

RatingsDirect®

Summary:

**Los Angeles Department of Water and
Power, California
Southern California Public Power
Authority; Retail Electric;
Water/Sewer; Wholesale Electric**

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Credit Profile

Los Angeles Dept of Wtr & Pwr Elec <i>Long Term Rating</i>	A/Watch Neg	Downgraded, On CreditWatch Negative
Los Angeles Department of Water & Power pwr sys var rate dem bnds ser 2002 A1-8 <i>Long Term Rating</i>	A/A-1/Watch Neg	Downgraded, On CreditWatch Negative
Los Angeles Department of Water & Power pwr sys var rate dem bnds ser 2002 A1-8 <i>Long Term Rating</i>	A/A-1/Watch Neg	Downgraded, On CreditWatch Negative
Los Angeles Dept of Wtr & Pwr pwr sys VRDB ser 2001B 1 <i>Long Term Rating</i>	A/A-1/Watch Neg	Downgraded, On CreditWatch Negative

Credit Highlights

- S&P Global Ratings lowered its long-term and underlying ratings on the Los Angeles Department of Water and Power's (LADWP, or the department) power system revenue bonds outstanding by two notches to 'A' from 'AA-' and placed the ratings on CreditWatch with negative implications.
- S&P Global Ratings also lowered its long-term and underlying rating (SPUR) on LADWP's water system revenue bonds outstanding by two notches to 'AA-' from 'AA+' and placed the ratings on CreditWatch with negative implications.
- The downgrade on the power system's bonds reflects our view that, although the utility's infrastructure has so far not been implicated as the cause of the ongoing wildfires, the increasing frequency and severity of highly destructive wildfires within LADWP's service territory and recent spread into more urban areas highlights the utility's potential vulnerability to financial liability claims that could eclipse its liquidity and insurance coverage. This has led us to reassess the adequacy of the utility's reserves and insurance coverage at the current rating level. Furthermore, should substantial legal or financial liabilities arise, the power system will likely have to significantly raise rates to cover those costs, which could reduce affordability.
- The downgrade on the water system's bonds reflects our view of heightened potential for litigation, liabilities, and future costs surrounding the adequacy of existing water system assets and emergency preparedness during the ongoing wildfires. As with the power system, we believe these water system exposures have led us to reassess the adequacy of water system liquidity that can act as a resource or buffer for these potential liabilities and costs. The lowered rating also reflects potential contagion from power system risks in a stress scenario, including possible

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pressure to maintain low water rates if the power system is required to materially raise rates to fund wildfire liability claims or other rising costs, including energy transition costs.

Related rating actions for the power system include:

- We lowered our long-term rating on Southern California Public Power Authority's (SCPPA) projects in which LADWP's power system is the sole or dominant participant, including Mead-Adelanto series 2016A bonds (sole), Mead-Phoenix series 2016A bonds (sole), Apex Power Project (sole), Milford Wind Corridor Phase I Project (dominant), and Southern Transmission Project (dominant), to 'A' from 'AA-' and placed the ratings on CreditWatch with negative implications.
- We lowered our dual ratings on LADWP's power system's various variable-rate bonds outstanding, with liquidity facilities (standby bond purchase agreements) by TD Bank N.A., Barclays Bank PLC, and Bank of America N.A., to 'A/A-1' from 'AA-/A-1' and placed the ratings on CreditWatch with negative implications.
- We lowered our dual rating on LADWP's power system's variable-rate bonds outstanding, with a liquidity facility (standby bond purchase agreement) by JPMorgan Chase Bank N.A., to 'A/A-1' from 'AA-/A-1+' and placed the rating on CreditWatch with negative implications.

Related rating actions for the water system include:

- We lowered our dual rating on LADWP's water system's variable-rate bonds outstanding, with a liquidity facility (standby bond purchase agreement) by PNC Bank N.A., to 'AA-/A-1' from 'AA+/A-1' and placed the rating on CreditWatch with negative implications.

Security

Net revenue of LADWP's power system secures the power system bonds, while net revenue of LADWP's water system secures the water system's bonds.

As of fiscal year-end June 30, 2024, the power and water systems had \$11.4 billion and \$6.0 billion in direct bonded debt outstanding, respectively, not including unamortized premiums and discounts. In addition to power system direct debt, the power system is responsible for \$3.0 billion of off-balance-sheet debt attributable to its share of joint projects developed by the Intermountain Power Agency and SCPPA. LADWP treats its share of each of these projects' debt service as an operating expense. In addition to the water system direct debt, state loans total \$748 million.

