

# Summary Information for Investors



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## **Investment Considerations**

The information which follows contains forward-looking statements, which are subject to the inherent uncertainties in predicting future results and conditions. These forward-looking statements include references to our anticipated capital investments, financing requirements, project completion dates, future transactions and other plans. Certain factors that could cause actual results to differ materially from those projected in these forward-looking statements include the following: energy price changes affecting TECO Power Services' (TPS') merchant plants; TPS' ability to sell the output of the merchant plants operating or under construction and to obtain power contracts to reduce earnings volatility; any unanticipated need for additional debt or equity capital that might result from lower than expected cash flow or higher than projected capital requirements; TECO Energy's ability to successfully complete the transactions relating to its synthetic fuel facilities. Other factors include: general economic conditions, particularly those in Tampa Electric's service area affecting energy sales; weather variations affecting energy sales and operating costs; potential competitive changes in the electric and gas industries, particularly in the area of retail competition; regulatory actions affecting Tampa Electric, Peoples Gas System or TPS; commodity price changes affecting the competitive positions of Tampa Electric and Peoples Gas System, as well as the margins at TECO Coal; changes in and compliance with environmental regulations that may impose additional costs or curtail some activities; TPS' ability to successfully construct and operate its projects on schedule and within budget; the ability of TECO Energy's subsidiaries to operate equipment without undue accidents, breakdowns or failures; interest rates, credit ratings and other factors that could impact TECO Energy's ability to obtain access to sufficient capital on satisfactory terms; and TECO Coal's ability to successfully operate its synthetic fuel production facilities in a manner qualifying for Section 29 federal income tax credits, the use of which could be limited by TECO Energy's taxable income or by changes in law, regulation or administration. Some of these factors and others are discussed more fully under "Investment Considerations" in the company's Annual Report on Form 10-K for the year ended December 31, 2002, or in the "Investment Considerations" section under Tab VI. Any forward-looking statement speaks only as of the date on which it was made, and the company undertakes no obligation to update any forward-looking statement to reflect subsequent developments or circumstances other than as may be required by law.



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# OVERVIEW



## SECTION I



## **2002 Highlights**

- **TECO Energy, Inc.**
  - \* \$900 million funding plan almost three-fourths complete by year-end 2002
  - \* Net income growth of 9 percent in 2002
  - \* Return on equity of 14 percent in 2002
- **Florida operations**
  - \* Continued strong customer growth at regulated utilities
  - \* First phase of Tampa Electric Gannon/Bayside repowering nearly complete
  - \* Peoples Gas continues system expansions; receives \$12 million addition to base rates
- **Independent power business – TECO Power Services**
  - \* Construction on 4,400 megawatts of generation nearly complete
  - \* Suspended construction on two smaller generating projects, pending power price improvement
- **Other businesses**
  - \* TECO Coal increased synthetic fuel production
  - \* Sale of TECO Coalbed Methane generates \$140 million in cash

## **Year-to-Date 2003 Highlights**

- \* Merrill Lynch \$350 million, 18 month, unsecured credit facility
- \* \$50 million sale of a portion of synfuel production facilities
- \* Bayside Power Station Unit 1 now generating almost 750 megawatts of electricity from clean burning, efficient natural gas
- \* Union Power Station Phase I and II fully tested and in service



## Financial summary

(all amounts have been restated to reflect the reclassification of Coalbed Methane as discontinued operations)

	<u>2002</u> <sup>(3)</sup>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u> <sup>(2)</sup>
<b>Florida Operations</b>					
Tampa Electric	\$ 1.12	\$ 1.15	\$ 1.15	\$ 1.06	\$1.07
Peoples Gas System	.16	.17	.17	.15	.12
TECO Solutions	<u>.05</u>	<u>.03</u>	<u>.09</u>	<u>.03</u>	<u>.03</u>
	1.33	1.35	1.41	1.24	1.22
TECO Power Services	.22	.20	.18	.07	.07
TECO Transport	.14	.20	.23	.20	.18
TECO Coal	.50	.44	.27	.10	.13
Other Unregulated	.00	.01	(.06)	(.01)	.02
Financing/other	<u>(.24)</u>	<u>(.16)</u>	<u>(.23)</u>	<u>(.08)</u>	<u>(.11)</u>
<b>Earnings from</b>					
<b>continuing operations</b>	1.95	2.04	1.80	1.52	1.51
Non-recurring charges	-	-	-	(.15)	(.15)
Discontinued operations	<u>.20</u>	<u>.22</u>	<u>.19</u>	<u>.05</u>	<u>.21</u>
Earnings per share	<u>\$2.15</u>	<u>\$2.26</u>	<u>\$1.99</u>	<u>\$1.42</u>	<u>\$1.57</u>
 Average Shares Outstanding-basic	 153,202	 134,521	 125,882	 131,031	 131,727
 ROE - avg. <sup>(1)</sup>	 14.3%	 16.5%	 16.7%	 14.5%	 14.5%

(1) 1998 and 1999 ROE exclude one-time charges and discontinued operations.

(2) 1998 financing costs in Financing/other not allocated to the unregulated segments.

(3) Includes impacts of (\$0.14) per share for debt refinancing and \$0.05 per share gain on the first installment for the sale of TECO Coalbed Methane included in discontinued operations.

## Dividend

On April 11, 2003 announced a 46% reduction to \$.76 annually, effective with the May 15, 2003, dividend payment.

- Commitment to financial integrity
- Conserves significant cash



## **Financial summary - continued**

### **Commitment to Financial Integrity**

- Issued \$1.3 billion of equity and equity-like securities in 2001 and 2002
- From December 2000 to December 2002
  - \* Reduced debt/total capital from 62% to 54%
  - \* Reduced commercial paper by \$900 million
- \$1 billion in syndicated bank credit facilities
  - \* Renewed Tampa Electric \$300 million 364-day facility in November 2002
  - \* In April 2003, put in place a TECO Energy \$350 million 18 month unsecured credit facility to replace one-year term loan if required
- Extended average debt maturity
- Reduced floating rate debt



## **Financial summary - continued**

### **Credit Rating/Senior Unsecured Debt**

	Fitch	Moody's	Standard & Poors
Tampa Electric	BBB+	Baa1	BBB
TECO Finance / TECO Energy	BB+	Ba1	BBB-
Outlook	Negative	Negative	Negative

On March 12, 2003, Moody's placed the debt ratings of TECO Energy, Tampa Electric Company and TECO Finance on review for possible downgrade.

In April 2003, Moody's Investor Services, Inc. (Moody's) and Fitch Investor Services, Inc. (Fitch), lowered the ratings on the senior unsecured debt securities of TECO Energy and TECO Finance to non-investment grade, and Tampa Electric which remains a strong investment grade rating. The outlook assigned to TECO Energy by Moody's, Fitch and Standard & Poor's Ratings Service (S&P) is negative.

The ratings actions were attributed to higher risks associated with the expansion of TECO Energy's investment in merchant generation facilities through TPS, which will increase further following the announced buyout of partner Panda Energy's interest, writedowns related to power projects, turbine purchase commitments and the consolidation of TECO Panda Generating Company into TECO Energy's financial statements.

The downgrade of TECO's debt rating by Moody's Investor Service in April, triggered the requirement to, within fifteen days, post letters of credit for its obligations under the Construction Undertakings that ramp down in accordance with a schedule as the projects progress toward completion and to secure the \$375 million unpaid balance of the equity bridge loan or repay same associated with the construction of the Union and Gila River power projects. This loan has been repaid in full. A scheduled installment of \$125 million was paid on April 30, and the remaining \$250 million balance was paid on May 5.

TECO Energy has reached an agreement in principle with the lead non-recourse project lending banks regarding the amounts to be posted under the project completion undertaking for the Union Power Station in Arkansas and the Gila River Power Station in Arizona, and extended the deadline for the posting. This agreement is subject to final approval by a majority of the lending banks by Friday, May 16, 2003.





Under the agreement, both the lenders and TECO Energy agreed to a total security amount of up to \$234 million, including amounts for remaining construction, liquidated damages for delay and performance shortfalls, \$62 million of which will not be posted unless the commercial operation of two units does not occur in May as expected. The company will replace or amend the existing letters of credit (including retainage letters of credit) and other collateral such that total letters of credit of \$172 million are in place by May 20, 2003, up \$43 million from the current level of retainage letters of credit of \$129 million. In the event that Gila River Phase I and Union Power Phase 3 do not achieve commercial operation in May as expected, TECO Energy will post additional letters of credit by May 31, 2003 of as much as \$62 million to have the posted security reflect the operational deficiencies, up to the maximum amount of \$234 million, if necessary.

The security posted will be reduced in installments upon achievement of commercial operation of each phase of each project, upon final acceptance of each project and upon the expiration of the warranty period for each project. If all events occur as expected, after final acceptance of the Gila River Power Station (anticipated in September 2003), the remaining letters of credit outstanding will be \$8 million covering warranty items and declining as each phase completes its applicable 12-month warranty period. (See the Investment Considerations section under Tab VI.)



## Capital investments

	Actual	Forecast (millions)			Total
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005-2007</u>	<u>2003-2007</u>
<b>Florida Operations</b>	662	307	221	725	1,253
<b>Independent Power</b>	1,027	494	25	75	594
<b>Other</b>	<u>75</u>	<u>35</u>	<u>44</u>	<u>116</u>	<u>195</u>
<b>Total</b>	\$1,764	\$ 836	\$ 290	\$ 916	\$ 2,042

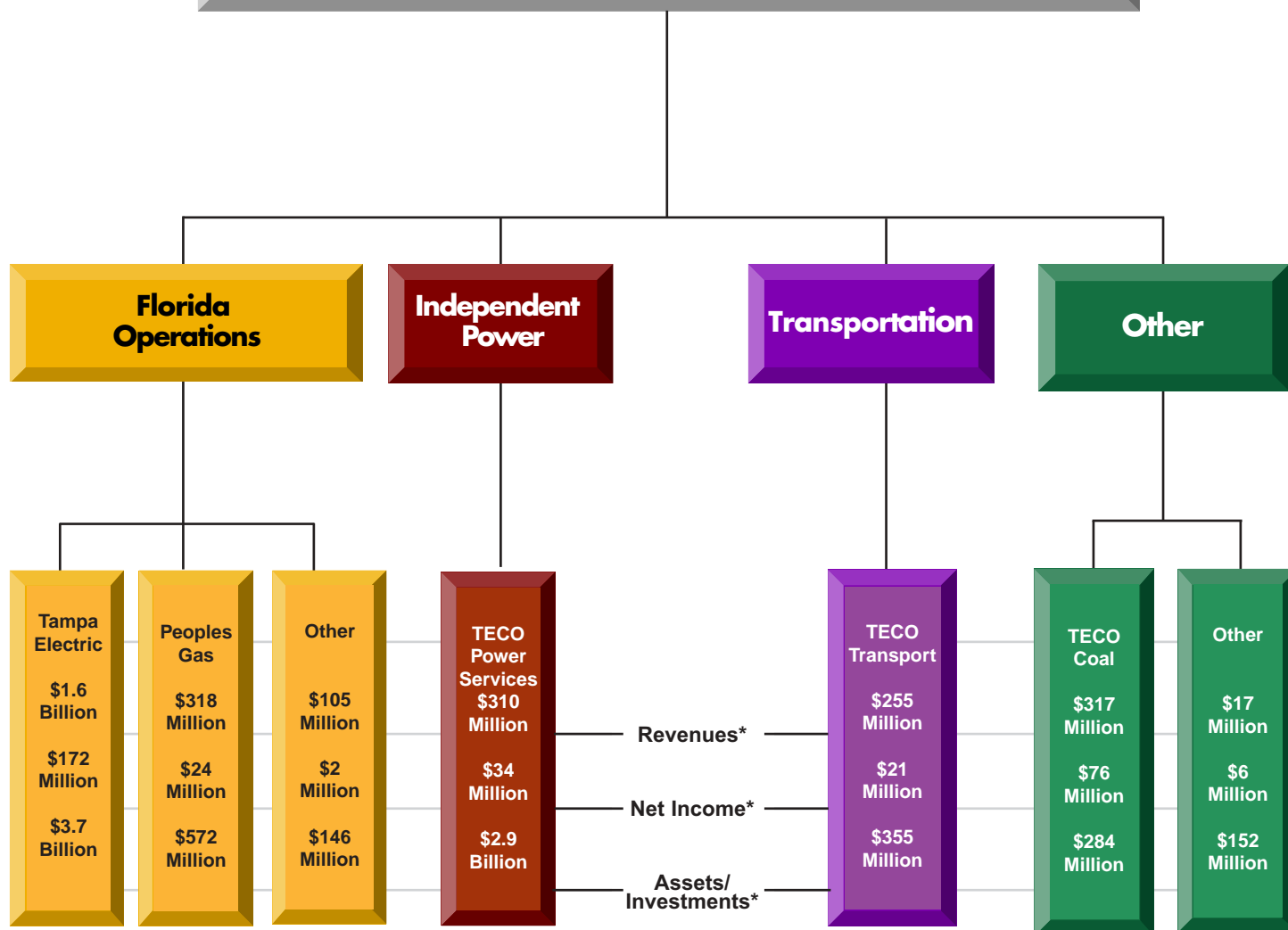
- For 2003, Tampa Electric expects to spend \$267 million, consisting of \$113 million for the repowering project at the Gannon Station and \$154 million to support customer growth and generation reliability.
- Capital expenditures for Peoples Gas System are expected to be about \$40 million in 2003. Included in this amount is approximately \$25 million annually for projects associated with customer growth and system expansion. The remainder represents capital expenditures for ongoing renewal, replacement and system safety.
- TECO Powers Services expects to invest \$494 million in 2003 primarily for the completion of the Union and Gila River power stations. These investments include \$375 million to repay the outstanding amounts due under the project company's equity bridge loan guaranteed by TECO Energy. This loan was repaid in full on May 5.
- The other unregulated companies expect to invest \$35 million in 2003 and \$160 million during the 2004-2007 period. Included in these amounts is normal renewal and replacement capital including coal mining equipment.
- Tampa Electric's total capital expenditures over the 2004-2007 period are projected to be \$946 million, including \$67 million for the repowering project and \$141 million for compliance with the Environmental Consent Decree.
- Total capital expenditures for PGS during the 2004-2007 period are projected to be \$160 million. Included in this amount is approximately \$25 million annually for projects associated with customer growth and system expansion. The remainder represents capital expenditures for ongoing renewal, replacement and system safety.

