FitchRatings

Public Service Company of Colorado

Subsidiary of Xcel Energy Inc.

Full Rating Report

Ratings

Long-Term IDR	A–
Short-Term IDR	F2
Senior Secured	A+
Commercial Paper	F2

IDR – Issuer Default Rating.

Rating Outlook

Long-Term IDR	Stable

Financial Summary

Public Service Company of Colorado

($ Mil.)	LTM 3/31/16	2015
Adjusted Revenue	4,086	4,164
Operating EBITDAR	1,348	1,332
Cash Flow from Operations	1,151	1,238
Total Adjusted Debt	4,279	4,293
Total Capitalization	9,295	9,277
Capex/ Depreciation (%)	230	236
FFO Fixed-Charge Coverage (x)	6.6	7.5
FFO-Adjusted Leverage (x)	3.1	3.1
Total Adjusted Debt/EBITDAR (x)	3.2	3.2

Related Research

Public Service Company of Colorado - Ratings Navigator (July 2016)

Fitch Rates Public Service Co. of Colorado's FMBs 'A+' (June 2016)

Fitch Affirms Xcel and Subs' Ratings; Outlook Stable (November 2015)

Xcel Energy Inc. (October 2015)

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Key Rating Drivers

Balanced Regulation: The ratings on Public Service Company of Colorado (PSCo) reflect a relatively balanced and stable regulatory environment overseen by the Colorado Public Utilities Commission (CPUC). Supportive regulatory mechanisms include adjustment clauses for fuel costs and purchased power, trackers for pension expense and property taxes, and riders for electric and natural gas transmission investments and cost compliance related to renewable energy and the Clean Air Clean Jobs Act (CACJA).

Constructive 2015 Electric Rate Order: In February 2015, the CPUC approved a settlement agreement for PSCo's electric rate case. The order was based on a 56% equity ratio and a 9.83% return on equity (ROE), which was the nationwide average ROE approved in 2015 for electric utilities. Although electric base rates were decreased by $39.4 million, or 2.9%, the settlement included the implementation of a CACJA rider with an initial 2015 revenue requirement of $97 million, resulting in a net overall increase of $53.3 million.

Balanced 2016 Gas Rate Order: In February 2016, the CPUC issued its order allowing PSCo to increase natural gas base rates a total of $39.2 million, consisting of an $18.7 million increase effective retroactive to Oct. 1, 2015 and an incremental $20.5 million increase retroactive to Jan. 1, 2016. The rates were based on a 56.51% equity ratio and a 9.5% authorized ROE, which was slightly below the nationwide average ROE of 9.6% approved in 2015 for gas utilities. In addition, PSCo's pipeline system integrity adjustment (PSIA) rider was extended through 2018.

Elevated Capex: PSCo has a relatively large capex plan that includes investments associated with the CACJA, projects related to gas pipeline integrity, and distribution system enhancement. Capex was just under $1 billion in 2015 and is expected to total just under $5 billion over 2016–2020, averaging approximately $1 billion per year.

Strong Financial Metrics: PSCo's credit profile benefits from strong financial metrics, which are expected to remain supportive of credit quality. Fitch Ratings expects adjusted debt/EBITDAR to average around 3.2x–3.5x through 2018, FFO-adjusted leverage to average around 3.4x–3.8x, and FFO fixed-charge coverage to average around 6.0x–6.5x.

Parent Support: Fitch views the relationship between PSCo and its parent, Xcel Energy Inc. (Xcel, BBB+/Stable), as credit positive for the utility. Xcel provides equity funding to support PSCo's long-term growth and to optimize its capital mix within a targeted range. Xcel's strategy remains focused on successfully managing rate cases and reducing regulatory lag.

Rating Sensitivities

Positive Rating Action: Given the sizable capex plan, a positive rating action is unlikely in the near term, but could occur if Fitch were to expect adjusted debt/EBITDAR to improve to 3.0x and FFO-adjusted leverage to remain less than 3.5x on a sustained basis.

Negative Rating Action: Future developments that may, individually or collectively, lead to a negative rating action include a material deterioration of the Colorado regulatory environment, adjusted debt/EBITDAR expected to exceed 4.0x on a sustained basis, and a shift in management strategy that results in weaker financial support from Xcel.

