

**BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS**

**IN THE MATTER OF THE APPLICATION     )  
OF ATMOS ENERGY CORPORATION     )     Docket No.  
FOR REVIEW AND ADJUSTMENT OF ITS     )     23-ATMG- 359-RTS  
NATURAL GAS RATES                     )**

**DIRECT TESTIMONY OF GARY L. SMITH**

**SEPTEMBER 9, 2022**

**TABLE OF CONTENTS**

I. INTRODUCTION ..... 1

II. PURPOSE OF TESTIMONY ..... 2

III. BILLING DETERMINANTS STUDY ..... 3

IV. VOLUNTARY SMART CHOICE CARBON OFFSET TARIFF RIDER..... 9

V. SUMMARY OF TESTIMONY ..... 21

1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Gary L. Smith. My business address is 5420 LBJ Freeway, Suite 1600,  
4 Dallas, Texas 75240.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I serve as Director of Rates and Regulatory Affairs for Atmos Energy Corporation  
7 (“Atmos Energy” or the “Company”).

8 **Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES AS**  
9 **DIRECTOR OF RATES AND REGULATORY AFFAIRS AND YOUR**  
10 **PROFESSIONAL AND EDUCATIONAL BACKGROUND.**

11 A. In this role, I am responsible for leading and directing the rates and regulatory  
12 activities in Atmos Energy’s eight-state service area. I am responsible for planning  
13 and implementing strategies to assure that the Company’s tariffs and services are  
14 meeting the goals and balancing the interests of our customers, regulators and  
15 shareholders.

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

22 I have been active in numerous civic and community organizations and  
23 associations relating to the natural gas industry. I have served as chairman of the

1 Utilization Technology Development, NFP Corporation and as chair of the Strategic  
2 Marketing Committee for the American Gas Association.

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

6 **Q. HAVE YOU EVER SUBMITTED TESTIMONY BEFORE THE STATE**  
7 **CORPORATION COMMISSION OF THE STATE OF KANSAS (THE**  
8 **“COMMISSION”)?**

9 A. Yes. I was a witness for the Company in Commission Docket Nos. 08-ATMG-280-  
10 RTS, 12-ATMG-564-RTS, 16-ATMG-079-RTS, 15-GIMG-343-GIG and 19-  
11 ATMG-525-RTS.

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

14 A. Yes, I have testified in dockets involving Atmos Energy before the Kentucky Public  
15 Service Commission, the Georgia Public Service Commission, the Missouri Public  
16 Service Commission, the Tennessee Regulatory Authority (now the Tennessee  
17 Public Utilities Commission), the Railroad Commission of Texas and the Public  
18 Utilities Commission of the State of Colorado.

19 **II. PURPOSE OF TESTIMONY**

20 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

21 A. The purpose of my testimony is to describe and support the Company’s proposed  
22 billing determinants, service charges and a new voluntary tariff called the  
23 SmartChoice Carbon Offset program. In addition, I support the Company’s

1 proposed changes to Schedules I, II, IV, VIII, IX and X tariffs. These tariffs are  
2 included in the Company's filing in Section 18.

3 **Q. ARE YOU SPONSORING ANY EXHIBITS TO YOUR TESTIMONY?**

4 A. No.

5 **III. BILLING DETERMINANTS STUDY**

6 **Q. WHAT ARE BILLING DETERMINANTS?**

7 A. Billing determinants are units of service to which the Company's distribution rates  
8 are applied. Specifically, these units include natural gas volumes sold or  
9 transported, customer counts and miscellaneous other revenues for non-recurring  
10 customer service transactions.

11 **Q. WHAT IS THE PURPOSE OF CONDUCTING A BILLING  
12 DETERMINANTS STUDY?**

13 A. The billing determinants study provides the data and calculations necessary to  
14 adjust volumes delivered to reflect normal weather conditions, and to account for  
15 other known and measurable adjustments including, but not limited to, annualizing  
16 changes in usage patterns by industrial customers. The calculations are shown in  
17 Section 17 of the Company's rate case application. On Section 3A of the filing,  
18 proration of facility charges is applied to compute unadjusted margin at present  
19 rates, while the adjustments for normal weather, annualization of customer  
20 additions and other customer volume/service changes is reflected in adjustment IS-  
21 19. The Company has elected to perform the calculations in the billing determinants  
22 study consistent with recently approved methodologies for Atmos Energy in  
23 Kansas.

