

Western Climate Initiative, Inc. Revised Budget for Calendar 2015 and Projected Expenditures for 2016

December 5, 2014

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Introduction

This document describes the revised budget for calendar year 2015¹ and projected expenditures for calendar year 2016 for Western Climate Initiative, Inc. as adopted by the WCI, Inc. Board of Directors at its December 5, 2014 Board meeting.

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 2015 and 2016. 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 resulting budget and

¹ The 2015 budget was originally adopted by the Board on December 9, 2013 as part of the two-year budget for 2014 and 2015.

projection of expenditures 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 2015 budget and the projected 2016 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 2015 and Projected Expenditures for 2016

	2015 Original	2015 Revised	2016 Projected
Cap-and-Trade Services	\$1,867,189	2,714,992	2,294,992
Personnel and Direct Operations	\$1,090,607	1,172,968	983,887
Total	\$2,957,796	\$3,887,960²	\$3,278,879

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 2015 budget and the projected 2016 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 CARB’s experience procuring the services through an open competitive procurement, on CARB’s experience managing the work under the contracts that resulted from their procurements, and on WCI Inc.’s experience developing contracts with each of the contractors and managing their work in 2013 and 2014.

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

Since 2011, the Participating Jurisdictions have worked with Systems Research and Applications Corporation (SRA) to develop 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

² The increases in the 2015 budget will be covered by cost savings realized in 2014, during which time actual expenses were approximately \$1 million below budget due to: 1) lower than expected costs for cap-and-trade services, 2) delays in completing certain cap-and-trade services in 2014; 3) delays in hiring new staff; and 4) lower than expected costs for operations and support services.

supporting programs in California and Québec (in both English and French), requiring an estimated 900 accounts with 4,000 users during its initial years of operation.

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 CARB. In May 2012, WCI, Inc. contracted with SRA for additional application development and hosting, and in December 2012, the contract with SRA was amended to support continued application development and hosting through December 2013. The SRA contract was subsequently amended to support these same activities through 2015.

The budget for CITSS development, application support, and hosting through the WCI, Inc. contract with SRA is \$1,080,000 in 2015. Projected expenditures for these services in 2016 is \$720,000. The increase in the revised 2015 budget (compared to the original 2015 budget) reflects the need for additional CITSS development work in the first half of 2015. The projected spending on CITSS in 2016 is based on completing the primary CITSS application development work in mid-2015. Therefore, beginning in mid-2015, work will focus on application support necessary to operate and maintain the CITSS, and to conduct minor modifications. This support will be an ongoing expense for WCI, Inc., but is expected to require a reduced level of effort, and therefore a reduced level of expenditure in future years.

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 for help desk services. The total value of the contract is \$361,126 over the period October 1, 2012 to September 30, 2015 (three years). The budget for help desk services in 2015 is \$18,000, with the same expenditure level projected for 2016. The reduction in the revised 2015 budget (compared to the original 2015 budget) is based on actual CITSS help desk expenses for this service over the last two years.

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,

CARB contracted with 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 CARB and develop and implement the auction and reserve sale platform to support auctions and reserve sales among linked programs in California and Québec.

In 2015, Markit will complete the Quebec reserve sale set up that was originally planned for completion in 2014. The cost of this work was originally planned for 2014, and is now moved into the 2015 budget, which is the reason for the increase in the revised 2015 budget compared to the original 2015 budget.

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, CARB contracted with Deutsche Bank in 2011 to provide these services for CARB auctions and reserve sales. WCI, Inc. contracted with Deutsche Bank in 2013 to support Quebec's first auction and to prepare for coordinated auctions. WCI, Inc.'s contract builds on these previous efforts to support coordinated auctions among linked jurisdictions and reserve sales in each jurisdiction. The budget for financial administrative services in 2015 is \$346,792, with the same level of expenditure projected for 2016.

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 collaboration with the Participating Jurisdictions, CARB established a contract with Monitoring Analytics in 2011 to conduct analyses in support of market monitoring. WCI, Inc. contracted with Monitoring Analytics in 2013 to support Quebec's program and to begin preparing for joint auctions. WCI, Inc.'s contract builds on these existing efforts and provides analyses to support monitoring for all the Participating Jurisdictions. The revised 2015 budget for market monitor services is \$298,200, which is a small reduction from the original 2015 budget based on actual expenses for this service over the last two years.

Procurement Reserve

The revised 2015 budget and the projected expenditures for 2016 each include \$500,000 to cover costs associated with procurement activities that will begin in early 2015. WCI, Inc.'s contracts for cap-and-trade services all expire at the end of 2015 and will be recompleted beginning in 2015. This activity may result in additional development work needed for any new or modified systems. Also, if there is a transition to new service providers, services from any new service providers will likely overlap with services from incumbent service providers for a period of time. Expenditures from the procurement reserve will only occur after Board approval of new or modified contracts.

