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September 4, 2020

VIA: ELECTRONIC FILING

Mr. Adam J. Teitzman
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Application of Tampa Electric Company for authority to issue and sell securities pursuant to Section 366.04, Florida Statutes, and Chapter 25-8, Florida Administrative Code.

Dear Mr. Teitzman:

Attached for filing in the above-styled matter is Tampa Electric Company's Application for Authority to Issue and Sell Securities for the fiscal period of 12 months ending December 31, 2021.

Thank you for your assistance in connection with this matter.

Sincerely,



James D. Beasley

JDB/bmp
Attachment

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of Tampa Electric)
Company for authority to issue and sell)
securities pursuant to Section 366.04,)
Florida Statutes and Chapter 25-8,)
Florida Administrative Code)
_____)

DOCKET NO. _____
Submitted for filing on September 4, 2020

TAMPA ELECTRIC COMPANY'S

APPLICATION FOR AUTHORITY TO ISSUE AND SELL SECURITIES

Tampa Electric Company (“the Company”) files this, its Application under Section 366.04, Florida Statutes and Rule 25-8.001, et seq., Florida Administrative Code, for authority to issue and/or sell securities for the Company’s fiscal period of 12 months ending December 31, 2021 and says:

1. The exact name of the Company and the address of its principal business office are as follows: Tampa Electric Company, 702 North Franklin Street, Tampa, Florida, 33602.
2. The Company, a Florida corporation, was incorporated in 1899 and was reincorporated in 1949. The Company provides Commission-regulated retail electric services and natural gas distribution services through its Tampa Electric and Peoples Gas System divisions, respectively.
3. The names and addresses of persons authorized to receive notices and communications with respect to this Application are as follows:

James D. Beasley
jbeasley@ausley.com
J. Jeffrey Wahlen
jwahlen@ausley.com
Malcolm N. Means
mmeans@ausley.com
Ausley & McMullen
P. O. Box 391
Tallahassee, FL 32302
(850) 224-9115

Paula K. Brown
regdept@tecoenergy.com
Manager, Regulatory Coordination
Tampa Electric Company
P. O. Box 111
Tampa, FL 33601
(813) 228-1444

4. As of June 30, 2020, the date of the balance sheet submitted with this Application, the following information is shown for each class and series of capital stock and funded debt:

(a) Brief description	(b) Amount authorized (face value and number of shares)	(c) Amount outstanding (exclusive of any amount held in the treasury)	(d) Amount held as reacquired securities	(e) Pledged by applicant	(f) Amount owned by affiliated corporations	(g) Amount held in any fund
Common Stock	25,000,000 shares, without par value	10 shares	None	None	10 shares	None
Preferred Stock	2,500,000 shares with no par value, 1,500,000 shares with \$100 par value per share	None	None	None	None	None
Preference Stock - Subordinated Preferred Stock	2,500,000 shares, with no par value	None	None	None	None	None
Funded Debt:						
Tampa Electric division						
Installment Contracts Payable:						
5.15% Series, due 2025	\$51,600,000	None	\$51,600,000	None	None	None
Variable Interest Series, due 2020	20,000,000	None	20,000,000	None	None	None
Variable Interest Series, due 2030	75,000,000	None	75,000,000	None	None	None
Unsecured Notes:						
5.40% Series, due 2021	231,730,320	231,730,320	None	None	None	None
2.60% Series, due 2022	225,000,000	225,000,000	None	None	None	None
6.55% Series, due 2036	250,000,000	250,000,000	None	None	None	None
6.15% Series, due 2037	190,000,000	190,000,000	None	None	None	None
4.10% Series, due 2042	250,000,000	250,000,000	None	None	None	None
4.35% Series, due 2044	290,000,000	290,000,000	None	None	None	None
4.20% Series, due 2045	230,000,000	230,000,000	None	None	None	None
4.30% Series, due 2048	275,000,000	275,000,000	None	None	None	None
4.45% Series, due 2049	350,000,000	350,000,000	None	None	None	None
3.625% Series, due 2050	275,000,000	275,000,000	None	None	None	None
Peoples Gas System division						
Unsecured Notes:						
5.40% Series, due 2021	46,764,680	46,764,680	None	None	None	None
2.60% Series, due 2022	25,000,000	25,000,000	None	None	None	None
6.15% Series, due 2037	60,000,000	60,000,000	None	None	None	None
4.10% Series, due 2042	50,000,000	50,000,000	None	None	None	None
4.35% Series, due 2044	10,000,000	10,000,000	None	None	None	None
4.20% Series, due 2045	20,000,000	20,000,000	None	None	None	None
4.30% Series, due 2048	75,000,000	75,000,000	None	None	None	None
4.45% Series, due 2049	25,000,000	25,000,000	None	None	None	None
3.625% Series, due 2050	25,000,000	25,000,000	None	None	None	None
Total Funded Debt	\$3,050,095,000	\$2,903,495,000	\$146,600,000			

5. Statement of Proposed Transactions

- (a) The Company seeks the authority to issue, sell and/or exchange equity securities and issue, sell, exchange and/or assume long-term or short-term debt securities and/or to assume liabilities or obligations as guarantor, endorser or surety during the period covered by this Application. The Company also seeks authority to enter into interest rate swaps or other derivative instruments related to debt securities. Any exercise of the requested authority will be for the benefit of the Company. In connection with this application, the Company confirms that the capital raised pursuant to this application will be used in connection with the activities of the Company's regulated electric and gas divisions and not the unregulated activities of the utilities or their affiliates.

The equity securities may take the form of preferred stock, preference stock, common stock, or options or rights with respect to the foregoing with such par values, terms and conditions, conversion and relative rights and preferences as may be permitted by the Company's Restated Articles of Incorporation, as the same may be amended to permit the issuance of any such securities. The long-term debt securities may take the form of first mortgage bonds, debentures, notes, bank borrowings, convertible securities, installment contracts and/or other obligations underlying pollution control or sewage and solid waste disposal revenue bonds or options, rights, interest rate swaps or other derivative instruments with respect to the foregoing, with maturities ranging from one to 100 years, and may be issued in both domestic and international markets.

The issuance and/or sale of equity securities and long-term debt requested may be through negotiated underwritten public offering, public offering at competitive bidding, direct public or private sale, sale through agents, or distribution to security holders of the Company or affiliated companies.

The short-term debt may take the form of commercial paper, short-term tax-exempt notes, borrowings under bank credit facilities or accounts receivable securitization credit facilities, or other bank borrowings. Short-term debt sold in the commercial paper market may bear an interest rate as determined by the market price at the date of issuance and will mature not more than one year from the date of issuance.

- (b) The amount of all equity and long-term debt securities issued, sold, exchanged or assumed and liabilities and obligations assumed or guaranteed as guarantor, endorser, or surety will not exceed in the aggregate \$1.3 billion during the period covered by this Application, including any amounts issued to retire existing long-term debt securities. The maximum amount of short-term debt, as described above, outstanding at any one time, will be \$1.0 billion.

- (c) With respect to equity and long-term debt securities and liabilities and obligations to be assumed or guaranteed as grantor, endorser or surety, the maximum amount of \$300 million is needed to accommodate the potential issuance of additional notes based on projected short-term debt levels and debt maturities; the amount of \$200 million is needed for potential long-term emergency funding; and the amount of \$800 million is needed for other purposes (swaps, refinancings, etc.). With respect to short-term debt,

the amount of up to \$800 million at any time outstanding is needed to enable the Company to fully draw existing short-term credit facilities including upsize capability; and the balance of up to \$200 million is needed to avail the Company of short-term emergency funding and other purposes.

- (d) The present estimates of the interest rates for the aforementioned debt securities, based upon current trading levels of unsecured short-term debt and 10-year notes of the Company are 2.50% and 3.0%, respectively. Actual dividend rates for the aforementioned equity securities and interest rates will be determined at the time of the issuance and/or sale of the applicable securities.

6. Purpose of Issuance

Proceeds from any sale of securities will be added to the Company's general funds and used for working capital requirements and for other general business purposes, including financing of the Company's capital investments or the acquisition of additional properties or businesses. The net proceeds received from the sale of securities may also be used for the repurchase or repayment of debt or equity securities of the Company.

(a) Construction

Although the 2021 business plan is still preliminary, the electric division of the Company currently estimates that construction expenditures during the 12 months ending December 31, 2021 will be \$890 million. Capital requirements for major generating plants and transmission lines requiring certification of needs includes:

<u>Projects (Millions)</u>	<u>Actual Capital to date</u>	<u>2021 Amount</u>
Not Applicable	-	-

The gas division of the Company currently estimates that construction expenditures during the 12 months ending December 31, 2021 will be \$297 million for maintenance and system expansion.

(b) Reimbursement of the Treasury

Among the general business purposes for which any net proceeds may be used is the reimbursement of the treasury for expenditures by the Company against which securities will not have been issued in advance.

(c) Refunding Obligations

One of the purposes of issuing the securities referred to herein will be to repay previously issued short-term debt, of the type described in paragraph 5, which matures from time to time on a regular basis. Subject to market conditions, the Company may refund such short-term debt with new short-term debt, long-term debt or preferred or preference stock.

In addition, the Company is continuing to monitor and evaluate market conditions in anticipation of refunding or refinancing long-term obligations where it is legally and economically feasible to do so. Recognizing that changes in market conditions could make such refunding transactions feasible, the Company is requesting authority to issue long-term debt and/or preferred or preference stock within a limitation that provides the Company with sufficient flexibility to respond to refunding or refinancing opportunities.

7. The Company submits that the proposed issuance and sale of securities is for lawful objectives within the corporate purposes of the Company, is necessary for the proper performance by the two divisions of the Company as public utilities, is compatible with the public interest and is reasonable, necessary and appropriate. In support thereof the Company states that the proposed issuance and sale of securities and the proposed application of funds derived therefrom, as described in paragraphs 5 and 6 above, are consistent with similar actions the Company in the past has found to be lawful, reasonable, necessary and appropriate for the conduct of its business. The Company further states that this application for authority to issue and sell securities is consistent in its objectives with those of applications the Company has filed, and this Commission has found to be lawful, reasonable, necessary and appropriate, on numerous occasions in the past.

8. The names and addresses of counsel who will pass upon the legality of the proposed issuances are: David M. Nicholson, General Counsel, Tampa Electric Company, Tampa, Florida; David E. Schwartz, Associate General Counsel, Tampa Electric Company, Tampa, Florida; Holland & Knight LLP, Tampa, Florida; and/or Lock Lorde LLP, Boston, Massachusetts and/or such other counsel as the Company may deem necessary in connection with any of the proposed issuances.
9. A Registration Statement with respect to each public offering of securities hereunder that is subject to and not exempt from the registration requirements of the Securities Act of 1933, as amended, will be filed with the Securities and Exchange Commission, 100 F St. N.E., Washington, D.C. 20549.
10. There is no measure of control or ownership exercised by or over the Company as to any other public utility except as noted below.

On April 14, 1981, the Company's shareholders approved a restructuring plan under which the Company and its subsidiaries became separate wholly owned subsidiaries of a holding company, TECO Energy, Inc. On July 1, 2016, TECO Energy, Inc. became a wholly-owned subsidiary of Emera US Holdings Inc., a wholly-owned subsidiary of Emera Inc.

Required Exhibits

1. The following exhibits required by Rule 25-8.003, Florida Administrative Code, are either attached hereto or incorporated by reference herein and made a part hereof:
 - (a) Exhibit A: Items 1 through 5 are being satisfied through the provision of financial statements identified in Item 6 below.
 6. (i) Attached as Exhibit A-1 (2019 Form 10-K)
 - (ii) Attached as Exhibit A-2 (Most Recent Quarterly 2020 Form 10-Q)
 - (b) Exhibit B: Projected Financial Information (Sources and Uses of Funds Statements and Construction Budgets)

WHEREFORE, Tampa Electric Company respectfully requests that the Commission enter its Order approving the Company’s request for authority to issue and sell securities during the 12-month period ending December 31, 2021.

DATED this 4th day of September 2020

TAMPA ELECTRIC COMPANY

Jeffrey S. Chronister

By: jschronister@tecoenergy.com
Jeffrey S. Chronister
Vice President, Finance

**TAMPA ELECTRIC COMPANY'S
APPLICATION FOR AUTHORITY TO ISSUE AND SELL SECURITIES**

INDEX TO EXHIBITS

<u>EXHIBIT</u>	<u>BATES STAMPED PAGE NUMBER</u>
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Exhibit A-1

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

FORM 10-K

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

For the fiscal year ended December 31, 2019

OR

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

For the transition period from _____ to _____

Commission File No.	Exact name of each Registrant as specified in its charter, state of incorporation, address of principal executive offices, telephone number	I.R.S. Employer Identification Number
1-5007	TAMPA ELECTRIC COMPANY (a Florida corporation) TECO Plaza 702 N. Franklin Street Tampa, Florida 33602 (813) 228-1111	59-0475140

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
None		

Securities registered pursuant to Section 12(g) of the Act:

None
(Title of class)

Indicate by check mark if Tampa Electric Company is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
 YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
 YES NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
 YES NO

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
 YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether Tampa Electric Company is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark whether Tampa Electric Company has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether Tampa Electric Company is a shell company (as defined in Rule 12b-2 of the Act).
YES NO

The aggregate market value of Tampa Electric Company’s common stock held by non-affiliates of the registrant as of June 30, 2019 was zero.

As of February 12, 2020, there were 10 shares of Tampa Electric Company’s common stock issued and outstanding, all of which were held, beneficially and of record, by TECO Energy, Inc, an indirect wholly-owned subsidiary of Emera Inc.

Tampa Electric Company meets the conditions set forth in General Instruction (I)(1)(a) and (b) of Form 10-K and is therefore filing this form with the reduced disclosure format specified in General Instruction I(2) of Form 10-K.

DEFINITIONS

Acronyms and defined terms used in this and other filings with the U.S. Securities and Exchange Commission include the following:

Term	Meaning
AFUDC	allowance for funds used during construction
AFUDC-debt	debt component of allowance for funds used during construction
AFUDC-equity	equity component of allowance for funds used during construction
APBO	accumulated postretirement benefit obligation
ARO	asset retirement obligation
ASC	Accounting Standards Codification
CAD	Canadian dollars
CAIR	Clean Air Interstate Rule
CCRs	coal combustion residuals
CMO	collateralized mortgage obligation
CNG	compressed natural gas
CPI	consumer price index
CSAPR	Cross State Air Pollution Rule
CO ₂	carbon dioxide
CT	combustion turbine
ECRC	environmental cost recovery clause
Emera	Emera Inc., a geographically diverse energy and services company headquartered in Nova Scotia, Canada
EPA	U.S. Environmental Protection Agency
ERISA	Employee Retirement Income Security Act
EROA	expected return on plan assets
EUSHI	Emera US Holdings Inc., a wholly owned subsidiary of Emera, which is the sole shareholder of TECO Energy's common stock
FASB	Financial Accounting Standards Board
FDEP	Florida Department of Environmental Protection
FERC	Federal Energy Regulatory Commission
FPSC	Florida Public Service Commission
IGCC	integrated gasification combined-cycle
IOU	investor owned utility
IRS	Internal Revenue Service
ITCs	investment tax credits
kWac	kilowatt on an alternating current basis
LNG	liquefied natural gas
MBS	mortgage-backed securities
MD&A	the section of this report entitled Management's Discussion and Analysis of Financial Condition and Results of Operations
Merger	Merger of Merger Sub Company with and into TECO Energy, with TECO Energy as the surviving corporation
MGP	manufactured gas plant
MMBTU	one million British Thermal Units
MRV	market-related value
MW	megawatt(s)
MWH	megawatt-hour(s)
NAV	net asset value
Note	Note to consolidated financial statements
NPNS	normal purchase normal sale
O&M expenses	operations and maintenance expenses
OCI	other comprehensive income
OPC	Office of Public Counsel
OPEB	other postemployment benefits
Parent	TECO Energy, Inc., the direct parent company of Tampa Electric Company
PBGC	Pension Benefit Guarantee Corporation
PBO	projected benefit obligation
PGA	purchased gas adjustment
PGS	Peoples Gas System, the gas division of Tampa Electric Company
PPA	power purchase agreement

<u>Term</u>	<u>Meaning</u>
PRP	potentially responsible party
R&D	research and development
REIT	real estate investment trust
RFP	request for proposal
ROE	return on common equity
Regulatory ROE	return on common equity as determined for regulatory purposes
S&P	Standard and Poor's
SCR	selective catalytic reduction
SEC	U.S. Securities and Exchange Commission
SoBRAs	solar base rate adjustments
SERP	Supplemental Executive Retirement Plan
STIF	short-term investment fund
Tampa Electric	Tampa Electric, the electric division of Tampa Electric Company
TEC	Tampa Electric Company
TECO Energy	TECO Energy, Inc., the direct parent company of Tampa Electric Company
TSI	TECO Services, Inc.
U.S. GAAP	generally accepted accounting principles in the United States
VIE	variable interest entity

PART I

Item 1. BUSINESS

Tampa Electric Company, referred to as TEC, was incorporated in Florida in 1899 and was reincorporated in 1949. TEC is a public utility operating within the State of Florida. TEC has two operating segments. Its electric division, referred to as Tampa Electric, provides retail electric service to approximately 779,000 customers in West Central Florida with a net winter system generating capacity of 5,641 MW at December 31, 2019. The gas division of TEC, referred to as PGS, is engaged in the purchase, distribution and sale of natural gas for residential, commercial, industrial and electric power generation customers in Florida. With approximately 406,000 customers, PGS has operations in Florida's major metropolitan areas. Annual natural gas throughput (the amount of gas delivered to its customers, including transportation-only service) in 2019 was approximately 2.1 billion therms. TEC had approximately 3,110 employees as of December 31, 2019. All of TEC's common stock is owned by TECO Energy, a holding company. TECO Energy is an indirect wholly owned subsidiary of Emera. Therefore, TEC is an indirect wholly owned subsidiary of Emera.

TEC makes its SEC filings available free of charge on Tampa Electric's website (www.tampaelectric.com/company/about/) as soon as reasonably practicable after they are filed with the SEC. TEC's electronic SEC filings are also available on the SEC's website (www.sec.gov).

TEC Revenues

TEC's revenues consist of sales to residential, commercial, industrial and other customers. TEC's residential load generally comprises of individual homes, apartments and condominiums. Commercial customers include small retail operations, large office and commercial complexes, universities and hospitals. Industrial customers include manufacturing facilities, power generation customers and other large volume operations. Other sales volumes consist primarily of off-system sales to other utilities and revenues from street lighting.

For TEC's revenue and other financial information by operating segments, see Note 11 to the 2019 Annual TEC Consolidated Financial Statements.

TAMPA ELECTRIC – Electric Operations

TEC's Tampa Electric division is engaged in the generation, purchase, transmission, distribution and sale of electric energy. The retail territory served comprises an area of about 2,000 square miles in West Central Florida, including Hillsborough County and parts of Polk, Pasco and Pinellas Counties. The principal communities served are Tampa, Temple Terrace, Winter Haven, Plant City and Dade City. Tampa Electric engages in wholesale sales to utilities and other resellers of electricity. It has two generating stations in or near Tampa, one generating station in southwestern Polk County, Florida and twelve photovoltaic power stations, seven in Hillsborough County (of which two were placed in service in early 2020) and five in Polk County, Florida. Tampa Electric had approximately 2,450 employees as of December 31, 2019, of which 740 were represented by the International Brotherhood of Electrical Workers and 200 were represented by the Office and Professional Employees International Union. In December 2019, 370 TSI employees were transferred to Tampa Electric. The transfer of these employees to Tampa Electric is expected to create operational synergies in the organization but is not expected to materially impact shared service costs or the TEC Consolidated Statement of Income.

The sources of Tampa Electric's operating revenue and MWH sales were as follows:

Tampa Electric Operating Revenue

(millions)	2019	2018	2017
Residential	\$ 1,046	\$ 1,067	\$ 1,006
Commercial	562	582	578
Industrial	156	161	158
Other sales of electricity	183	187	168
Regulatory deferrals and unbilled revenue	(49)	(2)	78
Total energy sales	1,898	1,995	1,988
Off system sales	6	11	8
Other	61	60	58
Total revenues	\$ 1,965	\$ 2,066	\$ 2,054

Megawatt-hour Sales

<i>(thousands)</i>	2019	2018	2017
Residential	9,584	9,418	9,029
Commercial	6,240	6,266	6,362
Industrial	2,021	2,014	2,024
Other sales of electricity	1,939	1,933	1,771
Total retail	19,784	19,631	19,186
Off system sales	155	286	239
Total energy sold	<u>19,939</u>	<u>19,917</u>	<u>19,425</u>

No significant part of Tampa Electric's business is dependent upon a single or limited number of customers where the loss of any one or more would have a significant adverse effect on Tampa Electric. Tampa Electric experiences winter peak loads due to electric space heating, fewer daylight hours and colder temperatures and summer peak loads due to the use of air conditioning and other cooling equipment.

Regulation

Base Rates

Tampa Electric's retail operations are regulated by the FPSC. The FPSC's objective is to set rates at a level that provides an opportunity for the utility to collect total revenues (revenue requirements) equal to its prudently incurred costs of providing service to customers, plus a reasonable return on invested capital.

The costs of owning, operating and maintaining the utility systems, excluding fuel, conservation costs, purchased power and certain environmental costs, are recovered through base rates. These costs include O&M expenses, depreciation, taxes, and a return on investment in assets providing electric service (rate base). The rate of return on rate base, which is intended to approximate a company's weighted cost of capital, primarily includes its costs for debt, deferred income taxes (at a zero cost rate) and an allowed ROE. Base rates are determined in FPSC rate setting hearings which occur at the initiative of Tampa Electric, the FPSC or other interested parties.

Tampa Electric's results for 2017 reflect the stipulation and settlement agreement entered into on September 6, 2013, which resolved all matters in Tampa Electric's 2013 base rate proceeding. The agreement provided for Tampa Electric's allowed regulatory ROE to be a mid-point of 10.25% with a range of plus or minus 1%. The agreement stated that Tampa Electric could not file for additional base rate increases to be effective sooner than January 1, 2018, unless its earned ROE were to fall below 9.25% before that time. If its earned ROE were to rise above 11.25%, any party to the agreement other than Tampa Electric could seek a review of its base rates. In addition, Tampa Electric is required to file a depreciation study no fewer than 90 days but no more than one year before filing its next base rate request. Under the agreement, the allowed equity in the capital structure is 54% from investor sources of capital, and Tampa Electric also began using a 15-year amortization period for all computer software.

Tampa Electric's results for 2019 and 2018 reflect an amended and restated settlement agreement, approved by the FPSC on November 6, 2017, that replaced the existing 2013 base rate settlement agreement described above and extended it another four years through 2021. The amended agreement provides for SoBRAs for TEC's substantial investments in solar generation. Tampa Electric plans to invest approximately \$850 million in these solar projects during the period from 2017 to 2021, of which approximately \$820 million has been invested through December 31, 2019, and is accruing AFUDC during construction. The agreement includes a sharing provision that allows customers to benefit from 75% of any cost savings for projects below \$1,500/kWac. TEC began receiving revenues of \$24 million annually for the first tranche of 145 MW in September 2018, \$46 million annually for the second tranche of 260 MW in January 2019 and \$26 million annually for the third tranche of 149 MW in January 2020. TEC expects to file its final SoBRA petition for the January 1, 2021 tranche in 2020. See **Note 3** to the **2019 Annual TEC Consolidated Financial Statements** for further information regarding TEC's SoBRA petitions.

The agreement further maintains Tampa Electric's allowed regulatory ROE and allowed equity in the capital structure and extends the rate freeze date from January 1, 2018 to December 31, 2021, subject to the same ROE thresholds. The agreement further contains a provision related to tax reform (see **Note 4** to the **2019 Annual TEC Consolidated Financial Statements** for further information on tax reform). Additionally, an asset optimization provision that allows Tampa Electric to share in the savings for optimization of its system once certain thresholds are achieved is also included. Tampa Electric agreed to a financial hedging moratorium for natural gas ending on December 31, 2022 and that it will make no investments in gas reserves.

On November 13, 2019, as required by the 2017 settlement agreement, TEC filed its petition to reduce base rates and charges to reflect the impact of the temporary reduction of the state corporate income tax from 5.5% to 4.46%. The tax rate reduction was issued

on September 12, 2019 and is effective retroactive from January 1, 2019 through December 31, 2021. The estimated base rate reduction due to customers of \$5 million is subject to true-up, and the actual rate reduction may vary from year to year. The base rate reduction was approved on December 10, 2019 for rates effective January 2020.

As a result of several named storms in 2017, the amount of costs charged to the storm reserve regulatory liability in 2017 exceeded the balance in the storm reserve by \$47 million. On January 30, 2018, Tampa Electric filed an implementation settlement agreement with the FPSC that addressed both the recovery of storm costs and the return of U.S. tax reform benefits to customers while keeping customer rates stable in 2018. The agreement, which was approved by the FPSC on March 1, 2018, authorized Tampa Electric to net the estimated amount of storm cost recovery, including replenishment of the storm reserve to the \$56 million level that existed as of October 31, 2013, against Tampa Electric's estimated 2018 tax reform benefits. On August 20, 2018, the FPSC approved lowering base rates by \$103 million annually beginning on January 1, 2019 as a result of lower tax expense. On May 21, 2019, the FPSC approved a settlement agreement reached by Tampa Electric and consumer parties regarding eligible storm costs, which resulted in Tampa Electric refunding \$12 million to customers in January 2020. See **Note 3** to the **2019 Annual TEC Consolidated Financial Statements** for further information on the settlement agreement.

Other Cost Recovery

Tampa Electric has four cost recovery clauses.

- (1) Tampa Electric has a fuel recovery clause allowing recovery of actual fuel costs from customers through annual fuel rate adjustments. Differences between actual prudently incurred fuel costs and amounts recovered from customers in a year are recovered from or returned to customers in a subsequent year.
- (2) Tampa Electric has a capacity recovery clause allowing recovery of firm demand payments associated with purchased power agreements.
- (3) Tampa Electric has an environmental cost recovery clause which allows it to earn a return on investments in new facilities to comply with new environmental regulations and to recover the costs to operate and maintain these facilities.
- (4) Through its conservation cost recovery clause, Tampa Electric offers its customers a comprehensive array of residential and commercial programs that have enabled it to meet its required demand side management goals, reduce weather-sensitive peak demand and conserve energy.

During November 2019, the FPSC approved cost-recovery rates for the above clauses for 2020. On October 3, 2019, the FPSC issued a rule to implement a storm protection plan cost recovery clause. This new clause establishes a process for Florida investor-owned utilities, including Tampa Electric, to recover transmission and distribution storm hardening costs for incremental activities not already included in base rates. Subject to final approval of a FPSC rule, Tampa Electric expects to file a storm protection plan with the FPSC in the second quarter of 2020.

FERC and Other Regulations

Tampa Electric is subject to regulation by the FERC in various respects, including wholesale power sales, certain wholesale power purchases, transmission and ancillary services and accounting practices.

Tampa Electric is subject to federal, state and local environmental laws and regulations pertaining to air and water quality, land use, power plant, substation and transmission line siting, noise and aesthetics, solid waste and other environmental matters (see the **Environmental Compliance** section of the **MD&A**).

Competition

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

Unlike in the retail electric business, Tampa Electric competes in the wholesale power market with other energy providers in Florida, including approximately 30 other utilities and other power generators. Entities compete to provide energy on a short-term basis (i.e., hourly or daily) and on a long-term basis. Tampa Electric is not a major participant in the wholesale market because it uses its lower-cost generation primarily to serve its retail customers rather than the wholesale market.

FPSC rules promote cost-competitiveness in the building of new steam generating capacity or solar capacity by requiring IOUs, such as Tampa Electric, to issue RFPs prior to filing a petition for Determination of Need for construction of a power plant with a

steam cycle or solar capacity greater than 75 MWs. These rules allow independent power producers and others to bid to supply the new generating capacity.

In many areas of the country, there is growing use of rooftop solar panels, small wind turbines and other small-scale methods of power generation, known as distributed generation, by individual residential, commercial and industrial customers, or by third-party developers. Distributed generation is encouraged and supported by special interest groups, tax incentives, renewable portfolio standards and special rates designed to support such generation. Developers offer attractive financing and leasing arrangements to encourage project development. In Florida, third parties that are not subject to regulation by the FPSC are currently not permitted to make direct sales of electricity to end-use customers.

Generation Sources

In 2019 and 2018, approximately 90% and 82%, respectively, of Tampa Electric’s generation of electricity was natural gas-fired, with coal representing approximately 6% and 15%, respectively, solar representing 4% and 1%, respectively, and oil/petroleum coke representing 0 and 2%, respectively. As a result of low gas prices in the market in 2019, units 1, 2 and 3 at Big Bend Power Station and unit 1 at Polk Power Station (TEC’s IGCC unit) operated solely on natural gas during 2019, significantly reducing coal generation in 2019. In 2019 and 2018, Tampa Electric used its generating units to meet approximately 93% and 94%, respectively, of the total system load requirements, with the remaining 7% and 6%, respectively, coming from purchased power. Tampa Electric is required to maintain a generation capacity greater than firm peak demand. Tampa Electric meets the planning criteria for reserve capacity established by the FPSC, which is a 20% reserve margin over firm peak demand. See **MD&A - Capital Investments** for information regarding TEC’s forecasted capital investments in generation sources, including solar projects and the modernization of the Big Bend Power Station.

The table below presents Tampa Electric’s average delivered fuel cost per MMBTU, excluding solar production which has no fuel cost.

<i>Average cost per MMBTU</i>	2019	2018	2017
Natural Gas ⁽¹⁾	\$ 3.40	\$ 4.07	\$ 4.01
Coal ⁽²⁾	3.66	3.37	3.30
Oil/petroleum coke ⁽³⁾	22.01	3.10	2.54
Composite ⁽⁴⁾	3.43	3.89	3.69

- (1) Represents the cost of natural gas, transportation, storage, balancing, hedges for the price of natural gas, and fuel losses for delivery to the energy center.
- (2) Represents the cost of coal and transportation.
- (3) In 2019, the cost per MMBTU represents 100% oil.
- (4) Represents the average cost for all fuels listed.

Tampa Electric’s fuel costs are affected by commodity prices and generation mix that is largely dependent on economic dispatch of the generating fleet, dispatching the lowest fuel cost options first (solar renewable energy being zero fuel costs), such that the incremental cost of generation increases as sales volumes increase. Generation mix may also be affected by plant outages, plant performance, availability of lower priced short-term purchased power, compliance with environmental standards and regulations, and availability of solar resources.

Natural Gas. Tampa Electric maintains gas commodity, pipeline transportation and storage contracts. As of December 31, 2019, approximately 81% of Tampa Electric’s 2.0 million BCF gas storage capacity was full. Tampa Electric has contracted for 71% of its expected gas needs for the January through December 2020 period. Tampa Electric expects to issue RFPs to meet its remaining 2020 gas needs and begin contracting for its 2021 requirements. Additional volume requirements are purchased in the short-term spot market.

Coal. Tampa Electric burned approximately 0.6 million tons of coal during 2019 and estimates that its coal consumption will be about 0.4 million tons in 2020. During 2019, Tampa Electric purchased its coal under contracts with two suppliers. Tampa Electric expects to obtain its coal requirements in 2020 under a short-term contract with one supplier. Tampa Electric has coal transportation agreements with a rail provider if spot coal supplies are needed.

Tampa Electric’s contracts provide for revisions in the base price to reflect changes in several important cost factors and for suspension or reduction of deliveries if environmental regulations should prevent Tampa Electric from burning the coal supplied, provided that a good faith effort has been made to continue burning such coal.

Oil. Tampa Electric purchases low sulfur No. 2 fuel oil and petroleum coke for its Polk Power station on a spot basis.

Franchises and Other Rights

Florida utilities must obtain franchises to operate in certain municipalities. Tampa Electric holds franchises and other rights that, together with its charter powers, govern the placement of Tampa Electric's facilities on the public rights-of-way that it carries for its retail business in the localities it serves. The franchises specify the negotiated terms and conditions governing Tampa Electric's use of public rights-of-way and other public property within the municipalities it serves during the term of the franchise agreement. The franchises are irrevocable and not subject to amendment without the consent of Tampa Electric (except to the extent certain city ordinances relating to permitting and like matters are modified from time to time), although, in certain events, they are subject to forfeiture. Florida municipalities are prohibited from granting any franchise for a term exceeding 30 years.

Tampa Electric has franchise agreements with 13 incorporated municipalities within its retail service area. These agreements have various expiration dates ranging through 2049 and are expected to be renewed under similar terms and conditions.

Franchise fees expense totaled \$45 million and \$47 million in 2019 and 2018, respectively. Franchise fees are calculated using a formula based primarily on electric revenues and are recovered from customers.

Utility operations in Hillsborough, Pinellas and Polk Counties outside of incorporated municipalities are conducted in each case under one or more permits granted by the Florida Department of Transportation or the County Commissioners of such counties. There is no law limiting the time for which such permits may be granted. There are no fixed expiration dates for the Hillsborough County, Pinellas County and Polk County agreements.

Environmental Matters

Tampa Electric operates stationary sources with air emissions regulated by the Clean Air Act. Its operations are also impacted by provisions in the Clean Water Act and federal and state legislative initiatives on environmental matters. TEC, through its Tampa Electric and PGS divisions, is a PRP for certain superfund sites and, through its PGS division, for certain former manufactured gas plant sites. See **Environmental Compliance** section of the **MD&A** for additional information.

PEOPLES GAS SYSTEM – Gas Operations

PGS is engaged in the purchase, distribution and sale of natural gas for residential, commercial, industrial and electric power generation customers in the state of Florida.

Gas is delivered to the PGS distribution system through three interstate pipelines. PGS does not engage in the exploration for or production of natural gas. PGS operates a natural gas distribution system that serves approximately 406,000 customers. The system includes approximately 13,500 miles of gas mains and 7,500 miles of service lines (see PGS's **Franchises and Other Rights** section below).

PGS had approximately 660 employees as of December 31, 2019. Approximately 120 employees in five of PGS's 14 service areas and call center are represented by various union organizations.

In 2019, the total throughput for PGS was approximately 2.1 billion therms. Of this total throughput, 5% was gas purchased and resold to customers by PGS, 86% was third-party supplied gas that was delivered to transportation-only customers and 9% was gas sold off-system (i.e., to customers not connected to PGS's distribution system).

PGS provides transportation service to customers utilizing gas-fired technology in the production of electric power. In addition, PGS provides gas transportation service to large LNG facilities located in Jacksonville, Florida. PGS has seen continuing interest and development in natural gas vehicles. There are 54 compressed natural gas filling stations connected to the PGS distribution system. See the **PGS Operating Results** section of the **MD&A** for information on the impact of natural gas vehicles on PGS's operations.

Revenues and therms for PGS for the years ended December 31 were as follows:

(millions)	Revenues			Therms		
	2019	2018	2017	2019	2018	2017
Residential	\$ 154	\$ 157	\$ 138	85	87	77
Commercial	146	151	144	517	510	489
Industrial	16	16	15	430	361	330
Off-system sales	55	78	70	188	217	201
Power generation	5	5	5	853	791	750
Other revenues	72	69	54	-	-	-
Total	\$ 448	\$ 476	\$ 426	2,073	1,966	1,847

No significant part of PGS's business is dependent upon a single or limited number of customers where the loss of any one would have a significant adverse effect on PGS. PGS experiences winter peak throughputs due to colder temperatures.

Regulation

Base Rates

The operations of PGS are regulated by the FPSC separately from the regulation of Tampa Electric. The FPSC seeks to set rates at a level that provides an opportunity for a utility to collect total revenues (revenue requirements) equal to its prudently incurred costs of providing service to customers, plus a reasonable return on invested capital.

The costs of providing natural gas service, other than the costs of purchased gas and interstate pipeline capacity, are recovered through base rates. Base rates are designed to recover the costs of owning, operating and maintaining the utility system. The rate of return on rate base, which is intended to approximate PGS's weighted cost of capital, primarily includes its cost for debt, deferred income taxes (at a zero cost rate), and an allowed ROE. Base rates are determined in FPSC rate setting hearings which occur at irregular intervals at the initiative of PGS, the FPSC or other parties.

In May 2009, PGS's base rates were established with base rates set at 10.75%. The allowed equity in capital structure is 54.7% from all investor sources of capital.

On February 7, 2017, the FPSC approved a settlement agreement filed by PGS and the OPC agreeing to new depreciation rates, accelerate the amortization of the regulatory asset associated with environmental remediation costs as described below, include obsolete plastic pipe replacements through the existing cast iron and bare steel replacement rider, and establish an ROE range of 9.25% to 11.75%. The settlement agreement provided that the bottom of the range will remain until the earlier of new base rates established in PGS's next general base rate proceeding or December 31, 2020 and the ROE of 10.75% will continue to be used for the calculation of return on investment for clauses and riders.

As part of the 2017 settlement, PGS and the OPC agreed that at least \$32 million of PGS's regulatory asset associated with the environmental liability for current and future remediation costs related to former MGP sites, to the extent expenses are reasonably and prudently incurred, will be amortized over the period 2016 through 2020. At least \$21 million of that amount will be amortized over a two-year recovery period beginning in 2016. In 2017 and 2016, PGS recorded \$5 million and \$16 million, respectively, of this amortization expense.

The 2017 PGS settlement did not contain a provision for tax reform. In 2018, the FPSC approved a settlement agreement authorizing PGS to accelerate in 2018 the remaining amortization of PGS's regulatory asset associated with the MGP environmental liability up to the \$32 million to net it against the estimated 2018 tax reform benefits. Therefore, PGS recorded amortization expense and a regulatory asset reduction of \$11 million in 2018. In January 2019, PGS reduced its base rates by \$12 million for the impact of tax reform and reduced depreciation rates by \$10 million in accordance with the settlement agreement.

PGS is permitted to initiate a general base rate proceeding during 2020 regardless of its earned ROE at the time, provided the new rates do not become effective before January 1, 2021. As a result of increased forecasted revenue requirements, on February 7, 2020, PGS notified the FPSC that it is planning to file a base rate proceeding in April for new rates effective January 2021.

Cost Recovery Clauses and Riders

PGS recovers the costs it pays for gas supply and interstate transportation for system supply through a PGA clause. This clause is designed to recover the actual costs incurred by PGS for purchased gas, gas storage services, interstate pipeline capacity, and other related items associated with the purchase, distribution, and sale of natural gas to its customers. These charges may be adjusted monthly based on a cap approved annually in an FPSC hearing. The cap is based on estimated costs of purchased gas and pipeline capacity, and estimated customer usage for a calendar year recovery period, with a true-up adjustment to reflect the variance of actual costs and usage from the projected charges for prior periods. The current PGA cap rate, effective January 2020, was approved by the FPSC in November 2019.

In addition to its base rates and PGA clause charges, PGS customers (except interruptible customers) also pay a per-therm charge for energy conservation and pipeline replacement programs as described above. The conservation charge is intended to permit PGS to recover prudently incurred expenditures in developing and implementing cost effective energy conservation programs which are mandated by Florida law and approved and monitored by the FPSC. PGS is also permitted to recover the return on, depreciation expenses and applicable taxes associated with the replacement of cast iron/bare steel infrastructure. The FPSC approved a replacement program of approximately 5%, or 500 miles, of the PGS system over a 10-year period beginning in 2013. As disclosed above, in February 2017, the FPSC approved an amendment to the cast iron bare steel rider to include certain plastic materials and pipe deemed obsolete by Pipeline and Hazardous Materials Safety Administration, totaling approximately 550 miles. PGS estimates that all cast

iron and bare steel pipe will be removed from its system by 2022, with the replacement of obsolete plastic pipe continuing until 2028 under the rider.