In terms of SCPPA projects where LADWP's power system is the dominant participant, for SCPPA's Milford Wind Corridor Phase I Project bonds, LADWP's power system has a 92.5% entitlement share of the project and related obligations, and contractual provisions include a 100% step-up obligation by nondefaulting members upon a member default. With regard to SCPPA's Southern Transmission Project bonds, LADWP's power system has a 59.5% entitlement share of the project and related obligations, and contractual provisions include an unlimited step-up obligation by nondefaulting members upon a member default.

Credit overview

Several wildfires sparked in Los Angeles starting on Jan. 7 and spread rapidly due to severe winds, low humidity, and extremely combustible terrain. The affected areas contain a broad range of homes and businesses with a wide range of property values, including some very-high-value real estate, especially in Pacific Palisades where many structures are

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multimillion-dollar homes. The Palisades Fire alone, at over 23,000 acres and just 14% contained at the time of this report, is already the most destructive to ever occur in Los Angeles County or the City of Los Angeles and the third-most destructive in California history, with over 5,000 structures burned, according to the California Department of Forestry and Fire Protection (CAL FIRE). It has also resulted in multiple deaths, according to the Los Angeles County Sheriff. The prospects for near-term containment appear grim, with continued windy conditions forecast through at least Jan. 15, along with difficult terrain, far-traveling embers, and the geographic breadth of the fires, all of which make firefighting progress extremely challenging. Water-supply limitations have also been reported due to demand greatly exceeding typical levels and low water pressure.

Both the power and water systems' liquidity has been sufficient to address historical risks, with the department's internal policy requiring it to maintain no less than 170 days' cash for each of the power and water systems. However, the rating actions reflect a reassessment of the adequacy of the reserves of both systems in light of the operational challenges revealed during the current fires and the likelihood that more frequent and severe wildfires will occur in more urban/densely-populated areas. Previously, wildfires and related damage were more prevalent in the wildland-urban interface area rather than more heavily populated regions, as is occurring with these fires.

In our view, California public power utilities such as LADWP's power system are increasingly vulnerable to financial liability claims from wildfires, given increasing precipitation variability and stronger windstorms. California is unique in that its courts' strict liability "inverse condemnation" doctrine allows for a utility to be held liable for wildfire damage whether or not negligence contributed to the wildfire. These characteristics distinguish public power utilities from other service providers in terms of operational exposures and credit implications. The department's energized overhead power lines and other infrastructure are susceptible to sparking fires during severe weather, particularly wind events such as those of this past week and ongoing. It is important to note that at this time LADWP is not facing any active liability claims in connection with the current fires, including the Palisades Fire. Secondary credit risks stemming from wildfires (including nationally) generally include revenue loss from temporary outages, customer and revenue loss for destroyed properties, capital costs for repairs or system improvements, increasing insurance premiums, and wildfire mitigation costs.

The currently active fires are not the first time that LADWP has faced potential wildfire liability. In 2019, LADWP's infrastructure was implicated as the cause of the 745-acre Getty Wildfire in Brentwood that destroyed 10 homes and damaged another 15. For that fire, the utility's \$177.5 million of available insurance coverage provided more than sufficient coverage of the estimated \$81.3 million of claims, after a deductible.

Currently, LADWP has insurance for wildfire losses, which includes primary self-insurance of \$100.0 million and a secondary layer of \$105.5 million of commercial insurance. Adding to this, the utility has \$232.5 million of available self-insurance funds. However, we believe that the potential claims that might be made for Palisades Fire damage could far exceed the amounts of insurance and self-insurance if liability is assigned to LADWP. Although LADWP has wildfire mitigation practices, the outcome from the Getty Wildfire raises questions as to its sufficiency and ability to avert wildfires. The cause of the Palisades Fire remains indeterminate.

The power system's liquidity and reserves totaled \$1.8 billion, or 191 days' cash, as of fiscal year 2024 ended June 30, not including a \$300 million revolving line of credit that it shares with the water system (with an accordion feature to

expand by as much as an additional \$200 million within 30 days' notice). The water system's liquidity and reserves totaled \$593 million, or 223 days' cash, as of fiscal year 2024 ended June 30 (also not including the \$300 million revolving line of credit that the water system shares with the power system).

