



# Los Angeles Department of Water & Power – “Picking up pennies (20 basis points) in front of a Steamroller”

February 2026

In January 2025 several wildfires burned in the Los Angeles area resulting in catastrophic destruction and loss of life for which the causes are still under investigation and aftermath yet to be determined. The frequency and scale of wildfires and weather-related incidents have materially increased over the last decade, and continues to do so, thus increasing the risks and potential liabilities for utilities requiring an augmented approach to assessing credit risk. This is especially the case in California where utilities operate under a strict liability standard known as “inverse condemnation” that can potentially lead to a material increase in liability exposure if the utilities’ equipment is implicated in the cause of a fire. This standard was unfortunately illustrated in 2019 with the Pacific Gas & Electric (for-profit utility) bankruptcy as a result of the Camp Fires in 2018[1].

Our investment process is predicated on identifying risks and receiving adequate compensation for that risk. While we do share the view that the Los Angeles Department of Water & Power (and related entities) is a systemically important issuer as the largest municipal utility in the country, with access to liquidity and potential support from the state. We do not, however, have any clarity, nor does anyone else, on the magnitude of their potential liability from the 2025 fires and the resulting impact to their credit rating. Due to insatiable demand for California municipal bonds given the state’s high taxes, many California issuers are issuing bonds that, despite having credit ratings inferior to AAA national rates, are yielding below those of AAA quality, effectively receiving a subsidy from investors. Or stated another way, investors may not be adequately compensated for the increased credit risks they are bearing. Illustrative of this is Los Angeles Department of Water & Power (AA-, Aa2, A) which in December 2024 offered yields on par with national AAA bonds[2] though their credit rating was 5 notches lower. Spreads widened by +50-60 basis points following the wildfires in January 2025 and began on a path lower to +35 by October, and most recently to +20 basis points as a new issue of power revenue bonds were brought to market last month[3].

As investors appear to be willing to accept such nominal compensation for an unknown risk, we ask why? Especially when there are alternatives, in-state and out of state (on an after-state tax basis), that provide comparable or greater yields. Even the rating agencies affirming ratings acknowledge the outcome of litigation pertaining to Los Angeles Department of Water & Power’s culpability in contributing to the progression of the fires and subsequent damage, are an unknown. If found liable, these losses could be quite material for the entity and perhaps damaging to ratings. This could cause potential spread widening given these aforementioned risks do not appear to be adequately factored into current prices.

[1] <https://cdn.ca9.uscourts.gov/datastore/opinions/2022/08/29/21-16043.pdf>

[2] “Los Angeles wildfires bring wider spreads, downgrade for DWP”, The Bond Buyer, January 14, 2025

[3] “Los Angeles DWP pricing gains traction after wildfire”, The Bond Buyer, January 27, 2026