ESG In Credit Ratings 2024 In Review

Negative Actions Outnumber Positive 7 to 1

S&P Global Ratings

This report does not constitute a rating action.

By the numbers: ESG-related credit rating actions (2023 versus 2024)

Total ESG-driven credit rating actions, 2023 vs 2024

All credit rating actions: 221 (2023) → 164 (2024)

Positive rating actions: 55 (2023) → 20 (2024)

Negative rating actions: 166 (2023) → 142 (2024)

Positive rating action breakdown

Top factor: 34 (2023) Health and safety → 10 (2024) Risk management, culture, and oversight

Top sector: 44 (2023) Corporates and infrastructure → 8 (2024) Corporates and infrastructure

Top region: 25 (2023) North America → 12 (2024) North America

Negative rating action breakdown

Top factor: 48 (2023) Health and safety → 64 (2024) Risk management, culture, and oversight

Top sector: 79 (2023) U.S Public Finance → 105 (2024) U.S Public Finance

Top region: 148 (2022) North America → 118 (2024) North America

Two 2024 CreditWatch developing rating actions are excluded from the positive and negative totals in the above graphic because they are neither positive nor negative. Source: S&P Global Ratings.

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Key Takeaways

- Credit rating actions related to environmental, social, and governance (ESG) factors fell 26% in 2024 versus 2023, largely due to the significant decline in health and safety actions.
- Rating actions in the corporates and infrastructure sector accounted for the year-over-year decline in ESG-related rating actions, falling to 15% of total actions compared with 37% in 2023. U.S. public finance was the sector with the most ESG-related rating actions, with a total of 111 for 2024 (or 68% of ESG-related rating activity).
- Negative rating actions outweighed positive ones by seven to one, the largest such ratio since 2020. The U.S. public finance sector had the highest number of negative actions.
- Governance factors drove 77% of all ESG-related rating actions in 2024, up from 46% from the prior year. Risk management, culture, and oversight was the largest underlying ESG factor, surpassing health and safety in 2023.

2024 ESG Credit Rating Actions

S&P Global Ratings includes a reference in its credit rating rationales when one or more of the below ESG factors were a key driver behind a change to the credit rating, outlook, or CreditWatch status. We consider ESG credit factors as those ESG factors that can materially influence the creditworthiness of a rated entity or issue and for which we have sufficient visibility and certainty to include in our credit rating analysis. They are not an assessment of an entity's sustainability profile or ESG performance. This newsletter provides additional data and insights on ESG credit factors that have been key drivers behind changes to our credit ratings.

ESG-related rating actions fell 26% last year, to 164 in 2024 from 221 in 2023. The lower number of actions was largely because of the decline in health and safety actions from 85 in 2023 to just one in 2024. Our rating actions related to health and safety predominately stem from COVID-related risks, which receded further in 2024, compared with 2023.

Risk management, culture, and oversight was the top ESG factor in 2024, overtaking the top spot from health and safety-related actions for the first time since S&P Global Ratings began tagging actions in 2020. Risk management, culture, and oversight actions drove 46% of ESG-related rating activity with 75 actions, up by more than 36% from 55 in 2023. More than 85% of last year's risk management, culture, and oversight rating actions were negative.

Nearly three-fourths of these actions came from the U.S. public finance sector and were most prominent among utilities and state and local governments, accounting for 51% and 25% of these rating actions within U.S. public finance, respectively. Public utilities, including not-for-profit water and sewer and public power entities, have combined operating pressures based on infrastructure demands, rate affordability, and high operating costs, in part, stemming from inflation. The confluence of these factors can lead to credit weakness, particularly in the absence of experienced management teams focused on risk management. In addition, risk management is an inherent day-to-day responsibility of state and local governments that ensures the stability of their operations and financial outcomes. When risk management falters or is insufficient, this governance factor can become material in our credit rating analysis and lead to rating and outlook changes.

Rating actions related to transparency and reporting was the second highest-cited ESG factor in 2024, accounting for 16% of ESG-related activity, continuing the trend of the growing share of governance-related factors year-over-year since 2020. Governance-related rating actions accounted for 77% of ESG-related rating activity in 2024, up from 46% in 2023. This compares with just 2% in 2020, and 22% in 2021, when ESG-related rating actions were primarily dominated by COVID-19 related risks.

Despite the reduced overall ESG-related rating activity, rating actions related to environmental factors increased, driven exclusively by physical climate risks. All these actions were negative in 2024, and nearly three quarters were from the U.S. public finance sector. Of the 16 physical climate risk actions in U.S. public finance, 11 came from state and local governments, while the remaining five came from the utilities sector. It's noteworthy to mention that 14 of the 16 (88%) were in October, resulting from October hurricanes in the southeastern U.S.

Meanwhile, there were only four rating actions related to climate transition risks in 2024, down from eight in 2023. These four actions were from the corporates and infrastructure sector and were mixed across geographies and sectors. Risks surrounding the effects of climate change are increasingly evident across the globe, putting unease on global economies and the broader population. While energy transition is advancing, it remains uneven across jurisdictions. Recent policy announcements have also indicated a pull back from sustainability and climate strategies in some regions, with many citing the financial debt burden as the main risk. This will continue to be an area of focus in 2025.

Risk management, culture, and oversight was the top ESG factor in 2024, overtaking the top spot from health and safety-related actions for the first time.

