State of Florida

Before the

Florida Public Service Commission

In Re: Petition for Rate Increase by Tampa Electric Company	))	**Docket No. 080317-EI**

Prepared Direct Testimony

of

Kevin W. O'Donnell, CFA

On Behalf of the

Florida Retail Federation

November 26, 2008

COM ___
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 080317-EI, TAMPA ELECTRIC RATE PETITION

DIRECT TESTIMONY OF KEVIN W. O'DONNELL

Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS FOR THE RECORD.

A. My name is Kevin W. O'Donnell. I am President of Nova Energy Consultants, Inc. My business address is 1350 Maynard Rd., Suite 101, Cary, North Carolina 27511.

Q. ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS PROCEEDING?

A. I am testifying on behalf of the Florida Retail Federation (FRF) an association of retail merchants active in many proceedings before the Florida Public Service Commission (the PSC or the Commission). Many of FRF's members take service from Tampa Electric Company (Tampa Electric or the Company).

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND RELEVANT EMPLOYMENT EXPERIENCE.

A. I have a Bachelor of Science in Civil Engineering from North Carolina State University and a Master of Business Administration from the Florida State University. I have worked in utility regulation since September 1984, when I joined the Public Staff of the North Carolina Utilities Commission. I left the NCUC Public Staff in 1991 and have worked continuously in utility consulting since that time, first with Booth & Associates, Inc. (until 1994), then as Director of Retail Rates for the North Carolina Electric Membership Corporation (1994-1995), and since then in my own consulting firm. I have been accepted as an expert witness on rate of return, cost of capital, capital

structure, and other regulatory issues in general rate cases, fuel cost proceedings, and other proceedings before the North Carolina Utilities Commission and the South Carolina Public Service Commission. In 1996, I testified before the U.S. House of Representatives, Committee on Commerce and Subcommittee on Energy and Power, concerning competition within the electric utility industry. Additional details regarding my education and work experience are set forth in Appendix A to my direct testimony.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purposes of my testimony are to recommend a reasonable rate of return on common equity that Tampa Electric should be allowed in this proceeding, to provide analysis and recommendations regarding the correct capital structure to be used in setting Tampa Electric's rates, and to comment on the testimony of Tampa Electric's witnesses Murry and Abbott. In particular, I believe that Ms. Abbott's testimony provides no value to Tampa Electric's customers and accordingly, Tampa Electric should not be allowed to recover any of the $290,000 in proposed fees and costs for her testimony. I also recommend that the $116,000 in rate case expenses for the services of JM Cannell be denied as Ms. Cannell offers no testimony at all in this proceeding.

Q. WHAT IS YOUR OPINION OF THE COMPANY'S REQUESTED REVENUE INCREASE IN THIS CASE?

A. I believe that Tampa Electric's requested revenue increase in this case is excessive and cannot be supported by the evidence put forward by the Company in its application or by the realities of relevant capital markets. To be specific, the Company's requested after-tax return on equity, which is a measure of its profitability, of 12.00% is excessive and not at all representative of current market conditions This conclusion is strongly confirmed by the fact that Tampa Electric faces very low risk as a regulated

monopoly company providing a product that is truly a necessity, with the very great degree of revenue certainty that Tampa Electric enjoys. Similarly, the Company's requested capital structure is not representative of the manner in which Tampa Electric finances its rate base investment and is therefore improper for use in this proceeding.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS IN THIS CASE.

A. My recommendations in this case are as follows:

1. the return on equity that Tampa Electric should be granted in this case is in the range of 9.25% to 10.25% with a specific recommendation of 9.75%;

2. the capital structure that best reflects Tampa Electric's actual rate base investment is the Company's 13-month average capital structure adjusted for the proportionate use of the parent company's debt as equity in the subsidiary's capital structure;

3. Tampa Electric's request to recover the rate case expenses associated with Susan Abbott's testimony should be denied because Ms. Abbott's testimony provides no value whatsoever to Tampa Electric's customers.

4. the requested rate case expenses of $116,000 for JM Cannell should also be denied as Ms. Cannell provides no recommendations in this case nor even provides basic testimony.

Q. HOW IS YOUR TESTIMONY STRUCTURED?

A. The remainder of my testimony is divided into nine sections as follows:

I. Economic and Legal Guidelines for Fair Rate of Return

II. Cost of Common Equity

- A. DCF Analysis
- B. Comparable Earnings Analysis
- C. Return on Equity Recommendation

III. Capital Structure and Overall Rate of Return

IV. Review of Company Witness Murry's Testimony

V. Review of Company Witness Abbott's Testimony and Related Rate Case Expenses

VI. Summary

I. ECONOMIC AND REGULATORY POLICY GUIDELINES FOR A FAIR RATE OF RETURN

Q. PLEASE BRIEFLY DESCRIBE THE ECONOMIC AND REGULATORY POLICY CONSIDERATIONS YOU HAVE TAKEN INTO ACCOUNT IN DEVELOPING YOUR RECOMMENDATION CONCERNING THE FAIR RATE OF RETURN THAT TAMPA ELECTRIC SHOULD BE ALLOWED THE OPPORTUNITY TO EARN.

A. The theory of utility regulation assumes that public utilities are natural monopolies. Historically, it was believed or assumed that it was more efficient for a single firm to provide a particular utility service than multiple firms. Even though deregulation for the procurement of natural gas and electric utility supplies is rapidly spreading, the delivery of these products to end-use customers will continue to be considered a natural monopoly for the foreseeable future. When it is deemed that a perceived natural monopoly does in fact exist, regulatory authorities regulate the service areas in which regulated utilities provide service, e.g. by assigning exclusive franchised territories to public utilities or by determining territorial boundaries where disputes arise (as in Florida), in order for these utilities to provide services more efficiently and at the lowest possible cost. In exchange for the protection of its monopoly service area, the utility is obligated to provide adequate service at a fair, regulated price.

This naturally raises the question - what constitutes a fair price? The generally accepted answer is that a prudently managed utility should be allowed to charge prices that allow the utility the opportunity to recover the reasonable and prudent costs of providing utility service and the opportunity to earn a fair rate of return on invested capital. This fair rate of return on

capital should allow the utility, under prudent management, to provide adequate service and attract capital to meet future expansion needs in its service area. Obviously, since public utilities are capital-intensive businesses, the cost of capital is a crucial issue for utility companies, their customers, and regulators. If the allowed rate of return is set too high, then consumers are burdened with excessive costs, current investors receive a windfall, and the utility has an incentive to overinvest. If the return is set too low, adequate service is jeopardized because the utility will not be able to raise new capital on reasonable terms.

Since every equity investor faces a risk-return tradeoff, the issue of risk is an important element in determining the fair rate of return for a utility.

Regulatory law and policy recognize that utilities compete with other forms in the market for investor capital. In the case of Federal Power Commission v. Hope Natural Gas Company, 320 U.S. 591 (1944), the U.S. Supreme Court recognized that utilities compete with other firms in the market for investor capital. Historically, this case has provided legal and policy guidance concerning the return which public utilities should be allowed to earn:

In that case, the U.S. Supreme Court specifically stated that:

> "...the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise so as to maintain credit and attract capital." (320 U.S. at 603)

II. COST OF COMMON EQUITY

Q. PLEASE EXPLAIN HOW THE ISSUE OF DETERMINING AN APPROPRIATE RETURN ON A UTILITY'S COMMON EQUITY INVESTMENT FITS INTO A REGULATORY AUTHORITY'S DETERMINATION OF FAIR, JUST, AND REASONABLE RATES FOR THE UTILITY.

A. In Florida and in all regulatory jurisdictions, a utility's rates must be "fair, just, and reasonable." As noted above, regulation recognizes that utilities are entitled to an opportunity to recover the reasonable and prudent costs of providing service, and the opportunity to earn a fair rate of return on the capital invested in the utility's facilities, such as power plants, transmission lines, distribution lines, buildings, vehicles, and similar long-lived capital assets. Utilities obtain capital funding through a combination of borrowing (debt financing) and issuing stock. The allowed return on equity (ROE) is the amount that is appropriate for the utility's common stockholders to earn a fair return on the capital that they contribute to the utility when they buy its stock. If the regulatory authority sets the ROE too low, the stockholders will not have the opportunity to earn a fair return; if the regulatory authority sets the ROE too high, the customers will pay too much, and the resulting rates will be unfair and unreasonable

Q. HOW DO REGULATORY AUTHORITIES GO ABOUT DETERMINING WHAT IS A FAIR RATE OF RETURN ON EQUITY?

A. Regulatory commissions and boards, as well as financial industry analysts, institutional investors, and individual investors, use different analytical models and methodologies to estimate/calculate reasonable rates of return on equity. Among the measures used are "Discounted Cash Flow" or "DCF" analysis and "Comparable Earnings Analysis." Sometimes a technique called

the "Capital Asset Pricing Model" or "CAPM" method is used. I believe that the two most useful methodologies are DCF Analysis and the Comparable Earnings Analysis.

A. Discounted Cash Flow (DCF) Analysis

Q. CAN YOU PLEASE EXPLAIN THE DISCOUNTED CASH FLOW METHOD?

A. Yes. The DCF method is a widely used method for estimating an investor's required return on a firm's common equity. In my twenty-four years of experience with the Public Staff of the North Carolina Utilities Commission and as a consultant, I have seen the DCF method used much more often than any other method for estimating the appropriate return on common equity. Consumer advocate witnesses, utility witnesses and other intervenor witnesses have used the DCF method, either by itself or in conjunction with other methods such as the Comparable Earnings Method or the Capital Asset Pricing Model (CAPM), in their analyses.

The DCF method is based on the concept that the price which the investor is willing to pay for a stock is the discounted present value or present worth of what the investor expects to receive as a result of purchasing that stock. This return to the investor is in the form of future dividends and price appreciation. However, price appreciation can be ignored since appreciation in price is only realized when the investor sells the stock. Therefore, the only income that the investor will receive from the company in which it invests is the dividend stream. Mathematically, the relationship is:

Let D = dividends per share in the initial future period
g = expected growth rate in dividends
k = cost of equity capital

P = price of asset (or present value of a future stream of dividends)

$$\text{then } P = \frac{D}{(1+k)} + \frac{D(1+g)}{1+k)^2} + \frac{D(1+g)}{(1+k)^3} + \frac{D(1+g)}{(1+k)^t}$$

This equation represents the amount (P) an investor will be willing to pay for a share of common equity with a given dividend stream over (t) periods.