FPSC and Other Regulation

The FPSC requires natural gas utilities to offer transportation-only service to all non-residential customers. In addition to economic regulation, PGS is subject to the FPSC's safety jurisdiction, pursuant to which the FPSC regulates the construction, operation and maintenance of PGS's distribution system.

PGS is subject to federal, state and local environmental laws and regulations pertaining to air and water quality, land use, noise and aesthetics, solid waste and other environmental matters (see the **Environmental Compliance** section of the **MD&A**).

Competition

Although PGS is not in direct competition with any other regulated local distributors of natural gas for customers within its service areas, there are other forms of competition. The principal form of competition for residential and small commercial customers is from companies providing other sources of energy, including electricity, propane and fuel oil. There is also competition from other local distributors of natural gas to establish service territories in unserved areas of Florida.

Competition is most prevalent in the large commercial and industrial markets. These classes of customers have been approached by companies seeking to sell gas directly by transporting gas through other facilities and thereby bypassing the PGS system. In response to this competition, PGS has developed various programs, including the provision of transportation-only services at discounted rates.

In Florida, gas service is unbundled for all non-residential customers. PGS offers unbundled transportation service to all non-residential customers, and residential customers consuming in excess of 1,999 therms annually, allowing these customers to purchase commodity gas from a third party but continue to pay PGS for the transportation. Because the commodity portion of bundled sales is included in operating revenues at the cost of the gas on a pass-through basis, there is no net earnings effect when a customer shifts to transportation-only sales. As a result, PGS receives its base rate for distribution regardless of whether a customer decides to opt for transportation-only service or continue bundled service. As of December 31, 2019, PGS had approximately 26,100 transportation-only customers out of approximately 39,700 eligible customers.

Gas Supplies

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

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

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

PGS procures natural gas supplies using base-load contracts and swing-supply contracts (i.e., short-term contracts without a specified volume) with various suppliers along with spot market purchases. Pricing generally takes the form of either a variable price based on published indices or a fixed price for the contract term.

Franchises and Other Rights

PGS holds franchise and other rights with 116 municipalities and districts throughout Florida. These franchises govern the placement of PGS's facilities on the public rights-of-way as it carries on its retail business in the localities it serves. The franchises are irrevocable and are not subject to amendment without the consent of PGS.

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

PGS's franchise agreements have various expiration dates through 2049. PGS expects to negotiate 16 franchise renewals in 2020 under similar terms. Franchise fees expense totaled \$10 million in 2019 and 2018. Franchise fees are calculated using various formulas which are based principally on natural gas revenues. Franchise fees are recovered on a dollar-for-dollar basis from the respective customers within each franchise area.

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

Environmental Matters

PGS's operations are subject to federal, state and local statutes, rules and regulations relating to the discharge of materials into the environment and the protection of the environment that generally require monitoring, permitting and ongoing expenditures. TEC is one of several PRPs for certain superfund sites and, through PGS, for former MGP sites. See **Note 8** to the **2019 Annual TEC Consolidated Financial Statements** and the **Environmental Compliance** section of the **MD&A** for additional information.

Item 1A. RISK FACTORS

Risks Relating to TEC's Business and Strategy

Regulatory, Legislative, and Legal Risks

TEC's electric and gas utilities are regulated; changes in regulation or the regulatory environment could reduce revenues, increase costs or competition.

TEC's electric and gas utilities operate in regulated industries. Retail operations, including the rates charged, are regulated by the FPSC, and Tampa Electric's wholesale power sales and transmission services are subject to regulation by the FERC. Changes in regulatory requirements or adverse regulatory actions could have an adverse effect on TEC's financial performance by, for example, reducing revenues, increasing competition or costs, threatening investment recovery or impacting rate structure.

If Tampa Electric or PGS earn returns on equity above their respective allowed ranges, indicating a trend, those earnings could be subject to review by the FPSC. Ultimately, prolonged returns above their allowed ranges could result in credits or refunds to customers, which could reduce future earnings and cash flow.

Changes in the environmental laws and regulations affecting its businesses could increase TEC's costs or curtail its activities.

TEC'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 on TEC, requiring cost-recovery proceedings and/or requiring it to modify its business model. In addition, environmental laws and regulations may curtail sales of natural gas to new customers, which could reduce PGS's customer growth in the future.

Federal or state regulation of GHG emissions, depending on how they are enacted, could increase Tampa Electric's costs or the rates charged to its customers, which could curtail sales.

On June 19, 2019, the EPA released a final rule named the Affordable Clean Energy (ACE) rule. The ACE rule, which replaces the Clean Power Plan adopted in 2015, establishes emission guidelines for states to address GHG emissions from existing coal-fired electric generating units. Tampa Electric has emission units that are subject to the ACE rule and is preparing to engage in the development of a state plan that could be finalized by the end of 2020.

The outcome of expected litigation and the EPA rulemaking process and its impact on Tampa Electric's business is currently uncertain. Tampa Electric is continuing to evaluate the potential impact of the rule, but currently expects prudently incurred related costs for compliance to be recovered through rates. Timing of recovery could impact earnings and cash flows and increases in rates charged to customers could result in reduced sales.

The computation of TEC's provision for income taxes is impacted by changes in tax legislation.

Any changes in tax legislation could affect TEC's future cash flows and financial position. The value of TEC's existing deferred tax assets and liabilities are determined by existing tax laws and could be impacted by changes in laws. See **Note 4** of the **2019 Annual TEC Consolidated Financial Statements** for further information regarding TEC's income taxes.

Tampa Electric and PGS may not be able to secure adequate rights-of-way to construct transmission lines, gas interconnection lines and distribution-related facilities and could be required to find alternate ways to provide adequate sources of energy and maintain reliable service for their customers.

Tampa Electric and PGS rely on federal, state and local governmental agencies to secure rights-of-way and siting permits to construct transmission lines, gas interconnection lines and distribution-related facilities. If adequate rights-of-way and siting permits to build new transportation and transmission lines cannot be secured, then Tampa Electric and PGS:

- May need to remove or abandon its facilities on the property covered by rights-of-way or franchises and seek alternative locations for its transmission or distribution facilities;
- May need to rely on more costly alternatives to provide energy to their customers;
- May not be able to maintain reliability in their service areas; and/or
- May experience a negative impact on their ability to provide electric or gas service to new customers.

The franchise rights held by Tampa Electric and PGS could be lost in the event of a breach by such utilities or could expire and not be renewed.

Tampa Electric and PGS hold franchise agreements with counterparties throughout their service areas. In some cases, these rights could be lost in the event of a breach of these agreements by the applicable utility. These agreements are for set periods and could expire and not be renewed upon expiration of the then-current terms. Some agreements contain provisions allowing municipalities to purchase the portion of the applicable utility's system located within a given municipality's boundaries under certain conditions.

Operational and Construction Risks

TEC's businesses are sensitive to variations in weather and the effects of extreme weather and have seasonal variations.

TEC's utility businesses are affected by variations in general weather conditions and severe weather. Energy sales by its electric and gas utilities are particularly sensitive to seasonal variations in weather conditions, including unusually mild summer or winter weather that cause lower energy usage for cooling or heating purposes. PGS typically has a short but significant winter peak period that is dependent on cold weather; Tampa Electric has both summer and winter peak periods that are dependent on weather conditions. Tampa Electric and PGS forecast energy sales based on normal weather, which represents a long-term historical average. If there is unusually mild weather, or if climate change or other factors cause significant variations from normal weather, this could have a material impact on energy sales.

TEC is subject to several risks that arise or may arise from climate change.

TEC is subject to risks that arise or may arise from the impacts of climate change. There is increasing public concern about climate change and growing support for reducing carbon emissions. City, state, and federal governments have been setting policies and enacting laws and regulations to deal with climate change impacts in a variety of ways, including de-carbonization initiatives and promotion of cleaner energy and renewable energy generation of electricity. Refer to "changes in the environmental laws and regulations" above. Insurance companies have begun to limit their exposure to coal-fired electricity generation, and are evaluating the medium and long-term impacts of climate change which may result in fewer insurers, more restrictive coverage and increased premiums.

Climate change may lead to increased frequency and intensity of weather events and related impacts such as storms, ice storms, hurricanes, cyclones, heavy rainfall, extreme winds, wildfires, flooding and storm surge. The potential impacts of climate change, such as rising sea levels and larger storm surges from more intense hurricanes, can combine to produce even greater damage to coastal generation and other facilities. Climate change is also characterized by rising global temperatures. Increased air temperatures may bring increased frequency and severity of wildfires, including within TEC's service territories. Refer to "variations in weather" above.

TEC is subject to physical risks that arise, or may arise, from global climate change, including damage to operating assets from more frequent and intense weather events and from wildfires due to warming air temperatures and increasing drought conditions.

Some of TEC's fossil fueled generation assets are located at coastal, or near coastal, sites and as such are exposed to the separate and combined effects of rising sea levels and increasing storm intensity, including storm surges and flooding. Refer to "variations in weather" above.

Failure to address issues related to climate change could affect TEC's reputation with stakeholders, its ability to operate and grow, and TEC's access to, and cost of, capital. Refer to "Financial, Economic, and Market Risks" below.

Changing carbon-related costs, policy and regulatory changes and shifts in supply and demand factors could lead to more expensive or more scarce products and services that are required by TEC in its operations. This could lead to supply shortages, delivery delays and the need to source alternate products and services.

Given concerns regarding carbon-emitting generation, those assets and businesses may, over time, become difficult (or uneconomic) to insure in commercial insurance markets.

Depending on the regulatory response to government legislation and regulations, TEC may be exposed to the risk of reduced recovery through rates in respect of the affected assets. Valuation impairments could result from such regulatory outcomes.

TEC could, in the future, face litigation or regulatory action related to environmental harms from carbon emissions or climate change public disclosure issues.

For thermal plants requiring cooling water, reduced availability of water resulting from climate change could adversely impact operations or the costs of operations.

The facilities and operations of TEC could be affected by natural disasters or other catastrophic events.

TEC's facilities and operations are exposed to potential damage and partial or complete loss resulting from environmental disasters (e.g. hurricanes, floods, high winds, fires and earthquakes), equipment failures, terrorist or physical attacks, vandalism, a major accident or incident at one of the sites, and other events beyond the control of TEC. The operation of generation, transmission and distribution systems involves certain risks, including gas leaks, fires, explosions, pipeline ruptures, damage to solar panels and other generation assets, and other hazards and risks that may cause unforeseen interruptions, personal injury, death, or property damage. For example, there have also been physical attacks on critical infrastructure around the world. In the event of a physical attack that disrupts service to customers, revenues would be reduced, and costs would be incurred to repair and restore systems. These types of events, either impacting TEC's facilities or the industry in general, could also cause TEC to incur additional security and insurance-related costs, and could have adverse effects on its business and financial results. Any costs relating to such events may not be recoverable through insurance or rates.

TEC is exposed to potential risks related to cyberattacks and unauthorized access, which could cause system failures, disrupt operations or adversely affect safety.

TEC increasingly relies on information technology systems and network infrastructure to manage its business and safely operate its assets; including controls for interconnected systems of generation, distribution and transmission as well as financial, billing and other business systems. TEC also relies on third party service providers in order to conduct business. As TEC operates critical infrastructure, it may be at greater risk of cyberattacks by third parties, which could include nation-state controlled parties.

Cyberattacks can reach TEC's networks with access to critical assets and information via their interfaces with less critical internal networks or via the public internet. Cyberattacks can also occur via personnel with direct access to critical assets or trusted networks. Methods used to attack critical assets could include general purpose or energy-sector-specific malware delivered via network transfer, removable media, viruses, attachments or links in e-mails. The methods used by attackers are continuously evolving and can be difficult to predict and detect.

TEC's systems, assets and information could experience security breaches that could cause system failures, disrupt operations or adversely affect safety. Such breaches could compromise customer, employee-related or other information systems and could result in loss of service to customers or the unavailability, release, destruction or misuse of critical, sensitive or confidential information. These breaches could also delay delivery or result in contamination or degradation of hydrocarbon products TEC transports, stores or distributes.

Should such cyberattacks or unauthorized accesses materialize, TEC could suffer costs, losses and damages all, or some of which, may not be recoverable through insurance, legal, regulatory cost recovery or other processes and could materially adversely affect TEC's business and financial results including its reputation and standing with customers, regulators, governments and financial markets. Resulting costs could include, amongst others, response, recovery and remediation costs, increased protection or insurance

costs and costs arising from damages and losses incurred by third parties. If any such security breaches occur, there is no assurance that they can be adequately addressed in a timely manner.

With respect to certain of its assets, TEC is required to comply with rules and standards relating to cybersecurity and information technology including, but not limited to, those mandated by bodies such as the North American Electric Reliability Corporation. TEC cannot be assured that its operations will not be negatively impacted by a cyberattack.

Financial, Economic, and Market Risks

National and local economic conditions can have a significant impact on the results of operations, net income and cash flows at TEC.

The business of TEC is concentrated in Florida. If economic conditions start to decline, retail customer growth rates may stagnate or decline, and customers' energy usage may decline, adversely affecting TEC's results of operations, net income and cash flows. A factor in customer growth in Florida is net in migration of new residents, both domestic and non-U.S. A slowdown in the U.S. economy could reduce the number of new residents and slow customer growth.

Potential competitive changes may adversely affect TEC.

There is competition in wholesale power sales across the United States. 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 or voters, particularly with respect to retail competition, could adversely affect Tampa Electric's business and its expected performance.

Deregulation or restructuring of the electric industry may result in increased competition and unrecovered costs that could adversely affect operations, net income and cash flows. A proposed constitutional amendment initiative relating to electric utilities in Florida was rejected by the Florida Supreme Court as misleading and therefore the constitutional amendment will not be included on ballots for the November 2020 election. The proposed amendment to the Florida Constitution would have limited the business of investor-owned utilities to construction, operation and repair of electrical transmission and distribution systems. It would have also granted customers of investor-owned utilities the right to generate electricity and to choose their electricity provider.

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

TEC relies on some natural gas transmission assets that it does not own or control to deliver natural gas.

TEC depends on transmission facilities owned and operated by other utilities and energy companies to deliver the natural gas it sells to the wholesale and retail markets. If transmission is disrupted, or if capacity is inadequate, its ability to sell and deliver products and satisfy its contractual and service obligations could be adversely affected.

Disruption of fuel supply could have an adverse impact on the financial condition of TEC.

Tampa Electric and PGS depend on third parties to supply fuel, including natural gas, oil and coal. As a result, there are risks of supply interruptions and fuel-price volatility. Disruption of fuel supplies or transportation services for fuel, whether because of weather-related problems, strikes, lock-outs, break-downs of transportation facilities, pipeline failures or other events, could impair the ability to deliver electricity and gas or generate electricity and could adversely affect operations. The loss of fuel suppliers or the inability to renew existing coal and natural gas contracts at favorable terms could significantly affect the ability to serve customers and have an adverse impact on the financial condition and results of operations of TEC.

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

TEC's businesses are sensitive to changes in gas, coal, oil and other commodity prices. Any changes in the availability of these commodities could affect the prices charged by suppliers as well as suppliers' operating costs and the competitive positions of their products and services.

In the case of Tampa Electric, fuel costs used for generation are affected primarily by the cost of natural gas and coal. Tampa Electric is able to recover prudently incurred costs 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.

The ability to make sales of, and the margins earned on, wholesale power sales are affected by the cost of fuel to Tampa Electric, particularly as it compares to the costs of other power producers.

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 as compared to electricity, other forms of energy and other gas suppliers.

Developments in technology could reduce demand for electricity and gas.

Research and development activities are ongoing for new technologies that produce power or reduce power consumption. These technologies include renewable energy, customer-oriented generation, energy storage, energy efficiency and more energy-efficient appliances and equipment. Advances in these or other technologies could reduce the cost of producing electricity or transporting gas, or otherwise make Tampa Electric's existing generating facilities uneconomic. In addition, advances in such technologies could reduce demand for electricity or natural gas, which could negatively impact the results of operations, net income and cash flows of TEC.

Results at TEC may be affected by changes in customer energy-usage patterns.

For the past several years, at Tampa Electric and electric utilities across the United States, weather-normalized electricity consumption per residential customer has declined due to the combined effects of voluntary conservation efforts and improvements in equipment efficiency.

Forecasts by TEC are based on normal weather patterns and trends in customer energy-usage patterns. The ability of TEC to increase energy sales and earnings could be negatively impacted if customers further reduce their energy usage in response to increased energy efficiency, economic conditions or other factors.

Increased customer use of distributed generation could adversely affect Tampa Electric.

In many areas of the United States, there is growing use of rooftop solar panels, small wind turbines and other small-scale methods of power generation, known as distributed generation. Distributed generation is encouraged and supported by various constituent groups, tax incentives, renewable portfolio standards and special rates designed to support such generation.

Increased usage of distributed generation can reduce utility electricity sales but does not reduce the need for ongoing investment in infrastructure to maintain or expand the transmission and distribution grid to reliably serve customers. Continued utility investment that is not supported by increased energy sales causes rates to increase for customers, which could further reduce energy sales and reduce future earnings and cash flows.

Failure to attract and retain an appropriately qualified workforce, or workforce disruptions, could adversely affect TEC's financial results.

Events such as increased retirements due to an aging workforce or the departure of employees for other reasons without appropriate replacements, mismatch of skill sets to future needs, or unavailability of contract resources may lead to operating challenges such as lack of resources, loss of knowledge, and a lengthy time period associated with skill development. Failure to attract and hire employees, including the ability to transfer significant internal historical knowledge and expertise to the new employees, or workforce disruptions due to work stoppages or strikes, or the future availability and cost of contract labor may cause costs to operate TEC's systems to rise. If TEC is unable to successfully attract and retain an appropriately qualified workforce, results of operations could be negatively impacted.

Liquidity, Capital Requirements, and Common Stock Risks

TEC's substantial indebtedness could adversely affect its business, financial condition and results of operations, as well as its ability to meet its payment obligations on its debt.

TEC has a significant amount of indebtedness that it is obligated to pay. It must meet certain financial covenants as defined in the applicable agreements to borrow under its credit facilities. Also, TEC has certain restrictive covenants in specific agreements and debt instruments. The level of TEC's indebtedness and restrictive covenants contained in its debt obligations could have significant consequences to its business, could create risk for the holders of its debt, and could limit its ability to obtain additional financing (see **Management's Discussion & Analysis – Significant Financial Covenants** section). Such risks include:

- making it more difficult for TEC to satisfy its debt obligations and other ongoing business obligations, which may result in defaults;

- events of default if it fails to comply with the financial and other covenants contained in the agreements governing such debt, which could result in all of its debt becoming immediately due and payable or require it to negotiate an amendment to financial or other covenants that could cause it to incur additional fees and expenses;
- reducing the availability of cash flow to finance its business and limiting its ability to obtain additional financing for these purposes;
- increasing its vulnerability to the impact of adverse economic and industry conditions;
- limiting its flexibility in planning for, or reacting to, and increasing its vulnerability to, changes in its business and the overall economy; and increasing its cost of borrowing.

TEC has obligations that do not appear on its balance sheet, such as letters of credit. To the extent material, these obligations are disclosed in the notes to the financial statements.

Financial market conditions could limit TEC's access to capital and increase TEC's costs of borrowing or refinancing, or have other adverse effects on its results.

TEC has debt maturing in subsequent years, which TEC anticipates will need to be refinanced. Future financial market conditions could limit TEC's ability to raise the capital it needs and could increase its interest costs, which could reduce earnings and cash flows.

Declines in the financial markets or in interest rates used to determine benefit obligations could increase TEC's pension expense or the required cash contributions to maintain required levels of funding for its plan.

TEC is a participant in the comprehensive retirement plans of TECO Energy. Under calculation requirements of the Pension Protection Act, as of the January 1, 2020 measurement date, TECO Energy's pension plan was fully funded. Any future declines in the financial markets or interest rates could increase the amount of contributions required to fund its pension plan in the future and could cause pension expense to increase.

TEC's financial condition and results could be adversely affected if its capital expenditures are greater than forecast or costs are not recoverable through rates.

For 2020, Tampa Electric is forecasting capital expenditures to support the current levels of customer growth, harden transmission and distribution facilities against storm damage, maintain transmission and distribution system reliability, modernize the Big Bend Power Station, invest in solar generation and maintain generating unit reliability and efficiency. For 2020, PGS is forecasting capital expenditures to support customer growth, system reliability, conversion of customers from other fuels to natural gas and to replace bare steel, cast iron and obsolete plastic pipe.

Total costs may be higher than estimated and there can be no assurance that TEC will be able to obtain the necessary project approvals, regulatory outcomes or applicable permits at the federal, state and or local level to recover such expenditures through regulated rates. If TEC's capital expenditures exceed the forecasted levels or are not recoverable, it may need to draw on credit facilities or access the capital markets on unfavorable terms.

TEC's financial condition and ability to access capital may be materially adversely affected by multiple ratings downgrades to below investment grade.

The senior unsecured debt of TEC is rated by S&P at 'BBB+', by Moody's at 'A3' and by Fitch at 'A'. A downgrade to below investment grade by the rating agencies, which would require a four-notch downgrade by Moody's and Fitch and a three-notch downgrade by S&P, may affect TEC's ability to borrow, may change requirements for future collateral or margin postings, and may increase financing costs, which may decrease earnings. Downgrades could adversely affect TEC's relationships with customers and counterparties.

In the event TEC's ratings were downgraded to below investment grade, certain agreements could require immediate payment or full collateralization of net liability positions. Counterparties to its derivative instruments could request immediate payment or full collateralization of net liability positions. Credit provisions in long-term gas transportation agreements would give the transportation providers the right to demand collateral, which is estimated to be approximately \$110 million. Credit facilities or debt agreements do not have ratings downgrade covenants that would require immediate repayment.

Item 2. PROPERTIES

TEC believes that the physical properties of its operating companies are adequate to carry on their businesses as currently conducted. The properties of Tampa Electric are subject to a first mortgage bond indenture under which no bonds are currently outstanding.

TAMPA ELECTRIC

Tampa Electric has electric generating stations in service, with a December 2019 net winter generating capability of 5,641 MWs. Tampa Electric assets include the Big Bend Power Station (1,693 MWs capacity), the Bayside Power Station (2,083 capacity) and the Polk Power Station (1,420 MWs capacity). Also included in Tampa Electric's assets at December 31, 2019 are ten solar arrays (445 MWs). In addition, solar arrays totaling 149 MWs were placed in service in early 2020.

Tampa Electric owns 186 substations having an aggregate transformer capacity of 23,200 mega volts amps. The transmission system consists of approximately 1,345 total circuit miles of high voltage transmission lines, including underground and double-circuit lines. The distribution system consists of approximately 6,250 circuit miles of overhead lines and approximately 5,550 circuit miles of underground lines. As of December 31, 2019, there were 787,400 meters in service. All of this property is located in Florida.

Tampa Electric's property, plant and equipment are owned, except that titles to some of the properties are subject to easements, leases, contracts, covenants and similar encumbrances common to properties of the size and character of those of Tampa Electric.

Tampa Electric has easements or other property rights for rights-of-way adequate for the maintenance and operation of its electrical transmission and distribution lines that are not constructed upon public highways, roads and streets. Transmission and distribution lines located in public ways are maintained under franchises or permits.

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

PEOPLES GAS SYSTEM

PGS's distribution system extends throughout the areas it serves in Florida and consists of approximately 21,000 miles of pipe, including approximately 13,500 miles of mains and 7,500 miles of service lines. Mains and service lines are maintained under rights-of-way, franchises or permits.

PGS's operations are located in 14 service areas throughout Florida. Most of the operations and administrative facilities are owned.

Item 3. LEGAL PROCEEDINGS

From time to time, TEC is involved in various legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies in the ordinary course of business. Where appropriate, accruals are made in accordance with accounting standards for contingencies to provide for matters that are probable of resulting in an estimable loss. For a discussion of legal proceedings and environmental matters, see **Note 8** of the **2019 Annual TEC Consolidated Financial Statements**.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

All of TEC's common stock is owned by TECO Energy, which in turn is owned by a subsidiary of Emera and, thus, is not listed on a stock exchange. Therefore, there is no market for such stock.

Item 6. SELECTED FINANCIAL DATA OF TAMPA ELECTRIC COMPANY

Information required by Item 6 is omitted pursuant to General Instruction I(2) of Form 10-K.

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

This Management's Discussion & Analysis contains forward-looking statements, which are subject to the inherent uncertainties in predicting future results and conditions. Actual results may differ materially from those forecasted. Such statements are based on our current expectations as of the date we filed this report, and we do not undertake to update or revise such forward-looking statements, except as may be required by law. These forward-looking statements include references to anticipated capital expenditures, liquidity and financing requirements, projected operating results, future environmental matters, and regulatory and other plans. Important factors that could cause actual results to differ materially from those projected in these forward-looking statements are discussed under "Risk Factors", and elsewhere in this MD&A.

OVERVIEW

TEC has regulated electric and gas utility operations in Florida. At December 31, 2019, Tampa Electric served approximately 779,000 customers in a 2,000-square-mile service area in West Central Florida and had electric generating plants with a winter peak generating capacity of 5,641 MW. PGS, Florida's largest gas distribution utility, served approximately 406,000 residential, commercial, industrial and electric power generating customers at December 31, 2019 in all major metropolitan areas of the state, with a total natural gas throughput of approximately 2.1 billion therms in 2019.

TEC is a wholly owned subsidiary of TECO Energy, and TECO Energy is a wholly owned subsidiary of Emera. Therefore, TEC is an indirect, wholly owned subsidiary of Emera. See **Note 10** to the **2019 Annual TEC Consolidated Financial Statements** for information regarding related party transactions.

2019 PERFORMANCE

All amounts included in this MD&A are pre-tax, except net income and income taxes.

In 2019, TEC's net income was \$370 million, compared with \$341 million in 2018. In 2018, as permitted by the FPSC, TEC offset the impact of estimated 2018 tax reform benefits with a \$103 million charge to O&M expense related to Tampa Electric storm costs and a \$11 million charge to amortization expense related to PGS's regulatory asset associated with the MGP environmental liability (see **Note 3** to the **TEC Consolidated Financial Statements**). Beginning on January 1, 2019, as approved by the FPSC, base rates were lowered due to the impact of U.S. tax reform by approximately \$103 million annually at Tampa Electric and \$12 million annually at PGS. Therefore, the decrease in revenue due to lower base rates from tax reform in 2019 was largely offset by lower O&M expense and lower amortization expense from the absence of the offsetting of U.S. tax reform benefits in 2018, resulting in minimal impact to the Consolidated Statements of Income. Excluding the impact of tax reform, storm costs and the MGP regulatory asset, 2019 results were impacted by higher base revenue, primarily related to the in-service of solar generation projects and customer growth, partially offset by higher interest expense and depreciation expense. See below for further detail regarding 2019 results as compared to 2018. For information regarding 2018 results as compared to 2017, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of **TEC's Annual Report on Form 10-K** for the year ended December 31, 2018.

OUTLOOK

TEC's earnings are most directly impacted by the allowed rate of return on equity and the capital structures approved by the FPSC, the prudent management of operating costs, the approved recovery of regulatory deferrals, weather and its impact on energy sales, and the timing and amount of capital expenditures.

Tampa Electric anticipates earning within its allowed ROE range in 2020 and expects rate base and earnings to be higher than in 2019. Tampa Electric expects customer growth rates in 2020 to be consistent with 2019, reflecting economic growth in Florida.

Assuming normal weather in 2020, Tampa Electric sales volumes are expected to be consistent with 2019 sales volumes (see **Customer and Energy Sales Growth Outlook** for further details).

Driven by customer demand and economic development across the state of Florida along with reliability infrastructure projects, PGS has plans for significant capital investments in 2020. The rate base growth from these investments along with other operating cost increases since the last rate increase, which occurred over 10 years ago in 2009, is expected to cause PGS to earn below its allowed ROE range in 2020. Consistent with its FPSC-approved 2018 tax reform settlement agreement, PGS is permitted to initiate a general base rate proceeding during 2020, regardless of its earned ROE at the time, provided the new rates do not become effective before January 1, 2021. As a result, on February 7, 2020, PGS notified the FPSC that it is planning to file a base rate proceeding in April for new rates effective January 2021.

PGS also expects customer growth rates in 2020 to be consistent with 2019, reflecting economic growth and the optimization of existing opportunities as the utility increases its market penetration in Florida. Assuming normal weather in 2020, PGS sales volumes are expected to increase at a level slightly above customer growth, as 2019 energy sales were negatively impacted by unfavorable winter weather.

On December 10, 2019, the FPSC approved Tampa Electric's petition to reduce base rates and charges reflecting reduction of the state income tax rate from 5.5% to 4.5%. The tax rate reduction is effective retroactive from January 1, 2019 to December 31, 2021. The estimated base rate reduction of \$5 million due to customers is subject to true-up, and the actual rate reduction may vary from year to year. The new lower rates were effective January 2020. In addition, in January 2020, Tampa Electric refunded \$12 million to customers as a result of the final settlement agreement related to the netting of Hurricane Irma storm costs and 2018 U.S. tax reform benefits. See **Note 3** to the **2019 Annual TEC Consolidated Financial Statements** for additional information.

On October 3, 2019, the FPSC issued a rule to implement a storm protection plan cost recovery clause. This new clause provides a process for Florida investor-owned utilities, including Tampa Electric, to recover transmission and distribution storm hardening costs for incremental activities not already included in base rates. Subject to final approval of a FPSC rule, Tampa Electric expects to file a storm protection plan with the FPSC in the second quarter of 2020.

As of December 31, 2019, Tampa Electric has invested approximately \$820 million in new utility-scale solar photovoltaic projects, which is recoverable through FPSC-approved SoBRAs. Tampa Electric expects to invest a total of approximately \$850 million in these projects across its service territory through 2021. AFUDC is being earned on these projects during construction. Tampa Electric began receiving revenues of \$24 million annually for the first tranche of its SoBRA in September 2018, \$46 million annually for the second tranche in January 2019 and \$26 million annually for the third tranche in January 2020. Tampa Electric expects to file its final SoBRA petition for the January 1, 2021 tranche in 2020. See **Note 3** to the **2019 Annual TEC Consolidated Financial Statements** for additional information. Tampa Electric also intends to invest approximately \$800 million in an additional 600 MW of new utility-scale solar photovoltaic projects with targeted in-service dates during 2021 through 2023.

In 2020, TEC expects to invest approximately \$1.4 billion, including AFUDC, in capital projects compared to \$1.3 billion in 2019. Capital projects support normal system reliability and growth at the utilities. AFUDC will be earned on eligible capital projects during the construction periods. Tampa Electric investments include continuation of the modernization of the Big Bend Power Station, which received final state approval on July 25, 2019, solar investments and an AMI (Advanced Meter Infrastructure) project, which includes the installation of smart meters. PGS will make investments to expand its system and support customer growth, including expected investments related to compressed natural gas fueling stations, renewable natural gas and liquefied natural gas facilities, and continued replacement of obsolete plastic, cast iron and bare steel pipe. See **Capital Investments** below for further information.

These forecasts are based on our current assumptions described in the operating company discussion, which are subject to risks and uncertainties (see the **Risk Factors** section).

OPERATING RESULTS

This MD&A utilizes TEC's consolidated financial statements, which have been prepared in accordance with U.S. GAAP. Our reported operating results are affected by several critical accounting estimates (see the **Critical Accounting Policies and Estimates** section).

The following table shows the revenues and net income of the business segments on a U.S. GAAP basis (see **Note 11** to the **2019 Annual TEC Consolidated Financial Statements**).

<i>(millions)</i>	2019		2018		2017	
Revenues						
Tampa Electric	\$	1,965	\$	2,066	\$	2,054
PGS		461		488		438
Eliminations		(22)		(30)		(22)
TEC	\$	2,404	\$	2,524	\$	2,470
Net income						
Tampa Electric	\$	316	\$	294	\$	273
PGS		54		47		43
TEC	\$	370	\$	341	\$	316

TAMPA ELECTRIC

Electric Operations Results

Tampa Electric's net income in 2019 was \$316 million, compared with \$294 million in 2018. Excluding the impact of tax reform and storm costs as disclosed in **2019 Performance** above, results primarily reflected higher base revenues and lower income taxes, partially offset by higher depreciation expense and higher interest expense. Base revenues are energy sales excluding revenues from clauses, gross receipts taxes and franchise fees. Clauses, gross receipts taxes and franchise fees do not have a material effect on net income as these revenues substantially represent a dollar-for-dollar recovery of clause and other pass-through costs. See the **Operating Revenues** and **Operating Expenses** sections below for additional information.

The table below provides a summary of Tampa Electric's revenue and expenses and energy sales by customer type.

Summary of Operating Results

<i>(millions, except customers and total degree days)</i>	2019		% Change		2018		% Change		2017	
Revenues	\$	1,965	(5)		\$	2,066	1		\$	2,054
O&M expense		408	(19)			504	26			399
Depreciation and amortization expense		336	8			312	4			300
Taxes, other than income		165	(2)			168	4			162
Non-fuel operating expenses		909	(8)			984	14			861
Fuel expense		533	(8)			578	(5)			608
Purchased power expense		49	(17)			59	28			46
Total fuel & purchased power expense		582	(9)			637	(3)			654
Total operating expenses		1,491	(8)			1,621	7			1,515
Operating income	\$	474	7		\$	445	(17)		\$	539
AFUDC-equity	\$	11	10		\$	10	400		\$	2
Provision for income taxes	\$	59	(9)		\$	65	(62)		\$	171
Net income	\$	316	7		\$	294	8		\$	273
<i>Megawatt-Hour Sales (thousands)</i>										
Residential		9,584	2			9,418	4			9,029
Commercial		6,240	(0)			6,266	(2)			6,362
Industrial		2,021	0			2,014	(0)			2,024
Other		1,939	0			1,933	9			1,771
Total retail		19,784	1			19,631	2			19,186
Off system sales		155	(46)			286	20			239
Total energy sold		19,939	0			19,917	3			19,425
<i>Retail customers—(thousands)</i>										
At December 31		779	2			764	2			748
Retail net energy for load		20,770	1			20,663	2			20,297
Total degree days		4,568	(3)			4,711	4			4,520

Operating Revenues

Revenues, excluding the impact of tax reform as disclosed above, were \$2 million higher than in 2018, primarily due to higher base revenue driven by the in-service of solar generation projects and customer growth, partially offset by lower clause revenue. Total degree days (a measure of heating and cooling demand) in Tampa Electric's service area in 2019 were 7% above normal and 3% below 2018. Total net energy for load, which is a calendar measurement of energy output, increased 1% in 2019 compared with 2018.

Customer and Energy Sales Growth Outlook

The Florida labor market continues to outperform the U.S. labor market. The local Tampa area unemployment rate improved to 3.2% in 2019 compared with 3.4% in 2018, which is below the Florida rate of 3.3% and the U.S. rate of 3.7% for 2019. The Florida and Tampa unemployment rates are expected to increase slightly in 2020. From 2019 to 2022, the economies of Florida's and Tampa Electric's service area, as measured by Real Gross State Product, are forecasted to expand at an average annual rate of 2.7%, outpacing the forecasted U.S. rate of 2.2%.

Population growth is forecasted to continue to be a major driver of customer growth for many years. Tampa Electric expects customer growth to be 1.5% to 2.0% annually over the next few years, assuming continued economic growth and business expansion.

For the past several years, weather-normalized energy consumption per residential customer declined due to the combined effects of voluntary conservation efforts, improvements in lighting and appliance efficiency. It is expected to continue to decline annually at an average annual rate of 0.6% over the next few years.

In 2020, retail energy sales are expected to be consistent with 2019 levels as 2019 energy sales benefitted from favorable weather while 2020 projections are based on normal weather. Over the longer-term, energy sales growth is expected to be around 1.0%. Energy sales growth projections reflect the offsetting impacts to customer growth from average energy consumption trends and assume continued local area economic growth, normal weather, and a continuation of the current energy market structure.

Tampa Electric anticipates earnings within the allowed ROE range in 2020 and expects earnings and rate base growth as a result of continued customer growth, increased investment in capital projects, and a focus on cost control.

Operating Expenses

In 2019, operations and maintenance expense, excluding all FPSC-approved cost-recovery clauses and the impact of regulatory agreements related to the recovery of storm costs and tax reform benefits as discussed above and in **Note 3** to the **TEC Consolidated Financial Statements**, was consistent with 2018 primarily reflecting higher transmission and distribution costs as a result of line clearance costs and serving customer growth, offset by lower generation costs as a result of lower outage costs and stronger unit performance. Depreciation and amortization expense increased \$24 million in 2019 from normal additions to facilities to reliably serve customers and the in-service of solar generation projects.

Excluding all FPSC-approved cost-recovery clause-related expense, O&M expense in 2020 is expected to be higher than in 2019 reflecting higher costs to safely and reliably serve customers. In 2020, depreciation expense is expected to increase due to solar project timings and normal plant additions.

Fuel Prices and Fuel Cost Recovery

In November 2019, the FPSC approved cost-recovery rates for fuel and purchased power, capacity, environmental and conservation costs for 2020. The rates include the expected cost for natural gas and coal in 2020, and a net prior period under-recovery true-up of fuel, purchased power and capacity clause expense. These rates are typically set annually, based on information provided in August of the year prior to the year the rates take effect.

Total fuel expense decreased in 2019 primarily due to lower natural gas prices. Delivered natural gas prices decreased 16% in 2019 as domestic natural gas supply and production far outpaced demand from LNG production and gas-fired electric generation. Delivered coal costs increased 9% in 2019. The average natural gas and coal costs were \$3.44/MMBTU and \$3.66/MMBTU, respectively, in 2019, compared with \$4.07/MMBTU and \$3.37/MMBTU, respectively, in 2018.

Total 2020 fuel and purchased power costs are expected to be less than incurred during 2019, which will be achieved using low-cost natural gas-fired generation.

PGS

Operating Results

In 2019, PGS reported net income of \$54 million, compared with \$47 million in 2018. Results reflect a 3.4% increase in number of customers in 2019 compared to 2018. Excluding the impact of tax reform as disclosed above, revenues were \$16 million lower than

the prior year primarily due to lower off-system sales, partially offset by customer growth. Excluding the impact of tax reform, base revenues were \$4 million higher than 2018 primarily due to customer growth, partially offset by unfavorable weather in 2019. Operations and maintenance expense, excluding all FPSC-approved cost-recovery clauses, was \$5 million higher than in 2018 primarily due to higher employee benefit costs, increased self-insurance costs, and higher cost to safely and reliably operate and maintain the growing distribution system. Depreciation and amortization decreased \$19 million due to accelerated amortization of the regulatory asset associated with MGP environmental remediation costs in 2018 and reduced depreciation rates in 2019 related to the 2018 settlement agreement (see **Note 3** to the **TEC Consolidated Financial Statements**), which were partially offset by normal asset growth. Return on investment in the cast iron and bare steel replacement rider was \$4 million higher in the 2019 period.

In 2019 and 2018, total throughput for PGS was approximately 2.1 billion therms and 2.0 billion therms, respectively. See **Business - Peoples Gas System- Gas Operations** for information regarding therms by type of customer.

PGS provides transportation service to customers utilizing gas-fired technology in the production of electric power. In addition, PGS provides gas transportation service to large LNG facilities located in Jacksonville, Florida. PGS has also experienced interest in the usage of CNG as an alternative fuel for vehicles, especially refuse trucks and buses. Therms sold to CNG stations have increased steadily to 36 million therms sold in 2019 compared to 33 million therms in 2018. Currently, there are 54 CNG fueling stations connected to the PGS system, with more in progress. PGS owns three CNG filling stations, and the cost of these stations is recovered over time through a special rate approved by the FPSC. CNG conversions add therm sales to the gas system without requiring significant capital investment by PGS.

