method is simply to average the class contributions to the summer peak hour demand and the winter peak hour demand."[15] PNM has "determined judgmentally" that the residential, small power and general power 3S1WCP allocator should be based on a three-year average of CPs in order to mitigate the effects of weather on the calculation of this generation demand allocator. In other contexts, PNM has found that using a three-year average, as opposed to two years or five years for example, is effective at arriving at weather-normal shapes. Specifically, PNM uses a three-year average to determine a weather-normal shape for its hourly demands.

Q. HOW ARE TRANSMISSION COSTS ALLOCATED TO PNM'S RATE SCHEDULES?

A. PNM allocates transmission costs to customers using the rate schedule's average monthly coincident peaks at transmission voltage, which is the 12 CP method. The NARUC Manual states that the 12 CP demand allocation methodology "is based on the principle that a utility installs facilities to maintain a reasonably constant level of reliability throughout the year or that significant variations in monthly peak demands are not present."[16] Under this methodology, the relative importance of each month is considered and no single peak demand has any greater significance than other monthly CP demands. Given that PNM's transmission system is used at a constant level throughout the year to ensure

[15] NARUC Manual at p. 45.
[16] NARUC Manual at p. 79.

reliability, the 12 CP demand allocator is appropriately used for transmission costs, in accordance with the NARUC Manual. PNM has consistently used this methodology to allocate transmission costs in prior rate cases.

Q. TO DEVELOP THE 12 CP ALLOCATOR FOR TRANSMISSION, DID PNM USE THE THREE-YEAR AVERAGE OF THE CP DEMAND ALLOCATORS DESCRIBED ABOVE?

A. Yes, for the residential, small power and general power classes. Each class's average monthly CP was based upon a three-year average for these rate classes. PNM discusses above why using a three-year average of CP demands is appropriate for these rate classes.

Q. HOW ARE DISTRIBUTION COSTS ALLOCATED FOR THIS RATE CASE?

A. The proposal allocates distribution substations, primary lines and secondary lines to customer classes using the maximum non-coincident peak ("NCP") demands of each class, at either primary or secondary voltage levels. The NARUC Manual states that the NCP method "attempts to give recognition to the maximum demand placed upon a system during the year by all customers" and "is based on the theory that facilities are sized to meet these maximum demands."[17] Because distribution facilities serve a relatively localized area, they must be sized to meet the maximum demands of each customer at any time. As such, the use of the

[17] *Id.* at 80.