

**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
DIANNE S. MERRILL**

DOCUMENT NUMBER-DATE

07059 AUG 11 8

FPSC-COMMISSION CLERK



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1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **PREPARED DIRECT TESTIMONY**

3 **OF**

4 **DIANNE S. MERRILL**

5
6 **Q.** Please state your name, address, occupation and employer.

7
8 **A.** My name is Dianne S. Merrill. My business address is 702
9 N. Franklin Street, Tampa, Florida 33602. I am employed
10 by Tampa Electric Company ("Tampa Electric" or "company")
11 as Director, Staffing and Development.

12
13 **Q.** Please provide a brief outline of your educational
14 background and business experience.

15
16 **A.** I have a Bachelor of Science degree in Marketing from the
17 University of South Florida. I have been employed by
18 Tampa Electric for 27 years working in a variety of
19 positions in the areas of Customer Service, Productivity
20 and Quality Improvement, and for the last 11 years in
21 various management positions in Human Resources. From
22 1996 to 1998, I was the Director of Organizational Change
23 and Development for TECO Transport. In February of 1999,
24 I transferred to TECO Power Services as Director of Human
25 Resource, where my responsibilities included recruitment

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1 and staffing, relocation, international compensation and
2 team member communications. In 2003, I transferred to
3 Tampa Electric and was responsible for the Human Resource
4 Communications and Technology System. In 2005, I assumed
5 responsibility for benefits, which included benefits
6 administration, design and financial oversight for
7 medical, pension, retirement savings plan and life
8 insurance. In 2007, I moved into Development and
9 Staffing. I am responsible for the development and
10 execution of human resource strategies including
11 recruitment and staffing, training and development, and
12 testing and assessment. I am certified as a Senior Human
13 Resource Professional from the Society for Human Resource
14 Management.

15
16 **Q.** What is the purpose of your direct testimony?
17

18 **A.** My direct testimony provides an overview of the gross
19 payroll and benefits expenses as shown in Minimum Filing
20 Requirements ("MFRs") Schedule C-35, and demonstrates the
21 reasonableness of Tampa Electric's forecasted gross
22 payroll and benefits expense of \$278,937,000 for 2009.
23 My direct testimony also supports MFRs Schedules C-17,
24 C41 and F-08.
25

1 Q. Have you prepared an exhibit for presentation in this
2 proceeding?
3
4 A. Yes, I am sponsoring Exhibit No. ___ (DSM-1) entitled
5 "Exhibit of Dianne S. Merrill", that was prepared under
6 my direction and supervision consisting of eight
7 documents:
8 Document No. 1 List Of Minimum Filing Requirement
9 Schedules Sponsored Or Co-Sponsored By
10 Dianne S. Merrill
11 Document No. 2 Total Compensation Analysis - Exempt
12 And Non-Exempt (2007)
13 Document No. 3 Merit Budget History - Exempt (1992 -
14 2007)
15 Document No. 4 Merit Budget History - Non-Covered/Non-
16 Exempt (1992 - 2007)
17 Document No. 5 Utility Comparison - Total Salaries And
18 Wages As A Percent Of Operations And
19 Maintenance Expense (2006)
20 Document No. 6 2007 BENVAl Study - Entire Benefit
21 Program
22 Document No. 7 2007 BENVAl Study - Medical Plan
23 Comparison
24 Document No. 8 Average Health Benefit Costs Per
25 Employee: Tampa Electric Vs. National

1 Q. What is Tampa Electric's basic philosophy with respect to
2 its team members (employees)?

3
4 A. Tampa Electric's vision is to be a company where people
5 want to work, an organization that is an asset to the
6 community and a business in which investors want to
7 invest. Its basic philosophy with respect to its team
8 members includes four strategies:

- 9 • Provide a competitive benefit and compensation
10 program;
- 11 • Enhance processes to attract and select talented
12 team members;
- 13 • Align team member development with company and
14 career goals; and,
- 15 • Implement processes to retain and engage talented
16 team members.

17
18 These strategies and values provide a framework for
19 achieving the company's vision.

20
21 Q. What is Tampa Electric's projected total compensation and
22 benefits costs and projected team member count for 2009?

23
24 A. Tampa Electric's total compensation and benefits costs
25 are projected to be \$278,937,000 for 2009. The projected

1 number of team members forecasted for 2009 is 2,638.

2

3 **Q.** What are the objectives of Tampa Electric's total
4 compensation and benefits program?

5

6 **A.** There are three primary objectives. First, the company
7 strives to offer a compensation and benefits program that
8 will attract, retain and competitively reward its team
9 members based on national and local comparative markets.
10 Second, Tampa Electric's compensation program reflects a
11 success sharing philosophy, linking total compensation to
12 the attainment of company, business unit and individual
13 goals. Third, the company strives to keep its total
14 compensation and benefit program expenses at a
15 competitive level by targeting the market median for
16 total compensation.

17

18 **Q.** Are Tampa Electric's total compensation and benefits
19 costs reasonable?

20

21 **A.** Yes. Since Tampa Electric's last base rate proceeding in
22 1992, efficiency improvements have enabled the company to
23 reduce its total workforce. During a period when
24 customers grew by over 200,000 or 42 percent, Tampa
25 Electric was able to reduce its workforce by 18 percent

1 from approximately 3,200 team members at the end of 1992
2 to 2,638 projected in 2009 due to an ongoing focus on
3 continuous improvement and cost management. The
4 company's workforce management has had a direct impact on
5 maintaining total compensation and benefits costs at a
6 reasonable level.

7
8 **Q.** When discussing compensation and employee population
9 segments, what terminology is used?

10
11 **A.** There are some general classifications of employees that
12 I describe in my direct testimony. These classifications
13 are consistent with the U.S. Department of Labor's
14 overtime exemptions, as described in the Fair Labor
15 Standards Act ("FLSA"). Exempt employees are those
16 employees that are exempt from the FLSA overtime rules
17 that apply to non-exempt employees. Several white-collar
18 exemption tests help employers identify each employee's
19 job exemption status. Non-exempt employees are eligible
20 for one and one-half times their hourly pay rate for
21 hours worked in excess of 40 hours in a workweek as
22 outlined in the regulations. There are two unions, the
23 International Brotherhood of Electrical Workers ("IBEW"),
24 Local 108 and Office and Professional Employees
25 International Union ("OPEIU"), Local 46, to which some of

1 Tampa Electric's team members belong or are "covered"
2 under.

3

4 **Q.** What resources does Tampa Electric use to evaluate its
5 compensation program?

6

7 **A.** Tampa Electric uses national resources to evaluate its
8 compensation program. The company's recruiting
9 department searches nationally for personnel to fill
10 managerial, professional and technical positions. In
11 addition, because many key positions cannot be filled
12 from the local labor pool, Tampa Electric must remain
13 competitive in national as well as local markets. Tampa
14 Electric utilizes nationally recognized third-party
15 survey sources to aggregate and provide comparative data
16 from national and regional employers, generally and
17 utility specific. It is important to utilize both
18 general and utility comparative market information since
19 the company's workforce encompasses multi-industry
20 talents.