The actual cost of gas and upstream transportation purchased and resold to end-use customers is recovered through a PGA. Because this charge may be adjusted monthly based on a cap approved by the FPSC annually, PGS normally has a lower percentage of under- or over-recovered fuel cost than Tampa Electric.

The table below provides a summary of PGS's revenue and expenses and therm sales by customer type.

Summary of Operating Results

<i>(millions, except customers)</i>	2019	% Change	2018	% Change	2017
Revenues	\$ 461	(6)	\$ 488	11	\$ 438
Cost of gas sold	152	(16)	180	18	153
Operating expenses	222	(4)	231	15	201
Operating income	\$ 87	13	\$ 77	(8)	\$ 84
Net income	\$ 54	15	\$ 47	9	\$ 43
Therms sold – by customer segment					
Residential	85	(2)	87	13	77
Commercial	517	1	510	4	489
Industrial	430	19	361	9	330
Off-system sales	188	(13)	217	8	201
Power generation	853	8	791	5	750
Total	2,073	5	1,966	6	1,847
Therms sold – by sales type					
System supply	296	(10)	328	8	303
Transportation	1,777	8	1,638	6	1,544
Total	2,073	5	1,966	6	1,847
Customer (thousands) – at December 31 ⁽¹⁾	406	4	392	4	378

See **Business-Peoples Gas System-Competition** for information regarding PGS's transportation-only customers.

PGS Outlook

PGS expects customer growth rates in 2020 to be in line with 2019, reflecting its expectations that the housing markets in many areas of the state will continue to grow, allowing for new and existing gas main opportunities. Assuming normal weather in 2020, PGS sales volumes are expected to increase at a level slightly above customer growth as 2019 energy sales were negatively impacted by unfavorable winter weather. PGS anticipates earnings in 2020 to be consistent with 2019.

In January 2019, a base rate reduction went into effect to return US tax reform benefits to customers in accordance with the FPSC-approved tax reform settlement. Excluding all FPSC-approved cost-recovery clause-related expenses, O&M expense in 2020 is expected to be higher than in 2019, driven by an increase in technology related costs, initiatives to enhance customer experience, and additional expense necessary to safely and reliably operate and maintain a growing distribution system. Depreciation and amortization expense is expected to increase in 2020 due to normal plant additions.

Complementing the strong residential construction market is PGS’s focus on extending the system to serve large commercial or industrial customers that are currently using petroleum or propane as fuel. The current relatively low natural gas prices and the lower emissions levels from using natural gas compared to other fuels make it attractive for these customers to convert from other fuels.

Due to expected growth in rate base in 2020, PGS anticipates earning below its allowed ROE range in 2020. On February 7, 2020, PGS notified the FPSC that it is planning to file a base rate proceeding in April for new rates effective January 2021.

OTHER ITEMS IMPACTING NET INCOME

Other Income, Net

Other income, net was \$20 million and \$18 million in 2019 and 2018, respectively, and included AFUDC-equity. AFUDC-equity was \$11 million and \$10 million in 2019 and 2018, respectively. The increase in AFUDC-equity is primarily due to Tampa Electric’s construction of the Big Bend modernization, solar generation and AMI as discussed in the **Capital Investments** section below. AFUDC is expected to increase in 2020 due to the timing of construction of the Big Bend modernization, solar generation, AMI and PGS expansion projects.

Interest Expense

In 2019, interest expense, excluding AFUDC-debt, was \$139 million compared to \$123 million in 2018. The increase reflected higher long-term borrowings.

Interest expense is expected to increase in 2020, reflecting higher balances and interest rates.

Income Taxes

The provision for income taxes decreased in 2019 primarily due to higher ITC amortization and lower Florida state tax rate. Income tax expense as a percentage of income before taxes was 17.2% in 2019 and 19.2% in 2018. TEC expects the 2020 annual effective tax rate to be consistent with 2019.

TEC is included in a consolidated U.S. federal income tax return with EUSHI and its subsidiaries. TEC’s income tax expense is based upon a separate return method, modified for the benefits-for-loss allocation in accordance with TECO Energy’s and EUSHI’s respective tax sharing agreements. The cash payments for federal income taxes and state income taxes made under those tax sharing agreements totaled \$63 million and \$77 million in 2019 and 2018, respectively. The cash payments mainly differ year over year due to pre-tax income and timing of tax depreciation deductions.

For more information on our income taxes, including a reconciliation between the statutory federal income tax rate, the effective tax rate and impacts of tax reform, see **Note 4** to the **2019 Annual TEC Consolidated Financial Statements**.

LIQUIDITY, CAPITAL RESOURCES

Balances as of December 31, 2019

(millions)

Credit facilities	\$	550
Drawn amounts/LCs		349
Available credit facilities		201
Cash and short-term investments		14
Total liquidity	\$	<u>215</u>

Cash from Operating Activities

Cash flows from operating activities in 2019 were \$841 million, an increase of \$39 million compared to 2018. The increase is primarily due to lower Tampa Electric fuel under-recoveries, higher conservation clause and PGA clause over-recoveries, increases in

revenue collected for the in-service of solar generation projects, and the timing of accounts payable, partially offset by lower base rates due to impact of tax reform and lower environmental clause over-recoveries.

Cash from Investing Activities

Cash flows from investing activities in 2019 resulted in a net use of cash of \$1.3 billion, which primarily reflects capital expenditures. TEC expects capital spending in 2020 to be approximately \$1.4 billion. See the **Capital Investments** section for additional information.

Cash from Financing Activities

Cash flows from financing activities in 2019 resulted in net cash inflows of \$441 million. TEC received \$395 million of equity contributions from Parent, \$292 million from long-term debt issuances (see **Note 7** to the **2019 Annual TEC Consolidated Financial Statements** for details) and \$127 million from the net increase in short-term debt. These increases in cash flows were partially offset by dividend payments to Parent of \$373 million.

Cash and Liquidity Outlook

TEC's tariff-based gross margins are the principal source of cash from operating activities. A diversified retail customer mix, primarily consisting of rate-regulated residential, commercial, and industrial customers, provides TEC with a reasonably predictable source of cash. In addition to using cash generated from operating activities, TEC uses available cash and credit facility borrowings to support normal operations and capital requirements. TEC may reduce short-term borrowings with cash from operations, long-term borrowings, or capital contributions from Parent. TEC expects to make significant capital expenditures in 2020 as it invests in solar projects, the modernization of the Big Bend power plant, smart meters, gas distribution system expansion and other projects. See **Capital Investments** section below for further detail on TEC's projected capital expenditures. TEC intends to fund those capital expenditures with available cash on hand, cash generated from operating activities, cash from equity contributions and debt issuances so that Tampa Electric and PGS maintain their capital structures consistent with the regulatory arrangements. Debt raised is subject to applicable regulatory approvals. Future financial market conditions could increase TEC's interest costs which could reduce earnings and cash flows.

As noted earlier, cash from operating activities and short-term borrowings are used to fund capital expenditures, which may result in periodic working capital deficits. The working capital deficit as of December 31, 2019 was primarily caused by short-term borrowings and periodic fluctuations in assets and liabilities related to FPSC clauses and riders. At December 31, 2019, TEC's unused capacity under its credit facilities was \$201 million.

TEC has credit facilities that provide \$550 million of credit, including \$150 million maturing in 2021 and \$400 million available to 2022. See **Note 6** to the **2019 Annual TEC Consolidated Financial Statements** for additional information regarding the credit facilities. TEC believes that its liquidity is adequate for both the near and long term given its expected operating cash flows, capital expenditures and related financing plans.

TEC expects cash from operations in 2020 to be lower than in 2019 primarily due to lower recoveries of fuel and cost of gas sold, partially offset by increased revenues due to customer growth and solar investments at Tampa Electric (see **Note 3** to the **2019 Annual TEC Consolidated Financial Statements**). TEC plans to use cash in 2020 to fund capital spending and to pay dividends to its shareholder. Dividends are declared and paid at the discretion of TEC's Board of Directors.

TEC's credit facilities contain certain financial covenants (see **Covenants in Financing Agreements** section). TEC estimates that it could fully utilize the total available capacity under its facilities in 2020 and remain within the covenant restrictions.

Short-Term Borrowings

At December 31, 2019 and 2018, the following credit facilities and related borrowings existed.

(millions)	December 31, 2019			December 31, 2018		
	Credit Facilities	Borrowings Outstanding ⁽¹⁾	Letters of Credit Outstanding	Credit Facilities	Borrowings Outstanding ⁽¹⁾	Letters of Credit Outstanding
5-year facility ⁽²⁾	\$ 400	\$ 295	\$ 1	\$ 325	\$ 131	\$ 1
3-year accounts receivable facility ⁽³⁾	150	53	0	150	90	0
Total	\$ 550	\$ 348	\$ 1	\$ 475	\$ 221	\$ 1

- (1) Borrowings outstanding are reported as notes payable.
- (2) This 5-year facility matures March 22, 2022.
- (3) This 3-year facility matures on March 22, 2021.

These credit facilities require commitment fees ranging from 12.5 to 35.0 basis points. The weighted average interest rate on outstanding amounts payable under the credit facilities at December 31, 2019 and 2018 was 2.56% and 3.14%, respectively. For a complete description of the credit facilities see **Note 6** to the **2019 Annual TEC Consolidated Financial Statements**.

<i>(millions)</i>	Maximum drawn amount	Minimum drawn amount	Average drawn amount	Average interest rate
2019 credit facility utilization	\$ 396	\$ 13	\$ 221	3.16%

Significant Financial Covenants

In order to utilize its bank credit facilities, TEC must meet certain financial tests as defined in the applicable agreements. In addition, TEC has certain restrictive covenants in specific agreements and debt instruments. At December 31, 2019, TEC was in compliance with all applicable financial covenants. The table that follows lists the significant financial covenants and the performance relative to them at December 31, 2019. Reference is made to the specific agreements and instruments for more details.

Instrument	Financial Covenant ⁽¹⁾	Requirement/Restriction	Calculation at December 31, 2019
Credit facility- \$400 million ⁽²⁾	Debt/capital	Cannot exceed 65%	46.5%
Accounts receivable credit facility- \$150 million ⁽²⁾	Debt/capital	Cannot exceed 65%	46.5%

- (1) As defined in each applicable instrument.
- (2) See **Note 6** to the **2019 Annual TEC Consolidated Financial Statements** for a description of the credit facilities.

Credit Ratings

	Standard & Poor's (S&P)	Moody's	Fitch ⁽¹⁾
Credit ratings of senior unsecured debt	BBB+	A3	A
Credit ratings outlook	Negative	Positive ⁽²⁾	Stable

- (1) Assigned by Fitch Ratings on June 13, 2019.
- (2) Changed by Moody's to Positive on December 19, 2019.

S&P, Moody's and Fitch describe credit ratings in the A3 or A category as having a strong capacity to meet its financial commitments. Ratings in the BBB or Baa category are described as representing adequate capacity for payment of financial obligations. The lowest investment grade credit ratings for S&P is BBB-, for Moody's is Baa3 and for Fitch is BBB-; thus, the three credit rating agencies assign TEC's senior unsecured debt investment-grade credit ratings.

A credit rating agency rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. TEC's access to capital markets and cost of financing, including the applicability of restrictive financial covenants, are influenced by the ratings of its securities. In addition, certain of TEC's derivative instruments contain provisions that require TEC's debt to maintain investment grade credit ratings (see **Note 14** to the **2019 Annual TEC Consolidated Financial Statements**).

Summary of Contractual Obligations

The following table lists the contractual obligations of TEC, including cash payments to repay debt, interest payments, lease payments and unconditional commitments related to capital expenditures.

Contractual Cash Obligations at December 31, 2019

(millions)	Payments Due by Period						
	Total	2020	2021	2022	2023	2024	After 2024
Long-term debt ⁽¹⁾	\$ 2,904	\$ 0	\$ 279	\$ 250	\$ 0	\$ 0	\$ 2,375
Interest payment obligations ⁽²⁾	2,699	132	124	117	110	110	2,106
Transportation ⁽³⁾	3,089	200	217	220	197	190	2,065
Pension plan ⁽⁴⁾	80	0	0	0	0	38	42
Capital projects ⁽⁵⁾	415	186	84	79	66	0	0
Fuel and gas supply ⁽³⁾	288	226	58	3	1	0	0
Purchased power	6	3	3	0	0	0	0
Long-term service agreements ⁽⁶⁾	119	7	6	9	12	18	67
Operating leases	65	2	3	3	3	3	51
Demand side management ⁽³⁾	10	4	3	3	0	0	0
Total contractual obligations	<u>\$ 9,675</u>	<u>\$ 760</u>	<u>\$ 777</u>	<u>\$ 684</u>	<u>\$ 389</u>	<u>\$ 359</u>	<u>\$ 6,706</u>

- (1) Includes debt at Tampa Electric and PGS (see the **Consolidated Statements of Capitalization** and **Note 7** to the **2019 Annual TEC Consolidated Financial Statements** for a list of long-term debt and the respective due dates).
- (2) Future interest payments are calculated based on the assumption that all debt is outstanding until maturity. For debt instruments with variable rates, interest is calculated for all future periods using the rates in effect at December 31, 2019.
- (3) These payment obligations under contractual agreements of Tampa Electric and PGS are recovered from customers under regulatory clauses approved by the FPSC (see the **Business** section).
- (4) Under calculation requirements of the Pension Protection Act, as of the January 1, 2020 measurement date, the pension plan was fully funded. Under ERISA guidelines, TEC is not required to make additional cash contributions until 2024; however, TEC may elect to make discretionary cash contributions prior to that time. Future contributions are subject to annual valuation reviews, which may vary significantly due to changes in interest rates, discount rate assumptions, plan asset performance, which is affected by investment portfolio performance, and other factors (see **Liquidity, Capital Resources** section and **Note 5** to the **2019 Annual TEC Consolidated Financial Statements**).
- (5) Represents outstanding commitments for major capital projects, including solar projects, the modernization of the Big Bend power plant and smart meters.
- (6) Represents outstanding commitments for service, including long-term capitalized maintenance agreements for Tampa Electric's CTs.

Off-Balance Sheet Arrangements and Contingent Obligations

TEC does not have any material off-balance sheet arrangements or contingent obligations not otherwise included in our Consolidated Financial Statements as of December 31, 2019.

Capital Investments

(millions)	Actual 2019	Forecasted 2020
Tampa Electric ⁽¹⁾		
Renewable generation	\$ 272	\$ 315
Transmission	99	70
Distribution	277	195
Generation	334	305
Facilities, equipment, vehicles and other	76	105
Tampa Electric total	1,058	990
PGS	237	360
Net cash effect of accruals, retentions and AFUDC	(12)	
Total	<u>\$ 1,283</u>	<u>\$ 1,350</u>

- (1) Individual line items exclude AFUDC-debt and equity.

Tampa Electric expects to invest approximately \$850 million during 2017 through 2021 related to the 600 MW solar project recoverable under the SoBRAs as discussed in **Outlook** above and in **Note 3** to the **2019 Annual TEC Consolidated Financial Statements**. In addition, Tampa Electric intends to invest approximately \$800 million in an additional 600 MW of new utility-scale solar photovoltaic projects with targeted in-service dates during 2021 through 2023.

Tampa Electric also expects to invest approximately \$850 million during 2018 through 2023 to modernize the Big Bend Power Station, of which approximately \$275 million has been invested through December 31, 2019. The Big Bend modernization project

will retire Big Bend Unit 2 and repower Big Bend Unit 1 with natural gas combined-cycle technology and eliminate coal as this unit's fuel, which will improve land, water and air emissions at Tampa Electric. This project is estimated to provide savings to customers compared to operating the unit on coal to the end of its life. The project will be capable of producing 1,090 MW when completed in 2023. The Big Bend Unit 1 components not used in the repowering and Big Bend Unit 2 will be retired before the original retirement date. In accordance with Tampa Electric's 2017 settlement agreement, Tampa Electric is not required to file an asset recovery filing for early retired assets.

Tampa Electric's 2019 capital expenditures included solar generation projects, the Big Bend modernization, storm hardening for the transmission and distribution systems, smart meters and the maintenance and refurbishment of existing generating facilities. In 2020, Tampa Electric expects capital expenditures to include solar generation projects, the Big Bend modernization, storm hardening for the transmission and distribution systems, new technology for distribution system modernization, smart meters and the maintenance and refurbishment of existing generating facilities.

Capital expenditures in 2019 for PGS included maintenance of the existing system, expansion of the system and replacement of cast iron, bare steel and obsolete plastic pipe. In addition, PGS expects to invest in 2020 for projects associated with customer growth, system expansion to serve large commercial and industrial customers, including continued interest in the conversion of vehicle fleets to CNG, LNG facilities, potentially renewable natural gas facilities and information technology investments. The remainder of PGS's capital expenditure forecast for 2020 includes amounts related to ongoing renewal, replacement and system safety, including the replacement of cast iron, bare steel and obsolete plastic pipe, which is recovered through a rider clause (see the **Business-PPS-Regulation** section).

The forecasted capital expenditures shown above are based on current estimates and assumptions. Actual capital expenditures could vary materially from these estimates due to changes in and timing of projects and changes in costs for materials or labor (see the **Risk Factors** section).

Capital Structure

Tampa Electric and PGS maintained capital structures consistent with their regulatory arrangements. At December 31, 2019, TEC's year-end capital structure was 47% debt and 53% common equity. At December 31, 2018, TEC's year-end capital structure was 46% debt and 54% common equity.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of consolidated financial statements requires management to make various estimates and assumptions that affect revenues, expenses, assets, liabilities and disclosures. The policies and estimates identified below are, in the view of management, the more significant accounting policies and estimates used in the preparation of our consolidated financial statements. These estimates and assumptions are based on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and judgments under different assumptions or conditions. See **Note 1** to the **2019 Annual TEC Consolidated Financial Statements** for a description of TEC's significant accounting policies and the estimates and assumptions used in the preparation of the consolidated financial statements.

Regulatory Accounting

Tampa Electric's and PGS's retail businesses and the prices charged to customers are regulated by the FPSC. Tampa Electric's wholesale business is regulated by the FERC. As a result, Tampa Electric and PGS qualify for the application of accounting guidance for certain types of regulation. This guidance recognizes that the actions of a regulator can provide reasonable assurance of the existence of an asset or liability. Regulatory assets and liabilities arise as a result of a difference between U.S. GAAP and the accounting principles imposed by the regulatory authorities. Regulatory assets generally represent incurred costs that have been deferred, as their future recovery in customer rates is probable. Regulatory liabilities generally represent obligations to make refunds to customers from previous collections for costs that are not likely to be incurred.

TEC regularly assesses the probability of recovery of the regulatory assets by considering factors such as regulatory environment changes, recent rate orders to other regulated entities in the same jurisdiction, the current political climate in the state, and the status of any pending or potential deregulation legislation. The assumptions and judgments used by regulatory authorities will continue to have an impact on the recovery of costs, the rate earned on invested capital and the timing and amount of assets to be recovered.

TEC's most significant regulatory liability relates to non-ARO costs of removal and regulatory tax liability. The non-ARO costs of removal represent estimated funds received from customers through depreciation rates to cover future non-legally required cost of removal of property, plant and equipment upon retirement. TEC accrues for removal costs over the life of the related assets based on depreciation studies approved by the FPSC. The costs are estimated based on historical experience and future expectations, including

expected timing and estimated future cash outlays. The regulatory tax liability is the offset to the adjustment to the deferred tax liability remeasured as a result of tax reform. See **Note 4** to the **2019 Annual TEC Consolidated Financial Statements** for further information.

The application of regulatory accounting guidance is a critical accounting policy since a difference in these assumptions and actual results may result in a material impact on reported assets and the results of operations (see **Note 3** to the **2019 Annual TEC Consolidated Financial Statements**).

Income Taxes

TEC uses the asset and liability method in the measurement of deferred income taxes. Under the asset and liability method, TEC estimates the current tax exposure and assesses the temporary differences resulting from differing treatment of items, such as depreciation, for financial statement and tax purposes. These differences are reported as deferred taxes measured at enacted rates in the consolidated financial statements. Management reviews all reasonably available current and historical information, including forward-looking information, to determine if it is more likely than not that some or the entire deferred tax asset will not be realized. If TEC determines that it is likely that some or all of a deferred tax asset will not be realized, then a valuation allowance is recorded to report the balance at the amount expected to be realized. At December 31, 2019, TEC does not have a valuation allowance. At December 31, 2019, TEC had a net deferred income tax liability of \$758 million, attributable primarily to property-related items.

See further discussion of uncertainty in income taxes, impacts of tax reform and other tax items in **Note 4** to the **2019 Annual TEC Consolidated Financial Statements**.

Unbilled Revenue

Electric and gas revenues are billed on a systematic basis over a one-month period. At the end of each month, TEC must make an estimate of energy delivered to customers for related revenues earned but not yet billed. TEC's unbilled revenue is estimated based on several factors, including current month's generation, estimated customer usage by class, weather, line losses, timing of meter reads and applicable customer rates. Based on the extent of the estimates included in the determination of unbilled revenue, actual results may differ from the estimate.

Employee Postretirement Benefits

TEC is a participant in the retirement plans of TECO Energy. TECO Energy sponsors a defined benefit pension plan (pension plan), a fully-funded non-qualified, non-contributory supplemental executive retirement benefit plan available to certain members of senior management and an unfunded non-qualified, non-contributory Restoration Plan that allows certain members of senior management to receive contributions as if no IRS limits were in place. TEC recognizes in its statement of financial position the over-funded or under-funded status of its allocated portion of TECO Energy's postretirement benefit plans. The accounting related to employee postretirement benefits is a critical accounting estimate for TEC for the following reasons: 1) a change in the estimated benefit obligation could have a material impact on reported assets, liabilities and results of operations; and 2) changes in assumptions could change the annual pension funding requirements, which could have a significant impact on TEC's annual cash requirements.

Several statistical and other factors which attempt to anticipate future events are used in calculating the expenses and liabilities related to these plans. Key factors include assumptions about the expected rates of return on plan assets, discount rates and mortality rates. TECO Energy determines these factors within certain guidelines and with the help of external consultants. TECO Energy considers market conditions, including changes in investment returns and interest rates, in making these assumptions.

Pension plan assets (plan assets) are invested in a mix of equity and fixed-income securities. The expected return on assets assumption was based on expectations of long-term inflation, real growth in the economy, fixed income spreads and equity premiums consistent with the company's portfolio, with provision for active management and expenses paid from the trust that holds the plan assets. The expected return on assets was 7.35% as of January 1, 2019 and 7.00% as of October 31, 2019 when a plan remeasurement occurred as a result of a plan curtailment. The expected return on assets was 6.85% and 7.00% in 2018 and 2017, respectively. Given recent strong capital market returns and market expectations for long-term interest rates, TECO Energy expects the expected return on assets to be 7.00% for 2020. Actual earned returns in 2019 were 26%.

The discount rate assumption used to measure the 2019, 2018 and 2017 benefit expense was an above-mean yield curve. The above-mean yield curve technique matches the yields from high-quality (AA-rated, non-callable) corporate bonds to the company's projected cash flows for the plans to develop a present value that is converted to a discount rate assumption, which is subject to change each year.

For the December 31, 2017 measurement, TECO Energy used a discount rate of 4.16% for pension benefits under its qualified plan and 4.28% for its other postretirement benefits. For the December 31, 2018 measurement, TECO Energy used a discount rate of 3.63% for pension benefits under its qualified plan and 3.70% for its other postretirement benefits. For the January 1, 2019 measurement, TECO Energy used a discount rate of 4.34% for pension benefits under its qualified plan and 4.38% for its other postretirement benefits. For the October 31, 2019 remeasurement that occurred as a result of a plan curtailment, TECO Energy used a discount rate of 3.13% for pension benefits under its qualified plan.

Holding all other assumptions constant, a 1% decrease in the assumed rate of return on pension plan assets or the discount rate assumption would have had in 2019 and is anticipated to have in 2020 the following impact on TEC's after-tax pension cost:

Year	1% Decrease in Assumed Expected Return on Assets	1% Decrease in Assumed Discount Rate
2019	\$6 million increase	\$2 million increase
2020	\$5 million increase	\$2 million increase

In October 2019, the Society of Actuaries (SOA) released its final report of the Pri-2012 Private Retirement Plans Mortality Tables. The SOA tables incorporate the results of the SOA's study of actuarial mortality in pension plans from 2010-2014. TECO Energy has determined that these base mortality tables are appropriate for valuing the postretirement plans. In 2017, 2018 and 2019, the SOA updated the projection scale. For mortality improvements reflected in the 2017, 2018 and 2019 year-end measurements, TECO Energy used an updated projection scale based on the SOA's scale but modified with a shorter grade-down period and lower ultimate rates of mortality improvement at the older ages. TECO Energy believes these tables are more appropriate and reflective of its population.

Unrecognized actuarial gains and losses for the pension plan are being recognized over a period of approximately 12 years, which represents the expected remaining service life of the employee group. Unrecognized actuarial gains and losses arise from several factors including experience and assumption changes in the obligations and from the difference between expected return and actual returns on plan assets. These unrecognized gains and losses will be systematically recognized in future net periodic pension expense in accordance with applicable accounting guidance for pensions.

The key assumptions used in determining the amount of obligation and expense recorded for postretirement benefits other than pension (OPEB), under the applicable accounting guidance, include the assumed discount rate and the assumed rate of increases in future health care costs. TECO Energy determines the discount rate for the OPEB's projected benefit cash flows. In estimating the health care cost trend rate, TECO Energy considers its actual health care cost experience, future benefit structures, industry trends, and advice from our outside actuaries. TECO Energy assumes that the relative increase in health care cost will trend downward over the next several years, reflecting assumed increases in efficiency in the health care system and industrywide cost-containment initiatives.

The actuarial assumptions used in determining TECO Energy's pension and OPEB retirement benefits may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates, or longer or shorter life spans of participants. While we believe that the assumptions used are appropriate, differences in actual experience or changes in assumptions may materially affect our financial position or results of operations.

See the discussion of employee postretirement benefits in **Note 5** to the **2019 Annual TEC Consolidated Financial Statements**.

RECENTLY ISSUED ACCOUNTING STANDARDS

Change in Accounting Policy

The new U.S. GAAP accounting policies that are applicable to, and adopted by TEC in 2019, are described as follows:

Leases

On January 1, 2019, TEC adopted Accounting Standard Updates (ASU) 2016-02, *Leases (Topic 842)*, including all related amendments, using the modified retrospective approach. The standard requires lessees to recognize leases on the balance sheet for all leases with a term of longer than twelve months and disclose key information about leasing arrangements.

As permitted by the optional transition method, TEC did not restate comparative financial information in its consolidated financial statements, did not reassess whether any expired or existing contracts contained leases and carried forward existing lease

classifications. Additionally, TEC elected to not evaluate existing land easements under the new standard if the land easements were not previously accounted for under the leasing guidance within ASC Topic 840. TEC elected to use hindsight to determine the lease term for existing leases and elected to not separate lease components from non-lease components for all lessee and lessor arrangements.

TEC has implemented additional processes and controls to facilitate the identification, tracking and reporting of potential leases based on the requirements of the standard. There were no updates to information technology systems as a result of implementation.

TEC's adoption of this new standard resulted in right-of-use (ROU) assets and lease liabilities of approximately \$20 million as of January 1, 2019. The ROU assets and lease liabilities were measured at the present value of remaining lease payments using TEC's incremental borrowing rate.

There was no impact to opening retained earnings as at January 1, 2019 or TEC's net income or cash flows for the year ended December 31, 2019 as a result of the adoption of the standard. There were no significant impacts to TEC's accounting for lessor arrangements. Refer to **Note 13** for further detail.

Targeted Improvements to Accounting for Hedging Activities

On January 1, 2019, TEC adopted ASU 2017-12, *Targeted Improvements to Accounting for Hedging Activities*, which amends the hedge accounting recognition and presentation requirements in ASC Topic 815. This standard improves the transparency and understandability of information about an entity's risk management activities by better aligning the entity's financial reporting for hedging relationships with those risk management activities and simplifies the application of hedge accounting. The standard will make more financial and nonfinancial hedging strategies eligible for hedge accounting, amends the presentation and disclosure requirements for hedging activities and changes how entities assess hedge effectiveness. There was no impact on the consolidated financial statements as a result of the adoption of this standard.

Cloud Computing

In August 2018, the FASB issued ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The standard allows entities who are customers in hosting arrangements that are service contracts to apply the existing internal-use software guidance to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The guidance specifies classification for capitalizing implementation costs and related amortization expense within the financial statements and requires additional disclosures. The guidance is effective for annual reporting periods, including interim reporting within those periods, beginning after December 15, 2019. Early adoption is permitted and can be applied either retrospectively or prospectively. TEC early adopted the standard effective January 1, 2019 and elected to apply the guidance prospectively. There was no material impact on the consolidated financial statements as a result of the adoption of this standard.

Future Accounting Pronouncements

TEC considers the applicability and impact of all ASUs issued by FASB. The following updates have been issued by FASB, but have not yet been adopted by TEC. Any ASUs not included below were assessed and determined to be either not applicable to TEC or to have insignificant impact on the consolidated financial statements.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*. The standard provides guidance regarding the measurement of credit losses for financial assets and certain other instruments that are not accounted for at fair value through net income, including trade and other receivables, net investment in leases, and off-balance sheet credit exposures. The new guidance requires companies to replace the current incurred loss impairment methodology with a methodology that measures all expected credit losses for financial assets based on historical experience, current conditions, and reasonable and supportable forecasts. The guidance expands the disclosure requirements regarding credit losses, including the credit loss methodology and credit quality indicators. TEC adopted ASU 2016-13 effective January 1, 2020, with no significant changes to accounting and disclosure identified related to the adoption of the standard.

Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes*. The standard simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740 related to the approach for intraperiod tax allocation, simplifies aspects of accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The guidance will be effective for annual reporting periods, including interim reporting within those periods, beginning after December 15, 2020, with early adoption permitted. The standard will be applied on both a prospective and retrospective basis. TEC is currently evaluating the impact of adoption of the standard on its consolidated financial statements.

ENVIRONMENTAL COMPLIANCE

Environmental Matters

TEC has significant environmental considerations. Tampa Electric operates stationary sources with air emissions regulated by the Clean Air Act. Its operations are also impacted by provisions in the Clean Water Act and federal and state legislative initiatives on environmental matters. TEC, through its Tampa Electric and PGS divisions, is a potentially responsible party (PRP) for certain superfund sites and, through its PGS division, for certain former manufactured gas plant sites.

CAIR/CSAPR

Based on updated EPA modeling, Florida is no longer subject to Cross-State Air Pollution Rule (CSAPR) requirements. On May 13, 2019, EPA finalized the determination that Florida is meeting its “good neighbor” obligation to prohibit emissions from contributing significantly to nonattainment or interfering with maintenance status in another state. This confirms that Florida is meeting its cross-state air transport obligations under the Clean Air Act.

Hazardous Air Pollutants (HAPS) Maximum Achievable Control Technology (MACT) Mercury Air Toxics Standards (MATS)

On June 29, 2015, the U.S. Supreme Court remanded the EPA’s Mercury Air Toxics Standards (MATS) to the U.S. District of Columbia Circuit Court (the D.C. Circuit Court) for failing to properly consider the cost of compliance. The litigation is currently in abeyance while EPA reconsiders its action. MATS remains in effect until the D.C. Circuit Court acts.

All of Tampa Electric’s conventional coal-fired units are already equipped with electrostatic precipitators, scrubbers and SCRs, and the Polk Unit 1 IGCC unit emissions are minimized in the gasification process. Tampa Electric is uniquely positioned to be able to meet the MATS standards without considerable impacts, compared to others who had not taken similar early actions. Therefore, Tampa Electric has minimized the impact of this rule and has demonstrated compliance on all applicable units with the most stringent “Low Emitting Electric Generating Unit” classification for MATS with nominal additional capital investment.

Carbon Reductions and GHG

Tampa Electric has historically supported voluntary efforts to reduce carbon emissions and has taken significant steps to reduce overall emissions at Tampa Electric’s facilities. Since 1998, Tampa Electric has reduced its system wide emissions of CO₂ by approximately 50%, bringing emissions to below 1990 levels. Tampa Electric CO₂ emissions continue to remain below 1990 levels. In addition to the emission decreases in 2005 as the result of the repowering of two Gannon Station coal units to natural gas and the shut-down of the remaining Gannon Station coal-fired units, Tampa Electric has optimized its existing coal units to operate on natural gas. During this same time frame, the number of retail customers and retail energy sales have risen by approximately 38% and 22%, respectively. Tampa Electric is also substantially reducing CO₂ emissions by significantly expanding the use of solar power, repowering Big Bend Unit 1 steam turbine, and retiring Big Bend Unit 2. See **Capital Investments** above for information regarding Tampa Electric’s solar projects. By 2023, the Big Bend Unit 1 modernization project, capable of producing 1,090 megawatts of power, will lead to system-wide emissions that are expected to be nearly half of 1998-level emissions.

On June 19, 2019, EPA released a final rule, named the Affordable Clean Energy (ACE) rule, to establish emission guidelines for states to address GHG emissions from existing coal-fired electric generating units (EGUs). The rule provides emission guidelines to replace the CPP and inform the development of state plans to reduce GHG emissions from certain coal-fired EGUs. In the guidelines, EPA determined that heat rate improvement measures are the best system of emission reduction for existing coal-fired EGUs. This action also provides implementing regulations for emission guidelines issued under Section 111(d) of the Clean Air Act. Tampa Electric has emission units that are subject to this rule and has engaged in the development of a state plan that could be finalized by the end of 2020.

The outcome of expected litigation and the rule-making process and its impact on TEC’s businesses is uncertain at this time; however, it could result in increased operating costs, and/or decreased operations at Tampa Electric’s coal-fired plants. Depending on how the state plan could be developed and implemented, the ACE rule could cause an increase in costs or rates charged to customers, which could curtail sales. See **Item 1A - Risk Factors**.

Tampa Electric expects that the costs to comply with new environmental regulations would be eligible for recovery through the ECRC. If approved as prudent, the costs required to comply with CO₂ emissions reductions would be reflected in customers’ bills. If the regulation allowing cost recovery is changed and the cost of compliance is not recovered through the ECRC, Tampa Electric could seek to recover those costs through a base-rate proceeding.

Ozone

On September 30, 2015 in response to a court order, the EPA published a final rule revising the ground level ozone standard to 70 parts per billion from the previous level of 75 parts per billion. On September 30, 2016, the Florida Department of Environmental Protection submitted its recommendation that the entire State of Florida be designated as “attainment” for the 2015 standard.

On November 2, 2018, the EPA published a notice of availability of the draft Integrated Review Plan (IRP) for the national ambient air quality standards (NAAQS) for photochemical oxidants including ozone and sought comments regarding the proposed plan. Under the Clean Air Act, EPA is required to review the NAAQS every five years and, if appropriate, revise them. The draft IRP contains a proposed timetable for the entire ozone NAAQS review, EPA’s general approach for conducting the review, and the key scientific and policy issues that will guide EPA’s review proposed to be completed in 2020. The review of the standard could result in revisions to the standard affecting compliance in Tampa Electric’s service territory. The impact of this potential new standard on the operations of Tampa Electric will depend on the outcome of litigation or other developments.

Water Supply and Quality

The EPA’s final rule under 316(b) of the Clean Water Act (effective October 2014) addresses perceived impacts to aquatic life by cooling water intakes and is applicable to both Bayside and Big Bend Power Stations. Polk Power Station is not covered by this rule since it does not operate an intake on Waters of the U.S. Tampa Electric has two ongoing projects (one for Bayside and one for Big Bend) that require compliance with the rule. Compliance includes the completion of the biological, technical, and financial study elements required by the rule. These study elements have been completed and submitted for Bayside and will ultimately be used by FDEP to determine the necessity of cooling water system retrofits. Big Bend is negotiating an alternative schedule (as allowed by the rule) and will be completing a portion of the compliance requirements with the Big Bend Modernization Project with the remainder to be completed at a later date. The full impact of the new regulations on Tampa Electric will depend on the outcome of subsequent legal proceedings challenging the rule, the results of the study elements performed as part of the rules’ implementation, and the actual requirements established by FDEP.

The final EPA rule for existing steam electric effluent limit guidelines (ELGs) became effective January 4, 2016 and establishes limits for wastewater discharges from flue gas desulfurization (FGD) processes, fly ash and bottom ash transport water, leachate from ponds and landfills containing coal combustion residuals, gasification processes, and flue gas mercury controls. The new guidelines are expected to be incorporated into National Pollutant Discharge Elimination System permit renewals for Big Bend Station (FGD wastewater and bottom ash transport water) and Polk Power Station (gasification wastewater) to achieve compliance as soon as possible after November 1, 2018, but no later than December 31, 2023. The EPA decided to extend the near-term deadlines for FGD waste water and bottom ash transport water to as soon as possible after November 1, 2020. On November 22, 2019, EPA published in the Federal Register its proposed updates to the ELGs. EPA revised limits for both bottom ash transport water and FGD wastewater and extended the final compliance deadline by two years for FGD wastewater.

EPA Waters of the US

In June 2015, the U.S. Army Corps of Engineers (Corps) and the EPA issued a rule defining “Waters of the United States” (WOTUS) for purposes of federal Clean Water Act (CWA) jurisdiction. The final rule took effect on August 28, 2015. The rule has the effect of defining the scope of agency jurisdiction under the CWA very broadly. In August 2015, a federal judge in North Dakota issued an injunction against the implementation of the rule in certain states. In October 2015, the Sixth Circuit Court of Appeals issued a nationwide stay of WOTUS, effectively ending the implementation of the rule in the 37 states that were not subject to the prior injunction. This stay is temporary, pending the outcome of litigation. On February 28, 2017, President Trump issued an Executive Order directing the EPA and the Corps to review the rule. In June 2018, EPA and the Corps issued a draft prepublication notice to clarify, supplement and seek additional comment to the July 27, 2017 proposal to repeal the 2015 WOTUS Rule and restore the regulatory text that existed prior to the 2015 rule. On August 16, 2018, a federal court in South Carolina restored the 2015 rule, putting it back into effect in 26 states but not in the other 24 states with federal court injunctions against it. Both Florida and New Mexico remain under the federal court injunctions. On February 14, 2019, the U.S. EPA and Corps published their proposed new “Revised Definition of WOTUS” in the Federal Register. On October 22, 2019, the Corps and EPA published in the Federal Register the final rule repealing the 2015 Rule and restoring the regulatory text that existed prior to the 2015 Rule. The agencies will implement the pre-2015 Rule regulations informed by applicable agency guidance documents and consistent with Supreme Court decisions and prior agency practice. This final rule became effective on December 23, 2019.

Superfund and Former Manufactured Gas Plant Sites

TEC, through its Tampa Electric and PGS divisions, is a PRP for certain superfund sites and, through its PGS division, for certain former manufactured gas plant sites. While the joint and several liability associated with these sites presents the potential for significant response costs, as of December 31, 2019, TEC has estimated its ultimate financial liability to be \$21 million, primarily at

PGS. This amount has been accrued and is primarily reflected in the long-term liability section under “Other” on the Consolidated Balance Sheets. The environmental remediation costs associated with these sites are expected to be paid over many years.

The estimated amounts represent only the portion of the cleanup costs attributable to TEC. The estimates to perform the work are based on TEC’s experience with similar work, adjusted for site-specific conditions and agreements with the respective governmental agencies. The estimates are made in current dollars, are not discounted and do not assume any insurance recoveries.

In instances where other PRPs are involved, most of those PRPs are creditworthy and are likely to continue to be creditworthy for the duration of the remediation work. However, in those instances that they are not, TEC could be liable for more than TEC’s actual percentage of the remediation costs.

