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## Summary:

### Public Service Co. of Colorado

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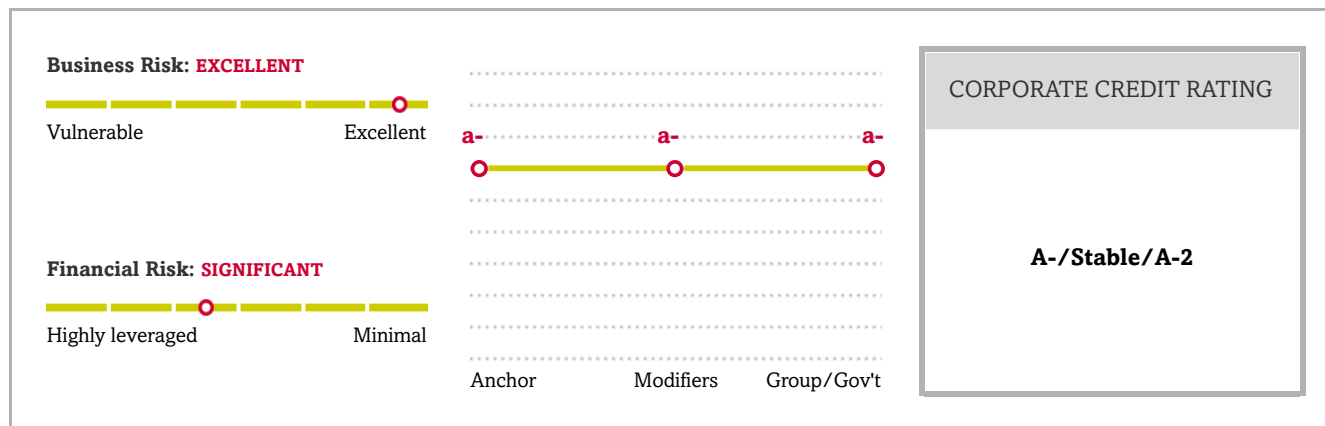
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## Summary:

# Public Service Co. of Colorado



## Rationale

Business Risk: Excellent	Financial Risk: Significant
<ul style="list-style-type: none"> <li>• A lower-risk and vertically integrated regulated electric and gas utility;</li> <li>• A large and diverse customer base;</li> <li>• Effective management of regulatory risk; and</li> <li>• More than 50% of the company's electricity is generated from coal.</li> </ul>	<ul style="list-style-type: none"> <li>• Our financial risk assessment incorporates the use of our medial volatility table, reflecting the company's lower-risk, rate-regulated utility and higher operating risk of its regulated generation;</li> <li>• Financial measures that are generally consistent with the significant financial risk profile category;</li> <li>• Capital spending averaging about \$1 billion; and</li> <li>• Negative discretionary cash flow.</li> </ul>

**Outlook: Stable**

The stable outlook on Public Service Co. of Colorado (PSCo) reflects S&P Global Ratings consolidated view of parent Xcel Energy Inc., including our expectations that the consolidated company will generally continue to reach constructive regulatory outcomes to avoid any meaningful rise in business risk for the regulated utilities. Specifically, our consolidated base-case forecast includes funds from operations (FFO) to debt of about 17% and assumes the consolidated company will continue to fund its capital investments in a balanced manner to support its capital structure.

**Downside scenario**

We could lower the rating over the next 12 months if parent Xcel Energy's consolidated financial ratios weaken and consistently reflect FFO to debt that is at or below 15%. This would most likely occur if rate-case outcomes are weaker than expected and capital spending materially rises.

**Upside scenario**

We could raise the rating over the next 12 months if parent Xcel Energy improves its collective ability to manage regulatory risk across its regulatory jurisdictions, resulting in a consistent improvement to its business risk. We could also raise the rating if Xcel Energy's consolidated financial measures consistently exceed our baseline forecast, including FFO to debt of greater than 20%.

**S&P Global Ratings' Base-Case Scenario**

Assumptions	Key Metrics		
<ul style="list-style-type: none"> <li>Capital spending of more than \$1 billion annually;</li> <li>EBITDA growth primarily from recent rate cases;</li> <li>Dividends payments of about \$400 million; and</li> <li>Negative discretionary cash flow.</li> </ul>			
		<b>2015A</b>	<b>2016E 2017E</b>
	FFO/debt (%)	24.2	19-23 19-23
	Debt/EBITDA (x)	3.5	3.5-4.0 3.5-4.0
	CFO/Debt (%)	26	18-22 18-22
A--Actual. E--Estimate. FFO--Funds from operations. CFO--Cash from operations.			