# 2002 FINANCIAL SUMMARY



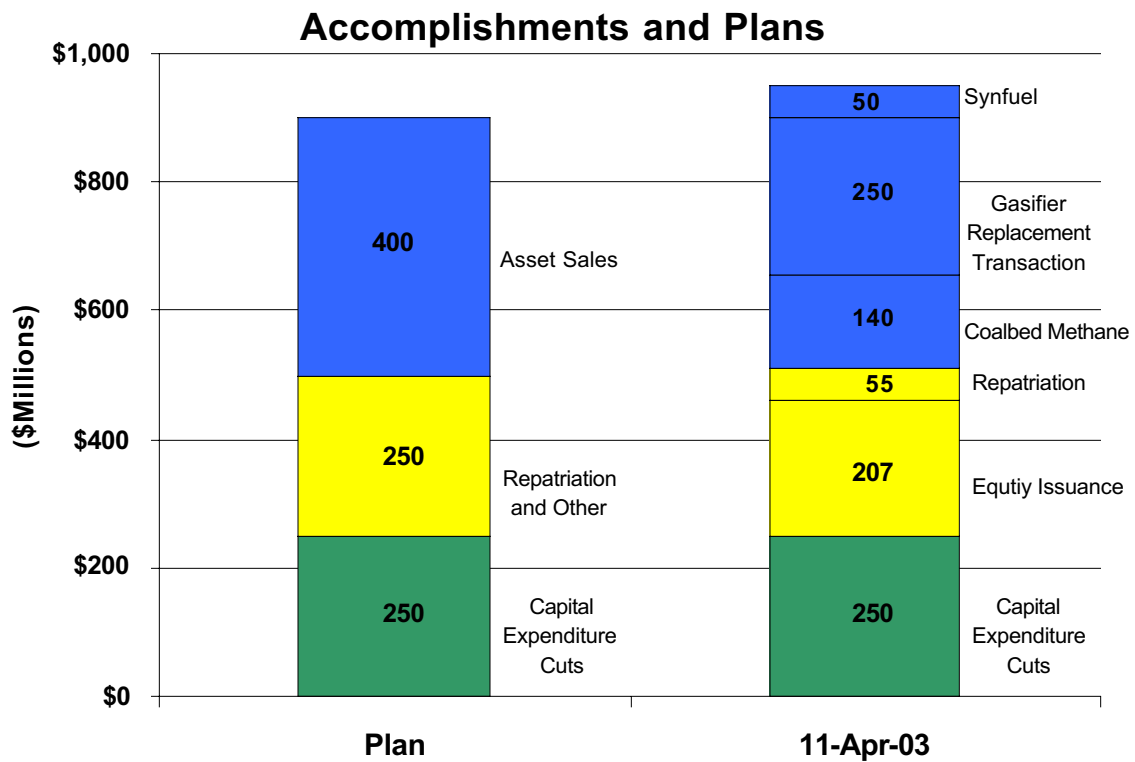
## TECO Energy, Inc.

**\$2.7 Billion Revenues    \$8.6 Billion Assets**



\* Unconsolidated

\* Reflects the reclassification of TECO Coalbed Methane as discontinued operations



September 2002 cash generation plan raised \$952 million with \$40 million additional expected

2003 additional cash generation activities completed are:

- New bank credit facility
- Dividend policy review



## **Environmental Highlights**

TECO Energy companies are committed to protecting the environment, as evidenced by a wide variety of projects and partnerships.

### **Tampa Electric**

- Power generation and Air Emission Reductions
  - \* In May, the former coal-fired Gannon Station, now renamed Bayside Power Station and fired by natural gas, began commercial operation on Unit 1. Bayside will improve Tampa Electric's ability to generate reliable electric power, significantly reduce emissions, and protect Tampa Bay's environment.
  - \* Big Bend Station emission reductions. The flue gas desulfurization ("FGD") systems (or "scrubbers") at Big Bend Station have been improved, and now remove more than 95 percent of the sulfur dioxide from the flue gas in a cost-effective manner.
  - \* Overall, from 1998 to 2002, Tampa Electric has reduced annual emissions of sulfur dioxide ("SO<sub>2</sub>"), nitrogen oxides ("NO<sub>x</sub>"), and particulate matter ("PM") from its facilities by over 105,000 tons, 11,000 tons, and 1,000 tons, respectively.
  - \* Tampa Electric is committed to additional emission reductions projects, and these efforts are expected to result in the additional phased reduction of SO<sub>2</sub> by over 47,000 tons per year, NO<sub>x</sub> by over 50,000 tons per year, and PM by over 1,900 tons per year.
  - \* In total, Tampa Electric's recent and future initiatives are projected to result in the reduction of SO<sub>2</sub>, NO<sub>x</sub>, and PM emissions by 87 percent, 89 percent, and 60 percent, respectively, below 1998 levels. With these improvements in place, Tampa Electric's facilities will meet the same standards required of new power generating facilities and help to significantly enhance the quality of the air in the community.
  - \* Polk Unit One is a state-of-the-art, clean-coal technology plant using an integrated, coal gasification, combined-cycle process in a cost-efficient and environmentally friendly method to produce electricity from coal.



## **Environmental Highlights – continued**

- Stewardship
  - \* Tampa Electric works with the National Audubon Society to ensure protection of the Piney Point Bird Colony. This colony is the second largest wading bird colony in Tampa Bay and among Florida's most diverse colonies.
  - \* The Manatee Viewing Center adjacent to Big Bend Station, where West Indian Manatees or Sea Cows, an endangered species, gather in the warm water discharge canal during the normally colder winter months, offers educational programs that include such topics as water conservation and responsible Florida landscaping. Since 1986, the Manatee Viewing Center at Big Bend Station has attracted more than one million visitors.
- Recycling
  - \* Tampa Electric annually markets over 1 million tons of coal-combustion byproducts from the power generation process (materials that are typically landfilled by other utilities) to be recycled into useful products. Tampa Electric has identified businesses in the local community that can beneficially use these materials to manufacture goods that are necessary to help keep our local economy growing. The sulfur dioxide scrubbers at Big Bend Station yield commercial grade gypsum, which is used to manufacture wallboard. Fly ash from Big Bend and Gannon Stations is used in the concrete industries. Boiler slag from Big Bend and Gannon Stations is used as blasting grit, and in roofing shingles.
  - \* These community partnerships saved the local landfills about 1.1 million tons of debris in 2002 alone by recycling virtually all of the produced gypsum (595,000 tons), fly ash (350,000 tons), bottom ash (25,000 tons), and boiler slag (105,000 tons). In addition, 51,000 tons of sulfuric acid, recovered from Polk 1, was sold for reuse in 2002.
  - \* Combustion byproduct recycling/reuse is only one way that Tampa Electric is working to preserve the environment. Other activities include recycling and reuse of antifreeze, burning "on-specification" used oil for energy recovery, and reclamation of tires, spent lamps, batteries, scrap metal and transformers. Refurbishing transformers saved the company over \$790,000, and refurbishing pole-line hardware saved over \$200,000 in 2002.



## **Environmental Highlights – continued**

- \* Water recycling and beneficial reuse programs in the power stations account for approximately 3,900,000 gallons daily. The approximate major beneficial reuse amounts are: 1,000,000 gallons daily at Big Bend Station, 600,000 gallons daily at Gannon/Bayside Station, and 300,000 gallons daily at Polk Station; and about 2,000,000 gallons daily of Hillsborough County treated sewage effluent is reused to reduce potable water use at Big Bend Station.
- **Green Energy and Energy Conservation**
  - \* “Smart Source” utilizes renewable energy sources such as natural sunlight, organic plant material, and landfill gas to generate electricity and offers customers the option to purchase unlimited 50 kilowatt-hour (kWh) blocks of green energy each month.
  - \* Tampa Electric manages a microturbine generator at the Solid Waste Department’s landfill site, which can convert potentially hazardous methane gas into clean electricity. This is the first application of this kind of technology in Florida.
  - \* The company has several energy conservation programs including free home energy audits in which the company provides instruction to customers on measures and practices they can implement to lower their energy consumption. 7,000 - 8,000 audits are completed annually.

## **Peoples Gas System**

- Peoples Gas offers energy conservation rebates to both residential and commercial customers as incentives to increase the conservation of energy resources with the installation of new energy efficient natural gas appliances.



## **Environmental Highlights - continued**

### **TECO Power Services**

- TECO Power Services (TPS) is committed to protecting the environment by complying with all applicable environmental regulations and striving for environmental excellence. Each TPS facility incorporates features into its design to minimize impacts to the environment.
- Project designs incorporate state-of-the-art emission control technologies, including low nitrogen oxide (NO<sub>x</sub>) combustion technologies to control emissions of NO<sub>x</sub> and carbon monoxide (CO) while firing on natural gas or fuel oil.
- Projects also use dry low nitrogen oxide combustors (DLN), along with selective catalytic reduction (SCR) to further reduce nitrogen oxide emissions and an oxidation catalyst to control carbon monoxide, and volatile organic compound emissions where required.
- Emissions of sulfur dioxide ("SO<sub>2</sub>"), volatile organic compounds ("VOC") and particulate matter ("PM") are minimized by the choice of fuel, and the high combustion efficiency inherent in a modern design.
- Wastewaters are collected and treated prior to discharge or returned back to the plant for reuse whenever possible.
- Implementation of comprehensive Environmental Health and Safety management plans to strictly comply with all environmental laws and laws pertaining to health and safety.





## **Environmental Highlights – continued**

### **TECO Ocean Shipping**

- TECO Ocean Shipping provides leadership to the Tampa Bay Harbor Safety Committee, which is a partnership of commercial, regulatory and public interest representatives that provides guidance and recommendations on navigation safety, Port Security and other matters to protect the waters of Tampa Bay.
- TECO Ocean Shipping exceeds international and US requirements on many of its vessels by voluntarily complying with International Safety Management Code and International Training conventions. These standards raise the level of safety and environmental protection, through policies, procedures and practices to minimize the potential for harm to our employees, the public and the environment.

### **TECO Barge Line**

- TECO Barge Line is a sponsor of “Living Lands and Waters”. Living Lands and Waters’ mission is to aid in the protection, preservation and restoration of the natural environment of the nation's major rivers and their watersheds; to expand awareness of environmental issues and responsibility encompassing the river; and to create a desire and an opportunity for stewardship and responsibility for a cleaner river environment.
- TECO Barge Line is certified under the American Waterways Operators’ Responsible Carrier Program. Through this program, TECO Barge Line implements procedures to ensure the highest standards of safety and quality. Independent audits are conducted every three years to renew the certification.



