

**Western Climate Initiative, Inc.
Budget for Calendar 2017 and
Projected Expenditures for 2018
September 29, 2016**

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Introduction

This document describes the budget for calendar year 2017 and projected expenditures for calendar year 2018 for Western Climate Initiative, Inc. (WCI, Inc.) as adopted by the WCI, Inc. Board of Directors (“Board”) at its September 29, 2016 meeting (pending Board consideration and approval).

The requirements for cap-and-trade services were defined by the staff from the Participating Jurisdictions based on the support needed by the jurisdictions to implement their programs in 2017 and 2018. These jurisdiction requirements were used to define the work for the cap-and-trade services contractors. WCI, Inc. developed the requirements for WCI, Inc. personnel and direct operations needed to support the provision of these cap-and-trade services, as well as to carry out its administrative and organizational responsibilities.

The 2017 budget and 2018 expenditure projection are also informed by three developments in 2016:

- Ontario: In 2016, Ontario passed legislation and published regulations to implement a cap-and-trade program to reduce its greenhouse gas emissions and achieve related environmental and economic benefits. Ontario signed a funding agreement with WCI, Inc. in March 2016. The 2017 budget and 2018 expenditure projection includes costs for enhancing the WCI, Inc. cap-and-trade services (particularly, but not exclusively, the Compliance Instrument Tracking System Service, CITSS and the Auction platform) to enable additional jurisdictions to be supported. Additionally, the estimates include provision for systems development that may be required to conform to the Ontario program requirements, which are currently in the process of being finalized. WCI, Inc.'s support for an Ontario program does not predetermine the outcome of discussions among the jurisdictions on whether to link programs.
- New Auction and Reserve Sale Administrator Services Agreement: In 2015, WCI, Inc. developed and executed an open competitive process for procuring Auction and Reserve Sale Administrator Services. The new contract was awarded to CSRA and work began in the fall of 2015. During 2016, the new contractor was unable to meet the contractual requirements of the agreement and the agreement was consequently terminated. WCI, Inc. then selected the runner-up to CSRA (Markit) and successfully negotiated an agreement that was approved by the Board on June 14, 2016. The 2017 budget includes costs associated with California and Quebec Joint Auctions and stand-alone Auctions for Ontario. The 2017 budget also includes costs associated with the consolidation of the Markit platform, which is anticipated to increase the stability of the platform. The transition to the new Markit platform is planned for the third quarter of 2017.
- New Financial Services Agreement: In 2016: In 2015, WCI, Inc. release of Request for Proposal (RFP) for the Financial Services Administrator contract. At the conclusion of the procurement process, no contractors were selected. In 2016, WCI, Inc. issued a Request for Expression of Interest for the Financial Services Administrator contract. The result of this procurement was the selection of Deutsche Bank North American Trust Company (pending Board consideration and approval). The 2017 budget and 2018 expenditure projection reflect the costs of this agreement.

The resulting budget and projection of expenditures presented in this document provide the best estimates of the anticipated fiscal requirements for the operation of WCI, Inc. for this two year period. All amounts shown are in U.S. dollars.

The 2017 budget and the projected 2018 expenditures for WCI, Inc. are broken down into two categories – *Cap-and-Trade Services* and *Personnel and Direct Operations* – and summarized in Table 1. The *Cap-and-Trade Services* category includes expenditures for the contract services required to support the Participating Jurisdictions' greenhouse gas emissions trading programs. The *Personnel and Direct Operations* category includes expenditures for operating WCI, Inc.

Table 1: Total Budget for WCI, Inc. for 2017 and Projected Expenditures for 2018

	2017 Budget	2018 Projected
Cap-and-Trade Services	\$ 3,802,269	\$ 2,934,037
Personnel and Direct Operations	\$ 991,667	\$ 996,914
Total	\$ 4,793,936	\$ 3,930,951

Cap-and-Trade Services

The *Cap-and-Trade Services* category contains estimates for WCI, Inc. to accomplish its purpose to “provide technical and scientific advisory services” to its Participating Jurisdictions. WCI, Inc. contracts for services requested by the Participating Jurisdictions to support their programs. The 2017 budget and the projected 2018 expenditures for *Cap-and-Trade Services* are summarized in Table 2 and described in the text below. The services required, and the cost of those services, are based on WCI Inc.’s experience developing contracts with each of the contractors and managing their work.

