When ratings fall from investment grade to non-investment grade, the probability of default rises rapidly to levels that are often double those of the lowest investment grade rating.

From 1982 through 2006, the average cumulative credit loss as the result of a default was 13.4 percent by year 20 in the life of a Baa bond, according to Moody's. In the same report, they calculated that 30.8 percent of Ba- rated issuers default, a rate more than twice as high as Baa-rated securities.[ii] Conversely, an investor in an A rated issuer will experience 6.4 percent loss over 20 years, less than half that of a Baa rated investment and a quarter of the loss that can be expected for a Ba rated investment.[iii] Any company that loses its investment grade status, in addition to paying more for the money it borrows to reflect the higher probability of default, has the added challenge of trying to regain its investment grade rating. According to Moody's, fewer than 35 percent of such companies regain their investment grade rating within five years.[iv]

Q. How are ratings used?

A. Ratings are used by investors to help them determine companies in which they should invest, the appropriate interest rate that should be paid, and the likelihood that their investment is going to behave as expected in terms of timely payment of interest and principal. When rating agencies' opinions contain discussions of higher risks, some companies cannot issue securities under certain circumstances and market conditions regardless of how much they are willing to pay.

The rating level is critical to investors because regulations and/or internal charters and standards prohibit many investors from investing in fixed income instruments that are rated below a certain level. Institutional investors have fiduciary responsibilities to their clients, and in some cases, are not allowed or will not invest in securities rated below a single A. An investor is less likely to invest in securities offered by a lower rated issuer when the investor perceives that the risk that principal and interest will not be paid in a timely manner is higher than for a higher rated security, and greater than that investor's risk appetite.

Q. Why is investment grade status important?

A. The probabilities of default, reflected in ratings levels, have serious implications for both the cost of borrowing money and more importantly, access to borrowed funds. The lower the rating, the higher the risk profile and the higher the cost of borrowed money. In addition, low rated companies have problems accessing capital markets in tumultuous times like those being experienced currently. The dislocation in the credit markets resulting from the sub-prime mortgage crisis has resulted in even creditworthy utilities being shut out of the markets.

Electric utilities are entering a period of heavy capital spending needed to refurbish, rebuild and expand their systems to provide for a growing customer base and to meet mandated requirements for environmentally conscious investment. They need to be able to access the capital markets freely. Without free access to the capital markets at reasonable prices, borrowing and building becomes more expensive than it otherwise would be, and those costs are ultimately borne by the customer. An A credit rating would make it more likely that a company could access the credit markets at reasonable prices even during times of financial market distress.

Q. Can credit be foreclosed by unforeseen events extraneous to the utility industry?

A. Yes. Market instability resulting from the sub-prime mortgage problems has affected the liquidity in the entire financial sector. This is a good example of how access to the marketplace can be shut off for even creditworthy borrowers by extraneous, unforeseen events, and it emphasizes a strong credit rating is essential to ongoing, unimpeded access to the capital markets.

Q. What are the implications of being foreclosed from the markets?

A. Utility finance is complex with a relatively constant stream of both long-term and short-term financings. In the unique case of Florida utilities, the need to be able to recover quickly from storm damage requires a greater degree of financial flexibility than companies not subject to the same devastating weather. Utilities also need to pay large amounts to suppliers of essential goods and services on an ongoing basis, maintain creditworthiness for counterparties, and access large amounts of capital frequently during a construction cycle. Being unable to access funds can place the completion of critical infrastructure construction in jeopardy and undermine reliability of service.

Q. What has happened in the electric industry in the past few years?

A. Two things of importance. Most utilities have gone "back to basics", meaning they have adjusted their business strategies to refocus on regulated electric and gas services. The other important issue is capital spending. The last construction cycle was completed almost 20 years ago. The infrastructure of the industry needs to be renewed, and growth has necessitated additional spending for new generation equipment as well as new distribution and transmission lines in addition to the extension of those already in place. A report published on March 24, 2008 by S&P reflects its current concerns, and is titled Credit Perspective: Regulatory Risk Remains for U.S. Utilities. In it, S&P states that for "utilities….entering a multiyear capital expansion phase for growth and to accommodate mandatory environmental standards and replace aging infrastructure, borrowing needs will rise…" Therefore, "regulatory risk remains key to credit quality". I believe Tampa Electric's challenges mirror those of the entire electric industry.