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## **Environmental Highlights – continued**

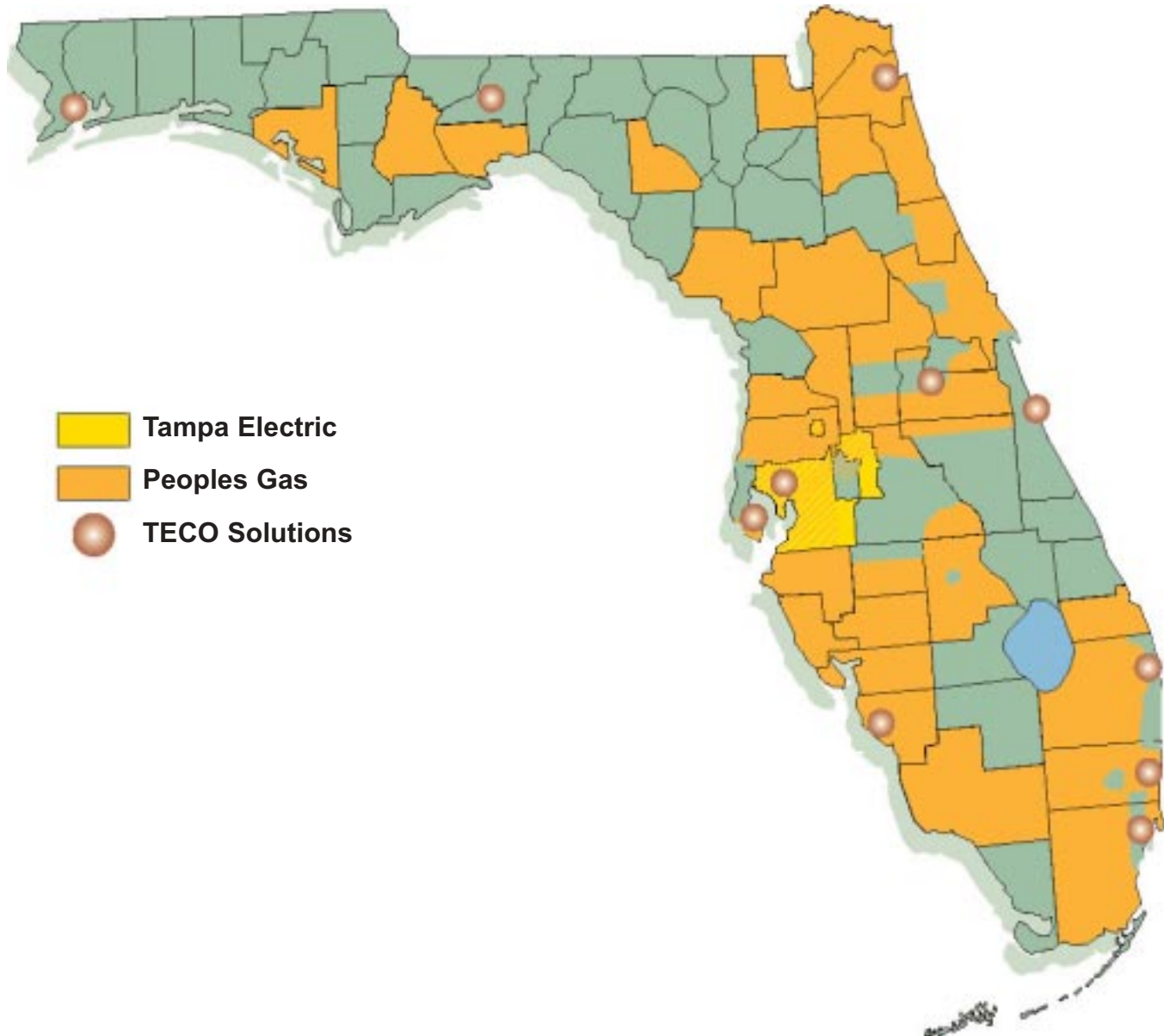
### **TECO Coal Corporation**

- Rich Mountain surface mining operations has joined with the Federal Office of Surface Mining and Reclamation Enforcement in operating a test mine site utilizing “low-compaction reclamation methodologies” on the White Oak surface mine. This innovative methodology will permit the reclaimed areas to produce trees rather than grasslands to more closely resemble pre-mine conditions.
- TECO Coal recycles large tires from the rubber-tired mining equipment to reduce the amounts of space used in land-fills. These tires are now being recycled, by a third party, into a variety of products such as box scrapers for tractors and grader blades for road grading equipment. These rubber graders are used in the laying of asphalt and preparation of un-improved roads at a much lower cost than metal blades and metal blade components.
- TECO Coal Corporation is currently involved with local school groups and the regulatory agency in an experimental reforestation project. A natural forest is being planted on reclaimed mine lands. The growth and quality (site index), as well as survivability rates are being monitored and recorded annually with the expectations of releasing a prepared scientific report at the term of the project.
- TECO Coal Corporation has worked with the east Kentucky group P.R.I.D.E. (Personal Responsibility In a Desirable Environment), and local schools. Together this partnership has resulted in the clean-up and removal of eight illegal dumpsites with hundreds of old tires and over fifteen hundred tons of garbage removed from the environment. This project is currently ongoing.

# FLORIDA OPERATIONS



## Section II





Tampa Electric Company, incorporated in 1899, is TECO Energy's largest subsidiary. Tampa Electric, the electric division, now serves over 600,000 customers in its 2,000-square-mile West Central Florida service territory, including Hillsborough County and parts of Pasco, Pinellas and Polk counties.

### **Strengths**

- One of the best energy markets in the United States
- Stable regulatory environment with history of balanced regulation benefiting both customers and the company
- Strong local employment and new business growth
- Forecast strong energy sales growth of approximately 3% annually over the next five years
- Favorable customer mix – 85% of revenues from residential and commercial
- Competitive generation
- Adding base load capacity by repowering older, less-efficient, coal-fired units to highly efficient natural-gas fired combined-cycle units
- Personnel reductions in 2002 of approximately 7 percent



## Electric operations

### Capacity

Tampa Electric has four steam-generating plants, one integrated gasification combined cycle plant (IGCC), two internal combustion plants and five combustion-turbine peaking units. These plants, the fuel they use and their capacities are:

Plant	Fuel	MW (at 12/31/02)
Big Bend	Coal	1,759
Gannon	Coal	1,107
Polk Unit 1	Coal / gasification	260
Polk Unit 2	Natural gas / Oil	180
Polk Unit 3	Natural gas / Oil	180
Phillips	Diesel or #2 oil	37
Big Bend peaking units	Diesel or #2 oil	165
City of Tampa	Natural gas or #2 oil	<u>6</u>
System total		3,694

Note: 90MW of steam capacity at Hooker's Point station was retired 1/1/2003.

### Gannon Station repowering

- Gannon Station is in the process of being repowered to natural gas and renamed the Bayside Power Station. The repowered station is expected to have a nominal capacity of 1,775 MW (winter rating). In May, the natural gas fired Unit 1 (750 MW) began commercial service. Unit 2 (1,025 MW) is expected to be completed in January 2004.
- The use of an existing site and existing infrastructure permits a low capital cost, below that of new green field capacity.
- Will be served by the FGT pipeline initially. The Gulf Stream pipeline will have the ability to supply the plant, once construction to Tampa Electric is complete, making it the only plant served by both major pipelines serving Florida.

### Demand

- Tampa Electric's peak demands occur in the winter because of electric heating. An all-time winter instantaneous peak load record of 4,092 MW was set on Jan. 24, 2003. Summer peaks are brought on by air conditioning. An all-time summer instantaneous peak load record of 3,887 MW was set on July 17, 2002.



### **High reliability**

- Fewest and shortest service interruptions per 1,000 customers of peninsular Florida's investor-owned utilities (IOUs) for each of the past six years.
  - \* A key consideration for relocating or expanding high technology and computer-intensive customers.

### **Competitive position**

- Tampa Electric's retail prices are competitive nationwide among investor-owned utilities.
- No large contractual commitments to high cost purchased power.
- Customer per employee ratio has increased from 150 customers/employee in 1993 to 221 customers/employee in 2002, an improvement of over 47 percent.
- All employees have pay-at-risk based on achievement of corporate goals. The 2003 goals include net income, cash flow, safety, environmental, customer favorability, fuel and purchase power costs per MWH and reliability.



### **Retail energy sales growth**

- Tampa Electric continues to benefit from the growth in west central Florida.

	<u>December 31, 2002</u>		<u>5-Year Avg. Historical</u>	
	<u>12 Months Ended Growth</u>		<u>Annual Growth</u>	
	<u>Customers</u>	<u>kWh Sales</u>	<u>Customers</u>	<u>kWh Sales</u>
Residential	2.5%	6.0%	2.6%	4.4%
Commercial	2.1%	2.6%	2.6%	3.5%
Industrial	11.4%	12.2%	8.6%	1.5%
Other retail	6.8%	4.9%	5.6%	3.3%
Total retail	2.5%	5.6%	2.6%	3.5%

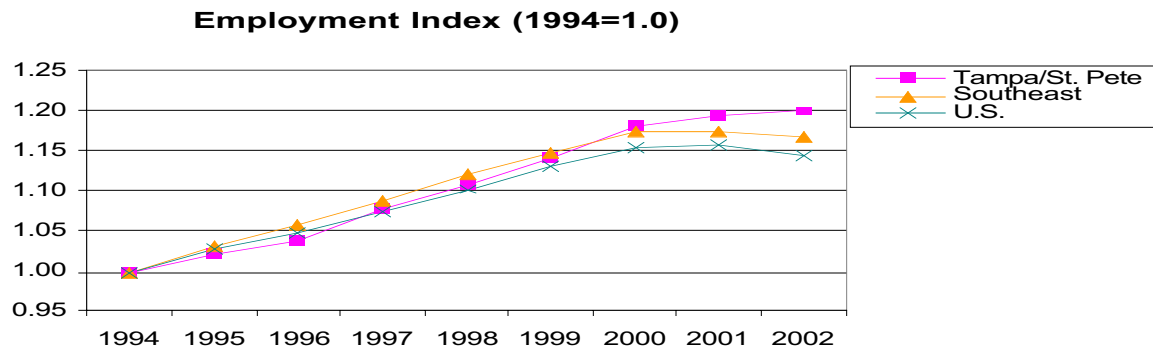
### **Customer sales outlook**

- Tampa Electric expects customer growth of about 2.3 percent in 2003.
- Tampa Electric forecasts indicate that summer retail demand growth is expected to average more than 100 MW per year for the next five years.
- Tampa Electric expects customer growth of more than 2 percent annually and retail energy sales growth of 2.9 percent annually over the 2003 through 2007 period.
- These growth projections assume continued local area economic growth even in the current national economic climate, normal weather and a continuation of the current market structure.



## Economic outlook

- Florida's economy slowed in response to the national economic downturn. In March 2003, the national jobless rate stood at 6.0 percent compared to 5.3 percent in Florida. However, the Tampa area's relatively low 4.3 percent unemployment rate attests to the strength of its diverse economy during this period.
- Florida's diversified service-based economy has historically been less affected by economic downturns than other areas of the nation.
- Florida ranked first in the U.S. and first in the Southeast, creating 64,300 net new jobs in 2002.
- Independent economic forecasts indicate that although Florida's economy will grow at a pace slower than previously forecasted, the outlook is still positive. With strong economic foundations and sound economic policies, Florida is rebounding faster than most other states. Strength in labor markets, personal income, housing starts, and increasing population are expected to drive Florida's economy.



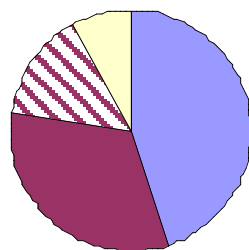
- Tampa metropolitan area employment growth is among the highest in the U.S.
  - \* The service sector accounts for 40 percent of all jobs, while just over 7 percent of total employment comes from the manufacturing sector.
  - \* The area's relatively small reliance on manufacturing as a source of employment and income helps insulate it from cyclical downturns in the national economy.



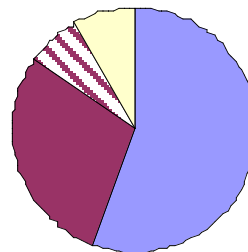


## Retail customer mix

**Megawatt-Hour Sales**



**Revenues**



12 Months ended Dec. 31, 2002 (thousands)

	<u>Customers</u>	<u>MWH Sales</u>	<u>Sales %</u>	<u>Base Revenues</u>	<u>Revenue %</u>	<u>Revenue/ MWH</u>
Residential	518.6	8,046	44.9	\$ 404,939	55.4	\$ 50
Commercial	64.7	5,832	32.5	214,833	29.4	37
Industrial	0.9	2,612	14.6	52,580	7.2	20
Other retail	6.0	1,435	8.0	58,009	8.0	40
Total retail	<u>590.2</u>	<u>17,925</u>	<u>100.0</u>	<u>\$ 730,361</u>	<u>100.0</u>	<u>\$ 41</u>

\* Average residential and commercial customer usage is growing, with average annual growth of 4.4 percent and 3.5 percent respectively over the last five years.