Factors that could impact these estimates include the ability of other PRPs to pay their pro-rata portion of the cleanup costs, additional testing and investigation which could expand the scope of the cleanup activities, additional liability that might arise from the cleanup activities themselves or changes in laws or regulations that could require additional remediation. Under current regulations, these costs are recoverable through customer rates established in subsequent base rate proceedings. See **Note 3** to the **2019 Annual TEC Consolidated Financial Statements** for information regarding an agreement approved by the FPSC to accelerate the amortization of the regulated asset associated with this liability.

Coal Combustion Residuals Recycling and Regulation

Tampa Electric produces ash and other by-products, collectively known as CCRs, at its Big Bend and Polk Power stations. An annual average of 95% of all CCRs produced at these facilities is marketed to customers for beneficial use in commercial and industrial products.

The EPA’s final CCR rule became effective on October 19, 2015 and regulates CCRs as non-hazardous solid waste. On February 2, 2016, the FPSC approved Tampa Electric’s proposed CCR compliance program for recovery of certain capital and O&M expenses through the ECRC. On December 12, 2017, the FPSC approved an additional petition for recovery of expenses associated with the closure of Tampa Electric’s Big Bend Economizer Ash and Pyrite Ponds which began in late November 2018. The O&M expenses for disposal of CCRs from this project began in 2019 and will continue through 2021. Closure of Tampa Electric’s West Slag Dewatering Pond and improvements to Tampa Electric’s North Gypsum Stackout Area are scheduled to be completed in 2020. In June 2018, the EPA finalized Phase I revisions to the rule which provide clarifications and additional flexibility for certain rule requirements. In August 2019, the EPA proposed Phase II revisions to the rule and solicited public comments on these revisions. These include a revised beneficial use definition and restrictions on offsite beneficial use storage piles, both of which could negatively affect management and recycling of CCRs by TEC customers. TEC is joining with other affected parties to comment on these potential changes. On November 4, 2019, the EPA proposed an additional rule to establish the deadlines for unlined impoundments to cease receiving CCRs and initiate closure. Although the presumptive deadline is August 31, 2020, the rule would allow a company self validated extension of 90 days, with an alternate deadline of October 15, 2023 for facilities that can substantiate a lack of CCR disposal capacity. However, based on other requirements of the CCR Rule, as well as commitments related to state solid waste regulations, TEC is already in the process closing its regulated CCR Units by October 2021. See **Note 12** to the **2019 Annual TEC Consolidated Financial Statements** for information regarding the estimated impact on Tampa Electric’s AROs.

Conservation

In 2019, Tampa Electric continued to offer its customers a comprehensive array of residential and commercial Demand Side Management (DSM) programs that enabled the company to meet its required DSM goals, reduce weather-sensitive peak demand and conserve energy. During 2019, Tampa Electric proposed DSM goals for the 2020-2029 period to the FPSC. The FPSC voted to revert back to the DSM goals for the 2020-2024 period; these goals having been developed during the 2015-2024 goals setting process. On a five-year basis, this decision increased the proposed annual energy goals by 7.1% from 78.6 GWh to 84.2 GWh. Establishing these DSM goals for the 10-year period is required every five years.

In 2019, Tampa Electric met all the annual and incremental energy and demand DSM goals. To achieve these DSM goals, Tampa Electric offered 39 cost-effective DSM Programs. These programs and their costs are approved annually by the FPSC with the costs recovered through a clause rate on the customer’s electric bill. Since their inception, Tampa Electric’s conservation programs have contributed to reducing the summer peak demand by 765 MWs and the winter peak demand by 1,271 MWs.

In 2019, PGS received approval of its proposed DSM goals from the FPSC which will cover the 2019-2028 period. Within this DSM goals approval, was the approval of two new DSM programs, an online energy audit program for residential customers and a walkthrough energy audit for commercial customers. PGS also developed and filed its DSM plan in November 2019, which will support the achievement of these DSM goals on an annual basis. Starting in 2019, PGS initiated the reporting of annual energy

reduction achievements as part of meeting the requirements of Florida Energy Efficiency and Conservation Act. In 2019, PGS's conservation programs saved 768,072 therms on an ongoing basis. These programs and their costs are approved annually by the FPSC with the costs recovered through a clause rate on the customer's gas bill.

REGULATION

See the **Business** section (**Tampa Electric – Electric Operations** and **Peoples Gas System – Gas Operations** sections) and **Note 3** to the **2019 Annual TEC Consolidated Financial Statements** for a description of the utilities' base rates, cost-recovery clauses and competition.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Management Infrastructure

TEC is subject to various types of market risk in the course of daily operations, as discussed below. TEC has adopted an enterprise-wide approach to the management and control of market and credit risk. Middle Office risk management functions, including credit risk management and risk control, are independent of each transacting entity (Front Office).

TEC's Risk Management Policy (Policy) governs all energy transacting activity. The Policy is administered by a Risk Authorizing Committee (RAC) that is comprised of senior management. Within the bounds of the Policy, the RAC approves specific hedging strategies, new transaction types or products, limits, and transacting authorities. Transaction activity is reported daily and measured against limits. For all commodity risk management activities, derivative transaction volumes are limited to the anticipated volume for customer sales or supplier procurement activities.

The RAC also administers the Policy with respect to interest rate risk exposures. Under the Policy, the RAC operates and oversees transaction activity. Interest rate derivative transaction activity is directly correlated to borrowing activities.

Risk Management Objectives

The Front Office is responsible for reducing and mitigating the market risk exposures that arise from the ownership of physical assets and contractual obligations, such as debt instruments and firm customer sales contracts. The primary objectives of the risk management organization, the Middle Office, are to quantify, measure, and monitor the market risk exposures arising from the activities of the Front Office and the ownership of physical assets. In addition, the Middle Office is responsible for enforcing the limits and procedures established under the approved risk management policies. Based on the policies approved by the company's board of directors and the procedures established by the RAC, from time to time, TEC enters into futures, forwards, swaps and option contracts to limit the exposure to items such as:

- Price fluctuations for physical purchases and sales of natural gas in the course of normal operations; and
- Interest rate fluctuations on debt.

TEC uses derivatives only to reduce normal operating and market risks, not for speculative purposes. The primary objective in using derivative instruments for regulated operations is to reduce the impact of market price volatility on customers.

On November 6, 2017, the FPSC approved an amended and restated settlement agreement filed by Tampa Electric, which includes a provision for a moratorium on hedging of natural gas purchases ending on December 31, 2022 (see **Note 3** to the **2019 Annual TEC Consolidated Financial Statements**). As of December 31, 2019, TEC had no hedges of natural gas purchases in place.

Credit Risk

TEC has a rigorous process for the establishment of new trading counterparties and evaluation of current counterparties. This process includes an evaluation of each counterparty's credit ratings, as applicable, and/or its financial statements, with attention paid to liquidity and capital resources; establishment of counterparty specific credit limits; optimization of credit terms; and execution of standardized enabling agreements. TEC manages credit risk with policies and procedures for counterparty analysis, exposure measurement, and exposure monitoring and mitigation. Credit assessments are conducted on all counterparties, and deposits or collateral are requested on any high-risk accounts.

Certain of TEC's derivative instruments, including NPNS agreements as disclosed in **Note 14** to the **2019 Annual TEC Consolidated Financial Statements**, contain provisions that require our debt to maintain an investment-grade credit rating from any or all of the major credit rating agencies. If TEC's debt ratings were to fall below investment grade or not be rated, it could trigger these provisions, and the counterparties to the derivative instruments could demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions.

Interest Rate Risk

TEC is exposed to changes in interest rates primarily as a result of borrowing activities. TEC may enter into futures, swaps and option contracts, in accordance with the approved risk management policies and procedures, to moderate this exposure to interest rate changes and achieve a desired level of fixed and variable rate debt. As of December 31, 2019, TEC had no hedges of interest rates in place. As of December 31, 2019 and 2018, a hypothetical 10% increase in TEC's weighted-average interest rate on its variable rate debt during the subsequent year would not have resulted in a material impact on pre-tax earnings. This is driven by the low amounts of variable rate debt at TEC. A hypothetical 10% increase in interest rates would have decreased the fair market value of our long-term debt by 4.4% at December 31, 2019 and 5.2% at December 31, 2018. See the **Financing Activity** section and **Notes 6 and 7** to the **2019 Annual TEC Consolidated Financial Statements**. These amounts were determined based on the variable rate obligations existing on the indicated dates at TEC. The above sensitivities assume no changes to TEC's financial structure and could be affected by changes in TEC's credit ratings, changes in general economic conditions or other external factors (see the **Risk Factors** section).

Commodity Risk

TEC faces varying degrees of exposure to commodity risks including natural gas, coal, fuel oil, petcoke and other energy commodity prices. Any changes in prices could affect the prices these businesses charge, their operating costs and the competitive position of their products and services. Management uses different risk measurement and monitoring tools based on the degree of exposure of each operating company to commodity risks.

Regulated Utilities

Tampa Electric's fuel costs used for generation are affected primarily by the price of natural gas and, to a lesser degree, the cost of coal, oil and petcoke. Tampa Electric's use of natural gas, with its more volatile pricing, for generation of electricity increased to 90% in 2019 from 82% in 2018 (see the **Business** section). PGS has exposure related to the price of purchased gas and pipeline capacity.

Currently, TEC's commodity price risks are largely mitigated by the fact that increases in the price of prudently incurred fuel and purchased power are recovered through FPSC-approved cost-recovery clauses, with no anticipated effect on earnings. However, increasing fuel cost-recovery has the potential to affect total energy usage and the relative attractiveness of electricity and natural gas to consumers. TEC manages commodity price risk by entering into long-term fuel supply agreements, prudently operating plant facilities to optimize cost, and prior to the moratorium mentioned above, entering into derivative transactions designated as cash flow hedges of anticipated purchases of wholesale natural gas. At December 31, 2019 and 2018, a change in commodity prices would not have had a material impact on earnings for Tampa Electric or PGS, but could have had an impact on the timing of the cash recovery of the cost of fuel.

TAMPA ELECTRIC COMPANY

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Shareholder and the Board of Directors of Tampa Electric Company

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Tampa Electric Company (the Company) as of December 31, 2019 and 2018, the related consolidated statements of income and comprehensive income, and cash flows for each of the two years in the period ended December 31, 2019, the related consolidated statements of capitalization as of and for each of the two years in the period ended December 31, 2019 and 2018, and the related notes and schedule of valuation and qualifying accounts and reserves for the year ended December 31, 2019 and 2018 (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2018.

Tampa, Florida
February 18, 2020

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholder of Tampa Electric Company

Opinion on the Financial Statements

We have audited the consolidated statements of income and comprehensive income, of capitalization, and of cash flows of Tampa Electric Company and its subsidiaries (the “Company”) for the year ended December 31, 2017, including the related notes and schedule of valuation and qualifying accounts and reserves for the year ended December 31, 2017 appearing under Item 15(a)(2) (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the results of operations and cash flows of the Company for the year ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
New York, New York
February 9, 2018

We served as the Company's auditor from at least 1934 to 2018. We have not been able to determine the specific year we began serving as auditor of the Company.

TAMPA ELECTRIC COMPANY
Consolidated Balance Sheets

<i>Assets</i> <i>(millions)</i>	<i>December 31,</i> <i>2019</i>	<i>December 31,</i> <i>2018</i>
Property, plant and equipment		
Utility plant		
Electric	\$ 10,578	\$ 9,645
Gas	2,012	1,793
Utility plant, at original costs	12,590	11,438
Accumulated depreciation	(3,472)	(3,214)
Utility plant, net	9,118	8,224
Other property	13	12
Total property, plant and equipment, net	9,131	8,236
Current assets		
Cash and cash equivalents	14	15
Receivables, less allowance for uncollectibles of \$2 and \$2 at December 31, 2019 and 2018, respectively	206	258
Due from affiliates	14	4
Inventories, at average cost		
Fuel	36	46
Materials and supplies	104	100
Regulatory assets	41	88
Prepayments and other current assets	10	6
Total current assets	425	517
Deferred debits		
Regulatory assets	396	370
Other	55	32
Total deferred debits	451	402
Total assets	<u>\$ 10,007</u>	<u>\$ 9,155</u>

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

TAMPA ELECTRIC COMPANY
Consolidated Balance Sheets—continued

Liabilities and Capital (millions)	December 31, 2019	December 31, 2018
Capitalization		
Common stock	\$ 3,385	\$ 2,990
Accumulated other comprehensive loss	(1)	(1)
Retained earnings	311	314
Total capital	3,695	3,303
Long-term debt	2,869	2,575
Total capital	<u>6,564</u>	<u>5,878</u>
Current liabilities		
Notes payable	348	221
Accounts payable	296	251
Due to affiliates	20	24
Customer deposits	132	132
Regulatory liabilities	93	44
Accrued interest	13	16
Accrued taxes	14	13
Other	44	84
Total current liabilities	<u>960</u>	<u>785</u>
Long-term liabilities		
Deferred income taxes	758	799
Regulatory liabilities	1,210	1,266
Investment tax credits	164	74
Deferred credits and other liabilities	351	353
Total deferred credits	<u>2,483</u>	<u>2,492</u>
Commitments and Contingencies (see Note 8)		
Total liabilities and capital	<u>\$ 10,007</u>	<u>\$ 9,155</u>

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

TAMPA ELECTRIC COMPANY
Consolidated Statements of Income and Comprehensive Income

(millions)
For the years ended December 31,

	2019	2018	2017
Revenues			
Electric	\$ 1,961	\$ 2,063	\$ 2,052
Gas	443	461	418
Total revenues	2,404	2,524	2,470
Expenses			
Fuel	516	551	588
Purchased power	49	59	46
Cost of natural gas sold	152	180	153
Operations & maintenance	543	632	513
Depreciation and amortization	377	372	350
Taxes, other than income	206	208	198
Total expenses	1,843	2,002	1,848
Income from operations	561	522	622
Other income			
Allowance for other funds used during construction	11	10	2
Other income, net	9	8	8
Total other income	20	18	10
Interest charges			
Interest expense	139	123	120
Allowance for borrowed funds used during construction	(5)	(5)	(1)
Total interest charges	134	118	119
Income before provision for income taxes	447	422	513
Provision for income taxes	77	81	197
Net income	370	341	316
Other comprehensive income, net of tax			
Gain on cash flow hedges	0	1	1
Total other comprehensive income, net of tax	0	1	1
Comprehensive income	<u>\$ 370</u>	<u>\$ 342</u>	<u>\$ 317</u>

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

TAMPA ELECTRIC COMPANY
Consolidated Statements of Cash Flows

(millions)

For the years ended December 31,

	2019	2018	2017
Cash flows from operating activities			
Net income	\$ 370	\$ 341	\$ 316
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	377	372	350
Deferred income taxes and investment tax credits	15	(1)	192
Allowance for equity funds used during construction	(11)	(10)	(2)
Deferred recovery clauses	63	(55)	(83)
Receivables, less allowance for uncollectibles	52	(2)	(43)
Inventories	6	4	13
Taxes accrued	1	6	(9)
Accounts payable	(4)	11	(16)
Regulatory assets and liabilities	1	98	(100)
Other ⁽²⁾	(29)	38	(6)
Cash flows from operating activities	841	802	612
Cash flows used in investing activities			
Capital expenditures ⁽¹⁾	(1,283)	(1,109)	(640)
Net proceeds from sale of assets	0	1	0
Cash flows used in investing activities	(1,283)	(1,108)	(640)
Cash flows from or used in financing activities			
Equity contributions from TECO Energy	395	345	190
Proceeds from long-term debt issuance	292	714	0
Repayment of long-term debt	0	(304)	0
Net change in short-term debt (maturities of 90 days or less)	127	216	(165)
Proceeds from other short-term debt (maturities over 90 days)	0	0	300
Repayment of other short-term debt (maturities over 90 days)	0	(300)	0
Dividends to TECO Energy	(373)	(362)	(292)
Other financing activities	0	(1)	(2)
Cash flows from financing activities	441	308	31
Net increase (decrease) in cash and cash equivalents	(1)	2	3
Cash and cash equivalents at beginning of the year	15	13	10
Cash and cash equivalents at end of the year	\$ 14	\$ 15	\$ 13

Supplemental disclosure of cash paid (received):

Interest	\$ 134	\$ 112	\$ 115
Income taxes	\$ 63	\$ 77	\$ 13

Supplemental disclosure of non-cash activities

(1) Change in accrued capital expenditures	\$ 17	\$ 40	\$ (16)
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(2) The 2017 amount includes the net impact of the change in deferred taxes as a result of tax reform with an offset to a regulatory liability of \$755 million.

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

TAMPA ELECTRIC COMPANY
Consolidated Statements of Capitalization

<i>(millions, except share amounts)</i>	Shares ⁽¹⁾	Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Capital
Balance, December 31, 2016	10	2,456	\$ 311	\$ (3)	\$ 2,764
Net income			316		316
Other comprehensive income, after tax				1	1
Equity contributions from Parent		190			190
Dividends to Parent ⁽²⁾			(292)		(292)
Other		(1)			(1)
Balance, December 31, 2017	10	\$ 2,645	\$ 335	\$ (2)	\$ 2,978
Net income			341		341
Other comprehensive income, after tax				1	1
Equity contributions from Parent		345			345
Dividends to Parent ⁽²⁾			(362)		(362)
Balance, December 31, 2018	10	\$ 2,990	\$ 314	\$ (1)	\$ 3,303
Net income			370		370
Equity contributions from Parent		395			395
Dividends to Parent ⁽²⁾			(373)		(373)
Balance, December 31, 2019	10	\$ 3,385	\$ 311	\$ (1)	\$ 3,695

Preferred stock – \$100 par value

1.5 million shares authorized, none outstanding.

Preferred stock – no par

2.5 million shares authorized, none outstanding.

Preference stock – no par

2.5 million shares authorized, none outstanding.

(1) Common stock without par value, 25 million shares authorized

(2) Dividends are declared and paid at the discretion of TEC's Board of Directors. Quarterly dividends paid on February 15, May 15, August 15 and November 15 during 2019. Quarterly dividends paid on February 15, June 15, August 15 and November 15 during 2018. Quarterly dividends paid on February 15, May 15, August 15 and November 29 during 2017.

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

TAMPA ELECTRIC COMPANY
Consolidated Statements of Capitalization – continued

At December 31, 2019 and 2018, TEC had the following long-term debt outstanding:

Long-Term Debt

<i>(millions)</i>		<i>Due</i>	<i>2019</i>	<i>2018</i>
Tampa Electric	Notes ⁽¹⁾⁽²⁾⁽³⁾ : 5.40%	2021	232	232
	2.60%	2022	225	225
	6.55%	2036	250	250
	6.15%	2037	190	190
	4.10%	2042	250	250
	4.35%	2044	290	290
	4.20%	2045	230	230
	4.30%	2048	275	275
	4.45%	2049	350	350
	3.63%	2050	275	0
Total long-term debt of Tampa Electric			2,567	2,292
PGS	Notes ⁽¹⁾⁽²⁾⁽³⁾ : 5.40%	2021	47	47
	2.60%	2022	25	25
	6.15%	2037	60	60
	4.10%	2042	50	50
	4.35%	2044	10	10
	4.20%	2045	20	20
	4.30%	2048	75	75
	4.45%	2049	25	25
	3.63%	2050	25	0
Total long-term debt of PGS			337	312
Total long-term debt			2,904	2,604
Unamortized debt discount, net			(10)	(7)
Debt issuance costs			(25)	(22)
Total carrying amount of long-term debt			2,869	2,575
Less amount due within one year			0	0
Total long-term debt			<u>\$ 2,869</u>	<u>\$ 2,575</u>

- (1) These senior unsecured debt securities are subject to redemption in whole or in part, at any time, at the option of the issuer.
- (2) These long-term debt agreements contain various restrictive covenants.
- (3) The amounts shown are allocations to Tampa Electric and PGS of TEC Notes.

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

TAMPA ELECTRIC COMPANY
Consolidated Statements of Capitalization—continued

At December 31, 2019, long-term debt had a carrying amount of \$2,869 million and an estimated fair market value of \$3,335 million. At December 31, 2018, total long-term debt had a carrying amount of \$2,575 million and an estimated fair market value of \$2,686 million. The fair value of the debt securities is determined using Level 2 measurements (see **Note 15** for information regarding the fair value hierarchy).

A substantial part of Tampa Electric’s tangible assets are pledged as collateral to secure its first mortgage bonds. There are currently no bonds outstanding under Tampa Electric’s first mortgage bond indenture, and Tampa Electric could cause the lien associated with this indenture to be released at any time. Gross maturities and annual sinking fund requirements of long-term debt are as follows:

Long-Term Debt Maturities

<i>As of December 31, 2019</i> <i>(millions)</i>	<i>2020</i>	<i>2021</i>	<i>2022</i>	<i>2023</i>	<i>2024</i>	<i>Thereafter</i>	<i>Total Long-Term Debt</i>
Tampa Electric	\$ 0	\$ 232	\$ 225	\$ 0	\$ 0	\$ 2,110	\$ 2,567
PGS	0	47	25	0	0	265	337
Total long-term debt maturities	\$ 0	\$ 279	\$ 250	\$ 0	\$ 0	\$ 2,375	\$ 2,904

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

TAMPA ELECTRIC COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies

Description of Business

TEC has two operating segments. Its Tampa Electric division provides retail electric services in West Central Florida, and PGS, its natural gas division, is engaged in the purchase, distribution and sale of natural gas for residential, commercial, industrial and electric power generation customers in Florida. TEC's significant accounting policies are as follows:

Principles of Consolidation and Basis of Presentation

TEC maintains its accounts in accordance with recognized policies prescribed or permitted by the FPSC and the FERC. These policies conform with U.S. GAAP in all material respects. The use of estimates is inherent in the preparation of financial statements in accordance with U.S. GAAP. Actual results could differ from these estimates.

TEC is a wholly owned subsidiary of TECO Energy, Inc. and contains electric and natural gas divisions. Intercompany balances and transactions within the divisions have been eliminated in consolidation. TECO Energy is a wholly owned indirect subsidiary of Emera. Therefore, TEC is an indirect, wholly owned subsidiary of Emera.

Cash Equivalents

Cash equivalents are highly liquid, high-quality investments purchased with an original maturity of three months or less. The carrying amount of cash equivalents approximated fair market value because of the short maturity of these instruments.

Property, Plant and Equipment

Property, plant and equipment is stated at original cost, which includes labor, material, applicable taxes, overhead and AFUDC. Concurrent with a planned major maintenance outage or with new construction, the cost of adding or replacing retirement units-of-property is capitalized in conformity with the regulations of FERC and FPSC. The cost of maintenance, repairs and replacement of minor items of property is expensed as incurred.

As regulated utilities, Tampa Electric and PGS must file depreciation and dismantlement studies periodically and receive approval from the FPSC before implementing new depreciation rates. Included in approved depreciation rates is either an implicit net salvage factor or a cost of removal factor, expressed as a percentage. The net salvage factor is principally comprised of two components—a salvage factor and a cost of removal or dismantlement factor. TEC uses current cost of removal or dismantlement factors as part of the estimation method to approximate the amount of cost of removal in accumulated depreciation. The original cost of utility plant retired or otherwise disposed of and the cost of removal or dismantlement, less salvage value, is charged to accumulated depreciation and the accumulated cost of removal reserve reported as a regulatory liability, respectively.

For other property dispositions, the cost and accumulated depreciation are removed from the balance sheet and a gain or loss is recognized.

Property, plant and equipment consisted of the following assets:

<i>(millions)</i>	<i>Estimated Useful Lives</i>	<i>December 31, 2019</i>		<i>December 31, 2018</i>	
Electric generation	21-56 years	\$	5,370	\$	5,038
Electric transmission	28-77 years		940		880
Electric distribution	14-56 years		2,732		2,568
Gas transmission and distribution	16-77 years		1,848		1,678
General plant and other	8-43 years		675		613
Total cost			11,565		10,777
Less accumulated depreciation			(3,472)		(3,214)
Construction work in progress			1,038		673
Total property, plant and equipment, net		\$	9,131	\$	8,236

Depreciation

The provision for total regulated utility plant in service, expressed as a percentage of the original cost of depreciable property, was 3.4%, 3.5% and 3.7% for 2019, 2018 and 2017, respectively. Construction work in progress is not depreciated until the asset is placed in service. Total depreciation expense for the years ended December 31, 2019, 2018 and 2017 was \$359 million, \$345 million and \$332 million, respectively. See **Note 3** for information regarding agreements approved by the FPSC that, among other things, reduced PGS's annual depreciation expense by \$10 million beginning January 1, 2019. On August 6, 2019, the FPSC granted Tampa Electric's request to suspend \$15 million of 2019-2021 AMI depreciation and begin depreciating its AMI assets as of January 1, 2022, when all AMI assets will be in place and fully functional.

Tampa Electric and PGS compute depreciation and amortization using the following methods:

- the group remaining life method, approved by the FPSC, is applied to the average investment, adjusted for anticipated costs of removal less salvage, in functional classes of depreciable property;
- the amortizable life method, approved by the FPSC, is applied to the net book value to date over the remaining life of those assets not classified as depreciable property above.

Allowance for Funds Used During Construction

AFUDC is a non-cash credit to income with a corresponding charge to utility plant which represents the cost of borrowed funds and a reasonable return on other funds used for construction. Tampa Electric's FPSC-approved rate used to calculate AFUDC is revised periodically to reflect significant changes in Tampa Electric's cost of capital. In 2019, 2018 and 2017, Tampa Electric's rate was 6.46%. In July 2019, the FPSC approved a petition filed by PGS for authority to record AFUDC at an annual rate of 5.97% as part of its plans to develop three expansion projects in 2019 and 2020. Total AFUDC for the years ended December 31, 2019, 2018 and 2017 was \$16 million, \$15 million and \$2 million, respectively. The increase in 2019 and 2018 is primarily a result of the construction of solar projects and the repowering of Big Bend Unit 1 with natural gas combined-cycle technology.

Inventory

TEC values materials, supplies and fossil fuel inventory (natural gas, coal, petcoke and oil) using a weighted-average cost method. These materials, supplies and fuel inventories are carried at the lower of weighted-average cost or net realizable value, unless evidence indicates that the weighted-average cost will be recovered with a normal profit upon sale in the ordinary course of business.

Regulatory Assets and Liabilities

Tampa Electric and PGS are subject to accounting guidance for the effects of certain types of regulation (see **Note 3**).

Deferred Income Taxes

TEC uses the asset and liability method in the measurement of deferred income taxes. Under the asset and liability method, the temporary differences between the financial statement and tax bases of assets and liabilities are reported as deferred taxes measured at enacted tax rates. Tampa Electric and PGS are regulated, and their books and records reflect approved regulatory treatment, including certain adjustments to accumulated deferred income taxes and the establishment of a corresponding regulatory tax liability reflecting the amount payable to customers through future rates. See **Note 4** for additional details, including the impacts of tax reform in 2017.

Investment Tax Credits

ITCs have been recorded as deferred credits and are being amortized as reductions to income tax expense over the service lives of the related property. As of December 31, 2019 and 2018, ITCs were \$164 million and \$74 million, respectively. The increase is due to solar projects placed in service in 2019.

Stranded Tax Effects in Accumulated Other Comprehensive Income

TEC utilizes a portfolio approach to determine the timing and extent to which stranded income tax effects from items that were previously recorded in accumulated other comprehensive income are released.

Revenue Recognition

Regulated electric revenue

Electric revenues, including energy charges, demand charges, basic facilities charges and applicable clauses and riders, are recognized when obligations under the terms of a contract are satisfied. This occurs primarily when electricity is delivered to

customers over time as the customer simultaneously receives and consumes the benefits of the electricity. Electric revenues are recognized on an accrual basis and include billed and unbilled revenues. Revenues related to the sale of electricity are recognized at rates approved by the respective regulator and recorded based on metered usage, which occur on a periodic, systematic basis, generally monthly. At the end of each reporting period, the electricity delivered to customers, but not billed, is estimated and the corresponding unbilled revenue is recognized. Tampa Electric's estimate of unbilled revenue at the end of the reporting period is calculated by estimating the number of MWH delivered to customers at the established rate expected to prevail in the upcoming billing cycle. This estimate includes assumptions as to the pattern of energy demand, timing of meter reads and line losses.

Regulated gas revenue

Gas revenues, including energy charges, demand charges, basic facilities charges and applicable clauses and riders, are recognized when obligations under the terms of a contract are satisfied. This occurs primarily when gas is delivered to customers over time as the customer simultaneously receives and consumes the benefits of the gas. Gas revenues are recognized on an accrual basis and include billed and unbilled revenues. Revenues related to the distribution and sale of gas are recognized at rates approved by the regulator and recorded based on metered usage, which occur on a periodic, systematic basis, generally monthly. At the end of each reporting period, the gas delivered to customers, but not billed, is estimated and the corresponding unbilled revenue is recognized. PGS's estimate of unbilled revenue at the end of the reporting period is calculated by estimating the number of therms delivered to customers at the established rate expected to prevail in the upcoming billing cycle. This estimate includes assumptions as to the pattern of usage, weather, and inter-period changes to customer classes.

Other

See Accounting for Franchise Fees and Gross Receipts below for the accounting for gross receipts taxes. Sales and other taxes TEC collects concurrent with revenue-producing activities are excluded from revenue.

Revenues and Cost Recovery

Revenues include amounts resulting from cost-recovery clauses which provide for monthly billing charges to reflect increases or decreases in fuel, purchased power, conservation and environmental costs for Tampa Electric and purchased gas, interstate pipeline capacity, replacement of cast iron/bare steel pipe and conservation costs for PGS. These adjustment factors are based on costs incurred and projected for a specific recovery period. Any over- or under-recovery of costs plus an interest factor are taken into account in the process of setting adjustment factors for subsequent recovery periods. Over-recoveries of costs are recorded as regulatory liabilities, and under-recoveries of costs are recorded as regulatory assets.

Certain other costs incurred by the regulated utilities are allowed to be recovered from customers through prices approved in the regulatory process. These costs are recognized as the associated revenues are billed.

Receivables and Allowance for Uncollectible Accounts

Receivables from contracts with customers, which consist of services to residential, commercial, industrial and other customers, were \$205 million and \$226 million as of December 31, 2019 and 2018, respectively. An allowance for uncollectible accounts is established based on TEC's collection experience. Circumstances that could affect Tampa Electric's and PGS's estimates of uncollectible receivables include, but are not limited to, customer credit issues, the level of fuel prices, customer deposits and general economic conditions. Accounts are written off once they are deemed to be uncollectible.

The regulated utilities accrue base revenues for services rendered but unbilled to provide for matching of revenues and expenses (see **Note 3**). As of December 31, 2019 and 2018, unbilled revenues of \$61 million and \$67 million, respectively, are included in the "Receivables" line item on TEC's Consolidated Balance Sheets. At December 31, 2019, Tampa Electric and PGS had unbilled revenues of \$48 million and \$13 million, respectively.

Accounting for Franchise Fees and Gross Receipts Taxes

Tampa Electric and PGS are allowed to recover certain costs incurred on a dollar-for-dollar basis from customers through rates approved by the FPSC. The amounts included in customers' bills for franchise fees and gross receipt taxes are included as revenues on the Consolidated Statements of Income. Franchise fees and gross receipt taxes payable by Tampa Electric and PGS are included as an expense on the Consolidated Statements of Income in "Taxes, other than income". These amounts totaled \$117 million, \$120 million and \$113 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Deferred Credits and Other Liabilities

Other deferred credits primarily include accrued pension and other postretirement benefits (see **Note 5**), MGP environmental remediation liability (see **Note 8**), asset retirement obligations (see **Note 12**), lease liabilities (see **Note 13**) and a reserve for auto, general and workers' compensation liability claims.

TECO Energy and its subsidiaries, including TEC, have a self-insurance program supplemented by excess insurance coverage for the cost of claims whose ultimate value exceeds the company's retention amounts. TEC estimates its liabilities for auto, general and workers' compensation using discount rates mandated by statute or otherwise deemed appropriate for the circumstances. Discount rates used in estimating these other self-insurance liabilities at December 31, 2019 and 2018 ranged from 2.66% to 4.00% and 4.00% to 4.01%, respectively.

Cash Flows Related to Derivatives and Hedging Activities

TEC classifies cash inflows and outflows related to derivative and hedging instruments in the appropriate cash flow sections associated with the item being hedged. For natural gas, the cash inflows and outflows are included in the operating section of the Consolidated Statements of Cash Flows. For interest rate swaps that settle coincident with the debt issuance, the cash inflows and outflows are treated as premiums or discounts and included in the financing section of the Consolidated Statements of Cash Flows. See **Note 14** for further information regarding derivatives.

Reclassifications

Certain reclassifications were made to prior year amounts to conform to current period presentation, including the separate presentation of ITCs on TEC's Consolidated Balance Sheet. None of the reclassifications affected TEC's net income or financial position in any period.

2. New Accounting Pronouncements

Change in Accounting Policy

The new U.S. GAAP accounting policies that are applicable to, and adopted by TEC in 2019, are described as follows:

Leases

On January 1, 2019, TEC adopted Accounting Standard Updates (ASU) 2016-02, *Leases (Topic 842)*, including all related amendments, using the modified retrospective approach. The standard requires lessees to recognize leases on the balance sheet for all leases with a term of longer than twelve months and disclose key information about leasing arrangements.

As permitted by the optional transition method, TEC did not restate comparative financial information in its consolidated financial statements, did not reassess whether any expired or existing contracts contained leases and carried forward existing lease classifications. Additionally, TEC elected to not evaluate existing land easements under the new standard if the land easements were not previously accounted for under the leasing guidance within ASC Topic 840. TEC elected to use hindsight to determine the lease term for existing leases and elected to not separate lease components from non-lease components for all lessee and lessor arrangements.

TEC has implemented additional processes and controls to facilitate the identification, tracking and reporting of potential leases based on the requirements of the standard. There were no updates to information technology systems as a result of implementation.

TEC's adoption of this new standard resulted in right-of-use (ROU) assets and lease liabilities of approximately \$20 million as of January 1, 2019. The ROU assets and lease liabilities were measured at the present value of remaining lease payments using TEC's incremental borrowing rate.

There was no impact to opening retained earnings as at January 1, 2019 or TEC's net income or cash flows for the year ended December 31, 2019 as a result of the adoption of the standard. There were no significant impacts to TEC's accounting for lessor arrangements. Refer to **Note 13** for further detail.

Targeted Improvements to Accounting for Hedging Activities

On January 1, 2019, TEC adopted ASU 2017-12, *Targeted Improvements to Accounting for Hedging Activities*, which amends the hedge accounting recognition and presentation requirements in ASC Topic 815. This standard improves the transparency and understandability of information about an entity's risk management activities by better aligning the entity's financial reporting for hedging relationships with those risk management activities and simplifies the application of hedge accounting. The standard will make more financial and nonfinancial hedging strategies eligible for hedge accounting, amends the presentation and disclosure requirements for hedging activities and changes how entities assess hedge effectiveness. There was no impact on the consolidated financial statements as a result of the adoption of this standard.

Cloud Computing

In August 2018, the FASB issued ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The standard allows entities who are customers in hosting arrangements that are service contracts to apply the existing internal-use software guidance to determine which implementation costs to capitalize as an asset

related to the service contract and which costs to expense. The guidance specifies classification for capitalizing implementation costs and related amortization expense within the financial statements and requires additional disclosures. The guidance is effective for annual reporting periods, including interim reporting within those periods, beginning after December 15, 2019. Early adoption is permitted and can be applied either retrospectively or prospectively. TEC early adopted the standard effective January 1, 2019 and elected to apply the guidance prospectively. There was no material impact on the consolidated financial statements as a result of the adoption of this standard.

Future Accounting Pronouncements

TEC considers the applicability and impact of all ASUs issued by FASB. The following updates have been issued by FASB, but have not yet been adopted by TEC. Any ASUs not included below were assessed and determined to be either not applicable to TEC or have insignificant impact on the consolidated financial statements.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*. The standard provides guidance regarding the measurement of credit losses for financial assets and certain other instruments that are not accounted for at fair value through net income, including trade and other receivables, net investment in leases, and off-balance sheet credit exposures. The new guidance requires companies to replace the current incurred loss impairment methodology with a methodology that measures all expected credit losses for financial assets based on historical experience, current conditions, and reasonable and supportable forecasts. The guidance expands the disclosure requirements regarding credit losses, including the credit loss methodology and credit quality indicators. TEC adopted ASU 2016-13 effective January 1, 2020, with no significant changes to accounting and disclosure identified related to the adoption of the standard.

Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes*. The standard simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740 related to the approach for intraperiod tax allocation, simplifies aspects of accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The guidance will be effective for annual reporting periods, including interim reporting within those periods, beginning after December 15, 2020, with early adoption permitted. The standard will be applied on both a prospective and retrospective basis. TEC is currently evaluating the impact of adoption of the standard on its consolidated financial statements.

3. Regulatory

Tampa Electric's retail business and PGS are regulated separately by the FPSC. Tampa Electric is also subject to regulation by the FERC in various respects, including wholesale power sales, certain wholesale power purchases, transmission and ancillary services and accounting practices. The FPSC sets rates based on a cost of service methodology which allows utilities to collect total revenues (revenue requirements) equal to their cost of providing service, plus a reasonable return on invested capital.

Tampa Electric Base Rates

Tampa Electric's results for 2017 reflect the stipulation and settlement agreement entered into on September 6, 2013, which resolved all matters in Tampa Electric's 2013 base rate proceeding.

This agreement provided for an additional \$110 million in base revenue effective the date that the expansion of Tampa Electric's Polk Power Station went into service, which was January 16, 2017. The agreement provided for Tampa Electric's allowed regulatory ROE to be a mid-point of 10.25% with a range of plus or minus 1%. The agreement stated that Tampa Electric could not file for additional base rate increases to be effective sooner than January 1, 2018, unless its earned ROE were to fall below 9.25% before that time. If its earned ROE were to rise above 11.25%, any party to the agreement other than Tampa Electric could seek a review of its base rates. Under the agreement, the allowed equity in the capital structure is 54% from investor sources of capital and Tampa Electric began using a 15-year amortization period for all computer software.

Tampa Electric's results for 2019 and 2018 reflect an amended and restated settlement agreement, approved by the FPSC on November 6, 2017, that replaced the existing 2013 base rate settlement agreement described above and extended it another four years through 2021. The amended agreement provides for SoBRAs for TEC's substantial investments in solar generation. Tampa Electric expects to invest approximately \$850 million in these solar projects during the period from 2017 to 2021, of which approximately \$820 million has been invested through December 31, 2019, and is accruing AFUDC during construction. The agreement includes a sharing provision that allows customers to benefit from 75% of any cost savings for projects below \$1,500/kWac.

On December 12, 2017, TEC filed its first petition regarding the SoBRAs along with supporting tariffs demonstrating the cost-effectiveness of the September 1, 2018 tranche representing 145 MW and \$24 million annually in estimated revenue requirements. The FPSC approved the tariffs on the first SoBRA filing on May 8, 2018 and TEC began receiving these revenues in September 2018.

On June 29, 2018, TEC filed its second SoBRA petition along with supporting tariffs demonstrating the cost-effectiveness of the January 1, 2019 tranche representing 260 MW and \$46 million annually in estimated revenue requirements. The FPSC approved the tariffs on the second SoBRA filing on October 29, 2018 and TEC began receiving these revenues in January 2019. On June 28, 2019, TEC filed its third SoBRA petition along with supporting tariffs demonstrating the cost-effectiveness of the January 1, 2020 tranche representing 149 MW and \$26 million annually in estimated revenue requirements. The FPSC approved the tariffs on this SoBRA filing, including an adjustment to reflect the reduction in the state corporate income tax discussed below, on December 10, 2019. The 2017 settlement agreement provides for a potential revenue adjustment of an additional \$10 million for 50 MWs effective on January 1, 2021. TEC expects to file its final SoBRA petition for the January 1, 2021 tranche in 2020.