Reducing the formula to an infinite geometric series, we have:

$$P = \frac{D}{k-g}$$

Solving for k yields:

$$k = \frac{D}{P+g}$$

Q. MR. O'DONNELL, DO INVESTORS IN UTILITY COMMON STOCKS REALLY USE THE DCF MODEL IN MAKING INVESTMENT TAMPA ELECTRIC DECISIONS?

A. Absolutely. Utility investors tend to be individuals or institutions interested in current income. The average stock investor interested in income will use the DCF to calculate how much funds he/she will receive relative to the initial investment, which is defined as the current dividend yield and the amount of funds that the investor can expect in the future from the growth in the dividend. Both of these components are central to the basic tenet of the DCF model that combines a dividend yield and a growth rate for dividends to derive the overall rate of return.

Q. HAVE YOU USED THE DCF MODEL IN ANALYZING COMMON STOCKS FOR INVESTMENT PURPOSES?

A. Yes. I have used and continue to use the DCF method extensively in analyzing common stocks for potential personal purchases as well as for purchases contemplated for money management clients.

Although the DCF formula stated above may appear complicated, the DCF method is intuitively a very simple model to understand. To determine the total rate of return one expects from investing in a particular equity security, the investor adds the dividend yield which he or she expects to receive in the future to the expected growth in dividends over time. If the regulatory authority sets the rate at a fair level, the utility will be able to attract capital at a reasonable cost, without forcing the utility's customers to pay more than necessary to attract needed capital.

Unlike models such as the Capital Asset Pricing Model (CAPM) that are more theoretical and academic in nature, the DCF is grounded in solid practicality that is used by money managers and individual investors throughout the world on a daily basis.

Q. CAN YOU GIVE AN EXAMPLE?

A. Of course. If investors expect a current dividend yield of 6%, and also expect that dividends will grow at 4%, then the DCF model indicates that investors would buy the utility's common stock if it provided a return on equity of 10%.

Q. HAVE YOU PREPARED ANY ANALYSES USING THE DCF METHOD TO EVALUATE A FAIR RATE OF RETURN FOR TAMPA ELECTRIC COMPANY?

A. Yes, I have. First, I identified a group of 24 comparable companies and then proceeded to evaluate their current and projected dividend yields and growth. The following discussion explains how I selected this population of

comparable companies and how I calculated what I believe to be the appropriate rate of return on equity for the Florida PSC to use in determining allowed revenues (revenue requirements) and consumer rates for Tampa Electric.

I developed this group of comparable companies to ensure that the return on equity for Tampa Electric developed in this analysis is consistent with the returns which can be obtained from similar equity investments in the open market.

I was not able to perform a DCF analysis directly on Tampa Electric Company since it is a subsidiary of TECO Energy, Inc. However, since TECO Energy is publicly traded, I was able to perform a rate of return analysis on the parent company.

Q. PLEASE EXPLAIN HOW YOU SELECTED THESE 24 COMPANIES FOR YOUR COMPARABLE GROUP

A. All of the companies in my comparable group are listed in The Value Line Investment Survey "Electric Utility Industry" group.

A further screen I used in developing my comparable group was to include only those companies in the comparable group that have an S&P Quality Rating of a B. This quality rating is an appropriate screening method because the S&P Quality Rating measures stability of earnings and dividends. The parent company of Tampa Electric, TECO Energy, Inc., has an S&P Stock Rating of B, so I chose to include only those companies that had S&P Stock ratings of B.

I also chose to exclude companies that either paid no dividend, had recently reinstated their dividends, had recently purchased another company, or were the subject of takeover discussions.

Q. WHAT DIVIDEND YIELD DO YOU THINK IS APPROPRIATE FOR USE IN THE DCF MODEL?

A. I have calculated the appropriate dividend yield by averaging the dividend yield expected over the next 12 months for each company, as reported by the Value Line Investment Survey. The period covered is from August 29, 2008, through November 21, 2008. To study the short-term as well as long-term movements in dividend yields, I examined the 13-week, 4-week, and 1-week dividend yields for the comparable group as well as TECO Energy. My results appear in O'Donnell Exhibit No. KWO-1 and show a dividend yield range of 4.9% to 5.4% for the comparable group and 5.4% to 6.7% for TECO Energy for the same 3 time periods that I examined.

As I am sure the Commission is aware, the stock market has been extremely volatile since the beginning of October. The reason for the wide range in the above-stated dividend yields is that the stock market has dropped rather dramatically thereby increasing the current, otherwise known as spot market, yields on utility investments. The good news is that utility investors are now recognizing higher dividend yields. The bad news is that the drop in the stock market is a sign that our economy is headed for tough economic times thereby putting a damper on future corporate earnings.

Q PLEASE EXPLAIN HOW YOU DEVELOPED THE DIVIDEND YIELD RANGES DISCUSSED ABOVE?

A. I developed the dividend yield range for the comparable group by averaging each Company's dividend yield over the above-stated 13-week and 4-week

periods as well as examining the most recent dividend yield reported by Value Line for each company.

Q. HOW DID YOU DERIVE THE EXPECTED GROWTH RATE?

A. I used several methods in determining the growth in dividends that investors expect. The first method I used was an analysis commonly referred to as the "plowback ratio" method. If a company is earning a rate of return (r) on its common equity, and it retains a percentage of these earnings (b), then each year the earnings per share (EPS) are expected to increase by the product (br) of its earnings per share in the previous year. Therefore, br is a good measure of growth in dividends per share. For example, if a company earns 10% on its equity and retains 50% (the other 50% being paid out in dividends), then the expected growth rate in earnings and dividends is 5% (50% of 10%). To calculate a plowback for the comparable group, I used the following formula:

$$g = \frac{br\ (2007) + br\ (2008E) + br\ (2009E) + br\ (2011E\text{-}2013E\ Avg)}{4}$$

The plowback estimates for all companies in the comparable group can be obtained from The Value Line Investment Survey under the title "percent retained to common equity." O'Donnell Exhibit No. 3 lists the plowback ratios for each company in the comparable group. This exhibit contains one reference to "NMF" which is the abbreviation for "no meaningful figure". When "NMF" appears, a company's earnings were less than the dividend paid out, which means that the Company did not reinvest or "plowback" any earnings from that year's operations. For purposes of being conservative, I treated the "NMF" entries as a 0 for purposes of my analysis. The plowback method is a very useful tool for comparing the comparable group's growth rates on a recent historical basis as well as a short-term forecasted basis.

A key component in the DCF Method is the expected growth in dividends. In analyzing the proper dividend growth rate to use in the DCF Method, the analyst must consider how dividends are created. Since dividends cannot be paid out without the company first earning the paid out funds, earnings growth is a key element in analyzing the expected growth in dividends. Similarly, what remains in a company after it pays its dividend is reinvested, or "plowed back", into the company in order to generate future growth. As a result, book value growth is another element that, in my opinion, must be considered in analyzing a company's expected dividend growth. To analyze the expected growth in dividends, I believe the analyst should first examine the historical record of past earnings, dividends, and book value. Hence, the second method I used to estimate the expected growth rate was to analyze the historical 10-year and 5-year historical compound annual rates of change for earnings per share (EPS), dividends per share (DPS), and book value per share (BPS) as reported by Value Line.

Value Line is the most recognized investment publication in the industry and, as such, is used by professional money managers, financial analysts, and individual investors worldwide. A prudent investor examines all aspects of a Company's performance when making a capital investment decision. As such, it is only practical to examine historical growth rates for the company for which the analysis is being performed. The historical growth rates for the comparable group as well as TECO Energy can be seen in O'Donnell Exhibit No. KWO-1.

The third method I used was the Value Line forecasted compound annual rates of change for earnings per share, dividends per share, and book value per share.

The fourth method I used was the forecasted rate of change for earnings per share that analysts supplied to Charles Schwab & Co. This forecasted rate of change is not a forecast supplied by Charles Schwab & Co. but is, instead, a compilation of forecasts by industry analysts.

The details of my DCF results can be seen in O'Donnell Exhibit No. KWO-1 and a summary of these results can be found in O'Donnell Exhibit No. KWO-2.

Once I gathered all the above data, I examined the results as found in Exhibit Nos. KWO-1 and KWO-2. It is important, in my view, to attempt to understand the reasons why the various data results appear. For example, in the early 1980s, utilities were undergoing expansion of base load plants that caused earnings growth to slow substantially. However, in the early 1990s, most baseload plant construction had ended and utilities were flush with a good bit of cash thereby creating, for the most part, solid earnings growth. It is important, therefore, to understand current and past market conditions so the analyst can use his/her best judgment in determining the market expected dividend growth rate in the future.

Q. WHAT IS THE INVESTOR RETURN REQUIREMENT FROM THE DCF ANALYSIS?

A. As can be seen on O'Donnell Exhibit No. 2, the dividend yield for the three time frames studied ranges from 4.9% to 5.4% for the comparable group and 5.4% to 6.7% for TECO Energy. Given the recent drop in the stock market, I believe the dividend yield range should incorporate the recent price changes as well as the realization that fear has taken over strong fundamentals in today's marketplace.

To be specific, the most representative dividend yield for the comparable group is in the range of 4.9% to 5.4%. For TECO Energy, I believe the proper dividend yield to use in the DCF analysis is in the range of 6.00%to 6.50%. This dividend yield range represents the upper end of the wide range of dividend yields experienced by TECO Energy over the 13-week period of August 29, 2008 through November 21, 2008. The reason for the wide range in the TECO Energy dividend yields goes beyond the recent downturn in the stock market. On Oct. 30, 2008, TECO Energy announced third quarter results that were down from $0.44 per share in 2007 to $0.28 per share in 2008. These weak results were due to lower results in TECO Energy's non-regulated operations as well as a relatively mild summer season that depressed Tampa Electric's expected air conditioning load.

