S&P Global
Ratings

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Summary:
Public Service Co. of Colorado

Primary Credit Analyst:
Obioma Ugboaja, New York 212-438-7406; obioma.ugboaja@spglobal.com

Secondary Contact:
Gabe Grosberg, New York (1) 212-438-6043; gabe.grosberg@spglobal.com

Research Contributor:
Andrea Dsouza, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

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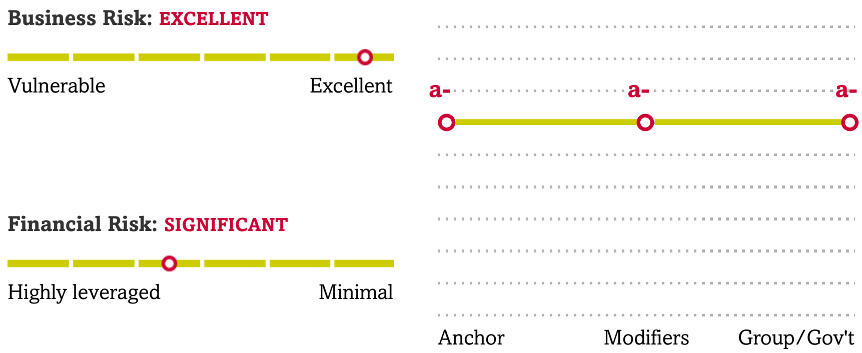

CORPORATE CREDIT RATING

A-/Stable/A-2

Rationale

Business Risk: Excellent	Financial Risk: Significant
• Public Service Co. of Colorado (PSCo) is a low-risk, vertically integrated, fully rate-regulated electric and gas utility; • Effective management of regulatory risk; • A large customer base and a diverse fuel mix; • Some environmental risks associated with the company's exposure to coal-fired generation; and • An incremental growth strategy through wind generation.	• We assess PSCo's financial measures using more moderate financial benchmarks compared to the typical corporate issuer, reflecting PSCo's low-risk, regulated business and effective management of regulatory risk. • We expect financial measures to trend toward the middle of the range of the company's financial risk profile category. • Capital expenditures averaging about $1.6 billion; and • Negative discretionary cash flows for the next few years.

Outlook: Stable

S&P Global Ratings' stable outlook on Denver-based Public Service Co. of Colorado (PSCo.) reflects the consolidated view of its parent, Xcel Energy Inc. (Xcel), including the expectation that management will continue to reach constructive regulatory outcomes to avoid any meaningful rise in business risk for the regulated utilities. Specifically, our base-case forecast includes funds from operations (FFO) to debt of about 17% and assumes the 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 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 jurisdictions, resulting in 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%.

Our Base-Case Scenario

Assumptions

- Increased capital expenditures of about $1.6 billion;
- Effective management of regulatory risk;
- Dividend payments of about $375 million; and
- Negative discretionary cash flows over the next few years.

Key Metrics

	2016A	2017E	2018E
FFO/debt (%)	21.9	18-20	18-20
Debt/EBITDA (x)	3.7	4-4.5	4-4.5
CFO/debt (%)	22.8	17-19	17-19

A--Actual. E--Estimate. FFO--Funds from operations. CFO—Cash from operations.

Business Risk : Excellent

Our assessment of PSCo's business risk profile reflects its low-risk, rate-regulated electric and gas utility business and effective management of regulatory risk. This includes the company's ability to achieve constructive regulatory outcomes, including multi-year electric and gas rate plans, the use of infrastructure riders, and the ability to set rates using forward-test years that collectively support the company's credit quality. The company recently filed for a multi-year increase in natural gas rates totaling about $140 million, and expects a decision by February 2018. Partially offsetting this assessment is the ongoing attempt of the city of Boulder to leave the company and to form a stand-alone municipal utility.

Our business risk assessment also accounts for the company's large customer base, its fuel mix, and incremental growth strategy. PSCo serves a large and diverse customer base that includes about 1.5 million electric customers and 1.5 million gas customers throughout Colorado that are mostly residential and that provide stability to the company's revenues. PSCo accounts for about 40% of parent Xcel Energy's consolidated operating income. In addition, PSCo has about 5,300 megawatts (MW) of generation capacity; 47% of which is from coal-fired sources, exposing the company to some environmental risks associated with coal.

In 2016, PSCo gained approval to build, own, and operate a 600 MW wind generation facility, the Rush Creek Wind Farm for a cost of about $1 billion and expects the project to be placed in service in 2018. We view this incremental growth strategy as supportive of the company's credit quality because it provides a low-risk form of regulated asset growth that we view as favorable for the company's bondholders.

Financial Risk: Significant

We evaluate PSCo's financial measures using more moderate financial benchmarks compared to the typical corporate issuer, reflecting PSCo's low-risk, regulated business and effective management of regulatory risk. Under our base-case scenario that includes increased capital spending of about $1.6 billion, constructive regulatory outcomes, and dividends of about $375 million annually, we expect FFO to debt of about 19%. Our assessment incorporates the company's higher capital spending plan beginning in 2017 which marginally weakens its financial measures to reflect the middle of the range of the company's financial risk profile category.

Liquidity: Adequate

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

Principal Liquidity Sources	Principal Liquidity Uses
• Cash FFO of more than $1 billion; • Credit facility availability of $700 million; and • Minimal cash assumed.	• Maintenance capital spending of $1.2 billion; • Dividend payments of about $375 million; and • Minimal long-term debt maturities.

Other Credit Considerations

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

Group Influence

PSCo. is a wholly owned subsidiary of Xcel Energy. We consider PSCo to be core to its parent, reflecting our view that PSCo is highly unlikely to be sold, is integral to the overall group strategy, possesses a strong long-term commitment from Xcel Energy's management, and is closely linked to the parent's name and reputation. Therefore, we cap our issuer credit rating on PSCo at Xcel Energy's group credit profile of 'a-'.

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 standard mapping criteria that links long-term ratings and short-term ratings.

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 issuer credit ratings 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).
- The historical record of 100% recovery for secured bondholders in utility bankruptcies in the U.S. supports the recovery methodology and our view that 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 an issuer credit rating 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

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Corporates - Utilities: Notching Of U.S. Investment-Grade Investor-Owned Utility Unsecured Debt Now Better Reflects Anticipated Absolute Recovery, Nov. 10, 2008
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Business And Financial Risk Matrix

	Financial Risk Profile					
Business 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-