Q. Is there anything unique to utilities operating in the Southeastern United States that makes it more important to have strong ratings?

A. Yes. Utilities operating in Southeastern United States face potentially devastating weather-related event risk from unpredictable hurricanes. Maintaining financial strength is essential for these utilities so that they may brace for the inevitable financial strain they could experience if a hurricane strikes their service territory. The Florida Public Service Commission ("FPSC" or "Commission") has demonstrated a highly sophisticated understanding of the risk posed by the severe weather Florida is subject to, and has established forward-looking regulatory procedures for storm recovery, including the potential for securitization. This makes Florida unique relative to regulatory practices. However, continuation of this regulatory framework is important for the credit strength of utilities in Florida, and adequate storm accruals and prompt renewal of depleted storm reserves are important to protect against the serious and potentially devastating risks faced by these companies.

Q. What implications does this have on this rate proceeding and this Commission's actions?

A. It is important for this Commission to understand the magnitude of Tampa Electric's capital spending program, the need for stronger credit ratings going forward, and how the Commission's actions in this rate proceeding will be perceived by the rating agencies. Florida has a long history of providing the regulatory support necessary to ensure credit ratings that will provide utilities appropriate access to capital markets, even during times of financial market distress. Continuing to provide regulatory support in the form of adequate rate relief will ensure that Tampa Electric will be able to meet its capital expenditure program, which is necessary to ensure reliable customer service. This rate proceeding, the first in 16 years, provides the Commission the opportunity to provide a platform for Tampa Electric to improve its credit standing. Providing adequate rates could have positive implications for customers and investors alike, far beyond the immediate proceeding.

Q. Why should regulatory commissions be concerned about the views held by the ratings agencies?

A. Regulators should be concerned about the views held by rating agencies because electric utilities are capital intensive entities that must obtain capital from the markets to provide service. The California Public Employee Retirement System estimates that $20 trillion needs to be invested in the U.S. infrastructure over the next 25 years. This includes investments in electric utility transmission and distribution equipment, generation, water facilities, bridges, tunnels, and toll roads among other things. The need for capital in the electric utility industry alone will more than double from 2004 levels to approximately $60 billion annually by 2010 according to Lehman Brothers' estimates.[v]

Utilities throughout the U.S. are faced with large capital programs needed to upgrade aging equipment, provide for growth in their service territories, make environmentally conscious investments and maintain service quality. Utilities must rely on either debt or equity capital provided from external sources and the funds a company can generate internally to finance these capital programs. There are no other options. A company's creditworthiness, as expressed through its ratings, will dictate its ability to attract capital in an increasingly competitive capital market.

Q. What impact does regulatory action have on a utility's ratings?

A. Quite a lot. Capital-intensive companies like utilities need to maintain access to capital markets on reasonable and sustainable terms. Regulated utilities are unique, because they are not free to set their own prices for service. Their financial integrity is a function of the way the company is managed and the price levels set by regulators in a rate case. Rates are established by regulators to permit recovery of operating expenses and to provide a fair return on the capital invested. It follows that rate decisions by utility commissions have a major impact on the financial health of utilities.

Indeed, it is fair to say that the investment community perceives that utility commissions have a significant impact on the financial health of the utilities they regulate. For example, Moody's states that "the supportiveness of the regulatory framework under which a utility operates is a critical rating factor"[vi]. Moody's states further, that "the most significant risk [for utilities] might be future disallowances of investments that were made with an understanding that those investments were prudent and necessary at the time they were made"[vii]. And, in its 2008 Industry Outlook, Moody's cites as a key risk, "an increasing likelihood that utility cash outflows could materially outpace authorized cash inflows – thereby potentially creating an acute deferral/recovery overhang risk"[viii]. S&P expressed its view on the subject even more explicitly by naming an article written in 2004, "Utility Regulation Determines its Ratings". The article is a tutorial on how S&P analyzes regulation in light of the "renewed and increasing influence that regulators are asserting on the creditworthiness of utilities…".

