Public Service Company of Colorado

Subsidiary of Xcel Energy Inc.

Rating Type	Rating	Outlook	Last Rating Action
Long-Term IDR	A–	Stable	Affirmed 29 March 2018
Short-Term IDR	F2		Affirmed 29 March 2018
Senior Secured Debt	A+		Affirmed 29 March 2018
CP	F2		Affirmed 29 March 2018

Click here for full list of ratings

Financial Summary

(USD Mil.)	Dec 2014	Dec 2015	Dec 2016	Dec 2017
Gross Revenue	4,383	4,164	4,048	4,043
Operating EBITDAR	1,202	1,332	1,353	1,375
Cash Flow from Operations	948	1,238	1,166	1,202
Capital Intensity (Capex/Revenue) (%)	24.3	23.6	27.5	36.5
Total Adjusted Debt With Equity Credit	4,401	4,293	4,511	4,712
FFO Fixed-Charge Coverage (x)	6.9	7.1	6.5	6.6
FFO-Adjusted Leverage (x)	3.4	3.1	3.5	3.5
Total Adjusted Debt/Operating EBITDAR (x)	3.7	3.2	3.3	3.4

Source: Fitch Solutions.

Public Service Company of Colorado's (PSCo) Long-Term Issuer Default Rating (IDR) primarily reflects the utility's low-risk regulated electric and natural gas operations and solid financial profile.

Key Rating Drivers

Constructive Regulation: PSCo operates in a relatively constructive 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.

Natural Gas Rate Case: PSCo filed with the CPUC for a $139 million multiyear increase to its natural gas rates on June 2, 2017. PSCo also requested rolling $93.9 million of pipeline system integrity adjustment (PSIA) rider revenue into base rates. The filing was for a test-year period ending Dec. 31, 2020 and was based on a 10% ROE and a 55.25% equity ratio. A final decision from the CPUC is expected soon.

PSCo's previous natural gas rate case resulted in a $39.2 million increase, consisting of an $18.7 million increase 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. In addition, PSCo's PSIA rider was extended through 2018.

Large Capex Plan: PSCo has a large capex plan that includes significant spending associated with management's "steel for fuel" renewable energy investment strategy, along with spending on gas pipeline integrity and distribution system enhancement. Capex was just under $1 billion in 2015 and has increased significantly since then. Fitch Ratings expects capex to peak at nearly $1.7 billion in 2018 and average approximately $1.25 billion per year over 2018–2022.

The Colorado Energy Plan, which incorporates the early retirement of 660MW of coal-fired generation and a request for proposal for up to 1,100MW of wind, 700MW of solar, and 700MW of natural gas generation and/or battery storage, could further increase PSCo's capex plan. PSCo's investment under the Colorado Energy Plan would be approximately $1 billion and consist of 500MW of wind and 380MW of natural gas generation. A CPUC decision is expected by September 2018.

Tax Reform: Tax reform is expected to negatively affect EBITDA and FFO, particularly in the near term. Fitch expects PSCo's financial metrics to weaken, but could remain supportive of existing ratings pending a constructive outcome in regulatory proceedings. Fitch forecasts FFO fixed-charge coverage to average 6.2x–6.7x, FFO-adjusted leverage 3.6x–4.0x and adjusted debt/EBITDAR 3.4x–3.8x through 2020.

Rating Derivation Relative to Peers

Rating Derivation Versus Peers	
Peer Comparison	The credit profiles of PSCo and its sister utilities Northern States Power Company-Minnesota (NSP-Minnesota; A–/Stable) and Northern States Power Company-Wisconsin (NSP-Wisconsin; A–/Stable) are similar and are all well positioned at an 'A–' Long-Term IDR. PSCo, NSP-Minnesota and NSP-Wisconsin all benefit from exposure to relatively constructive regulatory environments with reasonably good rates of return. All three entities have undertaken large capex plans, although timely cost recovery in their respective regulatory jurisdictions helps mitigate concerns about the high capex. NSP-Wisconsin has slightly stronger financial metrics than PSCo and NSP-Minnesota, but the larger scale and scope of operations at PSCo and NSP-Minnesota offset their slightly weaker financial metrics. Adjusted debt/EBITDAR and FFO-adjusted leverage at PSCo were 3.4x and 3.5x, respectively, for 2017, compared with 3.2x and 3.3x at NSP-Minnesota and 3.0x and 3.1x at NSP-Wisconsin.
Parent/Subsidiary Linkage	There is a weak rating linkage between the Long-Term IDR of PSCo and that of its parent, Xcel Energy Inc. (Xcel; BBB+/Stable). Fitch would allow for up to a two-notch differential between the Long-Term IDRs of Xcel and any of its utility subsidiaries.
Country Ceiling	No Country Ceiling constraint was in effect for these ratings.
Operating Environment	No operating environment influence was in effect for these ratings.
Other Factors	Not applicable.