21

22 The primary information resources that Tampa Electric
23 relies upon include:

24 • Towers Perrin, a national human resources consulting
25 firm and the company's independent actuary,

- 1 • WorldatWork, a global not-for-profit association of
- 2 more than 26,000 compensation, benefits and human
- 3 resources professionals,
- 4 • William M. Mercer Incorporated ("Mercer"), a
- 5 national human resources consulting firm,
- 6 • Hewitt Associates LLC ("Hewitt"), a national human
- 7 resources consulting firm,
- 8 • Watson Wyatt Worldwide, an international human
- 9 resources consulting firm, and
- 10 • Gartner, Inc., a global information technology
- 11 research and advisory company.

12

13 **Q.** How does Tampa Electric's total compensation program

14 compare to the market?

15

16 **A.** Tampa Electric's total compensation levels are comparable

17 to those of its competitors for team members performing

18 similar jobs and with similar skill sets. Tampa Electric

19 performs a detailed annual benchmarking analysis of its

20 pay rates to those of its competitors to determine

21 "position to market". Benchmark jobs are defined as jobs

22 that are pure matches to the market and are common from

23 company to company. The most recent market analysis

24 completed in 2007 included market survey data from

25 national third-party survey sources, including Towers

1 Perrin, Hewitt, Mercer and Watson Wyatt. Document No. 2
2 of my exhibit demonstrates that Tampa Electric has
3 maintained its average total compensation for benchmarked
4 exempt and non-exempt jobs at or below the market
5 average.

6
7 In addition, Tampa Electric's annual salary budget has
8 consistently trended below the average rates of key
9 market indices as demonstrated in Document Nos. 3 and 4
10 of my exhibit. Tampa Electric has managed to keep
11 compensation expense increases below a blend of indices
12 across general and utility industries.

13
14 Furthermore, Tampa Electric's salary and wage levels are
15 comparable to those of other utilities as reported in the
16 Federal Energy Regulatory Commission ("FERC") Form-1
17 annual report. Tampa Electric has reviewed its total
18 salaries and wages and compared it to that of other
19 comparable utilities. As shown on Document No. 5 of my
20 exhibit, Tampa Electric continues to be an efficient
21 utility when comparing salaries and wages as a percent of
22 operations and maintenance expense.

23
24 **Q.** Describe Tampa Electric's annual merit pay program.
25

1 **A.** There are two components to Tampa Electric's annual pay
2 program. The first component is a merit award determined
3 by a team member's performance level and salary position
4 relative to market. The second component is a variable
5 incentive pay program known as "Success Sharing" that
6 provides an annual one-time payment based on the
7 achievements of the team member and company against pre-
8 established goals. These performance indicators include
9 safety, environmental, customer favorability,
10 reliability, cost recovery management, capital
11 expenditures and net income.

12
13 **Q.** Describe Tampa Electric's Success Sharing Plan.

14
15 **A.** The objective of the Success Sharing plan is to attract,
16 retain and motivate high performing goal-oriented team
17 members. Payments are tied directly to corporate
18 performance goals that enhance operational efficiencies
19 and financial stability of the organization, which in
20 turn reduces the ultimate cost to customers. Specific
21 examples from the 2008 plan included targets for:
22 service reliability as measured by the average outage
23 duration and the average number of momentary interruption
24 events and customer favorability that measures customers'
25 opinion of service quality and performance. Success

1 Sharing goals are established annually, accomplishments
2 are monitored throughout the year and payouts based on
3 accomplishments are made annually. This "at risk"
4 component of total compensation has been a win-win for
5 team members and customers.

6
7 **Q.** Describe Tampa Electric's benefits package.

8
9 **A.** Tampa Electric's benefits package includes four primary
10 components: health and welfare benefits, retirement and
11 post employment benefits, various benefits required by
12 law and other benefits.

13
14 **Q.** What is Tampa Electric's projected benefits cost for
15 2009?

16
17 **A.** Total benefits cost is projected to be \$73,804,000 in
18 2009 consisting of the following:

19	• Health and welfare benefits	\$26,136,000
20	• Retirement and post employment	
21	Benefits	\$25,466,000
22	• Benefits required by law	\$18,066,000
23	• Other benefits	\$ 4,136,000

24

25 Benefits required by law include social security tax,

1 federal and state unemployment taxes, Medicare tax and
2 workers' compensation insurance.

3
4 **Q.** How does Tampa Electric evaluate the design and cost of
5 its benefit programs?

6
7 **A.** Tampa Electric uses the Towers Perrin BENVAL Study, a
8 nationally recognized and accepted actuarial tool that
9 compares the value of benefit plans. The study
10 methodology first analyzes the value of each benefit plan
11 and then converts the plan values to a series of relative
12 value indices by applying a standard set of actuarial
13 methods and assumptions. This method of comparison
14 neutralizes the effects of differences in team member
15 demographics, geographic differences and related
16 influences. Towers Perrin's Employee Benefit Information
17 Center analyzes the competitiveness of participating
18 companies' benefit programs and produces the BENVAL
19 Study.

20
21 As shown in Document No. 6 of my exhibit, Tampa
22 Electric's BENVAL Index for the total benefit program is
23 rated 91.5, which is below the index average of 100.
24 This means that the company's total benefit program is
25 slightly below the national average, yet it is comparable

1 and competitive.

2

3 **Q.** What is Tampa Electric's projected medical cost for the
4 test year?

5

6 **A.** Tampa Electric projects medical and dental costs to be
7 \$19,513,000 for active team members and \$13,110,000 for
8 post-retirement benefits for 2009.

9

10 **Q.** How does Tampa Electric's medical plan compare to
11 industry standards?

12

13 **A.** On a comparative basis, the relative value of Tampa
14 Electric's medical plan is below the average based on the
15 Towers Perrin BENVAL Study, as illustrated in Document
16 No. 7 my exhibit. Tampa Electric's BENVAL Index for
17 medical is rated 95.2, which is below the index average
18 of 100. This means that Tampa Electric's medical plan is
19 comparable and the company is competitive relative to the
20 national average.

21

22 **Q.** What has been Tampa Electric's experience in managing
23 health care costs?

24

25 **A.** Tampa Electric continues to focus on managing the growth

1 of healthcare costs while providing team members with
2 quality medical plans. Document No. 8 of my exhibit
3 illustrates Tampa Electric's average medical cost per
4 team member compared to national trends based on a Mercer
5 survey. The chart shows that even though Tampa
6 Electric's average health care benefits continue to
7 increase, they are increasing at a lower rate than the
8 national level.

9
10 **Q.** What specific initiatives has Tampa Electric pursued to
11 control health care costs?

12
13 **A.** Tampa Electric has made health care cost control a key
14 strategic initiative, applying a continuous improvement
15 process to develop an integrated health strategy that
16 will optimize value and control costs for both the
17 company and its team members.

