

Draft Minutes of the Board of Directors
Subject to Review and Adoption by the WCI, Inc. Board of Directors

Thursday, October 11, 2018

The Western Climate Initiative, Inc. Board of Directors (the “Board”) held a meeting on October 11, 2018, at the Hilton Québec in Québec City, Québec. After an announcement of actions taken by the Board in executive (closed) session preceding the public session, the Board approved the May 11th meeting minutes, reviewed corporate policies, elected officers and appointed members to standing committees, approved an amendment to the WCI, Inc. By-laws, approved the 2018-2021 Strategic Plan, adopted the 2019 budget, and approved the procurement process for the Agreement to Support the Development of an Impact Assessment pending final approval by the Board Chair.

The meeting was called to order by the Chair, Matthew Rodriguez, at approximately 11:06 a.m. Pacific Time / 2:06 p.m. Eastern Time. Jeannine Farrelly kept the minutes of the meeting. The meeting was conducted in English only. One member of the public, Matt Lithgow from Carbon Pulse, attended the meeting via teleconference.

Attendance

The following Directors were present for the public session, constituting a quorum pursuant to the By-Laws:

- Matthew Rodriguez (Chair)
- Jean-Yves Benoit (Treasurer)
- Mary Nichols (Secretary)
- Emily Wimberger (on behalf of Mary Nichols)
- Éric Thérout
- Lilani Kumaranayake
- Jason Hollett

Also present were:

- Mark Wenzel, State of California
- France Delisle, Province of Québec
- Stephane Legros, Province of Québec
- Onil Bergeron, Province of Québec
- Julie Côté, Province of Québec
- Thomas Duchaine, Province of Québec
- Brittany White, Province of Nova Scotia
- Greg Tamblyn, WCI, Inc.
- Eric Turcotte, WCI, Inc.
- Jeannine Farrelly, WCI, Inc.
- Alain Ikombu, Lionbridge (Translator)
- Chris Delfino, WCI, Inc. Corporate Counsel

Mr. Rodriguez opened the meeting for public session and roll call was taken by Mr. Tamblyn. A quorum was established. Mr. Rodriguez welcomed Jason Hollett and Lilani Kumaranayake from Nova Scotia to the WCI, Inc. Board of Directors. Following brief introductions, Mr. Rodriguez asked if any Board members had any changes or additions to the agenda. Mr. Tamblyn requested to remove the approval of an amendment to the Ontario Funding Agreement from the agenda, to which there were no objections.

I. Actions Taken by the Board in the Executive Session

During Executive Session, the Board approved an amendment of the SRA CITSS Agreement to extend the term of the Agreement through 2020 and increase maximum expenditures under the agreement by approximately \$2 million. The amendment is necessary to support work necessary to support the cap-and-trade programs being implemented by Participating Jurisdictions.

The Board also approved an agreement with KAI Partners, Inc. for Enterprise Architect Services. The work completed under the agreement will support the development of a technology roadmap, which will support future strategic planning initiatives and long-term planning of the Corporation.

The Board also approved the May 11, 2018 Executive Session meeting minutes.

II. Approve May 11, 2018 Board Meeting Minutes

The May 11, 2018 minutes were presented in both English and French. Mr. Rodriguez asked if there were any questions or comments to the minutes. Mr. Benoit requested a minor change to the French version of the minutes to make the translation better align with the wording in the English version. Mr. Rodriguez asked if there were any other questions or corrections to the minutes as they were presented. Hearing none, Mr. Rodriguez asked for a motion to approve the minutes with the suggested modification by Mr. Benoit.

Mr. Benoit made a motion to approve the minutes with the suggested modification. The motion was seconded by Mr. Th  roux and unanimously approved by the Board. Mr. Hollett and Ms. Kumaranayake abstained, since they were not Directors at the time of the meeting.

III. WCI, Inc. Corporate Policies

WCI, Inc. Corporate Counsel, Chris Delfino, gave an overview of the Ethical Guidelines and Conflict of Interest Policy. Mr. Delfino reminded the members of the Board that the Ethical Guidelines and Conflict of Interest policy must be signed annually by each Director and Board Alternate. Mr. Tamblyn will be collecting all signed copies and report back to the Chair once all the documents have been received.