Source: Fitch Solutions.

Navigator Peer Comparison

Issuer		Business profile						Financial profile		
Name	IDR/Outlook	Operating Environment	Management and Corporate Governance	Regulation	Market and Franchise	Asset Base and Operations	Commodity Exposure	Profitability	Financial Structure	Financial Flexibility
Northern States Power Company-Minnesota	A-/Sta	aa	a-	a-	a-	bbb+	bbb+	bbb+	a-	a-
Northern States Power Company-Wisconsin	A-/Sta	aa	a-	a	a-	bbb+	bbb+	bbb+	a-	a-
Public Service Company of Colorado	A-/Sta	aa	a-	a-	a-	bbb+	bbb+	a-	a-	a-
Wisconsin Electric Power Co.	A/Sta	aa	a-	a-	bbb+	bbb+	bbb+	bbb	bbb+	a
MidAmerican Energy Company	A-/Sta	aa	a-	a-	bbb+	bbb+	a-	bbb	bbb	a
PacifiCorp	A-/Sta	aa	a-	bbb+	bbb+	bbb+	bbb+	bbb	a	a-
Consumers Energy Company	A-/Sta	aa	a-	a-	bbb+	bbb+	bbb+	a-	a	a

Source: Fitch

Importance Higher Moderate Lower

Rating Sensitivities

Future Developments That May, Individually or Collectively, Lead to a Positive Rating Action

- Given the large capex program, a positive rating action is unlikely in the near term. Over the longer term, a positive rating action 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.

Future Developments That May, Individually or Collectively, Lead to a Negative Rating Action

- A material deterioration of the Colorado regulatory environment;
- Adjusted debt/EBITDAR and FFO-adjusted leverage expected to exceed 3.8x and 4.5x, respectively, on a sustained basis;
- A shift in management strategy that results in weaker financial support from Xcel.

Liquidity and Debt Structure

Adequate Liquidity: Fitch considers the liquidity for Xcel and its utility subsidiaries to be adequate.

Xcel and its utility subsidiaries primarily meet their short-term liquidity needs through the issuance of CP under an aggregate $2.75 billion revolving credit facility (RCF) that expires in June 2021. Under the RCF, Xcel has a $1 billion borrowing sublimit at the parent, PSCo has a $700 million borrowing sublimit, NSP-Minnesota has a $500 million borrowing sublimit, Southwestern Public Service Company (SPS) has a $400 million borrowing sublimit and NSP-Wisconsin has a $150 million borrowing sublimit.

Xcel and its utility subsidiaries had an aggregate $525 million of CP issued and $31 million of LOC drawn as of March 31, 2018, leaving an aggregate of $2.194 billion of availability under the five-year unsecured RCF. PSCo had $601 million of availability, NSP-Minnesota had $475 million of availability, SPS had $388 million of availability and NSP-Wisconsin had $128 million of availability.

Xcel has a 364-day term loan agreement expiring Dec. 4, 2018 that allows it to borrow up to $500 million. Xcel had borrowed $500 million as of March 31, 2018.

Liquidity is also available to PSCo, NSP-Minnesota and SPS through participation in an intercompany money pool. Borrowing limits are set at $250 million for PSCo, $250 million for NSP-Minnesota and $100 million for SPS. PSCo had $48 million of borrowings under the money pool as of March 31, 2018. NSP-Wisconsin is not a participant in the money pool.

Xcel and its utility subsidiaries require modest cash on hand. Xcel had $116 million of unrestricted cash and cash equivalents at March 31, 2018.

