

KBRA Assigns AA Rating, Stable Outlook to the Department of Water and Power of the City of Los Angeles, CA Power System Revenue Bonds, 2026 Series A

New York (March 17, 2026)

KBRA assigns a long-term rating of AA to the Department of Water and Power of the City of Los Angeles, CA Power System Revenue Bonds, 2026 Series A. The Outlook is Stable.

The rating reflects KBRA's view that Los Angeles Department of Water and Power's ("LADWP's") resiliency improvements following the January 2025 wildfires are proceeding expeditiously, with reimbursement funding from FEMA and the California Governor's Office of Emergency Services expected for most recovery costs, preliminarily estimated at \$89 million for the Power System plus \$8 million related to windstorm damage, as of September 2025. KBRA also notes that estimated Power System revenue loss attributable to the 2025 wildfires is nominal.

The rating further reflects the availability of multiple financial mitigants, including commercial and self-insurance, internal and external liquidity, bonding capacity, procurement of a wildfire index catastrophe bond, and the potential recovery of judgment or settlement costs through various rate adjustment factors. In addition, the Department has implemented operational mitigants aimed at reducing future wildfire risk exposure.

LADWP reports that, as of the preliminary official statement date, no formal cause-and-origin report has been issued identifying the source of the Palisades Fire. Federal prosecutors announced a criminal arrest on October 8, 2025 in connection with an alleged January 1, 2025 ignition (the "Lachman Fire"), which investigators say later contributed to the January 7 Palisades conflagration. While a multi-agency investigation concluded the Palisades Fire was a "holdover" of the Lachman Fire, and a federal Bureau of Alcohol, Tobacco and Firearms ("ATF") affidavit expressly ruled out power lines as a potential cause of the Lachman Fire, numerous civil claims alleging secondary ignitions, inverse condemnation and related damages remain pending.

Contingent liability risks related to the 2025 wildfires and future wildfires, and to the strict liability standards imposed by California's inverse condemnation law, remain a key and evolving credit concern. As of March 13, 2026, several hundred state court actions including two putative class actions - one of which asserts a damages figure of more than \$10 billion - have been filed against the Department by owners of property damaged in the Palisades Fire. The class actions are currently stayed. A Master Complaint consolidating claims for the Water System, Power System and clearance of brush from City-owned lots asserting claims for inverse condemnation relating to the Water System and Power System, and tort claims as to the Power System for dangerous condition of public property and nuisance, was filed by plaintiffs' counsel on October 8, 2025, and amended in December 2025. The Master Complaint generally alleges, among other things, that with respect to the Power System, after the fire ignited, power poles broke and the Department failed to de-energize its distribution and transmission electrical facilities, resulting in its overhead power lines arcing and causing additional fires. The Master Complaint also alleges that the Palisades Fire was foreseeable given fire history data, weather and risk projections. A large portion of complaints assert that Water System failures (notably the Santa Ynez Reservoir being offline, the Department's failure to maintain its water system for firefighting purposes, and the Department's decision to design its water system for urban use, and not for the purpose of fighting fires) materially worsened firefighting outcomes. The Master Complaint further alleges that the City did not clear brush from vacant lots in Pacific Palisades, and asserting dangerous condition of public property and nuisance.

In addition to the claims under the Master Complaint, lawsuits have been filed by certain insurance carriers asserting subrogation rights and at least one public entity, alleging inverse condemnation claims. Litigation remains at pleading and consolidation stage, and the Department's ultimate financial exposure cannot yet be estimated. Potential adverse litigation outcomes relating to the 2025 wildfires or to future wildfires which pressure the Department's ability to meet the related liability exposure would likely have a negative impact on the rating.



The rating is underpinned by the Power System's large, mostly residential service area; stable operating and financial results; rising, though still affordable customer rates; diverse generation mix; and conservative, Board-adopted financial planning criteria. LADWP is the exclusive provider of electric and water utility services within the City of Los Angeles ("the City"). The Power System provides energy, transmission, and distribution services to approximately 1.59 million customers, and is responsible for 25% of California's electric transmission assets. As of FYE December 31, 2025, approximately 34% of energy sales were to residential customers, 61% to commercial and industrial customers, and the remaining 5% to all other purchasers, with revenues by customer class similarly apportioned. LADWP operates as a proprietary, self-supporting department of the City with full rate-setting authority, subject to the approval of City Council by ordinance, and to oversight by the Charter-established Office of Public Accountability. As the nation's largest municipal, vertically integrated electric utility, the Department enjoys cost advantages, operating reliability, and enhanced risk mitigation capabilities, but is responsible for extensive capital investment.

