Assembly Utilities and Energy Committee Oversight Hearing

Topic: Historic Growth, Generational Investment, and Utility Investability

October 28, 2026

LADWP Comments

Opening Statement

Hello, I'm Fernando Valero, and I'm here on behalf of the Los Angeles Department of Water and Power, the largest publicly owned utility in the country. Thank you for examining how wildfire risk impacts our ability to invest and keep water and power reliable and affordable.

First, let me say that we agree with a central finding of the SB 254 study: catastrophic wildfire risk is a statewide problem, needing statewide solutions, and the losses it can produce are more than one utility, one city, and its customers can carry on their own.

As a result of this risk, financing LADWP's operations and investments have become increasingly expensive. For context, when we replace a water main, strengthen a power line, or build a substation, we pay for the work up front, and customers pay for that investment over the many years they use it. Bonds let us spread the cost over the life of the equipment, but every dollar of interest is another dollar customers must pay, as we have no shareholders to share that cost.

Our five-year plan includes about $30.5 billion dollars of investment in power and water, of which we expect to borrow about $21 billion dollars and fund the rest from cash and earnings the systems generate over time. Those investments support wildfire mitigation, reliable service, clean energy, and the water network our city depends on.

Public ownership impacts how we raise that money. Investor-owned utilities can borrow and raise money from shareholders, and the Public Utilities Commission sets the financing mix and the returns customers pay through rates. LADWP has no shareholders, so we rely on customer revenues and borrowing, with rates approved locally.

Our bonds can qualify for tax-exempt financing, which helps keep costs down, but that advantage does not protect us from wildfire risk. Nor do we have access to the state Wildfire Fund available to participating investor-owned utilities which rating agencies have noted.

At the same time, we must replace aging infrastructure, prepare for more severe fire conditions, and meet our clean-energy commitments. Insurance is increasingly costly and limited, and customers already face rising bills, because rates must cover the debt service and cash funding for this infrastructure.

In the case of a wildfire, the credit consequences can arrive before responsibility for a fire is established. On January 14, 2025, after the Palisades fire, S&P cut both our Power and Water ratings by two notches, even though its report noted our infrastructure had not been implicated as the cause. That is because of the liability paradigm in California, which was enough for rating agencies to raise concern about our finances.

When lenders see more risk, it creates two issues: 1) they demand more interest, and 2) some become unwilling to lend at all. These risks manifest themselves in increased costs. For example, assuming LADWP's current 5 year capital plan, a 2 letter downgrade of LADWP's credit rating could increase borrowing costs by over $900 million dollars.

These costs ultimately reach households, because cash used for interest is cash potentially not used in other areas of need, such as reliability investments. To preserve the same investment program, we would need more revenue from rates, and that burden falls hardest on people with the least room in their budgets due to the regressive nature of rates. Our residents also fund City services, so financial stress can reach them twice.

Last session we put proposals on the table: clear standards of care for utilities, meaningful liability limits, subrogation reform, and a state-administered wildfire insurance framework or publicly owned utility wildfire fund.

We want victims to receive timely compensation, and we also need to preserve the resilience investment that prevents future harm. A workable solution must do both, and we look forward to helping the State build it along with our partner utilities. Thank you.