PSCo's long-term debt maturities are manageable over the next five years. PSCo has $300 million of 5.8% first mortgage bonds (FMBs) due Aug. 1, 2018, $400 million of 5.125% FMBs due June 1, 2019, $400 million of 3.2% FMBs due Nov. 15, 2020 and $300 million of 2.25% FMBs due Sept. 15, 2022.

Debt Maturities and Liquidity

Scheduled Long-Term Debt Maturities	(USD Mil.)
2018	300
2019	400
2020	400
2021	0
2022	300
Thereafter	3,601
Total Long-Term Debt	5,001

Source: Fitch Solutions, company filings.

Liquidity Summary at March 31, 2018	(USD Mil.)
Unrestricted Cash & Cash Equivalents	24
Committed Bank Facilities	700
Money Pool Borrowing Limit	250
Short-Term Borrowings	143
Letters of Credit Outstanding	4
Availability Under Bank Facilities and Money Pool	803
Total Liquidity	827

Source: Fitch Solutions, company filings.

Key Assumptions

Fitch's key assumptions within our rating case for PSCo include:

- Rate base CAGR of 4.5% from 2017 to 2022;
- Capex of $6.2 billion over 2018–2022;
- Rate case outcomes consistent with historical rate orders.

Financial Data

(USD Mil.)	Historical			
	Dec 2014	Dec 2015	Dec 2016	Dec 2017
SUMMARY INCOME STATEMENT				
Gross Revenue	4,383	4,164	4,048	4,043
Revenue Growth (%)	4.3	-5.0	-2.8	-0.1
Operating EBIT	802	899	891	886
Operating EBIT Margin (%)	18.3	21.6	22.0	21.9
Operating EBITDA Margin (%)	27.1	31.6	33.0	33.7
Rental Expense	-16	-17	-16	-13
DETAILED CASH FLOW MEASURES				
FFO Margin (%)	25.4	28.6	27.0	28.2
Operating EBITDA	1,186	1,315	1,337	1,362
Cash Interest	-172	-178	-182	-191
Cash Tax	-92	14	-23	-8
Funds Flow From Operations	1,114	1,189	1,092	1,142
Change in Working Capital	-166	49	74	60
Cash Flow from Operations	948	1,238	1,166	1,202
Capex	-1,067	-981	-1,114	-1,476
Common Dividends	-434	-331	-337	-334
FCF	-553	-74	-285	-608
Net Acquisitions and Divestitures	0	0	0	0
Net Equity Proceeds	81	175	39	336
Net Debt Proceeds	403	-121	230	265
Total Change in Cash	-13	-4	2	2

(USD Mil.)	Historical			
	Dec 2014	Dec 2015	Dec 2016	Dec 2017
SUMMARY BALANCE SHEET				
Readily Available Cash and Equivalents	8	4	6	8
Total Debt With Equity Credit	4,272	4,157	4,385	4,608
Off-Balance-Sheet Debt	129	136	126	104
Total Adjusted Debt with Equity Credit	4,401	4,293	4,511	4,712
COVERAGE RATIOS				
FFO Interest Coverage (x)	7.5	7.7	7.0	7.0
Operating EBITDA/Interest Paid (x)	6.9	7.4	7.3	7.1
FFO Fixed Charge Coverage (x)	6.9	7.1	6.5	6.6
Operating EBITDAR/Interest Paid + Rents (x)	6.4	6.8	6.8	6.7
LEVERAGE RATIOS				
Total Debt with Equity Credit/Operating EBITDA (x)	3.6	3.2	3.3	3.4
Total Adjusted Debt/Operating EBITDAR (x)	3.7	3.2	3.3	3.4
FFO-Adjusted Leverage (x)	3.4	3.1	3.5	3.5

Rating Navigator

Public Service Company of Colorado

Corporates Ratings Navigator
US Utilities

FitchRatings

Public Service Company of Colorado

Corporates Ratings Navigator
US Utilities

Operating Environment

aa+	Economic Environment	aa	Very strong combination of countries where economic value is created and where assets are located.
aa	Financial Access	aa	Very strong combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
	Systemic Governance	aa	Systemic governance (eg rule of law, corruption; government effectiveness) of the issuer's country of incorporation consistent with 'AA'.
b-			
ccc			