18
19 The company's successful cost control strategy has
20 included a variety of initiatives, including:

- 21 • Pricing strategy to encourage cost-effective plan
22 selections;
- 23 • Annually adjusting team member contribution amounts;
- 24 • Annual indexing of deductibles, co-payments and out-
25 of-pocket amounts to stay current with the medical

- 1 consumer price index;
- 2 • Emphasis on team member and retiree awareness and
- 3 consumer responsibility by implementing a wellness
- 4 program and making team members aware that by
- 5 focusing on prevention, they can promote better
- 6 health and help control high claim costs;
- 7 • Comprehensive disease management program to
- 8 facilitate the effective medical treatment of plan
- 9 participants with specific diseases that, if not
- 10 properly managed, can generate expensive claim costs
- 11 • Aggressive vendor management; and,
- 12 • Restructuring of prescription drug program to
- 13 encourage increased utilization of generic
- 14 medication and retail refill allowance programs.

15

16 **Q.** Are there other initiatives Tampa Electric has taken to

17 control health care costs?

18

19 **A.** Yes. Tampa Electric has aggressively promoted team

20 member's responsibility for his or her own health and the

21 creation of a healthy work environment, as evidenced by

22 the company's comprehensive program, which includes a

23 strong wellness initiative and linkage to safety.

24

25 **Q.** What factors are driving the substantial increases in

1 health care costs projected to occur over the next few
2 years in the U.S.?

3
4 **A.** There are a number of factors affecting increases in
5 national medical costs that will continue to cause costs
6 to climb including:

- 7 • Growth of the aging population,
- 8 • Growing number of uninsured individuals putting
9 pressure on the health care system,
- 10 • Technological enhancements in medical treatments and
11 services driving greater utilization and cost,
- 12 • Continued focus on direct consumer advertising by
13 pharmaceutical companies,
- 14 • Increased utilization and pricing of brand name
15 prescription drugs,
- 16 • Increased inpatient costs, and
- 17 • Outpatient utilization increases.

18
19 **Q.** What is the impact of these cost factors that you have
20 identified?

21
22 **A.** The impact of these cost factors is a projected increase
23 in medical and dental costs for 2009 of approximately
24 \$1,612,000 over 2008's medical costs for team members.
25 These medical costs have increased 26 percent for the

1 period from 1992 to 2007 going from \$12.6 million to
2 \$15.9 million. Pharmacy costs are rising at a higher
3 rate than medical costs. This is attributable to an
4 aging workforce. However, health care cost inflation is
5 a national concern in both the public and private
6 sectors. The company expects total annual health care
7 costs to increase by nine percent in 2009.

8
9 **Q.** What is Tampa Electric's projected retirement expense for
10 pension and savings in the test year?

11
12 **A.** The projected retirement expense for 2009 is \$12,356,000.
13 The pension plan expense is \$7,379,000 based on the
14 Towers Perrin actuarial study, and the 401(k) retirement
15 savings plan expense is \$4,977,000.

16
17 **Q.** Is it common to use an independent actuarial firm to
18 compute pension and post-retirement benefit costs (FAS
19 106)?

20
21 **A.** Yes. It is a routine, necessary and accepted business
22 practice at Tampa Electric and in the electric utility
23 industry generally to rely on the results of actuarial
24 reports prepared by an independent actuary to establish
25 pension and post-retirement benefit cost (FAS 106) and

1 funding amounts. Tampa Electric's pension cost is
2 computed as part of an annual TECO Energy actuarial
3 valuation performed by Towers Perrin, in accordance with
4 Financial Accounting Standards Board standards.
5

6 **Q.** How is Tampa Electric's pension benefit cost computed
7 from TECO Energy valuation?
8

9 **A.** Most of the company's pension benefit cost is computed
10 directly based on the specific demographics of the
11 company's actual team members and retirees; therefore,
12 assignment of a portion of total cost of the Tampa
13 Electric plan is not necessary. However, investment
14 return and the amortization of actuarial gains and losses
15 are assigned to the company and other subsidiaries based
16 on each company's directly computed liability versus the
17 total plan liability; as a result, each entity receives
18 its appropriate and equitable share of investment return
19 and amortization of actuarial gains and losses. This
20 method of determining the company's pension cost is
21 reasonable, fair and equitable and results in no cross-
22 subsidization of cost between the company and its
23 affiliates.
24

25 **Q.** Do the actuarial assumptions and methods provide a

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reasonable basis for determining the level of pension cost to be included in cost of service?

A. Yes. The actuarial assumptions and methods used for the pension valuation are reasonable both individually and in the aggregate.

Q. What specific initiatives has Tampa Electric pursued to address the aging workforce?

A. The aging workforce is a national challenge facing all corporations and is particularly acute in the utility industry. In 2007, Tampa Electric created a formal Workforce Planning Process to improve the identification of future workforce gaps and develop proactive solutions that can address these challenges and identify and develop future leaders for the company. Tampa Electric has been an active member of the Florida Energy Workforce Consortium ("FEWC") since its inception in 2006. The FEWC is a group of utility companies, educational institutions, workforce boards and labor organizations and companies that directly support the utility industry. The purpose of this consortium is to collectively identify and develop solutions to meet the current and future workforce needs of utilities in Florida.

1 Tampa Electric has also been a member of the Center for
2 Energy Workforce Development ("CEWD") since its inception
3 in 2006. The CEWD is a national, non-profit organization
4 whose mission is to focus on the need to build a skilled
5 workforce pipeline that will meet future utility industry
6 needs.

7
8 The company has pursued several initiatives to help
9 increase career awareness within local schools, such as
10 an on-site showcase for teachers and counselors and
11 development and distribution of job trading cards.

12
13 Tampa Electric has also partnered with Hillsborough
14 Community College to help improve retention and
15 engagement of existing personnel by developing a program
16 that allows skilled trade workers, such as linemen, to
17 receive credit for in-house training that can be applied
18 to the Associate in Applied Science Degree in Industrial
19 Management.

20
21 Tampa Electric believes these initiatives collectively
22 will help the company to continue attracting and
23 retaining talented and dedicated team members despite the
24 increasing average age of the company's workforce.

25

1 Q. Please summarize your direct testimony.

2
3 A. My direct testimony outlines the major aspects of Tampa
4 Electric's compensation, benefits and workforce planning
5 process. Tampa Electric's total compensation and benefit
6 costs are projected to be \$278,937,000 for 2009. The
7 company strives to offer a compensation and benefits
8 package that attracts and retains talented and dedicated
9 team members by targeting total compensation and benefits
10 at competitive levels. The company's attraction and
11 retention goals have been achieved while maintaining
12 overall benefits and healthcare plan costs below the
13 average. Tampa Electric has aggressively managed health
14 care costs through pricing strategies, annual
15 contribution adjustments, annual indexing of deductibles,
16 co-payments, and out-of-pocket amounts and prescription
17 drug restructuring. Growing healthcare costs will
18 continue to be a national concern for the public and
19 private sector. It is expected to grow at an annual rate
20 of nine percent from 2008 to 2009 for Tampa Electric.
21 The company's 2009 projected level of expense is
22 reasonable and necessary to support this effort.

