Eversource Energy

An ex-fossil fuel re-inclusion case study

A frequently overlooked challenge of fossil fuel divestment is the potential to miss out on transition opportunities. Many fossil fuel companies, particularly in the utilities sector, are investing heavily in renewable energy and other sustainable initiatives. By divesting completely, investors might forgo the chance to support and benefit from companies that are actively transitioning toward cleaner energy. A nuanced approach - selectively investing in firms with credible transition strategies - can help balance sustainability goals with financial opportunities.

A strategic shift to renewable energy

Eversource, headquartered in Hartford, Connecticut, and Boston, Massachusetts, is a well-known utility company serving approximately 4 million customers across Connecticut, Massachusetts, and New Hampshire. This case study explores Eversource's historical development, its business model, and its strategic shift towards renewable energy.

Osmosis' proprietary fossil fuel screens

Osmosis has developed exclusionary screens to construct its ex-Fossil Fuel strategies. The main criteria is identifying companies with over 5% of revenue coming from oil & gas related activities (excluding petrochemical applications), along with other criteria looking at oil sands, thermal coal exposure, links to controversial weapons and nuclear power generation. However, the policy explicitly aims to support utility companies that are transitioning away from fossil fuels and are shifting their energy mix. To that purpose, we re-allow companies back in which derive over 50% of their power generation from renewable sources, such as wind, solar and hydro.

Historical Overview

Eversource’s origins date back to the early 20th century, with the establishment of several regional utility companies in New England. Through a series of mergers and acquisitions, these entities consolidated to form Northeast Utilities in 1966. In 2015, Northeast Utilities rebranded as Eversource Energy, unifying its subsidiaries under a single identity to better reflect its commitment to delivering reliable energy and superior customer service.

Business Model

Eversource operates as a regulated utility company, focusing on the transmission and distribution of electricity and natural gas. Its business model encompasses several key components:

1. **Electricity and Natural Gas Distribution**: Eversource delivers electricity and natural gas to residential, commercial, and industrial customers. The company's revenue is primarily derived from regulated rates approved by state utility commissions, ensuring a stable income while providing essential services.

2. **Transmission Infrastructure**: The company invests in high-voltage transmission lines that transport electricity from power generation facilities to local distribution networks. These investments enhance grid reliability and facilitate the integration of diverse energy sources.

3. **Energy Efficiency Programs**: Eversource offers programs aimed at reducing energy consumption, helping customers lower their bills, and decreasing overall demand on the grid. These initiatives align with regulatory mandates and support sustainability goals.

4. **Renewable Energy Initiatives**: Historically, Eversource has invested in renewable energy projects, including offshore wind developments, to diversify its energy portfolio and support regional clean energy objectives.

A Sustainable Transition

Up until the early 2010s Eversource was largely reliant on a mix of natural gas, nuclear power and some coal and oil for its electricity generation. Investments primarily focused on grid reliability and efficiency improvements rather than renewable energy expansion. During the mid-2010s that changed as the company increased investment in renewable energy projects, particularly solar and wind, while phasing out coal. In December 2019 Eversource committed to achieving carbon neutrality in its operations by 2030, and was one of the first US energy companies to do so. Three years later, in

2022, Eversource backed this commitment by joining the Science-Based Targets initiative, aligning its carbon reduction goals with the latest climate science.

By 2018, Eversource had partnered with Orsted, co-developing large-scale wind projects like South Fork Wind and Revolution Wind, while investing in solar, battery storage and EV infrastructure. It has since, through subsidiaries, issued $400 million in green bonds to fund energy efficiency programs and solar power generation.

