

STANDARD & POOR=S UTILITY BOND RATING CRITERIA
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The following was taken from Standard & Poor=s Web site.¹

Utility Financial Targets Are Revised

Utilities and Perspectives

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Standard & Poor=s has revised the four principal financial targets that it uses to analyze the credit quality of all investor-owned electric, natural gas, and water utilities in the U.S. (see table).

Standard & Poor=s has created a single set of financial targets that can be applied across the different utility segments. These financial measures reflect the convergence that is occurring throughout the utility industry and the changing risk profile of the industry in general.

No rating changes will result from establishing these new financial targets since they were developed by integrating prior utility financial benchmarks and historical industrial medians. The new financial targets, like the previous benchmarks, pertain to risk-adjusted ratios that distinguish between lower-risk and higher-risk activities. The targets have been broadened to correspond with Standard & Poor=s 10-point business profile assessments. The business profile scores assess the qualitative attributes of a firm, with "1" being considered lowest risk and "10" highest risk. Thus, the new targets allow for comparability on a single scale between typically lower-risk activities, such as water operations, gas distribution, and electric transmission, and higher-risk activities, such as merchant power generation, oil and gas exploration and production, and energy trading and marketing. For example, a water utility, which can expect to have a lower business risk profile than a typical integrated electric utility, will be required to meet less stringent financial targets for any given rating category.

Funds from operations to total debt, funds from operations interest coverage, pretax interest coverage, and total debt to total capital are the four credit-protection ratios that are an integral part of Standard & Poor=s quantitative review on the overall credit analysis of the utility sector. Standard & Poor=s recognizes that the nature of utilities= business strategies is changing significantly and is shifting toward higher-risk endeavors. These undertakings bear risk characteristics that are more representative of an industrial company than a regulated utility. Therefore, Standard & Poor=s also incorporates a greater reliance on several additional ratios in its credit analysis. These include, but are not limited to, pretax return on permanent capital, funds from operations to current obligations, earnings before interest and taxes to total

¹ With the exception of some minor editing, the information is as it appears on the Standard & Poor=s Web site <http://www.standardandpoors.com/ratings/criteria/index.htm>.

assets, net cash flow to capital expenditures, and capital expenditures to average total capital.

Additionally, further analysis of the cash flow coverage of all obligations (including preferred stock) is performed. Although these measures do not have published targets, broader use of these financial ratios, combined with the four principal targets, provides greater depth to the fundamental analysis used in the rating evaluation process.

Consistent with Standard & Poor's ratings methodology, the four published financial targets will be used with other quantitative measures, business risk analysis, and comparative analysis of peer groupings to determine credit ratings. The new targets are designed to assist utilities, utility affiliates, and the investment community in assessing the relative financial strength of issuers.

Revised Utility Group Financial Targets*

Business Position	FFO to Total Debt Ratio Targets									
	AA		A		BBB		BB		B	
1	20.0	16.5	16.5	12.5	12.5	7.0	<7		-	-
2	25.0	21.0	21.0	16.0	16.0	10.5	<10.5		-	-
3	31.5	26.0	26.0	20.0	20.0	14.0	14.0	9.5	9.5	4.0
4	36.5	30.5	30.5	24.5	24.5	17.5	17.5	12.0	12.0	6.0
5	40.0	33.0	33.0	27.0	27.0	20.5	20.5	15.0	15.0	7.5
6	47.0	39.0	39.0	31.0	31.0	22.0	22.0	16.0	16.0	8.5
7	56.0	47.0	47.0	36.5	36.5	24.5	24.5	17.0	17.0	9.5
8	66.0	55.0	55.0	42.5	42.5	27.5	27.5	18.5	18.5	11.0
9	-	-	64.5	49.5	49.5	32.0	32.0	22.0	22.0	12.5
10	-	-	78.0	60.5	60.5	39.0	39.0	28.0	28.0	17.5

Business Position	FFO Interest Coverage Ratio Targets									
	AA		A		BBB		BB		B	
1	3.1	2.6	2.6	1.9	1.9	0.9	<0.9		-	-
2	3.9	3.3	3.3	2.5	2.5	1.5	<1.5		-	-
3	4.5	3.9	3.9	3.1	3.1	2.1	2.1	1.3	1.3	0.5
4	5.1	4.5	4.5	3.8	3.8	2.7	2.7	1.8	1.8	0.9
5	5.4	4.8	4.8	4.0	4.0	3.0	3.0	2.1	2.1	1.1
6	6.6	5.7	5.7	4.5	4.5	3.1	3.1	2.2	2.2	1.2
7	8.4	7	7	5.1	5.1	3.3	3.3	2.3	2.3	1.3
8	10.2	8.3	8.3	5.9	5.9	3.5	3.5	2.4	2.4	1.5
9	-	-	9.5	7.1	7.1	4.3	4.3	2.9	2.9	1.8
10	-	-	11.3	8.6	8.6	5.3	5.3	3.6	3.6	2.3

Business Position	Pretax Interest Coverage Ratio Targets									
	AA		A		BBB		BB		B	
1	2.8	2.4	2.4	1.8	1.8	0.8	<0.8	-	-	-
2	3.4	2.9	2.9	2.3	2.3	1.3	<1.3	-	-	-
3	4.0	3.4	3.4	2.8	2.8	1.8	1.8	1.1	1.1	0.3
4	4.6	4.0	4.0	3.3	3.3	2.2	2.2	1.3	1.3	0.5
5	5.0	4.3	4.3	3.5	3.5	2.4	2.4	1.5	1.5	0.6
6	6.2	5.2	5.2	4.0	4.0	2.6	2.6	1.6	1.6	0.7
7	8.0	6.5	6.5	4.7	4.7	2.8	2.8	1.8	1.8	0.9
8	9.9	8.0	8.0	5.5	5.5	3.0	3.0	2.0	2.0	1.1
9	-	-	9.1	6.6	6.6	3.7	3.7	2.5	2.5	1.4
10	-	-	11.1	8.4	8.4	5.0	5.0	3.3	3.3	1.8

Business Position	Total Debt to Total Capital Ratio Targets									
	AA		A		BBB		BB		B	
1	50.5	55.0	55.0	60.5	60.5	67.5	>>67.5	-	-	-
2	46.5	51.0	51.0	56.5	56.5	63.5	>>63.5	-	-	-
3	42.0	47.5	47.5	53.0	53.0	61.0	61.0	67.0	67.0	74.0
4	37.5	43.0	43.0	49.5	49.5	57.0	57.0	64.0	64.0	72.5
5	36.0	41.5	41.5	47.0	47.0	55.0	55.0	62.5	62.5	71.0
6	32.5	39.5	39.5	46.0	46.0	53.5	53.5	60.5	60.5	69.0
7	30.5	37.5	37.5	45.0	45.0	52.5	52.5	59.5	59.5	68.0
8	28.0	35.0	35.0	43.0	43.0	51.5	51.5	58.0	58.0	66.0
9	-	-	30.0	39.0	39.0	47.5	47.5	54.0	54.0	61.5
10	-	-	24.0	33.0	33.0	40.5	40.5	46.0	46.0	53.0

*As of June 1999. FFO - Finds From Operations.