IV. Elect Officers and Appoint Standing Committee Members for 2019

a) Officers

As provided for in the By-Laws, the Board elects officers and appoints members to standing committees annually. Mr. Rodriguez made a motion on the following resolution:

RESOLVED that the following-named persons are elected to the offices set forth beside their respective names, to serve until the next annual meeting of the Directors and until their successors are duly elected and qualified:

- **Chair:** Eric Theroux
- **Vice Chair:** Mary Nichols
- **Treasurer:** Jean-Yves Benoit
- **Secretary:** Jason Hollett

Mr. Rodriguez asked if there were any questions from the Board. Hearing none, the motion proposed by Mr. Rodriguez was seconded by Mr. Th  roux and unanimously approved by the Board. Upon the motion duly made, seconded and unanimously carried, Mr. Th  roux took over board chair duties. Mr. Th  roux asked if there were any comments from the public. There were no comments.

b) Appointment of Standing Committee Members

i. Executive Committee

The membership of the Executive Committee is established in the By-Laws, and consists of the four corporate officers and additional Class A directors as approved by the Board. The Chair of the Board serves as chairperson of the Executive Committee.

Upon a motion by Mr. Rodriguez and seconded by Ms. Wimberger, the Board unanimously approved the following resolution:

RESOLVED that the Executive Committee shall be comprised of the following Directors:   ric Th  roux, Mary Nichols, Jean-Yves Benoit, Jason Hollett, Matt Rodriguez.

ii. Audit Committee

The Audit Committee shall consist of no fewer than two and no more than six independent non-compensated Class A directors. This Committee shall oversee the quality and integrity of the Corporation's accounting, auditing and reporting practices. The specific powers and responsibilities of the Audit Committee shall be specified in an Audit Committee Charter, which shall be adopted from time to time by the Board.

Upon a motion by Mr. Hollett and seconded by Mr. Benoit, the Board unanimously approved the following resolution:

RESOLVED that the Audit Committee shall be comprised of the following Directors:   ric Th  roux, Matt Rodriguez, Lilani Kumaranayake.

iii. **Finance Committee**

The Finance Committee shall advise the Treasurer and the Board as to the investments, budget, and general fiscal policy of the Corporation. The Finance Committee shall consist of at least two Class A directors, one of whom shall be the Treasurer, who shall serve as chairperson of such Committee.

Upon a motion by Mr. Wimberger and seconded by Ms. Kumaranayake, the Board unanimously approved the following resolution:

***RESOLVED** that the Finance Committee will be chaired by the Treasurer and shall be comprised of the following Directors: Jean-Yves Benoit (Chair of the Committee), Mary Nichols, Jason Hollett.*

V. **Discuss and Approve Amendment to the WCI, Inc. By-laws**

Mr. Tamblyn presented a proposed amendment to the WCI, Inc. By-laws for the Board's consideration. Included in the materials for the meeting was a memo recommending proposed changes to the By-laws that would remove Ontario as a Participating Jurisdiction.

Mr. Benoit asked if Ontario would continue using WCI, Inc. services until they fully complete repealing their Cap-and-Trade program. Mr. Tamblyn responded that Ontario will continue using WCI, Inc. services through the end of November. Mr. Benoit asked whether the exact terms of the agreement, specifying the services to be provided to Ontario, were still under negotiation. Mr. Tamblyn confirmed that the terms were still being negotiated with Ontario.

Mr. Rodriguez asked if Ontario is aware of this proposed change to the By-laws, and Mr. Tamblyn stated that Ontario is, indeed, aware of the proposed change.

Ms. Kumaranayake asked whether it would create timing issues to approve an amendment to the By-laws before finalizing changes to the Ontario Funding Agreement. Mr. Tamblyn responded that there were no issues from a timing perspective, particularly since the Ontario Board members resigned their positions on September 28, 2018.