Financial Overview

Liquidity and Debt Structure

Fitch considers PSCo's liquidity to be adequate. Xcel and its utility subsidiaries primarily meet their short-term liquidity needs through the issuance of commercial paper (CP) under an aggregate $2.75 billion revolving credit facility that expires in June 2021. PSCo has a borrowing limit of $700 million under this facility. As of March 31, 2016, PSCo had no CP borrowings and $4 million of letters of credit outstanding, leaving $696 million of availability under PSCo's portion of the facility.

Liquidity is also available to PSCo through participation in an intercompany money pool with its sister utilities Northern States Power Company-Minnesota (A–/Stable) and Southwestern Public Service Company (BBB/Stable). Xcel may make investments in the utility subsidiaries at market-based interest rates, but the utilities are not permitted to lend to the parent under the money pool arrangement. PSCo has a borrowing limit of $250 million, which was fully available at March 31, 2016.

PSCo's operations require modest cash on hand. At March 31, 2016, the utility had $5 million of unrestricted cash and cash equivalents.

Following PSCo's June 2016 issuance of $250 million of 3.55% first mortgage bonds (FMBs) due June 2046, PSCo had approximately $4.2 billion of long-term debt on its balance sheet, $4.1 billion of which were FMBs. The remaining debt is capital lease obligations. Fitch expects PSCo to maintain ready access to the debt capital markets to fund capex and refinance maturing long-term debt.

PSCo has a manageable long-term debt maturity schedule over the next five years, with $300 million of 5.8% FMBs due August 2018, $400 million of 5.125% FMBs due June 2019 and $400 million of 3.2% FMBs due November 2020.

Fitch makes adjustments to total debt to account for operating leases. This has resulted in an additional $136 million of debt included in Fitch's adjusted leverage metrics for 2015 and the LTM ended March 31, 2016.

Related Criteria

Recovery Ratings and Notching Criteria for Utilities (March 2016)

Corporate Rating Methodology — Including Short-Term Ratings and Parent and Subsidiary Linkage (August 2015)

Parent and Subsidiary Rating Linkage (August 2015)

Rating U.S. Utilities, Power and Gas Companies (Sector Credit Factors) (March 2014)

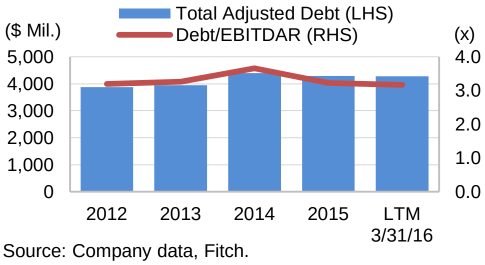
Debt Maturities and Liquidity

($ Mil., As of March 31, 2016)

2016	—
2017	130
2018	300
2019	400
2020	400
Thereafter	2,913
Cash and Cash Equivalents	5
Undrawn Committed Facilities	696

Source: Company data, Fitch.

Total Debt and Leverage



Source: Company data, Fitch.

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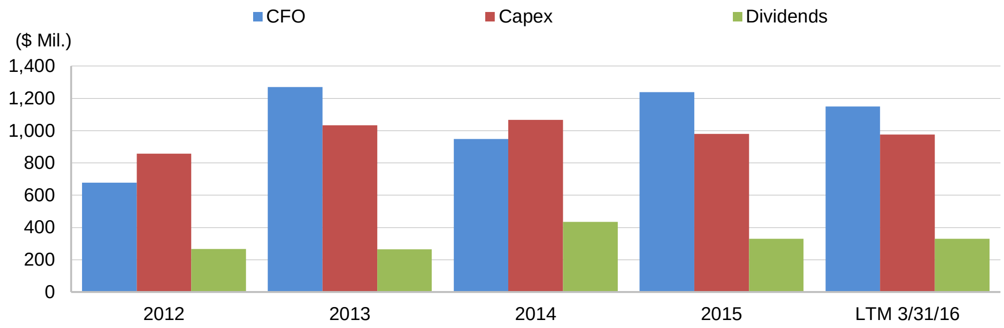
Cash Flow Analysis

Due to PSCo's elevated capex plan, the utility is likely to remain FCF negative through 2019, requiring external financing. PSCo also has debt maturities each year during 2017–2020. Therefore, Fitch expects PSCo to remain active in the debt capital markets, issuing FMBs roughly on an annual basis to refinance maturing debt and fund growth. The remainder of external funds would likely come in the form of equity infusions from Xcel to maintain the utility's debt/capital ratio at or near 45%.