Management and Corporate Governance

a+	Management Strategy	a	Coherent strategy and good track record in implementation.
a	Governance Structure	bbb	Good CG track record but effectiveness/independence of board less obvious. No evidence of abuse of power even with ownership concentration.
a-	Group Structure	a	Group structure shows some complexity but mitigated by transparent reporting.
bbb+	Financial Transparency	a	High quality and timely financial reporting.
bbb			

Regulation

a+	Degree of Transparency and Predictability	a	Track record of transparent and predictable regulation.
a	Timeliness of Cost Recovery	a	Minimal lag to recover capital and operating costs.
a-	Trend in Authorized ROEs	bbb	Average authorized ROE.
bbb+	Mechanisms Available to Stabilize Cash Flows	bbb	Revenues partially insulated from variability in consumption.
bbb	Mechanisms Supportive of Creditworthiness	bbb	Effective regulatory ring-fencing or minimum creditworthiness requirements.

Market and Franchise

a+	Market Structure	a	Well-established market structure with complete transparency in price-setting mechanisms.
a	Consumption Growth Trend	bbb	Customer and usage growth in line with industry averages.
a-	Customer Mix	a	Favorable customer mix.
bbb+	Geographic Location	bbb	Beneficial location or reasonable locational diversity.
bbb	Supply Demand Dynamics	bbb	Moderately favorable outlook for prices/rates.

Asset Base and Operations

a	Diversity of Assets	bbb	Good quality and/or reasonable scale diversified assets.
a-	Operations Reliability and Cost Competitiveness	bbb	Reliability and cost of operations at par with industry averages.
bbb+	Exposure to Environmental Regulations	bbb	Limited or manageable exposure to environmental regulations.
bbb	Capital and Technological Intensity of Capex	bbb	Moderate reinvestments requirements in established technologies.
bbb-			

Commodity Exposure

a	Ability to Pass Through Changes in Fuel	bbb	Limited exposure to changes in commodity costs.
a-	Underlying Supply Mix	bbb	Low variable costs and moderate flexibility of supply.
bbb+	Hedging Strategy	a	Highly captive supply and customer base.
bbb			
bbb-			

Profitability

a+	Free Cash Flow	bbb	Structurally neutral to negative FCF across the investment cycle.
a	Volatility of Profitability	a	Higher stability and predictability of profits relative to utility peers.
a-			
bbb+			
bbb			

Financial Structure

a+	Lease Adjusted FFO Gross Leverage	a	3.5x
a	Total Adjusted Debt/Operating	a	3.25x
a-			
bbb+			
bbb			

Financial Flexibility

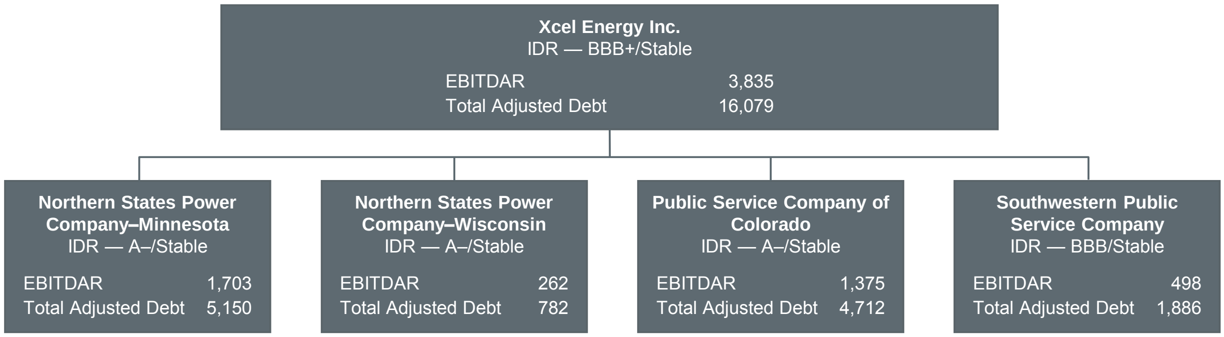
a+	Financial Discipline	a	Clear commitment to maintain a conservative policy with only modest deviations allowed.
a	Liquidity	a	Very comfortable liquidity. Well-spread maturity schedule of debt. Diversified sources of funding.
a-	FFO Fixed Charge Cover	a	5.0x
bbb+			
bbb			

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Navigator Version: RN 1.42.2.0