23

24 Tampa Electric's total compensation and benefits
25 philosophy has served the company and its customers very

1 well and costs have been prudently incurred. As Tampa
2 Electric moves forward, it must continue to compensate
3 and provide competitive benefit programs to its team
4 members in order to attract and retain the best talent.
5 The 2009 projected level of compensation and benefits
6 expense is reasonable and necessary to attract and retain
7 the caliber of team members that create a high-
8 performance organization.

9
10 **Q.** Does this conclude your direct testimony?

11
12 **A.** Yes, it does.
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TAMPA ELECTRIC COMPANY
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WITNESS: MERRILL

EXHIBIT

OF

DIANNE S. MERRILL

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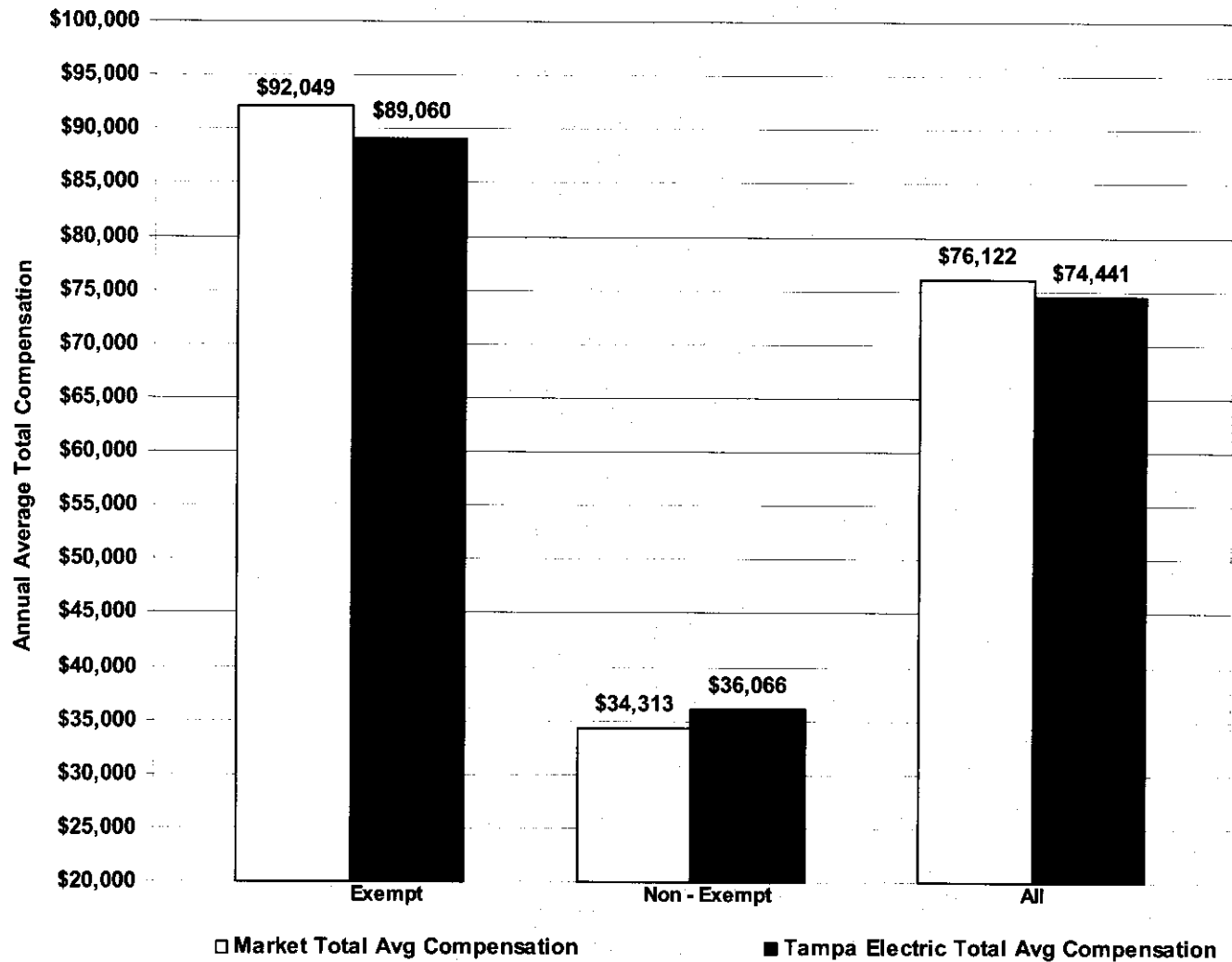
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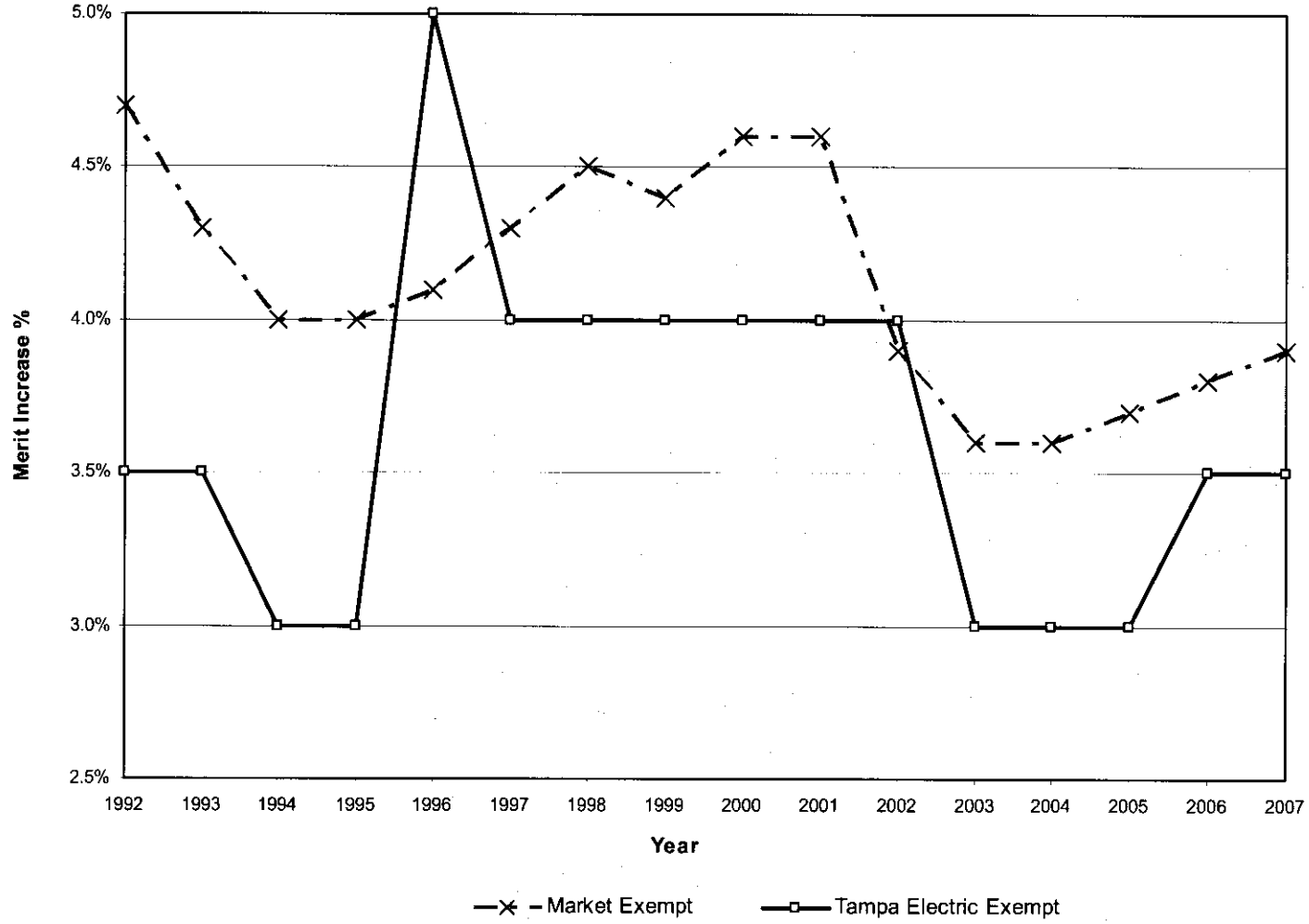
LIST OF MINIMUM FILING REQUIREMENT SCHEDULES
SPONSORED OR CO-SPONSORED BY DIANNE S. MERRILL