Q. What are rating agencies looking for relative to regulation going forward?

A. Rating agencies are keenly aware of the capital spending cycle utilities have just entered. They have opined that while the "fundamental credit outlook for the U.S. electric utility sector currently remains stable, material negative bias appears to be developing over the intermediate and longer term due to rapidly rising business and operating risks"[ix]. The rising business and operating risks referred to are associated with the current building cycle. Therefore, rating agencies are looking to see whether regulators are taking sufficient action to preserve the financial integrity of the utilities they regulate.

Q. How are ratings established?

A. Ratings analysis is a complex exercise that strives to balance financial results against qualitative risks. That result is then viewed in the context of the corporate structure and industry in which the company operates. While there are dozens of metrics calculated to determine a rating, S&P publishes a grid in which it overlays ranges of financial results for the three most important financial metrics with risk levels determined by examining a company's operating risks, political environment, and competitive position. S&P emphasizes, however, that "it is critical to realize that ratings analysis starts with the assessment of the business and competitive profile of the company. Two companies with identical financial metrics are rated very differently, to the extent that their business challenges and prospects differ"[x]. S&P describes its ratings grid as one that shows how "the company's business-risk profile determines the level of financial risk appropriate for any rating category"[xi]. The primary business risk the agencies focus on for utilities is regulation.

The rating agencies have their own views of the regulatory climate in which a company operates, but also pay attention to knowledgeable Wall Street and other financial firms who express views on state regulatory climates. Florida is presently regarded by a number of equity analysts as having a constructive regulatory environment because of innovative and forward looking regulatory practices, including the timely recovery of storm restoration costs as a result of hurricanes in 2004 and 2005, and timely recovery of changes in fuel, purchased power, conservation, and environmental compliance costs. Regulatory Research Associates ("RRA"), a firm that focuses entirely on regulation of utilities, ranks the FPSC as "Above Average 2"[xii] on a scale that runs from Above Average 1 (in which there are no entries currently) to Below Average 3. The entire RRA rankings are presented in Document No. 3 of my exhibit.

Constructive regulatory policies and practices that support the creditworthiness of the utilities a regulatory body oversees is one of the most important issues rating agencies consider when deliberating ratings. Regulation in Florida is considered among the best in the country, and that has benefited customers by allowing utilities to provide for their customers' needs at a lower cost than they might otherwise. This has been one of the factors that have helped Florida utilities maintain pace with the growth in the state, which is essential to economic development.

Q. What does S&P emphasize in its ratings grid?

A. S&P emphasizes three metrics: 1) funds from operations as a percentage of debt outstanding ("FFO/Debt"), 2) funds from operations coverage of interest ("FFO/Int"), and 3) debt to total capitalization ("Debt/Cap"). All three metrics measure cash flow or the obligations that need to be covered by that cash. The first two are cash measurements that describe how well a company's cash flow from operations supports its debt and interest burden. The third metric, Debt/Cap, describes how heavy that burden is. Numerous other financial metrics are calculated when a rating is assigned, but cash flow metrics are the most important. After all, cash obligations can only be paid by cash. Therefore, how well a company generates cash relative to its cash obligations is critical to an analysis of creditworthiness. S&P calls "cash-flow analysis the single most critical aspect of all credit rating decisions"[xiii]. Although they do not publish a ratings grid, Moody's and Fitch use similar financial metrics and emphasize cash flow strongly.