Cap-and-Trade Services support the cap-and-trade programs for all Participating Jurisdictions. The contractors providing each of the services below are capable of expanding them, with appropriate funding, to include additional Participating Jurisdictions.

Compliance Instrument Tracking System Service (CITSS) Application Development, Support and Hosting

Since 2011, WCI, Inc. and the Participating Jurisdictions have worked with SRA International, Inc. (CSRA) to develop and support the Compliance Instrument Tracking System Service (CITSS). The CITSS provides accounts for market participants to hold and retire compliance instruments and to record transactions of compliance instruments with other account holders. The CITSS is supporting programs in California and Québec (in both English and French).

CITSS hosting includes services and technology (hardware and software) necessary to ensure that the CITSS is online and available at specified levels of service to all program participants and the jurisdictions’ staff.

Initial development of the CITSS was funded by the California Air Resources Board (ARB). In May 2012, WCI, Inc. contracted with SRA for additional application development and hosting, and the contract has been amended to support continued application development and hosting. The most recent contract amendment provides for support through December 31, 2017 bringing the total contract value to \$7,052,443.

The budget for CITSS development, application support, and hosting through the WCI, Inc. contract with SRA is \$1,220,000 in 2017. Projected expenditures for these services in 2018 is \$1,120,000.

The 2018 expenditure projection includes continued hosting and application support, as well as ongoing jurisdiction development needs.

Compliance Instrument Tracking System Service (CITSS) Help Desk

The WCI, Inc. Help Desk provides multi-jurisdictional telephone and online customer assistance for CITSS users. The help desk service provider fields inquiries from CITSS users, resolves user questions that fall within their scope of service, and refers inquiries that fall outside their scope of services to the appropriate staff designated by WCI, Inc. and the jurisdictions.

WCI, Inc. has contracted with ICF Incorporated, LLC (ICF) for help desk services. In May 2015, the Board approved the exercise of a two-year contract option period for the ICF contract. The total value of the contract is \$361,126 over the period October 1, 2012 to September 30, 2017. The budget for help desk services in 2017 is \$15,000 with the same expenditure level projected for 2018.

Auction and Reserve Sale Services

WCI, Inc. supports Participating Jurisdictions in executing coordinated auctions of greenhouse gas emission allowances that conform to the jurisdictions' requirements. WCI, Inc. also supports the execution of reserve sales from the Participating Jurisdictions' programs. In 2011, ARB contracted with Markit Group Limited (Markit) to develop and implement an auction and reserve sale platform, and to serve as auction and reserve sale administrator. In January 2013, WCI, Inc. contracted with Markit to build on its work with ARB and develop and implement the auction and reserve sale platform to support auctions and reserve sales among linked programs in California and Québec. The contract with Markit was amended to provide auction and reserve sale services through December 31, 2016.

In 2015, and in accordance with the WCI, Inc. Procurement Policy, WCI, Inc. staff, with the assistance and involvement of Participating Jurisdictions, developed and executed an open competitive process for procuring the Auction and Reserve Sale Administrator Services. The contract was awarded to SRA, with a total contract value of \$3,380,571.10 over the period of October 8, 2015 to January 31, 2021. Work under the contract began in October 2015. During 2016, SRA was unable to meet the contractual requirements of the agreement and the agreement was consequently terminated by the Board in June 2016. WCI, Inc. then selected the runner-up bidder, Markit. The Board approved a contract with Markit. The total value of the contract is \$3,977,023. The 2017 budget includes costs associated with California and Quebec Joint Auctions and stand-alone Auctions for Ontario. The 2017 budget also includes work to make improvements to the auction platform. The transition to the new platform is planned for the third quarter of 2017. The 2017 budget Auction and Reserve Sale Administrator Services is \$1,341,732. Projected expenditures for these services in 2018 is \$781,500.