Fitch expects steady growth in PSCo's future cash flow from operations, benefiting from the company's large capex program as projects go into service. An increase in dividends corresponding to the additional shares of common equity expected to be issued each year to help fund growth will likely keep FCF negative.

CFO and Cash Use



Source: Company data, Fitch.

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Peer and Sector Analysis

Peer Group

Issuer	Country
A–	
Consumers Energy Company	U.S.
Northern States Power Company-Minnesota	U.S.
PacifiCorp	U.S.

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
May 5, 2016	A–	Stable
Nov. 30, 2015	A–	Stable
April 24, 2015	A–	Stable
Nov. 20, 2014	A–	Stable
April 7, 2014	A–	Stable
Nov. 14, 2013	A–	Stable
Nov. 14, 2012	BBB+	Positive
Nov. 18, 2011	BBB+	Stable
Nov. 23, 2010	BBB+	Stable
July 22, 2010	BBB+	Stable
July 22, 2009	BBB+	Stable
May 22, 2008	BBB+	Stable
June 27, 2007	BBB+	Stable
March 15, 2007	BBB	Positive
Dec. 6, 2005	BBB	Stable
Aug. 9, 2005	BBB+	Stable
Dec. 8, 2003	BBB	Stable
June 9, 2003	BBB	Stable
June 3, 2003	BBB	RWP
Nov. 8, 2002	BBB	RWN
Sept. 20, 2002	BBB	Negative
July 30, 2002	BBB	Negative
July 15, 1999	A–	Stable

LT IDR – Long-Term Issuer Default Rating. FC – Foreign currency.
RWP – Rating Watch Positive.
RWN – Rating Watch Negative.
Source: Fitch.

Peer Group Analysis

($ Mil.)	Public Service Company of Colorado	Consumers Energy Company	Northern States Power Company-Minnesota	PacifiCorp
As of	3/31/16	3/31/16	3/31/16	3/31/16
IDR	A–	A–	A–	A–
Outlook	Rating Outlook Stable	Rating Outlook Stable	Rating Outlook Stable	Rating Outlook Stable
Fundamental Ratios (x)				
Operating EBITDAR/ (Gross Interest Expense + Rents)	6.5	6.5	6.1	5.5
FFO Fixed-Charge Coverage	6.6	6.1	6.9	5.3
Total Adjusted Debt/Operating EBITDAR	3.2	3.0	3.5	3.3
FFO/Total Adjusted Debt (%)	31.9	30.8	31.8	29.1
FFO-Adjusted Leverage	3.1	3.2	3.1	3.4
Common Dividend Payout (%)	69.9	92.4	57.1	82.6
Internal Cash/Capex (%)	84.6	54.3	59.7	121.8
Capex/Depreciation (%)	229.9	232.9	348.7	119.8
Return on Equity (%)	9.4	9.9	8.9	9.7
Financial Information				
Revenue	4,086	5,773	4,700	5,234
Revenue Growth (%)	(5.3)	(10.1)	(3.2)	0.4
EBITDA	1,331	1,734	1,352	2,150
Operating EBITDA Margin (%)	32.6	30.0	28.8	41.1
FCF	(156)	(509)	(825)	276
Total Adjusted Debt with Equity Credit	4,279	5,340	4,855	7,222
Readily Available Cash	5	27	54	167
Funds Flow from Operations	1,157	1,376	1,322	1,706
Capex	(977)	(1,598)	(1,789)	(908)

IDR – Issuer Default Rating.
Source: Company data, Fitch.

Key Rating Issues

Regulatory Developments

PSCo's credit quality reflects a regulatory environment in Colorado that has been relatively balanced and stable. The utility benefits from several regulatory mechanisms that reduce lag and provide stability to cash flows. The CPUC allows the use of adjustment clauses for fuel costs and purchased power, riders for demand-side management cost recovery and renewable energy standard cost compliance, trackers for pension expense and property taxes, and riders for electric and natural gas transmission investments and cost compliance related to the CACJA.

Constructive 2015 Electric Rate Order

The CPUC issued its electric rate order in February 2015, approving a settlement agreement that provides electric rate predictability through 2017. The order was based on a 56% equity ratio and a 9.83% ROE, which was the nationwide average ROE approved in 2015 for electric utilities.

The order approved a net revenue increase of $53.3 million in 2015 and the implementation of a forward-looking rider for CACJA-related expenses, separating these environmental expenditures from base rates. Base rates were reduced $39.4 million, primarily due to the creation of the CACJA rider, which accounts for $97.0 million in 2015 and step increases of $17.7 million in 2016 and $14.5 million in 2017. The CPUC's order also established a forward-looking transmission cost adjustment rider and trackers for pension expense and property taxes.

