

**BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
NASHVILLE, TENNESSEE**

IN RE:

PETITION OF ATMOS ENERGY)	
CORPORATION FOR APPROVAL)	
OF A SMARTCHOICE CARBON)	Docket No. 22-<u>00035</u>
OFFSET RIDER)	

**PRE-FILED TESTIMONY OF GARY L. SMITH
ON BEHALF OF ATMOS ENERGY CORPORATION**

I. INTRODUCTION OF WITNESS

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Gary L. Smith. I am Director of Rates and Regulatory Affairs for Atmos Energy Corporation ("Atmos Energy"). My business address is 5420 LBJ Freeway, Dallas, Texas 75240.

Q. PLEASE BRIEFLY DESCRIBE YOUR CURRENT RESPONSIBILITIES, AND PROFESSIONAL AND EDUCATIONAL BACKGROUND.

A. In March 2008, I assumed my current position. In this role, I am responsible for leading and directing the rates and regulatory activities in Atmos Energy's eight-state service area. I am responsible for planning and implementing strategies to assure that the Company's tariffs and services are meeting the goals and balancing the interests of our customers, regulators and shareholders.

Previously, I served briefly as Director of Customer Revenue Management in Dallas. Prior to that, through May 2007, I served as Vice President-Marketing and Regulatory Affairs for the Company's Kentucky/Mid-States operations, where I was responsible for rates and regulatory affairs, as well as for directing the marketing plans and strategies for natural gas utility markets in that division.

I am a 1983 graduate of the University of Kentucky, with a Bachelor of Science degree in Civil Engineering. I have worked for Atmos Energy or its predecessor, Western Kentucky Gas Company, since 1984.

Q. HAVE YOU EVER SUBMITTED TESTIMONY BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION (THE "COMMISSION")?

A. Yes.

Q. HAVE YOU TESTIFIED ON MATTERS BEFORE OTHER STATE REGULATORY COMMISSIONS?

A. Yes, I have testified in dockets involving Atmos Energy before the Kentucky Public Service Commission, the Georgia Public Service Commission, the Missouri Public Service Commission, the Railroad Commission of Texas, the Virginia State Corporation Commission, and the State Corporation Commission of Kansas.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony in this proceeding is to provide an overview of the Company's proposed SmartChoice Carbon Offset ("SCCO") Rider. The SCCO Rider is designed to provide certain customers the voluntary option to offset some or all of the carbon emissions associated with their natural gas usage through the Company's purchase and retirement of Carbon Credits on their behalf.

The Company believes its customers already have made a "smart choice" with regard to their energy options by choosing natural gas. Relative to other current fuel choices, natural gas is affordable, abundant and reliable. Direct use of natural gas in homes and businesses is a very efficient means of providing space heating, water heating and other applications. But, natural gas combustion does produce carbon dioxide ("CO₂"); and for those customers seeking to reduce or offset CO₂ emitted from their natural gas usage, they could do so through the proposed SCCO Rider.

III. THE PROPOSED SCCO RIDER

Q. PLEASE DESCRIBE THE PROPOSED SCCO RIDER IN TENNESSEE.

A. As discussed above, the SCCO Rider is strictly voluntary for customers who want to reduce their carbon footprint associated with their consumption of natural gas. If customers elect to participate in the SCCO Rider they may choose to offset either 25%, 50% or 100% of the monthly CO₂ emissions from their consumption of natural gas.

Q. WHY IS ATMOS ENERGY PROPOSING A SCCO RIDER?

A. Atmos Energy developed this SCCO Rider to accommodate potential interest for a utility offering of this nature. Over the past decade, there has been increasing public interest in reducing greenhouse gas (“GHG”) emissions. Many corporations’ performance metrics now consider measures of Environmental, Social and Governance (“ESG”) in addition to the traditional measures of financial performance for investors and other stakeholders. Many of our large industrial and commercial customers fall under a corporate structure that may establish emissions reduction goals to improve their corporate ESG scores. Atmos Energy wants to offer this SCCO Rider as an option for our customers striving to lower their GHG emissions.

IV. THE CARBON CREDIT MARKETPLACE

Q. WHAT IS A CARBON CREDIT?

A. A Carbon Credit is a certificate representing the reduction of one metric ton (2,205 lbs.) of CO₂ emissions. Carbon Credits are measurable, verifiable emission reductions from certified climate action projects. These projects reduce, remove, or avoid GHG emissions.

