Q. WHY IS IT APPROPRIATE FOR THE COMPANY TO IMPOSE ADDITIONAL DEMAND-RELATED CAPACITY AND CAPITAL INVESTMENT COSTS ON THE STREETLIGHTING RATE CLASS?

A. As noted above, PNM's cost to serve all of its customers has gone up since it filed its last rate case in 2010; Streetlighting, like all of PNM's rate classes, must be apportioned a share of those increased costs. To reinforce City/County Witness Ankum's argument that the Company should not impose any additional demand-related capacity or capital investment costs on Streetlighting customers, he argues that Streetlighting is provided off-peak under "generally constant conditions." See Ankum Direct at 14, lines 1-5. However, as discussed above, streetlighting does operate at least partially on-peak during the winter months and, thus, should be allocated costs that reflect this on-peak usage. Moreover, even though streetlighting is provided under "generally constant conditions," there still are demand-related capacity and capital investment costs that the Company incurs to serve these customers. In fairness to all of PNM's customers, the Streetlighting rate class must be allocated some reasonable portion of these costs.

Q. WHAT ARE THE OTHER PARTIES' RECOMMENDATIONS IN TERMS OF PNM'S PROPOSED 12 CP ALLOCATOR FOR TRANSMISSION COSTS?

A. NMIEC Witness Phillips recommends a three-summer CP allocation methodology for transmission costs. Phillips Direct at 3, lines 10-14. City/County Witness Dr. Ankum recommends that PNM allocate transmission

costs based on the 3S1WCP methodology. Ankum Direct at 14, lines 10-12 and 36, lines 10-12.

Q. ARE MR. PHILLIPS' AND DR. ANKUM'S PROPOSALS TO SHIFT TO A DIFFERENT ALLOCATION METHODOLOGY FOR TRANSMISSION COSTS BASED ON SIMILAR ARGUMENTS?

A. Yes. Mr. Phillips argues that PNM's proposed 12 CP allocation methodology for transmission costs is inappropriate given that the transmission system must be built to meet the annual system peak demand, which occurs in the summer. As such, Mr. Phillips argues that transmission system costs should be allocated the same as generation costs, using the three-summer CP approach. Phillips Direct at 3, lines 10-14 and 20, lines 10-14. Similarly, Dr. Ankum argues that since transmission loads and generation loads move in tandem in terms of serving peak demand, there is no justification to use a different allocation methodology for generation demand and transmission. Dr. Ankum Direct at 35-36.

Q. IS PNM'S TRANSMISSION SYSTEM BUILT ONLY TO MEET THE ANNUAL SYSTEM PEAK DEMAND, JUSTIFYING USE OF THE SAME ALLOCATOR FOR BOTH GENERATION AND TRANSMISSION SYSTEM COSTS?

A. No. While PNM's transmission system is designed to meet peak demands, the transmission system also is built to maintain a constant level of reliability throughout the year in every load pocket within its service territory. In other

words, building generation to serve the annual system peak does not translate one-for-one to the transmission system and vice versa. For instance, while a new plant might be added to meet new peak demands, depending on its location, the transmission system might already have enough capacity in all or most of the Company's service territory such that new transmission does not necessarily needed to be added. Given that the transmission system serves to provide reliable service in every month, not just at peak, and in every load pocket within PNM's service territory, a 12 CP demand allocation methodology is reasonable and appropriate.

Q. IS DR. ANKUM CORRECT THAT THE NARUC MANUAL DOES NOT SUPPORT USE OF THE 12 CP METHODOLOGY FOR ALLOCATING TRANSMISSION COSTS?

A. No, he is incorrect. The NARUC Manual, as quoted in my Direct Testimony at page 33, lines 15-18, 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."[5] PNM has acknowledged that there are variations in monthly peak demands. However, PNM relies on the NARUC Manual for the fact that it has used the 12 CP allocation methodology for transmission costs since the Company installs transmission facilities to maintain a reasonably constant level of reliability throughout the year. As such, the NARUC

[5] NARUC Manual at 79 (emphasis added).

Manual does support PNM's choice of the 12 CP allocation methodology for transmission costs.

Q. ARE THERE OTHER REASONS TO SUPPORT THE USE OF A 12 CP METHODOLOGY FOR ALLOCATION OF TRANSMISSION COSTS?

A. Yes. As noted above, PNM strives for consistency in terms of its ECCOSS modeling approach. The 12 CP allocation methodology for transmission costs, which is widely recognized in the industry, has been used by PNM in its prior rate cases. The 12 CP allocator accurately reflects the costs that the Company incurs to maintain a reasonably constant level of reliability throughout the year on its transmission system. As such, PNM sees no need to introduce volatility in the allocation process by changing an allocator that is widely accepted in the industry, is consistent with how the Company incurs costs and has been accepted by the Commission in prior rate cases as a reasonable allocator for transmission costs.

Q. WHAT ABOUT CITY/COUNTY WITNESS DR. ANKUM'S ARGUMENT THAT THE 12 CP ALLOCATOR DRIVES UP COSTS FOR STREETLIGHTING CUSTOMERS?

A. As noted above, while PNM understands and appreciates the perspectives of the intervenors, PNM must design rates based on the system as a whole. Functionalization, classification and allocation are based upon industry standards, past practice and the best judgment as to how costs should be divided given cost incurrence and/or customer usage. While Dr. Ankum is correct that the use of the

12 CP allocator increases allocations to Streetlighting, the use of a 3S1WCP methodology would shift additional costs to the residential and small power customer classes. Please see PNM Exhibit SC-1 Rebuttal, which is a bar chart that shows how each customer class is affected by various allocation methodologies. Moreover, the 12 CP allocator is more appropriate than the 3S1WCP allocators to allocate transmission costs. As shown above, PNM's transmission system is built to maintain constant, reliable service throughout the year and not just to meet peak demands.

Q. PLEASE SUMMARIZE NMIEC'S PROPOSAL TO USE A DEMAND ALLOCATOR AS OPPOSED TO AN ENERGY ALLOCATOR FOR A VARIETY OF COSTS.

A. NMIEC Witness Phillips recommends that PNM use a demand-based allocator for the following costs as opposed to PNM's proposal to allocate these costs on the basis of energy:

1. The non-labor component of production non-fuel O&M expenses. Phillips Direct at 3, lines 15-21.
2. Fuel transportation. Phillips Direct at 3, lines 22-23 – 4, lines 1-2.
3. Demand-related purchased power agreements ("PPAs"). Phillips Direct at 3, lines 22-23 – 4, lines 1-2.
4. Coal mine decommissioning costs. Phillips Direct at 3, lines 22-23 – 4, lines 1-2.