Financial Administrative Services

As part of supporting the execution of auctions and reserve sales, WCI, Inc. provides financial administrative services, which includes evaluation of bid guarantees and conduct of settlement for auctions and reserve sales. In collaboration with the Participating Jurisdictions, ARB

contracted with Deutsche Bank in 2011 to provide these services for ARB auctions and reserve sales. WCI, Inc. contracted with Deutsche Bank in 2013 to support Quebec's first auction and to support joint auctions. The contract with Deutsche Bank has been amended to provide continued financial administrative services through December 31, 2016. The total value of the contract is \$744,685.

WCI, Inc. released a request for expression of interest (REI) in February 2016 to procure financial administrative services, in accordance with the Procurement Policy. The result of this procurement was a contract with Deutsche Bank (pending Board consideration and approval). The total value of the contract through January 31, 2021 is \$3,072,000. The 2017 budget for financial administrative services is \$824,000. Projected expenditures for these services in 2018 is \$640,000. The 2017 budget includes costs associated with California and Quebec joint auctions and stand-alone auctions for Ontario.

Market Monitor

WCI, Inc. supports the Participating Jurisdictions by contracting for analyses that support market monitoring. These analyses include review and evaluation of auctions and reserve sales to identify any inappropriate market activity or deviations from the requirements of each Participating Jurisdiction's program. Also, the analyses include ongoing examination of allowance and offset holdings and transfer activity to identify any potentially inappropriate market activity. The results of the analyses are provided to the Participating Jurisdictions, each of which retains its market monitoring responsibilities and authorities.

In 2015, in accordance with the WCI, Inc. Procurement Policy, WCI, Inc. staff, with the assistance and involvement of Participating Jurisdictions, developed and executed an open competitive process for procuring Market Monitoring Services. The contract was awarded to Monitoring Analytics, and has a contract value of \$691,390 over the period of December 1, 2015 to January 31, 2020. The contract includes an optional two-year extension with a value of \$324,127.

The 2017 budget of \$161,537 for market monitor services was developed based on the contract awarded to Monitoring Analytics in 2015 and includes costs for providing services to a new Participating Jurisdiction, Ontario. The 2018 projected expenditures are \$137,537, and are expected to decline from 2017 because the monitoring related start-up costs to support Ontario and the new auction platform are expected to be completed in 2017.

Support for Planning and Analysis

At the direction of the Board, WCI, Inc. staff, with support from jurisdiction staff, will conduct planning and analysis in 2017 and 2018 to plan for providing continuing support to the Participating Jurisdiction programs. Over the next several years, Participating Jurisdictions will be amending their programs, including specifying activities for the post-2020 period. Additionally, discussions that could lead to the need for capacity to support additional Participating Jurisdictions are anticipated.

In consultation with the Participating Jurisdiction, WCI, Inc. will be examining:

- Technology: Potential changes to technology requirements to provide CITSS and auction services may be examined. The suitability of existing systems and procurement methods for continued support and potential expansion to new jurisdictions requires examination.
- Processes: Potential changes to WCI, Inc., contractor, and jurisdiction processes may be examined. The expandability of existing processes (including working groups) to include more jurisdictions requires examination. Options for WCI, Inc. taking on additional administrative support responsibility to improve operational efficiencies among jurisdictions may be considered.
- Linking: Streamlining linking processes and coordinating linking analyses have the potential to reduce costs and improve efficiencies for Participating Jurisdictions. Options for WCI, Inc. to coordinate activities on behalf of Participating Jurisdictions may be examined.

The 2017 budget and 2018 expenditure projection each include \$240,000 for these activities. The budget estimates are based on potential costs of consultant and contractor support for the range of activities that may be considered. At the direction of the WCI, Inc. Board, the budget will be used to procure support to assist with planning, analysis, and related activities. Any use of these funds will require Board direction and approval.

