ENVIRONMENTAL ENERGY ALLIANCE OF NEW YORK
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June 13, 2017

Andrew McKeon, Executive Director
RGGI, Inc.
90 Church Street, 4th Floor
New York, NY 10007

Comments submitted by email to info@rggi.org.

Dear Mr. McKeon,

I am pleased to write on behalf of the Environmental Energy Alliance of New York, LLC ("the Alliance"; participating members identified below) to provide additional comments related to a discussion on allowance ownership we discussed in our comments dated May 19, 2017. In those comments we outlined our concerns about the relative share of allowances owned by compliance entities based on the Potomac Economics Report on the Secondary Market for RGGI CO_2 Allowances - Q4 2016 allowance status summary. Since we drafted our comments Potomac Economics released a Summary of the RGGI Annual Report on Market – 2106 (the "Summary"). We believe that the relative share of allowances held by compliance entities is important and that RGGI should be aware of a caveat in this Potomac Economics report:

> "Since the designation of a compliance entity as an investor is based on a review of its transactions and holdings, the designation of a particular firm may change over time as more information becomes available. Therefore, some of the quantities in this report may not match previous reports because of changes in the classification of particular firms" (page 5 of the Summary, footnote 2)

The total number of allowances held by compliance entities (compliance-oriented plus investors with compliance obligations) at the end of 2016 was 145 million (Table 1; the Summary). There are compliance obligations of 120 million tons. When the obligation allowances are removed the compliance entity allowance bank (allowances held minus obligations) is 25 million allowances. Investors without compliance obligations hold 89 million allowances so the total number of allowances in circulation after compliance obligations is 114 million allowances. At the end of 2016, compliance-oriented plus investors with compliance obligations held 22% of the allowances and investors without compliance obligations held the remaining 78%.

Table 1: Allowance Holdings (millions) at the End of 2016

Holdings	Category (page 29; Summary)
138	Holdings by Compliance-Oriented Entities
7	Holdings by Investors with Compliance Obligations
145	Compliance entity holdings
120	Compliance obligations at end of 2016
25	Compliance entity allowance bank
89	Holdings by Investors without Compliance Obligations
114	Total allowances in circulation after compliance obligations
22%	% total allowances held by compliance entities
78%	% total allowances held by investors without compliance obligations

Potomac Economic defines the compliance entities in the Summary (page 5) as follows:

> "For reporting purposes, firms are often broken up into the following categories:
> - *Compliance-Oriented Entities* – Compliance entities that appear to acquire and hold allowances primarily to satisfy their own compliance obligations.
> - *Investors with Compliance Obligations* – Firms that have compliance obligations but which hold a number of allowances that exceeds their estimated compliance obligations by a margin suggesting they also buy for re-sale or some other investment purpose. These firms often transfer significant quantities of allowances to unaffiliated firms[1].
> - *Investors without Compliance Obligations* – Firms without any compliance obligations.
>
> In this report, the "Investors with Compliance Obligations" category is sometimes combined with one of the other two categories when discussing market trends and participation. In all such cases, the text of this report clearly defines the grouping as either: "compliance entities" combining the first and second categories or "investors" combining the second and third categories."

In our May 19 comments the Alliance estimated that the compliance entity share of allowances at the end of 2016 was 40%; however, using the definitions shown above and the values presented in this updated Potomac Economic report, the compliance entity share is only 22%. The compliance entity share of the market is a pressing concern because the interim control period adjustments insure that the allowance bank will be drawn down so that compliance entities will eventually be compelled to purchase allowances from non-compliance entities to obtain enough allowances to remain in compliance. This situation will only

[1] The assessment of whether a compliance entity holds a number of allowances that exceeds its compliance obligations by a margin that suggests they are also buying for re-sale or some other investment purpose is based on: (a) the entity's forecasted share of the total compliance obligations for the entire RGGI footprint through 2020, (b) the total number of allowances in circulation, and (c) consideration of the pattern of the entity's allowance transfers to unaffiliated firms versus affiliated firms. Since the designation of a compliance entity as an investor is based on a review of its transactions and holdings, the designation of a particular firm may change over time as more information becomes available. Therefore, some of the quantities in this report may not match previous reports because of changes in the classification of particular firms.

be further complicated by program design changes currently being contemplated to periodically reduce the bank of allowances. When compliance entities are required to purchase allowances from noncompliance entities, it is rational to assume that the cost of allowances will go up as noncompliance entities seek a return on their investment. These added costs owing to limited access to allowances by compliance entities will be passed on to the ratepayers. Therefore, as the Alliance has previously suggested, we encourage the RGGI States to limit any efforts to “correct” the size of the allowance bank in light of the ownership limitations discussed above.

We appreciate the opportunity to comment on the RGGI program design elements discussed above. Thank you for your time and consideration.

Sincerely,

Sandra Meier

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