1 **Q. PLEASE DESCRIBE THE CALCULATIONS REFLECTED IN SECTION**  
2 **17 OF THE REVENUE REQUIREMENTS MODEL.**

3 A. Columns (d) and (e) reflect actual, per books bill counts and billed volumes by tariff  
4 service for the test year in this docket, the 12-month period ended March 31, 2022.

5 Columns (f) and (g) reflect known and measurable adjustments for larger  
6 volume sales customers and transportation service customers.

7 Columns (h) and (i) incorporates a customer annualization adjustment.

8 Columns (j) and (k) summarizes a proration adjustment to sales service  
9 customer bill counts.

10 Column (l) shows the adjustments necessary for tariff sales volumes to  
11 reflect “normal” weather for the period.

12 Column (s) computes the revenue at present rates, applying current monthly  
13 facilities charges to the adjusted facilities charge counts and the current commodity  
14 rate to the adjusted, normalized volumes for each tariff service.

15 **Q. PLEASE DESCRIBE FURTHER THE ADJUSTMENTS TO LARGE**  
16 **VOLUME SALES AND TRANSPORTATION SERVICES.**

17 A. This adjustment is made to account for changes relating to larger customer volume  
18 changes or service-type changes affecting the 12-month test period. The adjustment  
19 includes details of a new Interruptible Large Industrial Sales Service (955)  
20 customer, four new School Transportation Service (920) customers and six  
21 customers shifting from Commercial Transportation to Commercial Sales Service  
22 (915). Numerous other adjustments are detailed in Workpaper 17-3.

1 **Q. PLEASE DESCRIBE THE CUSTOMER ANNUALIZATION**  
2 **ADJUSTMENT.**

3 A. This adjustment was introduced and accepted in 19-ATMG-525-RTS. The  
4 adjustment is based on the difference between bill counts at the end of the test  
5 period compared to the beginning of the test period. This “growth” adjustment is  
6 applied ratably each month, affecting both bill counts and commodity volumes (at  
7 the weather-adjusted monthly average consumption in each weather area).  
8 Workpaper 17-5 details the calculations underlying the Customer Annualization  
9 Adjustment.

10 **Q. PLEASE DESCRIBE THE REASONING FOR ADJUSTING CUSTOMER**  
11 **BILL COUNTS FOR PRORATION.**

12 A. As I said previously, data collected for the BDS includes the number of bills for  
13 residential and commercial customers. A key metric necessary in the BDS is the  
14 number of Facilities Charges applied. The number of customer bills, however, are  
15 not appropriate for use in Present and Proposed Revenue calculations due to  
16 proration.

17 From the Company’s approved Schedule I, Section 4 P on Sheet 28 of 110:

18 2. Proration of customer charges:

19 a. Customer charges shall be prorated only in the following  
20 situations:

21 i. Connection or disconnection of service which causes the  
22 billing cycle to be outside the range of 26 through 36 days.

23 ii. When re-routing of meter routes, for only those customers  
24 directly affected, causes the billing cycle to be outside the  
25 range of 26 through 36 days; and

1                                   iii. During the billing month in which a change in rates or  
2                                   tariffs becomes effective.

3                                   So, if a customer's service period is outside the window of 26-36 days, their  
4                                   facilities charge is prorated. The current residential Facilities Charge is \$20.20 per  
5                                   month<sup>1</sup>. If a customer's service period for a particular month is 24 days, the billed  
6                                   Facilities Charge would be:  $\$20.20 \times (24 / 30) = \$16.16$ .

7                                   In another example, say a home had service transferred from one customer  
8                                   to another midway through the 30-day billing cycle. In this instance each customer  
9                                   would pay  $\frac{1}{2}$  the \$20.20/month Facilities Charge, or \$10.10. In this transaction,  
10                                  there are two customers and two bills, but just one full Facilities Charge billed. It  
11                                  is the number of Facilities Charges billed that is critical to the accurate calculations  
12                                  of Present and Proposed Revenues.