Table 2: Revised 2015 Cap-and-Trade Services Budget and Projected Expenditures for 2016

	2015 Original	2015 Revised	2016 Projected
CITSS Development, Support, and Hosting	\$719,797	\$1,080,000	\$720,000
CITSS Help Desk	\$48,000	\$18,000	\$18,000
Auction Services	\$412,000	\$472,000	\$412,000
Financial Administrative Services	\$346,792	\$346,792	\$346,792
Market Monitor	\$340,600	\$298,200	\$298,200
Procurement Reserve		\$500,000	\$500,000
Subtotal	\$1,867,189	\$2,714,992	\$2,294,992

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. experience operating in 2013 and 2014, and the anticipated evolution of the cap-and-trade program requirements as specified by the Participating Jurisdictions. The revised 2015 budget and projected expenditures for 2016 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 of Directors 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 2015 budget and projected 2016 expenditures include four staff positions, with

some overlap of positions in 2015 for the expected transition from current staff to new hires. 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 2015 personnel budget and projected 2016 expenditures include salary and benefits for employees and payments to contractors providing project management and business management services. The budget for personnel and staffing is \$684,568 in 2015 and the projected expenditures for personnel and staffing in 2016 are \$531,087 in 2016.

Office Rent and Equipment

WCI, Inc. opened an office in Sacramento, California, in September 2012, and has budgeted for a second office in Québec beginning in 2015 (the specific office location will be selected once the Assistant Director is hired). The Sacramento office is located in an executive office suite that is fully furnished; rent includes access to a copier, telephone, internet and other standard office amenities. It is expected that a similar arrangement can be established in Québec, and so there is no budget for office furniture or office equipment.

The budget for office rent, as well as computers, office supplies, and other equipment, totals \$65,000 in 2015 and projected expenditures for these items in 2016 is \$68,400.

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, and to report on the financial activities of the corporation;
- an auditor to provide audit and tax services; 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. 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 in 2015 is \$295,400 and projected expenditures in 2016 are \$256,400. The estimates include \$84,000 per year for legal services, \$36,000 per year for accountant services, \$36,000 per year for auditor services, \$48,000 per year for translation services, \$24,000 per year for IT services, and \$8,400 per year for payroll services. The revised 2015 budget for outreach and communications is \$60,000 to cover the costs of a search firm for help hiring new staff. The projected 2016 expenditure for outreach and communications is \$20,000.

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 2015 budget and projected 2016 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 \$30,000 each year and the budget for Canadian travel is \$18,000 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 US 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 of Directors. 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 \$10,000 for U.S. meetings and \$10,000 for meetings in Canada budgets for up to four meetings in each country 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: Revised 2015 Personnel and Direct Operations Budget and Projected Expenditures for 2016

	2015 Original	2015 Revised	2016 Projected
Personnel	\$641,007	\$684,568	\$531,087
Office Rent and Equipment	\$61,200	\$65,000	\$68,400
<i>Office Rent – US</i>	\$22,800	\$30,000	\$30,000
<i>Office Rent – Canada</i>	\$14,400	\$12,000	\$14,400
<i>Equipment, supplies, telephone</i>	\$24,000	\$23,000	\$24,000
Professional and Administrative Support	\$260,400	\$295,400	\$256,400
<i>Legal Services</i>	\$84,000	\$84,000	\$84,000
<i>Accountant Services</i>	\$36,000	\$36,000	\$36,000
<i>Auditor Services</i>	\$36,000	\$36,000	\$36,000
<i>Translation Services</i>	\$48,000	\$48,000	\$48,000
<i>IT Services</i>	\$24,000	\$23,000	\$24,000
<i>Payroll Processing</i>	\$8,400	\$8,400	\$8,400
<i>Communications/Outreach</i>	\$24,000	\$60,000	\$20,000
Insurance Fees	\$48,000	\$48,000	\$48,000
Travel, Meeting and Other Expenses	\$80,000	\$80,000	\$80,000
<i>US Travel</i>	\$30,000	\$30,000	\$30,000
<i>Canadian Travel</i>	\$18,000	\$18,000	\$18,000
<i>US Meeting Costs</i>	\$10,000	\$10,000	\$10,000
<i>Canadian Meeting Costs</i>	\$10,000	\$10,000	\$10,000
<i>Other Expenses</i>	\$12,000	\$12,000	\$12,000
Total	\$1,090,607	\$1,172,968	\$983,887