The agreement further maintains Tampa Electric's allowed regulatory ROE and allowed equity in the capital structure and extends the rate freeze date from January 1, 2018 to December 31, 2021, subject to the same ROE thresholds. The agreement further contains a provision related to tax reform. See "Tampa Electric Storm Restoration Cost Recovery" below for information regarding the impact of tax reform. An asset optimization provision that allows Tampa Electric to share in the savings for optimization of its system once certain thresholds are achieved is also included. Additionally, Tampa Electric agreed to a financial hedging moratorium for natural gas ending on December 31, 2022 and that it will make no investments in gas reserves.

On November 13, 2019, as required by the 2017 settlement agreement, TEC filed its petition to reduce base rates and charges to reflect the impact of the temporary reduction of the state corporate income tax from 5.5% to 4.5%. The tax rate reduction was issued on September 12, 2019 and is effective retroactive from January 1, 2019 through December 31, 2021. The estimated base rate reduction due to customers of \$5 million is subject to true-up, and the actual rate reduction may vary from year to year. The base rate reduction was approved on December 10, 2019 for rates effective January 2020.

Tampa Electric Storm Restoration Cost Recovery

As a result of Tampa Electric's 2013 rate case settlement, in the event of a named storm that results in damage to its system, Tampa Electric can petition the FPSC to seek recovery of those costs over a 12-month period or longer as determined by the FPSC, as well as replenish its reserve to \$56 million, the level of the reserve as of October 31, 2013. In the third quarter of 2017, Tampa Electric was impacted by Hurricane Irma and incurred storm restoration costs of approximately \$102 million, of which \$90 million was charged to the storm reserve, \$3 million was charged to O&M expense and \$9 million was charged to capital expenditures. Tampa Electric petitioned the FPSC on December 28, 2017 for recovery of estimated Hurricane Irma storm costs plus approximately \$10 million in restoration costs from prior named storms and to replenish the balance in the reserve to the \$56 million level that existed as of October 31, 2013.

On March 1, 2018, the FPSC approved a settlement agreement filed by Tampa Electric that addressed both the recovery of storm costs and the return of tax reform benefits to customers (see **Note 4**) while keeping customer rates stable in 2018. Beginning on April 1, 2018, the agreement authorized Tampa Electric to net the estimated amount of storm cost recovery against Tampa Electric's estimated 2018 tax reform benefits of \$103 million. As a result, during 2018, Tampa Electric recorded O&M expense and a reduction of the storm reserve regulatory asset of \$47 million and O&M expense and an increase in the storm reserve regulatory liability of \$56 million to reflect effective recovery of the storm costs due to the allowed netting of storm cost recovery with tax reform benefits. On August 20, 2018, the FPSC approved lowering base rates by \$103 million annually beginning on January 1, 2019 as a result of lower tax expense.

On April 9, 2019, Tampa Electric reached a settlement agreement with consumer parties regarding eligible storm costs, which was approved by the FPSC on May 21, 2019. As a result, Tampa Electric refunded \$12 million to customers in January 2020, resulting in minimal impact to the Consolidated Statements of Income.

In 2019, Tampa Electric incurred storm restoration preparation costs for Hurricane Dorian estimated to be approximately \$8 million, which was charged to the storm reserve regulatory liability.

PGS Base Rates and Impact of Tax Reform

PGS's base rates were established in May 2009. The allowed equity in its capital structure is 54.7% from all investor sources of capital.

On February 7, 2017, the FPSC approved a settlement agreement filed by PGS and the OPC agreeing to new depreciation rates, accelerate the amortization of the regulatory asset associated with environmental remediation costs as described below, include obsolete plastic pipe replacements through the existing cast iron and bare steel replacement rider, and establish an ROE range of 9.25% to 11.75%. The settlement agreement provided that the bottom of the range will remain until the earlier of new base rates established in PGS's next general base rate proceeding or December 31, 2020 and the ROE of 10.75% will continue to be used for the calculation of return on investment for clauses and riders.

As part of the settlement, PGS and the OPC agreed that at least \$32 million of PGS's regulatory asset associated with the environmental liability for current and future remediation costs related to former MGP sites, to the extent expenses are reasonably and

prudently incurred, will be amortized over the period 2016 through 2020. At least \$21 million of that amount will be amortized over a two-year recovery period beginning in 2016. In 2017 and 2016, PGS recorded \$5 million and \$16 million, respectively, of this amortization expense.

The 2017 PGS settlement agreement did not contain a provision for tax reform. In 2018, the FPSC approved a settlement agreement authorizing PGS to accelerate in 2018 the remaining amortization of PGS's regulatory asset associated with the MGP environmental liability up to the \$32 million to net it against the estimated 2018 tax reform benefits. Therefore, PGS recorded amortization expense and a regulatory asset reduction of \$11 million in 2018. In January 2019, PGS reduced its base rates by \$12 million for the impact of tax reform and reduced depreciation rates by \$10 million in accordance with the settlement agreement.

PGS is permitted to initiate a general base rate proceeding during 2020 regardless of its earned ROE at the time, provided the new rates do not become effective before January 1, 2021. As a result of increased forecasted revenue requirements, on February 7, 2020, PGS notified the FPSC that it is planning to file a base rate proceeding in April for new rates effective January 2021.

Regulatory Assets and Liabilities

Tampa Electric and PGS apply the FASB's accounting standards for regulated operations. Regulatory assets generally represent incurred costs that have been deferred, as their future recovery in customer rates is probable. Regulatory liabilities generally represent obligations to make refunds to customers from previous collections for costs that are not likely to be incurred or the advance recovery of expenditures for approved costs.

Details of the regulatory assets and liabilities are presented in the following table:

Regulatory Assets and Liabilities

<i>(millions)</i>	<i>December 31, 2019</i>	<i>December 31, 2018</i>
Regulatory assets:		
Regulatory tax asset ⁽¹⁾	\$ 74	\$ 56
Cost-recovery clauses ⁽²⁾	12	55
Environmental remediation ⁽³⁾	20	23
Postretirement benefits ⁽⁴⁾	295	295
Asset retirement obligation ⁽⁵⁾	25	18
Other	11	11
Total regulatory assets	437	458
Less: Current portion	41	88
Long-term regulatory assets	<u>\$ 396</u>	<u>\$ 370</u>
Regulatory liabilities:		
Regulatory tax liability ⁽⁶⁾	\$ 699	\$ 715
Cost-recovery clauses ⁽²⁾	37	17
Accumulated reserve—cost of removal ⁽⁷⁾	506	513
Storm reserve ⁽⁸⁾	48	56
Other	13	9
Total regulatory liabilities	1,303	1,310
Less: Current portion	93	44
Long-term regulatory liabilities	<u>\$ 1,210</u>	<u>\$ 1,266</u>

- (1) The regulatory tax asset is primarily associated with the depreciation and recovery of AFUDC-equity. This asset does not earn a return but rather is included in the capital structure, which is used in the calculation of the weighted cost of capital used to determine revenue requirements. It will be recovered over the expected life of the related assets. The regulatory tax asset balance reflects the impact of the federal tax rate reduction.
- (2) These assets and liabilities are related to FPSC clauses and riders. They are recovered or refunded through cost-recovery mechanisms approved by the FPSC on a dollar-for-dollar basis in the next year.
- (3) This asset is related to costs associated with environmental remediation primarily at MGP sites. The balance is included in rate base, partially offsetting the related liability, and earns a rate of return as permitted by the FPSC. The timing of recovery is based on a settlement agreement approved by the FPSC.
- (4) This asset is related to the deferred costs of postretirement benefits and it is amortized over the remaining service life of plan participants. Deferred costs of postretirement benefits that are included in expense are recognized as cost of service for rate-making purposes as permitted by the FPSC.

- (5) This asset is related to costs associated with an asset retirement obligation, which is a legal obligation for the future retirement of certain tangible, long-lived assets. This regulatory asset does not earn a return because it is offset with related assets and liabilities within rate base. It is recovered and removed as the obligation is settled and removed as the activities for the retirement of the related assets have been completed.
- (6) The regulatory tax liability is primarily related to the revaluation of TEC’s deferred income tax balances recorded on December 31, 2017 at the lower income tax rate due to U.S. tax reform. The liability related to the revaluation of the deferred income tax balances is amortized and returned to customers through rate reductions or other revenue offsets based on IRS regulations and the settlement agreement for tax reform benefits approved by the FPSC. This regulatory tax liability also includes Tampa Electric’s estimate for the state corporate tax rate change enacted in the third quarter of 2019. See **Note 4** to the **TEC Consolidated Financial Statements** for further information.
- (7) This item represents the non-ARO cost of removal in the accumulated reserve for depreciation. AROs are costs for legally required removal of property, plant and equipment. Non-ARO cost of removal represents estimated funds received from customers through depreciation rates to cover future non-legally required cost of removal of property, plant and equipment, net of salvage value upon retirement, which reduces rate base for ratemaking purposes. This liability is reduced as costs of removal are incurred.
- (8) See “Tampa Electric Storm Restoration Cost Recovery” discussion above for information regarding this reserve.

4. Income Taxes

On December 22, 2017, the U.S. Tax Cuts and Jobs Act of 2017 (the Act) was signed into legislation. The Act includes a broad range of tax reform proposals affecting businesses, effective January 1, 2018 which provide a corporate federal tax rate reduction from 35% to 21%, 100% asset expensing, limitation of interest deduction, the repeal of section 199 domestic production deduction and the preservation of the existing normalization rules. The Act also provides that regulated electric and gas companies are exempt from the 100% asset expensing and interest expense deduction limitation. In accordance with U.S. accounting standards, TEC was required to revalue its deferred income tax assets and liabilities based on the new 21% federal tax rate. Additionally, under FPSC rules TEC was required to adjust deferred income tax assets and liabilities for changes in tax rates with a corresponding regulatory liability for the excess deferred taxes generated by the tax rate differential. See **Note 3**.

Change in Florida Corporate Income Tax Rate

On September 12, 2019, the state of Florida issued a corporate tax rate reduction from 5.5% to 4.46% effective January 1, 2019 through December 31, 2021. TEC recorded a \$4 million tax benefit, of which \$3 million is expected to be refunded to customers in 2020 and is reflected as a regulatory liability. In addition, TEC recorded an estimated \$5 million decrease to its deferred tax liability and an increase to its regulatory tax liability due to the revaluation of TEC’s state deferred income tax balances at 4.46% over the 2019-2021 period. See **Note 3**.

Income Tax Expense

Effective July 1, 2016 and due to the Merger with Emera, TEC is included in a consolidated U.S. federal income tax return with EUSHI and its subsidiaries. Prior to the Merger, TEC was included in the filing of a consolidated federal income tax return with TECO Energy and its subsidiaries. TEC’s income tax expense is based upon a separate return method, modified for the benefits-for-loss allocation in accordance with respective tax sharing agreements of TECO Energy and EUSHI. To the extent that TEC’s cash tax positions are settled differently than the amount reported as realized under the tax sharing agreement, the difference is accounted for as either a capital contribution or a distribution.

In 2019, 2018 and 2017, TEC recorded net tax provisions of \$77 million, \$81 million and \$197 million, respectively.

Income tax expense consists of the following components:

Income Tax Expense (Benefit)

<i>(millions)</i>	2019	2018	2017
<i>For the year ended December 31,</i>			
Current income taxes			
Federal	\$ 56	\$ 72	\$ (1)
State	6	10	6
Deferred income taxes			
Federal	7	(13)	170
State	13	13	23
Investment tax credits amortization	(5)	(1)	(1)
Total income tax expense	<u>\$ 77</u>	<u>\$ 81</u>	<u>\$ 197</u>

For the three years presented, the overall effective tax rate differs from the U.S. federal statutory rate as presented below:

Effective Income Tax Rate

(millions)

For the year ended December 31,

	2019	2018	2017
Income before provision for income taxes	\$ 447	\$ 422	\$ 513
Federal statutory income tax rates	21%	21%	35%
Income taxes, at statutory income tax rate	94	89	180
Increase (decrease) due to			
State income tax, net of federal income tax	15	19	19
Excess deferred tax amortization	(25)	(24)	0
ITC amortization	(5)	(1)	(1)
AFUDC-equity	(2)	(2)	(1)
Tax credits	(1)	(2)	(3)
Other	1	2	3
Total income tax expense on consolidated statements of income	\$ 77	\$ 81	\$ 197
Income tax expense as a percent of income before income taxes	17.2%	19.2%	38.4%

Deferred Income Taxes

Deferred taxes result from temporary differences in the recognition of certain liabilities or assets for tax and financial reporting purposes. The principal components of TEC's deferred tax assets and liabilities recognized in the balance sheet are as follows:

(millions)

As of December 31,

	2019	2018
Deferred tax liabilities ⁽¹⁾		
Property related	\$ 1,036	\$ 969
Pension and postretirement benefits	111	105
Total deferred tax liabilities	1,147	1,074
Deferred tax assets ⁽¹⁾		
Loss and credit carryforwards ⁽²⁾	243	146
Medical benefits	27	24
Insurance reserves	16	17
Pension and postretirement benefits	63	63
Capitalized energy conservation assistance costs	17	16
Other	23	9
Total deferred tax assets	389	275
Total deferred tax liability, net	\$ 758	\$ 799

- (1) Certain property related assets and liabilities have been netted.
- (2) Deferred tax assets for net operating loss and tax credit carryforwards have been reduced by unrecognized tax benefits of \$9 million.

At December 31, 2019, TEC had cumulative unused federal and Florida NOLs for income tax purposes of \$340 million and \$274 million, respectively, expiring between 2032 and 2037. TEC has unused general business credits of \$175 million expiring between 2027 and 2039, of which \$163 million relate to ITCs expiring between 2034 and 2039. As a result of the Merger with Emera, TEC's NOLs and credits will be utilized by EUSHI, in accordance with the benefits-for-loss allocation which provide that tax attributes are utilized by the consolidated tax return group of EUSHI.

Unrecognized Tax Benefits

TEC accounts for uncertain tax positions as required by U.S. GAAP. This guidance addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Authoritative guidance related to accounting for uncertainty in income taxes requires an enterprise to recognize in its financial statements the best estimate of the impact of a tax position by determining if the weight of the available evidence indicates that it is more likely than not, based solely on the technical merits, that the position will be sustained upon examination, including resolution of any related appeals and litigation processes.

The following table provides details of the change in unrecognized tax benefits as follows:

<i>(millions)</i>	2019	2018	2017
Balance at January 1,	\$ 8	\$ 8	\$ 7
Increases due to tax positions related to prior year	1	0	0
Increases due to tax positions related to current year	0	0	1
Balance at December 31,	<u>\$ 9</u>	<u>\$ 8</u>	<u>\$ 8</u>

As of December 31, 2019 and 2018, TEC’s uncertain tax positions for federal R&D tax credits were \$9 million and \$8 million, respectively, all of which was recorded as a reduction of deferred income tax assets for tax credit carryforwards. TEC expects that the total unrecognized tax benefits will decrease and be recognized within the next twelve months due to the ongoing audit examination of TECO Energy’s consolidated federal income tax return for the short tax year ending June 30, 2016. TEC had \$9 million and \$8 million of unrecognized tax benefits at December 31, 2019 and 2018, respectively, that, if recognized, would reduce TEC’s effective tax rate.

TEC recognizes interest accruals related to uncertain tax positions in “Other income” or “Interest expense”, as applicable, and penalties in “Operation and maintenance expense” in the Consolidated Statements of Income. In 2019, 2018 and 2017, TEC did not recognize any pre-tax charges (benefits) for interest. Additionally, TEC did not have any accrued interest at December 31, 2019, 2018 and 2017. No amounts have been recorded for penalties.

The short tax year ending June 30, 2016 is currently under examination by the IRS under its Compliance Assurance Program (CAP). EUSHI’s 2016 consolidated federal income tax return, which includes TEC’s short tax year ending December 31, 2016, is also currently under examination by the IRS. The U.S. federal statute of limitations remains open for the year 2016 and forward. Florida’s statute of limitations is three years from the filing of an income tax return. The state impact of any federal changes remains subject to examination by various states for a period of up to one year after formal notification to the states. Years still open to examination by Florida’s tax authorities include 2005 and forward as a result of TECO Energy’s consolidated Florida net operating loss still being utilized.

5. Employee Postretirement Benefits

Pension Benefits

TEC is a participant in the comprehensive retirement plans of TECO Energy, including a qualified, non-contributory defined benefit retirement plan that covers substantially all employees. Benefits are based on the employees’ age, years of service and final average earnings. Where appropriate and reasonably determinable, the portion of expenses, income, gains or losses allocable to TEC are presented. Otherwise, such amounts presented reflect the amount allocable to all participants of the TECO Energy retirement plans.

Amounts disclosed for pension benefits in the following tables and discussion also include the fully-funded obligations for the SERP and the unfunded obligations of the Restoration Plan. The SERP is a non-qualified, non-contributory defined benefit retirement plan available to certain members of senior management. The Restoration Plan is a non-qualified, non-contributory defined benefit retirement plan that allows certain members of senior management to receive contributions as if no IRS limits were in place.

Effective October 21, 2019, the defined benefit retirement plan was amended to freeze further crediting of service and earnings for certain participants covered by the International Brotherhood of Electrical Workers (the IBEW) collective bargaining agreement. As of December 31, 2019, 24% of TEC’s employees are represented by the IBEW. As a result, a curtailment and a remeasurement of the plan occurred in the fourth quarter of 2019. See curtailment-related line items in tables below.

As the result of a reorganization of shared services functions, certain employees and their associated pension benefits were transferred from TSI to TEC effective December 2019. Deferred costs related to pension benefits that were recognized by TSI in AOCI are now recognized in TEC as regulatory assets. The balances at December 31, 2019 are reflective of this transfer.

Other Postretirement Benefits

TECO Energy and its subsidiaries currently provide certain postretirement health care and life insurance benefits (other benefits) for most employees retiring after age 50 meeting certain service requirements. Where appropriate and reasonably determinable, the portion of expenses, income, gains or losses allocable to TEC are presented. Otherwise, such amounts presented reflect the amount allocable to all participants of the TECO Energy postretirement health care and life insurance plans. Postretirement benefit levels are substantially unrelated to salary. TECO Energy reserves the right to terminate or modify the plans in whole or in part at any time.

As the result of a reorganization of shared services functions, certain employees and their associated other postretirement benefits were transferred from TSI to TEC effective December 2019. Deferred costs related to other postretirement benefits that were recognized by TSI in AOCI are now recognized in TEC as regulatory assets. The balances at December 31, 2019 are reflective of this transfer.

Obligations and Funded Status

TEC recognizes in its statement of financial position the over-funded or under-funded status of its allocated portion of TECO Energy's postretirement benefit plans. This status is measured as the difference between the fair value of plan assets and the PBO in the case of its defined benefit plan, or the APBO in the case of its other postretirement benefit plan. Changes in the funded status are reflected, net of estimated tax benefits, in benefit liabilities and regulatory assets. The results of operations are not impacted.

The following table provides a detail of the change in TECO Energy's benefit obligations and change in plan assets for combined pension plans (pension benefits) and TECO Energy's Florida-based other postretirement benefit plan (other benefits).

TECO Energy Obligations and Funded Status (millions)	Pension Benefits		Other Benefits ⁽²⁾	
	2019	2018	2019	2018
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 750	\$ 812	\$ 173	\$ 193
Service cost	20	21	1	2
Interest cost	31	29	7	7
Plan participants' contributions	0	0	4	4
Plan curtailment	(10)	0	0	0
Plan settlement	(5)	(7)	0	0
Benefits paid	(49)	(55)	(14)	(19)
Actuarial loss (gain)	106	(50)	9	(14)
Benefit obligation at end of year	<u>\$ 843</u>	<u>\$ 750</u>	<u>\$ 180</u>	<u>\$ 173</u>
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 659	\$ 766	\$ 0	\$ 0
Actual return on plan assets	165	(63)	0	0
Employer contributions	20	10	0	0
Employer direct benefit payments	6	8	10	15
Plan participants' contributions	0	0	4	4
Plan settlement	(5)	(7)	0	0
Benefits paid	(48)	(54)	0	0
Direct benefit payments	(1)	(1)	(14)	(19)
Fair value of plan assets at end of year ⁽¹⁾	<u>\$ 796</u>	<u>\$ 659</u>	<u>\$ 0</u>	<u>\$ 0</u>

- (1) The MRV of plan assets is used as the basis for calculating the EROA component of periodic pension expense. MRV reflects the fair value of plan assets adjusted for experience gains and losses (i.e. the differences between actual investment returns and expected returns) spread over five years.
- (2) Represent amounts for TECO Energy's Florida-based other postretirement benefit plan.

At December 31, the aggregate financial position for TECO Energy pension plans and Florida-based other postretirement plans with benefit obligations in excess of plan assets was as follows:

TECO Energy Funded Status (millions)	Pension Benefits		Other Benefits ⁽¹⁾	
	2019	2018	2019	2018
Benefit obligation (PBO/APBO)	\$ 843	\$ 750	\$ 180	\$ 173
Less: Fair value of plan assets	796	659	0	0
Funded status at end of year	<u>\$ (47)</u>	<u>\$ (91)</u>	<u>\$ (180)</u>	<u>\$ (173)</u>

- (1) Represent amounts for TECO Energy's Florida-based other postretirement benefit plan.

The accumulated benefit obligation for TECO Energy consolidated defined benefit pension plans was \$801 million at December 31, 2019 and \$705 million at December 31, 2018.

The amounts recognized in TEC's Consolidated Balance Sheets for pension and other postretirement benefit obligations and plan assets at December 31 were as follows:

TEC Amounts recognized in balance sheet (millions)	Pension Benefits		Other Benefits	
	2019	2018	2019	2018
Accrued benefit costs and other current liabilities	\$ (1)	\$ (5)	\$ (11)	\$ (10)
Deferred credits and other liabilities	(42)	(68)	(156)	(137)
	<u>\$ (43)</u>	<u>\$ (73)</u>	<u>\$ (167)</u>	<u>\$ (147)</u>

Unrecognized gains and losses and prior service credits and costs are recorded in regulatory assets for TEC. The following table provides a detail of the unrecognized gains and losses and prior service credits and costs.

TEC Amounts recognized in regulatory assets (millions)	Pension Benefits		Other Benefits	
	2019	2018	2019	2018
Net actuarial loss (gain)	\$ 244	\$ 251	\$ 51	\$ 45
Amount recognized	<u>\$ 244</u>	<u>\$ 251</u>	<u>\$ 51</u>	<u>\$ 45</u>

Assumptions used to determine benefit obligations at December 31:

	Pension Benefits		Other Benefits	
	2019	2018	2019	2018
Discount rate	3.21%	4.33%	3.32%	4.38%
Rate of compensation increase	3.79%	3.75%	3.79%	3.75%
Healthcare cost trend rate				
Immediate rate	n/a	n/a	6.03%	6.31%
Ultimate rate	n/a	n/a	4.50%	4.50%
Year rate reaches ultimate	n/a	n/a	2038	2038

A one-percentage-point change in assumed health care cost trend rates would have the following effect on TEC's benefit obligation:

(millions)	1% Increase	1% Decrease
Effect on PBO	\$ 4	\$ (3)

The discount rate assumption used to determine the December 31, 2019 and 2018 benefit obligation was based on a cash flow matching technique that matches yields from high-quality (AA-rated, non-callable) corporate bonds to TECO Energy's projected cash flows for the plans to develop a present value that is converted to a discount rate assumption.

Amounts recognized in Net Periodic Benefit Cost, OCI and Regulatory Assets

TECO Energy	Pension Benefits			Other Benefits ⁽¹⁾		
	2019	2018	2017	2019	2018	2017
<i>(millions)</i>						
Service cost	\$ 20	\$ 21	\$ 20	\$ 1	\$ 2	\$ 2
Interest cost	31	29	31	7	7	7
Expected return on plan assets	(51)	(49)	(48)	0	0	0
Amortization of:						
Actuarial loss	0	19	17	1	1	0
Prior service (benefit) cost	16	0	0	(2)	(2)	(2)
Settlement loss	1 ⁽³⁾	2 ⁽³⁾	7 ⁽²⁾	0	0	0
Net periodic benefit cost	<u>\$ 17</u>	<u>\$ 22</u>	<u>\$ 27</u>	<u>\$ 7</u>	<u>\$ 8</u>	<u>\$ 7</u>
New prior service cost	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Net loss (gain) arising during the year (includes curtailment gain)	(17)	62	(5)	9	(14)	22
Amounts recognized as component of net periodic benefit cost:						
Amortization or curtailment recognition of prior service (benefit) cost	0	0	0	2	2	2
Amortization or settlement of actuarial gain (loss)	(17)	(20)	(24)	(1)	(1)	0
Total recognized in OCI and regulatory assets	<u>\$ (34)</u>	<u>\$ 42</u>	<u>\$ (29)</u>	<u>\$ 10</u>	<u>\$ (13)</u>	<u>\$ 24</u>
Total recognized in net periodic benefit cost, OCI and regulatory assets	<u>\$ (17)</u>	<u>\$ 64</u>	<u>\$ (2)</u>	<u>\$ 17</u>	<u>\$ (5)</u>	<u>\$ 31</u>

- (1) Represents amounts for TECO Energy's Florida-based other postretirement benefit plan
- (2) Represents TECO Energy's SERP settlement charge as a result of retirements that occurred subsequent to the Merger with Emera. The charge did not impact TEC's financial statements.
- (3) Represents TECO Energy's SERP and Restoration settlement charges as a result of the retirement of certain executives. These charges did impact TEC's financial statements.

TEC's portion of the net periodic benefit costs for pension benefits was \$12 million, \$16 million and \$14 million for 2019, 2018 and 2017, respectively. TEC's portion of the net periodic benefit costs for other benefits was \$7 million, \$8 million and \$6 million for 2019, 2018 and 2017, respectively. TEC's portion of net periodic benefit costs for pension and other benefits is included as an expense on the Consolidated Statements of Income in "Operations & maintenance".

The estimated net loss for the defined benefit pension plans that will be amortized by TEC from regulatory assets into net periodic benefit cost over the next fiscal year is \$18 million. There are no prior service credits to be amortized from regulatory assets into net periodic benefit cost in 2020 for the other postretirement benefit plan.

TECO Energy recognized a settlement charge related to the SERP of \$7 million in 2017 due to retirements that have occurred as a result of the Merger. TEC was not impacted by the curtailment loss or settlement charge. TEC recognized a settlement charge of \$1 million in 2018 relating to the retirement of an executive in the SERP plan. TEC recognized a settlement charge of approximately \$1 million in 2019 related to the retirement of a SERP participant. TEC recognized settlement charges of approximately \$1 million in 2019 related to the retirement of Restoration plan participants.

Assumptions used to determine net periodic benefit cost for years ended December 31:

	Pension Benefits			Other Benefits		
	2019	2018	2017	2019	2018	2017
Discount rate	4.33%	3.62%	4.11%	4.38%	3.70%	4.28%
Expected long-term return on plan assets	7.35%/7.00% ⁽¹⁾	6.85%	7.00%	N/A	N/A	N/A
Rate of compensation increase	3.75%	3.32%	2.57%	3.75%	3.31%	2.48%
Healthcare cost trend rate						
Initial rate	n/a	n/a	n/a	6.31%	6.58%	6.83%
Ultimate rate	n/a	n/a	n/a	4.50%	4.50%	4.50%
Year rate reaches ultimate	n/a	n/a	n/a	2038	2038	2038

(1) The expected return on assets was 7.35% as of January 1, 2019 and 7.00% as of October 31, 2019 when a plan remeasurement occurred as a result of a plan curtailment.

The discount rate assumption used to determine the benefit cost for 2019, 2018 and 2017 was based on the same technique that was used to determine the December 31, 2019 and 2018 benefit obligation as discussed above.

The expected return on assets assumption was based on historical returns, fixed income spreads and equity premiums consistent with the portfolio and asset allocation. A change in asset allocations could have a significant impact on the expected return on assets. Additionally, expectations of long-term inflation, real growth in the economy and a provision for active management and expenses paid were incorporated in the assumption. For the year ended December 31, 2019, TECO Energy's pension plan's actual earned returns were approximately 26%.

The compensation increase assumption was based on the same underlying expectation of long-term inflation together with assumptions regarding real growth in wages and company-specific merit and promotion increases.

A one-percentage-point change in assumed health care cost trend rates would have a less than \$1 million effect on net periodic benefit cost.

Pension Plan Assets

Pension plan assets (plan assets) are invested in a mix of equity and fixed income securities. TECO Energy's investment objective is to obtain above-average returns while minimizing volatility of expected returns and funding requirements over the long term. TECO Energy's strategy is to hire proven managers and allocate assets to reflect a mix of investment styles, emphasize preservation of principal to minimize the impact of declining markets, and stay fully invested except for cash to meet benefit payment obligations and plan expenses.

TECO Energy Asset Category	2019 Target Allocation	2018 Target Allocation	Actual Allocation, End of Year	
			2019	2018
Equity securities	57%-63%	47%-53%	58%	46%
Fixed income securities	37%-43%	47%-53%	42%	54%
Total	100%	100%	100%	100%

TECO Energy reviews the plan's asset allocation periodically and re-balances the investment mix to maximize asset returns, optimize the matching of investment yields with the plan's expected benefit obligations, and minimize pension cost and funding. TECO Energy expects to take additional steps to more closely match plan assets with plan liabilities over the long term.

The plan's investments are held by a trust fund administered by JP Morgan Chase Bank, N.A. Investments are valued using quoted market prices on an exchange when available. Such investments are classified Level 1. In some cases where a market exchange price is available but the investments are traded in a secondary market, acceptable practical expedients are used to calculate fair value.

If observable transactions and other market data are not available, fair value is based upon third-party developed models that use, when available, current market-based or independently-sourced market parameters such as interest rates, currency rates or option volatilities. Items valued using third-party generated models are classified according to the lowest level input or value driver that is most significant to the valuation. Thus, an item may be classified in Level 3 even though there may be significant inputs that are readily observable.

As required by the fair value accounting standards, the investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The plan's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. For cash equivalents, the cost approach was used in determining fair value. For bonds and U.S. government agencies, the income approach was used. For other investments, the market approach was used. The following table sets forth by level within the fair value hierarchy the plan's investments.

Pension Plan Investments

TECO Energy

(millions)

At Fair Value as of December 31, 2019

	Level 1	Level 2	Level 3	Using NAV ⁽¹⁾	Total
Cash	\$ 7	\$ 0	\$ 0	\$ 0	\$ 7
Accounts receivable	27	0	0	0	27
Accounts payable	(64)	0	0	0	(64)
Cash collateral	1	0	0	0	1
Short-term investment funds (STIFs)	22	0	0	0	22
Common stocks	50	0	0	0	50
Real estate investment trusts (REITs)	4	0	0	0	4
Mutual funds	153	-	0	0	153
Municipal bonds	0	1	0	0	1
Government bonds	0	51	0	0	51
Corporate bonds	0	70	0	0	70
Mortgage backed securities (MBS)	0	5	0	0	5
Collateralized mortgage obligations (CMOs)	0	2	0	0	2
Long Futures	(4)	-	0	0	(4)
Swaps	0	1	0	0	1
Investments not utilizing the practical expedient	196	130	0	0	326
Common and collective trusts ⁽¹⁾	0	0	0	412	412
Mutual fund ⁽¹⁾	0	0	0	58	58
Total investments	\$ 196	\$ 130	\$ 0	\$ 470	\$ 796

(1) In accordance with accounting standards, certain investments that are measured at fair value using the net asset value per share practical expedient have not been classified in the fair value hierarchy. The fair value amounts in this table are to permit reconciliation of the fair value hierarchy to amounts presented in the Consolidated Balance Sheet of TECO Energy.

TECO Energy
(millions)

At Fair Value as of December 31, 2018

	Level 1	Level 2	Level 3	NAV ⁽¹⁾	Total
Cash	\$ (3)	\$ 0	\$ 0	\$ 0	\$ (3)
Accounts receivable	10	0	0	0	10
Accounts payable	(51)	0	0	0	(51)
Short-term investment funds (STIFs)	17	0	0	0	17
Common stocks	32	0	0	0	32
Real estate investment trusts (REITs)	3	0	0	0	3
Mutual funds	97	0	0	0	97
Municipal bonds	0	1	0	0	1
Government bonds	0	59	0	0	59
Corporate bonds	0	55	0	0	55
Collateralized mortgage obligations (CMOs)	0	1	0	0	1
Long Futures	6	0	0	0	6
Swaps	0	3	0	0	3
Purchase options (swaptions)	0	1	0	0	1
Written options (swaptions)	0	(1)	0	0	(1)
Investments not utilizing the practical expedient	111	119	0	0	230
Common and collective trusts ⁽¹⁾	0	0	0	330	330
Mutual fund ⁽¹⁾	0	0	0	99	99
Total investments	\$ 111	\$ 119	\$ 0	\$ 429	\$ 659

- (1) In accordance with accounting standards, certain investments that are measured at fair value using the net asset value per share practical expedient have not been classified in the fair value hierarchy. The fair value amounts in this table are to permit reconciliation of the fair value hierarchy to amounts presented in the Consolidated Balance Sheet of TECO Energy.

The following list details the pricing inputs and methodologies used to value the investments in the pension plan:

- Cash collateral is valued at cash posted due to its short-term nature.
- The STIF is valued at net asset value (NAV). The fund is an open-end investment, resulting in a readily-determinable fair value. Additionally, shares may be redeemed any business day at the NAV calculated after the order is accepted. The NAV is validated with purchases and sales at NAV. These factors make the STIF a level 1 asset.
- The primary pricing inputs in determining the fair value of the Common stocks and REITs are closing quoted prices in active markets.
- The primary pricing inputs in determining the level 1 mutual funds are the mutual funds' NAVs. The funds are registered open-end mutual funds and the NAVs are validated with purchases and sales at NAV. Since the fair values are determined and published, they are considered readily-determinable fair values and therefore Level 1 assets.
- The primary pricing inputs in determining the fair value of Municipal bonds are benchmark yields, historical spreads, sector curves, rating updates, and prepayment schedules. The primary pricing inputs in determining the fair value of Government bonds are the U.S. treasury curve, CPI, and broker quotes, if available. The primary pricing inputs in determining the fair value of Corporate bonds are the U.S. treasury curve, base spreads, YTM, and benchmark quotes. CMOs are priced using to-be-announced (TBA) prices, treasury curves, swap curves, cash flow information, and bids and offers as inputs. MBS are priced using TBA prices, treasury curves, average lives, spreads, and cash flow information.
- Swaps are valued using benchmark yields, swap curves, and cash flow analyses.
- Options are valued using the bid-ask spread and the last price.
- The primary pricing input in determining the fair value of the mutual fund utilizing the practical expedient is its NAV. It is an unregistered open-end mutual fund. The fund holds primarily corporate bonds, debt securities and other similar instruments issued by U.S. and non-U.S. public- or private-sector entities. The fund may purchase or sell securities on a when-issued basis. These transactions are made conditionally because a security has not yet been issued in the market, although it is authorized. A commitment is made regarding these transactions to purchase or sell securities for a predetermined price or yield, with payment and delivery taking place beyond the customary settlement period. Since this mutual fund is an open-end mutual fund and the prices are not published to an external source, it uses NAV as a practical expedient. The redemption frequency is daily. The redemption notice period is the same day. There were no unfunded commitments as of December 31, 2019.
- The common collective trusts are private funds valued at NAV. The NAVs are calculated based on bid prices of the underlying securities. Since the prices are not published to external sources, NAV is used as a practical expedient. Certain funds invest primarily in equity securities of domestic and foreign issuers while others invest in long duration U.S.

investment-grade fixed income assets and seeks to increase return through active management of interest rate and credit risks. The redemption frequency of the funds ranges from daily to weekly and the redemption notice period ranges from 1 business day to 30 business days. There were no unfunded commitments as of December 31, 2019.

- Treasury bills are valued using benchmark yields, reported trades, broker dealer quotes, and benchmark securities.
- Futures are valued using futures data, cash rate data, swap rates, and cash flow analyses.

Additionally, the non-qualified SERP had \$10 million and \$14 million of assets as of December 31, 2019 and 2018, respectively. Since the plan is non-qualified, its assets are included in the “Deferred charges and other assets” line item in the Consolidated Balance Sheets rather than being netted with the related liability. The non-qualified trust holds investments in a money market fund. The fund is an open-end investment, resulting in a readily-determinable fair value. Additionally, shares may be redeemed any business day at the NAV calculated after the order is accepted. The NAV is validated with purchases and sales at NAV. These factors make it a level 1 asset. The SERP was fully funded as of December 31, 2019 and 2018.

Other Postretirement Benefit Plan Assets

There are no assets associated with TECO Energy’s Florida-based other postretirement benefits plan.

Contributions

The qualified pension plan’s actuarial value of assets, including credit balance, was 109.5% of the Pension Protection Act funded target as of January 1, 2019 and is estimated at 108.8% of the Pension Protection Act funded target as of January 1, 2020.

TECO Energy’s policy is to fund the qualified pension plan at or above amounts determined by its actuaries to meet ERISA guidelines for minimum annual contributions and minimize PBGC premiums paid by the plan. TEC’s contribution is first set equal to its service cost. If a contribution in excess of service cost for the year is made, TEC’s portion is based on TEC’s proportion of the TECO Energy unfunded liability. TECO Energy made contributions to this plan in 2019, 2018 and 2017, which met the minimum funding requirements for 2019, 2018 and 2017. TEC’s portion of the contribution in 2019 was \$15 million and in 2018 was \$8 million. These amounts are reflected in the “Other” line on the Consolidated Statements of Cash Flows. TEC estimates its portion of the 2020 contribution to be \$16 million. The amount TECO Energy expects to contribute is in excess of the minimum funding required under ERISA guidelines.

TEC’s portion of the contributions to the SERP in 2019, 2018 and 2017 was zero. Since the SERP is fully funded, TECO Energy does not expect to make significant contributions to this plan in 2020. TEC made SERP payments of approximately \$5 million and \$7 million from the trust in 2019 and 2018, respectively, and expects to make a SERP payment of approximately \$1 million from the trust in 2020.

The other postretirement benefits are funded annually to meet benefit obligations. TECO Energy’s contribution toward health care coverage for most employees who retired after the age of 55 between January 1, 1990 and June 30, 2001 is limited to a defined dollar benefit based on service. TECO Energy’s contribution toward pre-65 and post-65 health care coverage for most employees retiring on or after July 1, 2001 is limited to a defined dollar benefit based on an age and service schedule. In 2020, TEC expects to make a contribution of about \$11 million. Postretirement benefit levels are substantially unrelated to salary.

Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Expected Benefit Payments

TECO Energy (including projected service and net of employee contributions)	Pension Benefits	Other Postretirement Benefits
<i>(millions)</i>		
2020	\$ 55	\$ 12
2021	61	12
2022	61	11
2023	61	11
2024	63	11
2025-2029	342	53

Defined Contribution Plan

TECO Energy has a defined contribution savings plan covering substantially all employees of TECO Energy and its subsidiaries that enables participants to save a portion of their compensation up to the limits allowed by IRS guidelines. TECO Energy and its

subsidiaries match up to 6% of the participant’s payroll savings deductions. Effective January 1, 2017, the employer matching contributions increased from 70% to 75% with an additional incentive match of up to 25% of eligible participant contributions based on the achievement of certain operating company financial goals. For the years ended December 31, 2019, 2018 and 2017, TEC’s portion of expense totaled \$11 million, \$11 million and \$11 million, respectively, related to the matching contributions made to this plan. TEC’s portion of the expense related to the matching contribution is included on the Consolidated Statements of Income in “Operations & maintenance”.