These certified climate action projects reduce the amount of greenhouse gases in the atmosphere in one of two ways: by capturing and destroying greenhouse gas that would otherwise be emitted into the atmosphere (for example methane gas capture at an abandoned underground mine) or by capturing and storing greenhouse gas to prevent their release into the atmosphere (for example a project that promotes the healthy growth and maintenance of forests).

Q. PLEASE DESCRIBE THE CERTIFICATION PROCESS FOR THE CARBON CREDIT PROJECTS.

A. Carbon Credit projects must adhere to a rigorous set of criteria to pass verification by third-party agencies and a review by a panel of experts at a leading Carbon Credit standard registry. Importantly, Carbon Credit projects should meet the rules of “additionality,” meaning the project would not be built and operated without the funding from the sale of Carbon Credits. For transparency, Carbon Credits are assigned unique serial numbers. After an organization or an individual buys a Carbon Credit, it is permanently retired so it cannot be reused.

Q. WHO CERTIFIES THE VIABILITY OF THE CARBON CREDIT PROJECTS?

A. As the market has developed, a few large Carbon Credit registries have emerged throughout the world. These registries develop and approve standards that set the criteria to ensure the accountability of the Carbon Credit projects. They review potential projects against those standards, and they operate registry systems that issue, transfer and retire approved Carbon Credits. Examples of these international registries are the Verra’s Voluntary Carbon Standard, the American Carbon Registry, and the Climate Action Reserve.

Q. PLEASE PROVIDE THE BACKGROUND OF THE CARBON CREDIT MARKETPLACE.

A. Although Carbon Credit projects originated in 1989, the large Carbon Credit market was established under the United Nations clean development mechanism in the 1997 Kyoto Protocol. The 2016 Paris Agreement, which aims to reduce the pace of climate change and to accelerate and intensify the actions and investments needed for a sustainable low-carbon future, recognizes the role and importance of a Carbon Credit market to achieve its goals.

As evidence of increased awareness and public interest in reducing GHG emissions, airlines have recently introduced “point-of-sale” emissions offset options on ticket purchases.

Q. WHAT IS THE CURRENT STATE OF THE CARBON CREDIT MARKETPLACE?

A. Since the 2016 Paris Agreement, worldwide voluntary carbon credit retirements increased nearly threefold in the four years to 2020, reaching a size of nearly \$250 million (USD) per year. Growth in the market is expected to accelerate, with the Institute of International Finance (“IIF”) recently predicting a \$100 billion per year market by 2050.

Q. IS THIS THE CARBON CREDIT MARKETPLACE THE COMPANY WOULD ACCESS FOR CUSTOMERS PARTICIPATING IN THE SCCO RIDER?

A. Yes. The Company would access this marketplace to purchase and retire Carbon Credits on behalf of SCCO Rider participants.

V. THE PROPOSED VOLUNTARY SCCO RIDER

Q. WHICH CUSTOMERS ARE ELIGIBLE TO ENROLL IN THE PROPOSED SCCO RIDER?

- A. The proposed SCCO Rider is available to all customers that are current on their Atmos Energy bills. However, residential customers receiving LIHEAP funding will not be eligible to participate in the SCCO Rider.

The Company's proposed SCCO Rider would offer voluntary carbon offset options for all rate classes. For residential customers, the Company is proposing a fixed monthly charge based on a target offset percentage of either 25%, 50%, or 100%. For non-residential sales and transportation customers the Company is proposing the same target offset percentages, applying volumetric rates on all volumes consumed for the month.

Q. HOW DID THE COMPANY DEVELOP THE SCCO RIDER RATES PROPOSED FOR THE OFFSET TARGET LEVELS?

- A. The Company assessed the Carbon Credit cost ranges for various accredited projects throughout the US and calculated the fraction of Carbon Credits needed to offset emissions from the consumption of one-hundred standard cubic feet ("Ccf") of natural gas. The Company also estimated the per Ccf administrative costs that it anticipates will be associated with the SCCO program when the SCCO Rider is widely implemented throughout the Atmos Energy footprint. These components were added together to derive the proposed rate of \$0.1080 per Ccf shown in the proposed tariff applicable to non-residential customers for 100% offset. The rates for the lower offset levels for non-residential customers were calculated by multiplying the \$0.1080 per Ccf rate times 25% and 50% respectively.