Mr. Th roux asked if there were any questions from the public. Matt Lithgow, from Carbon Pulse, asked for clarification about the difference between amending the WCI, Inc. By-laws and the Ontario Funding Agreement. Mr. Tamblyn explained that WCI, Inc. has funding agreements with each Participating Jurisdiction that specify what services are to be provided and the payment terms. In order for WCI, Inc. to allow Ontario to no longer receive those services, WCI, Inc. must amend their funding agreement to move the expiration date up to November 2018 and amend the payments to WCI, Inc. as they will no longer be using WCI, Inc.'s services. The second part is to remove Ontario as a Participating Jurisdiction from the By-laws to remove their ability to participate in the governance of the Corporation. For this reason, the By-laws and the Ontario Funding Agreement are separate items for Board consideration and approval. Mr. Benoit added that WCI, Inc. has received resignation letters from the Ontario Board members, so adopting a change to the By-laws is only a formal consequence of their resignation.

Ms. Nichols joined the meeting at 11:38 a.m. Pacific Time / 2:38 p.m. Eastern Time.

Mr. Rodriguez stated that removing Ontario from the by-laws would be done without prejudice to potentially working with Ontario again in the future. Mr. Rodriguez then made a motion on the following resolution:

RESOLVED that the Board of Directors hereby approve the amendment to the WCI, Inc. By-laws to remove Ontario as a Participating Jurisdiction in the form and substance as presented to the Board and attached to the Agenda for the Board of Directors meeting at which this resolution has been adopted.

The motion was seconded by Ms. Kumaranayake and unanimously approved by the Board.

VI. Approval of Strategic Plan

Mr. Tamblyn presented the WCI, Inc. 2018-2021 Strategic Plan for the Board's consideration. The Plan is the first strategic plan developed by WCI, Inc. and builds on the mission, vision and values that were established by the Board. Mr. Tamblyn noted that the Plan was developed with extensive input from the Participating Jurisdictions. The Plan describes how WCI, Inc. can meet the future needs of the Participating Jurisdictions and position WCI, Inc. as a globally recognized model for how jurisdictions can work together to operate a cost-efficient carbon market. The vision for success of the Plan is that by 2022, WCI, Inc. is an agile and responsive organization with people, processes, and technologies operating at peak performance and efficiency to deliver enhanced services to our Participating Jurisdictions. Mr. Tamblyn added that in order to deliver on this vision, WCI, Inc. will need support from the Partnership at all levels and a willingness to embrace and proactively manage change.

Mr. Tamblyn gave an overview of the Plan's four major goals: (1) Strengthen the Partnership through enhanced collaboration, communication and decision-making; (2) Consistently meet or exceed expectations by delivering high-quality, efficient and responsive services; (3) Build and effectively manage a highly skilled and engaged workforce; and (4) Establish WCI, Inc. as a recognized leader within the carbon market space. Mr. Tamblyn noted that the Partnership is strong and has worked well together over the years, so the purpose of this Plan is to build on that success to help us work even better together.

Mr. Tamblyn stated that the Plan is ambitious, so being a small team with limited resources could be a risk to the Plan. To address this risk, staff have prioritized the activities and adjusted the timeline necessary to complete the Plan. In addition, the 2019 budget and 2020-2021 projections include funding to support the implementation of the Plan. WCI, Inc. will provide regular updates to the Board at Board meetings and through the annual report. He added that the Plan should be viewed as a living document. As new data comes out of the technology road-mapping activities, we will want to be responsive and adjust the Plan as necessary. Staff will bring any significant new information back to the Board in May 2019 after the completion of the roadmap. Mr. Tamblyn asked if there were any questions.

Mr. Thérout expressed his appreciation to the staff for their time and effort in developing the Plan, and for creating a clear vision for the next few years. Mr. Hollett praised the Plan's fourth major goal and expressed his appreciation for how WCI, Inc. and jurisdiction staff from California and Québec served as his program's go-to resource throughout the onboarding process.