S&P Global Ratings continues to monitor the impact of wildfires on all local governments potentially affected by the fires, including the City of Los Angeles (AA/Stable) and Los Angeles County (AAA/Stable). We acknowledge the potential impact that this event could have on a local government's tax base, financial position, and operations. As the full extent of the impact becomes clearer, S&P Global Ratings will incorporate any new information in our view of any affected local government's credit quality.

Environmental, social, and governance

Wildfire liability risk for the power system is a credit risk that underscores our current rating actions. For the power system, a substantial amount of department power lines (563 line-miles and a small but meaningful percentage of the department's total overhead lines in its service territory) and more than 158,000 customer meters are located in elevated or extreme fire threat zones. According to the department's 2024 Wildfire Mitigation Plan, LADWP has determined that the potential benefits that could result from pre-emptive de-energization of overhead power lines during threatening conditions does not outweigh the potential adverse impact on customer health, safety, and quality of life. We view this as a credit risk given LADWP's aforementioned exposures in high-risk zones. Wildfire mitigation practices include vegetation management and strong collaboration with fire and emergency services, partly offsetting LADWP's wildfire liability risks. However, management's reluctance to use pre-emptive public safety power shutoffs diminishes the protective qualities of the aforementioned measures.

LADWP's power system is also exposed to the region's frequent droughts and windstorms. As of this report, precipitation has been negligible since May 2024 after a wetter-than-normal prior rainy season. This allowed vegetation to flourish, only to die out and fuel these wildfires. The power system also has exposure to extreme heat, including a heat wave in September 2024 with temperatures exceeding 100 F that caused certain transformers, substations, and feeders to be overloaded, leading to outages for about 146,000 customers. The department has plans to increase substation capacity over the next few years to prevent a recurrence.

The power system's exposure to potential future costs related to carbon emissions remains meaningful, with coal representing 10% of total resources on an energy (megawatt-hour) basis and natural gas representing 32% in calendar 2023, although its coal exposure will cease by 2025 and its natural gas exposure will likely decline gradually, in line with LADWP's goal of being carbon-free by 2035.

We believe the water system faces exposure to various climate hazards due to its location in Southern California, given the region's drought cycle and exposure to emerging contaminants, wildfire, and seismic events. Nevertheless, in our view, these risks are generally manageable by LADWP's water system in the near term because of its prudent drought management practices, including a track record of reducing per capita water usage and focus on water supply diversification projects, but also because of its decoupled rate structure. Based on the department's water quality data and test results for per- and polyfluoroalkyl substances (PFAS), the department does not expect the EPA's recently announced PFAS regulations to significantly influence its water treatment or distribution systems, which we consider credit supportive.

Social capital risks are also elevated, in our view. While power rates, measured on a weighted-average basis by customer class, are 8.5% below the state average (2023) and city median household effective buying income is 2.0% above the national average, suggesting good competitiveness, residential rates increased by an annual average of 4.0% between fiscal years 2018 and 2023, constraining affordability, given the department's large capital plan. Moreover, relative competitiveness reflects the state's investor-owned utilities' substantial rate increases, indicating that relative competitiveness and affordability are not synonymous. Water rates have also been subject to moderate increases. Also, during the peak of the pandemic, the department deferred disconnects for nonpayment, causing both receivables and allowances for doubtful accounts to increase.

We continue to monitor the strength and stability of utilities' revenue streams for evidence of delinquent payments or other revenue erosion. Along with a rate of inflation, as measured by the Consumer Price Index (CPI), that has persisted above 2% for longer than expected, Bureau of Labor Statistics data shows that the trailing 12 months' electricity price inflation continued to outpace the broader CPI by an average of 140 basis points during January-November 2024. Increases in delinquency rates and debt balances among household, credit card, and auto loan debt, along with household savings rates that are tracking below pre-pandemic levels, compound the financial pressures utility consumers face as utilities invest in the hardening of existing assets to withstand more frequent and severe climate events. Potentially exacerbating issues of energy and water affordability are weakening GDP, as forecast by S&P Global Market Intelligence, and the uncertainty surrounding whether and when the president-elect will implement economic initiatives proposed as a candidate, including imposing tariffs. The potential for the president-elect's proposals to add to inflation and weaken GDP growth could add to the economic headwinds facing utility customers, potentially negatively influencing their capacity to make timely utility bill payments. (See "Economic Outlook U.S. Q1 2025: Steady Growth, Significant Policy Uncertainty," published Nov. 26, 2024, on RatingsDirect.)