MFR Schedule	Title
C-17	Pension Cost
C-35	Payroll and Fringe Benefit Increases Compared To CPI
C-41	O&M Benchmark Variance By Function
F-8	Assumptions

Total Compensation Analysis - Exempt and Non-Exempt 2007



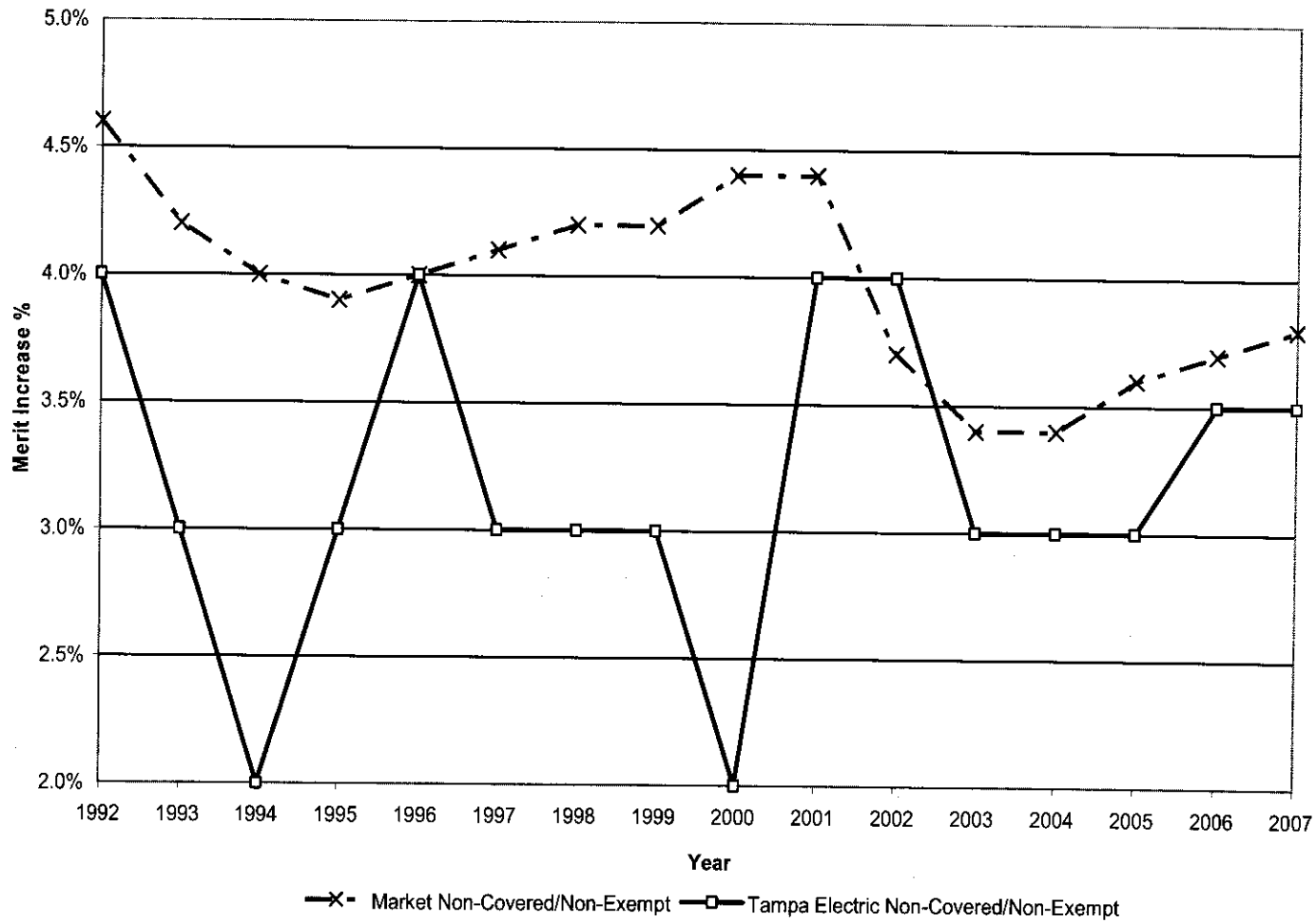
Merit Budget History - Exempt 1992 - 2007



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Source: WorldatWork Annual Merit Budget Survey for Market Data