\* Proportion of sales to lower-margin industrial customers is below the national average and decreasing over time.



## **Regulatory information**

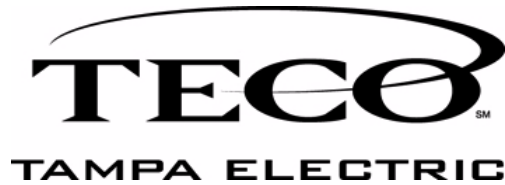
### **Current Regulatory Environment**

- Upon expiration of the regulatory agreements that determined earnings for 1995 to 1999, Tampa Electric returned to traditional ROE-based regulation. The current allowed ROE midpoint is 11.75 percent, with an allowed range of up to 12.75 percent.
- In December 1999, the Florida Department of Environmental Protection (DEP) approved a comprehensive 10 year environmental plan which includes:
  - \* Repowering Gannon Station – to be renamed Bayside Power Station after repowering.
  - \* Nitrogen oxide (NOx) control at Big Bend Station in 2010 and beyond.
  - \* By 2010, Tampa Electric's sulfur dioxide emissions will decrease by 80 percent and NOx emissions will decrease by 85 percent from 1994 levels.
- In February 2000, the Environmental Protection Agency (EPA) and Tampa Electric reached a settlement on an environmental plan with provisions similar to the state agreement.
- In September 2000, the Florida Public Service Commission (FPSC) approved the first of many projects required by the DEP and EPA agreement for recovery through the Environmental Cost Recovery Clause (ECRC).
- Subsequently, the FPSC has consistently approved projects required by the DEP and EPA agreements through the ECRC.
- In October 2002, Tampa Electric submitted a Federal Energy Regulatory Commission (FERC) filing to change its transmission and ancillary services rates under the company's open access transmission tariff. These rates apply to wholesale transmission users of Tampa Electric's transmission system and do not affect retail service rates. In December, the FERC accepted the filing and set the matter for settlement negotiations and a potential hearing should the settlement process fail. Settlement discussions began in January 2003. In March 2003, the parties reached an agreement in principle to settle the case.
- In March 2003, the FPSC approved a \$60.6 million mid-period fuel adjustment clause increase to recover higher than expected fuel costs in 2002 and 2003.



### **Industry structuring in Florida –GridFlorida**

- In December 1999, the Federal Energy Regulatory Commission (FERC) issued Order No. 2000, encouraging the development of RTOs. This rule is driven by the FERC's continuing effort to increase open access to transmission facilities in large, regional markets.
- In 2000, the peninsular Florida investor-owned utilities made joint RTO filings at FERC in October and December. In the filing, Tampa Electric agreed with the other Florida investor-owned utilities to form an RTO to be known as GridFlorida LLC, to control the transmission assets of the filing utilities, as well as other utilities in the region that choose to join. The RTO was proposed to be an independent, investor-owned organization that would have control of the planning and operations of the bulk power transmission system of the utilities within peninsular Florida. In addition, GridFlorida was proposed to be a transmission company (or transco) that would own transmission assets. Tampa Electric planned to contribute its transmission assets to GridFlorida in exchange for a passive interest.
- In March 2001 FERC conditionally approved GridFlorida. In May 2001, the FPSC decided to investigate whether the peninsular Florida IOSs were prudent in complying with FERC's Order No. 2000. In October 2001, the FPSC ruled that, while the companies were prudent in forming GridFlorida, the FPSC was not satisfied with the transmission-owning features of the GridFlorida filing nor with the proposal that any of the filing utilities transfer ownership of their assets to GridFlorida. Accordingly, the FPSC ordered the companies to develop a new RTO model.



### **Industry structuring in Florida –GridFlorida continued**

- In September 2002, the FPSC issued an order which gave final approval to some aspects of the latest GridFlorida proposal; set some items for further discussion by parties and the FPSC; and set a hearing to address market design. The applicants filed joint testimony that addressed the principles for developing a Florida-specific market design that is consistent with the principles identified in the FERC's proposed order on standard market design.
- In October 2002, the process was held in abeyance after the OPC filed an appeal with the Florida Supreme Court asserting that the FPSC could not relinquish its jurisdictional responsibilities to regulate the IOUs and that by approving GridFlorida the FPSC was doing just that. Tampa Electric and the other peninsular IOUs have assumed varying roles to support the FPSC and their prudence determinations. Oral arguments occurred in May 2003, and a decision by the Supreme Court is expected in the second half of 2003. Pending a final decision on this matter, all activities for the development of Grid Florida have ceased.



### **Industry Restructuring in Florida – Energy 2020 Study Commission**

- In 2000, Florida Governor Jeb Bush established the 2020 energy Study Commission to address the following issues by December 2001: current and future reliability of electric and natural gas supply; emerging energy supply and delivery options; electric industry competition; environmental impacts of energy supply; energy conservation and fiscal impacts of energy supply options on taxpayers and energy providers. TECO Energy was supportive of the process.
- The Study Commission submitted its final recommendation to Governor Bush in December 2001 which included, among other things, elimination of barriers to entry for merchant power generators, an open competitive wholesale electric market, transfer of regulated generating assets to unregulated affiliates or sale to others, Florida electric system reliability and consumer protection. The Study Commission's proposal was forwarded to the legislature but was not included in filed legislation. Due to the uncertainties created by the California experience, Enron and other industry events, comprehensive restructuring was not brought up for a vote during the 2003 regular session.



## Outlook

- Expect continued strong retail energy sales growth from an expanding state and local economy.
  - \* Project average combined commercial and residential annual energy sales growth of more than 3 percent annually over the next five years.
- Bayside Units 1 entered into service in May 2003, and Unit 2 is expected to enter service in Jan 2004.
- Florida approach to market change has been reasonable.



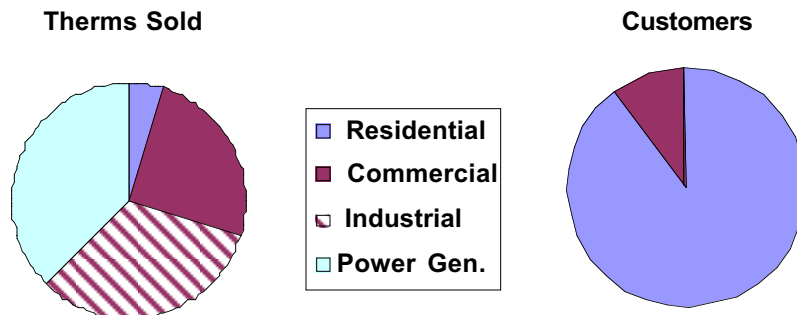
Peoples Gas System, acquired in 1997, is Florida's leading provider of natural gas. With a presence in all of the state's major metropolitan areas, Peoples Gas serves more than 280,000 residential and commercial customers. A recently completed expansion to Northeast Florida is just one of the company's growth initiatives.

### **Strengths**

- Expands the TECO brand statewide
- Gas in Florida is significantly underserved, providing major growth opportunities for natural gas usage
- Florida opportunities
  - \* Ability to expand into areas currently not served
  - \* Key Accounts – supplying gas to new and established commercial customers
  - \* Statewide Developer Agreements – supplying gas to new residential projects
- Customer growth averaged more than 4 percent over the last five years
- Regulation is gas friendly
  - \* Commodity gas cost is a pass through



## Operating Information



	<u>Therms sold (millions)</u>	
	<u>2002</u>	<u>2001</u>
Residential	60.2	58.8
Commercial	327.6	308.9
Industrial	423.8	346.5
Power Generation	<u>492.6</u>	<u>403.5</u>
Total	<u>1,304.2</u>	<u>1,117.7</u>
Customers (average)	<u>277,530</u>	<u>266,594</u>

\* Sales in 2001 reflect nearly normal weather. 2002 sales reflect 4.1 percent customer growth and mild winter weather.

\* In November 2000, Peoples Gas System instituted its “NaturalChoice” program, which unbundles gas services from all non-residential customers, affording these customers the opportunity to purchase the commodity gas from any provider. The net result of this unbundling is a shift from commodity sales to transportation sales. Because commodity sales are included in operating revenues at the cost of the gas on a pass-through basis, there is no net financial impact to the company of the transportation only sales. The program is expected to increase gas use due to increased marketing by third parties. At year-end 2002, 9,500 customers had elected to take services under this program.

\* In June 2002, Peoples Gas System filed for a \$22.6 million permanent base rate increase. In December 2002, the FPSC authorized an increase to annual base revenues of \$12.05 million. The new rates allow for an 11.25 percent midpoint ROE and a capital structure with 57.43 percent equity.





## Good prospects for growth

- Gas is underserved in the residential and commercial markets in Florida.

### **Southeastern U. S. Residential Gas Market Penetration Fall 2002**

	<b>Total Households</b>	
<b><u>State</u></b>	<b><u>(millions)</u></b>	<b><u>Utilization</u></b>
Louisiana	1.6	60%
Tennessee	2.1	44%
Georgia	2.8	62%
Alabama	1.7	46%
Mississippi	1.0	43%
S. Carolina	1.4	34%
N. Carolina	2.9	28%
<b>Florida</b>	<b>6.0</b>	<b>9%</b>

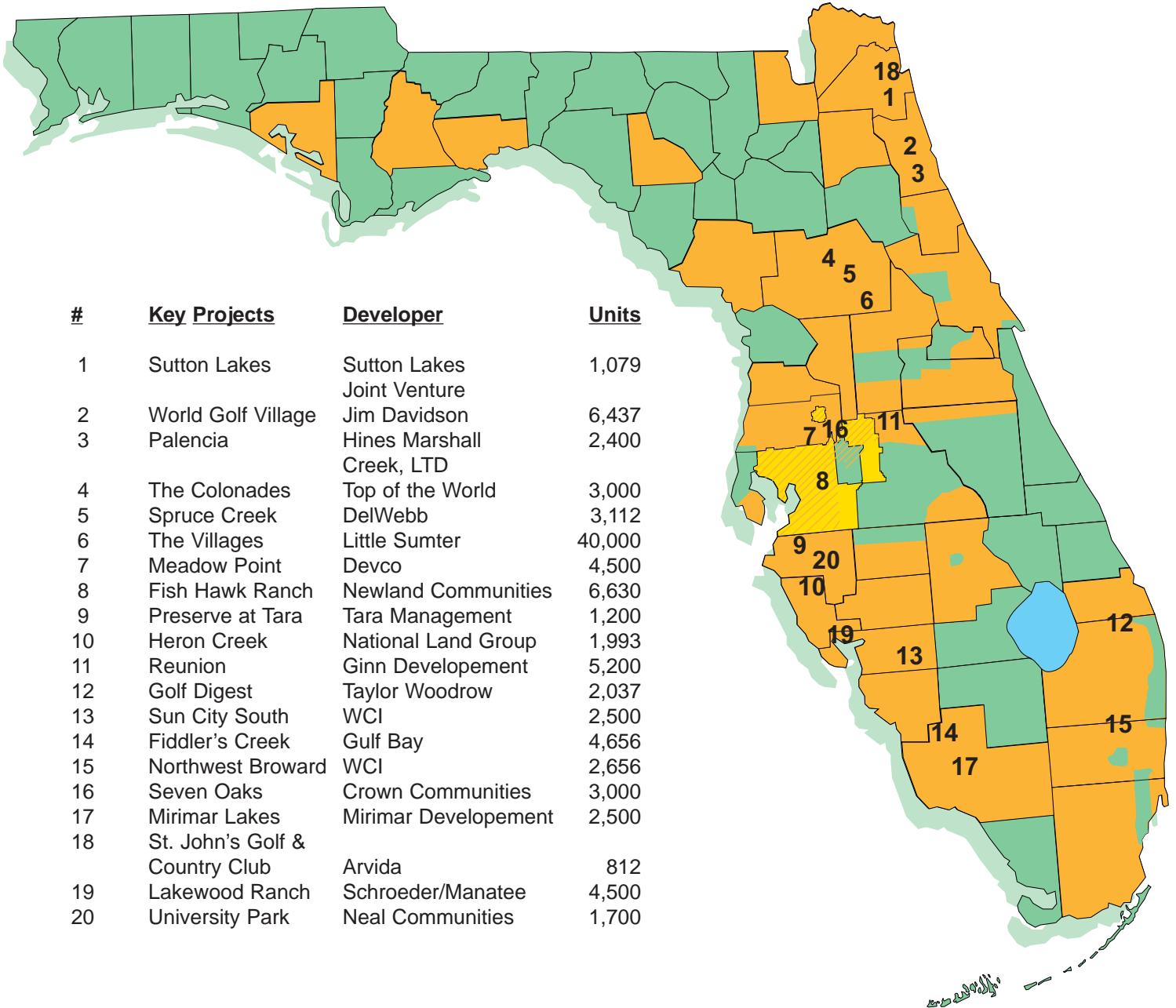
- Florida's growing residential/commercial market offers significant opportunities.
- Peoples Gas serves the high growth areas of Ft. Myers, Jacksonville, Naples, Ocala, Orlando, Palm Beach, Sarasota, Tampa, and surrounding areas.
- Capital expenditures in 2003 are expected to be about \$40 million, and annual capital expenditures are expected to remain at this level over the next five years. The company expects to add infrastructure to serve new customers in areas currently served and expand the system into currently unserved areas.
- In May 2002, Gulfstream Natural Gas Pipeline initiated service. This interstate pipeline starts in Mobile Bay, Alabama, crosses the Gulf of Mexico and comes ashore in Florida just south of Tampa. Gulfstream is the first new pipeline serving Florida since 1959. This pipeline increases gas transportation capacity into Florida by 50 percent. PGS entered into a service agreement for capacity in 2002, which grows in 2003 and 2004. The addition of the Gulfstream pipeline enhances reliability of service and helps to meet the capacity needs for PGS' growing customer base.



