

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
NASHVILLE, TENNESSEE

July 25, 2022

IN RE:)	
)	
PETITION OF ATMOS ENERGY CORPORATION)	DOCKET NO.
FOR APPROVAL OF A SMARTCHOICE CARBON)	22-00035
OFFSET RIDER)	
)	

**ORDER APPROVING PETITION FOR APPROVAL OF A
SMARTCHOICE CARBON OFFSET RIDER**

This matter came before Chairman Kenneth C. Hill, Vice Chairman Herbert H. Hilliard, Commissioner Clay R. Good, Commissioner John Hie, and Commissioner David F. Jones of the Tennessee Public Utility Commission (“TPUC” or the “Commission”), the voting panel assigned to this docket, during a regularly scheduled Commission Conference held on June 20, 2022, for consideration of the *Petition of Atmos Energy Corporation for Approval of a SmartChoice Carbon Offset Rider* (“*Petition*”) filed by Atmos Energy Corporation (“Atmos” or the “Company”) on April 22, 2022. In summary, the *Petition* was granted.

THE *PETITION*

On April 22, 2022, Atmos filed a *Petition* requesting approval of a SmartChoice Carbon Offset Rider (“SmartChoice Rider” or “Rider”), a program initiated by the Company in order to provide qualifying customers with an option to purchase carbon credits to offset carbon emissions associated with their natural gas usage. In support of its *Petition*, the Company also included the testimony of Mr. Gary L. Smith. According to Mr. Smith, the Company developed the SmartChoice Rider to accommodate customers wanting to offset greenhouse gas (“GHG”)

emissions. Participation in the Rider is voluntary and allows customers to choose an offset of either 25%, 50%, or 100% of the monthly carbon dioxide (“CO₂”) emissions from their consumption of natural gas.¹

A Carbon Credit is a certificate representing the reduction of one metric ton (2,205 lbs.) of CO₂ emissions. Mr. Smith asserted that the Carbon Credits are measurable, verifiable emission reductions from certified climate action projects which reduce the amount of greenhouse gases released into the atmosphere by either capturing and destroying them or by capturing and storing the gases.² Mr. Smith testified that Carbon Credit projects must pass verification by a third-party agency and a review by a panel of experts, and they are given a one-time serial number which is retired after it is purchased and assigned to a customer. According to Mr. Smith, the viability of a Carbon Credit Project complies with the approved standards and criteria established by a few large Carbon Credit registries such as Verra’s Voluntary Carbon Standard, the American Carbon Registry, and the Climate Action Reserve.³

According to Mr. Smith, the Carbon Credit Market was established under the United Nations clean development mechanism in the 1997 Kyoto Protocol. Additionally, the 2016 Paris Agreement recognizes the role and importance of a Carbon Credit market to achieve its stated goals. Mr. Smith further asserts that the worldwide voluntary carbon credit retirements increased nearly threefold from 2016 to 2020 reaching a size of nearly \$250 million per year. It is anticipated that growth in the market will accelerate, with the Institute of International Finance (“IIF”) predicting a \$100 billion per year market by 2050.⁴

¹ Gary L. Smith, Pre-Filed Direct Testimony, p. 4 (April 22, 2022).

² *Id.* at 4-5.

³ *Id.* at 5.

⁴ *Id.* at 6.

Under the Company's proposal, the SmartChoice Rider would be available to all customers other than those receiving low household income funding. Atmos 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 Atmos is proposing the same target offset percentages, applying volumetric rates on all volumes consumed for the month.⁵

Mr. Smith stated the Company developed the SmartChoice Rider rates by assessing various accredited projects throughout the US, including an estimation of associated administrative costs. Using this information, the Company developed a proposed rate of \$0.1080 per ccf for the 100% offset for non-residential customers. The rates for the lower levels are calculated by multiplying the \$0.1080 ccf rates times the 25% and 50%. For residential customers, the fixed monthly charge is based on the average annual weather-normalized consumption of 642 ccf. For 100% offset the residential charge is \$6.00 and the charge for the lower offset levels is 25% (\$1.50) and 50% (\$3.00) respectively.⁶

Mr. Smith testified the administrative costs associated with the SmartChoice Rider will be tracked separately through a deferred account and that SmartChoice Rider rates include a contribution to the administrative costs but do not include any margin. Any unrecovered costs will remain in the deferred account and be addressed in future SmartChoice Rider filings; Mr. Smith clarified that customers who are not enrolled will not bear any additional costs.⁷

If the market costs of Carbon Credits increase, Mr. Smith testified that the Company could potentially shift its purchases toward lower-cost projects. The administrative costs have been estimated and it is likely that the Company will initially under-recover administrative costs until customer adoption levels increase. The proposed SmartChoice Rider Tariff includes a provision

⁵ *Id.* at 6-7.