For residential customers, the fixed monthly charge structure is based on the average annual weather-normalized consumption for Atmos Energy's residential customers in Tennessee which is 642 Ccf. To fully offset emissions from natural gas consumption for the average Tennessee residential customer, the Company set the charge at \$6.00 per month. The monthly charge for lower offset levels for residential customers were calculated by multiplying the \$6.00 monthly charge times 25% and 50% respectively.

Q. PLEASE DESCRIBE THE ADMINISTRATIVE COSTS ASSOCIATED WITH THE PROPOSED RIDER?

- A. Administrative costs associated with the SCCO Rider include educational materials describing the purpose and availability of the SCCO Rider, processes for tracking of revenues and expenses and logging Carbon Credits purchased and retired.

All administrative costs incurred by the Company as part of the SCCO Rider will be tracked separately through a deferred account and will be recovered only from participating customers. SCCO Rider rates as proposed include a contribution toward administrative costs. The Company's recovery of these administrative costs through the SCCO Rider rates will depend on the actual market costs of carbon offsets at the time they are purchased; however, any unrecovered costs will remain in the deferred account and be addressed through future changes to the SCCO Rider rates only. Customers who are not enrolled in the SCCO Rider will not bear any additional costs associated with the SCCO program. In addition, the SCCO Rider rates do not include any margin.

Q. WHAT IF THE MARKET COST OF CARBON CREDITS OR ADMINISTRATIVE COSTS VARY FROM THE COMPANY'S CURRENT ESTIMATES?

- A. If the market cost of Carbon Credits increases, the Company would assess the projects available and potentially shift its purchases toward lower-cost certified projects, if possible. If the market cost of Carbon Credits decreases, the Company would likely monitor the pricing without immediately taking action to lower the rates in place. Industry experts widely believe world-wide demand for Carbon Credits will continue to increase and cause upward pressure on Carbon Credit market costs.

With respect to administrative costs, the Company has set its initial recovery rates reflecting volumes that may occur when the SCCO Rider is widely rolled-out throughout the Atmos Energy footprint. Therefore, it is expected that the Company will initially under-recover administrative costs until customer adoption levels increase.

In any event, if cost differences from our estimates warrant rate changes, the proposed SCCO Rider includes a provision for a filing to review and adjust those rates, called the Purchased Carbon Offset Adjustment (“PCOA”).

Q. PLEASE DESCRIBE THE PROPOSED PURCHASED CARBON OFFSET ADJUSTMENT FILING.

- A. Under the proposed PCOA, the Company would file a PCOA reviewing the balance of revenues and costs under the SCCO Rider at least once every 12 months. Should Atmos Energy determine that a change in the SCCO Rider rates is necessary based on the market cost of Carbon Credits and actual administrative costs as discussed above, the PCOA may propose to adjust rates prospectively under the SCCO Rider. The Company may file a PCOA more frequently if warranted by changing Carbon Credit market conditions.

Q. HOW WOULD THE COMPANY PURCHASE CARBON CREDITS?

A. The Company will purchase carbon credits that are measurable, verifiable emission reductions from certified climate action projects. The Company (or its Carbon Credit provider) will purchase and retire these Carbon Credits on behalf of the collective participation of the customers under this proposed SCOO Rider. The retirement of the Carbon Credit for any participating customer will not take place until they have paid their bill including fees for the SCCO Rider. The retirement of the Carbon Credits on the customers' behalf will take place no less than twice a year.

Q. PLEASE PROVIDE FURTHER INFORMATION ON THE COMPANY'S PROPOSED ACCOUNTING FOR TRANSACTIONS ASSOCIATED WITH THE SCCO RIDER.

A. Carbon Credits would be purchased periodically and held on the balance sheet as inventory. It is our understanding that it is beneficial to purchase Carbon Credits in minimum blocks of 5,000 units. The Carbon Credit is retired on behalf of participating customers only after the customer has paid their bill for the SCCO Rider. Through this process, there will be no bad debt associated with the SCCO Rider.

The fees collected from the customer under the SCCO tariff will be recognized as revenue. The cost of the retired Carbon Credit and administrative costs will be recognized as operations & maintenance expenses.

All of the above costs associated with the SCCO Rider are tracked separately and will be held in a deferred account and not included with the Company's other costs for recovery through base rates in the annual ARM filing or any future rate case.

Q. HOW WOULD THE CUSTOMER ENROLL TO PARTICIPATE IN THE PROPOSED VOLUNTARY TARIFF?

- A. Residential and non-residential customers wanting to enroll in the SCCO Rider could either contact Atmos Energy customer service to speak with an agent toll free or enroll online through the Atmos Energy Account Center at www.atmosenergy.com.