Q. Do the agencies overlay qualitative measures on the financial metrics in assigning ratings?

A. Absolutely. There are a number of qualitative issues that *affect a company's rating, but the single most* important qualitative risk factor analyzed by the rating agencies for electric utilities is the quality of regulation. Strategy, capital programs, customer base, and basic business profile (*i.e.*, whether a utility is a low risk transmission and distribution company or a higher risk vertically integrated one) are all important, but a company's financial integrity is significantly impacted by the rates regulators allow a company to charge. Regulators authorize the level of return on equity, the amount of equity on which a company is allowed to earn, and rate design, and these factors help determine cash flow. Since cash flow is of resounding importance, rating agencies are keenly focused on rates and whether they create cash flow that adequately covers fixed obligations.

S&P recently changed their descriptive ratings grid relative to utilities to normalize their expression with that used for all other corporate entities. They rank companies for business risk using the following appellations: "excellent", "strong", "satisfactory", "weak", and "vulnerable". Financial risk is described as "minimal", "modest", "intermediate", "aggressive", or "highly leveraged". All utilities have been judged to have "excellent" or "strong" business risk profiles. This reflects the quality of regulation and the continued need for supportive regulation to maintain credit ratings that allow free access to capital markets. The entire S&P grid is shown in Document No. 4 of my exhibit.

Q. Once ratings analysts have all of this information, how is a rating determined?

A. Ratings are determined through an extensive process that involves a detailed examination of all the information available to the analyst, and the application of a significant amount of judgment based on experience. It is always difficult to accurately predict what a rating agency will do. However, rating agencies provide investors and rated companies some guidelines as to their methodologies. S&P is the most transparent about their rating practices, although their matrix that compares business risk and financial risk is very broad, so understanding when they might move a rating is extremely difficult. Nevertheless, the process rating agencies use to determine a rating is fairly straightforward. Once the financial metrics are calculated and an analyst has determined the business risk level of a company, he or she compares the results to those of comparable companies in the industry as well as against internal standards that have been developed at each rating agency.

Q. In your opinion, what should Tampa Electric be targeting as its credit rating?

A. Tampa Electric needs to access the capital markets in order to make capital investments for the benefit of its customers. Because it is in competition for capital with other utilities and infrastructure entities, it is essential that Tampa Electric have credit quality sufficient to ensure access to capital under all market conditions. In my opinion, that desired rating level is in the A range. To achieve this rating, regulation must support the financial integrity of the company to a degree that provides the basis for a strong investment grade rating. Such a rating will not only benefit investors, but will provide capital to the company at more attractive rates, and continued access to the markets that will enable the company to pursue its capital investments for the benefit of its customers.

Q. What are Tampa Electric's current ratings, and how do they compare to those of other major, vertically integrated utilities?

A. Tampa Electric's current senior unsecured debt ratings of Baa2 from Moody's, BBB- from S&P, and BBB+ from Fitch put the company in the lowest investment grade category by all three major U.S. rating agencies. While the average rating of regulated electric utilities in all sub-sectors is, according to Moody's, in the Baa range, the average rating of vertically integrated utilities like Tampa Electric is A3. As most vertically integrated electric utilities are facing large construction programs which can put serious stress on financial health, a solid investment grade rating of at least an A is needed to provide enough creditworthiness to not only attract capital, but to provide protection against the strains of a protracted construction spending period and potential hurricane damage.

Q. How does S&P view Tampa Electric under its descriptive ratings grid?

A. Tampa Electric is considered to have an "excellent" business risk profile in part because it is a regulated electric utility serving a growing customer population in Florida. *However, it is considered to have an* "aggressive" financial risk profile, indicating that the financial metrics are relatively modest.

S&P's business risk level of "excellent", and financial risk profile of "aggressive", qualifies the company for a BBB rating, which is the rating Tampa Electric currently has. For Tampa Electric to achieve a better rating to carry it through its construction program, during which financial stress may degrade its metrics, the company should have stronger financial metrics. Document No. 5 of my exhibit contains a comparison of Tampa Electric's financial metrics to the range needed for both the current BBB rating, assuming an "excellent" business risk ranking, as well as what is necessary to move the financial risk indication to a more reasonable "intermediate" level, *which would qualify for an A* rating.

