

MOODY'S  
INVESTORS SERVICE

Sustainable decisions



# US Utilities and ESG: Presentation to SURFA

September 2020

# Our ESG strategy in focus

Analytical offerings span across Credit, ESG, Sustainable Finance and Climate Risk solutions

## Stand-alone ESG, Sustainable Finance, and Climate Risk solutions

### ESG ANALYTICS



- » Data, scores and tools
- » Serve demand for both 'values' and 'materiality' assessment

### CLIMATE RISK SOLUTIONS



- » Data, models and scores
- » Systematic evaluation of climate change and physical risks

## ESG integration into credit ratings and separate risk management solutions

### CREDIT RATINGS



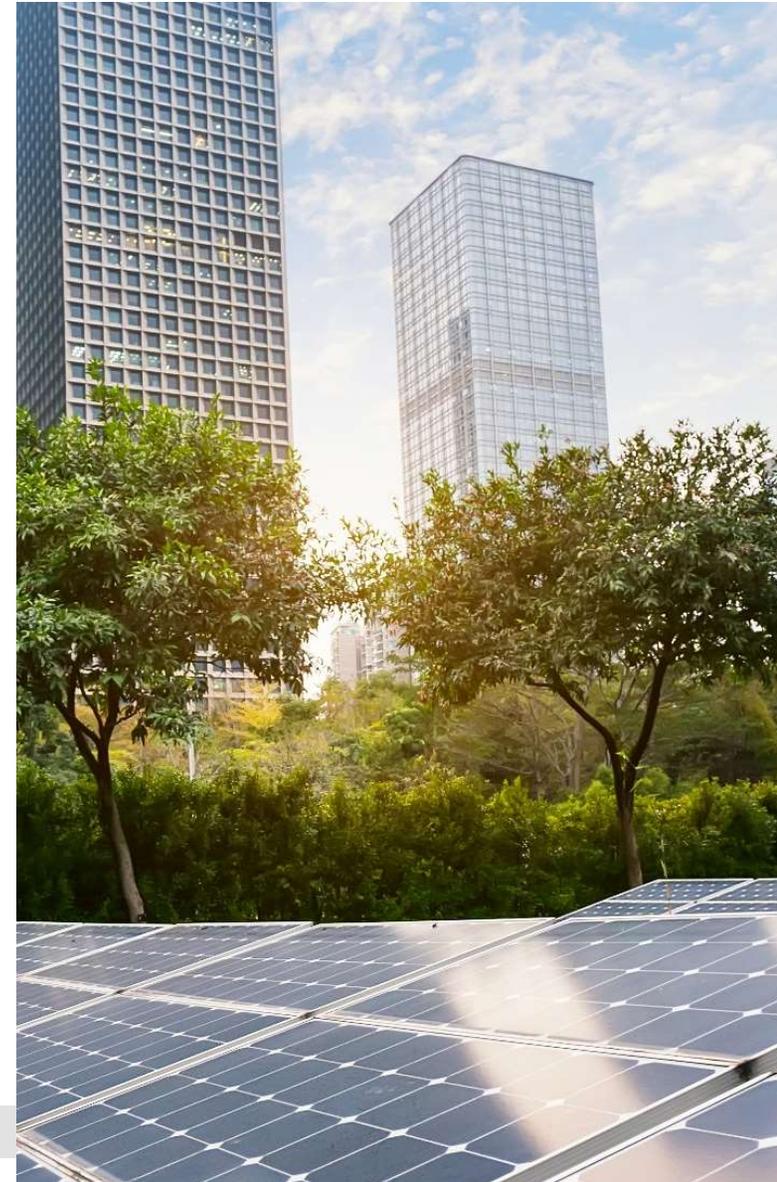
- » Integration of ESG and climate change risk assessment into credit analysis
- » Supporting relevance and credibility of ratings
- » Using own tools, Vigeo Eiris and 427 data and analytics