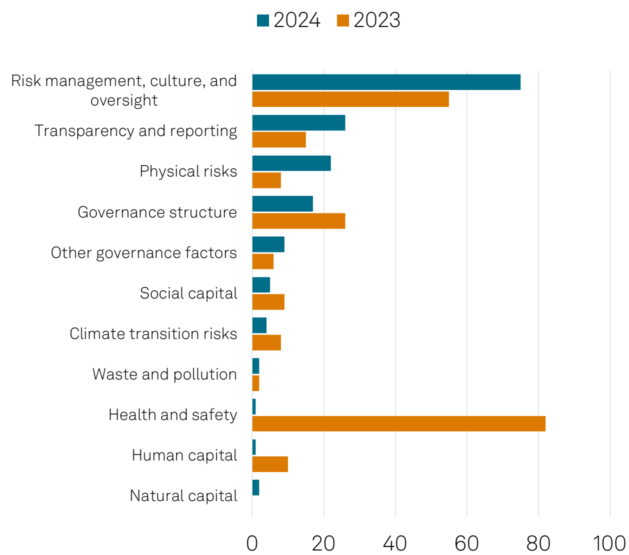
Of last year's risk management, culture, and oversight rating actions, more than 85% of them were negative.

Rating actions related to environmental factors increased in 2024, driven exclusively by physical climate risks. Most of these actions were a result of the hurricanes which hit the southeastern U.S. in October.

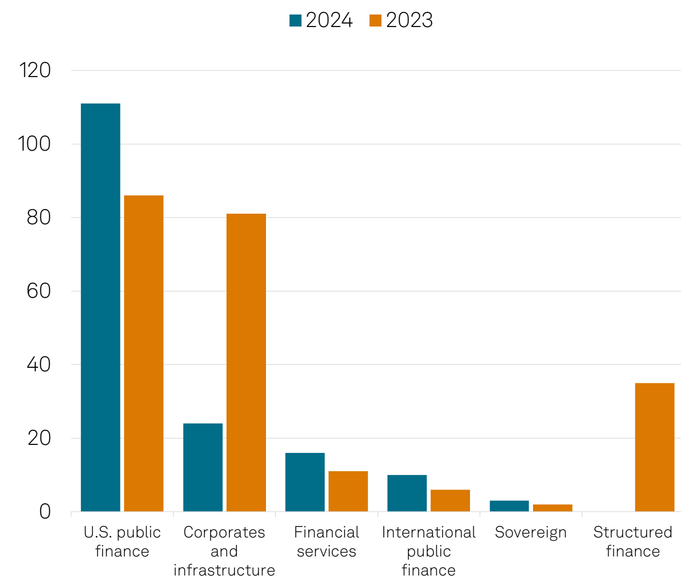
North America maintained the largest number of ESG-related rating actions by region in 2024, at 131, accounting for 80% of ESG-related rating activity. Although this percentage was up from 78% in 2023, the increase was primarily due to the sharp drop in overall global rating actions related to ESG credit factors.

North American ESG-related rating actions were 90% negative in 2024, up slightly from 86% in 2023 and continued to be led by the U.S. public finance sector. All four major regions had higher negative rating actions than positive--in contrast to 2023 when positive actions exceeded negative in Europe and Asia-Pacific. Although we note that regions outside of North America and Europe accounted for just 12% of all ESG-related actions in 2024.