### **Good prospects for growth - continued**

- Current committed major projects present attractive opportunities for significant residential and commercial gas use growth.
  - \* Developers want to offer homes with natural gas service.
  - \* Commercial and residential customers want natural gas.
  - \* Targeting high-end residential developments with significantly higher annual usage than the current residential usage rate.
- In 2002, over 21,000 residential and commercial customers and nearly 600 miles of pipeline were added to the distribution system.

# DEVELOPERS/BUILDERS



#	Key Projects	Developer	Units
1	Sutton Lakes	Sutton Lakes Joint Venture	1,079
2	World Golf Village	Jim Davidson	6,437
3	Palencia	Hines Marshall Creek, LTD	2,400
4	The Colonades	Top of the World	3,000
5	Spruce Creek	DelWebb	3,112
6	The Villages	Little Sumter	40,000
7	Meadow Point	Devco	4,500
8	Fish Hawk Ranch	Newland Communities	6,630
9	Preserve at Tara	Tara Management	1,200
10	Heron Creek	National Land Group	1,993
11	Reunion	Ginn Development	5,200
12	Golf Digest	Taylor Woodrow	2,037
13	Sun City South	WCI	2,500
14	Fiddler's Creek	Gulf Bay	4,656
15	Northwest Broward	WCI	2,656
16	Seven Oaks	Crown Communities	3,000
17	Mirimar Lakes	Mirimar Development	2,500
18	St. John's Golf & Country Club	Arvida	812
19	Lakewood Ranch	Schroeder/Manatee	4,500
20	University Park	Neal Communities	1,700



DESIGN, CONSTRUCTION & ENERGY SVCS

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TECO Solutions was formed to offer customers (primarily in Florida) a comprehensive package of energy services and products including energy-efficient engineering and construction and gas management services, providing opportunities for cross marketing with Tampa Electric and Peoples Gas. Operating companies under TECO Solutions include TECO Energy Services (formerly TECO BGA and BCH Mechanical and its affiliated companies), TECO Gas Services, TECO Properties, Prior Energy, TECO Propane Ventures and TECO Partners.

- In November 2001, TECO Solutions acquired Prior Energy Corp., a leading natural gas management company. Serving customers throughout the Southeast, Prior Energy handles all facets of natural gas energy management services for large industrial, power generation utility, municipal and other governmental agency customers, including natural gas acquisition and supply management, transportation management, asset management and consulting services.
- TECO Propane Ventures holds the company's propane business investment. In 2000, TECO Energy combined its propane operations with three other southeastern propane companies to form U.S. Propane. In a series of transaction, U.S. Propane combined with Heritage Holdings, Inc. As a result, TECO Propane Ventures owns a 38-percent interest in the general partner that manages Heritage Propane Partners, L.P. (NYSE:HPG) and that general partner owns an approximate 29-percent limited partnership interest in Heritage Propane Partners.

# INDEPENDENT POWER



## Section III



TECO Power Services (TPS) builds, owns, and operates generation facilities in high- growth areas in the United States and Central America. In total, TPS has a net ownership interest in more than 6,732 net megawatts of announced generating projects, either operating or in construction, and approximately 1,200 megawatts in projects for which construction has been suspended. TPS currently owns or has interests in six power plants in operation within the United States and two in Guatemala. It also owns an interest in a consortium that owns Empresa Eléctrica de Guatemala, S.A. (EEGSA), the largest electric distribution company in Central America. Domestically, projects operating or under construction call for TPS to serve customers in 18 states, primarily in the southern half of the United States.

### **Strengths**

- Experience in a wide variety of technologies.
- Geographically diverse projects, located primarily in the high-growth sunbelt states.
- Disciplined approach to risk management.

### **TPS Strategy**

- Focus on domestic projects.
- Actively pursuing and executing structural power sales agreements for portions of output to reduce potential volatility in earnings and cash flow.
- Approximately 40 percent of the merchant generation portfolio has been hedged for 2003.
- Effectively managing and optimizing short-term sale of power in the spot energy markets.
- Actively managing the sale of ancillary services such as spinning reserve, reserve capacity and regulation service.
- Maximizing profitability of Central American assets.
- Maximizing the performance of fully contracted domestic assets.



## TPS Project Summary

Project	Location	Size MW	TPS Economic Interest	TPS Net Size MW	In-service/ Participation Date <sup>(1)</sup>
Operating:					
Hardee Power Station	Florida	370	100%	370	1/93 , 5/00
Alborada Power Station	Guatemala	78	96%	75	9/95
Empresa Eléctrica Guatemala S. A. (EEGSA) (a)	Guatemala		24%		9/98 <sup>(4)</sup>
distribution utility)	Guatemala	120	100%	120	1/00
San José Power Station	Hawaii	60	50%	30	8/00, 12/00
Hamakua Energy Project	Texas	477	100%	477	5/00, 3/01 <sup>(4)</sup>
Frontera Power Station	Texas	2,000	(2)	1,000	9/00, 8/01
Odessa and Guadalupe Commonwealth Chesapeake Power Station	Virginia	315	(5)	315	9/00, 8/01
<b>Sub-total operating</b>		<b>3,420</b>		<b>2,387</b>	
Under Constr					
Union	Arkansas	2,200	(3)	2,200	1/03 – 6/03
Gila River	Arizona	2,145	(3)	2,145	5/03 – 8/03
<b>Sub-total construction</b>		<b>4,345</b>		<b>4,345</b>	
<b>Total</b>		<b>7,765</b>		<b>6,732</b>	
Suspended:					
Dell	Arkansas	599	100%		
McAdams	Mississippi	599	100%		
		<b>1,198</b>			

- (1) Unless otherwise indicated, each date appearing in this column is an in-service date. When more than one in-service date appears, it indicates when different phases of the project went into operation. For projects under construction, a range of dates indicates when the first and last phases are expected to enter service under TECO Energy's current plans.
- (2) TPS' economic interest will be 50%, upon completion of TPS' buyout of Panda's ownership interest.
- (3) TPS' economic interest will be 100%, upon completion of TPS' buyout of Panda's ownership interest.
- (4) Dates on which TPS acquired its economic interest in the project.
- (5) TPS currently receiving approximately 100% of the project's economic interest.

- Detailed fact sheets are provided for each project at the end of this section.



## Energy Markets

- Power plants are located in markets that have a history of high load growth.
- TPS believes that prices paid under negotiated contracts involving the inclusion of capacity payments and ancillary services, will be higher than indicated by current low forward prices. TPS anticipates that forward prices should improve as the economy continues to improve, economic dispatch occurs and as the market recognizes the effects of cancelled projects.
  - \* There is a premium for physical assets.
  - \* The forward curve for electricity prices reflects the price for energy that is delivered on a standard schedule. Because TPS' assets can be dispatched with some flexibility and sales of ancillary services are possible, the forward curve price may understate the realized price or profit margin.
- Ultimate long-term strategy for selling plant output:
  - \* Enter into three to five-year contracts with load-servicing entities, or ultimate customers, where it is allowed, for up to 50 percent of the output of the plants.
  - \* Contract another 25 percent of the output in the shorter term (less than one year market).
  - \* Remaining 25 percent sold in the spot market through the in-house energy management group.
  - \* In the meantime, until longer term contracts can be signed, TPS is selling the output of its merchant plants under a mix of spot market sales, and shorter term transactions.





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## **TECO EnergySource (TES)**

- Activated in 2001 to optimize the value of TPS generating assets.
  - \* TES has full responsibility for marketing the output and procuring fuel supplies under both short- and long-term contracts for the Union, Gila River and Frontera power stations.
  - \* TES sells power to load serving entities and other purchasers of power, such as power marketing companies. TES purchases gas supply and transportation from fuel suppliers and pipeline companies.
  - \* In order to optimize the value associated with its merchant assets, TES will occasionally purchase power previously sold and sell gas previously purchased due to economic or power plant unavailability factors.
  - \* TES utilizes customized power sales agreements, as well as standardized, fixed-price forward sales and purchase contracts. In some cases financial instruments such as futures and contracts traded on the NYMEX, as well as swaps and other types of financial instruments traded in the over-the-counter markets are used by TES to help manage exposure to electricity and natural gas price fluctuations.
  - \* TES will normally balance its contracts in terms of contract volumes and the timing of performance and delivery obligations. Net open positions may exist for short periods due to the origination of new transactions. When net open positions exist, TPS will be exposed to fluctuating market prices. All contracts and open positions are monitored closely by the TECO Energy risk management function, which is independent of the TPS energy management group.
  - \* Credit policies and procedures, administered by TECO Energy, attempt to limit overall credit risk. Credit procedures include a thorough review of potential counterparties' financial position, collateral requirements under certain circumstances, monitoring net exposure to each counterparty and the use of standardized agreements.
  - \* Certain forward sales and purchase contracts require that collateral be posted in order to secure delivery of the product from a financial perspective. The amount of collateral is determined by comparing the transaction price to current market prices. The form of collateral ranges from corporate guarantees to cash deposits in margin accounts. Subsequent to the Moody's downgrade in April, to date, TES has posted \$27 million of cash for this purpose.



## **TPS Highlights**

- TPS's 2002 net income was up 27% over 2001's.
- Net ownership interest of almost 6,732 net megawatts of announced generating projects, either operating or in construction, with an additional 1,200 megawatts suspended.
- Focus on completing two major generating projects.
- Union Power Station's Phase I and II are commercial, and Phase III and IV are in start-up. Gila River Power Station's Phase I, II and III are in start-up, with Phase IV to begin start-up in late May.
- Optimize cash flow and returns from profitable contracted projects through continued ownership or sale of all or portions of the projects.
- Manage sales from merchant plants to minimize cash flow and earnings risk and volatility.
- Rationalize merchant portfolio to mitigate merchant power risk while maximizing value.
- Contracts signed for output of the Gila River Power Station
  - \* Nevada Power, 200 megawatts, during the months of June through September of 2003 through 2005.
  - \* Arizona Public Service, 450 megawatts, during October 2003 and 2004 and May of 2004 and 2005, and 225 megawatts for November through April of 2003 through 2005.
  - \* Tucson Electric, 50 megawatts, during the months of June through September of 2003 through 2005.

# TECO Power Services Corporation



## Alborada Power Station

<b>Name</b>	Alborada Power Station
<b>MW</b>	78-MW Simple-Cycle
<b>Technology</b>	<p>The project consists of two GE LM6000 combustion turbines operating in simple-cycle mode with inlet air chillers. The chiller system cools the combustion turbine inlet air to achieve the combustion turbine optimum inlet temperatures raising the total plant output from 65-MW to 78-MW at site ambient conditions.</p> <p>The facility includes a 230-kV switchyard and 1.7 km of transmission line connecting the switchyard with EEGSA's substation.</p>
<b>Project Cost</b>	\$50 Million
<b>Ownership</b>	TPS owns 96%, local partner owns 4%.
<b>Commercial Operation</b>	September 1995
<b>Fuel Supply</b>	TPS is providing fuel management services to EEGSA for the 15-year term of the power purchase agreement and is responsible for negotiating the fuel-related contractual arrangements. The combustion turbines are fired with low sulfur distillate oil.
<b>Power Purchaser</b>	Empresa Eléctrica de Guatemala, S.A. (EEGSA)
<b>Term of Purchase</b>	From 1995, 15 years + option for 5 additional years at Alborada's discretion.
<b>Operator</b>	TPS
<b>Financing</b>	Banco Industrial and Westrust.
<b>Political Risk Insurance</b>	Under a global policy.
<b>Currency Risk</b>	Weekly payments under the PPA are denominated in U.S. dollars; paid in Guatemalan quetzales.
<b>Payment Risk</b>	Minimized through a lockbox arrangement and TPS' ownership in EEGSA.