Simplified Group Structure Diagram

Organizational Structure — Xcel Energy Inc.
($ Mil., As of Dec. 31, 2017)



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

Peer Financial Summary

Company	Date	Rating	Gross Revenue (USD Mil.)	Funds Flow From Operations (USD Mil.)	FFO Fixed-Charge Coverage (x)	FFO-Adjusted Leverage (x)	Total Adjusted Debt/Operating EBITDAR (x)
Public Service Company of Colorado	2017	A–	4,043	1,142	6.6	3.5	3.4
	2016	A–	4,048	1,092	6.5	3.5	3.3
	2015	A–	4,164	1,189	7.1	3.1	3.2
Northern States Power Company-Minnesota	2017	A–	5,102	1,400	6.7	3.2	3.0
	2016	A–	4,900	1,318	6.4	3.3	3.4
	2015	A–	4,757	1,322	6.9	3.2	4.1
Northern States Power Company-Wisconsin	2017	A–	1,005	219	7.0	3.1	3.0
	2016	A–	957	206	6.7	3.1	3.1
	2015	A–	956	189	6.5	3.1	2.9
Wisconsin Electric Power Co.	2017	A	3,712	682	6.6	4.3	3.5
	2016	A	3,793	755	7.0	3.8	3.5
	2015	A	3,854	708	6.5	4.1	3.5
MidAmerican Energy Company	2017	A–	2,837	1,406	7.5	3.1	4.8
	2016	A–	2,625	1,337	7.7	2.9	4.2
	2015	A–	3,407	1,135	7.1	3.3	4.9
PacifiCorp	2017	A–	5,237	1,578	5.0	3.7	3.2
	2016	A–	5,201	1,777	5.5	3.4	3.4
	2015	A–	5,232	1,660	5.2	3.5	3.5
Consumers Energy Company	2017	A–	6,187	1,754	7.1	3.0	2.9
	2016	A–	6,030	1,592	6.7	3.2	3.0
	2015	BBB	6,079	1,372	6.2	3.4	3.1

Source: Fitch Solutions.

Reconciliation of Key Financial Metrics

(USD Millions, As reported)	31 Dec 2017
Income Statement Summary	
Operating EBITDA	1,362
+ Recurring Dividends Paid to Non-controlling Interest	0
+ Recurring Dividends Received from Associates	0
+ Additional Analyst Adjustment for Recurring I/S Minorities and Associates	0
= Operating EBITDA After Associates and Minorities (k)	**1,362**
+ Operating Lease Expense Treated as Capitalised (h)	**13**
= Operating EBITDAR after Associates and Minorities (j)	**1,375**
Debt & Cash Summary	
Total Debt with Equity Credit (l)	**4,608**
+ Lease-Equivalent Debt	104
+ Other Off-Balance-Sheet Debt	0
= Total Adjusted Debt with Equity Credit (a)	**4,712**
Readily Available Cash [Fitch-Defined]	8
+ Readily Available Marketable Securities [Fitch-Defined]	0
= Readily Available Cash & Equivalents (o)	**8**
Total Adjusted Net Debt (b)	**4,705**
Cash-Flow Summary	
Preferred Dividends (Paid) (f)	**0**
Interest Received	4
+ Interest (Paid) (d)	**(191)**
= Net Finance Charge (e)	**(187)**
Funds From Operations [FFO] (c)	**1,142**
+ Change in Working Capital [Fitch-Defined]	60
= Cash Flow from Operations [CFO] (n)	**1,202**
Capital Expenditures (m)	**(1,476)**
Multiple applied to Capitalised Leases	**8.0**
Gross Leverage	
Total Adjusted Debt / Op. EBITDAR* [x] (a/j)	**3.4**
FFO Adjusted Gross Leverage [x] (a/(c-e+h-f))	**3.5**
Total Adjusted Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)	
Total Debt With Equity Credit / Op. EBITDA* [x] (l/k)	**3.4**
Net Leverage	
Total Adjusted Net Debt / Op. EBITDAR* [x] (b/j)	**3.4**
FFO Adjusted Net Leverage [x] (b/(c-e+h-f))	**3.5**
Total Adjusted Net Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)	
Total Net Debt / (CFO - Capex) [x] ((l-o)/(n+m))	**-16.8**
Coverage	
Op. EBITDAR / (Interest Paid + Lease Expense)* [x] (j/-d+h)	**6.7**
Op. EBITDA / Interest Paid* [x] (k/(-d))	**7.1**
FFO Fixed Charge Cover [x] ((c-e+h-f)/(-d+h-f))	**6.6**
(FFO - Net Finance Charge + Capit. Leases - Pref. Div Paid) / (Gross Int. Paid + Capit. Leases - Pref. Div. Paid)	
FFO Gross Interest Coverage [x] ((c-e-f)/(-d-f))	**7.0**
(FFO - Net Finance Charge - Pref. Div Paid) / (Gross Int. Paid - Pref. Div. Paid)	

