

MOODY'S

RATINGS

Rating Action: Moody's Ratings assigns Aa3 to LADWP's (CA) Power System Revenue Bonds, 2026 Series A; outlook stable

18 Mar 2026

New York, March 18, 2026 -- Moody's Ratings (Moody's) has assigned a Aa3 rating to the City of Los Angeles Department of Water and Power, CA (LADWP or the utility) Power System's proposed \$400 million Power System Revenue Bonds, 2026 Series A. The rating outlook is stable. We maintain Aa3 ratings on LADWP's outstanding power system revenue bonds.

RATINGS RATIONALE

The Aa3 rating reflects key fundamental credit strengths of the power system, including self-regulation and monopolistic provision of essential electricity to a sizeable and diverse customer base in the City of Los Angeles. The rating also incorporates the utility's ownership and stewardship of a transmission network that represents about 25% of the state's electric transmission grid as well as a share of transmission throughout the western US.

Despite an expected leadership transition, the rating is supported by the utility's strong and experienced management team that has demonstrated an ability to navigate the complexities of transitioning its power supply resources while addressing maintaining healthy financial metrics. LADWP power system's current rates are competitive with regional utilities, both public and investor owned, but may start to outpace those if it expects to maintain fixed charge coverage and liquidity metrics at currently strong levels; at the end of fiscal 2025, the power system delivered 2.07x fixed charge coverage and held the equivalent of 197 days cash on hand, both on our adjusted basis. As overall electrification continues to increase, rate and bill affordability are expected to become limiting factors to revenue growth, particularly during periods when customers face elevated unemployment or other meaningful cost pressures, such as with housing.

The power system's capital improvement program (CIP) is substantial and has grown in recent years, incorporating efforts by the city to rapidly achieve its renewable/zero-carbon energy targets by 2035, as well as to improve overall system reliability and resilience. The power system's current five-year CIP exceeds \$18.5 billion and represents a 29.7% increase over the prior plan iteration and includes \$11.9 billion in additional debt. Although historical trends would suggest actual capital expenditures would be somewhere between half to two-thirds of planned spending, this would still represent a meaningful acceleration over prior programs.

Additionally, the rating takes into consideration substantial contingent liabilities associated with the Palisades Fire in January 2025. Although criminal investigations led by the Bureau of Alcohol, Tobacco, Firearms and Explosives concluded the Palisades Fire and the preceding Lachman Fire were not caused by LADWP equipment, civil lawsuits against the City of Los Angeles, including LADWP's power and water systems, are proceeding. The outcome of civil litigation is not expected to be known for some time, but adds significant uncertainty to the power system's longer-term financial profile.

RATING OUTLOOK

The stable outlook reflects our view that LADWP's power system will be able to maintain sound - if possibly lower - financial metrics as operating and capital expenditures rise. Additionally, the stable outlook incorporates our assessment that the power system could absorb substantial additional debt for capital or other contingent liabilities and associated rate increases while maintaining healthy financial metrics that are appropriate at this rating level.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- A substantial reduction in the expected size of the power system's capital program and/or contingent liabilities associated with the Palisades Fire
- Sustained improvements in the power system's financial metrics, including higher fixed charge coverage and liquidity or lower financial leverage
- An upgrade of the issuer rating of the City of Los Angeles

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Debt or other liabilities from capital improvements or wildfire-related settlements that far exceed our expectations
- A substantial weakening of the power system's financial metrics, including fixed charged coverage below 1.5x and days cash on hand below 150
- Lack of support for or insufficient rate increases that do not adequately increase revenues to keep pace with rising operating and debt service costs
- A downgrade of the issuer rating of the City of Los Angeles

PROFILE

LADWP is the nation's largest municipal electric utility that operates with self-regulated cost recovery. LADWP provides electric service to about 3.8 million residents in a 473 square mile service area, making it the third largest California electric utility in terms of customer demand. LADWP does not have dominant customers as its top 10 customers represent about 10% of total revenues. The utility has a major generation and transmission presence in the western region with net dependable generating capacity of 7,397 MW and ownership of 25% of the state's transmission assets.

METHODOLOGY

The principal methodology used in this rating was US Public Power Electric Utilities with Generation Ownership Exposure published in January 2023 and available at <https://ratings.moodys.com/rmc-documents/398041>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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William Oh
Lead Analyst

Rachel Cortez
Additional Contact

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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