# TECO Power Services Corporation



## Commonwealth Chesapeake Project

<b>Name</b>	Commonwealth Chesapeake Project
<b>MW</b>	315-MW Oil-Fired, Simple-Cycle
<b>Technology</b>	The plant consists of seven General Electric LM6000 combustion turbines. The combustion turbines operate in simple-cycle mode, and are fired with low sulfur No. 2 fuel oil. Clutches are attached to four of the seven turbines in order to provide spinning reserve. In addition, the turbines are equipped with inlet air chillers and are water-injected for NOx control.
<b>Project Cost</b>	\$185 Million
<b>Ownership</b>	TPS currently receiving close to 100% of the projects economics.
<b>Commercial Operation</b>	Phase I - Sept. 2000, Phase II - Aug. 2001.
<b>Power Market</b>	Pennsylvania-New Jersey-Maryland Interconnection power pool (PJM) system Mirant is power marketer.
<b>Transmission</b>	Interconnected to Delmarva Power & Light's 138 kV transmission line that runs adjacent to the facility.
<b>Fuel Supply</b>	The project utilizes low sulfur No. 2 fuel oil with the project performing ongoing fuel management and day-to-day procurement.
<b>Operator</b>	TPS
<b>Financing</b>	None.

# TECO Power Services Corporation



## Dell Power Station

<b>Name</b>	Dell Power Station
<b>MW</b>	599-MW Combined Cycle
<b>Technology</b>	The Dell Project is configured with two GE 7FA combustion turbines, two heat recovery steam generators with supplemental firing and selective catalytic reduction for lowering NOx emissions and one reheat steam turbine.
<b>Project Cost</b>	\$335 Million to suspend status.
<b>Ownership</b>	TPS owns 100%
<b>Commercial Operation</b>	Currently suspended.
<b>Power Market</b>	ENTERGY
<b>Transmission</b>	When complete the facility will be interconnected to Entergy-Arkansas's 500-kV/230-kV Substation located adjacent to the plant site. This will allow power sales from the plant to be made into the Entergy power market.
<b>Fuel Supply</b>	When complete natural gas will be delivered through the Reliant Energy Transmission system. Reliant will construct, own and operate a 2.5 mile lateral to connect to its existing 18" interstate pipeline to the Dell facility, as well as an upstream compression station to ensure gas pressure and deliverability to the project.
<b>Power Purchaser</b>	TES would market energy not under contract.
<b>Energy Management Plan</b>	Objective: 50% contract > 1 year, 25% contract 30 days - 1 year, 25% spot.
<b>Operator</b>	TPS
<b>Financing</b>	None.

# TECO Power Services Corporation



## Empresa Eléctrica de Guatemala, S.A.

<b>Name</b>	EEGSA
<b>Location</b>	Guatemala, Central America
<b>Number of Customers</b>	681,000 electric customers (as of 12/31/02)
<b>Ownership</b>	Consortium 80%, (Iberdrola 49%, TPS 30%, Electricidade de Portugal, S.A. 21%), TPS 24%.
<b>Partners</b>	Iberdrola, Electricidade de Portugal, S.A., private investors, & Guatemalan Government.
<b>Purchase Price</b>	\$520 million (9/98)
<b>Operator</b>	Iberdrola
<b>Financing</b>	\$200 million term loan from a group of lenders led by ABN Amro.
<b>Energy Sales Growth</b>	6%+ projected growth annually
<b>Annual Energy Sales</b>	4,289 Gwh (2002), up 8% from 2001
<b>Revenues</b>	\$436 million (2002), up 7% from 2001
<b>Employees</b>	460 (2002), up 2% from 2001
<b>Political Risk Insurance</b>	Under a global policy.
<b>Tariff/Currency Risk</b>	Energy costs adjusted quarterly. Value added distribution component adjusted semi-annually.

# TECO Power Services Corporation



## Frontera Power Station

<b>Name</b>	Frontera Power Station
<b>MW</b>	477-MW
<b>Technology</b>	The facility uses two GE 7FA combustion turbines, two heat recovery steam generators, and one ABB steam turbine in combined cycle.
<b>Project Cost</b>	\$270 Million
<b>Ownership</b>	TPS owns 100%
<b>Commercial Operation</b>	May 2000, acquired 3/15/01
<b>Power Market</b>	ERCOT (with 150 MW capability to Mexico).
<b>Transmission</b>	The project is interconnected to the ERCOT market via three 138-kV transmission lines which tie to the Central and Southwest's JL Bates substation. The Frontera Power Station also consists of a 2-mile 138- kV transmission line which interconnects the project with the Comisión Federal de Electricidad (CFE) in Mexico.
<b>Fuel Supply</b>	The project company owns and operates a 12-inch gas header located within the Frontera plant site. The gas line is used to aggregate gas supplies delivered to the site from three pipelines.
<b>Power Purchaser</b>	TES to market energy not under contract.
<b>Energy Management Plan</b>	Objective: 50% contract > 1 year, 25% contract 30 days - 1 year, 25% spot.
<b>Financing</b>	None.

# TECO Power Services Corporation



## Gila River Power Station

<b>Name</b>	Gila River Power Station
<b>MW</b>	2,145-MW Combined Cycle
<b>Technology</b>	The Gila River Project is configured with eight GE 7FA combustion turbines, eight heat recovery steam generators with supplemental firing and selective catalytic reduction for lowering NOx emissions and four single-flow, axial exhaust condensing steam turbines.
<b>Project Cost</b>	\$1.3 Billion
<b>Ownership</b>	100% upon completion of TPS' buyout of Panda Energy's ownership interest.
<b>Commercial Operation</b>	536-MW - target 5/03 536-MW - target 5/03 536-MW - target 7/03 <u>537-MW</u> - target 8/03 2,145-MW - total
<b>Power Market</b>	Western Systems Coordinating Council.
<b>Transmission</b>	Output delivered to the 500-kV PaloVerde-Kyrene transmission line via two new 19-mile, 500-kV transmission lines.
<b>Fuel Supply</b>	Natural gas will be delivered through the El Paso Natural Gas Company pipeline system which links to multiple supply basins.
<b>Power Purchaser</b>	TES expected to market energy not under contract.
<b>Energy Management Plan</b>	Objective: 50% contract > 1 year, 25% contract 30 days - 1 year, 25% spot.
<b>Operator</b>	TPS
<b>Financing</b>	5 year bank financing obtained June 2001.



# TECO Power Services Corporation



Hamakua

## Hamakua Energy Project

<b>Name</b>	Hamakua Energy Project
<b>MW</b>	60-MW Naptha-Fired, Combined-Cycle Cogeneration Facility.
<b>Technology</b>	The project consists of two GE LM2500 combustion turbine generator sets and one 20 MW steam turbine.
<b>Project Cost</b>	\$115 Million
<b>Ownership</b>	TPS owns 50%, JA Jones Ventures 50%
<b>Commercial Operation</b>	Phase I - Aug. 2000, Phase II - Dec. 2000
<b>Fuel Supply</b>	Naptha fuel is provided to the project under a 10-year fuel contract with Tesoro Petroleum. Low sulphur No. 2 fuel oil as back up.
<b>Power Purchaser</b>	Hawaii Electric Light Company
<b>Term of Purchase</b>	30 years
<b>Operator</b>	TPS/JA Jones Ventures
<b>Financing</b>	27.5 year private placement with John Hancock closed in March 2001.
<b>Payment Risk</b>	Hawaiian Electric Light Company (long-term rating of BBB+).

# TECO Power Services Corporation



## Hardee Power Station

<b>Name</b>	Hardee Power Station
<b>MW</b>	370 MW; 220-MW Combined-Cycle and 2 - 75-MW simple-cycle.
<b>Technology</b>	The Hardee Power Station consists of one combined-cycle system and two additional gas turbines operating in simple-cycle mode. The combined-cycle facility consists of two GE MS7001EA gas turbines with bypass stacks, two heat recovery steam generators, and an 80-MW GE steam turbine. Cooling is provided by a 580-acre cooling reservoir formed during the reclamation of a phosphate-mined area.
<b>Project Cost</b>	\$260 Million
<b>Ownership</b>	TPS 100%
<b>Commercial Operation</b>	January 1993/May 2000
<b>Fuel Supply</b>	Both facilities utilize natural gas and fuel oil. TPS also performs ongoing fuel management services for its customers. This service encompasses both the day-to-day activities associated with the management and procurement of natural gas and fuel, as well as the longer-term strategic activities associated with contract negotiation, administration and regulatory affairs.
<b>Power Purchaser</b>	Seminole Electric Cooperative and Tampa Electric Company.
<b>Term of Purchase</b>	PPA expires in 2012
<b>Operator</b>	TPS
<b>Financing</b>	Senior and subordinate debt provided by lenders led by Teachers Insurance and Annuity Association.
<b>Payment Risk</b>	Strong-rated power purchasers.

# TECO Power Services Corporation



## McAdams Power Station

<b>Name</b>	McAdams Power Station
<b>MW</b>	599-MW Combined Cycle
<b>Technology</b>	The facility is configured to use two GE 7FA combustion turbines, two heat recovery steam generators with supplemental firing and selective catalytic reduction for lowering NOx emissions and one reheat steam turbine.
<b>Project Cost</b>	\$355 Million to suspend status
<b>Ownership</b>	TPS owns 100%
<b>Commercial Operation</b>	Currently suspended
<b>Power Market</b>	ENTERGY
<b>Transmission</b>	When complete the facility will be interconnected to Entergy-Mississippi's McAdams 500-kV/230-kV Substation. This will allow power sales from the plant to be made into both the Entergy and TVA Subregions of SERC.
<b>Fuel Supply</b>	When complete the location was chosen to take advantage of the close proximity of a number of different gas pipelines (Texas Eastern, SONAT, & Koch). Natural gas will be delivered through interconnections with Texas Eastern, SONAT and Gulf South. The project has a firm transportation position on TETCO and plans to optimize swing gas requirements with its multiple supply connections.
<b>Power Purchaser</b>	TES would market energy not under contract.
<b>Energy Management Plan</b>	Objective: 50% contract > 1 year, 25% contract 30 days - 1 year, 25% spot.
<b>Operator</b>	TPS
<b>Financing</b>	None.

# TECO Power Services Corporation



## Odessa/Guadalupe

<b>Name</b>	Odessa/Guadalupe	
<b>MW</b>	2000-MW (1,000-MW each)	
<b>Technology</b>	Each facility uses a 4 GE 7FA combustion turbines, 4 heat recovery steam generators, and 2 steam turbines.	
<b>Project Cost</b>	\$912 Million.	
<b>Ownership</b>	50% PSEG; 50% TPS upon completion of TPS' buyout of Panda Energy's interest.	
<b>Commercial Operation</b>	<b>Odessa</b> 1,000 MW - 8/01	<b>Guadalupe</b> 1,000 MW - 1/01
<b>Power Market</b>	ERCOT	
<b>Transmission</b>	Guadalupe interconnected via Lower Colorado River Authority's adjacent 345-kV switching station. Odessa interconnection via Texas Utilities adjacent 345-kV switching station.	
<b>Fuel Supply</b>	Guadalupe and Odessa connected to two and three pipelines, respectively. Each interconnects with major gas market hubs.	
<b>Power Purchaser</b>	Varies by project	
<b>Energy Management Plan</b>	Objective: 50% contract > 1 year, 25% contract 30 days - 1 year, 25% spot	
<b>Operator</b>	Texas Independent Energy (JV with 50% PSEG/50% TPS).	
<b>Financing</b>	Mini-perm 2-year construction loan plus 5-year term loan with default option for additional 10 years.	
<b>Payment Risk</b>	Investment grade power marketer assumes credit risk.	

# TECO Power Services Corporation



## San José Power Station

<b>Name</b>	San José Power Station
<b>MW</b>	120-MW Pulverized coal
<b>Technology</b>	The project consists of a steam turbine using a cooling tower for condenser cooling, a steam generator and a substation. Low NO <sub>x</sub> burners and a pulse jet fabric filter complement the low-sulphur coal selected as the fuel.
<b>Project Cost</b>	\$190 Million
<b>Ownership</b>	TPS owns 100%
<b>Commercial Operation</b>	January 2000
<b>Fuel</b>	TPS is performing ongoing fuels management for this project. This activity includes management of the day-to-day procurement process, as well as fuel contract negotiations and administration under a 6-year fuel supply contract.
<b>Power Purchaser</b>	Empresa Eléctrica de Guatemala, S.A. (EEGSA)
<b>Term of Purchase</b>	From 2000, 15 years + option for 5 additional years at Power Station's discretion.
<b>Operator</b>	TPS
<b>Financing</b>	Bank of America - led bank group and Overseas Private Investment Corp.
<b>Political Risk Insurance</b>	Under a global policy.
<b>Currency Risk</b>	Monthly payments under the PPA are denominated in U.S. dollars; paid in Guatemalan quetzales.
<b>Payment Risk</b>	Minimized through revenue trust and TPS' ownership in EEGSA.