13   **Q. PLEASE DESCRIBE HOW THE ACTUAL NUMBER OF FACILITIES**  
14   **CHARGES APPLIED DURING THE TEST YEAR WAS DETERMINED.**

15   A. Workpaper 17-4 of the Company's cost of service model demonstrates the  
16   calculations used for the proration adjustment.

17                                  The SAP billing system records the total Facilities Charge revenues billed  
18                                  by class, by area, each month. Dividing the monthly Facilities Charge revenues by  
19                                  the known tariff Facilities Charge rates in place each month computes the number  
20                                  of full-month equivalent Facilities Charges billed. The variance is displayed in  
21                                  Section 17 Column (j). This percentage was then applied as a proration adjustment  
22                                  to the test period of bills as displayed in Section 17 Column (k).

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<sup>1</sup> \$18.60 Facility charge rate plus \$1.60 GSRS rate



1           This adjustment methodology has been employed in the final billing  
2           determinants in the most recent Company rate cases, Dockets 14-ATMG-320-RTS,  
3           16-ATMG-079-RTS and 19-ATMG-525-RTS.

4   **Q.   PLEASE DESCRIBE HOW THE ACTUAL SALES VOLUMES WERE**  
5   **WEATHER NORMALIZED?**

6   A.   The Company utilizes the same methodology used in its Weather Normalization  
7       Adjustment (“WNA”) calculations submitted to KCC Staff throughout the year.  
8       Workpaper 17-1 shows the WNA dollar amount computed and converts the dollar  
9       amount back into a volumetric amount.  These volumetric amounts are then  
10      accumulated and reflected in Column (l) in Section 17 of the Company’s cost of  
11      service model.

12  **Q.   HOW DID THE COMPANY DETERMINE WHAT NATIONAL OCEANIC**  
13  **AND ATMOSPHERIC ADMINISTRATION (“NOAA”) WEATHER**  
14  **STATIONS TO USE?**

15  A.   The weather points utilized in the billing determinants study, and monthly reports  
16      to staff are the NOAA first order weather stations closest to the Company’s Kansas  
17      customers: Wichita, Topeka, Dodge City, and Kansas City.  These stations were  
18      adopted in Docket No. 19-ATMG-525-RTS.

19  **Q.   DID THE COMPANY CALCULATE NEW FACTORS FOR ITS WEATHER**  
20  **NORMALIZATION TARIFF?**

21  A.   No.  As in recent cases, we have worked cooperatively with Commission Staff to  
22      analyze and calculate new factors used to calculate the adjustments upon conclusion  
23      of this Case.  Factors, such as heat sensitivity for current and previous month, by

1 rate class and weather station would be jointly computed for future calculations of  
2 adjustments.

3 **Q. DID THE COMPANY MAKE AN ADJUSTMENT RELATED TO AD**  
4 **VALOREM TAX SURCHARGE REVENUE?**

5 A. Yes. The per books amount of Ad Valorem Tax Surcharge revenue must be  
6 eliminated since the revenue is subject to annual reconciliation and comparison  
7 with previous years' collections (WP 17-2).

8 **Q. ARE THE PROPOSED RATES REFLECTED IN THE TARIFFS FILED IN**  
9 **THIS DOCKET?**

10 A. Yes. I am sponsoring Schedule IV of our tariffs with the proposed rates reflected  
11 on the appropriate sheets. I am also sponsoring wording changes to Schedule I  
12 intended to clarify the responsibilities of the utility and its customers. In Schedule  
13 II, the Company proposes to eliminate charges for non-recurring services (please  
14 refer to testimony of Company witness Kathleen Ocanas for further information).  
15 Schedule VIII, Gas System Reliability Surcharge Rider changes with rates  
16 returning to zero at the conclusion of this Docket. Similarly, Schedule IX, the Tax  
17 Reform Credit is reset to zero. Schedule X, System Integrity Program, includes  
18 changes proposed by Company witness John Willis. A new Schedule XI sets forth  
19 a proposed voluntary Smart Choice Carbon Offset program which I describe later  
20 in testimony.