* EBITDA/R after Dividends to Associates and Minorities

Source: Fitch Solutions, based on information from company reports.

Fitch Adjustment Reconciliation

	Reported Values 31 Dec 17	Sum of Fitch Adjustments	Adjusted Values
Income Statement Summary			
Revenue	4,043	0	4,043
Operating EBITDAR	1,375	0	1,375
Operating EBITDAR after Associates and Minorities	1,375	0	1,375
Operating Lease Expense	13	0	13
Operating EBITDA	1,362	0	1,362
Operating EBITDA after Associates and Minorities	1,362	0	1,362
Operating EBIT	886	0	886
Debt & Cash Summary			
Total Debt With Equity Credit	4,608	0	4,608
Total Adjusted Debt With Equity Credit	4,712	0	4,712
Lease-Equivalent Debt	104	0	104
Other Off-Balance Sheet Debt	0	0	0
Readily Available Cash & Equivalents	8	0	8
Not Readily Available Cash & Equivalents	0	0	0
Cash-Flow Summary			
Preferred Dividends (Paid)	0	0	0
Interest Received	4	0	4
Interest (Paid)	(175)	(16)	(191)
Funds From Operations [FFO]	1,142	0	1,142
Change in Working Capital [Fitch-Defined]	60	0	60
Cash Flow from Operations [CFO]	1,202	0	1,202
Non-Operating/Non-Recurring Cash Flow	(0)	0	(0)
Capital (Expenditures)	(1,476)	0	(1,476)
Common Dividends (Paid)	(334)	0	(334)
Free Cash Flow [FCF]	(608)	0	(608)
Gross Leverage			
Total Adjusted Debt / Op. EBITDAR* [x]	3.4		3.4
FFO Adjusted Leverage [x]	3.6		3.5
Total Debt With Equity Credit / Op. EBITDA* [x]	3.4		3.4
Net Leverage			
Total Adjusted Net Debt / Op. EBITDAR* [x]	3.4		3.4
FFO Adjusted Net Leverage [x]	3.5		3.5
Total Net Debt / (CFO - Capex) [x]	-16.8		-16.8
Coverage			
Op. EBITDAR / (Interest Paid + Lease Expense)* [x]	7.3		6.7
Op. EBITDA / Interest Paid* [x]	7.8		7.1
FFO Fixed Charge Coverage [x]	7.1		6.6
FFO Interest Coverage [x]	7.5		7.0

*EBITDA/R after Dividends to Associates and Minorities
Source: Fitch Solutions.

Full List of Ratings

	Rating	Outlook	Last Rating Action
Public Service Company of Colorado			
Long- Term IDR	A–	Stable	Affirmed 29 March 2018
Short-Term IDR	F2		Affirmed 29 March 2018
Senior Secured Debt	A+		Affirmed 29 March 2018
CP	F2		Affirmed 29 March 2018

Related Research & Criteria

Northern States Power Company-Minnesota (Subsidiary of Xcel Energy Inc.) (July 2018)
Northern States Power Company-Wisconsin (Subsidiary of Xcel Energy Inc.) (July 2018)
Southwestern Public Service Company (Subsidiary of Xcel Energy Inc.) (July 2018)
Fitch Rates Public Service Co. of Colorado's FMBs 'A+' (June 2018)
Xcel Energy Inc. (April 2018)
Fitch Affirms Xcel Energy and Subs' Ratings; Outlook Stable (March 2018)
Corporate Rating Criteria (March 2018)
Corporates Notching and Recovery Ratings Criteria (March 2018)
Parent and Subsidiary Rating Linkage (February 2018)

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