### RISK MANAGEMENT SOLUTIONS



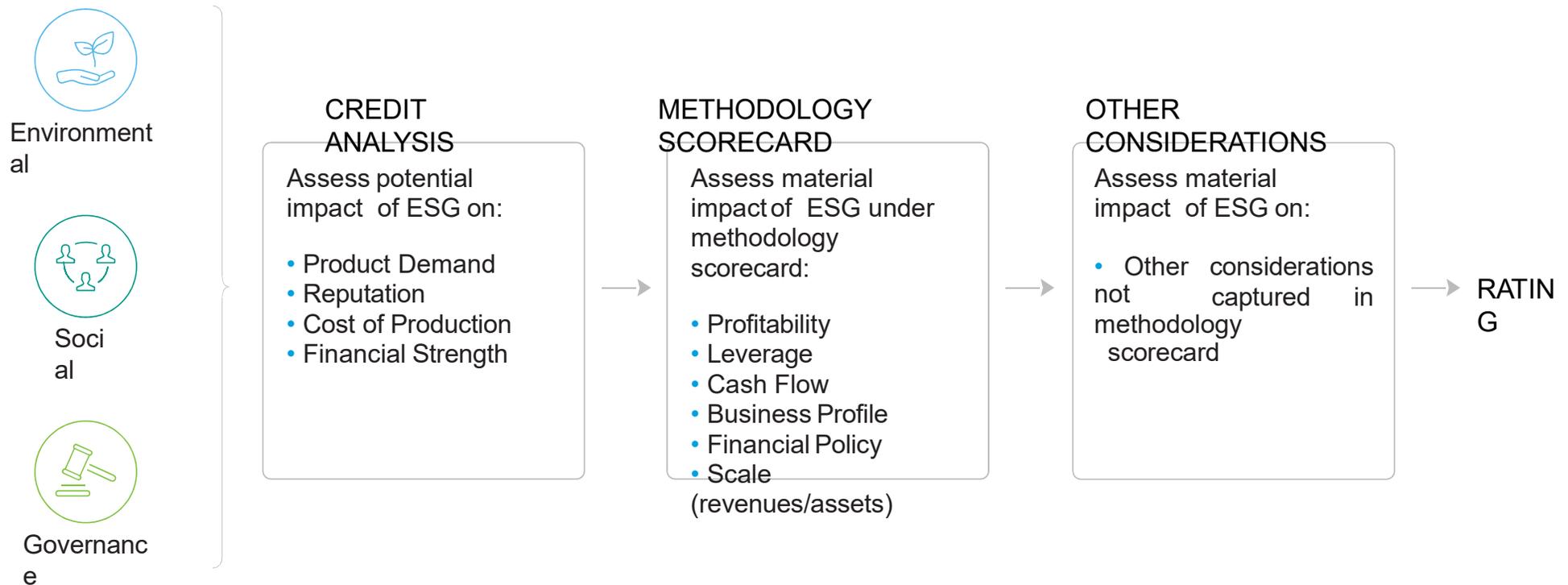
- » Climate change risk modelling and scenarios
- » Green stress testing
- » Integration with credit data and analytics
- » Commercial real estate

Data and Analytics Feed



# Approach to incorporating EGG into ratings unchanged

Example of general approach, applied to private sector entity



# New Methodology will incorporate our credit relevant ESG classification



Categories are the most material to credit, established by analytic working groups



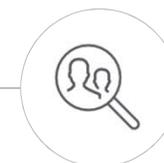
## Environmental

- Carbon Transition
- Physical Climate Risks
- Water Management
- Waste and Pollution
- Natural Capital



## Social

Private sector	Public sector
Consumer relations	Access to basic services
Demographic & societal trends	Demographics
Human capital	Education
Health & safety	Health & safety
Responsible production	Housing
	Labor & income



## Governance

Private sector	Public sector
Board structure, policies & Procedures	Budget management
Compliance & reporting	Institutional structure
Financial strategy & risk management	Policy credibility & effectiveness
Management credibility & track record	Transparency & disclosure
Organization structure	

Source: Moody's Investors Service

# Four components to MIS integration of ESG



## Ratings & Research

How is ESG integrated into credit ratings?

ESG discussed in all rating committees. Greater transparency in PRs and research on ESG materiality to a specific issuer.