Cash Flow Reserve

Prudent management of funds and cash flow requires that WCI, Inc. maintain funds such that an unexpected expenditure or an unexpected delay in receipt of funds through the funding agreements would not impede its ability to provide services to the jurisdictions. A cash flow reserve also recognizes that jurisdiction funding agreements have typically been for two years, while budgets are annual, and allows WCI, Inc., with the approval of the Board and Participating Jurisdictions, some inter-year flexibility in expenditures.

Because of conservative budgeting (e.g., budgeting for reserve sales even though they have not yet been required) and some shifting of the timing of expenses such as hiring WCI, Inc. staff, WCI, Inc. has had a cash flow reserve since the end of its first full year of operation, 2012. Since mid-2013, that cash flow reserve has been approximately six months of anticipated expenditures.

The cash flow reserve does not appear as a budget line item, because it is not a projected expenditure. The development of jurisdiction funding agreements has incorporated and will in the future incorporate the existence of a cash flow reserve. The level of jurisdiction funding agreements could be lower than a future budget, if the cash flow reserve were to be drawn down. The Executive Director recommends that the approximately 6 months of expenses provides an appropriate level of cash flow reserves, and further recommends revisiting the level of the reserve with the development of the 2018 budget, 2019 projected expenditures, and 2018 – 2019 jurisdiction funding agreements.

This cash flow reserve is different from items in previous budgets with similar names, such as the “Procurement Reserve” in the 2015 budget. WCI, Inc. executed several competitive procurement processes in 2015 and 2016. The procurement reserve allowed for the possibility of additional development work for any new or modified systems, or overlap of service providers if

there was a transition to a new service provider. WCI, Inc. does not plan to undertake a major competitive procurement in 2017 or 2018.

Table 2: 2017 Cap-and-Trade Services Budget and Projected Expenditures for 2018

	2017 Budget	2018 Projected
CITSS Development, Support, and Hosting	\$ 1,220,000	\$ 1,120,000
CITSS Help Desk	\$ 15,000	\$ 15,000
Auction Services	\$ 1,341,732	\$ 781,500
Financial Administrative Services	\$ 824,000	\$ 640,000
Market Monitor	\$ 161,537	\$ 137,537
Support for Planning and Analysis	\$ 240,000	\$ 240,000
Subtotal	\$ 3,802,269	\$ 2,934,037

Personnel and Direct Operations

The *Personnel and Direct Operations* category contains cost estimates for the operation of WCI, Inc. This category includes expenditures for staff salaries and benefits, office rent and equipment, professional and administrative support services, insurance fees, travel and meeting expenses, and other direct operating expenses. The budget estimates are based on WCI, Inc. operating experience, and the anticipated evolution of the cap-and-trade program requirements as specified by the Participating Jurisdictions. The 2017 budget and projected expenditures for 2018 are summarized in Table 3 and described in the text below.

Personnel

WCI, Inc. personnel carry out the responsibilities for WCI, Inc. as directed by the Board and are responsible for day-to-day operation of the organization and for oversight and management of the contractors hired to provide cap-and-trade services as described above. The 2017 budget and projected 2018 expenditures include four staff positions. The four staff positions are:

- an Executive Director located in the U.S.;
- an Assistant Director located in Canada to support the Executive Director with operational and business requirements and to serve as a Project Manager for cap-and-trade services;
- a Project Manager to coordinate cap-and-trade services; and
- an Office Manager / Administrative Assistant.

The revised 2017 personnel budget and projected 2018 expenditures include salary and benefits for employees and payments to contractors providing advisory services. The budget for

personnel and staffing is \$567,167 in 2017 and the projected expenditures for personnel and staffing in 2018 are \$572,414.

Office Rent and Equipment

WCI, Inc. opened an office in Sacramento, California, in September 2012 and opened an Office in Québec City in March 2016. Both the Sacramento office and Québec City office are located in executive office suites that are fully furnished; rent includes access to a copier, telephone, internet and other standard office amenities.