ESG-related rating activity by ESG factor
2024 versus 2023, no. of actions

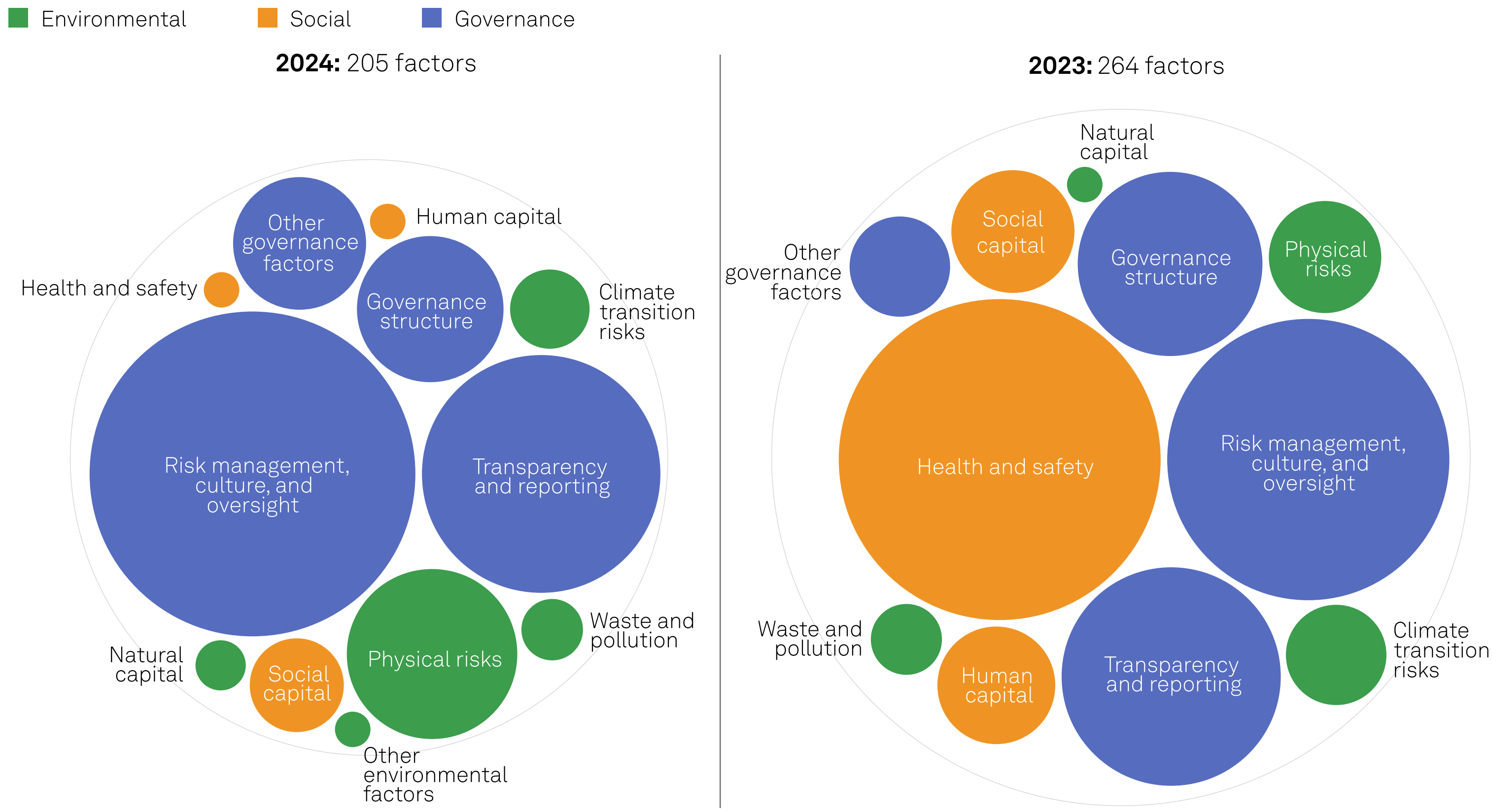


ESG-related rating activity by sector
2024 versus 2023, no. of actions



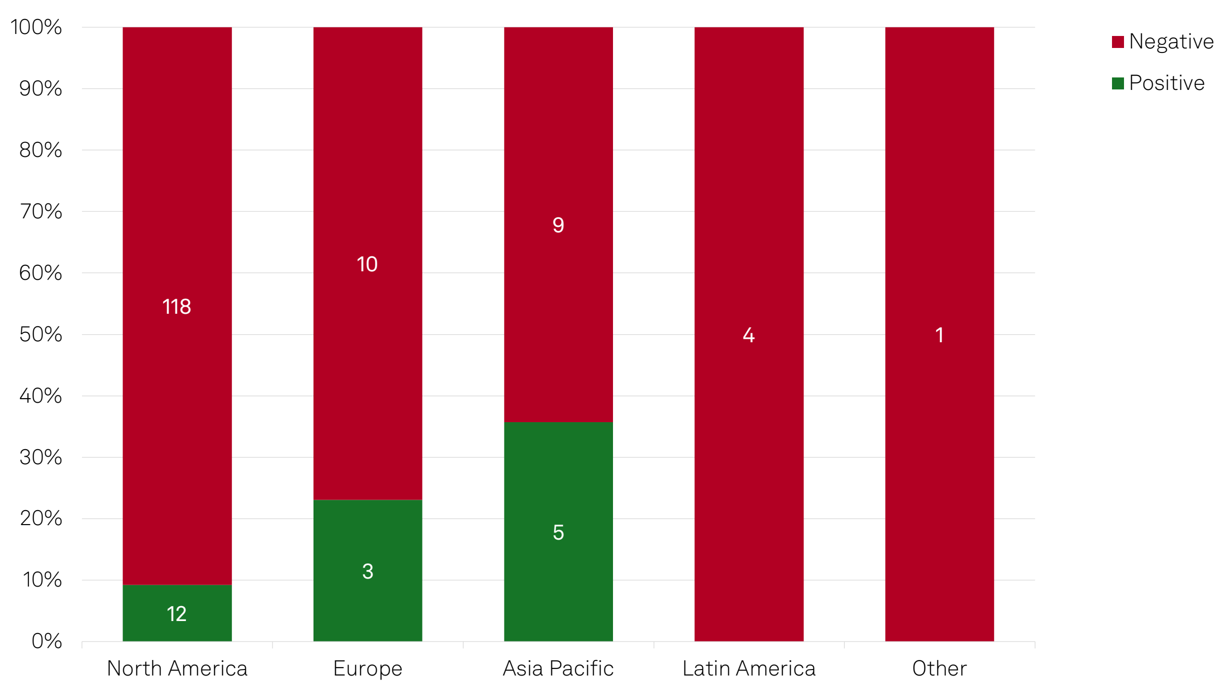
Data reviews rating activity between Jan 1. 2023, and Dec. 31, 2024. The 2023 financial services tally includes one action on a local currency insurance rating. Source: S&P Global Ratings.

Leading factors cited in ESG-related rating actionsAs a proportion of total cited factors (2024 versus 2023)