As can be seen, Tampa Electric's metrics, especially the important cash flow metrics of FFO/Debt and FFO/Interest, currently fall in, or near, the guidelines for the BBB rating category. More importantly, however, they are deteriorating. With a heavy capital program and persistent need to access the capital markets, Tampa Electric requires healthier financial metrics to ensure capital market access on a sustainable basis. As mentioned previously, Moody's is concerned about the overall industry's financial indicators, which "have been relatively stable over the past few years … a *credit negative* since stronger metrics would be needed to offset the pace of rising business and operating risk"[xiv].

Q. Document No. 5 of your exhibit shows that some of Tampa Electric's credit metrics in 2007 and in projected 2009 fall within the A range of the S&P matrix. Doesn't that indicate that Tampa Electric already has credit metrics that should qualify it for an A rating?

A. Clearly not. All three of the rating agencies affirmed Tampa Electric's ratings in the BBB category. The rating reports state either that Tampa Electric's credit metrics are consistent with the current rating, or that improvements in the company's credit metrics could lead to ratings improvements. The S&P matrix that compares business risk and financial risk is, as I noted, very broad and does not represent the only factors affecting a rating. For example, a utility with the same credit metrics as Tampa Electric but with modest capital needs that are expected to be met entirely with internal cash flows might be rated A. But, it is very clear that Tampa Electric has significant capital spending requirements that will require external funding, and this is a continuation of a trend that has resulted in the deterioration of the company's credit metrics over time, as Document No. 5 of my exhibit illustrates.

Q. What are the most recent pronouncements of the rating agencies that you believe are relevant to Tampa Electric's financial standing?

A. Most recently, Fitch affirmed Tampa Electric's rating, citing credit concerns related to construction expenditures, environmental requirements, and the need for base rate relief to maintain current metrics. At the same time, recognizing the distinction between Tampa

Electric and TECO Energy, Fitch upgraded TECO Energy, Tampa Electric's parent company, to BBB- (investment grade) from BB+ (non-investment grade). Similarly, Moody's affirmed Tampa Electric's ratings in December of 2007 but upgraded TECO Energy's ratings. In its press release, Moody's stated that a "rating upgrade of the utility (Tampa Electric) could be considered *if* there is additional clarity on the size and timing of its capital expenditure program and the magnitude and regulatory response to potential rate increases related to these capital expenditures"[xv]. Finally, in June 2008, S&P changed its outlook on TECO Energy and Tampa Electric to positive from stable stating that the company "should be able to achieve better credit metrics as it focuses on achieving greater cash realization through the regulatory process". They go on to say that, "the company's ability to manage regulatory risk during the construction program will be an important factor in resolving the positive outlook"[xvi].

Q. In your opinion, what are the implications of those pronouncements for Tampa Electric?

A. First, all three of the rating agencies cite the same capital program and necessary rate relief as issues of concern. Moody's stated, in its Credit Opinion on Tampa Electric published in December of 2007, that "the rating is constrained by expected high capital expenditure requirements for the system reliability and environmental compliance…".[xvii] All three rating agencies have clearly expressed their opinion that Tampa Electric's financial position results from the need to recover significant expenditures on its system and the uncertainty regarding future rate decisions. As a result, they are keeping Tampa Electric's ratings at the BBB/Baa level in anticipation of continued financial strain and uncertainty about regulatory outcomes.

Q. If the Commission approves the rate increase as requested by Tampa Electric in this proceeding, will this be sufficient to improve its credit rating?

A. Yes, it should be sufficient. Looking at the S&P grid for the 2009 test year and assuming the requested rate increase is approved, the credit metrics appear to be in the range of "intermediate", and should support credit ratings in the A range. More importantly, the credit metrics would improve measurably from their current levels and reverse the declining trend, something the rating agencies have cited as a catalyst for future upgrades of Tampa Electric's credit ratings.