The budget for office rent, as well as computers, office supplies, and other equipment, totals \$86,400 in 2017 with the same expenditure level projected for 2018.

Professional and Administrative Support Services

WCI, Inc. has engaged the services of several professionals to support WCI, Inc. operations, including:

- legal counsel;
- an accountant to administer the accounting systems, advise on accounting procedures, report on the financial activities of the corporation, and prepare tax returns;
- an auditor; and
- a payroll service that also supports all payroll tax filings and the management of several human resources activities, including employee benefits.

WCI, Inc. has also budgeted for translation services (French and English), information technology (IT), and outreach and communications services. The budget for IT services primarily covers the purchase of security certificates (SSL) for the WCI, Inc. websites maintained to administer the program and for an IT contractor to maintain WCI, Inc. equipment. The budget for outreach and communications covers the costs of stakeholder engagement sessions, communication of key program information, and hosting, maintenance, and updates to the WCI, Inc. website, as determined by the Board and Executive Director.

The total estimate for these professional and administrative support services is \$244,100 for each year. The 2017 budget includes \$96,000 per year for legal services, \$36,000 per year for accountant services, \$36,000 per year for auditor services, \$24,000 per year for translation services, \$30,000 per year for IT services, and \$9,600 per year for payroll services. The budget for outreach and communications is \$12,500.

Insurance Fees

WCI, Inc. has obtained corporate insurance policies including coverages for general liability, professional liability, directors and officers liability, employment practices liability, and workers' compensation to meet needs for both U.S. and Canadian operations. The total cost for insurance coverage is \$48,000 each year.

Travel and Meeting Expenses

The 2017 budget and projected 2018 expenditures include travel by U.S. and Canadian staff as necessary to carry out their project management responsibilities and to attend organizational meetings. The budget for U.S. travel is \$15,000 each year and the budget for Canadian travel is \$9,000 each year. All WCI, Inc. travel must be approved in advance by the Executive Director, and is limited by *per diem* rates equal to those established by the U.S. federal government.

The budget and projected expenditures also include expenses associated with WCI, Inc. meetings in the U.S. and Canada, including meetings of the Board. Consistent with WCI, Inc.'s Open Meeting Policy, the budget for meeting expenses includes costs associated with hosting public meetings, including conference room rental, audio-visual equipment, reproduction of documents, and other direct expenses. The 2017 budget and projected 2018 expenditures include \$10,000 for meetings in the U.S. and Canada each year.

Other Expenses

The budget and projected expenditures include a category for other operating costs that are not yet otherwise included or anticipated. The budget for other expenses may cover budgeted costs that turn out to be higher than was expected. The budget for other expenses is \$12,000 each year.

**Table 3: 2017 Personnel and Direct Operations Budget and
Projected Expenditures for 2018**

	2017 Budget	2018 Projected
Personnel	\$567,167	\$572,414
Professional and Administrative Support	\$244,100	\$244,100
Legal Services	\$96,000	\$96,000
Accountant Services	\$36,000	\$36,000
Auditor Services	\$36,000	\$36,000
Payroll Processing	\$9,600	\$9,600
IT Services	\$30,000	\$30,000
Translation Services	\$24,000	\$24,000
Communications/Outreach	\$12,500	\$12,500
Office Rent and Equipment	\$86,400	\$86,400
Office Rent – US	\$42,000	\$42,000
Office Rent – Canada	\$18,000	\$18,000
Equipment, supplies, telephone	\$26,400	\$26,400
Insurance Fees	\$48,000	\$48,000
Travel, Meeting and Other Expenses	\$46,000	\$46,000
US Travel	\$15,000	\$15,000
Canadian Travel	\$9,000	\$9,000
US Meeting Costs	\$5,000	\$10,000
Canadian Meeting Costs	\$5,000	\$0
Other Expenses	\$12,000	\$12,000
Total	\$991,667	\$996,914