FitchRatings

RATING ACTION COMMENTARY

Fitch Rates LADWP, CA's Power Rev Bonds 'AA-'; Outlook Stable

Wed 18 Mar, 2026 - 3:29 PM ET

Fitch Ratings - New York - 18 Mar 2026: Fitch Ratings has assigned a 'AA-' rating to the 2026 series A power system revenue bonds issued by the Los Angeles Department of Water and Power, CA (LADWP).

In addition, all other Fitch-rated LADWP parity power revenue obligations are affirmed at 'AA-'.

Fitch has assessed LADWP's power system standalone credit profile (SCP) at 'aa-'. Fitch considers the power system a related entity of the City of Los Angeles. The rating on the power system bonds is not currently constrained by the credit quality of the city. However, because the bonds do not have a secured lien on power system revenue, the bond rating is capped by the city's IDR pursuant to Fitch criteria.

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT	RATING	PRIOR
Los Angeles Department of Water & Power (CA) [Electric]		

Los Angeles Department of Water & Power (CA) /Electric System Revenues/1 LT	LT	AA- Rating Outlook Stable	Affirmed	AA- Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

The 'AA-' rating reflects the very strong financial profile of the LADWP electric system, as well as its large, diverse retail customer base, very strong revenue defensibility, increasing operating costs and a large capital plan. Fitch expects the 'aa' financial profile to persist over the medium term, with leverage, calculated as net adjusted debt to adjusted funds available for debt service (FADS), remaining between 6.0x and 7.0x, which offers a modest amount headroom at the current rating. It also reflects Fitch's view that the near-term likelihood of LADWP incurring a materially significant financial liability related to the Palisades wildfire is low.

SECURITY

The bonds are special obligations of LADWP payable solely from the Power Revenue Fund.

KEY RATING DRIVERS

Revenue Defensibility - 'aa'

The rating reflects LADWP's very strong and stable revenue stream, which comes almost entirely from the sale of retail electric service to a defined customer base within the City of Los Angeles. Although customer growth is modest, the service area is broad and well diversified. Residential sales provide approximately 36% of revenue and no customer concentration exists.

Rate flexibility is very strong, with the department's local control over rate setting subject only to the City Council's approval. Rates exhibit high affordability, with average annual electric costs typically accounting for only 1.7% of median household income. LADWP's retail rates are roughly 90% of the state average, and residential rates are even more competitive.

The assessment and rating further incorporate the flexibility of the system's rate structure, which provides revenue stability through multiple automatic adjustment features that recover variable costs. It also includes a revenue decoupling feature that collects or returns any over- or under-collection when retail electric sales are higher or lower than anticipated.

Operating Risk - 'bbb'

The system's operating cost burden averaged 19.3 cents per kilowatt hour (kWh) over the last three years. Operating cost pressures have increased across the sector, but at a faster rate in California due to the state's environmental goals. Total usage increased slightly in fiscal 2025 along with operating costs.

LADWP's net dependable capacity is sufficient to meet the utility's recorded peak. Natural gas-fired and renewable resources predominantly provide capacity. Coal-fired resources have been eliminated with the repowering of the Intermountain Power Project (IPP). Nuclear energy and large hydro resources provide the remaining capacity and energy.

LADWP achieved meaningful progress over the last two decades in converting its owned and contracted generation fleet toward more renewable and non-emitting sources, as required by state mandates. The trajectory continues with substantial work remaining to comply with the city's own goal to supply 100% carbon-free energy by 2035, a decade ahead of the state mandate of 2045.

The five-year capital improvement plan (CIP) is substantial at $18.5 billion, up from an estimated $14.3 billion. Spending priorities include reliability investments, renewable investments, and existing generation improvements. However, actual spending is likely to be lower than projected, based on historical trends.

Financial Profile - 'aa'

LADWP has a very strong financial profile and recent performance metrics exceed management's financial planning criteria of 170 days cash on hand (DCOH), full obligation coverage of 1.7x and debt to capitalization of 68%. Leverage has broadly declined since fiscal 2022, falling from 8.0x to 6.1x in fiscal 2025, despite substantial capital expenditure (capex) and debt issuance during that time. Fitch-calculated coverage of full obligations (COFO) was over 2.0x in fiscal 2025, while unrestricted cash at fiscal YE was $1.8 billion, or 200 DCOH.

Fitch expects leverage will range between 6.0x and 7.0x over the next five years in its rating case. Fitch further expects liquidity to remain neutral and in line with historical levels.

However, financial outcomes over the longer term depend largely on actual capex and revenue decisions made during the next rate case.

The risk of a large judgement or settlement related to wildfire litigation could impact LADWP's financial profile. The current rating includes modest headroom for additional debt and potential judgements against LADWP, but no fire-related liability has been incorporated into our rating case at this time.

Asymmetric Additional Risk Considerations

California's strict application of inverse condemnation poses an asymmetric additional risk consideration and currently precludes positive rating action.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

-- Wildfire-related liability that results in long-term weakening of LADWP's financial profile;

-- Leverage consistently above 7.5x in Fitch's rating case;

-- A downgrade of the city's IDR to below 'AA-';

-- Local political action to forego the next multi-year rate case.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

-- An upgrade is unlikely given pending litigation and prospective wildfire liabilities.

PROFILE

LADWP's power system is one of the largest public power retail systems in the U.S. and has the exclusive right to serve a large and diverse area in the City of Los Angeles, with roughly 1.6 million customers.

Sources of Information

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by data from DIVER by Solve.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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APPLICABLE CRITERIA

U.S. Public Sector, Revenue-Supported Entities Rating Criteria (pub. 10 Jan 2025) (including rating assumption sensitivity)

U.S. Public Power Rating Criteria (pub. 26 Feb 2026) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.1.1 (1)

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Dodd-Frank Rating Information Disclosure Form

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