The Power System Revenue Bonds, 2026 Series A (the "2026 Series A Bonds") will fund certain Power System capital improvements and pay costs of issuance. The 2026 Series A Bonds, together with approximately \$12.79 billion in outstanding parity Bonds, \$150 million in outstanding loans under revolving credit agreements and \$3.43 billion in unconditional, off-balance sheet joint powers agency take-or-pay obligations as of March 4, 2026 are special obligations of the Department payable only from the Power Revenue Fund. While the Master Resolution provides for a sum-sufficient rate covenant, Board-adopted financial planning criteria conservatively call for establishment of electric rates sufficient to maintain full obligation coverage of 1.70x annual debt service. Power System Revenue Bond debt service coverage was a solid 2.98x in FY 2025 and has increased steadily since FY 2022. However, KBRA anticipates that pro-forma debt service coverage will trend below recent experience as the Department issues a planned \$11.9 billion in debt through 2030 to fund approximately 2/3rds of its \$18.5 billion Power System Capital Improvement Program. Fixed charge coverage, calculated as FY 2025 operating revenue coverage of debt service, purchased power, and transfers to the City from the Power Revenue Fund, at 1.47x, was somewhat improved versus the prior five-year average of about 1.30x. As of FYE June 30, 2025, Power System liquidity balances totaled \$1.86 billion, equivalent to a strong 201 days' cash on hand ("DCOH") based on FY 2025 operating expenditures, and above the Power System's 170 DCOH liquidity target.

Power System revenues, determined through annually adjusted pass-through factors, together with Board-approved increases in the base rate revenue target, are expected to provide continued revenue sufficiency. In June 2025, the Board approved an increase in the incremental base rate revenue target of 0.58% for FY 2026. Residential electric rates, while above the national average and increasing, remain in-line with or lower than the State's residential average on an annualized basis.

While rate flexibility exists, in KBRA's view, given the Power System's solid wealth metrics and the relatively low household electricity usage characteristics of residential users in the service area, the long-term costs associated with transitioning LADWP's power supply to predominantly renewable resources are expected to pressure financial metrics and rate affordability over the next decade. These pressures are heightened by LADWP's other capital-intensive priorities, including infrastructure replacement, enterprise risk management, and emergency preparedness. Under LADWP-modeled scenarios, the net present value of the estimated cumulative bulk power portfolio cost to achieve 100% carbon-free energy by 2035—over the 2022–2045 study horizon—exceeds \$80 billion, inclusive of both fixed capital and variable operations and maintenance costs. The estimated average annual rate impact to achieve the 2035 carbon-free target ranges from 7.7% to 8.3%, excluding potential cost savings from alternative funding sources. LADWP expects to release an updated long-term strategic Power System plan, renamed the LA100 Plan, in 2026.

The Department has experienced persistent turnover in senior leadership for more than a decade. Most recently, General Manager and Chief Executive Officer/Chief Engineer Janisse Quiñones—confirmed by the City Council in May 2024—announced her resignation effective March 27, 2026, after less than two years in the role. Ms. Quiñones, an experienced utility executive, will become CEO of the power company serving Puerto Rico. In the interim, the Power System continues to be led operationally by a Senior Assistant General Manager.

The Stable Outlook reflects our expectation of ongoing cost recovery through regular and timely rate increases which allow for sound debt service coverage and stable financial metrics as outstanding indebtedness increases. We will



continue to monitor the status of wildfire litigation and the impact of the LA100 Plan on long-term leverage and rate affordability.

Key Credit Considerations

The rating was assigned because of the following key credit considerations:

Credit Positives

- Diverse generation mix provides ample net dependable capacity versus peak demand and minimizes exposure to energy cost volatility.
- Current electricity rates, while well above the national average, remain affordable relative to other California utilities, allowing a degree of rate flexibility.
- The rate structure incorporates several pass-through adjustments that effectively decouple revenue generation from changes in customer demand.
- Sound liquidity helps to offset enterprise risks.