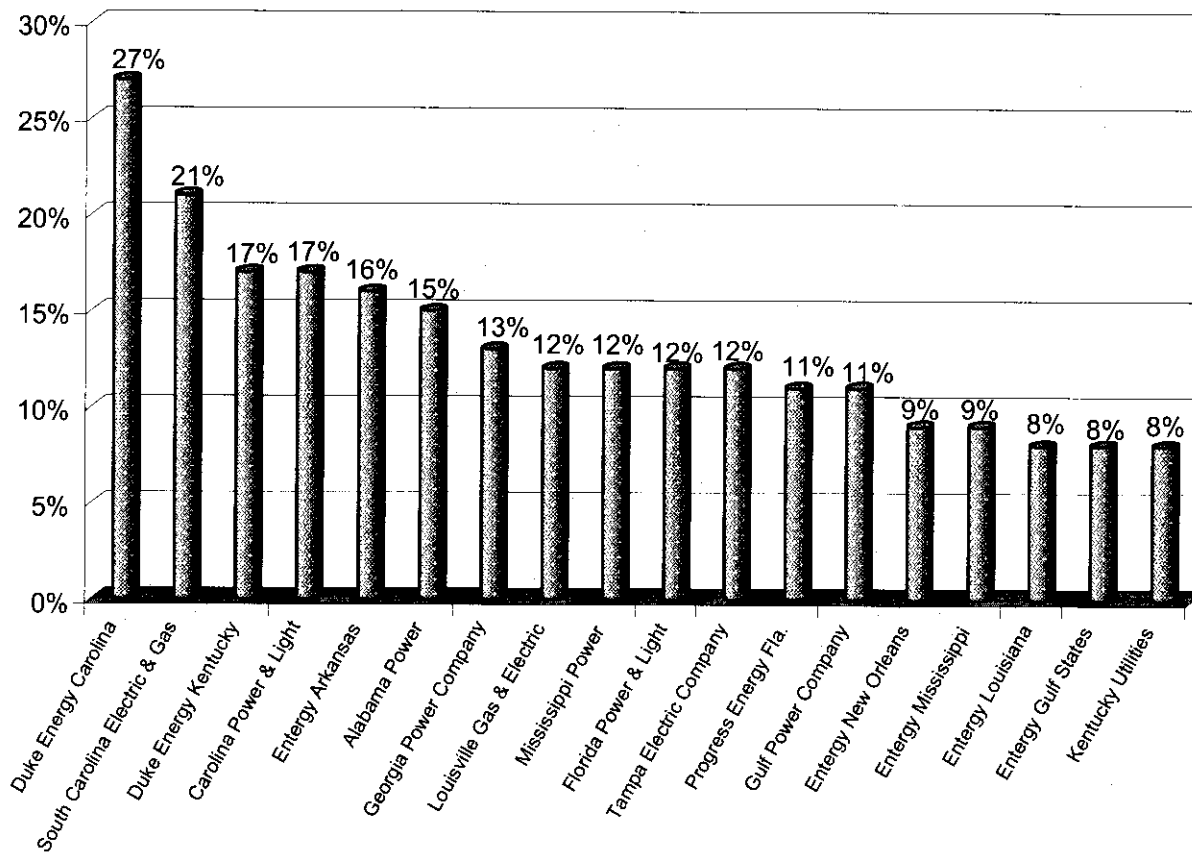
Merit Budget History - Non-Covered/ Non-Exempt
1992 - 2007



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Source: WorldatWork Annual Merit Budget Survey for Market Data

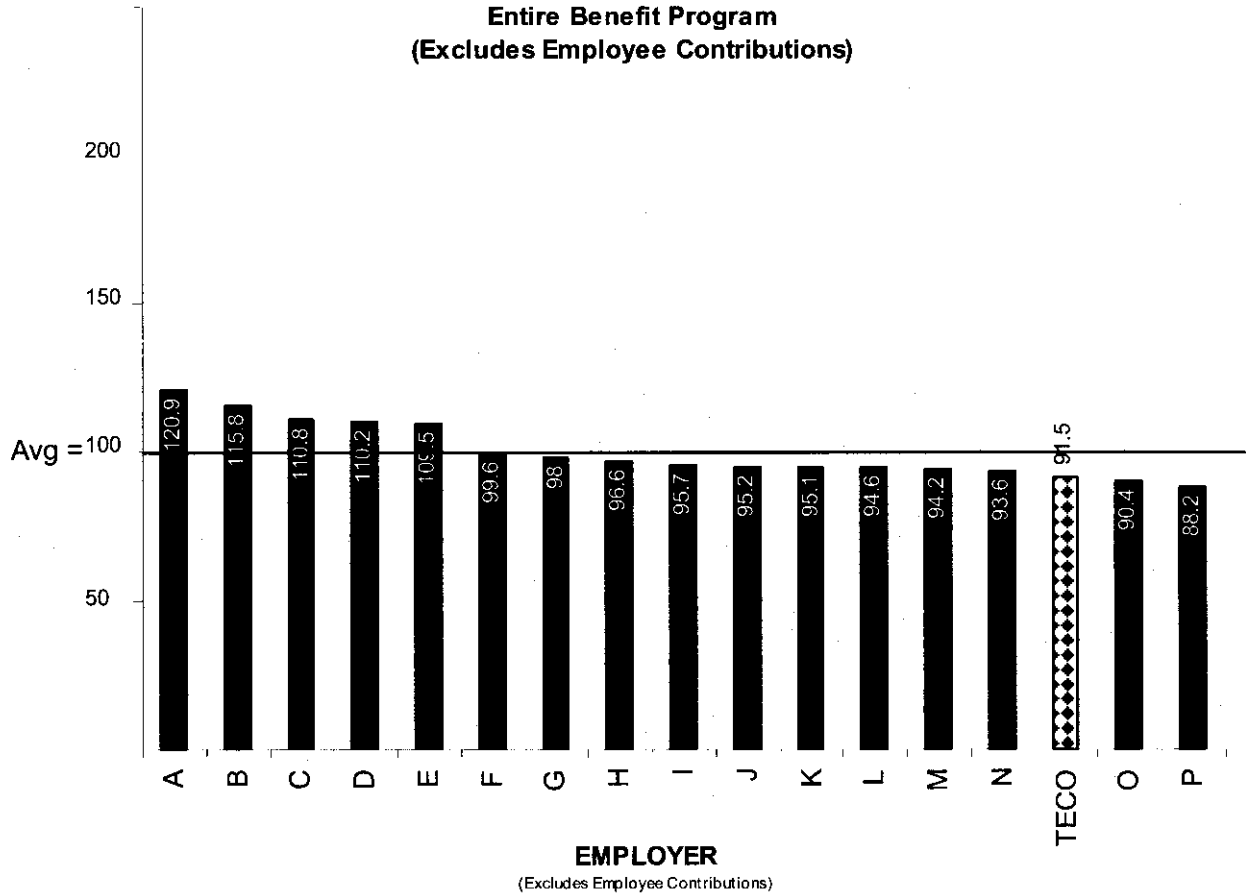
**Utility Comparison
Total Salaries and Wages as a Percent of
Operations and Maintenance Expense
(2006)**