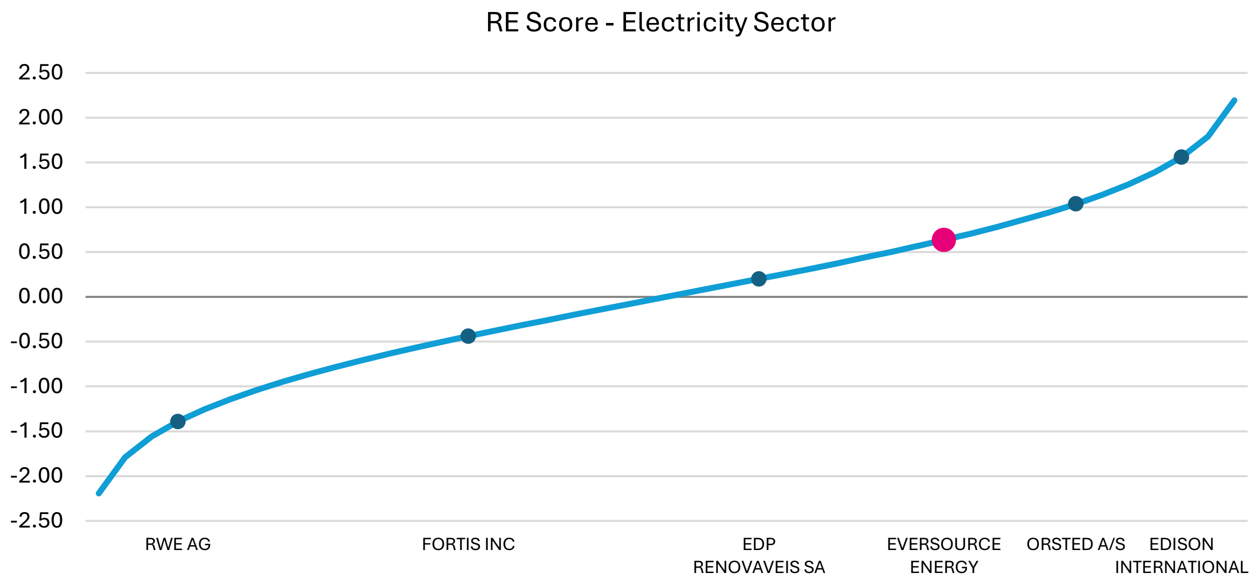
In 2024, Eversource exited the wind sector, selling its assets to Global Infrastructure Partners, and shifting the company's focus back to core regulated utility operations, including grid modernization and energy storage to support customer-owned renewables. It has committed to investing $4.5 billion before the end of the decade in enhancing grid resilience, supporting the integration of renewable energy sources and facilitating the adoption of electric vehicles and heat pumps. The company remains committed to its climate targets and achieving net zero by 2030.

Re-inclusion in the portfolio

The company still generates revenues from fossil fuel based activities, such as distribution of natural gas to customers, adding up to about 16% of total revenue. Following the standard criteria for our ex fossil fuel strategies, the company would be excluded from our portfolios. However, given that all of its electricity is generated from renewable sources, it is a good example of a company that is committed to, and (importantly) has demonstrated, real progress towards the low carbon transition. By considering the re-inclusion of such transitioning companies, Osmosis aims to support and incentivise positive environmental change while adhering to its investment criteria. In this way our clients don't miss out on the long term growth potential of companies that are leading the transition to a more sustainable economy.

The Osmosis Model of Resource Efficiency

Our Model of Resource Efficiency also gives Eversource an overall positive Resource Efficiency score, another criteria to be eligible for re-inclusion. The company's actions give it a high carbon score, however, it sits in the middle of our sector distribution on water consumption and is slightly negative when it comes to waste generation.



Conclusion

Eversource's evolution reflects a dynamic balance between maintaining reliable utility services and adapting to the growing emphasis on renewable energy. While the company's recent divestment from offshore wind projects marks a strategic shift towards focusing on core utility operations, its ongoing initiatives to achieve carbon neutrality and support clean energy infrastructure underscore a continued commitment to sustainability. By considering the re-inclusion of such transitioning companies, Osmosis aims to support and incentivise positive environmental change while adhering to its investment criteria. In this way our clients don't miss out on the long term growth potential of companies that are leading the transition to a more sustainable economy.

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