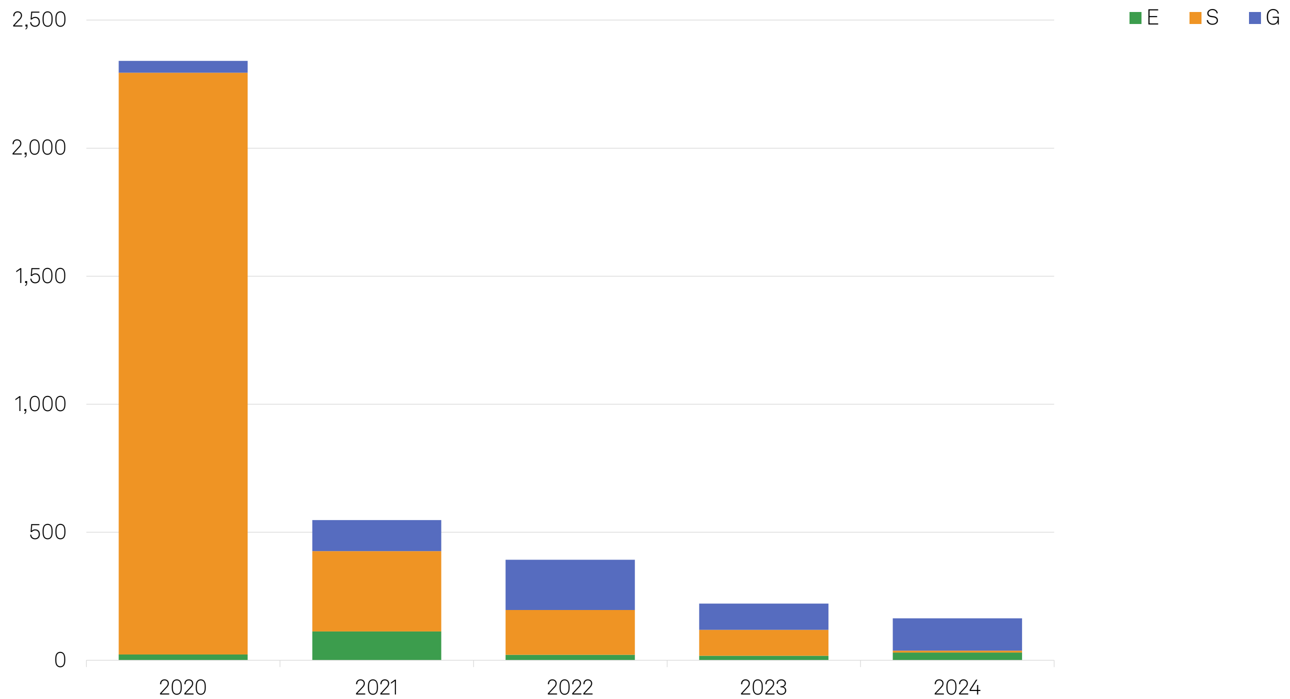
Data as of Dec. 31, 2024. Bubble size is determined by occurrence of factors within the year per chart, irrespective of positive or negative actions. The sum of ESG factors exceeds total ESG-related rating actions because some actions are influenced by multiple factors. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

2024 ESG credit rating actions by region (percentage and count)



Data as of Dec. 31, 2024. Two 2024 CreditWatch developing rating actions are excluded from the positive and negative totals in the above graphic because they are neither positive nor negative. "Other" includes the Middle East and Africa. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