The TECO Energy stock price has fluctuated dramatically over the past year, from a high this summer near $22 per share to a low of less than $11 per share in mid-November. I believe investors are indicating that, on a longer term basis, TECO Energy must recover its earnings fundamentals. For this reason, investors have bid down the stock price thereby driving the dividend yield upward. Corresponding to the higher dividend yield is the realization that future dividend growth will be very constrained while TECO Energy solidifies its financial footing.

In terms of the proper dividend growth rate to employ in this analysis, I believe that it is appropriate to examine the recent history of earnings and dividend growth to assess and provide the best estimate of the dividend growth that investors expect in the future. A quick examination of the 10-year and 5-year historical growth rates for the comparable group and TECO Energy show very vividly the problems in the electric industry over the past decade.

The future of the utility industry can, in my opinion, be described as "back to the future" in which utilities will expand their earnings by expanding and growing their rate base investments through large capital projects. Throughout the 1990s and earlier this decade, it was rare to see a general rate case for any utility in the southeastern U.S. Today, however, utilities across the country are coming in for rate cases at an increasing pace. The future holds much the same as numerous large power plant investments are currently being planned. Thus, it is reasonable to expect that the next ten years should look somewhat like the 1980s when utilities were involved in large generation construction projects.

Due in large part to the future expected capital expenditures of utilities throughout the country, I believe that investors have recognized, and embedded in their stock prices, that dividend growth in the short-term, meaning in the next ten years or less, must be less than earnings growth. As can be seen in O'Donnell Exhibit No. KWO-1, the comparable group's forecasted dividend growth rates are slightly less than the forecasted earnings growth rates, but the earnings growth rate for TECO Energy is more than double its expected dividend growth rate. On a long-term basis, however, earnings and dividends will grow more in-line with one another.

Due to the effects of fundamental changes that have occurred in the utility industry over the past ten years, I believe that it is proper to place more weight on forecasted figures than historical figures in estimating the cost of equity for TECO Energy and the comparable group. However, it is important to note that most of the forecasted Value Line figures contained in the attached O'Donnell Exhibit No. KWO-1 and O'Donnell Exhibit No. KWO-2 were published prior to the stock market meltdown that occurred in October, 2008. Since the stock market fall, the general conclusion is that our country is headed for a severe economic recession that may last for an extended time. As a result, I believe

that it is proper to use a lower growth rate in the DCF analysis to account for the expected drop in economic activity for TECO Energy as well as the comparable group and the entire United States economy. As we get closer to hearing in this case, I will update the entire analysis so as to give the Commission an up-to-date view of current investor return requirements.

I believe that the proper growth rate range for the comparable group of companies to use in the DCF analysis is 4.0% to 4.5%. The 4.0% is particularly appropriate for the lower end of this range since it is approximately equal to the plowback ratio, which is a mix of near-term historical and forecasted earnings retention ratios, of the comparable group. I also believe that 4.5% is appropriate for the high end of the range as it is slightly lower than the group's Value Line average forecasted dividend growth rate thereby accounting for the slowdown in the US economy.

Combining the comparable group's dividend yield range of 4.9% to 5.4% with the growth rate range of 4.0% to 4.5% produces a DCF range of 8.9% to 9.9%.

Based on the results shown in O'Donnell Exhibits No. KWO-1 and KWO-2, I believe that investors are expecting TECO Energy's dividends to grow in the range of 3.25% to 3.75%. The 3.25% low end of the dividend growth rate range is close to the Value Line forecasted dividend growth rate. I believe that 3.75% is appropriate for the high-end of the growth rate range because it is approximately halfway between the Value line forecasted dividend growth rate and the plowback growth rate of TECO Energy.

Combining the TECO Energy current dividend yield range of 6.00%% to 6.50% with the above-stated dividend growth rate range of 3.25% to 3.75% produces a DCF cost of equity range of 9.25% to 10.25%.

The above-stated comparable group and TECO Energy cost of equity ranges represent only one analysis I used in the examination of the proper cost of equity to apply in the current rate case.

B. Comparable Earnings Analysis

Q. MR. O'DONNELL, WOULD YOU PLEASE EXPLAIN WHY YOU PERFORMED A COMPARABLE EARNINGS ANALYSIS IN ADDITION TO YOUR DCF ANALYSIS?

A. Yes. The comparable earnings method provides investors with actual historical earned returns on common equity. Investors use this information as a guide to assess an investment's current required rate of return. I used the comparable earnings method in my analysis in this case to assess the reasonableness of my DCF results and to provide an independent methodological estimate of the return that investors would consider reasonable for Tampa Electric as the regulated electric company subsidiary of TECO Energy. It obviously makes economic common sense that the common stock shares of companies with comparable risks should yield very close to the same returns.

Q. WOULD YOU PLEASE EXPLAIN HOW YOU PERFORMED THE COMPARABLE EARNINGS ANALYSIS?

A. O'Donnell Exhibit No. KWO-4 presents a list of the earned returns on equity of the comparable group over the period of 2004 through 2007. As can be seen in this exhibit, the comparable companies' earned returns on equity have ranged from 8.3% in 2004 to a high of 9.7% in 2006. For TECO the highest return on equity over this four-year period was 14.1% in 2006 whereas the lowest return on equity, which was 10.7%, occurred in 2004. For the four-

year period of 2002 through 2006, the average return on equity was 9.0% for the comparable group and 12.8% for TECO.

In addition to the above analysis of market earned returns on equity, I also examined recently allowed returns on equity granted by utility state regulators from around the country. Table 1 below shows what other states have granted for allowed returns on equity for electric utilities from the period of July, 2007 through August, 2008.

Table 1: Authorized Returns

Company	Jurisdiction	Authorized ROE	Authorized Overall	Date of Order
Entergy Arkansas,Inc.	AR	9.90%	N/A	06/15/2007
Arizona Public Service Company	AZ	10.75%	8.32%	06/28/2007
Potomac Electric Power Company	MD	10.00%	7.68%	07/19/2007
Georgia Power Company	GA	11.25%	N/A	12/18/2007
Duke Energy Carolinas	NC	11.00%	8.57%	12/20/2007
Wisconsin Electric Power Company	WI	10.75%	8.33%	01/17/2008
Potomac Electric Power Company	DC	10.00%	7.96%	01/30/2008
Fitchburg Gas & Electric (Unitil)	MA	10.25%	8.38%	02/29/2008
Northern States Power Company	WI	10.75%	8.60%	01/08/2008
Central Vermont Public Service Co.	VT	10.71%	N/A	01/31/2008
Consolidated Edison of NY	NY	9.10%	7.30%	03/25/2008
Montana-Dakota Utilities Company	MT	10.25%	8.58%	04/23/2008
Hawaiian Electric Company	HI	10.70%	8.66%	05/01/2008
Consumers Energy	NY	10.70%	6.93%	06/10/2008
Orange and Rockland Utilities, Inc.	NY	9.10%	N/A	07/23/2008
Average		10.35%		

Source: Public Utilities Reports, Volume Nos. 258-266 as provided by the NC Utilities Commission in its "Quarterly Review" for the quarter ending March 31, 2008

As can be seen from the information above, the average allowed return on equity granted by state regulators for utilities operating in regulated states was, on average, 10.35%. Even more striking is that in only two of the fourteen cases were the utilities allowed a return of equal to or greater than 11%. Dr. Murry, however, recommends the Commission approve a 12.0% return on equity for Tampa Electric. When compared to returns approved in other states, Dr. Murry's recommendation of 12.0% is clearly and unequivocally excessive and unreasonable.

Q. WHAT CONCLUSIONS DO YOU DRAW FROM THE COMPARABLE EARNINGS ANALYSIS?

A. Given the slowdown in the Florida economy, the housing market decline, and the credit crunch, I believe that it is unrealistic to expect TECO's historical returns of-late to continue unabated in the future. In addition, state regulatory orders over the past year have granted vertically integrated electric utilities returns on equity of approximately 10.35%. Based on these findings, I believe the proper rate of return using a comparable earnings analysis is in the range of 9.5% to 10.5%. This rate of return range is very close to the return on equity range found appropriate through use of the DCF model.

C. Return on Equity Recommendation

Q. WHAT IS YOUR ESTIMATE OF THE COST OF EQUITY CAPITAL FORTAMPA ELECTRIC?

A. As I mentioned earlier, the results from my DCF Analysis resulted in an investor return requirement range of 8.9% to 9.9% for the comparable group and 9.25% to 10.25% for TECO Energy. The comparable earnings method produces a return on equity in the range of 9.5% to 10.5%. Based on these results, I believe the investor requirement range for TECO Energy is in the range of 9.25%, which is the middle of the comparable group DCF range, to 10.25%, which is the high-end of the range for the TECO Energy DCF analysis as well as the comparable earnings range.

In determining the proper return on equity to recommend in this proceeding, it is critical, in my opinion, to acknowledge that the utility industry is on a track to return to its regulated roots and, hence, investors expect more modest future growth rates. As a result of this return-to-the-basics mentality, I believe that the proper return on equity to use for determining Tampa Electric's revenue requirements and for setting Tampa Electric's rates in this proceeding is 9.75%, which is approximately in the middle of all the above-stated ranges. This recommended return on equity of 9.75% is also very close to the average return on equity granted by state utility commissions across the country from July, 2007 through August, 2008.

Q. HOW DOES THIS 9.75% RATE OF RETURN COMPARE TO THE RETURNS THAT MONEY MANAGERS NOW EXPECT TO EARN ON LONG-TERM STOCK INVESTMENTS?

