

## RESEARCH

## CreditStats:

## Utility Statistical Methodology

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Individual utility company key ratios are presented in the CreditStats by industry subsector. Within the subsectors are company financial statistics for the past five years, where available. Tables listing companies' three-year averages, also by subsector, are provided, with a subsector median. In all tables, unless otherwise noted, the key ratios reflect many of the adjustments that Standard & Poor's Ratings Services' analysts make when performing their quantitative analyses of historical data.

Nonrecurring gains or losses have been eliminated from earnings. This includes gains on asset sales; significant transitory income items; unusual losses; losses on asset sales; and charges due to write-downs, plant closings, restructurings, and early retirement programs. These adjustments affect chiefly interest coverage ratios, return on equity, and operating margins.

Unusual cash flow items similar to the nonrecurring gains or losses have also been reversed, unless the noncash nature of the charge was already factored into the reported cash flow figures. These changes affect funds flow ratios.

The ratings are as of Sept. 7, 2006, unless indicated otherwise. Because ratings are forward-looking and not just a reflection of past results, a company's historical ratios may not reflect its current rating: Companies that have strong results to date but face uncertain futures may be rated below what their historical ratios suggest; alternatively, a firm's poor recent financial history can be offset by a correction of its problems or a change in its business risk profile. In a few cases, acquisitions caused a few ratios to deviate from the levels typical for a firm's rating category.

The ratings may be changed at any time based on new information or changed circumstances. Thus, the accuracy of the ratings information beyond Sept. 7, 2006, should not be assumed.

Table 1

## Key U.S. Utility Financial Ratios, Long-Term Debt

## Three-year (2003 to 2005) averages

	AA	A	BBB	BB	B	CCC
Oper. income/sales(%)	21.0	23.4	25.7	22.7	12.2	5.6
Free oper. cash flow/sales (%)	4.3	(0.5)	3.0	7.0	(2.7)	1.0
Return on capital (%)	11.0	9.8	8.6	7.9	6.2	3.7
EBIT interest coverage (x)	4.5	3.3	2.8	1.8	0.7	0.6
EBITDA interest coverage (x)	6.4	4.7	4.3	2.7	1.3	1.6
EBITDA/total assets (%)	11.1	9.6	9.8	9.2	5.7	8.1
FFO/total debt (%)	26.5	19.3	20.1	13.5	5.7	9.4
Free oper. cash flow/total debt (%)	10.0	(0.6)	3.0	4.3	(4.6)	2.8
Disc. cash flow/total debt (%)	1.6	(6.6)	(1.7)	(0.4)	(4.8)	(7.5)

**Table 1**

Key U.S. Utility Financial Ratios, Long-Term Debt (cont.)						
Total debt/EBITDA (x)	3.0	3.8	3.8	5.2	7.6	6.8
Total debt/capital (%)	54.9	56.8	57.0	67.8	66.5	74.0

**Table 2**

Key U.S. Utility Financial Ratios, Short-Term Debt							
Three-year (2003 to 2005) averages							
	A-1+	A-1	A-2	A-3	B-1	B-2	B-3
Oper. income/sales(%)	16.5	23.3	25.5	18.5	21.0	20.7	7.5
Free oper. cash flow/sales (%)	(3.8)	(0.3)	2.0	3.9	(0.6)	1.4	(2.7)
Return on capital (%)	9.5	10.5	8.2	8.8	6.8	4.4	2.7
EBIT interest coverage (x)	4.4	4.5	3.0	2.9	1.5	0.8	0.6
EBITDA interest coverage (x)	6.6	6.1	4.7	4.3	1.9	1.2	1.3
EBITDA/total assets (%)	9.5	10.2	9.8	9.0	6.9	5.7	5.5
FFO/total debt (%)	23.6	25.5	19.9	17.4	13.5	6.1	8.3
Free oper. cash flow/total debt (%)	(6.0)	(0.6)	2.3	4.5	(0.4)	0.9	(4.6)
Disc. cash flow/total debt (%)	(13.5)	(6.7)	(3.7)	(0.7)	(0.5)	0.7	(4.6)
Total debt/EBITDA (x)	3.6	3.2	3.8	4.4	6.8	7.8	8.2
Total debt/capital (%)	59.1	56.6	55.6	60.5	75.6	66.5	58.5

## Utility Financial Ratio Definitions

### EBIT Interest Coverage (x)

Numerator: Revenue (less the interest portions of nonrecourse debt and securitized debt, where applicable) less the cost of goods sold, maintenance expenses, SG&A, taxes other than income, other operating expenses, and D&A, plus interest income, equity income, other nonoperating income (expenses), and the interest computed for the off-balance-sheet debt items. This total amount excludes all nonrecurring items.

Denominator: Gross interest expense (interest expense plus capitalized interest and the debt portion of AFUDC [less the interest portions of nonrecourse debt and securitized debt, where applicable]) plus the dividends paid on hybrid preferred securities and the interest computed for the off-balance-sheet debt items.

### FFO Interest Coverage (x)

Numerator: Funds from operations (less the amortized portion of securitized debt and contributions to nuclear decommissioning trust funds, where applicable) plus cash interest paid (less the interest portions of nonrecourse debt and securitized debt, where applicable), capitalized interest and the debt portion of AFUDC, the dividends paid on hybrid preferred securities, and the interest computed for the off-balance-sheet debt items.

Denominator: Gross interest expense (interest expense plus capitalized interest and the debt portion of AFUDC [less the interest portions of nonrecourse debt and securitized debt, where applicable]) plus the dividends paid on hybrid preferred securities and the interest computed for the off-balance-sheet debt items.

### Return On Common Equity (%)

Numerator: Net income from continuing operations less preferred dividends (exclusive of subsidiary preferred dividends), the equity portion of AFUDC, and capitalized interest and the debt portion of AFUDC.

Denominator: The two-year average of common equity.

**Net Cash Flow/Capital Expenditures (%)**

Numerator: Funds from operations (less the amortized portion of securitized debt and contributions to nuclear decommissioning trust funds, where applicable) less preferred dividends (exclusive of subsidiary preferred dividends) and common dividends.

Denominator: Capital expenditures (net of the equity portion of AFUDC and capitalized interest and the debt portion of AFUDC).

**FFO/Adjusted Total Debt (%)**

Numerator: Funds from operations (less the amortized portion of securitized debt and contributions to nuclear decommissioning trust funds, where applicable) plus the depreciation adjustment for operating leases.

Denominator: Total debt (includes hybrid preferred securities and off-balance-sheet debt; excludes securitized debt and nonrecourse debt).

**Total Debt/Capital (%)**

Numerator: Total debt (includes hybrid preferred securities and off-balance-sheet debt; excludes securitized debt and nonrecourse debt).

Denominator: Total debt (includes hybrid preferred securities and off-balance-sheet debt; excludes securitized debt and nonrecourse debt) plus minority interest, preferred stock, and common equity.

**Common Dividend Payout (%)**

Numerator: Common dividends.

Denominator: Net income from continuing operations less preferred dividends.

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