Notwithstanding our comments regarding de-energization policies, we believe governance factors are neutral in our analysis, but we will continue to evaluate the sufficiency of preventative measures as more information about the fires, in particular the cause and response capabilities, becomes available. Overall, we view the senior management team as highly experienced and tenured, with robust, formalized financial policies, including investment, reserve, and transfer policies, and sophisticated long-range financial and capital planning. Management also has robust cyber security protocols and practices in place and maintains a cyber insurance policy.

CreditWatch

Our ratings on LADWP's power system face further and significant downward pressure. The CreditWatch placement with negative implications for the power system bonds reflects our view that, over the next 90 days, there is a one-in-two chance that we could lower our ratings on the power system further, potentially by multiple notches, if utility infrastructure is identified as the source of ignitions or if there is significant additional damage and customer dislocation. Given that these fires spread into more densely populated urban areas, we will be further refining our view of wildfire risks faced by urban systems, including LADWP's. Should we determine the utility is not positioned to mitigate increased risks, we could lower the rating further. The outcome of the investigations into the cause of the Palisades Fire will not only inform the removal of the CreditWatch, but also our assessment of the exposure of the

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utility to future wildfire events.

The CreditWatch placement with negative implications for the water system bonds reflects our view that, over the next 90 days, there is a one-in-two chance that we could lower our ratings on the water system further if, in our view, the utility's management of its operational preparedness is determined to have been deficient, if we believe contagion risks with the power system have increased materially, or if measures required to make system improvements will impair financial metrics and/or rate affordability. We could remove the water system ratings from CreditWatch if our view of the water system's operational preparedness is not worsened based on additional information learned from management concerning the recent active fires, if we believe contagion risks with the power system have eased, and if we believe financial metrics and rate affordability will remain strong.

Table 1

Los Angeles Department of Water and Power, California—Power system operating and financial data			
	--Fiscal year ended June 30--		
	2024	2023	2022
Operational metrics			
Electric customer accounts	1,588,000	1,575,000	1,565,000
% of electric retail revenues from residential customers	36	37	38
Top 10 electric customers' revenues as % of total electric operating revenue	10	9	9
Service area median household effective buying income as % of U.S.	N.A.	102	103
Weighted average retail electric rate as % of state	92	97	97
Financial metrics			
Gross revenues (\$000s)	5,228,478	5,372,347	4,595,242
Total operating expenses less depreciation and amortization (\$000s)	3,492,837	3,686,688	3,293,326
Debt service (\$000s)	750,314	708,133	667,165
Debt service coverage (x)	2.3	2.4	2.0
Fixed-charge coverage (x)	2.0	2.0	1.6
Total available liquidity (\$000s)*	1,826,481	2,165,618	2,237,820
Days' liquidity	191	214	248
Total on-balance-sheet debt (\$000s)	12,734,405	12,446,078	12,327,424
Debt-to-capitalization (%)	63	64	66

*Total available liquidity includes available committed credit line balances, where applicable. Debt service coverage--Revenues minus expenses divided by debt service. Fixed-charge coverage--Sum of revenues minus expenses minus total net transfers out plus capacity payments (or their proxy), divided by the sum of debt service plus capacity payments (or their proxy). N.A.--Not available.

Summary: Los Angeles Department of Water and Power, California Southern California Public Power Authority; Retail Electric; Water/Sewer; Wholesale Electric

Table 2

Los Angeles Department of Water and Power, California—Economic data and water system operating and financial data

	Most recent	Fiscal year-end		
		2024	2023	2022
Economic data				
MHHEBI of the service area as % of the U.S.	102.0			
Unemployment rate (%)	6.2			
Poverty rate (%)	13.9			
Water rate (6,000 gallons or actual) (\$)	88.0			
Sewer rate (6,000 gallons or actual) (\$)	0.0			
Annual utility bill as % of MHHEBI	1.6			
Operational management assessment	Good			
Financial data				
Total operating revenues (\$000s)		1,635,533	1,661,278	1,606,678
Total operating expenses less depreciation (\$000s)		972,546	1,007,231	981,543
Net revenues available for debt service (\$000s)		711,691	673,844	617,011
Debt service (\$000s)		434,240	396,031	356,845
S&P Global Ratings-adjusted all-in DSC (x)		1.6	1.6	1.6
Unrestricted cash (\$000s)		593,025	525,032	635,048
Days' cash of operating expenses		223	190	236
Total on-balance-sheet debt (\$000s)		7,454,235	7,281,544	6,816,515
Debt-to-capitalization ratio (%)		61.4	63.3	63.5
Financial management assessment	Strong	--	--	--

Note: Most recent economic data available from our vendors. MHHEBI--Median household effective buying income. DSC--Debt service coverage.