1 **Q. PLEASE FURTHER DESCRIBE THE CHANGES TO SCHEDULE I –**  
2 **GENERAL TERMS AND CONDITIONS FOR SERVICE.**

3 A. As part of its continuous improvement efforts, Atmos Energy is undertaking a  
4 review of our service rules and policies outlined in our tariffs across the eight states  
5 we serve. These changes serve to modernize the language to reflect current  
6 operations and clarify the responsibilities of the utility and its customers. Schedule  
7 I of Atmos Energy’s tariff in Kansas reflects a patchwork of the tariffs of utilities  
8 acquired by Atmos Energy and is in need of modernization to align with how we  
9 operate today.

10 **Q. ARE ANY OTHER TARIFF CHANGES INCLUDED IN THE COMPANY’S**  
11 **FILING?**

12 A. Yes. The Company is proposing a voluntary SmartChoice Carbon Offset offering,  
13 which I describe next.

14 **IV. VOLUNTARY SMART CHOICE CARBON OFFSET TARIFF RIDER**

15 **Q. WHAT IS THE PURPOSE OF THE SMART CHOICE CARBON OFFSET**  
16 **RIDER?**

17 A. The proposed SmartChoice Carbon Offset (“SCCO”) Rider is designed to provide  
18 customers the voluntary option to offset some or all of the carbon emissions  
19 associated with their natural gas usage through the Company’s purchase and  
20 retirement of Carbon Credits on their behalf.

21 The Company believes its customers already have made a “smart choice”  
22 with regard to their energy options by choosing natural gas. Relative to other current  
23 fuel choices, natural gas is affordable, abundant and reliable. Direct use of natural

1 gas in homes and businesses is a very efficient means of providing space heating,  
2 water heating and other applications. But, natural gas combustion does produce  
3 carbon dioxide (“CO<sub>2</sub>”); and for those customers seeking to reduce or offset CO<sub>2</sub>  
4 emitted from their natural gas usage, they could do so through the proposed SCCO  
5 Rider.

6 **Q. PLEASE DESCRIBE THE PROPOSED SCCO RIDER.**

7 A. The SCCO Rider is strictly voluntary for customers who want to reduce their carbon  
8 footprint associated with their consumption of natural gas. If customers elect to  
9 participate in the SCCO Rider they may choose to offset either 25%, 50% or 100%  
10 of the monthly CO<sub>2</sub> emissions from their consumption of natural gas.

11 **Q. WHY IS ATMOS ENERGY PROPOSING A SCCO RIDER?**

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

1 **Q. WHAT IS A CARBON CREDIT?**

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

6 **Q. PLEASE DESCRIBE THE CERTIFICATION PROCESS FOR THE**  
7 **CARBON CREDIT PROJECTS.**

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

15 **Q. WHO CERTIFIES THE VIABILITY OF THE CARBON CREDIT**  
16 **PROJECTS?**

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

1 **Q. PLEASE PROVIDE THE BACKGROUND OF THE CARBON CREDIT**  
2 **MARKETPLACE.**

3 A. Although Carbon Credit projects originated in 1989, the large Carbon Credit market  
4 was established under the United Nations clean development mechanism in the  
5 1997 Kyoto Protocol. The 2016 Paris Agreement, which aims to reduce the pace of  
6 climate change and to accelerate and intensify the actions and investments needed  
7 for a sustainable low-carbon future, recognizes the role and importance of a Carbon  
8 Credit market to achieve its goals.

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

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

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

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

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

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

3 A. The proposed SCCO Rider is available to all customers that are current on their  
4 Atmos Energy bills.

5 The Company's proposed SCCO Rider would offer voluntary carbon offset  
6 options for all rate classes. For residential customers, the Company is proposing a  
7 fixed monthly charge based on a target offset percentage of either 25%, 50%, or  
8 100%. For nonresidential sales and transportation customers the Company is  
9 proposing the same target offset percentage options, applying volumetric rates on  
10 all volumes consumed for the month.

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

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

1           For residential customers, the fixed monthly charge structure is based on  
2           the average annual weather-normalized consumption for Atmos Energy's  
3           residential customers in Kansas which is 837 Ccf. To fully offset emissions from  
4           natural gas consumption for the average Kansas residential customer, the Company  
5           set the charge at \$8.40 per month. The monthly charge for lower offset levels for  
6           residential customers were calculated by multiplying the \$8.40 monthly charge  
7           times 25% and 50% respectively.