Balanced 2016 Gas Rate Order

In February 2016, the CPUC issued its order allowing PSCo to increase natural gas base rates a total of $39.2 million, consisting of an $18.7 million increase effective retroactive to Oct. 1, 2015 and an incremental $20.5 million increase retroactive to Jan. 1, 2016. The second-step increase incorporates the transfer of $19.7 million of PSIA costs to base rates, resulting in a net customer increase of $19.5 million.

The rates were based on a 56.51% equity ratio and a 9.5% authorized ROE, which was slightly below the nationwide average ROE of 9.6% approved in 2015 for gas utilities. PSCo's PSIA rider was scheduled to expire on June 30, 2016, but the CPUC order extended the PSIA through 2018, providing greater certainty for recovery of pipeline replacement costs for the next couple years.

Renewable Energy Standards

Colorado law mandates that a minimum amount of PSCo's energy sales must be supplied by renewable energy, with step-ups in the minimum amount occurring over multiyear periods. PSCo's renewable energy portfolio includes wind, hydroelectric, biomass, and solar power, from both owned generating facilities and power purchase agreements. The renewable energy standards (RES) minimum level was 12% through 2014, jumping up to 20% from 2015 through 2019, then to 30% by 2020. PSCo is in compliance, with renewable energy comprising 21.9% of the utility's total owned and purchased energy for 2015.

The RES also contains a distributed generation standard, which was 1.25% for 2013–2014, 1.75% for 2015–2016, 2.00% for 2017–2019, and 3.00% by 2020.

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Boulder Municipalization

PSCo's franchise agreement with the city of Boulder, CO expired in December 2010. Boulder since passed an ordinance establishing a municipal electric utility. Boulder's use of eminent domain to acquire PSCo's electric utility assets within the city would require the CPUC's approval of a separation plan and approval from the Federal Energy Regulatory Commission (FERC), neither of which have yet been obtained.

If Boulder proceeds with another condemnation petition and succeeds in the eminent domain proceeding, it would be required to pay PSCo fair market value for the business and its associated property. PSCo would also seek payment for damages resulting to its system and appropriate compensation for stranded costs with the FERC. An earlier offer by Boulder of $128 million was deemed deficient by PSCo.

A November 2015 decision by the CPUC barred Boulder from acquiring some of PSCo's assets outside the city limits, which may make it cost prohibitive for Boulder to serve unincorporated territory on the fringes of the city. Discussions between PSCo and Boulder are continuing, and if a settlement agreement is reached, Boulder's municipalization bid may be terminated and a new franchise agreement for PSCo may be put on the ballot for voter approval as early as November 2016.

Parent/Subsidiary Rating Linkage

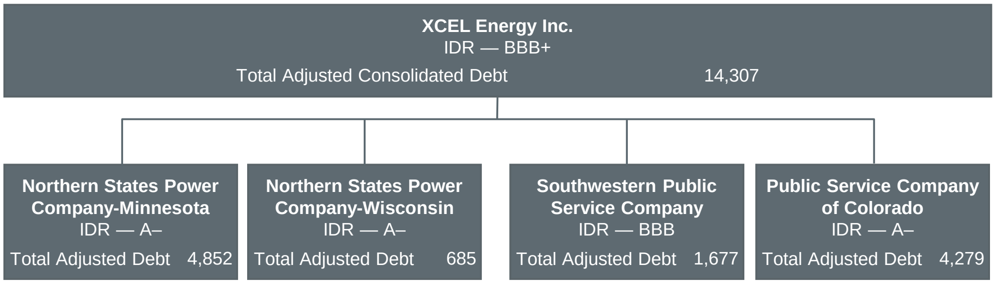
There is a moderate-to-strong linkage between the Long-Term Issuer Default Ratings (IDRs) of Xcel and each of its subsidiaries. The linkages originate primarily from strategic drivers. Each subsidiary is important to Xcel, and the parent financially supports its subsidiaries when needed via equity infusions and funding the intercompany money pool. Fitch considers a two-notch differential between the Long-Term IDRs of Xcel and each of its subsidiaries to be the maximum allowed differential.

Organizational Structure

PSCo generally contributes 40%–50% of Xcel's consolidated net income and accounts for approximately one-third of Xcel's total consolidated debt.