A. In my opinion, a 9.75% rate of return on an investment in a electric utility would be deemed fair and appropriate by most money managers and that determining Tampa Electric's revenue requirements and setting its rates on this basis would provide more than adequate incentives to investors to purchase TECO Energy's common stock at reasonable prices, thereby enabling Tampa Electric to obtain needed capital. As noted in my resumé, I also work as a senior financial analyst for a money management firm in New Jersey. In that role, I am often asked to examine market returns and risks. As a money manager, I can assure the Commission that most professional investors would be very pleased if their managed portfolios produced overall annual returns of 9.75% in todays investment climate. The stock market is down over 40% from its peak in late 2007. Investors are, naturally, very nervous about their stock investments. Of all the investment opportunities available, utility investments are considered some of the safest. In fact, Tampa Electric is an incredibly safe investment that, at the present time, can and does recover 60% to 70%% of its total expenses through pass-through clauses. The remaining costs are Tampa Electric's fixed costs, including debt service and return, and operating costs that are recovered through base rates, and the recovery of these costs is very secure and low-risk because of Tampa Electric's monopoly position as a provider of a necessity. If the remaining base-rate operating expenses were to get sufficiently high such that the Company needs more revenue to cover them, Tampa Electric also has the option of filing for a rate case to increase rates to cover these higher operating costs. As a result, earning 9.75% on a relatively risk-free investment in a solid utility such as Tampa Electric is a very attractive investment for anyone looking to maximize his or her returns while keeping risk at a minimum.

III. CAPITAL STRUCTURE AND OVERALL RATE OF RETURN

Q. WHAT IS A CAPITAL STRUCTURE AND HOW WILL IT IMPACT THE REVENUES THAT TAMPA ELECTRIC OR ANY OTHER UTILITY IS SEEKING IN A RATE CASE?

A. The term "capital structure" refers to the relative percentage of debt, equity, and other financial components that are used to finance a company's investments.

For simplicity purposes, there are basically three financing methods. The first method is to finance an investment with common equity, which essentially represents ownership in a company and its investments. Common equity returns, which take the form of dividends to stockholders, are not tax deductible which, on a pre-tax basis alone, makes this form of financing about 40% more expensive than debt financing, for which interest is a tax-deductible expense of the company. The second form of corporate financing is preferred stock, which is normally used to a much smaller degree in capital structures. Dividend payments associated with preferred stock are not tax deductible. Corporate debt is the other major form of financing used in the corporate world. There are two basic types of corporate debt: long-term and short-term. Long-term debt is generally understood to be debt that matures in a period of more than one year. Short-term debt is debt that matures in less that one-year. Both long-term debt and short-term debt represents liabilities on the company's books that must be repaid prior to any common stockholders or preferred stockholders receiving a return on their investment.

In the current Tampa Electric case, the Company has also included other financing means such as deferred income taxes, customer deposits, and tax credit. The concept in including these items in the capital structure is that these funds are used by the Company in the provision of utility electric service and, as such, should be reflected in the utility's regulated capital structure.

A utility's total return is developed by multiplying the component percentages of its capital structure represented by the percentage ratios of the various forms of capital financing relative to the total financing on the company's books) by the cost rates associated with each form of capital and then summing the results over all of the capital components. When these percentage ratios are applied to various cost rates, a total after-tax rate of return is developed Since the utility must pay dividends associated with common equity and preferred stock with after-tax funds, the post-tax returns is then converted to a pre-tax return by grossing up the common equity and preferred stock returns for taxes. The final pre-tax return is then multiplied by the Company's rate base in order to develop the amount of money that customers must pay to the utility for its return on investment and tax payments associated with that investment.

From the above discussion, it is clear to see that costs to consumers are greater when the utility finances a higher proportion of its rate base investment with common equity and preferred stock versus long-term debt. However, long-term debt, which is first in-line for repayment, is more risky to the utility than is common equity due to the fact that debt is a contractual obligation as opposed to common equity where no obligations exist. As a result, regulators and the utility must balance off the needs of consumers, who desire low rates derived from the use of long-term debt, versus the desire of the utility to minimize the use of the more risky long-term debt.

Q. MR. O'DONNELL, WHAT CAPITAL STRUCTURE IS TAMPA ELECTRIC SEEKING IN THIS CASE?

A. According to the testimony of Donald A. Murry and the Company's Minimum Filing Requirements, the Company is seeking approval of the following capital structure in this case:

Long-Term Debt	38.22%
Short-Term Debt	0.22%
Customer Deposits	2.84%
Tax Credits	0.24%
Deferred Income Taxes	8.28%
Common Equity	50.21%

Q. WHAT WOULD BE THE RESULTS OF ALLOWING TAMPA ELECTRIC TO SET ITS RATES ON THE BASIS OF THIS HYPOTHETICAL CAPITAL STRUCTURE?

A. Allowing Tampa Electric's rates to be set using this capital structure would cause customers to over-pay for Tampa Electric's true cost of capital by forcing captive customers to pay for a hypothetical, non-existent capital structure that does not, in my opinion, accurately reflect the way the Company finances its rate base investment. The use of the Company proposed capital structure would result in Tampa Electric's rates being grossly unfair, unjust, and unreasonable.

Q. PLEASE DESCRIBE WHY YOU BELIEVE TAMPA ELECTRIC'S REQUESTED CAPITAL STRUCTURE DOES NOT ACCURATELY REFLECT THE COMPANY'S RATE BASE INVESTMENT?

Tampa Electric is a wholly-owned subsidiary of TECO Energy. Due to the parent/subsidiary relationship, there are no market forces that influence the shape of the Tampa Electric capital structure. As a result, TECO Energy can issue long-term debt on its consolidated balance sheet and then invest the funds into Tampa Electric and call it common equity. By doing so, TECO Energy can effectively create whatever capital structure it desires for Tampa Electric and its other subsidiaries.

Q. WHY SHOULD THE FLORIDA PUBLIC SERVICE COMMISSION BE CONCERNED ABOUT HOW TAMPA ELECTRIC FINANCES ITS RATE BASE INVESTMENT?

A. There are two reasons that the Commission should be concerned about how Tampa Electric finances its rate base investment. The first reason is that the cost of common equity is higher than the cost of long-term debt, so that a higher equity percentage will translate into higher costs to Tampa Electric's customers with no corresponding improvements in quality of service. Long-term debt is a financial promise made by the company and is carried as a liability on the company's books. Common stock is ownership in the company. Due to the nature of this investment, common stockholders require higher rates of return to compensate them for the extra risk involved in owning part of the company versus having a promissory note from the company.

The second reason the Commission should be concerned about Tampa Electric's capital structure is due to the tax treatment of debt versus common equity. Public corporations, such as TECO Energy, can write-off interest payments associated with debt financing. Corporations are not, however, allowed to deduct common stock dividend payments for tax purposes. All dividend payments must be made with after-tax funds, which are more

expensive than pre-tax funds. Since the regulatory process allows utilities to recover all expenses, including taxes, rates must be set so that the utility pays all its taxes and has enough left over to pay its common stock dividend. If a utility is allowed to use a capital structure for ratemaking purposes that is top-heavy in common stock, customers will be forced to pay the associated income tax burden, resulting in unfairly, unreasonably, and unnecessarily high rates. This will harm the economy of the utility's service area and violate the fundamental principles of utility regulation that rates must be fair but only high enough to support the utility's provision of safe, adequate, and reliable service at a fair price.

In my opinion, using Tampa Electric's requested capital structure in this proceeding will grant the utility unnecessarily and unreasonably high rates to cover tax payments for common equity that is not, in my view, truly an equity investment. In this particular case, TECO Energy, as the sole upstream owner of Tampa Electric, is attempting to use the regulatory process to force captive customers to pay rates higher than is necessary to support the Company's rate base investment. In utility regulation, a parent company's use of long-term debt as common equity in a regulated subsidiary is called double-leveraging.

On the unregulated side, there is no real problem with this practice because the unregulated subsidiaries are subject to competitive market discipline, but on the regulated side – i.e., for Tampa Electric Company and its customers – this practice is wholly inappropriate manipulation of the claimed capital structure to effectively arbitrage what is debt investment into equity returns, and the Commission should reject and prohibit such manipulation.

Even assuming that the Commission sets Tampa Electric's return on equity at 9.75% as I recommend, allowing the Company's rates to be set using its

proposed capital structure will violate principles of fair and reasonable ratemaking by forcing customers to pay for equity capital that really doesn't exist.

Q. DO YOU HAVE ANY EVIDENCE THAT TECO ENERGY IS DOUBLE-LEVERAGING ITS REGULATED ASSET INVESTMENTS?

A. Yes. Below is a table that list the total common equity that TECO Energy, Inc. had on its books as of Dec. 31, 2007 as well as the per books common equity component for Tampa Electric and the other wholly-owned subsidiaries of TECO Energy.

Table 2: Per Books Common Equity Positions

Company	Equity ($)
TECO Energy, Inc.	$2,017,045
Tampa Electric	$1,532,687
Peoples Gas	$268,286
Non-Regulated	$819,265
Total Subsidiary Equity	$2,620,238

As can be seen in the table above, the total common equity investment that TECO Energy **CLAIMS** exists in its subsidiaries, is approximately $600 million GREATER than the total per books common equity of the parent company, TECO Energy, Inc. The above table clearly shows that TECO Energy is attempting to use its debt financing to create an illusion to the Commission that Tampa Electric has more equity in its capital structure than exists in reality. Allowing this illusion to determine Tampa Electric's revenue requirements would result in higher rates for consumers of Tampa Electric who are already struggling to pay high bills in an uncertain economy. Worse still, this burden would be forced upon the utility's captive customers based on purported costs of equity capital that is, at bottom, debt capital provided by TECO Energy bondholders.

Q. **DOES THE COMPANY EXPLAIN THIS DIFFERENCE IN EQUITY COMPONENTS IN ITS PRE-FILED TESTIMONY?**

A. Company Witness Gillette does not explicitly address the difference in the equity amounts of all the subsidiaries versus the amount found in the parent company. However, Mr. Gillette does claim that the $404 million in debt found in the parent company capital structure is related to TECO Energy, Inc.'s failed investment in TPS merchant power business and was not infused

in equity into Tampa Electric. Mr. Gillette does not, however, specifically address why the sum of the subsidiary equity amounts are greater than the parent company equity amount.