Q. Please summarize your direct testimony.

A. My direct testimony supports the conclusion that Tampa Electric's current ratings are primarily the result of 1) changes in the risk level and general nature of the regulated electric utility sector since the company's last rate filing, and 2) an unrelenting need to fund capital expenditures in order to provide service to a constantly growing customer base. I also conclude that in order for Tampa Electric to access the capital markets to continue to fund a robust and necessary capital program at costs that limit rate impacts on customers, it needs to improve its ratings to the A level. Approval of the company's requested rate increase should improve its credit metrics and result in an A level profile.

Q. Does that conclude your direct testimony?

A. Yes it does.

END NOTES

[i] Corporate Ratings Criteria 2006, Standard and Poor's Rating Services

[ii] *Loc. Cit.* Moody's

[iii] *Loc. Cit.* Moody's

[iv] What Happens to Fallen Angels? A Statistical Review 1982-2003, Moody's Investors Service, July 2003

[v] Global Equity Research, Power & Utilities, Lehman Brothers, May 22, 2007

[vi] Rating Methodology for Global Regulated Electric Utilities, Moody's Investors Service, March, 2005

[vii] Storm Clouds Gathering on the Horizon for the North American Electric Utility Sector, Special Comment, Moody's Investors Service, August, 2007

[viii] U.S. Electric Sector, Industry Outlook, Moody's Investors Service, January, 2008

[ix] Industry Outlook, U.S. Electric Utility Sector, Moody's Investors Service, January, 2008

[x] *Op..cit.* S&P

[xi] *Op..cit.* S&P

[xii] SNL*i*, April 30, 2008

[xiii] *Op. cit.* S&P

[xiv] *Ibid. Moody's*

[xv] Moody's Upgrades TECO, Changes Tampa Electric Outlook to Positive, Global Credit Research, Rating Action, Moody's Investors Service, December 6, 2007

[xvi] TECO Energy Inc. Outlook Revised TO Positive, 'BBB-' Credit Rating Affirmed, Standard and Poor's Ratings Direct, June 9, 2008

[xvii] Credit Opinion; Tampa Electric, Global Credit Research, Moody's Investors Service, December 6, 2007

EXHIBIT

OF

SUSAN D. ABBOTT

ON BEHALF OF TAMPA ELECTRIC COMPANY

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Testimony

Arizona Corporation Commission on behalf of TECO Power Services, January, 2003

Oklahoma Corporation Commission - OGE - Cause No. PUD200100455, September 9, 2002

California Public Utilities Commission Application - SCE - No. R. 01-10-024, April 15, 2003

Missouri Public Service commission - Aquila - Case No. ER-2004-0034 and HR-2004-0024, February 2004

Kansas Corporation Commission - Aquila - Docket No. 04-AQLE-1065-RTS, November, 2004

Connecticut Department of Public Utility Control - Southern Connecticut Gas - Docket 05-03-17, April 22, 2005

Oklahoma Corporation Commission - OGE - Cause No. PUD 200500151, September 29, 2005

New York State Public Utilities Commission - NYSEG - Case No. 05-E-1222, April 3, 2006

Paul Weiss on behalf of Citibank in re Enron Corporation Securities Litigation, MDL Docket No. 1446, Civil Action No. H-01-3624, October 2006

Oklahoma Corporation Commission - PSO - Cause No. 200600285, May, 2007

California Public Utilities Commission - The California Water Association, November 2007

Illinois Commerce Commission - Commonwealth Edison - Case 07-0566, March, 2008

Rating Agencies' Rating Symbols[1]

Investment Grade	Non-Investment Grade
AAA/Aaa	BB+/Ba1
AA+/Aa1	BB/Ba2
AA/Aa2	BB-/Ba3
AA-/Aa3	B+/B1
A+/A1	B/B2
A/A2	B-/B3
A-/A3	CCC+/Caa1
BBB+/Baa1	CCC/Caa2
BBB/Baa2	CCC-/Caa3
BBB-/Baa3	CC/Ca
	C/C
	D/na

The definition for the lowest investment grade category, BBB/Baa *(including the +, -, 1, 2, and 3 gradations) means* they are "subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics."[2]

BB/Ba rated, or non-investment grade companies, however, "are judged to have speculative elements and are subject to substantial credit risk" while B/B rated paper is "considered speculative and … subject to high credit risk".[3] The differences between investment grade and non-investment grade can be quite stark in terms of access to, and cost of funds in the marketplace, and at times, even the difference between interest rates required for A and BBB rated issuers can be quite striking.