Credit Challenges

- Despite layered insurance, wildfire self-insurance, a wildfire index cat bond and Power System liquidity that mitigate near-term cash flow risk, California's inverse condemnation doctrine (strict liability) could result in liabilities exceeding coverage, with hedging costs potentially rising.
- LADWP's ability to maintain rate affordability and strong financial metrics while addressing potential wildfire liabilities and capital-intensive energy transition mandates is an evolving credit challenge.
- KBRA-calculated leverage is very high and expected to grow, given the ambitious, largely bond-funded Power System 2026-2030 CIP.

Rating Sensitivities

For Upgrade

- Demonstrated progress in attaining mandated energy transition targets with minimal adverse rate impact.

For Downgrade

- Potential adverse litigation outcomes relating to the 2025 wildfire or to future wildfires which pressure the Department's ability to meet the related liability.
- Inadequate or delayed rate recovery that causes a decline in debt service coverage to a level approaching Board-adopted targets.

ESG Considerations

KBRA typically analyzes Environmental, Social, and Governance (ESG) factors through the lens of how issuers plan for and manage relevant ESG risks and opportunities. More information on KBRA's approach to ESG risk management in public finance ratings can be found [here](#). Over the medium-term, public finance issuers will likely need to prioritize ESG risk management and disclosure with the likelihood of expansions in ESG-related regulation and rising investor focus on ESG issues.

KBRA analyzes many sector- and issuer-specific ESG issues but our analysis is often anchored around three core topics: climate change, with particular focus on greenhouse gas emissions; stakeholder preferences; and cybersecurity. Under environmental, as the effects of climate change evolve and become more severe, issuers are



increasingly facing an emerging array of challenges and potential opportunities that can influence financial assets, operations, and capital planning. Under social, the effects of stakeholder preferences on ESG issues can impact the demand for an issuer's product and services, the strength of its global reputation and branding, its relationship with employees, consumers, regulators, and lawmakers, and, importantly, its cost of and access to capital. Under governance, as issuers continue to become more reliant on technology, cybersecurity planning and information management are necessary for most issuers, regardless of size and industry.

Environmental Factors

Renewable Portfolio Standards - LADWP's Power System is navigating an increasingly stringent state and local decarbonization framework that has direct implications for long-term resource planning, capital needs, and customer affordability. California's Renewable Portfolio Standard (RPS) requires publicly owned utilities to make reasonable progress toward 44% of retail sales from eligible renewable resources by 12/31/2024, 52% by 12/31/2027, and 60% by 12/31/2030 (with state policy targets extending to 100% clean electricity by 2045). LADWP expects to have satisfied the 2024 RPS requirement, subject to verification by the California Energy Commission, which is expected in late 2026.

Local policy further accelerates the transition. LADWP's LA100 Plan (formerly the Power Strategic Long-Term Resource Plan) is intended to guide the utility's 25-year planning horizon while transitioning to a 100% carbon-free power supply by 2035. LADWP's LA100 Study work (conducted with the U.S. DOE/NREL) concludes that a 100% clean power system is achievable but also highlights that customer participation (e.g., energy efficiency, EVs, distributed solar) is a key enabling condition.

As the Power System moves along this pathway, a central credit consideration is the scale of required capital investment and the related affordability/cost-recovery execution risk. LADWP reports that modeled LA100 scenarios imply approximately \$57 billion to \$87 billion of cumulative new investment through 2045 (depending on scenario, load projection, and target year), underscoring the need for ongoing rate-setting and governance alignment to fund system transformation while maintaining competitiveness and affordability.

From an operational perspective, the Power System has a diverse generation portfolio, with a growing component of Power System-owned renewable resources (including certain certified hydro units, solar installations, and wind). Renewable energy comprised approximately 40% (2023) and 41% (2024) of the total energy mix reflected in the Department's Annual Power Content Label, with wind providing 14% of departmental energy in each of 2023 and 2024 (about one-third of renewable energy in those years).

KBRA views the clean energy transition as a long-term opportunity (potentially reducing emissions exposure and aligning with stakeholder preferences), while noting meaningful execution and cost pressures associated with replacing legacy thermal generation, integrating intermittent resources, and expanding storage/transmission solutions.

Climate Resiliency: Potential Wildfire Liability and California's Inverse Condemnation and Strict Liability Standard - Wildfire represents a material and evolving climate-related risk for California utilities, including public power systems. Under California's inverse condemnation doctrine, courts have imposed liability on utilities where a utility's infrastructure—if determined to be a substantial cause of property damage—can result in liability without a finding of negligence, creating asymmetric tail-risk exposure for transmission and distribution owners. This risk is heightened by increasing fire frequency/severity and continued development in the wildland-urban interface.