Ms. Kumaranayake commented that the Plan is well-written and gave a good sense of where the organization has been and where it wants to be in three years. She made a suggestion for how the document could be streamlined for the purposes of sharing it publicly, given the length of the document. Mr. Tamblyn responded that staff has plans to produce a document that streamlines the information in the Plan and presents key concepts in a more visual format to better engage readers.

Ms. Nichols expressed her appreciation for the work that staff did to develop the Plan. She stated that staff has produced something very useful and she hopes others will embrace the Plan.

Mr. Benoit agreed with the other Board members' comments and praised WCI, Inc. staff for consulting effectively with Participating Jurisdictions over the past year and a half to produce a comprehensive Plan and timetable. He added that he looks forward to working with staff on the implementation of the Plan.

Mr. Rodriguez commented that he supports Ms. Kumaranayake's suggestion of having a short summary of the document to share publicly. He stated that the Plan does a good job of articulating a clear vision for WCI, Inc., and he is appreciative of the work that has gone into developing the Plan and the amount of progress that has already been made. He stated that the focus will now be on implementing and showcasing the Plan, which should be helpful in finding other potential new partners.

Mr. Th  roux commented that the fourth goal is in sync with what the Participating Jurisdictions intend to do to promote carbon pricing and the Partnership's carbon market approach to fighting climate change.

Mr. Th  roux asked if there were any questions from the Board or public. Hearing none, Mr. Th  roux asked for a motion to approve the WCI, Inc. 2018-2021 Strategic Plan.

Mr. Benoit made a motion to approve the WCI, Inc. 2018-2021 Strategic Plan. The motion was seconded by Ms. Nichols and unanimously approved by the Board.

VII. Finance Committee Report

a) Treasurer's Evaluation of Compliance with Funds Management Policy

WCI, Inc. maintains a Fund Management Policy that establishes requirements for the management of the Corporation's funds, including that the Treasurer shall prepare and present to the Board an evaluation of the compliance with the policy at least annually.

Mr. Benoit presented the memo, which indicated that WCI, Inc. is in compliance with the policy. There are certain instances where WCI, Inc. funds exceed the approved thresholds because of holds placed on funds by Bank of the West. In addition, Mr. Benoit stated that WCI, Inc. funds exceeded the approved thresholds for short periods of time, usually within one business day, when an investment comes to maturity. Mr. Benoit recommended that the Finance Committee evaluate whether the Funds Management Policy should be modified to allow uninsured cash held in the Corporation's interest bearing and non-interest-bearing accounts to temporarily exceed the \$250,000 USD and \$500,000 CAD limits as long as it does not exceed those limits for more than one open business day. If an amendment to the Funds Management Policy is

recommended by the Finance Committee, a proposal would be presented to the Board for consideration at the next meeting of the Board.

Ms. Kumaranayake asked what the rationale was for the Funds Management Policy of setting a \$250,000 USD and \$500,000 CAD limit. Mr. Benoit explained that it was intended to protect the Corporation from the loss of its assets in the event of a bank going bankrupt. Although the probability of a bank going bankrupt has a very low probability, in order for WCI, Inc. to meet its financial obligations, the Corporation is forced to exceed those insured amounts at various times throughout the year, especially in Canada where the insured amount is lower. To lessen the risk, the Corporation purchases certificates of deposits and securities that are fully insured so that even if a bank goes bankrupt the Corporation does not lose its assets. Ms. Kumaranayake asked if the management of funds has caused operational difficulties. Mr. Benoit responded that the Board amended the Funds Management Policy on April 20, 2017 to give the Corporation more flexibility, which has made it more manageable, but he would let Mr. Tamblyn give his perspective. Mr. Tamblyn responded that though there is still some juggling that must be done with the funds, it has become more manageable since the policy was changed.

Mr. Thérout asked if there were any questions from the public; there were no questions.

b) Finance Committee presentation of the 2019 budget and projected expenses for 2020 and 2021

Included in the materials for Board discussion were the 2019 Budget and Projected Expenses for 2020 and 2021. The budget and projected expenses were developed with input from the Participating Jurisdictions based on the needs for their cap-and-trade programs. The resulting budget and projected expenditures presented to the Board provide the best estimates of anticipated fiscal requirements for operation of WCI, Inc. All of the amounts are in US dollars.