# TECO Power Services Corporation



## Union Power Station

<b>Name</b>	Union Power Station (formerly known as El Dorado Power Station).
<b>MW</b>	2,200-MW Combined Cycle
<b>Technology</b>	The Union Power Project is configured with eight GE 7FA combustion turbines, eight heat recovery steam generators with supplemental firing and selective catalytic reduction for lowering NOx emissions and four single-flow, axial exhaust condensing steam turbines.
<b>Project Cost</b>	\$1.3 Billion
<b>Ownership</b>	100% upon completion of TPS' buyout of Panda's ownership interest.
<b>Commercial Operation</b>	550-MW 1/03 550-MW 4/03 550-MW Target 5/03 <u>550-MW Target 6/03</u> 2,200-MW Total
<b>Power Market</b>	ENTERGY
<b>Transmission</b>	The project will be interconnected to Entergy-Arkansas' 500-kV transmission substation adjacent to the site.
<b>Fuel Supply</b>	Natural gas, delivered via a new 42-mile, 30-inch pipeline (Trans Union) which will be owned and operated by the project. The new line will connect to El Paso's Gulf States Interstate Pipeline and Texas Gas Transmission. These direct interconnects will provide the project with access to additional major interstate pipelines.
<b>Power Purchaser</b>	TES expected to market energy not under contract.
<b>Energy Management Plan</b>	Objective: 50% contract > 1 year, 25% contract 30 days - 1 year, 25% spot.
<b>Operator</b>	TPS
<b>Financing</b>	5 year bank financing obtained June 2001.

# TRANSPORTATION



## SECTION IV



TECO Transport, a water transportation business, operates a U.S.-flag ocean-going fleet, a river barge fleet, and a deep-water dry-bulk commodity transfer and storage terminal. TECO Transport built its business on moving coal and other products via domestic inland rivers, the Gulf of Mexico, the Caribbean, and to worldwide markets, including South America, Asia, Africa and Europe. TECO Transport was identified as a potential candidate for sale on April 11, 2003.

### **Strengths**

- Contributed \$21 million to net income in 2002. TECO Transport has been profitable for more than 37 consecutive years, and has consistently made significant contributions to earnings and cashflow.
- TECO Transport offers unique turnkey services from origination on the river system, through storage and transfer to destination.
  - \* Good product and market diversity in all sectors of the business.
  - \* Operating assets acquired at attractive prices.
  - \* Equipment flexibility.
- Significant multi-year contract business provides a stable business base.
- Stable experienced workforce.





## **Business description**

### **TECO Ocean Shipping** (formerly known as Gulfcoast Transit)

- Largest U.S.-flag coastwise dry-bulk ocean-going company.
- Operates 9 tug-barge units ranging in size from 19,200 to 42,800 short tons and three ships at 33,500, 40,850 and 42,000 short tons for a combined capacity of over 403,000 short tons.
- Transports a variety of bulk commodities across the Gulf of Mexico as well as to all of the Americas, the Caribbean, Asia, Africa and Europe.
- Transports coal to Tampa for Tampa Electric Company from Louisiana and phosphate products on return trip.

### **TECO Barge Line** (formerly known as Mid-South Towing)

- Seventh largest inland river barge company.
- Operates 18 towboats and approximately 740 barges primarily on the Mississippi, Illinois and Ohio rivers and their major tributaries.
- Moves coal for Tampa Electric, petroleum coke, export coal, grain and scrap steel south and phosphate fertilizers, steel related products and petroleum coke north.
- 200 covered barges move grain, fertilizer and other high-value commodity products.

### **TECO Bulk Terminal** (formerly known as Electro-Coal Transfer)

- Largest transfer facility on the Gulf Coast and the second largest in the U. S.
- 18 million ton annual capacity; throughput in 2002 was 10 million tons down from 13 million in 2001 due to the soft economy.
- Handles a variety of products for both domestic and foreign movements, including Tampa Electric coal.



## Outlook

- National economy remains weak which impacts results.
- Markets:
  - \* Tampa Electric volumes expected to drop 10%-20% in 2003 due to conversion of Gannon to Bayside.
  - \* Export coal market remains soft.
  - \* Phosphate volumes expected to remain flat in 2003.
  - \* Increased export petroleum coke movements.
  - \* Opportunities for TECO Ocean Shipping to diversify into new foreign and domestic cargoes.
- Expect continued improvement in fleet utilization on the river through increased northbound and overall barge placement efficiencies.

## OTHER DIVERSIFIED



SECTION V



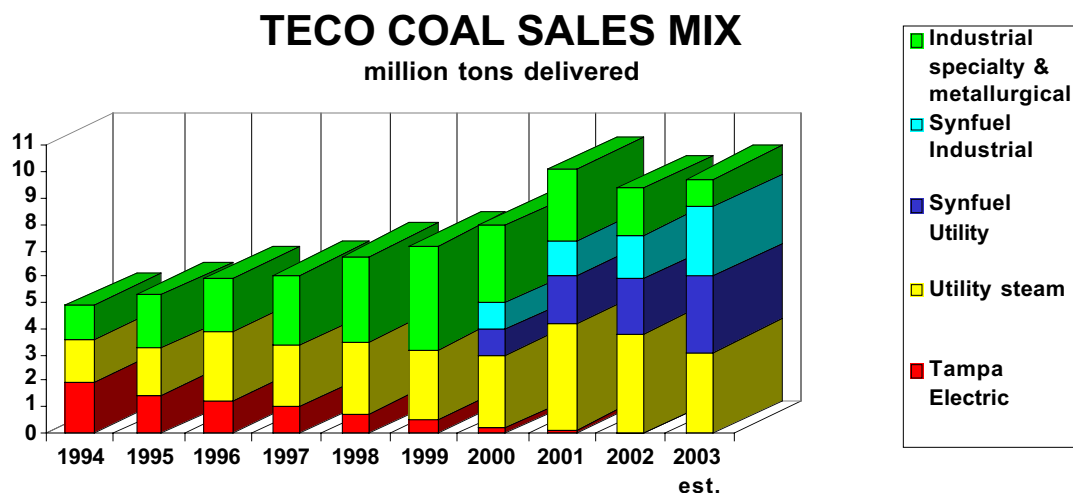
TECO Coal owns and operates low-sulfur coal mines and handling facilities in Kentucky, Virginia and Tennessee. The company expects to mine and ship more than 9 million tons of conventional coal and synfuel in 2003. Its primary customers include the U.S. and European steel industry, as well as domestic utilities and industrial customers. In mid-2000, TECO Coal placed two synthetic fuel facilities into service. Sales of synthetic fuel are eligible for federal tax credits created to encourage the production of fuel from non-conventional sources.

### TECO Coal's major market segments

- Since 1988: Industrial applications  
*Coals of specialty size and characteristics primarily for metallurgical markets.*
- Since 1992: Electric utilities  
*Low-sulfur and compliance coals.*

### Sales

- Sales of utility steam and specialty coal have increased significantly, as Tampa Electric volumes have declined. The Tampa Electric contract expired in 1999 and was not renewed.
- Total sales of 9.3 million tons in 2002, compared to 10.1 in 2001 due to soft market conditions. Expect sales to increase slightly in 2003 as a result of more normal supply and demand in the market.





## **Synthetic Fuel Production**

- Purchased synthetic fuel production facilities in January 2000.
  - \* Located at TECO Coal's Premier Elkhorn, Clintwood Elkhorn and Pike Letcher mines in Kentucky.
  - \* Began operations in second quarter of 2000.
  - \* Produced and sold more than 3.8 million tons of synthetic fuel in 2002.
  - \* In November 2001, TECO Coal received a private letter ruling from the Internal Revenue Service regarding the production of synthetic fuel from its facilities. The private letter ruling confirms that the facilities produce a qualified fuel eligible for section 29 tax credits available for the production of such non-conventional fuels through 2007.
  - \* Sold 50 percent of the ownership interest to a Fortune 2000 company and expect to sell another 40 percent ownership interest by mid-year.

## **Outlook**

- Volumes in 2003 are expected to exceed 9 million tons, including about 6 million tons of synthetic fuel.
- In 2003, results are expected to be driven by increased synthetic fuel production of about 6 million tons generating positive cash flow by selling ownership interests in the synfuel facilities.
- Expects to produce about 4 million tons of conventional steam and metallurgical coal in 2003.
- Based on current market estimates, coal prices in 2003 are expected to be slightly lower than those achieved in 2002.
- Increased synfuel production is expected to offset the impact of lower coal prices.

# INVESTMENT CONSIDERATIONS



SECTION VI



## **Investment Considerations**

The following are certain factors that could affect TECO Energy's future results. They should be considered in connection with evaluating forward-looking statements contained in this report and otherwise made by or on behalf of TECO Energy because these factors could cause actual results and conditions to differ materially from those projected in those forward-looking statements.

### **Financing Risks**

**TECO Energy has substantial indebtedness, which could adversely affect its financial condition and financial flexibility.**

In recent years, TECO Energy has significantly expanded its indebtedness. This increase in debt levels has increased the amount of fixed charges TECO Energy is obligated to pay. The level of indebtedness and restrictive covenants contained in its debt obligations could limit its ability to obtain additional financing or refinance existing debt.

Some of TECO Energy's debt obligations contain financial covenants related to debt-to-capital ratios and interest coverage that could prevent the repayment of subordinated debt and the payment of dividends if those payments would cause a violation of the covenants. TECO Energy's failure to comply with any of these covenants, as well as its ratings maintenance covenants discussed below, or to meet its payment obligations, could result in an event of default which, if not cured or waived, could result in the acceleration of other outstanding debt obligations. TECO Energy may not have sufficient working capital or liquidity to satisfy its debt obligations in the event of an acceleration of all or a significant portion of its outstanding obligations. Additionally, such an acceleration would also affect the company's ability to pay dividends. Furthermore, if TECO Energy had to defer interest payments on its subordinated notes that support the distributions on its outstanding trust preferred securities, TECO Energy would be prohibited from paying cash dividends on its common stock until all unpaid distributions on the subordinated notes were made.

TECO Energy also incurs obligations in connection with the operations of its subsidiaries and affiliates, which do not appear on the balance sheet, including in connection with the development of power projects by unconsolidated affiliates. These obligations take the form of guarantees, letters of credit and contractual commitments. In addition, TECO Energy's unconsolidated affiliates from time to time incur non-recourse debt to finance their power projects. Although TECO Energy is not obligated on that debt, its investments in those unconsolidated affiliates and its commitments with respect to those



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power projects are at risk if the projects are not successfully developed. Upon the earlier of the termination of the TECO/Panda joint venture or July 1, 2003, (the effective date of the new FIN 46 accounting rules), the Union and Gila projects will be consolidated TECO Energy's financial statements.

**TECO Energy's financial condition and ability to access capital and pay dividends may be materially adversely affected by further ratings downgrades.**

In April 2003, Moody's Investor Services, Inc. (Moody's) and Fitch Investor Services, Inc. (Fitch), lowered the ratings on the senior unsecured debt securities of TECO Energy and, TECO Finance to non-investment grade and Tampa Electric which remains investment grade. The outlook assigned to TECO Energy by Moody's, Fitch and Standard & Poor's Ratings Service (S&P) is negative.

Additional ratings downgrades could require the posting of additional capital and could increase the cost of borrowing in the capital markets. A non-investment grade credit rating may reduce or limit the company's ability to sign contracts or provide guarantees.

**If TECO Energy is unable to reduce capital expenditures or successfully complete planned asset sales and other transactions to the extent anticipated, its financial condition and results could be adversely affected.**

Part of the cash generation plan for 2003 includes reducing previously anticipated capital expenditures by approximately \$250 million in order to maximize cash flows and reduce the need for external financings. TECO Energy cannot be sure that it will be successful in achieving reductions in that amount. The cash generation plan also includes the sale of the remaining 40 percent of its interest in facilities that produce synthetic fuel which qualifies for Section 29 tax credits at TECO Coal. TECO Energy cannot be certain, however, that it will find purchasers or realize the expected value of these transactions with the anticipated impact on its cash flow position. Depending on the success of these planned expenditure reductions and asset sales transactions, TECO Energy may need to seek external financings, which, in the case of debt financings, could adversely affect the balance sheet strength and apply downward pressure on the credit ratings, and, in the case of equity financings, could have a dilutive effect to equity holders and earnings-per-share results.