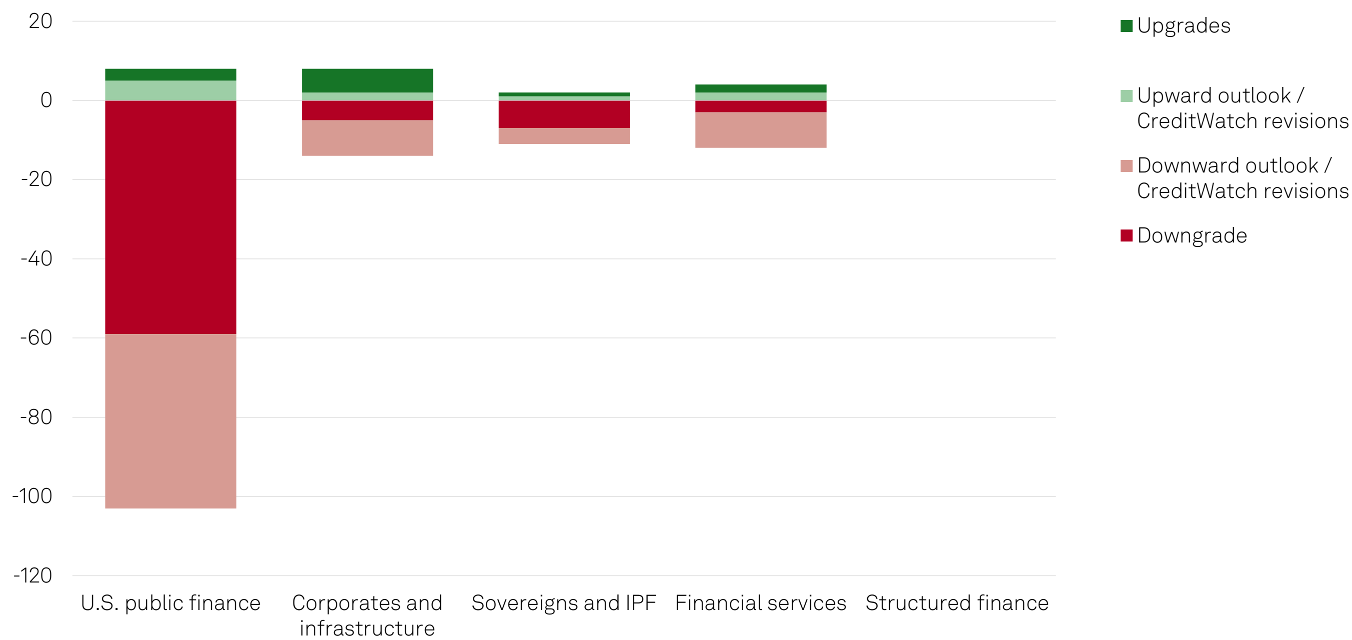
ESG credit rating actions by year



Data as of Dec. 31, 2024. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

2024 ESG-Related Credit Rating Actions

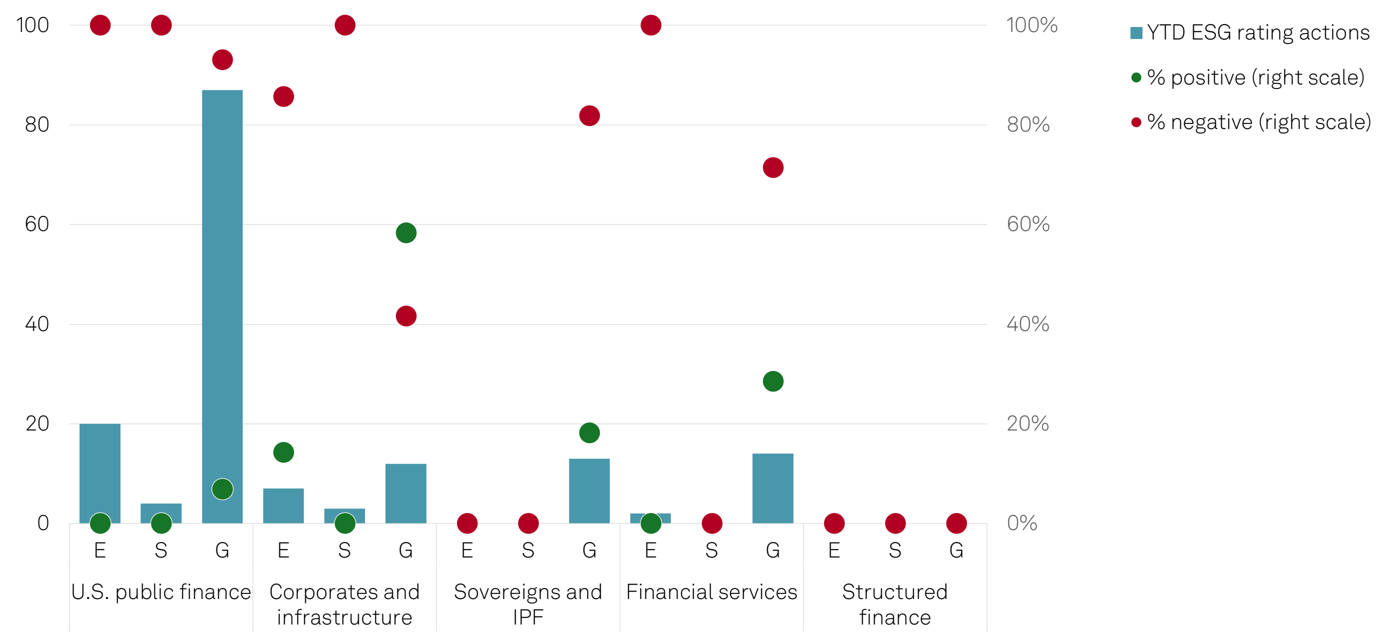
2024 ESG-related credit rating actions by type



Data as of Dec. 31, 2024. Structured finance actions relate to ESG impacts by transaction (tranche), while for other sectors the impact is measured on the issuer credit rating. Upgrades and upward outlook/CreditWatch revisions are shown as positive numbers, while downgrades and downward outlook/CreditWatch revisions are shown as negative numbers. Two corporate CreditWatch developing actions are excluded for purposes of this chart as they can represent either a positive or negative rating action. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

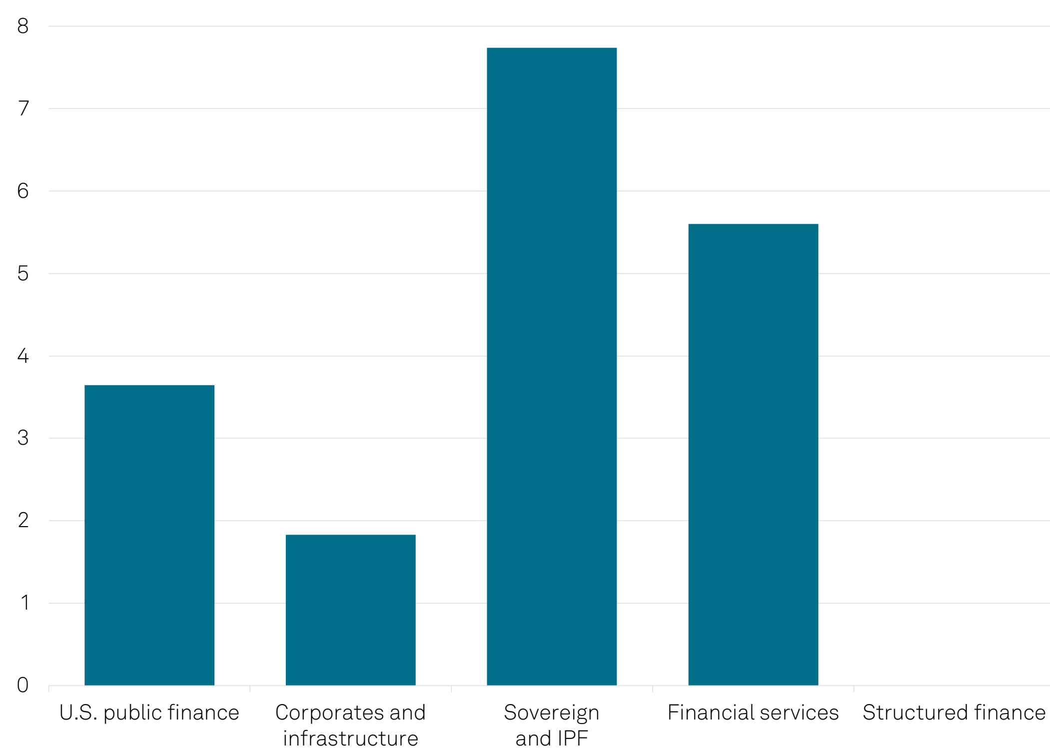
ESG-related credit rating actions by sector and factor

