

Financial Update:

Value of Colorado Springs Utilities' Current 'AA' Bond Rating



October 22, 2008

Presented by Doug Houston

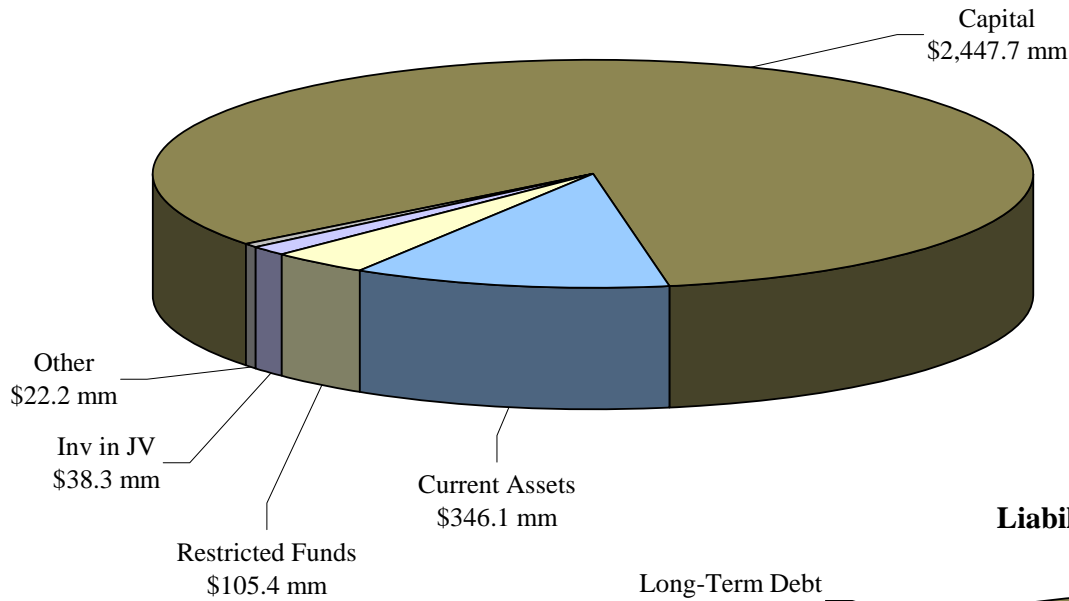
George K. Baum & Company



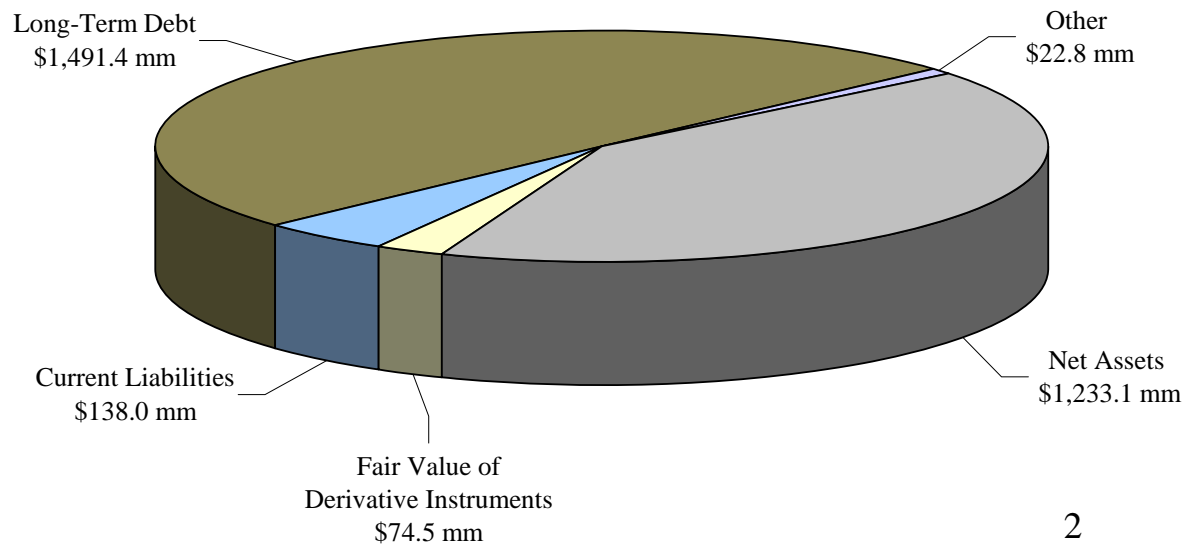
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INVESTMENT BANKERS SINCE 1928