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

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

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



1 **Q. WHAT IF THE MARKET COST OF CARBON CREDITS OR**  
2 **ADMINISTRATIVE COSTS VARY FROM THE COMPANY’S CURRENT**  
3 **ESTIMATES?**

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

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

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

19 **Q. PLEASE DESCRIBE THE PROPOSED PURCHASED CARBON OFFSET**  
20 **ADJUSTMENT FILING.**

21 A. Under the proposed PCOA, the Company would file a PCOA reviewing the balance  
22 of revenues and costs under the SCCO Rider at least once every 12 months. Should  
23 Atmos Energy determine that a change in the SCCO Rider rates is necessary based

1 on the market cost of Carbon Credits and actual administrative costs as discussed  
2 above, the PCOA may propose to adjust rates prospectively under the SCCO Rider.  
3 The Company may file a PCOA more frequently if warranted by changing Carbon  
4 Credit market conditions.

5 **Q. HOW WOULD THE COMPANY PURCHASE CARBON CREDITS?**

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

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

17 A. Carbon Credits would be purchased periodically and held on the balance sheet as  
18 inventory. The Carbon Credit is retired on behalf of participating customers only  
19 after the customer has paid their bill for the SCCO Rider. Through this process,  
20 there will be no bad debt associated with the SCCO Rider.

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

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

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

6 A. Residential and non-residential customers wanting to enroll in the SCCO Rider  
7 could either contact Atmos Energy customer service to speak with an agent toll free  
8 or enroll online through the Atmos Energy Account Center at  
9 [www.atmosenergy.com](http://www.atmosenergy.com).

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

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

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

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

19 Notably, either the customer or the Company may terminate the customer's  
20 participation under this proposed tariff by giving at least thirty (30) days prior  
21 written notice of such termination. The Company would also include the exception  
22 that it may terminate a customer's participation under this proposed tariff without  
23 prior notice when the customer is 60 days or more past due on payment of amounts

1 billed to them pursuant to the SCCO Rider, and/or upon disconnection of gas  
2 service to the customer.

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

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

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

9 A. No.

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

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

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

18 A. Yes. The Company has received approval of the SCCO Rider by the Tennessee  
19 Public Utilities Commission on July 25, 2022 and is awaiting a decision on the  
20 SCCO Rider by the Virginia State Corporation Commission. It is the Company's  
21 intention to file plans for implementing the SCCO Rider with regulators in the  
22 remaining five states in which Atmos Energy provides natural gas service.

1 **Q. SUBJECT TO THE KANSAS COMMISSION APPROVAL OF THE SCCO**  
2 **RIDER, WHEN DOES THE COMPANY PLAN LAUNCH THE RIDER?**

3 A. The Company would promptly begin to prepare and finalize informational  
4 materials, targeting its first billings for the SCCO Rider about three months after  
5 receiving approval.

6 **Q. DOES THE COMPANY HAVE ADDITIONAL SMARTCHOICE**  
7 **OFFERINGS THAT COULD BE CONSIDERED FOR KANSAS**  
8 **CUSTOMERS?**

9 A. Yes. At Atmos Energy, we continue to work on reducing our Scope 3 GHG  
10 emissions through energy efficiency programs that help our customers conserve  
11 energy, save money, and reduce their environmental impact. We currently offer  
12 conservation and energy efficiency programs in Louisiana, Mississippi, Colorado,  
13 and Mid-Tex divisions, with Louisiana being the latest authority to approve the  
14 program in early 2022. These programs, which are marketed as SmartChoice  
15 Rebates, provide financial incentives to purchase high-efficiency natural gas  
16 equipment and smart thermostats and install home weatherization upgrades, in  
17 addition to providing free energy-saving devices.<sup>2</sup>

18 These programs not only provide emissions savings but also provide opportunities  
19 to empower our customers to lower their bills *at no cost to the customer*. For  
20 example, in Mississippi, qualified Mississippi customers can save up to \$200 per  
21 year with a free SmartChoice Energy Savings Kit. The kit includes low-flow  
22 showerheads as well as bathroom faucet aerators, both designed to reduce water