The budget and projections were presented in two categories: Cap-and-Trade Services and Personnel and Operations. The 2019 budget for Cap-and-Trade services is approximately \$2.4 million and \$1.4 million for Personnel and Operations. The 2020 projected budget is approximately \$2.5 million for Cap-and-Trade Services and \$1.5 million for Personnel and Operations. The 2021 projection is \$2.4 million for Cap-and-Trade Services and around \$1.5 million for Personnel and Operations.

The Budget and Projected Expenses document also describes how the Corporation manages a cash flow reserve. A cash flow reserve is recommended in cases in which an unexpected expense or a delay in receipt of funds from a Participating Jurisdiction could impede the ability of the Corporation to provide service to the Participating Jurisdictions. At the beginning of 2019 the cash flow reserve is expected to be approximately 10 months of expenses. This is higher than reserves from prior years, but by the end of the year the cash reserve is expected to return to close to the recommended level. Mr. Tamblyn recommended re-evaluating the appropriate level of reserves with the development of the 2020 budget and 2021 projection to ensure the Corporation maintains the appropriate levels of cash reserve.

Also included in the meeting materials was the Financial Status Report, which documents the expenses incurred through August 31, 2018, the projected expenses through the end of 2018, as well as the proposed budget for 2019.

The resolution presented was to approve the 2019 Budget.

Mr. Benoit asked if the planned increase in wages over the next two years aligns with U.S. average wage increase projections. Mr. Tamblyn explained that the Finance Committee recommended a 3 percent cost-of-living-adjustment (COLA) and an additional 2.0 percent increase for performance. The COLA figure is based on inflation data from the U.S. Bureau of Labor Statistics and was incorporated into the Finance Report. Mr. Tamblyn added that health insurance costs and other staff costs may fluctuate from year to year.

Mr. Benoit noted the lack of a specific provision in the budget to renew our IT infrastructure, adding that with a 6-month cash reserve there is room in the budget for IT improvements should they be necessary. He stated that he is comfortable with the current 10-month cash reserve knowing that we will finish the year with a reserve that covers projected expenses of 7.5 months, which is closer to the recommended reserve amount. Mr. Benoit suggested that future budgets include a provision for IT improvements to ensure that our IT systems can stay up to date. Mr. Tamblyn agreed and added that having a longer-term investment plan is important and something that will be developed as part of the technology roadmapping activities. He recommended that the Finance Committee consider how cash flow reserve funds should be managed and what the right amount is for the Corporation.

Mr. Benoit asked for an example of what would be included in the “Other Spending” category. Mr. Tamblyn stated that one example would be website security certificates.

Mr. Rodriguez asked for clarification about the proposed increase for legal services. Mr. Tamblyn explained that he anticipates additional work will be required in the coming years, including contracting for cap-and-trade services and revisions to jurisdiction funding agreements, that will require legal support. Mr. Rodriguez asked if future reports could include a brief description about why budget items are increasing or decreasing. Mr. Tamblyn responded that he would incorporate this into next year’s Budget Narrative.

Mr. Rodriguez requested clarification regarding the lower expenses associated with CITSS support and development. Mr. Tamblyn explained that the reduced budget is a result of CITSS being a mature technology that meets most of the current needs of the Participating Jurisdictions, and minimal regulatory changes are anticipated that would impact CITSS in the near future. Mr. Tamblyn stated that the budget reflects how the jurisdictions plan to use CITSS over the next year, but this may change as a result of the technology road-mapping activities. Future projections will be updated once the technology roadmap is completed.

Mr. Thérour asked if there were any questions from the public; there were no questions. Mr. Thérour requested a motion to approve the budget. Ms. Kumaranayake made the motion; Mr. Benoit seconded the motion, and the Board unanimously approved the budget as presented.

Note: Ms. Nichols left the call prior to the vote to approve the budget. Ms. Wimberger acting as Ms. Nichols’ alternate voted in her place.