**Business Risk: Excellent**

Our assessment of PSCo business risk as excellent reflects the company's lower-risk, rate-regulated electric and gas utility. PSCo serves a large and diverse customer base that includes about 1.4 million electric customers and 1.3 million gas customers throughout Colorado. In addition, PSCo has a generation capacity of about 5,000 megawatts (MW) that consist of about 55%, 25%, and 20% of coal, gas, and wind, respectively. The ongoing attempt of the city of Boulder to leave the company and to form a stand-alone municipal utility partially offsets PSCo's business risk. In total,

we view PSCo as accounting for about 40% of parent Xcel Energy's consolidated operating income.

In February 2016, the Colorado Public Utilities Commission (CPUC) issued an order, granting PSCo a gas base rate increase of approximately \$20 million, including additional pipeline system integrity adjustment revenues of about \$19 million, becoming effective in 2016 and 2017. PSCo's electric utility segment received a \$53 million rate increase in 2015 and continues to operate under a rate case stay out until 2017. The collective regulatory filings are indicative of the company's effective management regulatory risk that we expect will support the company's EBITDA growth and allow the company to continue earn close to its authorized returns in Colorado.

## Financial Risk: Significant

Our assessment of PSCo's financial risk profile as significant incorporates the use of our medial volatility table and reflects the company's lower-risk, rate-regulated utility that also includes the higher operating risk of the company's regulated generation. Under our base-case scenario, we expect FFO to debt of about 21% and debt to EBITDA of about 3.8x. Key assumptions include capital spending of over \$1 billion, dividend payments of about \$400 million, and the implementation of a recent gas rate case. Furthermore, because of the company's capital spending requirements, we expect PSCo's discretionary cash flow will remain negative over the next three years.

## Liquidity: Adequate

PSCo has adequate liquidity and can more than cover its needs for the next 12 months, in our view, even if consolidated EBITDA declines by 10%. We expect the company's liquidity sources over the next 12 months will exceed its uses by more than 1.1x. Under our stress scenario, we do not expect PSCo would require access to the capital markets during that period to meet its liquidity needs. In addition, PSCo has sound relationships with its banks, satisfactory standing in the credit markets, and benefits from shared treasury services, policies, and controls as a core subsidiary of Xcel Energy.

Principal Liquidity Sources	Principal Liquidity Uses
<ul style="list-style-type: none"><li>Consolidated FFO of about \$1 billion in 2016;</li><li>Credit facility of \$700 million; and</li><li>Minimal cash assumed.</li></ul>	<ul style="list-style-type: none"><li>Capital spending of about \$1 billion;</li><li>Long-term debt maturities of about \$6 million; and</li><li>Dividend payments of about \$400 million.</li></ul>

## Other Credit Considerations

All modifiers have no impact on the stand-alone credit profile (SACP).

## Group Influence

We consider PSCo to be a core subsidiary of the Xcel Energy group, since we believe PSCo is a significant contributor to Xcel Energy's operating income, is integral to Xcel Energy's long-term strategy, and possesses a strong long-term commitment from Xcel Energy's management. Therefore, the issuer credit rating for PSCo is equal to Xcel Energy's group credit profile.

## Ratings Score Snapshot

### Corporate Credit Rating

A-/Stable/A-2

### Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Excellent

### Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: a-

### Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Strong (no impact)
- **Comparable rating analysis:** Neutral (no impact)

### Stand-alone credit profile : a-

- **Group credit profile:** a-
- **Entity status within group:** Core (no impact)

## Issue Ratings

Our rating on PSCo's commercial paper is 'A-2' and reflects our issuer credit rating on the company and our assessment of the company's liquidity as adequate.

## Recovery Analysis

- We assign recovery ratings to first-mortgage bonds (FMBs) issued by U.S. utilities, which can result in issue ratings being notched above an issuer credit rating on a utility depending on the rating category and the extent of the collateral coverage. The FMBs issued by U.S. utilities are a form of "secured utility bond" (SUB) that qualify for a recovery rating as defined in our criteria (see "Collateral Coverage and Issue Notching Rules for '1+' and '1' Recovery Ratings on Senior Bonds Secured by Utility Real Property," published Feb. 14, 2013, on RatingsDirect).
- The recovery methodology is supported by the ample historical record of 100% recovery for secured bondholders in utility bankruptcies in the U.S. and our view that the factors that enhanced those recoveries (the limited size of the creditor class and the durable value of utility rate-based assets during and after a reorganization given the essential service provided and the high replacement cost) will persist.
- Under our SUB criteria, we calculate a ratio of our estimate of the value of the collateral pledged to bondholders relative to the amount of FMBs outstanding. FMB ratings can exceed a ICR on a utility by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories depending on the calculated ratio.
- PSCo's FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an issue rating one notch above the issuer credit rating.

## Related Criteria And Research

### Related Criteria

- Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Industry Risk, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Ratios And Adjustments, Nov. 19, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Rating Each Issue, April 15, 2008

Business And Financial Risk Matrix						
Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

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