Fitch views the Xcel group structure as supportive of credit quality. PSCo upstreams cash distributions to Xcel to support holding company debt obligations and the common dividend. In turn, Xcel supports utility capital funding needs through equity infusions.

Organizational and Debt Structure — Public Service Company of Colorado
($ Mil., As of March 31, 2016)



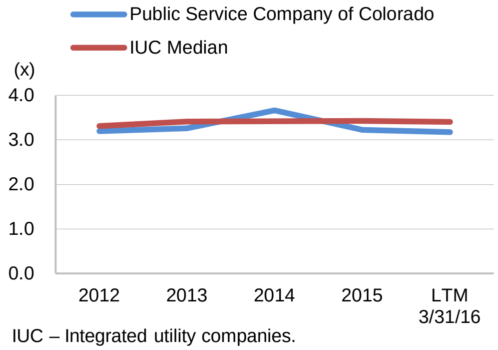
IDR – Issuer Default Rating.
Source: Company filings, Fitch.

Key Metrics

Definitions

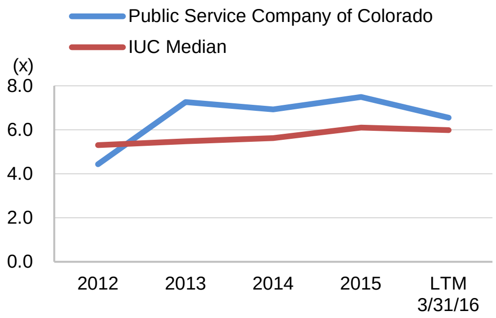
- Total Adjusted Debt/Op. EBITDAR: Total balance sheet adjusted for equity credit and off-balance sheet debt divided by operating EBITDAR.
- FFO Fixed-Charge Coverage: FFO plus gross interest minus interest received plus preferred dividends plus rental payments divided by gross interest plus preferred dividends plus rental payments.
- FFO-Adjusted Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid plus preferred dividends plus rental expense.

Total Adjusted Debt/Op. EBITDAR



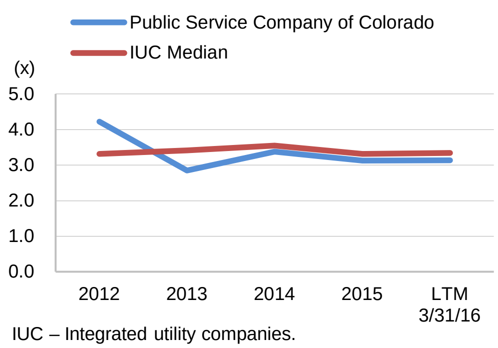
IUC – Integrated utility companies.
Source: Company data, Fitch.

FFO Fixed-Charge Coverage



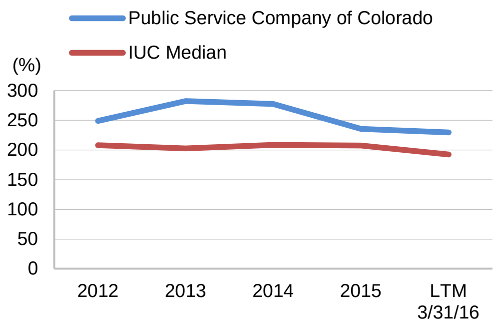
IUC – Integrated utility companies.
Source: Company data, Fitch.

FFO-Adjusted Leverage



IUC – Integrated utility companies.
Source: Company data, Fitch.

Capex/Depreciation



IUC – Integrated utility companies.
Source: Company data, Fitch.

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Company Profile

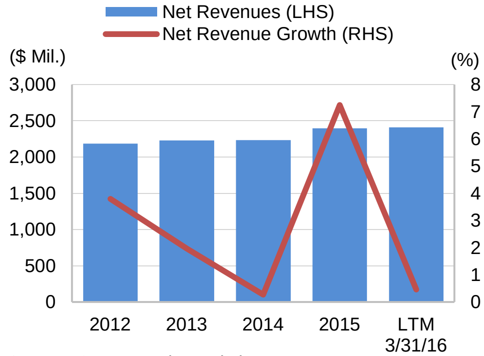
PSCo is an electric and natural gas utility that operates in Colorado. Almost 79% of PSCo's gross margin is derived from the utility's integrated electric business, which serves more than 1.4 million customers. The remaining 21% of PSCo's gross margin is derived from the utility's natural gas distribution business, which serves more than 1.35 million customers.