Related Research

- Edison International And Subsidiary Southern California Edison Actively Monitored Amid Wildfire-Related Incident Reports, Jan. 13, 2025
- As Los Angeles Wildfires Burn, Credit Implications For U.S. Public Finance Issuers Are Unclear, Jan. 9, 2025
- Los Angeles Department of Water and Power, Dec. 26, 2024
- Los Angeles Department of Water and Power, Nov. 4, 2024

Ratings Detail (As Of January 14, 2025)

Los Angeles Department of Water & Power pwr sys variable rate demand rev bnds		
<i>Long Term Rating</i>	A/A-1/Watch Neg	Downgraded, On CreditWatch Negative

Summary: Los Angeles Department of Water and Power, California Southern California Public Power Authority; Retail Electric; Water/Sewer; Wholesale Electric

Ratings Detail (As Of January 14, 2025) (cont.)

Los Angeles Department of Water & Power pwr sys variable rate demand rev bnds ser 2023C-2 due 07/01/2055		
<i>Long Term Rating</i>	A/A-1/Watch Neg	Downgraded, On CreditWatch Negative
Los Angeles Dept of Wtr & Pwr pwr 2002 A3		
<i>Long Term Rating</i>	A/A-1/Watch Neg	Downgraded, On CreditWatch Negative
Los Angeles Dept of Wtr & Pwr pwr 2002 A5		
<i>Long Term Rating</i>	A/A-1/Watch Neg	Downgraded, On CreditWatch Negative
Los Angeles Dept of Wtr & Pwr pwr 2002 A6		
<i>Long Term Rating</i>	A/A-1/Watch Neg	Downgraded, On CreditWatch Negative
Los Angeles Dept of Wtr & Pwr pwr 2002 A7		
<i>Long Term Rating</i>	A/A-1/Watch Neg	Downgraded, On CreditWatch Negative
Los Angeles Dept of Wtr & Pwr wtr		
<i>Long Term Rating</i>	AA-/Watch Neg	Downgraded, On CreditWatch Negative
Los Angeles Dept of Wtr & Pwr wtr VRDB ser 2001 B-2		
<i>Long Term Rating</i>	AA-/A-1/Watch Neg	Downgraded, On CreditWatch Negative
Los Angeles Dept of Wtr & Pwr wtr VRDB ser 2001 B-3		
<i>Long Term Rating</i>	AA-/A-1/Watch Neg	Downgraded, On CreditWatch Negative
Los Angeles Dept of Wtr & Pwr wtr 2001 B-1		
<i>Long Term Rating</i>	AA-/A-1/Watch Neg	Downgraded, On CreditWatch Negative
Los Angeles Dept of Wtr & Pwr RETELEC		
<i>Long Term Rating</i>	A/A-1/Watch Neg	Downgraded, On CreditWatch Negative
Los Angeles Dept of Wtr & Pwr RETELEC		
<i>Long Term Rating</i>	A/A-1/Watch Neg	Downgraded, On CreditWatch Negative
Southern California Pub Pwr Auth subord (Southern Transmission Proj)		
<i>Long Term Rating</i>	A/Watch Neg	Downgraded, On CreditWatch Negative
Southern California Pub Pwr Auth (Milford Wind Corridor Phase I proj)		
<i>Long Term Rating</i>	A/Watch Neg	Downgraded, On CreditWatch Negative
Southern California Public Power Authority, California		
Los Angeles Department of Water & Power, California		
Southern California Pub Pwr Auth (Los Angeles Dept of Wtr & Pwr) rev bnds (Los Angeles Dept of Wtr & Pwr) (Mead-adelanto Project Authority Interest)		
<i>Long Term Rating</i>	A/Watch Neg	Downgraded, On CreditWatch Negative

Summary: Los Angeles Department of Water and Power, California Southern California Public Power Authority; Retail Electric; Water/Sewer; Wholesale Electric

Ratings Detail (As Of January 14, 2025) (cont.)

Southern California Pub Pwr Auth (Los Angeles Dept of Wtr & Pwr) rev bnds (Los Angeles Dept of Wtr & Pwr) (Mead-phoenix Project Authority Interest)

Long Term Rating

A/Watch Neg

Downgraded, On
CreditWatch Negative

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

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