Number of actions and proportion positive/negative



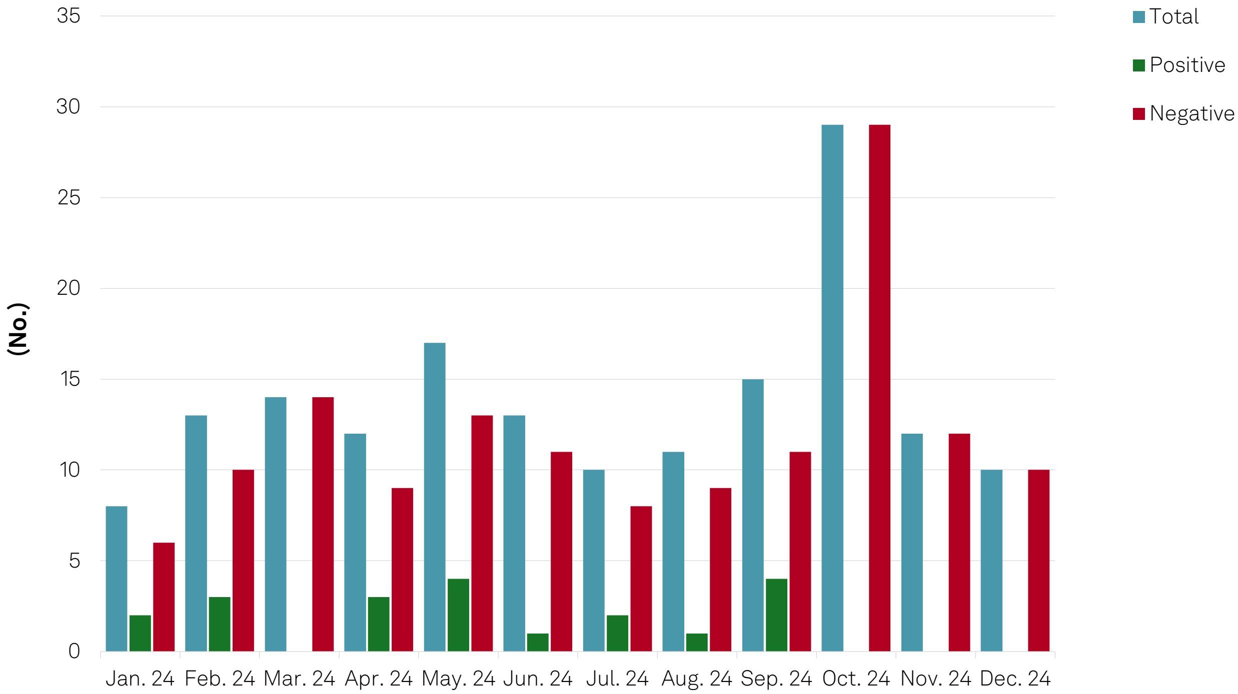
Data as of Dec. 31, 2024. Rating actions include rating, CreditWatch, and outlook changes. Structured finance actions relate to ESG impacts by transaction (tranche), while for other sectors the impact is measured on the issuer credit rating. Excludes CreditWatch developing as it can represent either a positive or negative rating action. ESG--Environmental, social, and governance. IPF--International public finance. YTD--Year-to-date. Source: S&P Global Ratings.

ESG-related credit rating actions (% of total)



Data as of Dec. 31, 2024. Total rating actions exclude affirmations with no outlook change, withdrawals, and new ratings, including instances where multiple rating actions exist. Sovereign and IPF have a much smaller dataset which is contributing to the larger proportion of ESG-related rating activity as a percentage of total for 2024. ESG--Environmental, social, and governance. IPF--International public finance. Source: S&P Global Ratings.

2024 ESG-related credit rating actions by month



Data as of Dec. 31, 2024. Positive actions include upgrades, CreditWatch positive placements, upward outlook revisions, and upgrades with outlook revisions. Negative actions include downgrades, downward outlook revisions, CreditWatch negative placements, and downgrades with outlook revisions. CreditWatch developing actions are counted in the total but not in the positive or negative bars because it can represent either a positive or negative rating action. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

Appendix

ESG-related credit rating actions*

Year-to-date

	U.S. public finance	Corporates and infrastructure	Sovereigns	International public finance	Financial services	Structured finance	Total
Downgrade	59	5	0	7	3	0	74
CreditWatch negative	35	1	0	0	2	0	38
Downward outlook revision	9	8	1	3	7	0	28
Upgrade	3	6	1	0	2	0	12
Upward outlook revision	5	2	1	0	2	0	10
CreditWatch developing or removed from CreditWatch developing	0	2	0	0	0	0	2
Total ESG-related rating actions*	**111**	**24**	**3**	**10**	**16**	**0**	**164**
Environmental§	23	11	0	0	2	0	36
Social§	5	3	0	0	0	0	8
Governance§	108	21	4	10	18	0	161
Total ESG-tagged factors§	**136**	**35**	**4**	**10**	**20**	**0**	**205**

Data as of Dec. 31, 2024. *Rating actions include rating, CreditWatch, and outlook changes between January and December 2024. Structured finance actions relate to ESG impacts by transaction (tranche), while for other sectors the impact is measured on the issuer credit rating. §The sum of ESG factors affecting rating actions may exceed total ESG-related rating actions because some actions are influenced by multiple factors. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

Southern California's Historic Wildfire Destruction Puts Heat On North America Investor-Owned Utilities' Credit Quality

Climate change is an increasing risk for North America's investor-owned utilities because of the growing frequency of devastating physical events, including wildfires. Rising temperatures have dried vegetation and bolstered fuel supply, increasing the environment's susceptibility to rapidly spreading wildfires, with high winds significantly escalating the probability of a catastrophic wildfire. Areas designated as high fire risk have expanded across the U.S., and about 4% of the utility industry has already been named in wildfire-related lawsuits.

