



Electronically Filed in TPUC Docket  
Room November 5, 2024 at 3:05 p.m.

November 1, 2024

Mr. David Foster  
Tennessee Public Utility Commission  
502 Deaderick Street, Fourth Floor  
Nashville TN 37243

Re: Atmos Energy Corporation – SmartChoice Carbon Offset Rider  
Docket No 22-00035 – Purchased Carbon Offset Adjustment (“PCOA”)

Dear Mr. Foster:

In accordance with the Atmos Energy SmartChoice Carbon Offset (“SCCO”) tariff rider, Sheet No. 51.2, section 7, Atmos Energy hereby submits the required annual Purchased Carbon Offset Adjustment (“PCOA”) report filing.

A copy of the report is attached electronically, and a mailed copy will also be sent to the Commission.

Sincerely,

/s/ Brannon Taylor  
Vice President, Rates & Regulatory

Enclosure

## SmartChoice Carbon Offset Rider

Approved in Docket No. 22-00035

### Purchased Carbon Offset Adjustment (“PCOA”)

November 1, 2024

#### Background:

In accordance with the Atmos Energy (the “Company”) SmartChoice Carbon Offset (“SCCO”) tariff rider, the Company hereby submits the required Purchased Carbon Offset Adjustment (“PCOA”). Section 7 of the tariff (on T.R.A. No. 1, 2<sup>nd</sup> revised sheet 51.2) states:

The Company shall be required to file a PCOA reviewing the balance of revenues and costs under the SCCO Tariff at least once every 12 months. The PCOA will propose any prospective adjustment in rates under the SCCO. The Company may file a PCOA more frequently if warranted by changing Carbon Credit market conditions. The Company will provide notice on customers bills prior to any changes in the SCCO rates taking effect.

#### Status of the voluntary SCCO program:

The effective date of the SCCO tariff rider was November 1, 2022.

In March 2023, the Company conducted a pilot test using employee volunteers to assist in verifying the appropriate function of the end-to-end processes. Open enrollment to residential customers began in November 2023. Table 1 – Customer Enrollments shows steady, modest growth in program participation. As of September 2024 we have 77 participating customers. Since inception, we have had 562 monthly purchases, at various tiers, for a total of 98.38 carbon offsets and revenue of \$2,002.50.

Table 1 – Customer Enrollments

	03/2023	04/2023	05/2023	06/2023	07/2023	08/2023	09/2023	10/2023	11/2023	12/2023
100% Carbon Offset Participants	2	3	3	3	4	4	4	5	5	8
50% Carbon Offset Participants	1	1	1	1	1	1	1	1	2	3
25% Carbon Offset Participants	0	2	2	3	3	3	3	3	6	7
Total Participants	3	6	6	7	8	8	8	9	13	18
Total Carbon Offsets	0.74	1.18	1.18	1.25	1.55	1.55	1.55	1.84	2.21	3.32
Total SCCO Revenue	\$15.00	\$24.00	\$24.00	\$25.50	\$31.50	\$31.50	\$31.50	\$37.50	\$45.00	\$67.50
	01/2024	02/2024	03/2024	04/2024	05/2024	06/2024	07/2024	08/2024	09/2024	Total
100% Carbon Offset Participants	11	13	16	19	20	20	21	26	28	215
50% Carbon Offset Participants	7	10	9	11	13	14	14	18	19	128
25% Carbon Offset Participants	10	12	17	19	22	23	26	28	30	219
Total Participants	28	35	42	49	55	57	61	72	77	
Total Carbon Offsets	5.01	6.19	7.30	8.62	9.43	9.65	10.17	12.38	13.26	98.38
Total SCCO Revenue	\$102.00	\$126.00	\$148.50	\$175.50	\$192.00	\$196.50	\$207.00	\$252.00	\$270.00	\$2,002.50

#### Carbon Credit Inventory and Retirements:

To launch the SCCO program, Atmos Energy purchased credits associated with 13 certified projects (as a pool for use in any Atmos Energy jurisdiction). This inventory is sufficient to provide the SCCO service to customers for multiple years in the jurisdictions in which the program has been approved. The cost of these carbon offset credits will not be recovered by Atmos Energy until and unless credits are retired on behalf of customers enrolled in our SCCO program. In June 2024, the Company retired 17 carbon credits at a cost of \$11.30 per credit.

### Administrative Costs:

Administrative costs consisting of registry transfer fees, annual maintenance fees and market access fees have amounted to \$6,482 thus far.

### SCCO Rates:

To fully offset the annual CO<sub>2</sub> emissions of an average Tennessee residential customer, 3.53 carbon credits are needed (53.5 ccf/month x 12 months x 0.0055<sup>1</sup>). As noted earlier in this report, the Company's first retirement block cost \$11.30 per carbon credit. Based on that unit cost, the annual cost for a 100% offset is \$39.90, (3.53 x \$11.30). The current annual SCCO revenue for 100% offset is \$72 (\$6.00/month x 12 months). That leaves \$32.10/year which would defray a portion of administrative costs. As shown in Table 1, the annual SCCO revenues for Tennessee is \$2,002.50. Dividing that figure by \$72, yields an equivalent 100% offset customer count of 27.8 for the period from March 2023 through September 2024. 27.8 times \$32.10/year = \$893 to defray administrative costs. A similar calculation for Kansas (in effect only 5 months, beginning May 2024) yields an additional \$176 to defray administrative costs. Through September 2024, a total of \$1,068 is available for coverage of administrative costs of \$6,482.

The Company expects to under-recover administrative costs until a higher adoption level is achieved and then balance the under-recovery with higher participation rates. We believe that the current rate for administrative costs remains appropriate. We will continue to monitor and propose a rate change if it appears warranted once the program is better established.

### Conclusion:

Given these facts, the Company proposes to leave the existing SCCO rates in place during this continued stage of launching the program and will continue to reevaluate the appropriateness of the rates as more information about participation and costs become available.

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<sup>1</sup> Atmos Energy relies upon the Greenhouse Gas Equivalencies provided by the U.S. Environmental Protection Agency ("EPA"). In April 2023, EPA updated the emission factor of natural gas to 0.0550 metric tons of CO<sub>2</sub>/Mcf.