Effective October 21, 2019, TECO Energy amended the defined contribution plan such that certain participants covered by the IBEW collective bargaining agreement shall not be eligible to participate in the plan for purposes of receiving the fixed matching contribution. This has been replaced with a non-elective employer contribution on a bi-weekly basis equal to a percentage of the member’s compensation for that period based on years of tenure of employment. For the year ended December 31, 2019, TEC recognized expense totaling \$1 million related to the contributions made to this plan. TEC’s portion of the expense related to this contribution is included on the Consolidated Statements of Income in “Operations & maintenance”.

6. Short-Term Debt

Credit Facilities

(millions)	December 31, 2019			December 31, 2018		
	Credit Facilities	Borrowings Outstanding ⁽¹⁾	Letters of Credit Outstanding	Credit Facilities	Borrowings Outstanding ⁽¹⁾	Letters of Credit Outstanding
5-year facility ⁽²⁾	\$ 400	\$ 295	\$ 1	\$ 325	\$ 131	\$ 1
3-year accounts receivable facility ⁽³⁾	150	53	0	150	90	0
Total	\$ 550	\$ 348	\$ 1	\$ 475	\$ 221	\$ 1

- (1) Borrowings outstanding are reported as notes payable.
- (2) This 5-year facility matures March 22, 2022.
- (3) This 3-year facility matures March 22, 2021.

At December 31, 2019, these credit facilities required commitment fees ranging from 12.5 to 35.0 basis points. The weighted-average interest rate on borrowings outstanding under the credit facilities at December 31, 2019 and 2018 was 2.56% and 3.14%, respectively.

Tampa Electric Company Non Revolving Term Loan

On February 6, 2020, TEC entered into a 364-day, \$300 million credit agreement with a group of banks. The credit agreement has a maturity date of February 4, 2021; contains customary representations and warranties, events of default, and financial and other covenants; and provides for interest to accrue at variable rates based on either the London interbank deposit rate, Wells Fargo Bank’s prime rate, or the federal funds rate, plus a margin.

Tampa Electric Company Accounts Receivable Facility

On March 23, 2018, TEC amended its \$150 million accounts receivable collateralized borrowing facility in order to extend the scheduled termination date to March 22, 2021, by entering into a Second Amended Loan and Servicing Agreement, among TEC, certain lenders and the program agent (the Loan Agreement). Throughout the term of the facility, TEC will pay program and liquidity fees, which total 70 basis points at December 31, 2019. Interest rates on the borrowings are based on prevailing asset-backed commercial paper rates, unless such rates are not available from conduit lenders, in which case the rates will be at an interest rate equal to either The Bank of Tokyo-Mitsubishi UFJ, Ltd.’s prime rate, the federal funds rate, or the London interbank deposit rate, plus a margin. In the case of default, as defined under the terms of the Loan Agreement, TEC has pledged as collateral a pool of receivables equal to the borrowings outstanding. TEC continues to service, administer and collect the pledged receivables, which are classified as receivables on the balance sheet. As of December 31, 2019, TEC was in compliance with the requirements of the Loan Agreement.

Tampa Electric Company Credit Facility

On March 22, 2017, TEC amended its \$325 million bank credit facility, entering into a Fifth Amended and Restated Credit Agreement. The amendment extended the maturity date of the credit facility from December 17, 2018 to March 22, 2022 (subject to further extension with the consent of each lender); provides for an interest rate based on either the London interbank deposit rate, Wells Fargo Bank’s prime rate, or the federal funds rate, plus a margin; allows TEC to borrow funds on a same-day basis under a swingline loan provision, which loans mature on the fourth banking day after which any such loans are made and bear interest at an

interest rate as agreed by the borrower and the relevant swingline lender prior to the making of any such loans; continues to allow TEC to request the lenders to increase their commitments under the credit facility by up to \$175 million in the aggregate; includes a \$50 million letter of credit facility; and made other technical changes. On December 19, 2019, TEC increased the amount by \$75 million to \$400 million with no other changes from the prior agreement.

7. Long-Term Debt

A substantial part of Tampa Electric's tangible assets are pledged as collateral to secure its first mortgage bonds. There are currently no bonds outstanding under Tampa Electric's first mortgage bond indenture, and Tampa Electric could cause the lien associated with this indenture to be released at any time.

Tampa Electric Company 3.625% Notes due 2050

On July 24, 2019, TEC completed a sale of \$300 million aggregate principal amount of 3.625% unsecured notes due June 15, 2050. Until December 15, 2049, TEC may redeem all or any part of the Notes at its option at a redemption price equal to the greater of (i) 100% of the principal amount of the Notes to be redeemed or (ii) the sum of the present value of the remaining payments of principal and interest on the Notes to be redeemed, discounted at an applicable treasury rate (as defined in the indenture), plus 20 basis points; in either case, the redemption price would include accrued and unpaid interest to the redemption date. At any time on or after December 15, 2049, TEC may, at its option, redeem the Notes, in whole or in part, at 100% of the principal amount of the Notes being redeemed plus accrued and unpaid interest thereon to but excluding the date of redemption.

Tampa Electric Company 4.45% Notes due 2049

On October 4, 2018, TEC completed a sale of \$375 million aggregate principal amount of 4.45% unsecured notes due June 15, 2049. Until December 15, 2048, TEC may redeem all or any part of the Notes at its option at a redemption price equal to the greater of (i) 100% of the principal amount of the Notes to be redeemed or (ii) the sum of the present value of the remaining payments of principal and interest on the Notes to be redeemed, discounted at an applicable treasury rate (as defined in the indenture), plus 20 basis points; in either case, the redemption price would include accrued and unpaid interest to the redemption date. At any time on or after December 15, 2048, TEC may, at its option, redeem the Notes, in whole or in part, at 100% of the principal amount of the Notes being redeemed plus accrued and unpaid interest thereon to, but excluding, the date of redemption.

Tampa Electric Company 4.3% Notes due 2048

On June 7, 2018, TEC completed a sale of \$350 million aggregate principal amount of 4.3% unsecured notes due June 15, 2048. Until December 15, 2047, TEC may redeem all or any part of the Notes at its option at a redemption price equal to the greater of (i) 100% of the principal amount of the Notes to be redeemed or (ii) the sum of the present value of the remaining payments of principal and interest on the Notes to be redeemed, discounted at an applicable treasury rate (as defined in the indenture), plus 20 basis points; in either case, the redemption price would include accrued and unpaid interest to the redemption date. At any time on or after December 15, 2047, TEC may, at its option, redeem the Notes, in whole or in part, at 100% of the principal amount of the Notes being redeemed plus accrued and unpaid interest thereon to, but excluding, the date of redemption.

Purchase in Lieu of Redemption of Revenue Refunding Bonds

At December 31, 2019 and 2018, \$233 million of tax-exempt bonds purchased in lieu of redemption were held by the trustee at the direction of Tampa Electric to provide an opportunity to evaluate refinancing alternatives including \$20 million variable-rate bonds due 2020, \$52 million term-rate refunding bonds due 2025, \$75 million term-rate bonds due 2030, and \$86 million term-rate refunding bonds due 2034.

8. Commitments and Contingencies

Legal Contingencies

From time to time, TEC and its subsidiaries are involved in various legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies in the ordinary course of business. Where appropriate, accruals are made in accordance with accounting standards for contingencies to provide for matters that are probable of resulting in an estimable loss.

Superfund and Former Manufactured Gas Plant Sites

TEC, through its Tampa Electric and PGS divisions, is a PRP for certain superfund sites and, through its PGS division, for certain former MGP sites. While the joint and several liability associated with these sites presents the potential for significant response costs, as of December 31, 2019 and 2018, TEC has estimated its ultimate financial liability to be \$21 million and \$28 million, respectively, primarily at PGS. This amount has been accrued and is primarily reflected in the long-term liability section under

“Deferred credits and other liabilities” on the Consolidated Balance Sheets. The environmental remediation costs associated with these sites are expected to be paid over many years.

The estimated amounts represent only the portion of the cleanup costs attributable to TEC. The estimates to perform the work are based on TEC’s experience with similar work, adjusted for site-specific conditions and agreements with the respective governmental agencies. The estimates are made in current dollars, are not discounted and do not assume any insurance recoveries.

In instances where other PRPs are involved, most of those PRPs are creditworthy and are likely to continue to be creditworthy for the duration of the remediation work. However, in those instances that they are not, TEC could be liable for more than TEC’s actual percentage of the remediation costs.

Factors that could impact these estimates include the ability of other PRPs to pay their pro-rata portion of the cleanup costs, additional testing and investigation which could expand the scope of the cleanup activities, additional liability that might arise from the cleanup activities themselves or changes in laws or regulations that could require additional remediation. Under current regulations, these costs are recoverable through customer rates established in subsequent base rate proceedings.

Long-Term Commitments

TEC has commitments for various purchases as disclosed below, including payment obligations for capital projects, such as Tampa Electric’s solar projects (see **Note 3**) and the modernization of the Big Bend power station, and contractual agreements for fuel, fuel transportation and power purchases that are recovered from customers under regulatory clauses. Rental expense for leases included in “Operations & maintenance expense” on the Consolidated Statements of Income for the years ended December 31, 2019, 2018 and 2017, totaled \$3 million, \$2 million and \$2 million, respectively. The following is a schedule of future payments under minimum lease payments with non-cancelable lease terms in excess of one year and other net purchase obligations/commitments at December 31, 2019:

<i>(millions)</i>	<i>Purchased Power</i>	<i>Transportation</i>	<i>Capital Projects</i>	<i>Fuel and Gas Supply</i>	<i>Long-term Service Agreements</i>	<i>Operating Leases</i>	<i>Demand Side Management</i>	<i>Total</i>
<i>Year ended December 31:</i>								
2020	\$ 3	\$ 200	\$ 186	\$ 226	\$ 7	\$ 2	\$ 4	\$ 628
2021	3	217	84	58	6	3	3	374
2022	0	220	79	3	9	3	3	317
2023	0	197	66	1	12	3	0	279
2024	0	190	0	0	18	3	0	211
Thereafter	0	2,065	0	0	67	51	0	2,183
Total future minimum payments	\$ 6	\$ 3,089	\$ 415	\$ 288	\$ 119	\$ 65	\$ 10	\$ 3,992

Financial Covenants

TEC must meet certain financial tests, including a debt to capital ratio, as defined in the applicable debt agreements. TEC has certain restrictive covenants in specific agreements and debt instruments. At December 31, 2019 and 2018, TEC was in compliance with all required financial covenants.

9. Revenue

The following disaggregates TEC's revenue by major source:

<i>(millions)</i>				
<i>For the year ended December 31, 2019</i>	Tampa Electric	PGS	Eliminations	Tampa Electric Company
Electric revenue				
Residential	\$ 1,046	\$ 0	\$ 0	\$ 1,046
Commercial	562	0	0	562
Industrial	156	0	0	156
Regulatory deferrals and unbilled revenue	(49)	0	0	(49)
Other ⁽¹⁾	250	0	(4)	246
Total electric revenue	1,965	0	(4)	1,961
Gas revenue				
Residential	0	154	0	154
Commercial	0	146	0	146
Industrial ⁽²⁾	0	21	0	21
Other ⁽³⁾	0	140	(18)	122
Total gas revenue	0	461	(18)	443
Total revenue	\$ 1,965	\$ 461	\$ (22)	\$ 2,404
<i>For the year ended December 31, 2018</i>				
Electric revenue				
Residential	\$ 1,067	\$ 0	\$ 0	\$ 1,067
Commercial	582	0	0	582
Industrial	161	0	0	161
Regulatory deferrals and unbilled revenue	(2)	0	0	(2)
Other ⁽¹⁾	258	0	(3)	255
Total electric revenue	2,066	0	(3)	2,063
Gas revenue				
Residential	0	157	0	157
Commercial	0	151	0	151
Industrial ⁽²⁾	0	21	0	21
Other ⁽³⁾	0	159	(27)	132
Total gas revenue	0	488	(27)	461
Total revenue	\$ 2,066	\$ 488	\$ (30)	\$ 2,524

- (1) Other includes sales to public authorities, off-system sales to other utilities and various other items.
- (2) Industrial includes sales to power generation customers.
- (3) Other includes off-system sales to other utilities and various other items.

Remaining Performance Obligations

Remaining performance obligations primarily represent lighting contracts and gas transportation contracts with fixed contract terms. As of December 31, 2019 and 2018, the aggregate amount of the transaction price allocated to remaining performance obligations was approximately \$140 million and \$135 million, respectively. As allowed under ASC 606, this amount excludes contracts with an original expected length of one year or less and variable amounts for which TEC recognizes revenue at the amount to which it has the right to invoice for services performed. TEC expects to recognize revenue for the remaining performance obligations through 2033.

10. Related Party Transactions

A summary of activities between TEC and its affiliates follows:

Net transactions with affiliates:

<i>(millions)</i>	2019	2018	2017
Natural gas sales to/(from) affiliates	\$ (111)	\$ (38)	\$ (4)
Services received from affiliates	65	65	67
Dividends to TECO Energy	373	362	292
Equity contributions from TECO Energy	395	345	190

Services received from affiliates primarily include shared services provided to TEC from TSI, TECO Energy's centralized services company subsidiary. Through TSI, TECO Energy provided TEC with specialized services at cost, including information technology, procurement, human resources, legal, risk management, financial, and administrative services. TSI's costs are directly charged or allocated to TEC based on FPSC-approved cost-causative allocation methods or the Modified Massachusetts Formula. In December 2019, most TSI employees were transferred to Tampa Electric. The transfer of these employees to Tampa Electric is not expected to materially impact shared service costs or the TEC Consolidated Statement of Income.

Amounts due from or to affiliates at December 31,

<i>(millions)</i>	2019	2018
Accounts receivable related to asset management agreements to Emera Energy Services Inc. ⁽¹⁾	\$ 4	\$ 2
Accounts receivable excluding asset management agreements ⁽¹⁾	10	1
Accounts payable ⁽¹⁾	16	20
Taxes receivable ⁽²⁾	0	1
Taxes payable ⁽²⁾	4	4

- (1) Accounts receivable and accounts payable were incurred in the ordinary course of business and do not bear interest.
(2) Taxes receivable were due from EUSHI and taxes payable were due to EUSHI. See **Note 4** for additional information.

11. Segment Information

Segments are determined based on how management evaluates, measures and makes decisions with respect to the operations of the entity. Management reports segments based on each segment's contribution of revenues, net income and total assets as required by the accounting guidance for disclosures about segments of an enterprise and related information. All significant intercompany transactions are eliminated in the Consolidated Financial Statements of TEC but are included in determining reportable segments.

TEC is a public utility operating within the State of Florida and has two segments, Tampa Electric and PGS. Through its Tampa Electric division, it is engaged in the generation, purchase, transmission, distribution and sale of electric energy to approximately 779,000 customers in West Central Florida. Its PGS division is engaged in the purchase, distribution and marketing of natural gas for approximately 406,000 residential, commercial, industrial and electric power generation customers in the State of Florida.

(millions)	Tampa Electric	PGS	Eliminations	TEC
2019				
Revenues - external	\$ 1,961	\$ 443	\$ 0	\$ 2,404
Sales to affiliates	4	18	(22)	0
Total revenues	1,965	461	(22)	2,404
Depreciation and amortization	336	41	0	377
Total interest charges	117	17	0	134
Provision for income taxes	59	18	0	77
Net income	316	54	0	370
Total assets	9,007	1,593	(593) ⁽¹⁾	10,007
Capital expenditures	1,055	228	0	1,283
2018				
Revenues - external	\$ 2,063	\$ 461	\$ 0	\$ 2,524
Sales to affiliates	3	27	(30)	0
Total revenues	2,066	488	(30)	2,524
Depreciation and amortization	312	60	0	372
Total interest charges	102	16	0	118
Provision for income taxes	65	16	0	81
Net income	294	47	0	341
Total assets	8,235	1,407	(487) ⁽¹⁾	9,155
Capital expenditures	940	169	0	1,109
2017				
Revenues - external	\$ 2,052	\$ 418	\$ 0	\$ 2,470
Sales to affiliates	2	20	(22)	0
Total revenues	2,054	438	(22)	2,470
Depreciation and amortization	300	50	0	350
Total interest charges	104	15	0	119
Provision for income taxes	171	26	0	197
Net income	273	43	0	316
Total assets	7,635	1,284	(555) ⁽¹⁾	8,364
Capital expenditures	518	122	0	640

(1) Amounts relate to consolidated deferred tax reclassifications. Deferred tax assets are reclassified and netted with deferred tax liabilities upon consolidation.

12. Asset Retirement Obligations

TEC accounts for AROs at fair value at inception of the obligation if there is a legal obligation under applicable law, a written or oral contract, or by legal construction under the doctrine of promissory estoppel. Retirement obligations are recognized only if the legal obligation exists in connection with or as a result of the permanent retirement, abandonment or sale of a long-lived asset. When the liability is initially recorded in "Deferred credits and other liabilities" in the Consolidated Balance Sheets, the carrying amount of the related long-lived asset is correspondingly increased. Over time, the liability is accreted to its estimated future value. The corresponding amount capitalized at inception is depreciated over the remaining useful life of the asset. The ARO estimates are reviewed quarterly. Any updates are revalued based on current market prices.

Reconciliation of beginning and ending carrying amount of asset retirement obligations:

<i>(millions)</i>	<i>December 31,</i>	
	<i>2019</i>	<i>2018</i>
Beginning balance	\$ 64	\$ 47
Additional liabilities ⁽¹⁾	0	18
Liabilities settled ⁽¹⁾	(18)	0
Revisions to estimated cash flows	0	(3)
Other ⁽²⁾	3	2
Ending balance	<u>\$ 49</u>	<u>\$ 64</u>

- (1) Tampa Electric produces ash and other by-products, collectively known as CCRs, at its Big Bend and Polk power stations. The increase in the ARO in 2018 is to achieve compliance with the EPA’s CCR rule, which contains design and operating standards for CCR management units, due to the closure of a CCR management facility that began in 2018 and was completed in 2019.
- (2) Includes accretion recorded as a deferred regulatory asset.

13. Leases

TEC determines whether a contract contains a lease at inception by evaluating if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Operating lease ROU assets and operating lease liabilities are recognized on the Consolidated Balance Sheets based on the present value of the future minimum lease payments over the lease term at commencement date. As most of TEC’s leases do not provide an implicit rate, the incremental borrowing rate at commencement of the lease is used in determining the present value of future lease payments. Lease expense is recognized on a straight-line basis over the lease term and is recorded as “Operations and maintenance expenses” on the Consolidated Statements of Income.

Where TEC is the lessor, a lease is a sales-type lease if certain criteria is met and the arrangement transfers control of the underlying asset to the lessee. For arrangements where the criteria are met due to the presence of a third-party residual value guarantee, the lease is a direct financing lease.

For direct finance leases, a net investment in the lease is recorded that consists of the sum of the minimum lease payments and residual value (net of estimated executory costs and unearned income). The difference between the gross investment and the cost of the leased item is recorded as unearned income at the inception of the lease. Unearned income is recognized in income over the life of the lease using a constant rate of interest equal to the internal rate of return on the lease.

TEC has certain contractual agreements that include lease and non-lease components, which management has elected to account for as a single lease component for all leases.

Lessee

TEC has operating leases for buildings, land, telecommunication services and rail cars. TEC’s leases have remaining lease terms of 2 years to 67 years, some of which include options to extend the leases for up to an additional 65 years. These options are included as part of the lease term when it is considered reasonably certain that they will be exercised.

<i>(millions)</i>	<i>Classification</i>	<i>December 31, 2019</i>
Right-of-use asset	Other deferred debits	\$ 28
Lease liabilities		
Current	Other current liabilities	\$ 2
Long-term	Deferred credits and other liabilities	27
Total lease liabilities		<u>\$ 29</u>

TEC has recorded operating lease expense for the year ended December 31, 2019 of \$4 million.

Future minimum lease payments under non-cancellable operating leases for each of the next five years and in aggregate thereafter consisted of the following at December 31, 2019:

(millions)

Year ended December 31:	2020	2021	2022	2023	2024	Thereafter	Total
Minimum lease payments	\$ 2	\$ 3	\$ 3	\$ 3	\$ 3	\$ 51	\$ 65
Less imputed interest							(36)
Total future minimum payments							\$ 29

Additional information related to TEC's leases is as follows:

(millions)

Year ended December 31:	2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows for operating leases (millions)	\$ 3
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases (millions)	\$ 11
Weighted average remaining lease term (years)	43
Weighted average discount rate - operating leases	4.3%

Lessor

TEC leases CNG stations to other companies, which are classified as direct finance leases. The net investment in direct finance leases consists of the following:

(millions)

	December 31, 2019
Total minimum lease payments to be received	\$ 33
Less amounts representing estimated executory costs	(13)
Minimum lease payments receivable	\$ 20
Less unearned finance lease income	(11)
Net investment in direct finance leases	\$ 9
Principal due within one year (included in "Receivables")	(2)
Net investment in direct finance leases - long-term (included in "Other deferred debits")	\$ 7

The unearned income related to these direct finance leases is recognized in income over the life of the lease using a constant rate of interest equal to the internal rate of return on the lease and is recorded as "Gas revenues" on the Consolidated Statements of Income. Customers have the option to purchase the assets related to the CNG stations at any time after year five of the agreements, which is in 2021, by paying a make-whole payment at the date of the purchase based on a targeted internal rate of return. Alternatively, the customer may take possession of the CNG station asset at the end of the lease term for no cost.

As of December 31, 2019, future minimum direct finance lease payments to be received for each of the next five years and in aggregate thereafter consisted of the following:

(millions)

Year ended December 31:	2020	2021	2022	2023	2024	Thereafter	Total
Minimum lease payments to be received	\$ 2	\$ 2	\$ 2	\$ 2	\$ 2	\$ 23	\$ 33
Less executory costs							(13)
Total minimum lease payments receivable							\$ 20

14. Accounting for Derivative Instruments and Hedging Activities

From time to time, TEC enters into futures, forwards, swaps and option contracts for the following purposes:

- To limit the exposure to price fluctuations for physical purchases and sales of natural gas in the course of normal operations, and
- To optimize the utilization of Tampa Electric's physical natural gas storage capacity and PGS's firm transportation capacity on interstate pipelines.

TEC uses derivatives only to reduce normal operating and market risks, not for speculative purposes. TEC's primary objective in using derivative instruments for regulated operations is to reduce the impact of market price volatility on customers and to optimize the utilization of its physical natural gas storage capacity and firm transportation capacity on interstate pipelines.

The risk management policies adopted by TEC provide a framework through which management monitors various risk exposures. Daily and periodic reporting of positions and other relevant metrics are performed by a centralized risk management group, which is independent of all operating companies.

On November 6, 2017, the FPSC approved an amended and restated settlement agreement filed by Tampa Electric, which included a provision for a moratorium on hedging of natural gas purchases ending on December 31, 2022 (see **Note 3**). TEC was hedging its exposure to the variability in future cash flows until November 30, 2018 for financial natural gas contracts. TEC had \$1 million and zero of derivative liabilities related to natural gas storage optimization as of December 31, 2019 and 2018, respectively, and zero derivative assets on its Consolidated Balance Sheets as of December 31, 2019 and 2018.

TEC applies the accounting standards for derivative instruments and hedging activities. These standards require companies to recognize derivatives as either assets or liabilities in the financial statements and to measure those instruments at fair value. TEC also applies the accounting standards for regulated operations to financial instruments used to hedge the purchase of natural gas and optimize natural gas storage capacity for its regulated companies. These standards, in accordance with the FPSC, permit the changes in fair value of natural gas derivatives to be recorded as regulatory assets or liabilities reflecting the impact of these activities on the fuel recovery clause. As a result, these changes are not recorded in OCI or net income (see **Note 3**).

TEC's physical contracts qualify for the NPNS exception to derivative accounting rules, provided they meet certain criteria. Generally, NPNS applies if TEC deems the counterparty creditworthy, if the counterparty owns or controls resources within the proximity to allow for physical delivery of the commodity, if TEC intends to receive physical delivery and if the transaction is reasonable in relation to TEC's business needs. As of December 31, 2019, all of TEC's physical contracts qualify for the NPNS exception, which has been elected.

TEC is exposed to credit risk by entering into derivative instruments with counterparties to limit its exposure to the commodity price fluctuations associated with natural gas and to optimize the value of natural gas storage capacity. Credit risk is the potential loss resulting from a counterparty's nonperformance under an agreement. TEC manages credit risk with policies and procedures for, among other things, counterparty analysis, exposure measurement and exposure monitoring and mitigation.

It is possible that volatility in commodity prices could cause TEC to have material credit risk exposures with one or more counterparties. If such counterparties fail to perform their obligations under one or more agreements, TEC could suffer a material financial loss. However, as of December 31, 2019, substantially all of the counterparties with transaction amounts outstanding in TEC's energy portfolio were rated investment grade by the major rating agencies. TEC assesses credit risk internally for counterparties that are not rated.

TEC has entered into commodity master arrangements with its counterparties to mitigate credit exposure to those counterparties. TEC generally enters into standardized master arrangements in the electric and gas industry. TEC believes that entering into such agreements reduces the risk from default by creating contractual rights relating to creditworthiness, collateral and termination.

TEC has implemented procedures to monitor the creditworthiness of its counterparties and to consider nonperformance risk in determining the fair value of counterparty positions. Net liability positions generally do not require a nonperformance risk adjustment as TEC uses derivative transactions as hedges and has the ability and intent to perform under each of these contracts. In the instance of net asset positions, TEC considers general market conditions and the observable financial health and outlook of specific counterparties in evaluating the potential impact of nonperformance risk to derivative positions.

Certain TEC derivative instruments contain provisions that require TEC's debt to maintain an investment grade credit rating from any or all of the major credit rating agencies. If debt ratings were to fall below investment grade, it could trigger these provisions, and the counterparties to the derivative instruments could demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. TEC has no other contingent risk features associated with any derivative instruments.

15. Fair Value Measurements

Items Measured at Fair Value on a Recurring Basis

Accounting guidance governing fair value measurements and disclosures provides that fair value represents the amount that would be received in selling an asset or the amount that would be paid in transferring a liability in an orderly transaction between market participants. As a basis for considering assumptions that market participants would use in pricing an asset or liability, accounting guidance also establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Observable inputs, such as quoted prices in active markets;
- Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs for which there is little or no market data, which require the reporting entity to develop its own assumptions.

There were no Level 3 assets or liabilities for the periods presented.

As of December 31, 2019 and 2018, the fair value of TEC's short-term debt was not materially different from the carrying value due to the short-term nature of the instruments and because the stated rates approximate market rates. The fair value of TEC's short-term debt is determined using Level 2 measurements.

See **Note 5** and **Consolidated Statements of Capitalization** for information regarding the fair value of the pension plan investments and long-term debt, respectively.

16. Stock-Based Compensation

Performance Share Unit Plan

Emera has a performance share unit (PSU) plan. The PSU liability is marked-to-market at the end of each period based on the common share price at the end of the period. Emera common shares are traded on the Toronto Stock Exchange under the symbol EMA.

Under the PSU plan, certain executive and senior employees are eligible for long-term incentives payable through the PSU plan. PSUs are granted annually for three-year overlapping performance cycles, resulting in a cash payment. PSUs are granted based on the average of Emera's stock closing price for the fifty trading days prior to the effective grant date. Dividend equivalents are awarded and are paid in the form of additional PSUs. The PSU value varies according to the Emera common share market price and corporate performance.

PSUs vest at the end of the three-year cycle and are calculated and approved by the Emera Management Resources and Compensation Committee (MRCC) early in the following year. The value of the payout considers actual service over the performance cycle and may be pro-rated in certain departure scenarios.

A summary of the activity related to TEC employee PSUs is presented in the following table:

	Number of Units (Thousands)	Weighted Average Grant Date Fair Value (Per Unit)	Aggregate Intrinsic Value (Millions)
Outstanding as of December 31, 2018	258	\$ 46.68	\$ 11
Granted including DRIP	135	43.20	6
Exercised	(4)	42.95	0
Forfeited	(23)	46.16	(1)
Transferred ⁽¹⁾	138	45.41	8
Outstanding as of December 31, 2019	504	45.45	28

(1) As the result of a reorganization of shared services functions, certain employees and their associated performance share units were transferred from TSI to TEC effective December 2019. The balance at December 31, 2019 is reflective of this transfer.

Compensation cost recognized for the PSU plan for the years ended December 31, 2019, 2018 and 2017 was \$8 million, \$4 million and \$2 million, respectively. Tax benefits related to this compensation cost for share units realized for the years ended December 31, 2019, 2018 and 2017 were \$2 million, \$1 million and \$1 million, respectively. As of December 31, 2019 and 2018, there was \$4 million and \$6 million, respectively, of unrecognized compensation cost related to non-vested PSUs that is expected to be recognized over a weighted-average period of two years.

Restricted Share Unit (RSU) Plan

In November 2019, a new RSU plan was approved by Emera's Board of Directors, with grants to begin in 2020. Under the RSU plan, certain executive and senior employees are eligible for long-term incentives payable through the RSU plan. RSUs are granted annually for three-year overlapping cycles, resulting in a cash payment. RSUs are granted based on the average of Emera's stock closing price for the fifty trading days prior to the effective grant date. Dividend equivalents are awarded and paid in the form of additional RSUs. The RSU value varies according to the Emera common share market price.

RSUs vest at the end of the three-year cycle and will be calculated and approved by the MRCC early in the following year. The value of the payout considers actual service over the performance cycle and may be pro-rated in certain departure scenarios.

17. Variable Interest Entities

A VIE is an entity that a company has a controlling financial interest in, and that controlling interest is determined through means other than a majority voting interest. The determination of a VIE's primary beneficiary is the enterprise that has both 1) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and 2) the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

In 2018 and 2017, Tampa Electric had long-term PPAs with wholesale energy providers in Florida, which expired in December 2018. These agreements ranged in size from 121 MW to 250 MW of available capacity, were with similar entities and contained similar provisions. In 2019, Tampa Electric entered into a long-term PPA with a wholesale energy provider in Florida with up to 360 MW of available capacity, which expires in 2020. Because some of these provisions provide for the transfer or sharing of a number of risks inherent in the generation of energy, these agreements meet the definition of being variable interests. These risks include: operating and maintenance, regulatory, credit, commodity/fuel and energy market risk. Tampa Electric reviewed these risks and determined that the owners of these entities retain the majority of these risks over the expected life of the underlying generating assets, have the power to direct the most significant activities, and have the obligation or right to absorb losses or benefits. As a result, Tampa Electric is not the primary beneficiary and is not required to consolidate any of these entities. Tampa Electric purchased \$25 million, \$15 million and \$16 million under these long-term PPAs for the three years ended December 31, 2019, 2018 and 2017, respectively.

TEC does not provide any material financial or other support to any of the VIEs it is involved with, nor is TEC under any obligation to absorb losses associated with these VIEs. Excluding the payments for energy under these contracts, TEC's involvement with these VIEs does not affect its Consolidated Balance Sheets, Statements of Income or Cash Flows.

18. Subsequent Events

On February 6, 2020, TEC entered into a 364-day, \$300 million credit agreement with a group of banks. See **Note 6** for additional information.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Conclusions Regarding Effectiveness of Disclosure Controls and Procedures.

TEC's management, with the participation of its principal executive officer and principal financial officer, has evaluated the effectiveness of TEC's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)) as of the end of the period covered by this annual report, December 31, 2019 (Evaluation Date). Based on such evaluation, TEC's principal executive officer and principal financial officer have concluded that, as of the Evaluation Date, TEC's disclosure controls and procedures are effective.

Management's Report on Internal Control over Financial Reporting.

TEC's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Securities Exchange Act of 1934, as amended. We conducted an evaluation of the effectiveness of TEC's internal control over financial reporting as of December 31, 2019 based on the 2013 framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under this framework, our management concluded that TEC's internal control over financial reporting was effective as of December 31, 2019.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. A control system, no matter how well designed and operated, can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control over Financial Reporting.

There was no change in TEC's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation of TEC's internal controls that occurred during TEC's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, such controls.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by Item 10 is omitted pursuant to General Instruction I(2) of Form 10-K.

Item 11. EXECUTIVE COMPENSATION

Information required by Item 11 is omitted pursuant to General Instruction I(2) of Form 10-K.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by Item 12 is omitted pursuant to General Instruction I(2) of Form 10-K.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by Item 13 is omitted pursuant to General Instruction I(2) of Form 10-K.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Fees Paid by TEC to the Independent Auditors

The following table presents fees for professional audit services and other services rendered by EY for the audit of TEC's annual financial statements and other services for the years ended December 31, 2019 and 2018, respectively.

	2019	2018
Audit fees	\$ 550,300	\$ 680,001
Audit-related fees	0	0
Tax fees		
Tax compliance fees	15,000	168,684
Tax planning fees	0	0
All other fees	0	0
Total	\$ 565,300	\$ 848,685

Audit fees consist of fees for professional services performed for (i) the audit of TEC's annual financial statements (ii) the related reviews of the financial statements included in TEC's 10-Q filings and (iii) services that are normally provided in connection with statutory and regulatory filings or engagements.

Audit-related fees consist of fees for professional services that are reasonably related to the performance of the audit or review of our financial statements, such as required activities related to debt offerings.

Tax fees consist of tax compliance fees for tax return review and income tax provision review, and tax planning fees, including tax audit advice.

All other fees, if any, consist of fees for other work performed by EY, including fees for assessments and recommendations related to specific transactions, regulatory accounting advice and other miscellaneous services.

Audit Committee Pre-Approval Policy

All services performed by the independent auditor are approved by the Audit Committee of the Emera Board of Directors in accordance with Emera's pre-approval policy for services provided by the independent auditor.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Certain Documents Filed as Part of this Form 10-K

1. Financial Statements
Tampa Electric Company Financial Statements
Reports of Independent Registered Public Accounting Firms
Consolidated Balance Sheets at December 31, 2019 and 2018
Consolidated Statements of Income and Comprehensive Income for the Years Ended December 31, 2019, 2018 and 2017
Consolidated Statements of Cash Flows for the Years Ended December 31, 2019, 2018 and 2017
Consolidated Statements of Capitalization for the Years Ended December 31, 2019 and 2018
Notes to Consolidated Financial Statements
2. Financial Statement Schedules
Tampa Electric Company Schedule II - Valuation and Qualifying Accounts and Reserves
3. Exhibits

(b) The exhibits filed as part of this Form 10-K are listed on the List of Exhibits below.

(c) The financial statement schedules filed as part of this Form 10-K are listed in paragraph (a)(2) above, and follow immediately.

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

TAMPA ELECTRIC COMPANY
 VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
 For the Years Ended December 31, 2019, 2018 and 2017
 (millions)

	Balance at Beginning of Period	Additions		Payments & Deductions ⁽¹⁾	Balance at End of Period
		Charged to Income	Other Charges		
Allowance for Uncollectible Accounts:					
2019	\$ 2	\$ 5	\$ 0	\$ 5	\$ 2
2018	\$ 1	\$ 7	\$ 0	\$ 6	\$ 2
2017	\$ 1	\$ 5	\$ 0	\$ 5	\$ 1

(1) Write-off of individual bad debt accounts

LIST OF EXHIBITS

Exhibit No.	Description	
3.1	Restated Articles of Incorporation of Tampa Electric Company, as amended on November 30, 1982 (Exhibit 3 to Registration Statement No. 2-70653 of Tampa Electric Company). (P)	*
3.2	Bylaws of Tampa Electric Company, as amended effective February 2, 2011 (Exhibit 3.4, Form 10-K for 2010 of Tampa Electric Company).	*
4.1	Loan and Trust Agreement dated as of Jul. 2, 2007 among Hillsborough County Industrial Development Authority, Tampa Electric Company and The Bank of New York Trust Company, N.A., as trustee (including the form of Bond) (Exhibit 4.1, Form 8-K dated Jul. 25, 2007 of Tampa Electric Company).	*
4.2	First Supplemental Loan and Trust Agreement dated as of March 26, 2008 among Hillsborough County Industrial Development Authority, Tampa Electric Company and The Bank of New York Trust Company, N.A., as trustee (Exhibit 4.1, Form 8-K dated March 26, 2008 of Tampa Electric Company).	*
4.3	Loan and Trust Agreement dated as of November 15, 2010 among Tampa Electric Company, Polk County Industrial Development Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of bond) (Exhibit 4.1, Form 8-K dated November 23, 2010 of Tampa Electric Company).	*
4.4	Loan and Trust Agreement among Hillsborough County Industrial Development Authority, Tampa Electric Company and The Bank of New York Trust Company, N.A., as trustee, dated as of January 5, 2006 (including the form of bond) (Exhibit 4.1, Form 8-K dated January 19, 2006 of Tampa Electric Company).	*
4.5	Indenture between Tampa Electric Company and The Bank of New York, as trustee, dated as of Jul. 1, 1998 (Exhibit 4.1, Registration Statement No. 333-55873 of Tampa Electric Company).	*
4.6	Third Supplemental Indenture between Tampa Electric Company and The Bank of New York, as trustee, dated as of Jun. 15, 2001 (Exhibit 4.2, Form 8-K dated Jun. 25, 2001 of Tampa Electric Company).	*
4.7	Fifth Supplemental Indenture between Tampa Electric Company and The Bank of New York, as trustee, dated as of May 1, 2006 (Exhibit 4.16, Form 8-K dated May 12, 2006 of Tampa Electric Company).	*
4.8	Sixth Supplemental Indenture dated as of May 1, 2007 between Tampa Electric Company and The Bank of New York, as trustee (Exhibit 4.18, Form 8-K dated May 25, 2007 of Tampa Electric Company).	*
4.9	Seventh Supplemental Indenture dated as of May 1, 2008 between Tampa Electric Company and The Bank of New York, as trustee (Exhibit 4.20, Form 8-K dated May 16, 2008 of Tampa Electric Company).	*
4.10	Eighth Supplemental Indenture dated as of November 15, 2010 between Tampa Electric Company, as issuer, and The Bank of New York Mellon, as trustee (including the form of 5.40% Notes due 2021) (Exhibit 4.1, Form 8-K dated December 9, 2010 of Tampa Electric Company).	*
4.11	Ninth Supplemental Indenture dated as of May 31, 2012 between Tampa Electric Company, as issuer, and The Bank of New York Mellon, as trustee, supplementing the Indenture dated as of July 1, 1998, as amended (including the form of 4.10% Notes due 2042) (Exhibit 4.23, Form 8-K dated June 5, 2012 for Tampa Electric Company).	*
4.12	Tenth Supplemental Indenture dated as of September 19, 2012 between Tampa Electric Company, as issuer, and The Bank of New York Mellon, as trustee, supplementing and amending the Indenture dated as of July 1, 1998, as amended (including the form of 2.60% Notes due 2022) (Exhibit 4.25, Form 8-K dated September 28, 2012 for Tampa Electric Company).	*
4.13	Eleventh Supplemental Indenture dated as of May 12, 2014 between Tampa Electric Company, as issuer, and The Bank of New York Mellon, as trustee, supplementing the Indenture dated as of July 1, 1998, as amended (including the form of 4.35% Notes due 2044) (Exhibit 4.27, Form 8-K dated May 15, 2014).	*

Exhibit No.	Description	
4.14	<u>Twentieth Supplemental Indenture dated as of December 1, 2013 between Tampa Electric Company and US Bank, N.A., as successor trustee, amending and restating the Indenture of Mortgage among Tampa Electric Company, State Street Trust Company and First Savings & Trust Company of Tampa, dated as of August 1, 1946 (Exhibit 4.30, Form 10-K for 2013 of Tampa Electric Company).</u>	*
4.15	<u>Twelfth Supplemental Indenture dated as of May 20, 2015, between Tampa Electric Company, as issuer, and The Bank of New York Mellon, as trustee, supplementing the Indenture dated as of July 1, 1998, as amended (including the form of 4.20% Notes due 2045) (Exhibit 4.24, Form 8-K dated May 20, 2015 of Tampa Electric Company).</u>	*
4.16	<u>Thirteenth Supplemental Indenture dated as of June 7, 2018, between Tampa Electric Company, as issuer, and The Bank of New York Mellon, as trustee, supplementing the Indenture dated as of July 1, 1998, as amended (Exhibit 4.9, Form 8-K dated June 7, 2018 of Tampa Electric Company).</u>	*
4.17	<u>Fourteenth Supplemental Indenture dated as of October 4, 2018 between Tampa Electric Company, as issuer, and The Bank of New York Mellon, as trustee, supplementing the Indenture dated as of July 1, 1998, as amended (Exhibit 4.11, Form 8-K dated October 4, 2018 of Tampa Electric Company).</u>	*
4.18	<u>Fifteenth Supplemental Indenture dated as of July 24, 2019, between Tampa Electric Company, as issuer, and The Bank of New York Mellon, as trustee, supplementing the Indenture dated as of July 1, 1998, as amended (Exhibit 4.13, Form 8-K dated July 24, 2019 of Tampa Electric Company).</u>	*
10.1	<u>TECO Energy Group Supplemental Executive Retirement Plan, as amended and restated as of November 1, 2007 (Exhibit 10.1, Form 10-K for 2007 of Tampa Electric Company).</u>	*
10.2	TECO Energy Group Supplemental Disability Income Plan, dated as of March 20, 1989 (Exhibit 10.22, Form 10-K for 1988 of TECO Energy, Inc.). (P)	*
10.3	<u>TECO Energy Group Supplemental Retirement Benefits Trust Agreement, effective as of November 17, 2008 (Exhibit 10.3, Form 10-K for 2008 of Tampa Electric Company).</u>	*
10.4	<u>TECO Energy Group Supplemental Benefits Trust Agreement effective as of January 1, 2020.</u>	
10.5	<u>TECO Energy Group Benefit Restoration Plan dated as of November 13, 2015 (Exhibit 10.4, Form 10-K for 2015 of Tampa Electric Company).</u>	*
10.6	<u>Insurance Agreement dated as of January 5, 2006 between Tampa Electric Company and Ambac Assurance Corporation (Exhibit 10.1, Form 8-K dated January 19, 2006 of Tampa Electric Company).</u>	*
10.7	<u>Amended and Restated Purchase and Contribution Agreement dated as of March 24, 2015, between Tampa Electric Company, as the Originator, and TEC Receivables Corp., as the Purchaser (Exhibit 10.1, Form 8-K dated March 24, 2015 of TECO Energy, Inc.).</u>	*
10.8	<u>Loan and Servicing Agreement dated as of March 24, 2015, among TEC Receivables Corp., as Borrower, Tampa Electric Company, as Servicer, certain lenders named therein, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Program Agent (Exhibit 10.2, Form 8-K dated March 24, 2015 of TECO Energy, Inc.).</u>	*
10.9	<u>Amendment No. 1 to Loan and Servicing Agreement dated as of August 10, 2016, among TEC Receivables Corp., as Borrower, Tampa Electric Company, as Servicer, certain lenders named therein, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Program Agent (Exhibit 10.1, Form 10-Q for the quarter ended September 30, 2016 of Tampa Electric Company).</u>	*
10.10	<u>Amendment No. 2 dated as of March 23, 2018 to Loan and Servicing Agreement dated as of March 24, 2015, between Tampa Electric Company, as the Servicer, and TEC Receivables Corp., as the Borrower, certain lenders named therein, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Program Agent (Exhibit 10.1, Form 8-K dated March 23, 2018 of Tampa Electric Company).</u>	*

Exhibit No.	Description
10.11	Fifth Amended and Restated Credit Agreement dated as of March 22, 2017, among Tampa Electric Company, as Borrower, with Wells Fargo Bank, National Association, as Administrative Agent, and the Lenders and LC Issuing Banks party thereto (Exhibit 10.1, Form 8-K dated March 22, 2017 of Tampa Electric Company). *
10.12	Master Lenders' Amendment and Consent dated as of December 19, 2019 to the Fifth Amended and Restated Credit Agreement dated as of March 22, 2017, among Tampa Electric Company, as Borrower, with Wells Fargo Bank, National Association, as Administrative Agent, and the Lenders and LC Issuing Banks party thereto.
10.13	Credit Agreement dated as of November 2, 2017, among Tampa Electric Company, as Borrower, with Wells Fargo Bank, National Association, as Administrative Agent, and the Lenders party thereto (Exhibit 10.1, Form 8-K dated November 2, 2017 of Tampa Electric Company). *
23	Consent of Independent Certified Public Accountants.
31.1	Certification of the Chief Executive Officer of Tampa Electric Company pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer of Tampa Electric Company to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of the Chief Executive Officer and Chief Financial Officer of Tampa Electric Company pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. ⁽¹⁾
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(1) This certification accompanies the Annual Report on Form 10-K and is not filed as part of it.