Late 2024 wildfires in Massachusetts, New Jersey, New York, and Vermont lead us to believe that risk has spread, potentially affecting nearly every utility across North America. Only about 15 years ago, wildfire risk was primarily limited to Southern California.

During 2023 and 2024, S&P Global Ratings downgraded several investor-owned utilities related to wildfire events, including Hawaiian Electric Industries Inc., Xcel Energy Inc., Southwestern Public Service Co., and PacifiCorp. For many exposed investor-owned utilities, we have already adjusted business risk profiles, negatively adjusted rating modifiers to fine-tune our analyses, and raised downgrade and upgrade thresholds to require more financial strength to support ratings.

The scale of potential liabilities, unpredictable nature of exposure, and frequency of events have materially increased wildfire risk for many utility stakeholders. From a credit standpoint, litigation risk is more problematic than the risk of damage to a utility's infrastructure assets. Wildfire litigation is difficult to predict or quantify and is so far without sufficient mitigation or containment. Also, wildfire-related litigation payments are typically not recoverable in rates or through other regulatory mechanisms, making them more problematic than damages to a utility's assets from a physical event.

Additionally, the magnitude of the recent wildfires across North America has increased the industry's insurance cost and even the availability of insurance, which further pressures the industry's exposure to wildfire risk.

What Comes Next

We expect the industry will develop plans that reduce the likelihood of causing or contributing to a wildfire, minimize litigation risk, and expand capabilities for cost recovery. We note that while these strategies will likely reduce wildfire risk, they certainly will not eliminate it. We also think the industry can implement many of these strategies quickly because most are not predicated on developing new technologies or products.

Because the industry operates in many different service territories and topographies, we expect each utility's mitigation plan will be customized to meet its unique exposure. The chart below details a compilation of wildfire mitigation strategies that have been implemented by many utilities across North America.

North America regulated utilities wildfire mitigation efforts

System hardening

Covered conductors
Insulating materials that cover a utility's wires, reducing the risk of electrical sparks stemming from contact with other objects.

Undergrounding
Burying powerlines essentially to eliminate the risk of sparking, causing, or contributing to a wildfire.

Vegetation management
Putting trees, combustible materials, and other debris a safe distance from a utility's assets.

Situational awareness

Weather stations
Weather data collection that improves the predictive analytics for where and when a wildfire could occur.

High-definition cameras
Specialized cameras and software that monitor and identify potential or pending wildfires.

Public safety power shutoff
Programs allow utilities to proactively de-energize power lines in select areas in advance of severe weather.

Enhanced powerline safety settings
Technology on lines that detect potential hazards, quickly disabling reclosures, automatically shutting off power.

Communications with fire departments and other agencies
Enhancing stakeholder collaboration and communication to improve the response time for extinguishing a wildfire.

Recovery of costs

Insurance
Decreasing wildfire insurance availability, rising insurance costs, and higher deductibles pressure the industry's credit quality.

Self-insurance
An alternative for some West Coast utilities as the cost of insurance becomes increasingly prohibitive.

Liability caps and wildfire funds
Caps would limit third-party payments, and a fund would serve as a credit supportive buffer should a utility be required to make material wildfire-related payments.

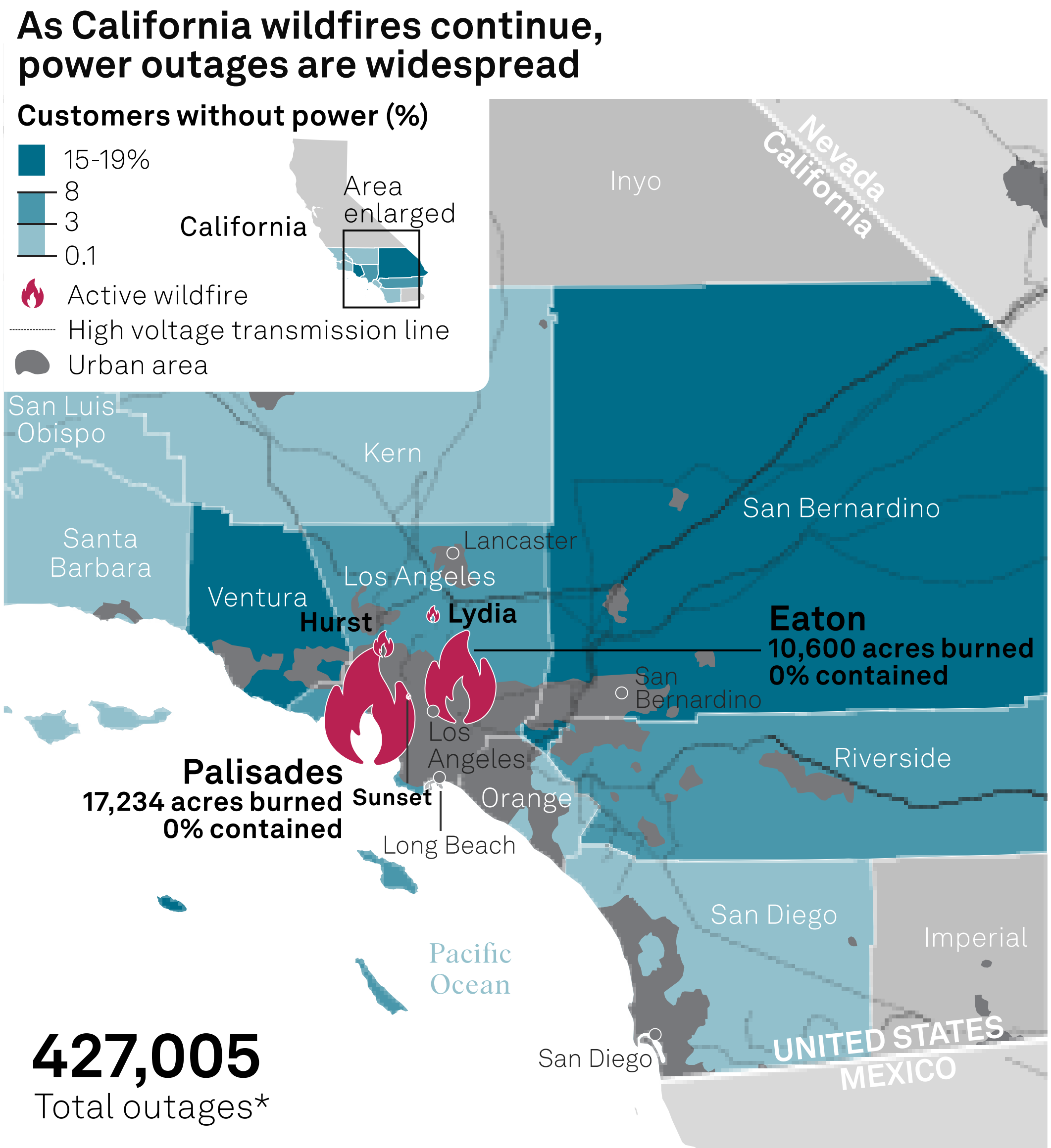
Securitization
Debt is typically secured by a non-bypassable charge on the customer bill and at an interest rate usually lower than a utility independently financing these costs.

