customers are being asked to shoulder a cost recovery burden that is not theirs to shoulder.

C. *Transmission Should Use the Generation Demand Allocator: 3S1WCP*

Q. DOES PNM USE DIFFERENT ALLOCATORS FOR TRANSMISSION COSTS THAN IT DOES FOR GENERATION COSTS?

A. Yes. As discussed by Ms. Chan, PNM uses 12CP method for transmission and 3S1WCP for generation costs.[47]

Q. WHY DOES PNM PROPOSE TO USE DIFFERENT COST ALLOCATORS FOR TRANSMISSION AND GENERATION?

A. Ms. Chan testifies that PNM uses a different allocator for generation because it believes that transmission demand is not subject to seasonal variations:

> 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.***" 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 reliability, the 12 CP demand allocator is appropriately used for transmission costs, in accordance with the NARUC Manual. PNM has consistently used this

[47] Chan, p. 32-34. As Ms. Chan notes: "The 3 S 1 WCP collects the highest three peak demand hours that fall in three summer months (June, July and August) and one non-summer month (December)." P. 28.

methodology to allocate transmission costs in prior rate cases.[48] (Emphasis added.)

Q. DOES THE NARUC QUOTE SUPPORT THE USE OF 12CP FOR TRANSMISSION?

A. No.

Q. PLEASE EXPLAIN?

A. Generation and transmission are subject to the same variations in peak demand.

Except for a few limited renewable energy sources, once energy is generated it needs to be transmitted: there is no other place for it to go. Thus, if generation facilities experience peak demand, so do transmission facilities. Likewise, if generation facilities are operating at off-peak levels, so do transmission facilities. That is, the load on generation and transmission facilities operate in tandem and both are subject to "significant variations in peak demand" as they are both subject to seasonal variations in retail demand.

Q. PLEASE EXPLAIN.

A. It is retail demand for power (electricity) that drives demand for generation and transmission capacity. Thus, since retail demand for electricity is subject to seasonal variations, so is demand for transmission capacity, and to the same degree that generation facilities are.

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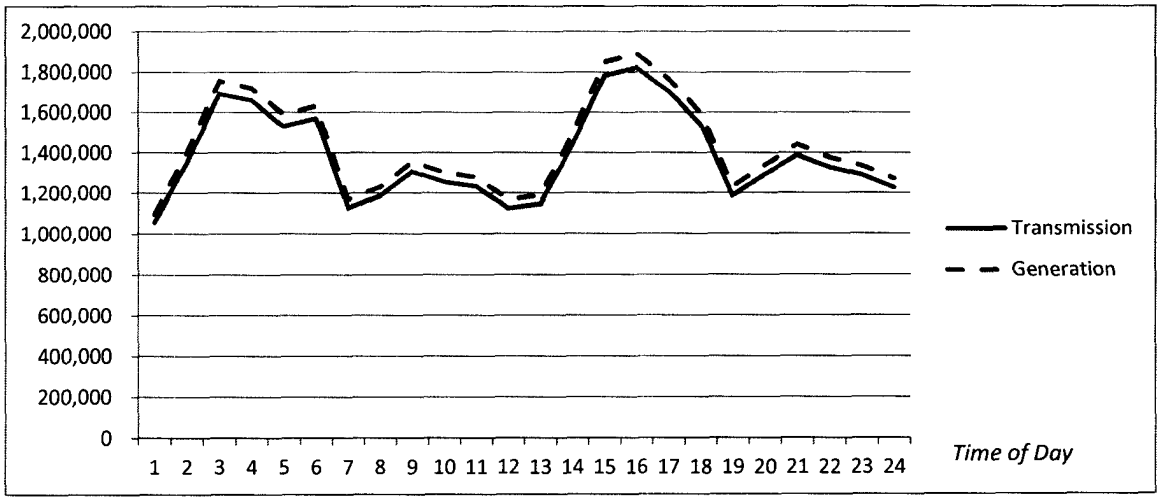
[48] Chan, p. 33-34.

Q. DO THE MONTHLY COINCIDENT PEAKS COINCIDE FOR GENERATION AND TRANSMISSION?

A. Yes. The Figure below shows 24 monthly coincident peak demand data (for the base and test years).[49] Clearly, the two move in tandem.

Figure 3: Coincident Peak Demand over 24 Months (BY and FTY)



Q. SO, IS PNM INCONSISTENT IN USING A 12CP ALLOCATOR FOR TRANSMISSION?

A. Yes. Since transmission loads and generation loads move in tandem, there is no justification for ***not*** using the same 3S1WCP allocator for both transmission and generation demand related costs.

Q. DOES PNM'S USE OF 12CP FOR TRANSMISSION SIGNIFICANTLY INCREASE THE ALLOCATION OF COSTS TO STREETLIGHTING CUSTOMERS?

[49] PNM Exhibit CS-3.

A. Yes. As shown in the Table below, CP12 allocates almost ***three times*** as much transmission-demand costs to Streetlighting as 3S1WCP.

Table 4: Comparison of Transmission Class Allocators

Allocator	Value	Ratio
3S1WCP	0.00188334	*1*
CP12	0.00548154	*3*

d. Streetlighting Uses Electricity at Night at Off-Peak Hours

Q. IS THERE ANOTHER ASPECT TO STREETLIGHTING THAT SETS IT APART FROM OTHER RETAIL USAGE?

A. Yes. Streetlighting uses electricity at night. It comes on at sunset and goes off at sunrise.

Q. WHY IS THIS OBSERVATION IMPORTANT FOR COST ALLOCATION?

A. As the Commission is well aware, the fixed costs of generation and transmission are driven by peak demand on the system. Off-peak usage, such as the use of Streetlighting, imposes no incremental capital costs on PNM. It is like a neighbor parking his car in your driveway when you are away: it may be annoying, but it does not cost you anything. Yet, a significant portion of the Streetlighting revenue requirement relates to generation and transmission demand (capital) costs, and PNM proposes to increase the allocation of those costs by over 9%.[50] This costing approach

[50] PNM Schedule A-02.