* Indicates exhibit previously filed with the Securities and Exchange Commission and incorporated herein by reference. Exhibits filed with periodic reports of TECO Energy, Inc. and Tampa Electric Company were filed under Commission File Nos. 1-8180 and 1-5007, respectively.

Certain instruments defining the rights of holders of long-term debt of Tampa Electric Company authorizing in each case a total amount of securities not exceeding 10% of total assets on a consolidated basis are not filed herewith. Tampa Electric Company will furnish copies of such instruments to the Securities and Exchange Commission upon request.

Executive Compensation Plans and Arrangements

Exhibits 10.1 through 10.5, above are management contracts or compensatory plans or arrangements in which executive officers or directors of Tampa Electric Company participate.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TAMPA ELECTRIC COMPANY

Dated: February 18, 2020

By: /s/ Nancy Tower
 Nancy Tower
 President and Chief Executive Officer
 (Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated on February 18, 2020:

<u>Signature</u>	<u>Title</u>
<u>/s/ Nancy Tower</u> Nancy Tower	President and Chief Executive Officer (Principal Executive Officer)
<u>/s/ Gregory W. Blunden</u> Gregory W. Blunden	Senior Vice President-Finance and Accounting and Chief Financial Officer (Chief Accounting Officer) (Principal Financial and Accounting Officer)

<u>Signature</u>	<u>Title</u>
<u>/s/ Scott Balfour</u> Scott Balfour	Chairman of the Board and Director
<u>/s/ Ana-Marie Codina Barlick</u> Ana-Marie Codina Barlick	Director
<u>/s/ Robert R. Bennett</u> Robert R. Bennett	Director
<u>/s/ Patrick J. Geraghty</u> Patrick J. Geraghty	Director
<u>/s/ Pamela D. Iorio</u> Pamela D. Iorio	Director
<u>/s/ Rhea F. Law</u> Rhea F. Law	Director
<u>/s/ Daniel Muldoon</u> Daniel Muldoon	Director
<u>/s/ Ralph Tedesco</u> Ralph Tedesco	Director
<u>/s/ Rasesh Thakkar</u> Rasesh Thakkar	Director
<u>/s/ Will Weatherford</u> Will Weatherford	Director

Supplemental Information to Be Furnished With Reports Filed Pursuant to Section 15(d) of the Act by Registrants Which Have Not Registered Securities Pursuant to Section 12 of the Act

No annual report or proxy material has been sent to Tampa Electric Company's security holders because all of its equity securities are held by TECO Energy, Inc.

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements of Tampa Electric Company:

- (1) Registration Statement (Form S-3 No. 333-233336),
- (2) Registration Statement (Form S-3MEF No. 333-232745), and
- (3) Registration Statement (Form S-3 No. 333-216310)

of our report dated February 18, 2020 with respect to the consolidated financial statements and financial statement schedule of Tampa Electric Company included in this Annual Report (Form 10-K) for the year ended December 31, 2019.

/s/ Ernst & Young LLP

Tampa, Florida
February 18, 2020

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-3 (No. 333-233336 and 333-216310) and Form S-3MEF (No. 333-232745) of Tampa Electric Company of our report dated February 9, 2018 relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
New York, New York
February 18, 2020

CERTIFICATIONS

I, Nancy Tower, certify that:

1. I have reviewed this annual report on Form 10-K of Tampa Electric Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 18, 2020

/s/ NANCY TOWER

NANCY TOWER

President and Chief Executive Officer

(Principal Executive Officer)

CERTIFICATIONS

I, Gregory W. Blunden, certify that:

1. I have reviewed this annual report on Form 10-K of Tampa Electric Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 18, 2020

/s/ GREGORY W. BLUNDEN

GREGORY W. BLUNDEN

Senior Vice President-Finance and Accounting and
Chief Financial Officer

(Chief Accounting Officer)

(Principal Financial and Accounting Officer)

TAMPA ELECTRIC COMPANY
Certification of Periodic Financial Report
Pursuant to 18 U.S.C. Section 1350

Each of the undersigned officers of Tampa Electric Company (the “Company”) certifies, under the standards set forth in and solely for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his or her knowledge, the Annual Report on Form 10-K of the Company for the year ended December 31, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in that Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 18, 2020

/s/NANCY TOWER

NANCY TOWER
President and Chief Executive Officer
(Principal Executive Officer)

Dated: February 18, 2020

/s/GREGORY W. BLUNDEN

GREGORY W. BLUNDEN
Senior Vice President-Finance and Accounting and
Chief Financial Officer
(Chief Accounting Officer)
(Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signatures that appear in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished to the Securities and Exchange Commission as an exhibit to the Form 10-K and shall not be considered filed as part of the Form 10-K.

Exhibit A-2

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2020

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No	Exact name of each registrant as specified in its charter, state of incorporation, address of principal executive offices, telephone number	I.R.S. Employer Identification Number
1-5007	TAMPA ELECTRIC COMPANY	59-0475140

TAMPA ELECTRIC COMPANY

(a Florida corporation)
 TECO Plaza
 702 N. Franklin Street
 Tampa, Florida 33602
 (813) 228-1111

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
None.		

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES NO

Indicate by check mark whether Tampa Electric Company is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark whether Tampa Electric Company has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether Tampa Electric Company is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of August 10, 2020, there were 10 shares of Tampa Electric Company's common stock issued and outstanding, all of which were held, beneficially and of record, by TECO Energy, Inc.

Tampa Electric Company meets the conditions set forth in General Instruction (H)(1)(a) and (b) of Form 10-Q and is therefore filing this form with the reduced disclosure format specified in General Instruction H(2) of Form 10-Q.

ACRONYMS

Acronyms used in this and other filings with the U.S. Securities and Exchange Commission in 2020 include the following:

<u>Term</u>	<u>Meaning</u>
AFUDC	allowance for funds used during construction
AFUDC-debt	debt component of allowance for funds used during construction
AFUDC-equity	equity component of allowance for funds used during construction
APBO	accumulated postretirement benefit obligation
ARO	asset retirement obligation
ASC	Accounting Standards Codification
CAD	Canadian dollars
CAIR	Clean Air Interstate Rule
CCRs	coal combustion residuals
CMO	collateralized mortgage obligation
CNG	compressed natural gas
CO ₂	carbon dioxide
COVID-19	coronavirus disease 2019
CPI	consumer price index
CSAPR	Cross State Air Pollution Rule
CT	combustion turbine
ECRC	environmental cost recovery clause
Emera	Emera Inc., a geographically diverse energy and services company headquartered in Nova Scotia, Canada
EPA	U.S. Environmental Protection Agency
ERISA	Employee Retirement Income Security Act
EROA	expected return on plan assets
EUSHI	Emera US Holdings Inc., a wholly owned subsidiary of Emera, which is the sole shareholder of TECO Energy's common stock
FASB	Financial Accounting Standards Board
FDEP	Florida Department of Environmental Protection
FERC	Federal Energy Regulatory Commission
FPSC	Florida Public Service Commission
IGCC	integrated gasification combined-cycle
IOU	investor owned utility
IRS	Internal Revenue Service
ITCs	investment tax credits
kWac	kilowatt on an alternating current basis
LNG	liquefied natural gas
MBS	mortgage-backed securities
MD&A	the section of this report entitled Management's Discussion and Analysis of Financial Condition and Results of Operations
Merger	Merger of Emera US Inc. with and into TECO Energy, with TECO Energy as the surviving corporation
MGP	manufactured gas plant
MMBTU	one million British Thermal Units
MRV	market-related value
MW	megawatt(s)
MWH	megawatt-hour(s)
NAV	net asset value
Note	Note to consolidated financial statements
NPNS	normal purchase normal sale
O&M expenses	operations and maintenance expenses
OCI	other comprehensive income
OPC	Office of Public Counsel
OPEB	other postemployment benefits
Parent	TECO Energy, Inc., the direct parent company of Tampa Electric Company
PBGC	Pension Benefit Guarantee Corporation
PBO	projected benefit obligation
PGA	purchased gas adjustment
PGS	Peoples Gas System, the gas division of Tampa Electric Company
PPA	power purchase agreement
PRP	potentially responsible party

<u>Term</u>	<u>Meaning</u>
R&D	research and development
REIT	real estate investment trust
RFP	request for proposal
ROE	return on common equity
Regulatory ROE	return on common equity as determined for regulatory purposes
S&P	Standard and Poor's
SCR	selective catalytic reduction
SEC	U.S. Securities and Exchange Commission
SoBRAs	solar base rate adjustments
SERP	Supplemental Executive Retirement Plan
STIF	short-term investment fund
Tampa Electric	Tampa Electric, the electric division of Tampa Electric Company
TEC	Tampa Electric Company
TECO Energy	TECO Energy, Inc., the direct parent company of Tampa Electric Company
TSI	TECO Services, Inc.
U.S. GAAP	generally accepted accounting principles in the United States
VIE	variable interest entity

TAMPA ELECTRIC COMPANY
Consolidated Condensed Balance Sheets
Unaudited

<i>Assets</i> <i>(millions)</i>	<i>June 30,</i> <i>2020</i>	<i>December 31,</i> <i>2019</i>
Property, plant and equipment		
Utility plant		
Electric	\$ 10,992	\$ 10,578
Gas	2,151	2,012
Utility plant, at original costs	13,143	12,590
Accumulated depreciation	(3,579)	(3,472)
Utility plant, net	9,564	9,118
Other property	14	13
Total property, plant and equipment, net	9,578	9,131
Current assets		
Cash and cash equivalents	10	14
Receivables, less allowance for uncollectibles of \$6 and \$2 at June 30, 2020 and December 31, 2019, respectively	231	206
Due from affiliates	25	14
Inventories, at average cost		
Fuel	35	36
Materials and supplies	107	104
Regulatory assets	39	41
Prepayments and other current assets	19	10
Total current assets	466	425
Deferred debits		
Regulatory assets	389	396
Other	56	55
Total deferred debits	445	451
Total assets	<u>\$ 10,489</u>	<u>\$ 10,007</u>

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

TAMPA ELECTRIC COMPANY
Consolidated Condensed Balance Sheets - continued
Unaudited

<i>Liabilities and Capitalization</i> <i>(millions)</i>	<i>June 30,</i> <i>2020</i>	<i>December 31,</i> <i>2019</i>
Capitalization		
Common stock	\$ 3,650	\$ 3,385
Accumulated other comprehensive loss	(1)	(1)
Retained earnings	354	311
Total capital	4,003	3,695
Long-term debt	2,592	2,869
Total capitalization	6,595	6,564
Current liabilities		
Long-term debt due within one year	278	0
Notes payable	494	348
Accounts payable	245	296
Due to affiliates	17	20
Customer deposits	131	132
Regulatory liabilities	110	93
Accrued interest	15	13
Accrued taxes	52	14
Other	40	44
Total current liabilities	1,382	960
Long-term liabilities		
Deferred income taxes	760	758
Regulatory liabilities	1,207	1,210
Investment tax credits	218	164
Deferred credits and other liabilities	327	351
Total long-term liabilities	2,512	2,483
Commitments and Contingencies (see Note 8)		
Total liabilities and capitalization	\$ 10,489	\$ 10,007

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

TAMPA ELECTRIC COMPANY
Consolidated Condensed Statements of Income and Comprehensive Income
Unaudited

<i>(millions)</i>	<i>Three months ended June 30,</i>	
	<i>2020</i>	<i>2019</i>
Revenues		
Electric	\$ 453	\$ 520
Gas	96	107
Total revenues	<u>549</u>	<u>627</u>
Expenses		
Fuel	67	139
Purchased power	25	13
Cost of natural gas sold	25	38
Operations and maintenance	126	132
Depreciation and amortization	92	94
Taxes, other than income	50	52
Total expenses	<u>385</u>	<u>468</u>
Income from operations	<u>164</u>	<u>159</u>
Other income		
Allowance for equity funds used during construction	7	2
Other income, net	2	3
Total other income	<u>9</u>	<u>5</u>
Interest charges		
Interest expense	35	34
Allowance for borrowed funds used during construction	(3)	(1)
Total interest charges	<u>32</u>	<u>33</u>
Income before provision for income taxes	141	131
Provision for income taxes	24	24
Net income	<u>\$ 117</u>	<u>\$ 107</u>
Comprehensive income	<u>\$ 117</u>	<u>\$ 107</u>

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

TAMPA ELECTRIC COMPANY
Consolidated Condensed Statements of Income and Comprehensive Income
Unaudited

<i>(millions)</i>	<i>Six months ended June 30,</i>	
	2020	2019
Revenues		
Electric	\$ 873	\$ 931
Gas	223	235
Total revenues	1,096	1,166
Expenses		
Fuel	168	246
Purchased power	27	17
Cost of natural gas sold	67	85
Operations and maintenance	260	262
Depreciation and amortization	189	186
Taxes, other than income	101	102
Total expenses	812	898
Income from operations	284	268
Other income		
Allowance for equity funds used during construction	13	4
Other income, net	3	5
Total other income	16	9
Interest charges		
Interest expense	72	68
Allowance for borrowed funds used during construction	(6)	(2)
Total interest charges	66	66
Income before provision for income taxes	234	211
Provision for income taxes	40	40
Net income	\$ 194	\$ 171
Comprehensive income	\$ 194	\$ 171

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

TAMPA ELECTRIC COMPANY
Consolidated Condensed Statements of Cash Flows
Unaudited

<i>(millions)</i>	<i>Six months ended June 30,</i>	
	<i>2020</i>	<i>2019</i>
Cash flows from operating activities		
Net income	\$ 194	\$ 171
Adjustments to reconcile net income to cash from operating activities:		
Depreciation and amortization	189	186
Deferred income taxes and investment tax credits	43	31
Deferred recovery clauses	37	1
Receivables, less allowance for uncollectibles	(22)	1
Prepayments and other deposits	(9)	(6)
Taxes accrued	20	25
Accounts payable	(41)	(54)
Regulatory assets and liabilities	(12)	5
Other	(17)	(29)
Cash flows from operating activities	<u>382</u>	<u>331</u>
Cash flows used in investing activities		
Capital expenditures	(653)	(581)
Net proceeds from sale of assets	6	0
Cash flows used in investing activities	<u>(647)</u>	<u>(581)</u>
Cash flows from financing activities		
Equity contributions from Parent	265	220
Net increase (decrease) in short-term debt (maturities of 90 days or less)	(154)	165
Proceeds from other short-term debt (maturities over 90 days)	300	0
Dividends to Parent	(150)	(140)
Cash flows from financing activities	<u>261</u>	<u>245</u>
Net decrease in cash and cash equivalents	<u>(4)</u>	<u>(5)</u>
Cash and cash equivalents at beginning of period	<u>14</u>	<u>15</u>
Cash and cash equivalents at end of period	<u>\$ 10</u>	<u>\$ 10</u>
Supplemental disclosure of non-cash activities		
Change in accrued capital expenditures	\$ (12)	\$ (4)

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

TAMPA ELECTRIC COMPANY
Consolidated Condensed Statements of Capital
Unaudited

<i>(millions, except share amounts)</i>	Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Capital
<u>Three months ended June 30, 2020</u>					
Balance, March 31, 2020	10	3,530	\$ 316	\$ (1)	\$ 3,845
Net income			117		117
Equity contributions from Parent		120			120
Dividends to Parent			(77)		(77)
Other			(2)		(2)
Balance, June 30, 2020	10	\$ 3,650	\$ 354	\$ (1)	\$ 4,003
<u>Three months ended June 30, 2019</u>					
Balance, March 31, 2019	10	3,100	\$ 302	\$ (1)	\$ 3,401
Net income			107		107
Equity contributions from Parent		110			110
Dividends to Parent			(64)		(64)
Balance, June 30, 2019	10	\$ 3,210	\$ 345	\$ (1)	\$ 3,554
<u>Six months ended June 30, 2020</u>					
Balance, December 31, 2019	10	3,385	\$ 311	\$ (1)	\$ 3,695
Net income			194		194
Equity contributions from Parent		265			265
Dividends to Parent			(150)		(150)
Other			(1)		(1)
Balance, June 30, 2020	\$ 10	\$ 3,650	\$ 354	\$ (1)	\$ 4,003
<u>Six months ended June 30, 2019</u>					
Balance, December 31, 2018	10	2,990	\$ 314	\$ (1)	\$ 3,303
Net income			171		171
Equity contributions from Parent		220			220
Dividends to Parent			(140)		(140)
Balance, June 30, 2019	10	\$ 3,210	\$ 345	\$ (1)	\$ 3,554

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

TAMPA ELECTRIC COMPANY
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
UNAUDITED

1. Summary of Significant Accounting Policies

See TEC's Annual Report on Form 10-K for the year ended December 31, 2019 for a complete discussion of accounting policies. The significant accounting policies for TEC include:

Principles of Consolidation and Basis of Presentation

TEC is a wholly owned subsidiary of TECO Energy, which is an indirect, wholly owned subsidiary of Emera. TEC is comprised of the electric division, referred to as Tampa Electric, and the natural gas division, referred to as PGS.

Intercompany balances and transactions within the divisions have been eliminated in consolidation. In the opinion of management, the unaudited consolidated condensed financial statements include all adjustments that are of a recurring nature and necessary to state fairly the financial position of TEC as of June 30, 2020 and December 31, 2019, and the results of operations and cash flows for the periods ended June 30, 2020 and June 30, 2019. The results of operations for the three and six months ended June 30, 2020 are not necessarily indicative of the results that can be expected for the entire fiscal year ending December 31, 2020.

The use of estimates is inherent in the preparation of financial statements in accordance with U.S. GAAP. Actual results could differ from these estimates. The year-end Consolidated Condensed Balance Sheet was derived from audited financial statements; however, this quarterly report on Form 10-Q does not include all year-end disclosures required for an annual report on Form 10-K by U.S. GAAP.

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as COVID-19, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. While management considered the impact of COVID-19 in TEC's estimates and results, the financial statements as of and for the three and six months ended June 30, 2020 were not significantly impacted by COVID-19. However, it is not possible to reliably estimate the length and severity of the COVID-19 pandemic and the impact on the financial results and condition of TEC in future periods. See **Note 5** for further information regarding potential future impacts to TEC's employee postretirement benefits.

Receivables and Allowance for Uncollectible Accounts

Receivables from contracts with customers, which consist of services to residential, commercial, industrial and other customers, were \$230 million and \$205 million as of June 30, 2020 and December 31, 2019, respectively. An allowance for uncollectible accounts is established based on TEC's collection experience and reasonable and supportable forecasts that affect the collectibility of the reported amount. Circumstances that could affect Tampa Electric's and PGS's estimates of uncollectible receivables include, but are not limited to, customer credit issues, fuel prices, customer deposits and general economic conditions, including the impacts of the COVID-19 pandemic. Accounts are reserved in the allowance or written off once they are deemed to be uncollectible.

As of June 30, 2020 and December 31, 2019, unbilled revenues of \$84 million and \$61 million, respectively, are included in the "Receivables" line item on the Consolidated Condensed Balance Sheets.

Accounting for Franchise Fees and Gross Receipts

Tampa Electric and PGS are allowed to recover certain costs from customers on a dollar-for-dollar basis through rates approved by the FPSC. The amounts included in customers' bills for franchise fees and gross receipt taxes are included as revenues on the Consolidated Condensed Statements of Income. Franchise fees and gross receipt taxes payable by Tampa Electric and PGS are included as an expense on the Consolidated Condensed Statements of Income in "Taxes, other than income". These amounts totaled \$26 million and \$29 million for the three months ended June 30, 2020 and 2019, respectively, and \$53 million and \$56 million for the six months ended June 30, 2020 and 2019, respectively.

2. New Accounting Pronouncements

Change in Accounting Policy

The new U.S. GAAP accounting policies that are applicable to and adopted by TEC in 2020 are described as follows:

Measurement of Credit Losses on Financial Instruments

TEC adopted Accounting Standard Update (ASU) 2016-13, *Measurement of Credit Losses on Financial Instruments* effective January 1, 2020. The standard provides guidance regarding the measurement of credit losses for financial assets and certain other instruments that are not accounted for at fair value through net income, including trade and other receivables, debt securities, net investment in leases, and off-balance sheet credit exposures. The new guidance requires companies to replace the current incurred loss impairment methodology with a methodology that measures all expected credit losses for financial assets

based on historical experience, current conditions, and reasonable and supportable forecasts. There was no material impact on the condensed consolidated financial statements as a result of the adoption of this standard.

Future Accounting Pronouncements

TEC considers the applicability and impact of all ASUs issued by the FASB. The ASUs that have been issued, but that are not yet effective, are consistent with those disclosed in TEC's Annual Report on Form 10-K for the year ended December 31, 2019, with updates noted below.

Facilitation of the Effects of Reference Rate Reform on Financial Reporting

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The standard provides optional expedients and exceptions for applying U.S. GAAP to contract modifications and hedging relationships that reference LIBOR or another rate that is expected to be discontinued. The guidance was effective as of the date of issuance and entities may elect to apply the guidance prospectively through December 31, 2022. TEC is currently evaluating the impact of adoption of the standard, if elected, on its consolidated financial statements.

3. Regulatory

Tampa Electric Base Rates

On September 27, 2017, Tampa Electric filed with the FPSC an amended and restated settlement agreement that replaced the existing 2013 base rate settlement agreement and extended it another four years through December 31, 2021. The FPSC approved the agreement on November 6, 2017.

The amended agreement provides for SoBRAs for TEC's investments in up to 600 MW of cost-effective solar generation. Tampa Electric is investing approximately \$850 million during 2017 through 2021 related to 600 MW of solar projects recoverable under the SoBRAs.

On December 12, 2017, TEC filed its first petition regarding the SoBRAs along with supporting tariffs demonstrating the cost-effectiveness of the September 1, 2018 tranche representing 145 MW and \$24 million annually in estimated revenue requirements. The FPSC approved the tariffs on the first SoBRA filing on May 8, 2018 and TEC began receiving these revenues in September 2018. On June 29, 2018, TEC filed its second SoBRA petition along with supporting tariffs demonstrating the cost-effectiveness of the January 1, 2019 tranche representing 260 MW and \$46 million annually in estimated revenue requirements. The FPSC approved the tariffs on the second SoBRA filing on October 29, 2018 and TEC began receiving these revenues in January 2019. On June 28, 2019, TEC filed its third SoBRA petition along with supporting tariffs demonstrating the cost-effectiveness of the January 1, 2020 tranche representing 149 MW and \$26 million annually in estimated revenue requirements. On December 10, 2019, the FPSC approved the tariffs on this SoBRA filing, including an adjustment to reflect the reduction in the state corporate income tax discussed below, and TEC began receiving these revenues in January 2020. The 2017 settlement agreement provides for a potential revenue adjustment of an additional \$10 million for 50 MWs effective on January 1, 2021. TEC expects to file its final SoBRA petition for the January 1, 2021 tranche in 2020.

The true-up filing for SoBRA tranche 1 and 2 revenue requirement estimates that were included in base rates as of September 2018 and January 2019, respectively, was submitted on April 30, 2020. Once approved, the final net true-up amount is expected to be a refund of \$5 million, which will be returned to customers in 2020.

On November 13, 2019, as required by the 2017 settlement agreement, TEC filed its petition to reduce base rates and charges to reflect the impact of the temporary reduction of the state corporate income tax from 5.5% to 4.5%. The tax rate reduction was issued on September 12, 2019 and is effective retroactive from January 1, 2019 through December 31, 2021. The estimated base rate reduction due to customers of \$5 million is subject to true-up, and the actual rate reduction may vary from year to year. The base rate reduction was approved on December 10, 2019 for rates effective January 2020.

Tampa Electric Big Bend Modernization Project

Tampa Electric expects to invest approximately \$850 million during 2018 through 2023 to modernize the Big Bend Power Station, of which approximately \$414 million has been invested through June 30, 2020. The Big Bend modernization project will repower Big Bend Unit 1 with natural gas combined-cycle technology and eliminate coal as this unit's fuel. As part of the Big Bend modernization project, on June 1, 2020, Tampa Electric retired the Unit 1 components that will not be used in the modernized plant. At June 1, 2020, Tampa Electric's balance sheet included \$223 million and \$90 million in electric utility plant and accumulated depreciation, respectively, related to Unit 1 components. In accordance with Tampa Electric's 2017 settlement agreement approved by the FPSC, Tampa Electric will continue to account for its existing investment in Unit 1 in electric utility plant and depreciate the assets using the current depreciation rates until the FPSC approves Tampa Electric's next depreciation and dismantlement study. In addition, Tampa Electric plans to retire Big Bend Unit 2 in 2021 early as part of the Big Bend modernization project.

Tampa Electric Storm Protection Cost Recovery Clause and Settlement Agreement

On October 3, 2019, the FPSC issued a rule to implement a Storm Protection Plan (SPP) Cost Recovery Clause. This new clause provides a process for Florida investor-owned utilities, including Tampa Electric, to recover transmission and distribution storm hardening costs for incremental activities not already included in base rates. Tampa Electric submitted its storm protection plan with the FPSC on April 10, 2020. On April 27, 2020, Tampa Electric submitted a settlement agreement with the FPSC which specified a \$15 million base rate reduction for costs previously recovered in base rates related to SPP programs beginning January 1, 2021. On June 9, 2020, the FPSC approved this settlement agreement. On August 3, 2020, Tampa Electric submitted another settlement agreement to the FPSC for approval, including cost recovery of approximately \$39 million in proposed storm protection project costs for 2020 and 2021. This cost recovery includes the \$15 million of costs reduced from base rates. This settlement agreement was approved on August 10, 2020 and Tampa Electric's cost recovery will begin in January 2021. Tampa Electric will file a new plan in 2022 to determine cost recovery in 2023, 2024, and 2025.

The June 9, 2020 settlement agreement approved by the FPSC disclosed above also included approval of Tampa Electric's petition to eliminate its \$16 million accumulated amortization reserve surplus for intangible software assets through a credit to amortization expense in 2020. As stipulated in the settlement, \$8 million of this credit was recognized in the second quarter of 2020 with the remaining \$8 million to be recognized over the remainder of 2020.

Tampa Electric Mid-Course Adjustment to Fuel Recovery

In March 2020, Tampa Electric requested a mid-course adjustment to its fuel and capacity charges, effective with June 2020 customer bills, due to a decline in expected fuel commodity and capacity costs in 2020. The FPSC approved the request on April 28, 2020. This will result in lower fuel and capacity clause rates to customers for the remainder of 2020, including an acceleration of the return of these savings in the three months starting June 2020 through customer bill credits.

Tampa Electric Storm Restoration Cost Recovery

As a result of Tampa Electric's 2013 rate case settlement, in the event of a named storm that results in damage to its system, Tampa Electric can petition the FPSC to seek recovery of those costs over a 12-month period or longer as determined by the FPSC, as well as replenish its reserve to \$56 million, the level of the reserve as of October 31, 2013.

In the third quarter of 2017, Tampa Electric was impacted by Hurricane Irma and incurred storm restoration costs of approximately \$102 million. Tampa Electric petitioned the FPSC on December 28, 2017 for recovery of estimated storm costs and to replenish the balance in the reserve to the level that existed as of October 31, 2013. On March 1, 2018, the FPSC approved a settlement agreement filed by Tampa Electric that addressed both the recovery of storm costs and the return of U.S. tax reform benefits to customers while keeping customer rates stable in 2018. Beginning on April 1, 2018, the agreement authorized Tampa Electric to net the estimated amount of storm cost recovery against Tampa Electric's estimated 2018 tax reform benefits of \$103 million. On August 20, 2018, the FPSC approved lowering base rates by \$103 million annually beginning on January 1, 2019 as a result of lower tax expense. On April 9, 2019, Tampa Electric reached a settlement agreement with consumer parties regarding eligible storm costs, which was approved by the FPSC on May 21, 2019. As a result, Tampa Electric refunded \$12 million to customers in January 2020, resulting in minimal impact to the Consolidated Condensed Statements of Income.

In 2019, Tampa Electric incurred storm restoration preparation costs for Hurricane Dorian estimated to be approximately \$8 million, which was charged to the storm reserve regulatory liability.

PGS Base Rates

PGS's base rates were established in 2009. In accordance with its 2018 settlement agreement, PGS reduced its base rates by \$12 million for the impact of tax reform and reduced depreciation rates by \$10 million on an annual basis beginning in January 2019. PGS is permitted to initiate a general base rate proceeding during 2020 regardless of its earned ROE at the time, provided the new rates do not become effective before January 1, 2021. As a result of increased forecasted revenue requirements, on June 8, 2020, PGS filed a petition for an increase in rates and service charges effective January 2021. The new rates would be expected to result in an increase in revenue of approximately \$62 million annually.

Regulatory Assets and Liabilities

Tampa Electric and PGS apply the FASB's accounting standards for regulated operations. Regulatory assets generally represent incurred costs that have been deferred, as their future recovery in customer rates is probable. Regulatory liabilities generally represent obligations to make refunds to customers from previous collections for costs that are not likely to be incurred or the advance recovery of expenditures for approved costs.

Details of the regulatory assets and liabilities are presented in the following table:

Regulatory Assets and Liabilities

(millions)

	June 30, 2020	December 31, 2019
Regulatory assets:		
Regulatory tax asset ⁽¹⁾	\$ 87	\$ 74
Cost-recovery clauses ⁽²⁾	7	12
Environmental remediation ⁽³⁾	21	20
Postretirement benefits ⁽⁴⁾	287	295
Asset retirement obligation ⁽⁵⁾	16	25
Other	10	11
Total regulatory assets	428	437
Less: Current portion	39	41
Long-term regulatory assets	\$ 389	\$ 396
Regulatory liabilities:		
Regulatory tax liability ⁽⁶⁾	\$ 698	\$ 699
Cost-recovery clauses ⁽²⁾	70	37
Accumulated reserve - cost of removal ⁽⁷⁾	500	506
Storm reserve ⁽⁸⁾	48	48
Other	1	13
Total regulatory liabilities	1,317	1,303
Less: Current portion	110	93
Long-term regulatory liabilities	\$ 1,207	\$ 1,210

- (1) The regulatory tax asset is primarily associated with the depreciation and recovery of AFUDC-equity. This asset does not earn a return but rather is included in the capital structure, which is used in the calculation of the weighted cost of capital used to determine revenue requirements. It will be recovered over the expected life of the related assets. The regulatory tax asset balance reflects the impact of the federal tax rate reduction.
- (2) These assets and liabilities are related to FPSC clauses and riders. They are recovered or refunded through cost-recovery mechanisms approved by the FPSC on a dollar-for-dollar basis in the next year.
- (3) This asset is related to costs associated with environmental remediation primarily at MGP sites. The balance is included in rate base, partially offsetting the related liability, and earns a rate of return as permitted by the FPSC. The timing of recovery is based on a settlement agreement approved by the FPSC.
- (4) This asset is related to the deferred costs of postretirement benefits and it is amortized over the remaining service life of plan participants. Deferred costs of postretirement benefits that are included in expense are recognized as cost of service for rate-making purposes as permitted by the FPSC.
- (5) This asset is related to costs associated with an asset retirement obligation, which is a legal obligation for the future retirement of certain tangible, long-lived assets. This regulatory asset does not earn a return because it is offset with related assets and liabilities within rate base. It is recovered and removed as the obligation is settled and removed as the activities for the retirement of the related assets have been completed.
- (6) The regulatory tax liability is primarily related to the revaluation of TEC's deferred income tax balances recorded on December 31, 2017 at the lower income tax rate due to U.S. tax reform. The liability related to the revaluation of the deferred income tax balances is amortized and returned to customers through rate reductions or other revenue offsets based on IRS regulations and the settlement agreement for tax reform benefits approved by the FPSC.
- (7) This item represents the non-ARO cost of removal in the accumulated reserve for depreciation. AROs are costs for legally required removal of property, plant and equipment. Non-ARO cost of removal represents estimated funds received from customers through depreciation rates to cover future non-legally required cost of removal of property, plant and equipment, net of salvage value upon retirement, which reduces rate base for ratemaking purposes. This liability is reduced as costs of removal are incurred.
- (8) See "Tampa Electric Storm Restoration Cost Recovery" discussion above for information regarding this reserve.

4. Income Taxes

CARES Act

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act (the Act) was signed into legislation. The Act includes several business provisions including deferral in employer payroll taxes and an employee retention payroll tax credit. TEC is continuing to evaluate the impact of the Act but does not expect any material impacts.

Income Tax Expense

TEC is included in a consolidated U.S. federal income tax return with EUSHI and its subsidiaries. TEC's income tax expense is based upon a separate return method, modified for the benefits-for-loss allocation in accordance with respective tax sharing agreements with TECO Energy and EUSHI. To the extent that TEC's cash tax positions are settled differently than the amount reported as realized under the tax sharing agreement, the difference is reflected in common stock.

TEC's effective tax rates for the six months ended June 30, 2020 and 2019 were 17.1% and 19.0%, respectively. The June 30, 2020 and 2019 effective tax rates are an estimate of the annual effective income tax rate. TEC's effective tax rate for the six months ended June 30, 2020 and 2019 differed from the statutory rate principally due to the amortization of the regulatory tax liability resulting from tax reform. See **Note 3** for further information regarding the regulatory tax liability.

Unrecognized Tax Benefits

As of June 30, 2020 and December 31, 2019, the amount of unrecognized tax benefits was \$9 million, all of which was recorded as a reduction of deferred income tax assets for tax credit carryforwards. TEC believes that it is reasonably possible the total unrecognized tax benefits could decrease and be recognized within the next twelve months due to the ongoing audit examination of TECO Energy's consolidated federal income tax return for the short tax year ending June 30, 2016. However, the impact of the COVID-19 pandemic on the timing of audit examinations cannot be reliably predicted at this time. TEC had \$9 million of unrecognized tax benefits at June 30, 2020 and December 31, 2019, that, if recognized, would reduce TEC's effective tax rate.

5. Employee Postretirement Benefits

TEC is a participant in the comprehensive retirement plans of TECO Energy. The following table presents detail related to TECO Energy's periodic benefit cost for pension and other postretirement benefits. Amounts disclosed for TECO Energy's pension benefits include the amounts related to its qualified pension plan and non-qualified, non-contributory SERP and Restoration Plan.

TECO Energy Benefit Cost

(millions)

Three months ended June 30,

	Pension Benefits		Other Postretirement Benefits	
	2020	2019	2020	2019
Components of net periodic benefit cost				
Service cost	\$ 5	\$ 5	\$ 0	\$ 0
Interest cost	6	8	2	1
Expected return on assets	(12)	(14)	0	0
Amortization of:				
Actuarial loss	5	5	0	0
Net periodic benefit cost	<u>\$ 4</u>	<u>\$ 4</u>	<u>\$ 2</u>	<u>\$ 1</u>

Six months ended June 30,

Components of net periodic benefit cost				
Service cost	\$ 10	\$ 10	\$ 0	\$ 0
Interest cost	13	16	3	3
Expected return on assets	(25)	(26)	0	0
Amortization of:				
Actuarial loss	10	8	0	0
Settlement cost	0	1 ⁽¹⁾	0	0
Net periodic benefit cost	<u>\$ 8</u>	<u>\$ 9</u>	<u>\$ 3</u>	<u>\$ 3</u>

(1) Represents TECO Energy's SERP and Restoration Plan settlement charges as a result of the prior retirements of certain executives.