**Because TECO Energy is a holding company, it is dependent on cash flow from its subsidiaries, which may not be available in the amounts and at the times it is needed.**

TECO Energy is a holding company and dependent on cash flow from its subsidiaries to meet its cash requirements that are not satisfied from external funding sources. Some subsidiaries have indebtedness containing restrictive covenants which, if violated, would prevent them from making cash distributions to TECO Energy. In particular, Tampa Electric's first mortgage bonds indenture contain restrictions on distributions on its common stock, and certain long-term debt at Tampa Electric's PGS division prohibits payment of dividends to TECO Energy if Tampa Electric Company's consolidated shareholders' equity is not at least \$500 million. At Dec. 31, 2002, Tampa Electric's unrestricted retained earnings available for dividends on its common stock were approximately \$189 million and its consolidated shareholders' equity was approximately \$1.8 billion. Also, TECO Energy's wholly-owned subsidiary, TECO Diversified, the holding company for TECO Transport, TECO Coal and TECO Solutions, has a guarantee related to a coal supply agreement that could limit the payment of dividends to TECO Energy.

**TECO Energy is vulnerable to interest rate changes and may not have access to capital at favorable rates, if at all.**

Changes in interest rates and capital markets generally affect TECO Energy's cost of borrowing and access to these markets. TECO Energy cannot be sure that it will be able to accurately predict the effect those changes will have on the cost of borrowing or access to capital markets.

### **Independent Power Project Risks**

**TPS' existing and planned power plants are affected by market conditions, and it may not be able to sell power at prices that enable it to recover its investments in the plants.**

TPS is currently operating and constructing power plants that do not currently have long-term contracts for the sale of power. These power plants may sell at least a portion of their power based on market conditions at the time of sale, so TPS cannot predict with certainty:

- the amount or timing of revenue it may receive from power sales from operating plants;
- the differential between the cost of operations (in particular, natural gas prices) and power sales revenue;



- the effect of competition from other suppliers of power;
- regulatory actions that may affect market behavior, such as price limitations or bidding rules imposed by the FERC or reimposition of regulation in power markets;
- the demand for power in a market served by its plants relative to available supply;
- the availability of transmission to accommodate the sale of power; or
- whether TPS will recover its initial investment in these plants.

At present, several of the wholesale markets supplied by so-called “merchant” power plants are experiencing significant pricing declines due to excess supply and weak economies. Consequently, only a portion of the projected output of TPS’ plants has been hedged for 2003 and 2004. TPS’ results could be adversely affected if it is unable to sufficiently sell the output of its plants at a premium to forward curve prices or if TECO Energy needs to write off any capital already invested in projects.

TECO Energy’s forecast assumes that TPS will manage these risks by:

- optimizing amongst a mix of forward on-peak energy sales, daily and hourly spot market sales of capacity, energy and ancillary services, and longer-term structured transactions;
- avoiding short positions; and
- retaining flexibility to defer, if and where possible and advisable, construction of output capacity in a market that has become oversupplied.

However, TECO Energy cannot be sure how successfully it will be able to implement these risk management measures. For instance, in oversupplied markets, entering into forward contracts could be difficult.

**TPS may be unable to successfully complete and finance current and future projects on schedule and within budget.**

TPS currently has new power generating facilities under construction. The construction of these facilities involves risks of shortages and inconsistent qualities of equipment and material, labor shortages and disputes, engineering problems, work stoppages, unanticipated cost increases, and environmental or geological problems. Any of these events could delay a project’s construction schedule or increase its costs, which may impact TPS’ ability to generate sufficient cash flow and service its related non-recourse project debt.



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**TPS marketing and risk management policies may not work as planned, and it may suffer economic losses despite such policies.**

TPS actively manages the market risk inherent in its energy and fuel positions. Nonetheless, adverse changes in energy and fuel prices may result in losses in earnings or cash flows and adversely affect the balance sheet. TPS marketing and risk management procedures may not always be followed or may not work as planned. As a result, it cannot predict with precision the impact that its marketing and risk management decisions may have on its business, operating results or financial position. In addition, to the extent it does not cover the entire exposure of assets or positions to market price volatility, or the hedging procedures do not work as planned, fluctuating commodity prices could cause sales and net income to be volatile.

TPS' marketing and risk management activities also are exposed to the credit risk that counterparties to its transactions will not perform their obligations. Should counterparties to these arrangements fail to perform, TPS may be forced to enter into alternative hedging arrangements, honor underlying commitments at then-current market prices or otherwise satisfy its obligations on unfavorable terms. In that event, its financial results would likely be adversely affected.

### **General Business and Operational Risks**

**General economic conditions may adversely affect TECO Energy's businesses.**

TECO Energy's businesses are affected by general economic conditions. In particular, the projected growth in Tampa Electric's service area and in Florida is important to the realization of Tampa Electric's and PGS' forecasts for annual energy sales growth. An unanticipated downturn in the local area's or Florida's economy could adversely affect Tampa Electric's or PGS' expected performance.

TECO Energy's unregulated businesses, particularly TECO Transport, TECO Coal and TPS, are also affected by general economic conditions in the industries and geographic areas they serve, both nationally and internationally. TPS' investment in Empresa Eléctrica de Guatemala, S.A. depends on growth in the relevant service areas and in annual energy sales.

**Potential competitive changes may adversely affect TECO Energy's gas and electricity businesses.**

The U.S. electric power industry has been undergoing restructuring. Competition in wholesale power sales has been introduced on a national level. Some states have mandated



or encouraged competition at the retail level and, in some situations, required divestiture of generating assets. While there is active wholesale competition in Florida, the retail electric business has remained substantially free from direct competition. Changes in the competitive environment occasioned by legislation, regulation, market conditions or initiatives of other electric power providers, particularly with respect to retail competition, could adversely affect Tampa Electric's business and its performance.

The gas distribution industry has been subject to competitive forces for several years. Gas services provided by PGS are now unbundled for all non-residential customers. Because PGS earns margins on distribution of gas, but not on the commodity itself, unbundling has not negatively impacted PGS results. However, future structural changes that cannot be predicted could adversely affect PGS.

**TECO Energy's gas and electricity businesses, both utility and independent, are highly regulated and any changes in regulatory structures could lower revenues or increase costs or competition.**

Tampa Electric, TPS and PGS operate in highly regulated industries. Retail operations, including the prices charged, are regulated by the FPSC, and Tampa Electric's and TPS' wholesale power sales and transmission services are subject to regulation by the FERC. Changes in regulatory requirements or adverse regulatory actions could have an adverse effect on their performance by, for example, increasing competition or costs, threatening investment recovery or impacting rate structure.

**TECO Energy's businesses are sensitive to variations in weather and have seasonal variations.**

Most of TECO Energy's businesses are affected by variations in general weather conditions and unusually severe weather. Tampa Electric's, PGS' and TPS' energy sales are particularly sensitive to variations in weather conditions. Those companies forecast energy sales on the basis of normal weather, which represents a long-term historical average. Significant variations from normal weather could have a material impact on energy sales. Unusual weather, such as hurricanes, could adversely affect operating costs and sales.

PGS, which has a single winter peak period, is more weather sensitive than Tampa Electric, which has both summer and winter peak periods. Mild winter weather in Florida can be expected to negatively impact results at PGS.



Variations in weather conditions also affect the demand and prices for the commodities sold by TECO Coal, as well as electric power sales from TPS' merchant power plants. TECO Transport is also impacted by weather because of its effects on the supply of and demand for the products transported. Severe weather conditions could interrupt or slow service and increase operating costs of those businesses.

Electric power marketing may be seasonal. For example, in some parts of the country, demand for, and market prices of, electricity peak during the hot summer months, while in other parts of the country such peaks occur in the cold winter months. As a result, power marketing results may fluctuate on a seasonal basis. The pattern of this fluctuation may change depending on the nature and location of the facilities operated and the terms under which they sell electricity.

**Commodity price changes may affect the operating costs and competitive positions of TECO Energy's businesses.**

Most of TECO Energy's businesses are sensitive to changes in coal, gas, oil and other commodity prices. Any changes could affect the prices these businesses charge, their operating costs and the competitive position of their products and services.

In the case of Tampa Electric, fuel costs used for generation are affected by the cost of coal and natural gas. Tampa Electric is able to recover the cost of fuel through retail customers' bills, but increases in fuel costs affect electric prices and, therefore, the competitive position of electricity against other energy sources.

Regarding wholesale sales of electricity, the ability to make sales and margins on power sales is affected by the cost of coal and natural gas to Tampa Electric, particularly as it compares to the cost of fuels to other power producers.

In the case of TPS, results are impacted by changes in the market price for electricity. The profitability of merchant power plants is heavily dependent on the price for power in the markets they serve. Wholesale power prices are set by the market assuming a cost for the input energy and conversion efficiency, but the fixed costs may not be reflected in the price for spot, or excess power.

In the case of PGS, costs for purchased gas and pipeline capacity are recovered through retail customers' bills, but increases in gas costs affect total retail prices and therefore, the competitive position of PGS relative to electricity, other forms of energy and other gas suppliers.



**TECO Energy relies on some transmission and distribution assets that it does not own or control to deliver wholesale electricity as well as natural gas. If transmission is disrupted, or if capacity is inadequate, its ability to sell and deliver power and natural gas may be hindered.**

TECO Energy depends on transmission and distribution facilities owned and operated by utilities and other energy companies to deliver the electricity and natural gas it sells to the wholesale market, as well as the natural gas it sells and purchases for use in its electric generation facilities. If transmission is disrupted, or if capacity is inadequate, the ability to sell and deliver products and satisfy contractual and service obligations may be hindered.

The FERC has issued regulations that require wholesale electric transmission services to be offered on an open-access, non-discriminatory basis. Although these regulations are designed to encourage competition in wholesale market transactions for electricity, there is the potential that fair and equal access to transmission systems will not be available or that sufficient transmission capacity will not be available to transmit electric power as desired. TECO Energy cannot predict the timing of industry changes as a result of these initiatives or the adequacy of transmission facilities in specific markets.

In addition, the independent system operators that oversee the transmission systems in certain wholesale power markets have from time to time been authorized to impose price limitations and other mechanisms to address volatility in the power markets. These types of price limitations and other mechanisms may adversely impact the profitability of TECO Energy's wholesale power marketing business.

**The uncertain outcome regarding the creation of regional transmission organizations, or RTOs, may impact operations, cash flows or financial condition.**

Given the regulatory uncertainty of the ultimate timing, structure and operations of GridFlorida or an alternate combined transmission structure, TECO Energy cannot predict what effect its creation will have on future consolidated results of operations, cash flow or financial condition.

**TECO Energy may be unable to take advantage of its existing tax credits.**

TECO Energy derives a portion of its net income from Section 29 tax credits related to the production of non-conventional fuels. Although TECO Energy currently has sold and plans to sell a significant portion of the production facilities, until and unless TECO Energy successfully does so, the use of these tax credits is dependent on the generation of sufficient



taxable income against which to use the credits. TECO Energy's forecast assumes that it will generate sufficient taxable income to use these credits through income from operations and sales of assets. In addition, these credits, and their sale value, could be impacted by or become unavailable due to administrative actions of the Internal Revenue Service or the U.S. Treasury or changes in law, regulation or administration.

**Problems with operations could cause TECO Energy to incur substantial costs.**

Each of TECO Energy's subsidiaries is subject to various operational risks, including accidents or equipment breakdown or failure and operations below expected levels of performance or efficiency. As operators of power generation facilities, Tampa Electric and TPS could incur problems such as the breakdown or failure of power generation equipment, transmission lines, pipelines or other equipment or processes which would result in performance below assumed levels of output or efficiency. TECO Energy's forecast assumes normal operations and normal maintenance periods for its subsidiaries' facilities.

**The international projects and operations of TPS and TECO Ocean Shipping are subject to risks that could result in losses or increased costs.**

TPS is involved in several international projects. These projects involve numerous risks that are not present in domestic projects, including expropriation, political instability, currency exchange rate fluctuations, repatriation restrictions, and regulatory and legal uncertainties. TECO Energy's forecast assumes that TPS will manage these risks through a variety of risk mitigation measures, including specific contractual provisions, strong international and local partners, non-recourse financing and political risk insurance.

TECO Ocean Shipping is exposed to operational risks in international ports, primarily in the form of its need to obtain suitable labor and equipment to safely discharge its cargoes in a timely manner. TECO Energy's forecast assumes that TECO Ocean Shipping will manage these risks through a variety of risk mitigation measures, including retaining agents with local knowledge and experience in successfully discharging cargoes and vessels similar to those used.

**Changes in the environmental laws and regulations to which TECO Energy's regulated businesses are subject could increase costs or curtail activities.**

TECO Energy's businesses are subject to regulation by various governmental authorities dealing with air, water and other environmental matters. Changes in compliance requirements or the interpretation by governmental authorities of existing requirements may impose additional costs or require curtailment of some businesses' activities.