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<sup>2</sup> <https://www.atmosenergy.com/sustainability/environmental-and-operational-sustainability/>

1 use and the energy needed to heat it. In addition, during the free home energy audit  
2 in Mississippi, an energy efficiency expert will come to the customers home and  
3 assess appliances, insulation, windows, and other items to identify energy and  
4 money-saving opportunities.<sup>3</sup>

5 **Q. DOES ATMOS ENERGY HAVE SMARTCHOICE PROGRAMS**  
6 **SPECIFICALLY TARGETED TOWARDS INCOME-QUALIFIED**  
7 **CUSTOMERS?**

8 A. Yes. For example, in addition to the programs Atmos Energy currently offers  
9 through its SmartChoice program in Mississippi, in 2021 the Company began  
10 offering SmartChoice Assist, a separate Income-Qualified pilot program which  
11 directly targets at-risk customers in the Atmos Energy service territory. Each  
12 potential qualified participant is provided with an energy assessment to determine  
13 equipment and weatherization needs, with installation of low-flow showerheads  
14 and faucet aerators, exterior door weather stripping, water heater pipe wrap, and  
15 health and safety related items such as venting as needed. The integrity of the  
16 home's piping system is also evaluated and repaired as needed to ensure safety and  
17 reliability.

18 One of the most cost-effective ways to reduce year-round energy bills is to  
19 install high-efficiency water heaters, so the program prioritizes those installations  
20 along with Smart Thermostats when applicable. During the audit process,  
21 additional appliances may be identified for installation or replacement as budget

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<sup>3</sup> <https://www.atmosenergy.com/ways-to-save/mississippi-smartchoice-appliance-rebates>

1 dollars allow.<sup>4</sup>

2 **Q. DOES THIS FILING INCLUDE A PROPOSAL FOR ANY ADDITIONAL**  
3 **SMARTCHOICE PROGRAMS AT THIS TIME?**

4 A. No, It does not at this time. However, Atmos Energy is willing to engage in  
5 discussions with the parties in this docket regarding customizing such a proposal  
6 based on the relevant policy goals, statutes, and regulations as well as the needs of  
7 our customers in Kansas.

8 **V. SUMMARY OF TESTIMONY**

9 **Q. CAN YOU SUMMARIZE THE CONCLUSIONS IN YOUR DIRECT**  
10 **TESTIMONY?**

11 A. Yes. The Company's billing determinants as described in my testimony are just  
12 and reasonable and consistent with calculations in previous rate cases before the  
13 Commission.

14 The proposed SmartChoice Carbon Offset Rider provides a simple,  
15 straightforward and economical solution for customers desiring to offset CO<sub>2</sub>  
16 emissions resulting from the use of natural gas. Customer participation in the SCCO  
17 Rider is strictly voluntary; customers may opt-in or opt-out at any time. Non-  
18 participating customers will not bear any costs associated with the SCCO Rider;  
19 such costs are to be borne exclusively by participating customers. The Company  
20 will not derive any profit margin from the SCCO Rider.

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<sup>4</sup> See Submittal of 2022 Energy Delivery Plan of Atmos Energy Corporation, Miss. Pub. Svc. Comm'n Docket No. 2014-UN-017, Appendix A, p. 4-5, [https://www.psc.state.ms.us/InSiteConnect/InSiteView.aspx?model=INSITE\\_CONNECT&queue=CTS\\_ARCHIVEQ&docid=671672](https://www.psc.state.ms.us/InSiteConnect/InSiteView.aspx?model=INSITE_CONNECT&queue=CTS_ARCHIVEQ&docid=671672)

1 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

2 A. Yes.



VERIFICATION

STATE OF TEXAS )  
 )  
COUNTY OF DALLAS )

Gary L. Smith, being duly sworn upon his oath, deposes and states that he is Director Rates & Regulatory Affairs for Atmos Energy Corporation; that he has read and is familiar with the foregoing Direct Testimony filed herewith; and that the statements made therein are true to the best of his knowledge, information and belief.

Gary L. Smith  
Gary L. Smith

Subscribed and sworn before me this 24<sup>th</sup> day of August, 2022.

[Signature]  
Notary Public

My appointment expires: Sept. 1, 2024