Source Data: FERC Form-1 Annual Report

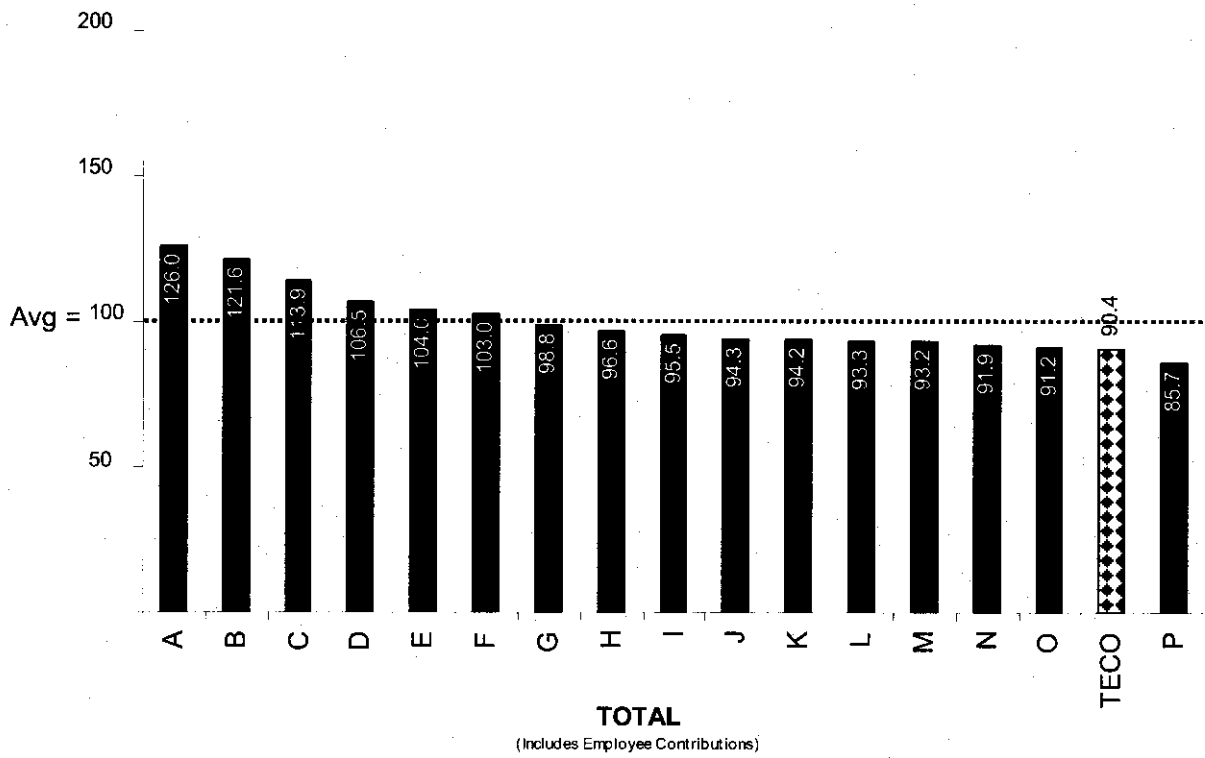
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2007 BENVAL STUDY
Entire Benefit Program
(Excludes Employee Contributions)



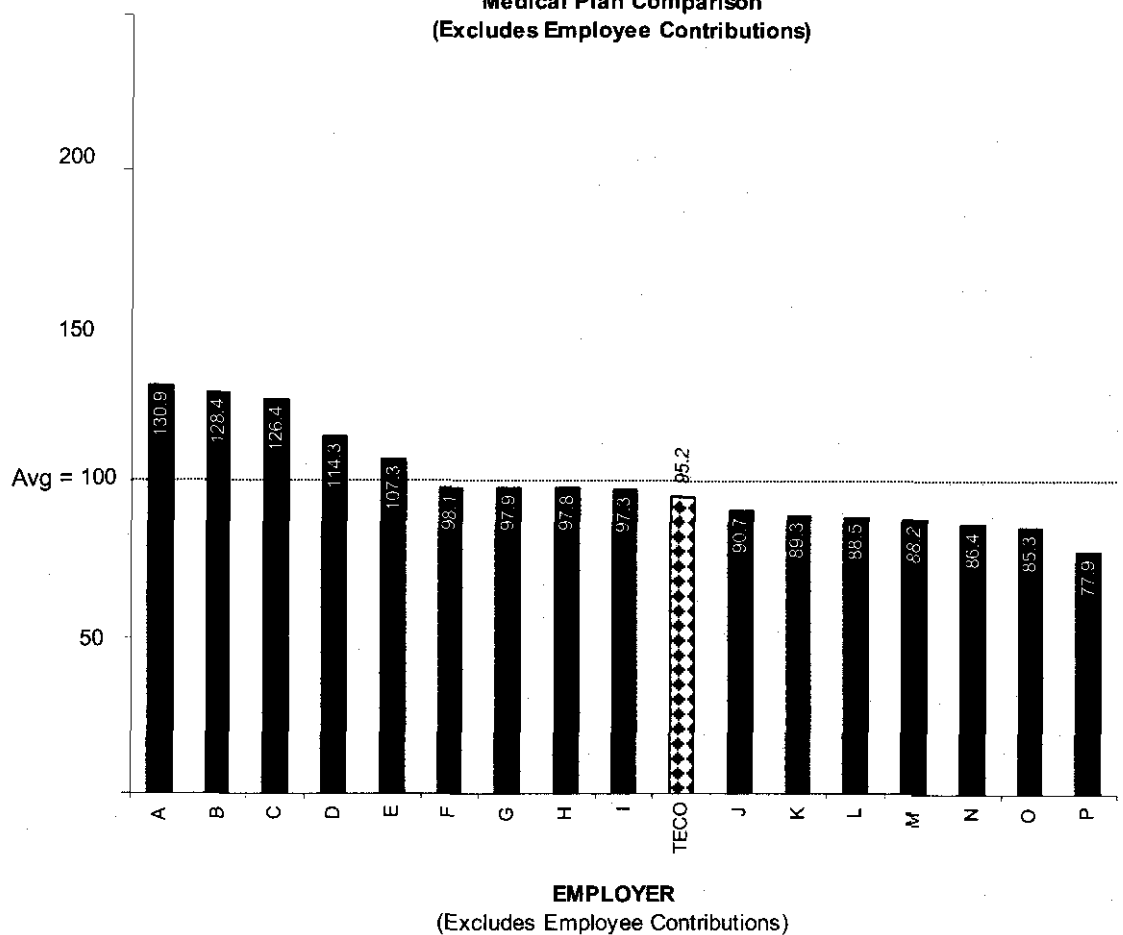
Source: Energy Services Towers Perrin – Revenue Grouping B (2006 Data)