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1 S&P and Fitch, who use the same rating symbols, appear first, with Moody's symbols after the slash

2 Moody's ratings definitions, Moody's Sourcebook, Power and Energy Company, October 2004; S&P's definitions, while using different words, are essentially the same in concept.

3 *IBID*

Public Utility Commission Rankings

Compiled by Regulatory Research Associates

As Of April 30, 2008

Jurisdiction	RRA Ranking
Alabama	Above Average / 2
Arkansas	Below Average / 1
Arizona	Average / 3
California	Average / 1
Colorado	Average / 2
Connecticut	Average / 3
District of Columbia	Average / 2
Delaware	Average / 1
Florida	Above Average / 2
Georgia	Average / 1
Hawaii	Average / 2
Iowa	Above Average / 3
Idaho	Average / 3
Illinois	Below Average / 2
Indiana	Above Average / 2
Kansas	Average / 3
Kentucky	Average / 2
Louisiana	Average / 3
Massachusetts	Average / 1
Maryland	Average / 2
Maine	Average / 2
Michigan	Average / 2
Minnesota	Average / 2
Missouri	Average / 3
Mississippi	Above Average / 3
Montana	Below Average / 1
North Carolina	Above Average / 2
North Dakota	Average / 2
Nebraska	Average / 2

Jurisdiction	RRA Ranking
New Hampshire	Average / 3
New Jersey	Average / 2
New Mexico	Average / 3
Nevada	Average / 2
New York	Average / 2
Ohio	Average / 2
Oklahoma	Average / 2
Oregon	Average / 3
Pennsylvania	Average / 3
Rhode Island	Average / 2
South Carolina	Average / 1
South Dakota	Average / 2
Tennessee	Average / 1
Texas	Below Average / 1
Texas	Below Average / 1
Utah	Average / 3
Virginia	Above Average / 3
Vermont	Average / 3
Washington	Average / 1
Wisconsin	Above Average / 2
West Virginia	Below Average / 1
Wyoming	Average / 2

Standard & Poor's Corporate Ratings Matrix

Business Risk / Financial Risk

	Financial Risk Profile				
Business Risk Profile	**Minimal**	**Modest**	**Intermediate**	**Aggressive**	**Highly Leveraged**
Excellent	AAA	AA	A	BBB	BB
Strong	AA	A	A-	BBB-	BB-
Satisfactory	A	BBB+	BBB	BB+	B+
Weak	BBB	BBB-	BB+	BB-	B
Vulnerable	BB	B+	B+	B	B-

Financial Risk Indicative Ratios - U.S. Utilities

(Fully adjusted, historically demonstrated, and expected to consistently continue)

	Cash Flow		Debt Leverage
	(FFO/debt)(%)	(FFO/interest)(x)	(Tot debt/cap)(%)
Modest	40 - 60	4.0 - 6.0	25 - 40
Intermediate	25 - 45	3.0 - 4.5	35 - 50
Aggressive	10 - 30	2.0 - 3.5	45 - 60
Highly Leveraged	Below 15	2.5 or less	over 50

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Tampa Electric's Credit Metrics
versus
Standard & Poor's Metrics Matrix
2004 - 2009 Test Year

	S&P Ratings Level (Business Risk "Excellent") Financial Risk		Actual				Proforma Adjusted Test Year	
	aggressive	intermediate					wo/rates	w/rates (1)
	BBB	A	2004	2005	2006	2007	2009	2009
FFO/Debt	10%-30%	25%-45%	36%	34%	30%	30%	30%	39%
FFO/Interest	2.0x-3.5x	3.0x-4.5x	4.8x	4.3x	3.8x	3.7x	3.4x	4.5x
Debt/Capital	45%-60%	35%-50%	51%	51%	54%	54%	45%	45%

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

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