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[S&P ESG Brief: Incorporating Climate Transition Risk In U.S. States Credit Ratings]

Key Takeaways

- In our consideration of ‘E’ factors that influence state credit ratings, climate transition risk is most prevalent in states with high fossil fuel production and energy generation, particularly when states draw significant economic or financial resources from these carbon-intensive industries.
- We primarily consider climate transition risks within our credit analysis of a state’s economic and budgetary performance, particularly when considering gross state product composition, number of jobs associated with the energy sector, and revenue collected from severance taxes that fund operations.
- We also consider how states are attracting sectors that are more insulated from transition risk, how states incorporate transition risk into long-term financial and capital planning, and how they enable cross-agency and regional coordination to reduce greenhouse gas emissions.
- States better positioned to absorb transition risk are likely to repurpose revenue derived from carbon-intensive activities to help with workforce retraining. That said, despite efforts to ensure a just transition, there could be a disproportionate effect on individuals who can least afford it, leading to potential social capital risks.

[Continue reading.]

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