PSCo generated 66% of its power needs in 2015; the balance of power needs was obtained through purchased power. In 2015, PSCo obtained 54% of its power from coal-fired facilities, with the remainder from natural gas (23%), wind (19%), hydroelectric (2%), and other (2%).

PSCo's commercial and industrial customers accounted for almost 60% of retail electric revenues in 2015, with residential customers accounting for approximately 38%.

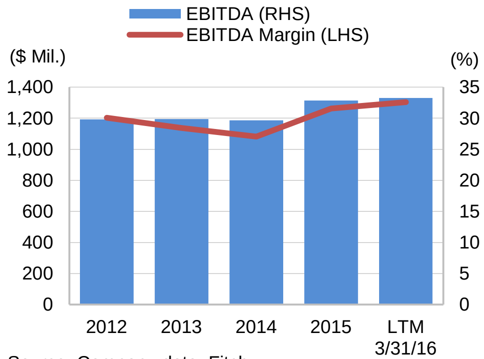
Business Trends

Revenue Dynamics



Source: Company data, Fitch.

EBITDA Dynamics



Source: Company data, Fitch.

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Financial Summary — Public Service Company of Colorado

($ Mil., As of March 31, 2016, IDR — A–/Rating Outlook Stable)	2012	2013	2014	2015	LTM 3/31/16
Fundamental Ratios					
Operating EBITDAR/(Gross Interest Expense + Rents) (x)	5.9	6.3	6.4	7.3	6.5
FFO Fixed-Charge Coverage (x)	4.4	7.3	6.9	7.5	6.6
Total Adjusted Debt/Operating EBITDAR (x)	3.2	3.3	3.7	3.2	3.2
FFO/Total Adjusted Debt (%)	23.7	35.1	29.6	32.0	31.9
FFO-Adjusted Leverage (x)	4.2	2.8	3.4	3.1	3.1
Common Dividend Payout (%)	58.3	58.3	95.4	70.9	69.9
Internal Cash/Capex (%)	51.9	90.2	63.7	87.5	84.6
Capex/Depreciation (%)	249.1	282.5	277.9	235.8	229.9
Return on Equity (%)	10.3	9.7	9.4	9.3	9.4
Profitability					
Revenues	3,969	4,203	4,383	4,164	4,086
Revenue Growth (%)	(6.4)	5.9	4.3	(5.0)	(5.3)
Net Revenues	2,186	2,229	2,235	2,397	2,408
Operating and Maintenance Expense	(866)	(902)	(892)	(891)	(885)
Operating EBITDA	1,193	1,195	1,186	1,315	1,331
Operating EBITDAR	1,212	1,212	1,202	1,332	1,348
Depreciation and Amortization Expense	(344)	(366)	(384)	(416)	(425)
Operating EBIT	849	829	802	899	906
Gross Interest Expense	(188)	(174)	(172)	(166)	(191)
Net Income for Common	458	453	455	467	472
Operating Maintenance Expense % of Net Revenues	(39.6)	(40.5)	(39.9)	(37.2)	(36.8)
Operating EBIT % of Net Revenues	38.8	37.2	35.9	37.5	37.6
Cash Flow					
Cash Flow from Operations	678	1,271	948	1,238	1,151
Change in Working Capital	(34)	74	(166)	49	(6)
Funds from Operations	712	1,197	1,114	1,189	1,157
Dividends	(267)	(264)	(434)	(331)	(330)
Capex	(857)	(1,034)	(1,067)	(981)	(977)
FCF	(446)	(27)	(553)	(74)	(156)
Net Other Investment Cash Flow	52	(71)	56	16	(94)
Net Change in Debt	296	88	403	(121)	105
Net Equity Proceeds	99	26	81	175	144
Capital Structure					
Short-Term Debt	154	—	382	14	—
Total Long-Term Debt	3,630	3,873	3,890	4,132	4,104
Total Debt with Equity Credit	3,784	3,873	4,272	4,157	4,143
Total Adjusted Debt with Equity Credit	3,875	3,954	4,400	4,293	4,279
Total Common Shareholder's Equity	4,586	4,802	4,886	5,120	5,152
Total Capital	8,370	8,675	9,158	9,277	9,295
Total Debt/Total Capital (%)	45	45	47	45	45
Common Equity/Total Capital (%)	55	55	53	55	55

IDR – Issuer Default Rating.
Source: Company data, Fitch.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.