Q. MR. O'DONNELL, WHAT CAPITAL STRUCTURE DO YOU RECOMMEND FOR USE IN THIS PROCEEDING?

A. In keeping with Commission Rule 25-14.004, I recommend that the Commission adjust the Tampa Electric 13-month average capital structure as of Dec. 31, 2009 to account for a proportionate amount of long-term debt in the parent company capital structure that should be accounted for as long-term debt and not common equity in the Tampa Electric capital structure. That capital structure and associated cost rates are as follows:

Table 3: Recommended Capital Structure

Component	Ratio (%)	Cost Rate (%)
Long-Term Debt	44.68%	6.81%
Short-Term Debt	0.22%	4.63%
Customer Deposits	2.84%	6.07%
Tax Credits	0.24%	8.28%
Deferred Inc. Taxes	8.27%	0.00%
Common Equity	44.00%	9.75%
	100.00%	

In my opinion, the TECO Energy capital structure that I recommend in this proceeding is more transparent to investors and to the Commission, reflects the manner in which the utility actually finances its rate base investment, prevents consumers from paying high equity returns on non-existent equity capital, and prevents customers from paying income taxes that are not in reality paid by Tampa Electric in the provision of electric service in Florida.

My recommended return on equity and capital structure can be seen in Exhibit KWO-5.

Q. **WHAT IS THE OVERALL RATE OF RETURN ON INVESTMENT THAT THE COMMISSION SHOULD APPLY USING YOUR RECOMMENDED RATE OF RETURN ON EQUITY AND YOUR RECOMMENDED ADJUSTMENTS TO TAMPA ELECTRIC'S CAPITAL STRUCTURE?**

A. My recommended overall rate of return on investment is 7.52%

IV. REVIEW OF COMPANY WITNESS MURRY'S TESTIMONY

Q. WHAT METHODS DID DR. MURRY USE IN HIS ANALYSIS OF THE COST OF EQUITY FOR TAMPA ELECTRIC?

A. Dr. Murry used the DCF model and the Capital Asset Pricing Model (CAPM) in his return on equity analysis of Tampa Electric.

Q. WHAT ARE THE PRIMARY DIFFERENCES BETWEEN YOUR APPLICATION OF THE DCF MODEL AND DR. MURRY'S APPLICATION OF THE DCF?

A. One difference between Dr. Murry and myself is that Dr. Murry uses forecasted earnings growth estimates as the primary source of dividend growth in the DCF model whereas I use a more global approach that examines historical and forecasted growth in earnings, dividends, and book value. In my opinion, investors are competent enough to understand that dividend growth, which is the basis for the DCF model, originates from earnings growth and book value growth. Hence, it is only logical to examine all of these factors in the determination of the proper growth rate to use in the DCF model. By doing so, investors can and do recognize and understand that such a range will include high growth rates and low growth rates. Investors use all this information in determining the price they are willing to pay for the stock and, hence, the underlying investor return requirement using the DCF model.

The largest single difference, however, between Dr. Murry and myself is how we treat the results from our respective DCF analyses.. In my opinion, Dr. Murry, in his prefiled testimony, indicates a predetermined preference for a higher return on equity than can be justified in this proceeding. Support for my opinion is found on pp. 38-39 of Dr. Murry's testimony when he states:

> If a DCF-based cost of common equity, even if realistically developed, becomes the allowed return for a regulated utility, this will not provide enough cushion as the realized return will be sufficient to attract and maintain capital.

Given that consumers in Florida must pay higher rates for Dr. Murry's "cushion", I don't believe it would be proper for the Commission to recognize Dr. Murry's application of the DCF model in this case. Put another way, I believe it is simply wrong to ask consumers struggling to stay in their homes with plummeting values to pay higher rates so that Tampa Electric can have a "cushion" built into its profits through the cost of equity granted by this Commission. Many residential customers and families living in the real world do not have such a "cushion." School boards and local governments in Florida do not have a "cushion" and retail merchants operating in today's marketplace certainly do not have the "cushion" to which Dr. Murry argues for Tampa Electric in this case.

Another difference between Dr. Murry and myself is that Dr. Murry does not perform a rate of return analysis specifically on TECO Energy. Dr. Murry openly admits that he does not think it is appropriate to perform a rate of return analysis on TECO Energy. To be specific, Dr. Murry states:

> The risks associated with the recent financial difficulties of TECO Energy are not relevant to measuring the cost of capital of Tampa Electric. Consequently, I did not use the market-based calculations of the cost of capital of TECO Energy and the financial information of TECO Energy had little bearing on my analysis. (p. 23 of direct testimony)

Q. DO YOU AGREE WITH DR. MURRY THAT THE FINANCIAL ASPECTS OF TECO ENERGY ARE NOT RELEVANT IN THIS PROCEEDING?

A. No. Investing in TECO Energy is largely synonymous in investing in Tampa Electric. Dr. Murry would like to ignore the fact that TECO's past financial difficulties are not relevant to Tampa Electric, but the two entities are inextricably linked. Approximately 75% of the common equity found in the TECO Energy, Inc. reported capital structure comes from the common equity of Tampa Electric. One simply cannot invest in TECO Energy without investing in Tampa Electric, and one can only invest in Tampa Electric by investing in TECO Energy.

Both in terms of the appropriate capital structure and return on equity to use in this proceeding, the Company is attempting to use hypothetical values.. Florida electric customers should not be asked to pay higher costs that are based on "theory" when real values are available from the Company.

Q. MR. O'DONNELL, WHY DO YOU NOT USE THE CAPM IN DETERMINING RETURNS ON EQUITY IN UTILITY REGULATORY PROCEEDINGS?

A. The CAPM is a model that essentially compares market returns to fixed-income yields to arrive at a forecasted return on equity. The underlying assumption of the CAPM is that calculated risk premiums stay relatively constant over time. Unlike Dr. Murry, I have found such assumptions to be unrealistic and extremely naïve.

Current economic conditions are vastly different from conditions that existed in the marketplace since 1926, which is the start date of the risk premium analysis used by Dr. Murry. For example, from the end of WWII until the mid-1990s, the United States economy was generally seen as the dominant market in the world. Today, however, China, Japan, and India are all making strong economic strides that are threatening our dominance in world markets.

Dr. Murry's risk premium model, by definition and specification, ignores the changing world markets.

Furthermore, the equity risk premium of 7.1% employed by Dr. Murry incorporates only a subset of historical returns and, in my opinion, is a gross exaggeration of what financial analysts expect in future market returns. In 2004, Dr. Jeremy J. Siegel from the University of Pennsylvania published a paper for the Chartered Financial Analysts Institute Conference Proceedings entitled "The Long-Run Equity Risk Premium." In this study, Dr. Siegel examined stock and bond market return returns from 1802 through 2003. Over this extended period of time, the real return on common stocks was 6.8% whereas the real return on long-term government bonds was 3.5% thereby producing a risk-premium of 3.3%. Dr. Siegel summarized his conclusions by stating:

> This is a lower return world because the P/E for equities is justifiably higher than it has been historically, which implies lower long-term real equity returns. Siegel's constant of a 6.5-7 percent return equity returns problem will not hold for all future periods. Investors probably will receive closer to 5 percent. Nevertheless, the real equity risk premium will still be roughly 3 percent. Investors will certainly seek other higher yielding real assets, but of the three major asset classes – stocks, bonds, and real estate – all are probably going to realize lower return that their historical averages. Consequently, equities still offer an attractive premium for long-term investors.

Also in 2004, Mr. Robert D. Arnott, editor of the Financial Analysts Journal, wrote an article entitled "The Meaning of a Slender Risk Premium." Mr. Arnott concluded his piece by stating that

> The risk premium rules of thumb we've relied on are shaky. Indeed, the risk premium is a skinny hook to hang our future

> prosperity on. Should we rely on the risk premium for profit, or should we look more aggressively for other paths to profit? I think the latter is by far the more sensible route.

As a financial analyst, the use of a risk premium as high as 7.1% is, in my opinion, nonsensical given the current world markets. It might make some simplistic sense to pick a period of time over which to study equity risk premiums, but it is imperative that the analyst performing the study consider current market conditions. The world we live in today is vastly different than the world we have experienced over the past 200 years. Ignoring this fact will lead the analyst to erroneous conclusions that, in the current case, will cause consumers in Florida to overpay for electric service thereby harming the Florida economy.

Q. ARE YOU AWARE OF ANY STATE REGULATORY COMMISSION THAT HAS BEEN CRITICAL OF THE USE OF THE CAPM?

A. Yes. In 1991, the North Carolina Utilities Commission made the following statement in Docket No. G-21, Sub 293 and 295:

> The commission is further convinced of the inadvisability of relying on CAPM results due to the same flaw in the traditional risk premium method: the time period over which one calculates an equity risk differential can greatly alter the results for no theoretically explainable reason.

Q. HOW DOES THE CAPM ATTEMPT TO CAPTURE COMPANY-SPECIFIC RISK?

A. The CAPM uses a beta variable to measure the risk of the company studied relative to the market. In my view, this beta is highly subjective and can only be used with the utmost care. Since the beta is calculated with historical returns relative to market returns, it is very possible, and in fact quite likely,

that sudden changes in a company's stock price will not be captured in the beta thereby producing meaningless answers. If, for example, the beta used in the analysis was calculated over an extended time period, such as how Value Line calculates its beta, and then a company suddenly encountered severe financial problems, the CAPM would produce meaningless results as the calculated return on equity would be grossly low.

An example of the problem with beta can be seen in the situation involving Countrywide Financial, which is the world's largest independent residential mortgage lender and service company, in 2007. Countrywide has symbolically become the poster child for the credit meltdown that has now occurred in the marketplace thereby setting off recession worries for the entire country. The August 24, 2007 edition of Value Line stated that Countrywide's stock price fell 54% since its May, 2007 report. However, even with this price decline, the calculated beta for Countrywide was just 1.15 meaning that Countrywide was only 15% more risky than the overall stock market. Given the collapse of the credit markets due, in large part, to risky mortgages created by companies the likes of Countrywide, it is hard to believe that Countrywide's beta could have been was just 1.15. Of course, this nonsensical financial situation was borne out later when Bank of American acquired Countrywide. Applying the Countrywide beta of 1.15 in a CAPM in the summer of 2007 would have provided a ludicrous answer and very bad investment guidance.

Q. HOW DOES THE DCF CAPTURE SUCH A SUDDEN CHANGE IN THE MARKET PRICE OF A STOCK?

A. Since the DCF can incorporate daily fluctuations in stock prices via the dividend yield, it can capture sudden price movements and ongoing risk changes of a company. The CAPM relies on extensive historical data on

which to calculate the beta. As such, it simply cannot capture sudden risk movements.

