be slight. In that event the industrial customer would obtain to an extent free transportation of gas.

Colorado Interstate Gas Co. v. Federal Power Comm'n, 324 U.S. 581, 592 (1945).

There is no evidence PNM's demand-related costs being recovered are only PNM's incremental capacity costs or only the costs of PNM's peak load generators. "Clearly, PNM's generation plants are utilized and costs are incurred to provide electricity to Streetlighting and private area lighting customers throughout the year." Chan Rebuttal 20-22. Therefore, using the 3S1WCP Method to allocate generation demand costs is reasonable and should be approved.

3. TRANSMISSION ALLOCATION METHOD

PNM currently uses, and proposes to continue to use, the 12CP Method to allocate transmission demand costs. PNM explains, "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[.]" Chan Direct 33-34.

NMIEC argues that using the 12CP Method to allocate transmission demand costs is inappropriate because the transmission system is built to meet the annual system peak demand, which occurs, according to NMIEC, in the summer, and is not equal to the average of the 12 monthly peak demands. NMIEC argues that a 3 Summer CP Method should be used to allocate transmission demand costs. Phillips Direct 20.

The City/County argue that PNM should use the same method to allocate transmission demand costs that it uses to allocate generation demand costs: the 3S1WCP Method.[43] Dr. Ankum explained:

> 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

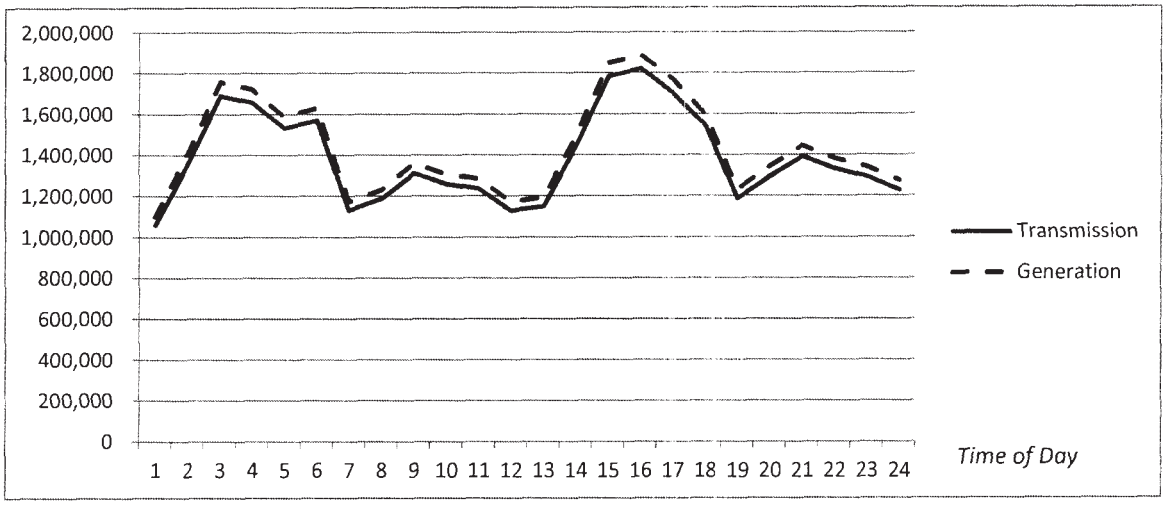
[43] A 12CP allocator allocates almost three times as many transmission-demand costs to Streetlighting as 3S1WCP. Ankum Direct 36-37.

> 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.

Ankum Direct 35.

Dr. Ankum submitted the following figure showing that the monthly coincident peaks coincide closely for generation and transmission:

Figure 1: Coincident Peak Demand over 24 Months (BY and FTY)



Ankum Direct 36.

PNM responded that "building generation to serve the annual system peak does not translate one-for-one to the transmission system and vice versa." While new plant might be added to meet new peak demands, the transmission system might already have enough capacity so that new transmission is not needed. Ms. Chan said that while PNM's transmission system is designed to meet peak demands, it also is designed to maintain a constant level of reliability throughout the year, not just at peak. Chan Rebuttal 25-26.

PNM's attempt to distinguish the transmission system from the generation system for purposes of allocating demand costs falls flat. Ms. Chan admitted that PNM's transmission system is designed to meet peak demands. PNM could hardly say that its generation system,

unlike its transmission system, is *not* designed to also maintain a constant level of reliability throughout the year, not just at peak.

PNM has shown by a preponderance of the evidence that the 3S1WCP Method should be used to allocate generation demand costs. The rationale for using the 3S1WCP Method to allocate generation demand costs extends to allocating transmission demand costs.

Attachment D to this Recommended Decision compares, *without banding*, class revenue allocations using the 12CP method and the 3S1WCP method to allocate transmission demand costs, if allocations were based strictly on the cost causation results of PNM's ECCOSS. The rate impact from using the 3S1WCP method is not dramatic. In any event, the rate impact on particular customer classes should not inhibit an appropriate allocation that is reflective of cost causation. Allocation can proceed consistent with cost causation and rate design is addressed separately. Tr. (4-27-16) 3164 (Phillips).

The 3S1WCP Method should be used to allocate transmission demand costs.

4. FUEL COSTS

In three lines of his prefiled testimony, NMIEC witness Phillips recommended allocating fuel costs to reflect summer and non-summer on- and off-peak periods consistent with PNM's TOU rate structure. Phillips Direct 15. Nowhere in his testimony did he discuss this recommendation. This recommendation should be denied. *See State v. King*, 2007-NMCA-130, ¶ 17, 142 N.M. 699 (court may refuse to consider arguments unsupported by authority or analysis).

XXII. RATE DESIGN

Once all costs have been functionalized, classified, and allocated, the next step is to determine the appropriate level of revenue to collect from each rate class. If PNM recovered its claimed non-fuel revenue deficiency from each class based on each Class' cost responsibility as