For a handful of complex billing customers, the Company will require an executed Enrollment Form designating the customer's participation.

In all cases, the Company will have a record of the customer's positive enrollment to participate in the SCCO Rider.

Q. HOW DOES A CUSTOMER EITHER CHANGE THEIR DESIGNATED OFFSET PERCENTAGE OR TERMINATE THEIR PARTICIPATION IN THE SCCO RIDER?

- A. Such changes sought by the customer can be executed through the same channels as outlined above for enrollments.

Notably, either the customer or the Company may terminate the customer's participation under this proposed tariff by giving at least thirty (30) days prior written notice of such termination. The Company would also include the exception that it may terminate a customer's participation under this proposed tariff without prior notice when the customer is 60 days or more past due on payment of amounts billed to them pursuant to the SCCO Rider, and/or upon disconnection of gas service to the customer.

Q. HOW WILL CHARGES FOR PARTICIPATION IN THE SCCO TARIFF APPEAR ON THE CUSTOMER'S BILL?

- A. The premium will be reflected as a separate line-item on their monthly bill.

Q. WOULD FAILURE TO PAY ANY AMOUNT UNDER THE PROPOSED SCCO RIDER SUBJECT A CUSTOMER TO DISCONNECTION OF GAS SERVICE?

A. No.

Q. WILL THE COMPANY ASSESS ANY LATE PAYMENT CHARGES ON CARBON OFFSET CHARGES THAT GO UNPAID?

A. No late payment charges would be assessed for charges under SCCO Rider. The Company would plan to only retire carbon offsets once amounts have already been paid by the customer. Through this process, there will be no bad debt associated with the SCCO Rider.

Q. HAS ATMOS ENERGY INTRODUCED THE SCCO RIDER IN ANY OF THE STATES IT SERVES?

A. Yes. The Company has filed an application for approval of an SCCO Rider with the Virginia State Corporation Commission which is currently being reviewed¹. It is the Company's intention to file plans for implementing the SCCO Rider with regulators in the remaining six states in which Atmos Energy provides natural gas service.

Q. SUBJECT TO THE TENNESSEE PUBLIC UTILITY COMMISSION APPROVAL OF THE SCCO RIDER, WHEN DOES THE COMPANY PLAN LAUNCH THE RIDER?

A. Assuming timely approval of the SCCO Rider by the TPUC, the Company would promptly begin to prepare and finalize informational materials, targeting its first billings for the SCCO Rider around November 2022.

VI. CONCLUSION

Q. PLEASE PROVIDE CLOSING REMARKS REGARDING THE COMPANY'S PROPOSED SCCO TARIFF.

¹ Atmos Energy Corporation – Application for Approval of a SmartChoice Carbon Offset Rider, PUR-2022-00047.

A. The SCCO Rider provides a simple, straightforward and economical solution for customers desiring to offset CO₂ emissions resulting from the use of natural gas. Customer participation in the SCCO Rider is strictly voluntary; customers may opt-in or opt-out at any time. Non-participating customers will not bear any costs associated with the SCCO Rider; such costs are to be borne exclusively by participating customers. The Company will not derive any profit margin from the SCCO Rider.

The Company respectfully requests consideration for approval by the Commission.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes.

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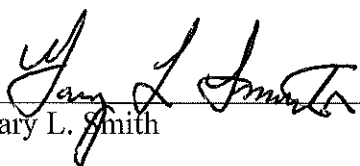
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VERIFICATION

STATE OF TEXAS)

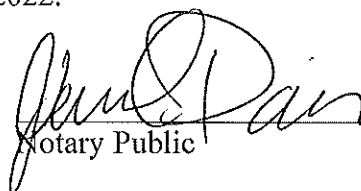
COUNTY OF GALVESTON)

I, Gary L. Smith, being first duly sworn, state that I am the Director of Rates and Regulatory Affairs for Atmos Energy Corporation, that I am authorized to testify on behalf of Atmos Energy Corporation in the above referenced docket, that the Pre-Filed Testimony of Gary L. Smith in support of Atmos Energy Corporation's filing is true and correct to the best of my knowledge, information and belief.



Gary L. Smith

Sworn and subscribed before me this 21 day of April, 2022.



Notary Public

My Commission Expires: 10/05/25