Rate payers
Recovering wildfire related costs and payments to third-parties through a regulator-approved rate increase.

Source: S&P Global Ratings.

For more, see "Southern California's Historic Wildfire Destruction Puts Heat On North America Investor-Owned Utilities' Credit Quality," Jan. 15, 2025.

As Los Angeles Wildfires Burn, Credit Implications For U.S. Public Finance Issuers Are Unclear



*Across pictured counties. Data as of Jan. 9, 8AM PT. Source: Cal Fire, poweroutage.us, S&P Global Commodity Insights, S&P Global Ratings.

Why it matters. In our view, credit risk for not-for-profit electric utilities could result from wildfires because of the potential for significant liabilities. California courts' strict liability "inverse condemnation" doctrine allows for a utility to be held liable for wildfire damage whether negligence contributed to the fire or not. Not-for-profit electric utilities' overhead power lines and other infrastructure are susceptible to sparking fires during severe weather, particularly wind events. These characteristics distinguish not-for-profit electric utilities from other service providers in terms of operational exposures and credit implications, although the extent to which the fire's cause significant damage to structures and infrastructure in highly populated areas could also affect taxable values and revenue, as well as expenditures, for other rated public finance entities.

In California, exposure to wildfires is elevated due to the region's frequent droughts and susceptibility to severe winds, and California's wildfire season has evolved into a year-round phenomenon. Los Angeles reported just 0.16 inches of rain since May 6, after a period of wetter-than-normal weather. This allowed vegetation to flourish, only to die out and fuel these wildfires.

What comes next. We continue to monitor the investigations into the causes of this month's wildfires, progress in containing them, damage estimates, power-outage implications, and the resulting financial and operational effects for entities in the area rated by S&P Global Ratings. If investigators determine that not-for-profit electric utilities contributed to ignition, we will assess the adequacy of balance-sheet liquidity and insurance coverage. For affected area issuers that aren't implicated in igniting the fires, we will assess the effects of revenue-stream disruptions on credit quality. We're monitoring the effects and longer-term credit implications for rated issuers across all of U.S. public finance and will continue to assess how the increasing prevalence and severity of wildfire events influence our credit analysis of regional ratings, and how effective resilience and adaptation measures are.

For more, see "As Los Angeles Wildfires Burn, Credit Implications For U.S. Public Finance Issuers Are Unclear," Jan. 9, 2025.

ESG Research Highlights

Sustainable Finance FAQ: The Rise Of Green Equity Designations

Dec. 17, 2024

An emerging opportunity in the ever-evolving sustainable finance ecosystem is green equity designations. These indicate how well aligned a company's business model and financial flows are with a low carbon, climate resilient future. Only a small number of stock exchanges and companies are currently engaged in this area, but interest is rising. S&P Global Ratings sees a strong likelihood that use of this voluntary issuance-transparency mechanism may rise significantly over time, mirroring the trajectory of the green bond market. Shades of Green, now part of S&P Global, has been a reviewer of these designations since the market began in 2021. Here, we answer questions from investors about green equity designations.

Sustainability Insights: Rising Curtailment In China: Power Producers Will Push Past The Pain

Nov. 19, 2024

Curtailment rates may keep rising in China's power sector, depressing utilization rates and margins for renewables operators. These companies will nonetheless keep spending heavily on renewable capacity, in our view, to help China meet its ambitious emission targets. Solutions to curtailment are in the works, including greater investments in transmission and storage. But these will take time to realize.

Sustainability Insights: Hot Spots: Subnational Regions Outside The U.S. Face Rising Physical Climate Risks

Nov 12, 2024

Data and scenario analysis show that almost all subnational regions outside the U.S. could become hotter and drier by 2050, and some may see more frequent extreme flood events. Almost all non-U.S. subnational regions face rising exposure to climate hazards, but the magnitude differs by hazard and region. Without adaptation investments, this could increase credit risks for some governments. Climate data can help inform our analysis, but this alone won't necessarily lead to rating actions. Such data may provide a starting point to help inform discussions with management and our forward-looking credit opinions.

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