Q. DO YOU HAVE ANY BASELINE COMPARISON OF DR. MURRY'S COST OF EQUITY RECOMMENDATION IN THIS CASE?

A. Yes, as noted previously, the average return on equity granted by various state commissions across the country was approximately 10.35%over the past year. Dr. Murry's recommendation of a 12.0% return on equity is grossly out-of-line with what state commissions around the United States are granting regulated utilities.

As another comparison, I urge the Commission to look at other investment opportunities available to conservative investors that are primarily seeking income. As of this writing, on November 24, 2008, 30-year US Treasury bonds, which are widely recognized as the yardstick for long-term risk-free investments, are currently yielding less than 4.0%,. The return on equity that I am recommending in this case is well more than double the yield on these ultra-safe 30-year bonds. Given the fact that Tampa Electric has very little risk, it is easy to see that, relative to fixed income securities, a 9.75% return on equity is very attractive return for investors.

V. REVIEW OF COMPANY WITNESS ABBOTT'S TESTIMONY AND RELATED RATE CASE EXPENSES

Q. HAVE YOU REVIEWED THE TESTIMONY OF TECO WITNESS ABBOTT?

A. Yes, I have.

Q. WHAT IS THE PURPOSE OF MS. ABBOTT'S TESTIMONY IN THIS PROCEEDING?

A. In her prefiled testimony, Ms. Abbott states that the purpose of her testimony was 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 (p. 3 of direct testimony)

When one reads through Ms. Abbott's testimony, it is clear that Ms. Abbott is, essentially testifying in support of the Company's requested return on equity and its requested capital structure, without any independent analysis of these issues and, thus, without any substantive contribution to the case.

Q. DO YOU AGREE WITH MS. ABBOTT'S CONCLUSIONS IN THIS CASE?

A. No. I believe that Ms. Abbott has misunderstood the purpose in utility regulation. Ms. Abbott's testimony implies that Tampa Electric needs a certain return on equity and capital structure in order to ensure the utility will have a credit rating that she deems suitable for the Company's credit needs. I do not agree with Ms. Abbott in that the Florida Public Service Commission

should set a rate of return based on a credit rating set by investment banks in New York.

If this Commission, or any other utility commission in the United States, were to ever begin to set returns on equity based on credit standards, it would essentially be ceding its regulatory control to rating agencies which often, have substantial conflicts of interest. Furthermore, setting a return on equity to achieve a predetermined credit rating would, in my view, send a signal to utility executives that it is acceptable to take risks since the Commission is targeting a credit rating as opposed to granting the utility an OPPORTUNITY to earn its allowed rate of return.

Furthermore, I believe the Commission should examine the concept of exactly what Ms. Abbott is stating in her testimony. Ms. Abbott states that a 12.0% return on equity is needed in order for the utility to achieve a set credit rating in the marketplace. However, the cost of equity, on a pre-tax basis, is more than twice the cost of debt. Hence, Ms. Abbott is advocating that consumers pay higher rates to support an excessive return on equity so that the Company can achieve a lower cost of debt. Such a recommendation is similar to asking consumers to pay $30,000 for a car that is worth $15,000 so they can get a $500 rebate from the manufacturer.

Q, CAN YOU PROVIDE A NUMERICAL EXAMPLE TO SUPPORT YOUR CLAIM THAT CONSUMERS SHOULD NOT PAY FOR AN EXCESSIVE RETURN ON EQUITY TO JUSTIFY LOWER DEBT COSTS?

A. In the current case, the Company's cost of debt is 6.80%, its requested return on equity is 12.0%, its equity ratio is 50.21%, and its rate base is about $3.66 billion. Including income tax effects, for every 100 basis points in a higher

return on equity granted Tampa Electric in this case, consumers must pay approximately $30 million more each year. However, if Tampa Electric experienced a decrease in its bond rating, the Company might pay an additional 50 basis point premium associated with a lower credit rating. The cost for an additional 50 basis points on the cost of debt for Tampa Electric would cost consumers an additional $7.1 million. Hence, it is easy to see that Ms. Abbott's recommendation for consumers to pay a higher return on equity to obtain a lower cost of debt is simply illogical and would force Tampa Electric's customers to pay excessive, unjust rates for exactly the same service.

The reality of Ms. Abbott's recommendation is that the group that would benefit the most from a higher return on equity would be TECO executives and stockholders. Consumers, on the other hand, would suffer with unjustifiably higher rates to pay for an unreasonable return on equity.

Q. HOW DO YOU RECOMMEND THE COMMISSION TREAT THE TESTIMONY OF MS. ABBOTT?

A. In my opinion, I do not believe that consumers should pay for the testimony of Ms. Abbot. I have no issue at all with Tampa Electric absorbing Ms. Abbott's $290,000 in fees for this case, but I do not agree with the Company seeking rate recovery of her fees. Ms. Abbott does not provide a rate of return nor a capital structure recommendation in this case. Instead, she simply supports the Company's requests. Of the $290,000 in rate case fees requested for Ms. Abbott, the Company is also seeking $20,000 for travel expenses. In my view, asking ratepayers to pay such huge consulting fees in today's dire economic conditions is simply wrong. The high flying days of excessive pay by Wall Street executives is, hopefully, behind us. Such rate case fees should

not be recovered from Tampa Electric customers who are struggling to make ends meet in very tough economic times.

My recommendation is that the fees of Ms. Abbott be deducted from rate case expenses allowed for recovery by Tampa Electric in this proceeding.

Q. DO YOU TAKE ISSUE WITH ANY OTHER RATE CASE EXPENSES REQUESTED BY TAMPA ELECTRIC IN THIS CASE?

A. Yes. According to item C-10 of the minimum filing requirements (MFRs), Tampa Electric is seeking recovery of $116,000 to pay for "Analysis/Testimony/Discovery" of JM Cannell. According to this same MFR document, Ms. Cannell is to assist on the issue of "financial integrity." However, Ms. Cannell did not file any testimony. Furthermore, Ms. Abbott was retained by Tampa Electric for the same purpose of supporting the utility in regard to "financial integrity." Between Ms. Abbott and Ms. Cannell, Tampa Electric is seeking to recover $406,000 from its customers to pay for its concern regarding "financial integrity." When one adds in the $68,000 Tampa Electric is seeking for the testimony of Dr. Murry, the Company is seeking almost a half-million dollars from customers for Tampa Electric's and TECO Energy's chosen witnesses just to support TECO Energy's profit levels.

I recommend to the Commission that is also disallow the $116,000 in rate case expenses that Tampa Electric is seeking in this case to pay for the services of Ms. Cannell.

VI. SUMMARY

Q. MR. O'DONNELL, PLEASE SUMMARIZE YOUR TESTIMONY IN THIS PROCEEDING.

A. In the current proceeding, Tampa Electric is requesting this Commission to set rates so that the Company can earn a 12.0% return on equity. In my opinion, this requested return is excessive and cannot be supported by a logical evaluation of current market returns as well as the returns that other state regulators across the country are granting for their regulated utilities.

I performed my cost of equity analysis using the DCF model as well as the comparable earnings model. My conclusion is that 9.75% is the proper return on equity to grant TECO in this proceeding.

In evaluating the Company's requested capital structure, I found evidence of double-leverage in Tampa Electric's capital structure, using parent (TECO Energy) debt to create the appearance that the regulated utility's (Tampa Electric) equity is significantly greater than it is in reality. As a result, I do not believe the Company's requested capital structure is appropriate for use in this proceeding. As an alternative, I recommend the Commission grant Tampa Electric a total rate of return that is based on the capital structure of Tampa Electric adjusted for the parent company's (TECO Energy) use of debt infused as equity into Tampa Electric.

I also recommend that the Commission deduct the fees of Company Witness Abbott from rate case expenses associated in this proceeding. Ms. Abbott does not provide any specific recommendations in this case. The sole purpose of Ms. Abbott's testimony appears to be to support the testimony of other Company witnesses. In my view, it is unconscionable to ask Florida

ratepayers to pay $290,000 in fees for Ms. Abbott's testimony that simply supports positions taken by other company witnesses.

Lastly, I recommend the Commission also disallow the $116,000 in rate case expenses requested by Tampa Electric for the service of JM Cannell. Ms. Cannell does not present any testimony in this proceeding nor does the Company provide any evidence to support this requested rate case expense for Ms. Cannell.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes, it does.

APPENDIX A

Appendix A

Kevin W. O'Donnell, CFA
President
Nova Energy Consultants, Inc.
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Cary, NC 27511

Education

I received a B.S. degree in Civil Engineering - Construction Option from North Carolina State University in May of 1982 and a Masters of Business Administration in Finance from Florida State University in August of 1984.

Professional Certification

I am a Chartered Financial Analyst (CFA) and a member of the Association of Investment Management and Research.

Work Experience

In September of 1984, I joined the Public Staff of the North Carolina Utilities Commission as a Public Utilities Engineer in the Natural Gas Division. In December of 1984, I transferred to the Public Staff's Economic Research Division and held the position of Public Utility Financial Analyst. In September of 1991, I joined Booth & Associates, Inc., a Raleigh, North Carolina, based electrical engineering firm, as a Senior Financial Analyst. I stayed in this position until June 1994, when I accepted employment as the Director of Retail Rates for the North Carolina Electric Membership Corporation. In January 1995, I formed Nova Utility Services, Inc., an

energy consulting firm. In May of 1999, I changed the name of Nova Utility Services, Inc. to Nova Energy Consultants, Inc.

Along with my work with Nova Energy Consultants, Inc., I am also a senior financial analyst for MAKROD Investment Associates of Verona, NJ. MAKROD is a money management firm that specializes in portfolio management services for high wealth individuals and institutional investors.