⁶ *Id.* at 7-8; See also *Petition*, Ex. A, p. 2 (April 22, 2022).

⁷ *Id.* at 8.

for filing a rate review, termed the Purchased Carbon Offset Adjustment (“PCOA”), if cost differences warrant rate changes.⁸

According to Mr. Smith, the Company would file annually the balance of revenues and costs under the SmartChoice Rider. Based on this filing, if the Company determines a change in the Rider rates is necessary it would propose to adjust the rates prospectively. The Company has the option to file a Rider rate revision more frequently if warranted.⁹

Mr. Smith asserted all Carbon Credits will be purchased periodically and held on the balance sheet as inventory and the Credits will be retired on behalf of participating customers only after the customer has paid their bill in full, thereby eliminating any bad debt associated with the SmartChoice Rider. All fees collected from the customer under the Rider will be recognized as revenue and the cost of retired Carbon Credits and administrative costs will be recognized as operations and maintenance expense. All costs associated with the Rider will be tracked separately and held in a deferred account and will not be included for recovery in the annual rate review mechanism filing or future rate case.¹⁰

Customers who want to enroll or change the level of their SmartChoice fee must either contact an Atmos customer service agent or make the requested change online. For some complex billing customers, the Company will require an executed Enrollment Form. In all cases, the Company will have a record of the affirmative customer action. Since this is an elective service, the customer may terminate participation in the program by giving at least thirty (30) days prior written notice. Further, should a customer fall sixty (60) days past due on the SmartChoice Rider, the Company may terminate a customer’s participation. Finally, rates for the Rider will appear as a separate line item on the customer’s bill and a customer’s gas service will not be terminated for

⁸ *Id.* at 9.

⁹ *Id.*

¹⁰ *Id.* at 10.

non-payment of the Rider fee, nor will late charges assessed.¹¹ Mr. Smith testified that upon approval by the Commission, the Company will proceed to finalize the SmartChoice Rider and target its first billings around November 2022.¹² No party sought intervention in this matter.

THE HEARING

The hearing on the *Petition* was noticed by the Commission on June 9, 2022 and held during the regularly scheduled Commission Conference on June 20, 2022. Appearances were made by the following:

Atmos Energy Corporation.– Erik Lybeck Esq., Neal & Harwell, 1201 Demonbreun Street, Suite 1000 Nashville, Tennessee 37203.

The *Petition* was presented to the Hearing Panel. The hearing panel heard testimony by Mr. Gary Smith in support of the *Petition*. Members of the public were given an opportunity to offer comments, but no one sought recognition to do so.

FINDINGS & CONCLUSIONS

Based on the anticipated environmental benefits of the program, the fact that customer participation is optional and that the program has safeguards to prevent adverse impacts to regulated natural gas services, the hearing panel voted unanimously to approve the tariff as filed to implement the SmartChoice Carbon Offset Rider.

IT IS THEREFORE ORDERED THAT:

1. The *Petition of Atmos Energy Corporation for Approval of a SmartChoice Carbon Offset Rider* filed by Atmos Energy Corporation on April 22, 2022, is approved.
2. Atmos Energy Corporation shall file tariffs reflecting this decision.
3. Any party aggrieved by the Commission’s decision in this matter may file a Petition

¹¹ *Id.* at 11-12.

¹² *Id.* at 12.

for Reconsideration with the Commission within fifteen (15) days from the date of this Order.

4. Any party aggrieved by the Commission's decision in this matter has the right to judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from the date of this Order.

FOR THE TENNESSEE PUBLIC UTILITY COMMISSION:

**Chairman Kenneth C. Hill,
Vice Chairman Herbert Hilliard,
Commissioner Clay R. Good,
Commissioner John Hie, and
Commissioner David F. Jones concurring.**

None dissenting.

ATTEST:



Earl R. Taylor, Executive Director