Capital Structure

Assets - 2007

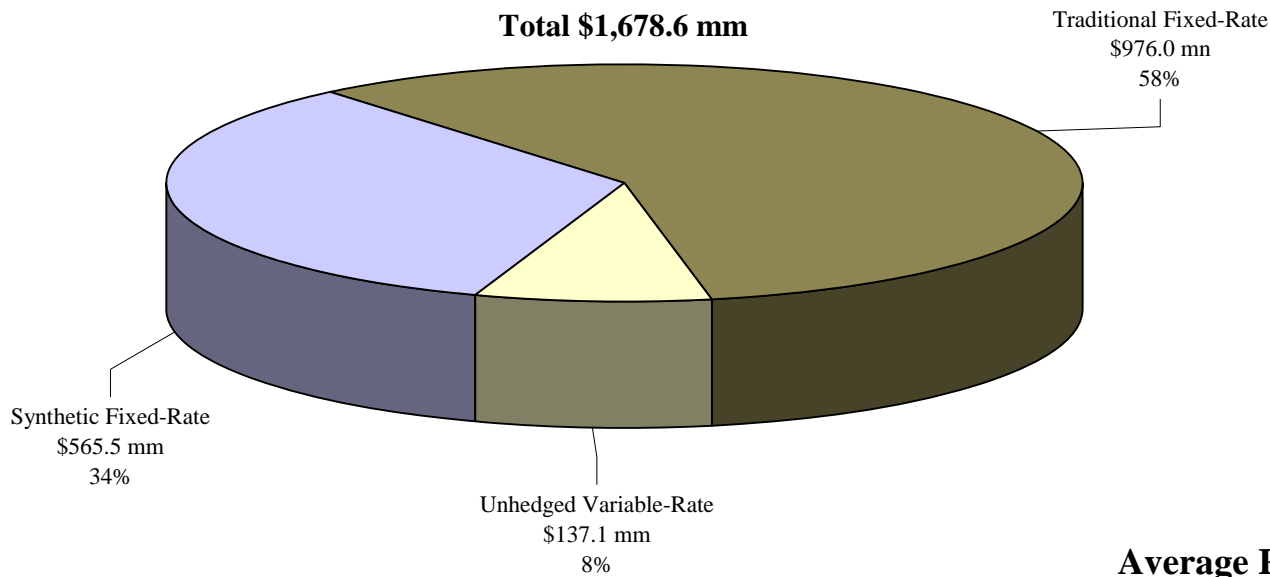


Liabilities and Net Assets - 2007



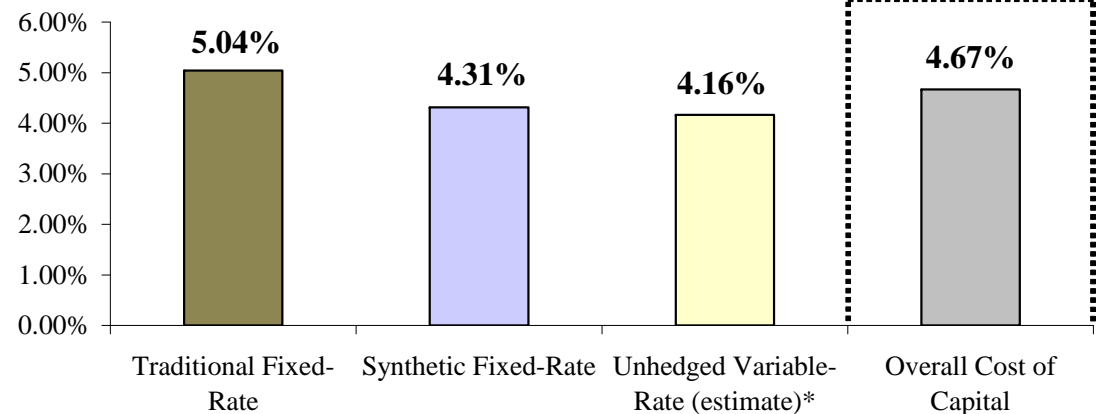
Current Debt Portfolio

Current Debt Structure*
Total \$1,678.6 mm



*Includes issuance of Series 2008A, 2008B and 2008C

Average Rate



*Assumes average rate on Series 2000A of 4.00% and Series 2002C of 4.90%
(10-year average SIFMA rate is 2.57% and 10-year average LIBOR rate is 3.73%)