Testimonies

North Carolina

I have testified before the North Carolina Utilities Commission in the following general rate case proceedings: Public Service Company of North Carolina, Inc. (Docket No. G-5, Sub 200, Sub 207, Sub 246, Sub 327, and Sub 386); Piedmont Natural Gas Company (Docket No. G-9, Sub 251 and Sub 278); General Telephone of the South (Docket No. P-19, Sub 207); North Carolina Power (Docket No. E-22, Sub 314); Piedmont Natural Gas Company (Docket No. E-7, Sub 487); Pennsylvania & Southern Gas Company (Docket No. G-3, Sub 186); and in several water company rate increase proceedings. I also submitted pre-filed testimony, and/or assisted in the settlement process, in Docket Nos. G-9, Sub 378, Sub 382, Sub 428 and Sub 461, which were general rate cases involving Piedmont Natural Gas Company; in Docket No. G-21, Sub 334, North Carolina Natural Gas' most recent general rate case; in Docket No. G-5, Sub 356, Public Service of North Carolina's 1995 general rate case; and in Docket No. G-39, Sub 0, Cardinal Extension Company's rate case. Furthermore, I testified in the 1995 fuel adjustment proceeding for Carolina Power & Light Company (Docket No. E-2, Sub 680) and submitted pre-filed testimony in Docket No. E-7, Sub 559, which was Duke Power's 1995 fuel adjustment proceeding. I also submitted pre-filed testimony and testified in Duke's 2001 fuel adjustment proceeding, which was Docket No. E-7, Sub 685.

Furthermore, I testified in Docket No. G-21, Sub 306 and 307, in which North Carolina Natural Gas Corporation petitioned the Commission to establish a natural gas expansion fund. I also submitted testimony in the Commission's 1998 study of natural gas transportation rates that was part of Docket No. G-5, Sub 386, which was the 1998 general rate case of Public Service Company of North Carolina. In September of 1999, I testified in Docket Nos. G-5, Sub 400 and G-43, which was the merger case of Public Service Company of North Carolina and SCANA Corp. I also submitted testimony and stood cross-examination in the holding company application of NUI Corporation, a utility holding company located in New Jersey, which was NCUC Docket No. G-3, Sub 224, as well as NUI's merger application with Virginia Gas Company, which was Docket No. G-3, Sub 232. I also submitted pre-filed testimony and stood cross-examination in Docket No. G-3, Sub 235, which involved a tariff change request by NUI Corporation. I testified in another holding company application in Docket No. E-2, Sub 753; G-21, Sub 387; and P-708, Sub 5 which was the holding company application of Carolina Power & Light. In June of 2001, I submitted testimony and stood cross-examination in Docket No. E-2, Sub 778, which was CP&L's application to transfer Certificates of Public Convenience and Necessity (CPCN) from two of the Company's generating units to its non-regulated sister company, Progress Energy Ventures. In November of 2001, I testified in Duke Energy's restructuring application, which was Docket No. E-7, Sub 694. In January 2002, I presented testimony in the merger application of Duke Energy Corp. and Westcoast Energy. In April of 2003, I submitted testimony in Dockets Nos. G-9, Sub 470, Sub 430, and E-2, Sub 825, which was the merger application of Piedmont Natural Gas and North Carolina Natural Gas. In May of 2003, I submitted testimony in the general rate case of Cardinal Pipeline Company, which was Docket No. G-39, Sub 4. In July 2003, I filed testimony in Docket No. E-2, Sub 833, which was CP&L's 2003 fuel case proceeding. I prepared pre-filed testimony and stood cross-examination in the merger application of Piedmont Natural Gas and Eastern North Carolina Natural Gas. In July of 2005, I prepared pre-filed testimony in Carolina

Power & Light's fuel case in North Carolina. In August of 2005 I assisted in the settlement of Piedmont's 2005 general rate case. In June, 2006, I submitted rebuttal testimony in Docket No. E-100, Sub 103, which was the investigation of integrated resource planning (IRP) in North Carolina. Also in the month of June, 2006, I submitted testimony in Docket No. G-9, Sub 519, which was the application of Piedmont Natural Gas to change its tariffs and service regulations. In August, 2006, I assisted in the settlement of the rate case of Public Service of North Carolina in Docket No. G-5, Sub 481. In December of 2006, I prepared direct testimony and stood cross-examination in Docket No. E-7, Sub 751, which was application of Duke Power to share net revenues from certain wholesale power transactions. In January, 2007, I submitted testimony in the application of Duke Energy in Docket No. E-7, Sub 790, which was in regard to the construction of two 800 MW coal fired generation units in Rutherford County, North Carolina. In June, 2008, I filed testimony in Duke Energy's Save-A-Watt energy efficiency filing.

South Carolina

In August of 2002, I submitted pre-filed testimony and stood cross-examination before the South Carolina Public Service Commission in Docket No. 2002-63-G, which was Piedmont's 2002 general rate case. In October of 2004, I submitted pre-filed testimony and stood cross-examination in the general rate case of South Carolina Electric & Gas. In March 2005, I prepared pre-filed testimony and assisted in the settlement involving the fuel application proceeding of South Carolina Electric & Gas. In April of 2005, I prepared pre-filed testimony and assisted in the settlement of Carolina Power & Light's fuel case in South Carolina. In March 2006, I assisted in the settlement involving the fuel application proceeding of South Carolina Electric & Gas. In November of 2007 I assisted in the settlement of the 2007 South Carolina Electric & Gas general rate case proceeding. In October, 2008, I submitted testimony in the 2008 South Carolina Electric & Gas base load review act proceeding.

United States Congress

In May of 1996, I testified before the U.S. House of Representatives, Committee on Commerce and Subcommittee on Energy and Power concerning competition within the electric utility industry.

I have also worked with North Carolina and South Carolina municipalities in presenting comments to the Federal Energy Regulatory Commission regarding the opening of the wholesale power markets in the Carolinas.

Publications

I have also published the following articles: Municipal Aggregation: The Future is Today, *Public Utilities Fortnightly*, October 1, 1995; Small Town, Big Price Cuts, *Energy Buyers Guide*, January 1, 1997; and Worth the Wait, But Still at Risk, *Public Utilities Fortnightly*, May 1, 2000. All of these articles dealt with my firm's experience in working with small towns that purchase their power supplies in the open wholesale power markets.

Tampa Electric Company
Docket No. 080317-EI

Company	DCF Results													
	13 Wk. Avg. Dividend Yield	4 Wk. Avg. Dividend Yield	Current Dividend Yield	Value Line 10 Year EPS	10 Year DPS	10 Year BPS	Value Line 5 Year EPS	5 Year DPS	5 Year BPS	Value Line Forecasted EPS	Forecasted DPS	Forecasted BPS	Plowback Growth Rate	Schwab Forecasted EPS
Alliant Energy	4.7%	5.0%	5.2%	0.5%	-5.0%	1.5%	3.0%	-10.5%	0.5%	6.0%	9.0%	6.0%	5.1%	7.0%
Amer. Elec. Power	5.0%	5.5%	5.8%	-1.0%	-4.5%	---	3.0%	-9.0%	---	7.5%	8.0%	6.5%	5.5%	5.1%
Avista Corp.	3.5%	3.9%	4.1%	-4.0%	-7.5%	2.5%	-3.0%	3.5%	2.0%	9.0%	12.5%	3.5%	3.0%	8.3%
CenterPoint Energy	5.8%	6.7%	6.4%	---	---	---	NMF	NMF	NMF	6.0%	9.0%	10.5%	7.9%	12.5%
DTE Energy	5.5%	5.9%	5.9%	-0.5%	---	3.5%	-2.0%	---	4.0%	5.0%	1.5%	4.0%	2.5%	6.3%
Duke Energy	5.5%	5.7%	5.9%	---	---	---	---	---	---	4.5%	4.5%	2.5%	2.4%	5.3%
Edison Int'l	3.3%	3.7%	3.8%	7.0%	1.0%	4.5%	---	---	17.5%	5.0%	7.0%	9.0%	8.4%	8.1%
Empire Dist. Elec.	6.4%	6.9%	7.0%	-1.0%	---	2.0%	2.0%	---	2.0%	10.0%	1.5%	3.5%	2.0%	6.0%
G't Plains Energy	7.9%	8.9%	9.3%	0.5%	0.5%	1.5%	---	---	4.5%	1.0%	Nil	4.0%	1.2%	7.6%
Hawaiian Elec.	4.7%	4.7%	4.6%	-0.5%	0.5%	1.5%	-3.0%	---	2.0%	5.0%	1.0%	2.5%	2.3%	4.5%
IDACORP, Inc.	4.2%	4.6%	4.4%	-1.0%	-4.5%	3.5%	-7.0%	-8.5%	2.5%	2.0%	Nil	2.0%	3.1%	6.0%
NiSource Inc.	6.4%	7.1%	7.6%	-2.5%	0.5%	7.0%	-5.5%	-2.5%	2.0%	5.0%	1.5%	1.0%	1.8%	3.0%
Northeast Utilities	3.6%	3.9%	3.8%	11.0%	-4.5%	0.5%	8.5%	10.0%	2.5%	11.5%	6.0%	5.5%	4.6%	7.4%
Pepco Holdings	5.0%	5.6%	6.2%	---	---	---	-4.5%	---	1.0%	13.0%	15.0%	3.0%	4.0%	10.3%
PG&E Corp.	4.3%	4.5%	4.4%	1.5%	-3.0%	---	---	---	16.5%	5.0%	9.0%	6.0%	5.7%	7.3%
PNM Resources	4.9%	5.5%	5.8%	2.0%	14.5%	5.5%	-5.0%	9.5%	5.0%	-6.0%	-9.0%	Nil	1.3%	13.5%
Progress Energy	5.9%	6.3%	6.4%	---	3.0%	6.0%	-4.5%	2.5%	3.0%	5.0%	1.0%	1.5%	1.6%	6.2%
SCANA Corp.	5.2%	5.7%	5.7%	3.5%	1.0%	4.5%	4.0%	6.5%	4.0%	4.5%	4.0%	5.5%	4.3%	4.8%
Sierra Pacific Res.	4.6%	4.9%	4.4%	-6.5%	---	-3.5%	---	---	-5.5%	7.5%	NMF	5.5%	4.6%	15.2%
UIL Holdings	5.3%	5.5%	5.5%	-2.0%	---	0.5%	-6.0%	---	-1.0%	4.5%	Nil	1.0%	1.9%	6.0%
UniSource Energy	3.4%	3.7%	3.8%	-5.5%	---	17.5%	3.0%	15.5%	8.5%	nil	3.0%	3.0%	2.1%	NA
Westar Energy	5.6%	6.2%	6.1%	1.0%	-7.0%	-4.0%	32.0%	-5.0%	-4.5%	2.0%	5.5%	4.5%	3.3%	4.4%
Wisconsin Energy	2.7%	2.8%	2.8%	5.5%	-4.5%	4.0%	9.0%	-1.0%	7.0%	8.0%	9.5%	6.5%	6.9%	10.2%
Xcel Energy Inc.	5.0%	5.5%	5.6%	-3.5%	-4.5%	-1.0%	-2.0%	-8.5%	-1.5%	7.5%	3.0%	4.0%	3.8%	6.2%
Average	**4.9%**	**5.3%**	**5.4%**	**0.2%**	**-1.5%**	**3.0%**	**1.2%**	**0.2%**	**3.4%**	**5.6%**	**5.1%**	**4.4%**	**3.7%**	**7.4%**
TECO Energy	**5.4%**	**6.1%**	**6.7%**	**-3.5%**	**-3.5%**	**-2.0%**	**-11.0%**	**-11.0%**	**-9.0%**	**7.0%**	**3.0%**	**6.5%**	**4.4%**	**12.8%**

Sources:

The Value Line Investment Survey, August 28, 2008; September26, 2008; and November 7, 2008

Schwab Earnings Reports as of Oct. 17, 2008.