TEC's portion of the net periodic benefit cost for the three months ended June 30, 2020 and 2019, respectively, was \$3 million and \$3 million for pension benefits, and \$1 million and \$1 million for other postretirement benefits. TEC's portion of the net periodic

benefit cost for the six months ended June 30, 2020 and 2019, respectively, was \$6 million and \$7 million for pension benefits, and \$3 million and \$3 million for other postretirement benefits.

TECO Energy assumed a long-term EROA of 7.00% and a discount rate of 3.22% for pension benefits under its qualified pension plan for 2020. For TECO Energy's other postretirement benefits, TECO Energy used a discount rate of 3.32% for 2020.

TECO Energy made contributions of \$10 million and \$7 million to its qualified pension plan in the six months ended June 30, 2020 and 2019, respectively. TEC's portion of these contributions was \$8 million and \$5 million, respectively. TECO Energy expects to make contributions to the pension plan of \$10 million for the remainder of 2020, of which TEC estimates its portion to be \$8 million.

Included in the benefit cost discussed above, for the three and six months ended June 30, 2020, \$4 million and \$9 million of unamortized prior service benefits and costs and actuarial gains and losses were reclassified by TEC from regulatory assets to the Consolidated Condensed Statement of Income, compared with \$3 million and \$6 million for the three and six months ended June 30, 2019.

The COVID-19 pandemic could impact key actuarial assumptions used to account for employee post-retirement benefits including the anticipated rates of return on plan assets and discount rates used in determining the accrued benefit obligation, benefit costs and annual pension funding requirements. Fluctuations in actual equity market returns and changes in interest rates as a result of the COVID-19 pandemic may also result in changes to pension costs and funding in future periods. The extent of the future impact of COVID-19 on TEC's financial results and business operations cannot be predicted at this time and will depend on future developments, including the duration and severity of the pandemic, further potential government actions, future economic activity and energy usage. Actual results may differ significantly from these estimates.

6. Short-Term Debt

Details of TEC's credit facilities and related borrowings are presented in the following table:

	June 30, 2020			December 31, 2019		
	Credit Facilities	Borrowings Outstanding ⁽¹⁾	Letters of Credit Outstanding	Credit Facilities	Borrowings Outstanding ⁽¹⁾	Letters of Credit Outstanding
<i>(millions)</i>						
5-year facility ⁽²⁾	\$ 400	\$ 194	\$ 1	\$ 400	\$ 295	\$ 1
3-year accounts receivable facility ⁽³⁾	150	0	0	150	53	0
1-year term facility ⁽⁴⁾	300	300	0	0	0	0
Total	\$ 850	\$ 494	\$ 1	\$ 550	\$ 348	\$ 1

(1) Borrowings outstanding are reported as notes payable.

(2) This 5-year facility matures March 22, 2022.

(3) This 3-year facility matures March 22, 2021.

(4) This 1-year term facility matures on February 4, 2021.

At June 30, 2020, these credit facilities required commitment fees ranging from 12.5 to 35.0 basis points. The weighted-average interest rate on outstanding amounts payable under the credit facilities at June 30, 2020 and December 31, 2019 was 0.83% and 2.56%, respectively.

Tampa Electric Company Accounts Receivable Facility

On July 14, 2020, TEC amended its \$150 million accounts receivable collateralized borrowing facility (Loan Agreement) in order to change certain performance ratios. The amended Loan Agreement was effective as of June 30, 2020. TEC was in compliance with the requirements of the Loan Agreement at June 30, 2020. There were no other changes made to the Loan Agreement. There were no amounts outstanding on this facility at June 30, 2020.

Tampa Electric Company Non Revolving Term Loan

On February 6, 2020, TEC entered into a 364-day, \$300 million credit agreement with a group of banks. The credit agreement has a maturity date of February 4, 2021; contains customary representations and warranties, events of default, and financial and other covenants; and provides for interest to accrue at variable rates based on either the London interbank deposit rate, Wells Fargo Bank's prime rate, or the federal funds rate, plus a margin.

7. Long-Term Debt

Fair Value of Long-Term Debt

At June 30, 2020, TEC's long-term debt had a carrying amount of \$2,870 million and an estimated fair market value of \$3,482 million. At December 31, 2019, TEC's total long-term debt had a carrying amount of \$2,869 million and an estimated fair market value of \$3,335 million. The fair value of the debt securities is determined using Level 2 measurements (see **Note 11** for information regarding the fair value hierarchy).

8. Commitments and Contingencies

Legal Contingencies

From time to time, TEC and its subsidiaries are involved in various legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies in the ordinary course of business. Where appropriate, accruals are made in accordance with accounting standards for contingencies to provide for matters that are probable of resulting in an estimable loss.

Superfund and Former Manufactured Gas Plant Sites

TEC, through its Tampa Electric and PGS divisions, is a PRP for certain superfund sites and, through its PGS division, for certain former MGP sites. While the joint and several liability associated with these sites presents the potential for significant response costs, as of June 30, 2020, TEC has estimated its ultimate financial liability to be \$21 million, primarily at PGS. This amount has been accrued and is primarily reflected in the long-term liability section under "Deferred credits and other liabilities" on the Consolidated Condensed Balance Sheets. The environmental remediation costs associated with these sites are expected to be paid over many years.

The estimated amounts represent only the portion of the cleanup costs attributable to TEC. The estimates to perform the work are based on TEC's experience with similar work, adjusted for site-specific conditions and agreements with the respective governmental agencies. The estimates are made in current dollars, are not discounted and do not assume any insurance recoveries.

In instances where other PRPs are involved, most of those PRPs are creditworthy and are likely to continue to be creditworthy for the duration of the remediation work. However, in those instances that they are not, TEC could be liable for more than TEC's currently assessed percentage of the remediation costs.

Factors that could impact these estimates include the ability of other PRPs to pay their pro-rata portion of the cleanup costs, additional testing and investigation which could expand the scope of the cleanup activities, additional liability that might arise from the cleanup activities themselves or changes in laws or regulations that could require additional remediation. Under current regulations, these costs are recoverable through customer rates established in subsequent base rate proceedings. See **Note 3** for information regarding the related regulatory asset.

Long-Term Commitments

TEC has commitments for various purchases as disclosed below, including payment obligations under contractual agreements for fuel, fuel transportation and power purchases that are recovered from customers under regulatory clauses. The following is a schedule of future payments under PPAs, minimum lease payments with non-cancelable lease terms in excess of one year, and other net purchase obligations/commitments at June 30, 2020:

<i>(millions)</i>	<i>Purchased</i>		<i>Capital</i>	<i>Fuel and</i>	<i>Long-term</i>	<i>Operating</i>	<i>Demand</i>	
	<i>Power</i>	<i>Transportation</i>	<i>Projects</i>	<i>Gas Supply</i>	<i>Service</i>	<i>Leases</i>	<i>Side</i>	<i>Total</i>
					<i>Agreements</i>		<i>Management</i>	
2020	\$ 31	\$ 108	\$ 118	\$ 101	\$ 30	\$ 1	\$ 2	\$ 391
2021	3	234	84	52	6	3	3	385
2022	0	236	79	2	9	3	3	332
2023	0	208	68	1	12	3	0	292
2024	0	197	0	0	19	3	0	219
Thereafter	0	1,915	0	0	41	51	0	2,007
Total future minimum payments	\$ 34	\$ 2,898	\$ 349	\$ 156	\$ 117	\$ 64	\$ 8	\$3,626

Debt Covenants

TEC must meet certain financial tests, including a debt to capital ratio, as defined in the applicable debt agreements and has certain restrictive covenants in specific agreements and debt instruments. At June 30, 2020, TEC was in compliance with all required covenants.

9. Segment Information

<i>(millions)</i>	Tampa Electric		PGS		Eliminations		Tampa Electric Company	
<i>Three months ended June 30,</i>								
2020								
Revenues - external	\$	453	\$	96	\$	0	\$	549
Intracompany sales		1		1		(2)		0
Total revenues		454		97		(2)		549
Total interest charges		28		4		0		32
Net income	\$	106	\$	11	\$	0	\$	117
2019								
Revenues - external	\$	520	\$	107	\$	0	\$	627
Intracompany sales		1		4		(5)		0
Total revenues		521		111		(5)		627
Total interest charges		29		4		0		33
Net income	\$	93	\$	14	\$	0	\$	107
<i>Six months ended June 30,</i>								
2020								
Revenues - external	\$	873	\$	223	\$	0	\$	1,096
Intracompany sales		2		4		(6)		0
Total revenues		875		227		(6)		1,096
Total interest charges		58		8		0		66
Net income	\$	165	\$	29	\$	0	\$	194
2019								
Revenues - external	\$	931	\$	235	\$	0	\$	1,166
Intracompany sales		2		8		(10)		0
Total revenues		933		243		(10)		1,166
Total interest charges		58		8		0		66
Net income	\$	139	\$	32	\$	0	\$	171
Total assets at June 30, 2020	\$	9,409	\$	1,710	\$	(630) ⁽¹⁾	\$	10,489
Total assets at December 31, 2019	\$	9,007	\$	1,593	\$	(593) ⁽¹⁾	\$	10,007

(1) Amounts primarily relate to consolidated deferred tax reclassifications. Deferred tax assets are reclassified and netted with deferred tax liabilities upon consolidation.

10. Revenue

The following disaggregates TEC's revenue by major source:

(millions)

Three months ended June 30, 2020

	Tampa Electric	PGS	Eliminations	Tampa Electric Company
Electric revenue				
Residential	\$ 254	\$ 0	\$ 0	\$ 254
Commercial	121	0	0	121
Industrial	32	0	0	32
Regulatory deferrals and unbilled revenue	(3)	0	0	(3)
Other ⁽¹⁾	50	0	(1)	49
Total electric revenue	454	0	(1)	453
Gas revenue				
Residential	0	36	0	36
Commercial	0	28	0	28
Industrial ⁽²⁾	0	5	0	5
Other ⁽³⁾	0	28	(1)	27
Total gas revenue	0	97	(1)	96
Total revenue	\$ 454	\$ 97	\$ (2)	\$ 549

Three months ended June 30, 2019

Electric revenue				
Residential	\$ 261	\$ 0	\$ 0	\$ 261
Commercial	141	0	0	141
Industrial	42	0	0	42
Regulatory deferrals and unbilled revenue	17	0	0	17
Other ⁽¹⁾	60	0	(1)	59
Total electric revenue	521	0	(1)	520
Gas revenue				
Residential	0	36	0	36
Commercial	0	35	0	35
Industrial ⁽²⁾	0	6	0	6
Other ⁽³⁾	0	34	(4)	30
Total gas revenue	0	111	(4)	107
Total revenue	\$ 521	\$ 111	\$ (5)	\$ 627

(millions)

Six months ended June 30, 2020

	Tampa Electric	PGS	Eliminations	Tampa Electric Company
Electric revenue				
Residential	\$ 459	\$ 0	\$ 0	\$ 459
Commercial	246	0	0	246
Industrial	69	0	0	69
Regulatory deferrals and unbilled revenue	(5)	0	0	(5)
Other ⁽¹⁾	106	0	(2)	104
Total electric revenue	875	0	(2)	873
Gas revenue				
Residential	0	84	0	84
Commercial	0	69	0	69
Industrial ⁽²⁾	0	11	0	11
Other ⁽³⁾	0	63	(4)	59
Total gas revenue	0	227	(4)	223
Total revenue	\$ 875	\$ 227	\$ (6)	\$ 1,096

Six months ended June 30, 2019

Electric revenue								
Residential	\$	467	\$	0	\$	0	\$	467
Commercial		261		0		0		261
Industrial		76		0		0		76
Regulatory deferrals and unbilled revenue		10		0		0		10
Other ⁽¹⁾		119		0		(2)		117
Total electric revenue		933		0		(2)		931
Gas revenue								
Residential		0		86		0		86
Commercial		0		77		0		77
Industrial ⁽²⁾		0		11		0		11
Other ⁽³⁾		0		69		(8)		61
Total gas revenue		0		243		(8)		235
Total revenue	\$	933	\$	243	\$	(10)	\$	1,166

- (1) Other electric revenue includes sales to public authorities, off-system sales to other utilities and various other items.
(2) Industrial gas revenue includes sales to power generation customers.
(3) Other gas revenue includes off-system sales to other utilities and various other items.

Remaining Performance Obligations

Remaining performance obligations primarily represent lighting contracts and gas transportation contracts with fixed contract terms. As of June 30, 2020 and December 31, 2019, the aggregate amount of the transaction price allocated to remaining performance obligations was approximately \$140 million. As allowed under ASC 606, this amount excludes contracts with an original expected length of one year or less and variable amounts for which TEC recognizes revenue at the amount to which it has the right to invoice for services performed. TEC expects to recognize revenue for the remaining performance obligations through 2033.

11. Fair Value Measurements

Items Measured at Fair Value on a Recurring Basis

Accounting guidance governing fair value measurements and disclosures provides that fair value represents the amount that would be received in selling an asset or the amount that would be paid in transferring a liability in an orderly transaction between market participants. As a basis for considering assumptions that market participants would use in pricing an asset or liability, accounting guidance also establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Observable inputs, such as quoted prices in active markets;
- Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs for which there is little or no market data, which require the reporting entity to develop its own assumptions.

There were no Level 3 assets or liabilities for the periods presented.

As of June 30, 2020 and December 31, 2019, the carrying value of TEC's short-term debt was not materially different from the fair value due to the short-term nature of the instruments and because the stated rates approximate market rates. The fair value of TEC's short-term debt is determined using Level 2 measurements. See **Note 7** for information regarding the fair value of long-term debt.

Item 2. MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION & RESULTS OF OPERATIONS

This Management's Discussion & Analysis contains forward-looking statements, which are subject to the inherent uncertainties in predicting future results and conditions. Actual results may differ materially from those forecasted. The forecasted results are based on TEC's current expectations and assumptions, and TEC does not undertake to update that information or any other information contained in this Management's Discussion & Analysis, except as may be required by law. Factors that could impact actual results include: regulatory actions or legislation by federal, state or local authorities; unexpected capital needs or unanticipated reductions in cash flow that affect liquidity; the ability to access the capital and credit markets when required; general economic conditions affecting customer growth and energy sales; economic conditions affecting the Florida economy; weather variations and customer energy usage patterns affecting sales and operating costs and the effect of weather conditions on energy consumption; the effect of extreme weather conditions or hurricanes; general operating conditions; input commodity prices affecting cost; natural gas demand; and the ability of TEC to operate equipment without undue accidents, breakdowns or failures. Additional information is contained under "Risk Factors" in Part II, Item 1A below and TEC's Annual Report on Form 10-K for the year ended December 31, 2019.

Earnings Summary - Unaudited

(millions)		Three months ended June 30,		Six months ended June 30,	
		2020	2019	2020	2019
Revenues					
	Tampa Electric	\$ 454	\$ 521	\$ 875	\$ 933
	PGS	97	111	227	243
	Eliminations	(2)	(5)	(6)	(10)
	TEC	\$ 549	\$ 627	\$ 1,096	\$ 1,166
Net income					
	Tampa Electric	\$ 106	\$ 93	\$ 165	\$ 139
	PGS	11	14	29	32
	TEC	\$ 117	\$ 107	\$ 194	\$ 171

Operating Results

Second quarter 2020 net income was \$117 million, compared to \$107 million in the second quarter of 2019. Second quarter 2020 results were impacted by higher AFUDC, lower O&M expense and lower depreciation and amortization expense as a result of a regulatory settlement agreement. Year-to-date 2020 net income was \$194 million, compared to \$171 million in the 2019 year-to-date period. Year-to-date 2020 results were impacted by higher base revenues and higher AFUDC, partially offset by lower other operating revenues and higher interest expense. See **Operating Company Results** below for further detail.

COVID-19 Pandemic

During 2020, the ongoing COVID-19 pandemic has affected the service territories in which TEC operates. To date, COVID-19 has not had a material financial impact on TEC. TEC provides essential services and continues to operate and meet customer demand. TEC's top priority continues to be the health and safety of its customers and employees. Management continues to closely monitor developments related to COVID-19.

In March 2020, TEC activated its company-wide pandemic and business continuity plans, including travel restrictions, directing employees to work remotely whenever possible, restricting access to operating facilities, physical distancing and implementing additional protocols (including the expanded use of personal protective equipment) for work within customers' premises. TEC is monitoring recommendations by local and national public health authorities related to COVID-19 and is adjusting operational requirements as needed.

Tampa Electric currently anticipates earning within its allowed ROE range in 2020 and expects rate base to be higher than 2019. An increase in residential sales and favorable weather in the six months ended June 30, 2020 have more than offset the impacts of a decrease in other revenue classes as a result of COVID-19. The number of customers increased 2% from June 30, 2019. Tampa Electric's volumes could be negatively impacted by potential declines in future economic activity in Florida due to COVID-19 impacts, resulting in overall sales volumes for the year being similar or slightly lower than in 2019. Expected outcomes and actual results may differ given the many uncertainties related to the pandemic and its economic impact.

PGS anticipates earning below its allowed ROE range in 2020. Prior to the impact of COVID-19, PGS anticipated it would earn below its allowed ROE range in 2020 primarily due to significant capital investments and related growth in rate base. In addition, PGS

sales volumes are expected to be lower than in 2019 as a result of the economic impact of COVID-19 in Florida. Beginning mid-March, PGS sales volumes decreased as a result of the impact of government measures on commercial customers and reduced tourism. Therefore, as a result of forecasted revenue requirements being higher than what is in current rates, on June 8, 2020, PGS filed a petition for an increase in rates and service charges effective January 2021. The new rates would be expected to result in an increase in revenue of approximately \$62 million annually.

TEC is working with customers on relief initiatives in response to the effect of the pandemic on customers' ability to make payments and the need for continued service. To date, these initiatives include the temporary suspension of disconnection for non-payment of bills and the development of payment arrangements where necessary. In the second quarter of 2020, TEC experienced an increase in the aging of customer receivables resulting from the suspension of disconnections. To date, there have been no significant customer defaults as a result of bankruptcies with many customer accounts secured by deposits. As of and for the three and six months ended June 30, 2020, adjustments to the allowance for uncollectible accounts have not had a significant impact on net income, and the allowance for uncollectible accounts has increased slightly to less than 3% of total accounts receivables. The ultimate effect of potential credit losses due to customer non-payment is not known at this time. TEC is continuing to monitor customer accounts and to work with customers on payment arrangements. TEC expects to end its temporary suspension of disconnections for non-payment in the third quarter of 2020.

The extent of the future impact of COVID-19 on TEC's financial results and business operations is uncertain at this time and will depend on future developments, including the duration and severity of the pandemic, further potential government actions, future economic activity and energy usage. Please see **Risk Factors** for further information. TEC plans to complete its capital investments that were in progress prior to COVID-19 and continue to reliably and safely serve its customers. Depending on the duration of the COVID-19 pandemic, forecasted capital expenditures may be delayed due to supply chain disruptions, travel restrictions for contractors or the deferral of non-essential capital work. Capital project delays and supply chain disruptions have been immaterial to date. TEC currently expects to continue to have adequate liquidity given its cash position, existing bank facilities, and access to capital but will continue to monitor the impact of COVID-19 on future cash flows. Refer to **Liquidity and Capital Resources** for further details.

Operating Company Results

Amounts included in the operating company discussions below are pre-tax, except net income and income taxes.

Electric Division

Tampa Electric's net income for the second quarter of 2020 was \$106 million, compared with \$93 million for the same period in 2019. Results primarily reflected higher AFUDC, higher base revenues, lower O&M expense, and lower depreciation and amortization expense.

Revenues were \$67 million lower than in the same period in 2019 primarily driven by lower clause revenues, partially offset by increased base revenues from customer growth, a greater mix of residential sales and the in-service of additional solar generation projects. Results reflect a 2% increase in number of customers at June 30, 2020 compared to June 30, 2019. Total degree days (a measure of heating and cooling demand) in Tampa Electric's service area in the second quarter of 2020 were 5% above normal and 5% below the 2019 period. Total retail net energy for load, which is a calendar measurement of energy output, in the second quarter of 2020 was 3% lower than the same period in 2019, reflecting milder weather in the second quarter of 2020 compared to 2019. Base revenues are energy sales excluding revenues from clauses, gross receipts taxes and franchise fees. Clauses, gross receipts taxes and franchise fees do not have a material effect on net income as these revenues substantially represent a dollar-for-dollar recovery of clauses and other pass-through costs.

O&M expense, excluding all FPSC-approved cost-recovery clause, was \$3 million lower than in the same period of 2019 primarily due to the timing of generation outage costs from 2019. Depreciation and amortization expense decreased \$4 million in the second quarter of 2020 compared to the second quarter of 2019 primarily due to a regulatory agreement approved by the FPSC which eliminates Tampa Electric's accumulated amortization reserve surplus for intangible software assets through a credit to amortization expense in 2020 (see **Note 3** to the **TEC Consolidated Condensed Financial Statements** for further information), partially offset by an increase related to normal capital additions.

Tampa Electric's net income year-to-date 2020 was \$165 million, compared with \$139 million for the same period in 2019. Results primarily reflected higher base revenues and higher AFUDC earnings, partially offset by lower other operating revenues and higher interest expense.

Revenues were \$58 million lower than year-to-date 2019 driven by lower clause revenue, partially offset by increased base revenues from in-service of solar generation projects, customer growth, a greater mix of residential sales and favorable weather. Results reflect a 2% increase in number of customers at June 30, 2020 compared to June 30, 2019. Total degree days in Tampa Electric's service area in the year-to-date period of 2020 were 10% above normal and 4% above the 2019 period. Total net energy for

load increased 0.4% in the year-to-date period of 2020 compared with the same period in 2019. Other operating revenues were lower than year-to-date 2019 primarily due to lower reconnect fees, as Tampa Electric suspended disconnections for non-payment of bills.

In the 2020 year-to-date period, operations and maintenance expense was consistent with the 2019 year-to-date period. Depreciation and amortization expense remained similar to 2019 from normal additions to facilities to reliably serve customers and the in-service of solar generation projects offset by a software amortization settlement.

Tampa Electric's regulated operating statistics for the three and six months ended June 30, 2020 and 2019 were as follows:

<i>(millions, except customers and total degree days)</i> Three months ended June 30,	<i>Operating Revenues</i>			<i>Kilowatt-Hours Billed</i>		
	<i>2020</i>	<i>2019</i>	<i>% Change</i>	<i>2020</i>	<i>2019</i>	<i>% Change</i>
By Customer Type						
Residential ⁽¹⁾	\$ 254	\$ 261	(3)	2,518	2,366	6
Commercial ⁽¹⁾	121	141	(14)	1,431	1,543	(7)
Industrial ⁽¹⁾	32	42	(24)	452	539	(16)
Other ⁽¹⁾	39	45	(13)	439	476	(8)
Regulatory deferrals and unbilled revenue ⁽²⁾	(3)	17	(118)			
Total retail sales of electricity	443	506	(12)	4,840	4,924	(2)
Off system sales of electricity	0	1	(100)	11	30	(63)
Other operating revenue	11	14	(21)			
Total revenues	\$ 454	\$ 521	(13)	4,851	4,954	(2)
Customers at June 30, (thousands)	786	771	2			
Retail net energy for load (kilowatt hours)	5,388	5,581	(3)			
Total degree days	1,311	1,376	(5)			

Six months ended June 30,

By Customer Type						
Residential ⁽¹⁾	\$ 459	\$ 467	(2)	4,398	4,305	2
Commercial ⁽¹⁾	246	261	(6)	2,804	2,913	(4)
Industrial ⁽¹⁾	69	76	(9)	949	1,001	(5)
Other ⁽¹⁾	81	86	(6)	883	922	(4)
Regulatory deferrals and unbilled revenue ⁽²⁾	(5)	10	(150)			
Total retail sales of electricity	850	900	(6)	9,034	9,141	(1)
Off system sales of electricity	1	2	(50)	33	45	(27)
Other operating revenue	24	31	(23)			
Total revenues	\$ 875	\$ 933	(6)	9,067	9,186	(1)
Customers at June 30, (thousands)	786	771	2			
Retail net energy for load (kilowatt-hours)	9,939	9,902	0			
Total degree days	2,034	1,962	4			

(1) Reflects a billing cycle measurement.

(2) Primarily reflects unbilled revenue, which incorporates a calendar measurement, and postings for clause recovery deferrals.

Natural Gas Division

PGS had net income of \$11 million for the second quarter, compared with \$14 million in the second quarter of 2019. Results reflect a 4.2% higher number of customers in the second quarter of 2020 compared to the second quarter of 2019. Revenues were \$14 million lower than the prior year quarter primarily due to lower PGA clause-related revenues and lower off-system sales. Base revenues were \$3 million lower than 2019 primarily due to COVID-19 impacts lowering commercial sales, which was partially offset by customer growth. Cast iron and bare steel replacement rider revenue increased \$2 million. Operations and maintenance expense, excluding all FPSC-approved cost-recovery clauses, was \$1 million higher than in the 2019 quarter primarily due to higher bad debt expense and personal protection equipment purchases. Depreciation and amortization increased \$1 million due to normal asset growth. Return on investment in cast iron and bare steel replacement rider was \$1 million higher in the 2020 period.

PGS had net income of \$29 million for the 2020 year-to-date period, compared with \$32 million in the 2019 period. Revenues were \$16 million lower than the prior period primarily due to lower PGA clause-related revenues and lower off-system sales. Base revenues were \$2 million lower than 2019 primarily due to COVID-19 impacts lowering commercial sales and warmer weather in 2020, which was

partially offset by customer growth. Operations and maintenance expense, excluding all FPSC-approved cost-recovery clauses and the impact of deferring tax reform benefits in 2018, was \$2 million higher than in 2019 primarily due to higher bad debt expense, increased personal protection equipment purchases, and higher labor and contractor costs to safely and reliably operate and maintain the growing distribution system. Depreciation and amortization increased \$2 million due to normal asset growth. Return on investment in cast iron and bare steel replacement rider was \$2 million higher in the 2020 period.

PGS's regulated operating statistics for the three and six months ended June 30, 2020 and 2019 were as follows:

<i>(millions, except customers)</i>	<i>Operating Revenues</i>			<i>Therms</i>		
<i>Three months ended June 30,</i>	<i>2020</i>	<i>2019</i>	<i>% Change</i>	<i>2020</i>	<i>2019</i>	<i>% Change</i>
By Customer Type						
Residential	\$ 36	\$ 36	0	19	18	6
Commercial	28	35	(20)	99	122	(19)
Industrial	4	4	0	118	105	12
Power generation	1	2	(50)	238	229	4
Off system sales	8	14	(43)	38	50	(24)
Other operating revenues	17	16	6			
Total	\$ 94	\$ 107	(12)	512	524	(2)
By Sales Type						
System supply	\$ 50	\$ 60	(17)	62	73	(15)
Transportation	27	31	(13)	450	451	(0)
Other operating revenues	17	16	6			
Total	\$ 94	\$ 107	(12)	512	524	(2)
Customers at June 30, (thousands)	414	397	4			

Six months ended June 30,

By Customer Type						
Residential	\$ 84	\$ 86	(2)	52	51	2
Commercial	69	77	(10)	244	268	(9)
Industrial	8	8	0	230	210	10
Power generation	3	3	0	472	417	13
Off system sales	17	27	(37)	80	87	(8)
Other operating revenues	39	36	8			
Total	\$ 220	\$ 237	(7)	1,078	1,033	4
By Sales Type						
System supply	\$ 118	\$ 134	(12)	144	149	(3)
Transportation	63	67	(6)	934	884	6
Other operating revenues	39	36	8			
Total	\$ 220	\$ 237	(7)	1,078	1,033	4
Customers at June 30, (thousands)	414	397	4			

Other Income

For the second quarter of 2020 and 2019, TEC's other income was \$9 million and \$5 million, respectively, and included AFUDC-equity of \$7 million and \$2 million, respectively. For the year-to-date periods in 2020 and 2019, TEC's other income was \$16 million and \$9 million, respectively, and included AFUDC-equity of \$13 million and \$4 million, respectively. The increase in AFUDC-equity is primarily due to the timing of Tampa Electric's solar projects and the modernization of its Big Bend Power Station.

Interest Expense

For the second quarter of 2020 and 2019, TEC's interest expense, excluding AFUDC-debt, was \$35 million and \$34 million, respectively. For the year-to-date periods in 2020 and 2019, TEC's interest expense, excluding AFUDC-debt, was \$72 million and \$68

million, respectively. The increase is due to an increase in long-term borrowings to support TEC's ongoing capital investments program.

Income Taxes

The provisions for income taxes were \$40 million for the six months ended June 30, 2020 and 2019. Compared to the 2019 period, the provision for income taxes for the six months ended June 30, 2020 was the result of higher pre-tax income, offset by higher tax benefits due to AFUDC, higher amortization of the regulatory liability related to tax reform and higher investment tax credits related to solar projects.

Liquidity and Capital Resources

In the six months ended June 30, 2020, the impact of the COVID-19 pandemic and resulting government measures to address this pandemic have resulted in economic slowdowns in Florida. To date, COVID-19 has not had a material financial impact on TEC. Refer to the **COVID-19 Pandemic** section above for further discussion. The impact of COVID-19 may result in decreased cash flow from operations due to the potential of lower sales and slower or less collections of accounts receivable. The extent of the future impact of COVID-19 on TEC's operating cash flow cannot be reliably predicted at this time and will depend on future developments, including the duration and severity of the pandemic, further potential government actions, future economic activity and energy usage. TEC currently expects to continue to have adequate liquidity given its cash position, existing bank facilities, and access to capital but will continue to monitor the impact of COVID-19 on future cash flows.

The table below sets forth the June 30, 2020 liquidity, cash balances and amounts available under the TEC credit facilities.

(millions)

Credit facilities	\$	850
Drawn amounts/letters of credit		495
Available credit facilities		355
Cash and short-term investments		10
Total liquidity	\$	<u>365</u>

Cash Impacts Related to Operating Activities

Cash flows from operating activities for the six months ended June 30, 2020 were \$382 million, an increase of \$51 million compared to the same period in 2019. The increase is primarily due to higher base revenues due to the in-service of solar generation projects, customer growth and favorable weather, and higher fuel over-recoveries, partially offset by the timing of accounts payable and storm settlement customer refunds.

Cash Impacts Related to Financing Activities

Cash flows from financing activities for the six months ended June 30, 2020 resulted in net cash inflows of \$261 million. TEC received \$265 million of equity contributions and \$300 million from short-term debt with maturities over 90 days (see **Note 6** to the **TEC Consolidated Condensed Financial Statements** for further information regarding TEC's short-term debt). These increases in cash flows were partially offset by a net repayment of \$154 million of borrowings under credit agreements with maturities of 90 days or less and dividend payments to Parent of \$150 million.

Covenants in Financing Agreements

In order to utilize its bank credit facilities, TEC must meet certain financial tests as defined in the applicable agreements. In addition, TEC has certain restrictive covenants in specific agreements and debt instruments. At June 30, 2020, TEC was in compliance with all applicable financial covenants. The table that follows lists the significant financial covenants and the performance relative to them at June 30, 2020. Reference is made to the specific agreements and instruments for more details.

Significant Financial Covenants

Instrument ⁽¹⁾	Financial Covenant ⁽²⁾	Requirement/Restriction	Calculation at June 30, 2020
Credit facility - \$400 million	Debt/capital	Cannot exceed 65%	46%
1-year term facility - \$300 million	Debt/capital	Cannot exceed 65%	46%
Accounts receivable credit facility - \$150 million	Debt/capital	Cannot exceed 65%	46%

(1) See **Note 6** to the **TEC Consolidated Condensed Financial Statements** for details of the credit facilities.

(2) As defined in each applicable instrument.

Credit Ratings of Senior Unsecured Debt at June 30, 2020

	S&P	Moody's	Fitch
Credit ratings of senior unsecured debt	BBB+	A3	A
Credit ratings outlook	Stable	Stable	Stable

Certain of TEC's derivative instruments contain provisions that require TEC's debt to maintain investment grade credit ratings.

Commitments and Contingencies

See **Note 8** to the **TEC Consolidated Condensed Financial Statements** for information regarding TEC's commitments and contingencies as of June 30, 2020.

Regulatory Matters

See **Note 3** to the **TEC Consolidated Condensed Financial Statements** for information regarding TEC's regulatory matters as of June 30, 2020.

Fair Value Measurements

The valuation methods used to determine fair value are described in **Notes 7 and 11** to the **TEC Consolidated Condensed Financial Statements**. In addition, TEC considered the impact of nonperformance risk in determining the fair value of derivatives. TEC considered the net position with each counterparty, past performance of both parties and the intent of the parties, indications of credit deterioration and whether the markets in which TEC transacts have experienced dislocation. At June 30, 2020, the fair value of derivatives was not materially affected by nonperformance risk.

Critical Accounting Policies and Estimates

Critical accounting policies and estimates have not materially changed in 2020. For further discussion of critical accounting policies and estimates, see **TEC's Annual Report on Form 10-K** for the year ended December 31, 2019.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information required by Item 3 is omitted pursuant to General Instruction H(2) of Form 10-Q.

Item 4. CONTROLS AND PROCEDURES

- (a) **Evaluation of Disclosure Controls and Procedures.** TEC's management, with the participation of its principal executive officer and principal financial officer, has evaluated the effectiveness of TEC's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2020. Based on such evaluation, TEC's principal financial officer and principal executive officer have concluded that, as of June 30, 2020, TEC's disclosure controls and procedures are effective.
- (b) **Changes in Internal Controls.** There was no change in TEC's internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation of TEC's internal control over financial reporting that occurred during TEC's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, such controls.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

From time to time, TEC is involved in various legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies in the ordinary course of business. Where appropriate, accruals are made in accordance with accounting standards for contingencies to provide for matters that are probable of resulting in an estimable loss. For a discussion of legal proceedings and environmental matters, see **Note 8** of the **TEC Consolidated Condensed Financial Statements**.

Item 1A. RISK FACTORS

TEC is updating the risk factors in its 2019 Annual Report on Form 10-K as described below.

An outbreak of infectious disease, a pandemic or a similar public health threat may adversely affect TEC.

An outbreak of infectious disease, a pandemic or a similar public health threat, such as the COVID-19 pandemic, or a fear of any of the foregoing, could adversely impact TEC, including by causing operating, supply chain and project development delays and disruptions, labor shortages and shutdowns (including as a result of government regulation and prevention measures), and delays in regulation decisions and proceedings, which could have a negative impact on TEC's operations.

Any adverse changes in general economic and market conditions arising as a result of a public health threat could negatively impact demand for electricity and natural gas, revenue, operating costs, timing and extent of capital expenditures, results of financing efforts, or credit risk and counterparty risk, which could result in a material adverse effect on TEC's business.

While TEC maintains pandemic and business contingency plans in each of its operations to manage and mitigate the impact of any such public health threat, it cannot be assured that such mitigation efforts will be successful, therefore the extent of the evolving COVID-19 pandemic or other pandemics and their future impact on TEC is uncertain.

Item 6. EXHIBITS

Exhibit No.	Description
3.1	Restated Articles of Incorporation of Tampa Electric Company, as amended on November 30, 1982 (Exhibit 3 to Registration Statement No. 2-70653 of Tampa Electric Company). (P) *
3.2	Bylaws of Tampa Electric Company, as amended effective February 2, 2011 (Exhibit 3.4, Form 10-K for 2010 of Tampa Electric Company). *
10.1	Amendment No. 4 dated as of July 14, 2020 to Loan and Servicing Agreement dated as of March 24, 2015, between Tampa Electric Company, as the Servicer, and TEC Receivables Corp., as the Borrower, certain lenders named therein, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Program Agent.
31.1	Certification of the Chief Executive Officer of Tampa Electric Company pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer of Tampa Electric Company pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of the Chief Executive Officer and Chief Financial Officer of Tampa Electric Company pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. ⁽¹⁾
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document

Exhibit No.	Description
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(1) This certification accompanies the Quarterly Report on Form 10-Q and is not filed as part of it.

* Indicates exhibit previously filed with the Securities and Exchange Commission and incorporated herein by reference. Exhibits filed with periodic reports of TECO Energy, Inc. and TEC were filed under Commission File Nos. 1-8180 and 1-5007, respectively.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TAMPA ELECTRIC COMPANY
(Registrant)

Date: August 11, 2020

By: /s/ Gregory W. Blunden

Gregory W. Blunden
Senior Vice President-Finance and Accounting,
Treasurer and Chief Financial Officer (Chief
Accounting Officer)
(Principal Financial and Accounting Officer)

CERTIFICATIONS

I, Nancy Tower, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tampa Electric Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2020

/s/ NANCY TOWER

NANCY TOWER
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS

I, Gregory W. Blunden, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tampa Electric Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2020

/s/ GREGORY W. BLUNDEN
GREGORY W. BLUNDEN
Senior Vice President-Finance and Accounting,
Treasurer and Chief Financial Officer
(Chief Accounting Officer)
(Principal Financial and Accounting Officer)

TAMPA ELECTRIC COMPANY

**Certification of Periodic Financial Report
Pursuant to 18 U.S.C. Section 1350**

Each of the undersigned officers of Tampa Electric Company (the “Company”) certifies, under the standards set forth in and solely for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his or her knowledge, the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in that Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 11, 2020

/s/ NANCY TOWER

NANCY TOWER

President and Chief Executive Officer

(Principal Executive Officer)

Date: August 11, 2020

/s/ GREGORY W. BLUNDEN

GREGORY W. BLUNDEN

Senior Vice President-Finance and Accounting,
Treasurer and Chief Financial Officer

(Chief Accounting Officer)

(Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished to the Securities and Exchange Commission as an exhibit to the Form 10-Q and shall not be considered filed as part of the Form 10-Q.

Exhibit B

**TAMPA ELECTRIC DIVISION
PROJECTED STATEMENT OF SOURCES AND USES OF FUNDS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2021
(MILLIONS)**

Cash Flows from Operating Activities:	
Depreciation	\$ 369
Deferred Income Taxes	49
Other	<u>(46)</u>
	372
Cash Flows from Investing Activities:	
Capital Expenditures, excluding AFUDC	(890)
Cash Flows from Financing Activities:	
Changes in Financing	<u>518</u>
Total Cash Flows, excluding Net Income	<u>\$ 0</u>

**TAMPA ELECTRIC DIVISION
PROJECTED CONSTRUCTION BUDGET
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2021
(MILLIONS)**

Generation	\$ 407
Transmission & Distribution	420
Other	<u>63</u>
Total Projected Construction Budget, excluding AFUDC	<u>\$ 890</u>

**PEOPLES GAS SYSTEM DIVISION
PROJECTED STATEMENT OF SOURCES AND USES OF FUNDS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2021
(MILLIONS)**

Cash Flows from Operating Activities:	
Depreciation	\$ 59
Deferred Taxes	18
Other	<u>4</u>
	81
Cash Flows from Investing Activities:	
Capital Expenditures, excluding AFUDC	(297)
Cash Flows from Financing Activities:	
Changes in Financing	<u>216</u>
Total Cash Flows, excluding Net Income	<u>\$ 0</u>

**PEOPLES GAS SYSTEM DIVISION
PROJECTED CONSTRUCTION BUDGET
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2021
(MILLIONS)**

Revenue Producing	\$ 180
Maintenance	78
Cast Iron Bare Steel / Problematic Plastic Pipe	<u>39</u>
Total Projected Construction Budget, excluding AFUDC	<u>\$ 297</u>