Ratings Summary

- Colorado Springs Utilities has a strong credit rating of Aa2/AA/AA, all ratings reaffirmed August 2008 by Moody's, S&P, and Fitch.
- The following table summarizes the ratings resulting from a one-notch and two-notch downgrade.

	Rating Agency		
	Moody's	Standard & Poor's	Fitch
Current Rating	Aa2	AA	AA
One-Notch Downgrade	Aa3	AA-	AA-
Two-Notch Downgrade	A1	A+	A+

- The median Moody's rating for public power utilities is A2 with ratings ranging from Aaa to Ba1.

Cost of a Downgrade

- The following table summarizes the additional cost of a downgrade for Colorado Springs Utilities under the existing debt structure for current and future issues.
- Start date - November 2008.
- Future issuances are sold at a lower debt rating.
- Downgrade impacts variable rate debt in November, 2008.

ESTIMATED COST OF DOWNGRADE			
	Rating	Total Principal and Interest*	Total Increase in Debt Service*
Current Rating	Aa2/AA/AA	\$4,842,912,377	-
One-Notch Downgrade	Aa3/AA-/AA-	\$4,867,830,637	\$24,918,260
Two-Notch Downgrade	A1/A+/A+	\$5,008,003,320	\$165,090,943

* Includes years 2009 - 2051

Note: Projected interest rates as of August 25, 2008

Source: George K. Baum & Company



Rating Agency Evaluation

STRENGTHS

- Diverse revenue stream provides strong debt service coverage
- Demonstrated willingness to adjust rates for services as needed to maintain a strong financial position
- Strong financial management practices
- Competitive rates
- Consistent financial performance
- Relatively low-cost, diverse power supply mix
- Stable regional economic base, diverse customer base
- Above average economic viability of swap portfolio



Rating Agency Evaluation

CHALLENGES

- Large 5-year capital plan pressuring rates
- Continued ability to enact rate increases in a timely manner
- Impact of economic slowdown on utility sales and revenues
- Expected erosion of rate advantage
- Uncertainty with meeting future base load power demand
- Potential for future regulation of greenhouse gas emissions
- Transfer amounts to the City general fund could be changed by City Council
- Implementation of SDS



Outlook

MOODY'S

“The stable outlook is based on the expectation that finances will continue to be strong and annual rate increases needed to cover costs will be undertaken for all of the systems. Management’s long range planning and risk management policies also support the stable outlook.” – *Moody’s Investors Service, New Issue Rating Report, Colorado Springs Utilities System Revenue Bonds, August 19, 2008*

FITCH

“A key component of CSU’s rating is the continued ability to implement planned rate increases (requiring City Council Approval) in a timely manner, in order to maintain historical margins and liquidity.” – *Fitch Ratings, Colorado Springs Utilities Rating Report, August 21, 2008*

STANDARD AND POOR'S

“The stable outlook reflects the expectation of continued strong financial performance. Management’s commitment to raise rates to maintain strong measures of debt holder protection also support the rating.” – *Standard & Poor’s, Colorado Springs Utilities Credit Profile, August 14, 2008*



Conclusion

Benefits from Colorado Springs Utilities' Strong Credit Rating

- A large and diverse investor pool to purchase Springs Utilities bonds.
- Low interest rates relative to similar entities with weaker credit ratings.
 - Impact of downgrade is greater in the current market environment where investors demand higher interest rates for lower credit borrowers.
- Relatively easy access to bond market for financing Utilities' large planned capital program.
- Access to a variety of financing products (i.e. variable rate bonds, interest rate hedges, gas prepayment bonds).