Docket No. 080317-EI
DCF Results
KWO-1, Page 1 of 1

Tampa Electric Company
Docket No. 080317-EI

Company	13 Wk. Avg. Dividend Yield	4 Wk. Avg. Dividend Yield	Current Week Dividend Yield	Average Growth Rate	Historical Growth Rate	Plowback Growth Rate	Fore. Growth Rate
Alliant Energy	4.7%	5.0%	5.2%	2.1%	-1.7%	5.1%	7.0%
Amer. Elec. Power	5.0%	5.5%	5.8%	2.3%	-2.9%	5.5%	6.8%
Avista Corp.	3.5%	3.9%	4.1%	2.7%	-1.1%	3.0%	8.3%
CenterPoint Energy	5.8%	6.7%	6.4%	9.2%	---	7.9%	9.5%
DTE Energy	5.5%	5.9%	5.9%	2.7%	1.3%	2.5%	4.2%
Duke Energy	5.5%	5.7%	5.9%	3.8%	---	2.4%	4.2%
Edison Int'l	3.3%	3.7%	3.8%	7.5%	7.5%	8.4%	7.3%
Empire Dist. Elec.	6.4%	6.9%	7.0%	3.1%	1.3%	2.0%	5.3%
G't Plains Energy	7.9%	8.9%	9.3%	2.6%	1.8%	1.2%	3.2%
Hawaiian Elec.	4.7%	4.7%	4.6%	1.6%	0.1%	2.3%	3.3%
IDACORP, Inc.	4.2%	4.6%	4.4%	-0.2%	-2.5%	3.1%	2.5%
NiSource Inc.	6.4%	7.1%	7.6%	1.0%	-0.2%	1.8%	2.6%
Northeast Utilities	3.6%	3.9%	3.8%	5.7%	4.7%	4.6%	7.6%
Pepco Holdings	5.0%	5.6%	6.2%	6.0%	-1.8%	4.0%	10.3%
PG&E Corp.	4.3%	4.5%	4.4%	6.0%	5.0%	5.7%	6.8%
PNM Resources	4.9%	5.5%	5.8%	3.1%	5.3%	1.3%	-0.4%
Progress Energy	5.9%	6.3%	6.4%	2.5%	2.0%	1.6%	3.4%
SCANA Corp.	5.2%	5.7%	5.7%	4.2%	3.9%	4.3%	4.7%
Sierra Pacific Res.	4.6%	4.9%	4.4%	2.5%	-5.2%	4.6%	7.1%
UIL Holdings	5.3%	5.5%	5.5%	0.6%	-2.1%	1.9%	2.9%
UniSource Energy	3.4%	3.7%	3.8%	5.9%	7.8%	2.1%	2.0%
Westar Energy	5.6%	6.2%	6.1%	2.9%	2.1%	3.3%	4.1%
Wisconsin Energy	2.7%	2.8%	2.8%	5.6%	3.3%	6.9%	8.6%
Xcel Energy Inc.	5.0%	5.5%	5.6%	0.3%	-3.5%	3.8%	5.2%
Average	**4.9%**	**5.3%**	**5.4%**	**3.5%**	**1.1%**	**3.7%**	**5.3%**
TECO	**5.4%**	**6.1%**	**6.7%**	**-0.6%**	**-6.7%**	**4.4%**	**7.3%**

Tampa Electric Company
Docket No. 080317-EI

Company	% Retained to Common Equity				
	2007	2008E	2009E	11-'13E	Average
Alliant Energy	5.9%	5.0%	5.0%	4.5%	5.1%
Amer. Elec. Power	5.1%	6.0%	6.0%	5.0%	5.5%
Avista Corp.	0.8%	4.0%	4.0%	3.0%	3.0%
CenterPoint Energy	10.0%	8.0%	7.0%	6.5%	7.9%
DTE Energy	1.5%	2.0%	3.0%	3.5%	2.5%
Duke Energy	2.0%	2.5%	2.5%	2.5%	2.4%
Edison Int'l	9.2%	9.0%	8.5%	7.0%	8.4%
Empire Dist. Elec.	NMF	1.0%	2.0%	3.0%	2.0%
G't Plains Energy	0.9%	NMF	NMF	1.5%	1.2%
Hawaiian Elec.	0.8%	NMF	2.5%	3.5%	2.3%
IDACORP, Inc.	2.4%	3.0%	3.5%	3.5%	3.1%
NiSource Inc.	1.2%	1.5%	2.0%	2.5%	1.8%
Northeast Utilities	4.3%	5.0%	4.5%	4.5%	4.6%
Pepco Holdings	2.3%	4.0%	4.0%	5.5%	4.0%
PG&E Corp.	5.9%	6.0%	6.0%	5.0%	5.7%
PNM Resources	NMF	NMF	0.5%	2.0%	1.3%
Progress Energy	0.7%	1.5%	1.5%	2.5%	1.6%
SCANA Corp.	4.0%	4.5%	4.0%	4.5%	4.3%
Sierra Pacific Res.	5.4%	4.5%	4.5%	4.0%	4.6%
UIL Holdings	3.1%	1.0%	1.5%	2.0%	1.9%
UniSource Energy	3.9%	0.5%	2.0%	2.0%	2.1%
Westar Energy	4.3%	4.0%	2.5%	2.5%	3.3%
Wisconsin Energy	7.1%	6.5%	6.5%	7.5%	6.9%
Xcel Energy Inc.	3.1%	3.5%	3.5%	5.0%	3.8%
Average					3.7%
TECO Energy	5.1%	0.5%	6.0%	6.0%	4.4%

Sources:

The Value Line Investment Survey, August 28, 2008; September26, 2008; and November 7, 2008

Tampa Electric Company
Docket No. 080317-EI

Company	% Return on Common Equity			
	2004	2005	2006	2007
Alliant Energy	8.2%	13.1%	9.1%	11.3%
Amer. Elec. Power	12.2%	11.3%	12.0%	11.4%
Avista Corp.	4.7%	5.9%	8.0%	4.2%
CenterPoint Energy	18.6%	17.4%	27.8%	22.0%
DTE Energy	8.0%	10.0%	7.5%	7.7%
Duke Energy	na	na	4.1%	7.2%
Edison Int'l	3.5%	16.8%	14.0%	13.0%
Empire Dist. Elec.	5.8%	6.0%	8.5%	6.2%
G't Plains Energy	15.5%	13.3%	9.4%	10.1%
Hawaiian Elec.	8.9%	9.7%	9.9%	7.2%
IDACORP, Inc.	7.2%	6.2%	8.9%	6.8%
NiSource Inc.	9.0%	6.0%	6.3%	6.1%
Northeast Utilities	5.1%	5.1%	4.3%	8.4%
Pepco Holdings	7.7%	7.7%	7.0%	7.4%
PG&E Corp.	10.3%	12.3%	12.5%	11.7%
PNM Resources	8.0%	8.2%	7.2%	3.5%
Progress Energy	9.9%	9.0%	6.1%	8.2%
SCANA Corp.	12.2%	11.8%	10.5%	10.8%
Sierra Pacific Res.	4.8%	4.0%	9.0%	6.6%
UIL Holdings	6.7%	5.8%	9.9%	10.1%
UniSource Energy	7.9%	7.5%	10.6%	8.5%
Westar Energy	7.1%	9.5%	10.7%	9.2%
Wisconsin Energy	8.8%	11.3%	10.8%	10.9%
Xcel Energy Inc.	10.0%	9.2%	9.7%	9.1%
Average	**8.3%**	**9.0%**	**9.7%**	**9.1%**
TECO Energy	**10.7%**	**13.3%**	**14.1%**	**13.2%**

Sources:

The Value Line Investment Survey, August 28, 2008; September26, 2008; and November 7, 2008

Tampa Electric Company
Docket No. 080317-EI

Component	Per Books Acounts	Adjustments	Adjusted Amounts	Ratio (%)	Cost Rate (%)	Wgtd. Cost Rate (%)
	(000's)	(000's)	(000's)			
Long-Term Debt	$1,397,565	$226,998	$1,624,563	44.43%	6.81%	3.03%
Short-Term Debt	$8,002		$8,002	0.22%	4.63%	0.01%
Customer Deposits	$103,724		$103,724	2.84%	6.07%	0.17%
Tax Credits	$8,780		$8,780	0.24%	8.27%	0.02%
Deferred Inc. Taxes	$302,744		$302,744	8.28%	0.00%	0.00%
Common Equity	$1,835,985	-$226,998	$1,608,987	44.00%	9.75%	4.29%
	$3,656,800		$3,656,800	100.00%		7.52%

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by U.S. Mail this 26th day of November, 2008, to the following:

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Jennifer Brubaker/Martha Brown
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