LADWP is subject to state requirements for publicly owned utilities to maintain and annually update a Wildfire Mitigation Plan (WMP) and submit updates to the California Wildfire Safety Advisory Board (WSAB/CWSAB). LADWP reports timely submission of its 2024 and 2025 annual updates by the required July 1, 2025 date; the 2025 annual update contains historical data through calendar year 2024 and therefore does not include detailed information specific to the January 2025 wildfires. In addition, LADWP notes that Cal Fire released updated wildfire hazard severity zone maps for Southern California in March 2025, which increased the acreage in the City identified as "very high" hazard severity and added "moderate" and "high" zones; LADWP indicates it will use these updated maps to update its fire threat mapping in future plans. From a stakeholder and regulatory context standpoint, LADWP also publicly



posts its WMP, reflecting a formalized approach to wildfire risk management practices and reporting.

LADWP's wildfire risk transfer and self-insurance structure is an important mitigant given the inverse condemnation framework and the ineligibility of publicly owned utilities for California's IOU wildfire fund. KBRA views these layered mitigants as credit strengths; however, severe event outcomes could still exceed modeled ranges given legal standards, claims severity trends, and the potential for multi-event clustering.

Drought - Drought is a chronic environmental risk for LADWP, primarily through its effect on hydropower generation and broader water system constraints that can indirectly influence power operations and costs. LADWP notes that the Hoover Power Plant output "constantly varies" due to low water levels at Lake Mead resulting from drought conditions. Reduced hydropower availability can increase reliance on purchased power and/or dispatchable thermal generation (with attendant cost and emissions implications), and may require adjustments in resource planning, hedging, and rate design to maintain required coverage levels and reliability. In KBRA's view, LADWP's diversified generation portfolio and procurement flexibility partially mitigate drought-driven hydro variability, but persistent arid conditions in the Southwest increase the likelihood of higher supply costs and resource adequacy challenges over time, particularly as the system also transitions away from fossil generation and integrates higher levels of intermittent renewables.

Social Factors

Stakeholder preferences materially shape LADWP's strategy, given its role as the City's primary electric utility and the visibility of affordability, equity and decarbonization objectives. LADWP's LA100 planning framework targets a transition to 100% clean energy by 2035, and emphasizes that customer adoption of energy efficiency, electrification, and distributed energy resources is important to achieving its stated goals. LADWP has elevated equity considerations as part of the clean energy transition. An LA100 Equity Strategies study was designed to inform decisions around affordability, energy burdens, access to programs and infrastructure, resilience, and community involvement.

In response to the 2025 wildfires, LADWP implemented customer relief measures in the affected area, including pausing billing for customers whose homes/businesses were damaged or destroyed until June 30, 2026, and suspending collection/disconnections for non-payment until December 31, 2025; the impacted area represented about 0.7% of Power System customer accounts and 0.8% of annual Power System electric sales revenues.

Governance Factors

KBRA assesses LADWP's governance framework through its oversight structures, transparency practices, and cybersecurity risk management compliance. LADWP is governed by a five-member Board of Water and Power Commissioners appointed by the Mayor and confirmed by the City Council. The Board establishes policy and approves major decisions including rates, capital plans, and strategic initiatives, and meets regularly with agendas publicly posted in advance, supporting formal oversight and accountability. The Department participates in enhanced performance reporting developed jointly with the Mayor, City Council, Board, and Office of Public Accountability, including semi-annual Rates Metrics Reports and other performance benchmarks intended to improve transparency and track progress on operational goals such as reliability, cost competitiveness, and responsiveness. On cybersecurity governance, LADWP maintains a compliance program aligned with North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection (CIP) standards, including documented supply chain cyber security risk management policies (CIP-013). The Department's plan incorporates documented vendor risk assessment processes and periodic review consistent with CIP-013 requirements, reflecting integration of industry best practices into procurement and risk mitigation. Despite these structures, cyber governance and broader risk management remain ongoing areas of focus given evolving threats and the need to maintain robust controls, continuous monitoring, and incident response preparedness across information systems that underpin critical utility operations.

To access ratings and relevant documents, click [here](#).



Methodologies

- [Public Finance: U.S. Municipal Retail Utility Revenue Bond Rating Methodology](#)
- [ESG Global Rating Methodology](#)

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Disclosures

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Information on the meaning of each rating category can be located [here](#).

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