2007 BENVAL STUDY
Entire Benefit Program
(Includes Employee Contributions)



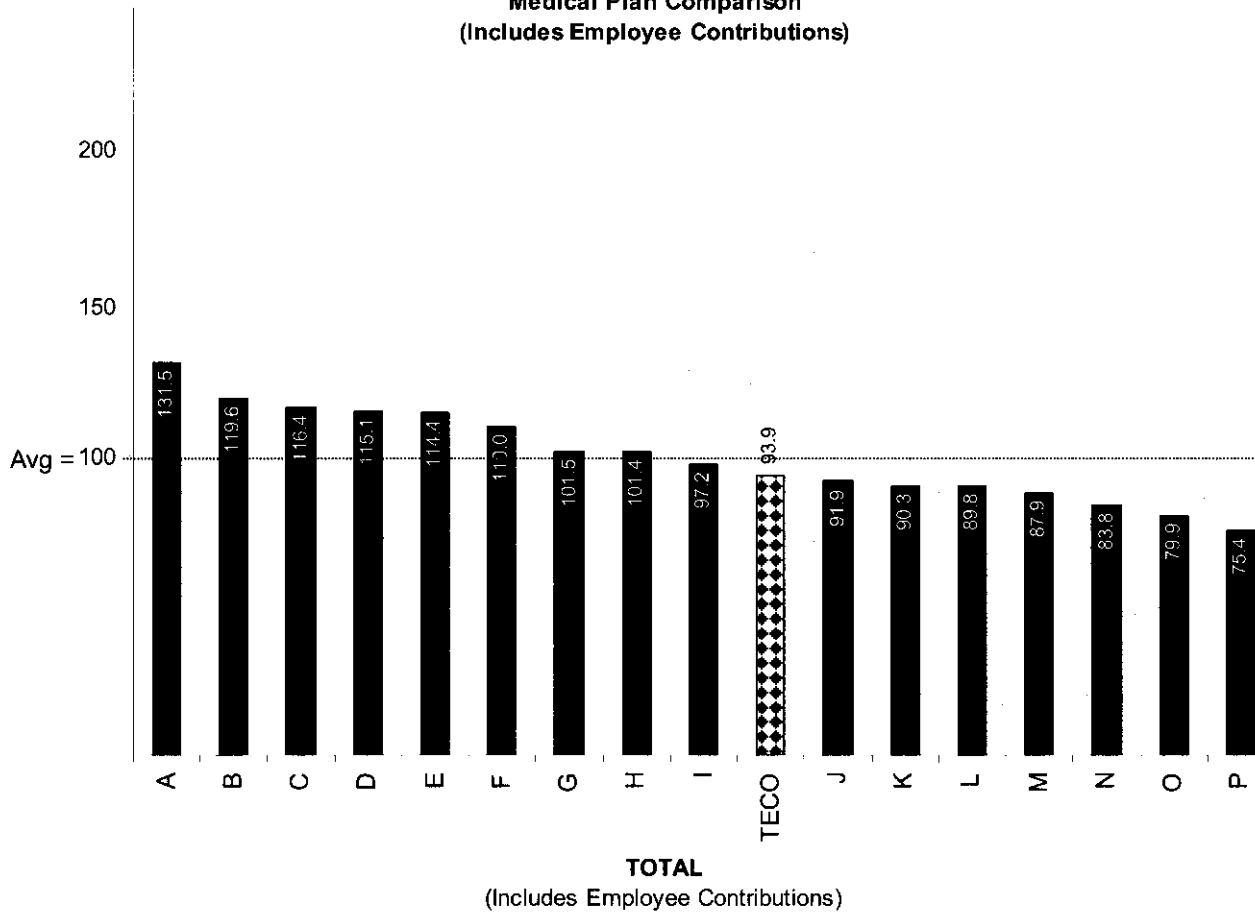
Source: Energy Services Towers Perrin – Revenue Grouping B (2006 Data)

2007 BENVAL STUDY
 Medical Plan Comparison
 (Excludes Employee Contributions)



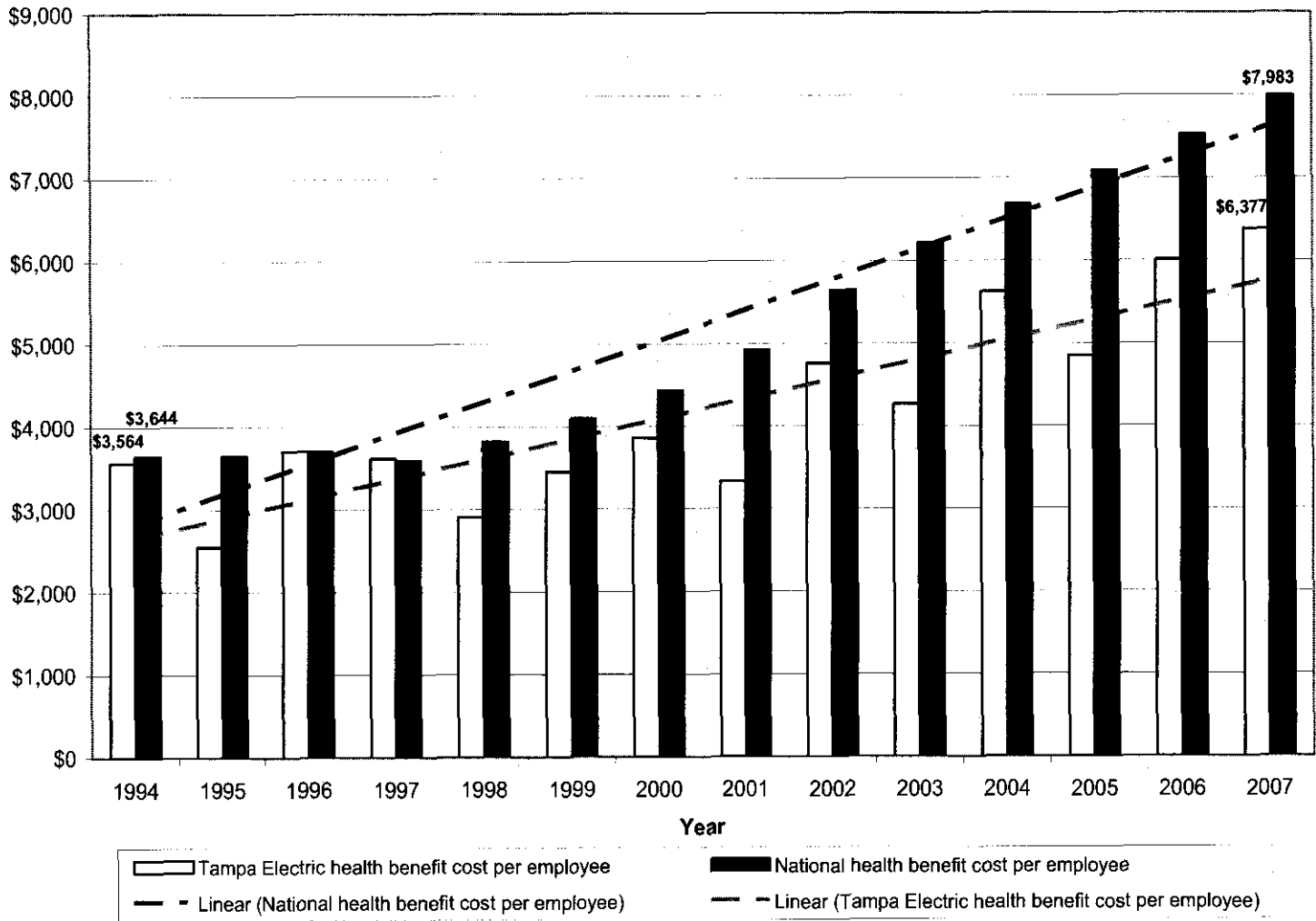
Source: Energy Services Towers Perrin – Revenue Grouping B (2006 Data)

2007 BENVAL STUDY
Medical Plan Comparison
 (Includes Employee Contributions)



Source: Energy Services Towers Perrin – Revenue Grouping B (2006 Data)

Average Health Benefit Costs Per Employee: Tampa Electric vs. National



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