Financial Criteria

Return on Common Equity

Return on common equity (ROE or return), a primary measure of relative profitability, has long been a standard measure of a company's financial viability.

The earned ROEs shown in this report are not necessarily the same ROEs that would be calculated by staff during a formal proceeding. For example, in the telecommunications industry there are large differences between total company booked ROEs and the ROEs determined in rate proceedings. This is due in part to the fact that the Public Service Commission has jurisdiction over the intrastate operations only, while the total company booked ROEs include both intrastate and interstate (federal jurisdiction) operations.

The tables on pages 14 and 15 provide the ROEs for each major New York State utility in each industry from 2008 through 2012. For the telecommunications industry, Class A companies are listed separately while the 37 Class B companies were aggregated to provide one composite ROE.

Pre-Tax Interest Coverage

Pre-tax interest coverage is another standard measure of financial viability. It indicates the margin of safety for debt holders, that is, the degree to which operating income may decline before interest payments are interrupted. Each company's bond indenture usually specifies a minimum pre-tax interest coverage level before new debt can be issued.

The tables on pages 18 and 19 show the pre-tax interest coverage for each major New York State utility in each industry from 2008 through 2012. For the telecommunication industry, Class A companies are listed separately while the 37 Class B companies were aggregated to provide one composite pre-tax interest coverage. We use the method of computing pre-tax interest coverage commonly referred to as SEC coverage. This method computes the ratio of the sum of earnings from continuing operations plus fixed charges and federal income taxes to fixed charges.

Capital Structure

A company's capitalization is the sum of the different types of financial instruments that have been used to finance the assets of the company. These may include long-term and short-term debt, preferred stock, and common equity. All other things being equal, companies with lower debt ratios (and therefore higher equity ratios) are also in a better financial position to weather unexpected adversity which may be more apt to occur in a competitive environment. Since companies with large proportions of debt by definition have higher risk of default than a company of the same business risk but lower debt levels, a company's debt ratio can be an important indicator of competitiveness.

The debt ratios for 2008 through 2012 for each major company in each industry are provided on pages 22 and 23. For the telecommunication industry, Class A companies are listed separately while the 37 Class B companies are aggregated to provide one composite capital structure.