## Assessments

How is a specific issuer exposed to ESG risks?

Assessments are issuer-specific scores that provide rank ordering of issuers along a single ESG risk. Either MIS or affiliate scores (427 or VE).



## ESG Classification

What is ESG?

Framework Reports describe credit focused classification of ESG risks.



## Heat Maps

Is ESG material to credit quality?

Heat maps provide relative ranking of various sectors along the E and S taxonomy of risks.



# How are ESG factors incorporated into an issuer's credit rating?

- » Every rating committee memorandum now incorporates an ESG discussion
- » Where deemed material, ESG issues explicitly discussed in credit rating announcements and credit opinion
- » Specialist ESG team can attend rating committees and issuer meetings



# What does the Carbon Transition Assessment provides?



## The CTA provides:

- What are the most material carbon transition factors are for a sector ✓
- How companies perform on each component to identify strengths/weaknesses ✓
- How companies compare against their peers on an objective, consistent basis ✓
- Which companies are more resilient/prepared for a low carbon transition ✓
- Areas that can inform our credit analysis by providing more data or an alternative source ✓

## The CTA is not:

- ✗ An assessment of the quantity or quality of disclosure
- ✗ A credit rating methodology

# Proposed power generation scorecard

4 equally-weighted components (A, B, C and D) to capture risk across time periods



Tailored to the Power sector



Description	Sub-component weight	Component weight
<b>Component A: Current low carbon transition business profile</b>		25%
Fossil-fuel generation weighting – most recent year	12.50%	
Utilization of fossil fuel plants – most recent year	12.50%	
<b>Component B: Exposure to medium term Technology / Policy / Market risk (IEA STEPS)</b>		25%
Policy exposure (Weighted average by market)	8.33%	
Technology risk (Weighted average by market)	8.33%	
Market growth risk (Weighted average by market)	8.33%	
<b>Component C: Medium term response activities</b>		25%
Planned fossil-fuel generation weighting in five years	25%	
<b>Component D: Long term exposure to rapid transition scenario (IEA SDS)</b>		25%
Proportion of capacity closed in ten years	25%	

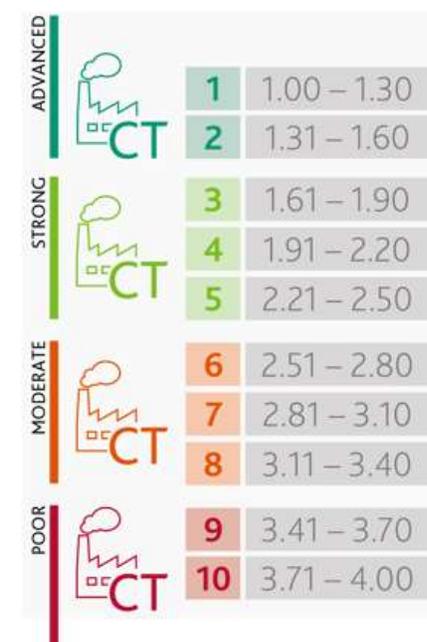
# Scoring non-generation activities of power companies



- » Business related to electricity will score 1.6, ie between low risk/strong mitigation and benefiting from energy transition
- » Gas T&D, retail, and other non-generation segments are borderline strong/moderate performance on carbon transition
- » Services that facilitate efficiency and demand management are aligning with carbon transition and will be scored as 1.6
- » Coal mining and other segments that are highly exposed to carbon transition will receive a 3.4 score
- » Other uncategorized refers to business segments where the nature of the business is unclear

## CTA scores for non-generation operations of power companies

Business segment	Adjustment score
Electric transmission & distribution	1.6
Network electricity	1.6
Gas transmission & distribution	2.5
Retail	2.5
Other low carbon activities	1.6
Other high carbon activities	3.4
Other uncategorized	2.5





# Q&A

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Swami Venkataraman, CFA  
Senior Vice President  
ESG Analytics & Integration  
[Swami.Venkat@moodys.com](mailto:Swami.Venkat@moodys.com)  
+1 (212) 553-7950

moodys.com

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