VIII. Discuss and Approve the Agreement to Support the Development of an Impact Assessment

The Board was asked to consider a \$74,300 agreement with Kelly Kizzier and Andrew Howard (independent contractors) to support the development of an impact assessment report that will help linked Participating Jurisdictions implement Article 8 of the California-Québec-Ontario linkage agreement. The funding for this agreement is part of the \$191,871 of Board Designated funds held by WCI, Inc. These funds were set aside by the Board in May 2014 as Board Designated funds to support logistical and technical support for discussions about carbon pricing among US States and Canadian Provinces.

The proposed use of the funds in the agreement are in line with the intended use as designated by the Board in 2014. This is both a technical and policy activity that is relevant to any linked cap-and-trade program and falls within the WCI, Inc. resolution because it would support carbon pricing discussions with existing, emerging programs, and provides critical information for how such accounting could be established at an international level.

Prior to making this recommendation to the Board, Mr. Tamblyn reviewed the requirements of the WCI, Inc. Procurement Policy. The Policy allows for the use of non-competitive procurement processes under certain conditions, including “as determined by the Board.” Mr. Tamblyn also reviewed the agreement with WCI, Inc. Corporate Counsel, Chris Delfino.

The justification outlines policy and operational reasons for this procurement. Kelly Kizzier and Andrew Howard are uniquely qualified to provide the services set forth in the agreement based on their vast international expertise supporting UN Climate Change Secretariat in the negotiation and implementation under the UNFCCC of all matters relating to market instruments, from the initial design of the Kyoto mechanisms, to their implementation and accounting systems, to the development of Article 6 of the Paris Agreement. The Board was asked to approve the agreement.

Mr. Rodriguez stated that the terminology used in the agreement and the scope of work could benefit from further clarification and some additional information. He proposed that the Board direct the Executive Director to coordinate with staff in California, Québec, and Nova Scotia to clarify the language and scope of work, and to delegate sign-off authority of the amended agreement to the Board Chair. Mr. Thérout and Mr. Benoit agreed with Mr. Rodriguez’s suggestion. Mr. Thérout asked if there were any questions or comments from the public.

Matt Lithgow, from Carbon Pulse, asked when the Board expects the impact assessment report to be completed and if the report will be made public. Mr. Tamblyn responded that the agreement will expire upon the contractors’ completion of the services to WCI, Inc.’s satisfaction, but there is no set timeframe. Mr. Benoit stated that the goal is to complete the work over the next year. He added that the report itself will not likely be made public; however, information from the report about our methodologies will be shared with the public for both transparency and information-sharing purposes.

Mr. Rodriguez made a motion to approve the agreement pending additional work to be completed by staff and approval by the Board Chair for final authorization. The motion was seconded by Mr. Benoit and unanimously approved by the Board.

IX. Update from the Executive Director on Grant to Support Carbon Pricing Discussions

Mr. Tamblyn provided an update on the Grant with Ross Strategic to support carbon pricing discussions. Last year, the Board approved a grant of \$15,000 to Ross Strategic to create a forum for regional updates and information sharing between British Columbia, California, Washington, and Oregon as they prepared to propose a cap-and-trade bill. Representatives from Québec and Ontario were also invited to participate in the meetings.

Over the past year, Ross Strategic has facilitated several meetings that have allowed jurisdictions to provide updates on progress they are making in the development of their programs as well as provide an opportunity for technical staff to discuss issues they are facing related to program or policy design.

Mr. Tamblyn noted that Ross Strategic has indicated that there are still unspent grant funds that they would like to utilize to support technical discussions on the point of regulation of electricity as well as coordination on topics that may emerge post-election. Ross Strategic plans to continue the meetings after Oregon and Washington's upcoming election cycles.

Mr. Thérioux asked if there were any questions or comments from the Board or public; there were none.

There being no other business, the public session adjourned at 12:46 p.m. Pacific Time / 3:46 p.m. Eastern Time.

Respectfully submitted,

Jason Hollett, Secretary