

**Western Climate Initiative, Inc.
Budget for Calendar 2016 and
Projected Expenditures for 2017
November 20, 2015**

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Introduction

This document describes the budget for calendar year 2016 and projected expenditures for calendar year 2017 for Western Climate Initiative, Inc. (WCI, Inc.) as adopted by the WCI, Inc. Board of Directors at its November 20, 2015 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 2016 and 2017. 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 2016 budget and 2017 expenditure projection are also informed by two developments in 2015:

- New Auction and Reserve Sale Administrator Services Contractor: In 2015, WCI, Inc. developed and executed an open competitive process for procuring Auction and Reserve Sale Administrator Services. The new contract was awarded and work began in the fall of 2015. During 2016, the new contractor will continue customizing its auction services to conform to the jurisdiction requirements. At the same time, the existing contractor will be providing services for the ongoing auctions and reserve sales. The budget includes payments to both the new contractor and the existing contractor during 2016, and is estimated based on a project schedule that provides that the services will fully transition to the new contractor no later than the 2016 fourth quarter auction.
- Ontario: In 2015, Ontario announced its intention to implement a cap-and-trade program to reduce its greenhouse gas emissions and achieve related environmental and economic benefits. Ontario named directors to the WCI, Inc. Board in July 2015. The 2016 budget and 2017 expenditure projection includes estimated costs for enhancing the WCI, Inc. cap-and-trade services (particularly, but not exclusively, the Compliance Instrument Tracking System Service, CITSS) 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 developed. WCI, Inc.’s support for an Ontario program does not predetermine the outcome of discussions among the jurisdictions on whether to link programs.

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 2016 budget and the projected 2017 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 2016 and Projected Expenditures for 2017

	2016 Budget	2017 Projected
Cap-and-Trade Services	3,438,156	3,260,340
Personnel and Direct Operations	1,082,142	1,099,150
Total	\$4,520,298	\$4,359,490

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 2016 budget and the projected 2017 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 in 2013, 2014, and 2015.

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

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

Since 2011, the Participating Jurisdictions have worked with SRA International, Inc. (SRA) 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 (pending Board consideration and approval).

The budget for CITSS development, application support, and hosting through the WCI, Inc. contract with SRA is \$1,470,000 in 2016. Projected expenditures for these services in 2017 is \$1,220,000. The 2016 budget is increased from the expenditure projection prepared in 2014¹ for two primary reasons.

¹ A projection of 2016 expenditures was presented to the Board on December 5, 2014 (see http://www.wci-inc.org/docs/WCI_Inc_2015_Budget_Narrative.pdf).

- Costs are included to enable additional jurisdictions to be added into CITSS. The technical requirements for incrementally adding jurisdictions were developed in 2015, and the budget to add the capability was estimated and included in the 2016 budget. Also, costs to customize CITSS to reflect Ontario program needs have been estimated and included.
- Costs are included for continued CITSS development to support jurisdiction requirements. Jurisdictions have identified continuing needs that were not previously anticipated.

The 2017 expenditure projection includes continued hosting and application support, as well as completing customization for the Ontario program and 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 2016 is \$15,000 with the same expenditure level projected for 2017. The 2016 budget is based on actual CITSS help desk expenses for this service over the last two years, and is lower than the projected expenditure prepared in 2014.

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 has been 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, and has 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.

The 2016 budget is \$938,594, and projected expenditures for 2017 are \$839,803. In 2016, Markit will continue to provide Auction and Reserve Sale Administrator Services until such time when SRA is prepared to execute auctions and reserve sales. The 2016 budget is based on the project plan that provides that the services will fully transition to the new contractor no later than the 2016 fourth quarter auction. During the transition, SRA, will be customizing its auction services to conform to the jurisdiction requirements. Because payments are planned to both the existing contractor (Markit) and the new contractor (SRA), the 2016 budget is higher than the expenditures projected in 2014. Provisions for paying both the existing and new contractors were included in the 2015 budget, as described below in the section on the 2015 Procurement Reserve. The projected expenditures decline in 2017 because the customization of the SRA services will have been completed in 2016. However, auction and reserve sale services for a new Participating Jurisdiction (Ontario) are included in the projection for 2017.

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.

In 2015 WCI, Inc. released a request for proposals (RFP) for financial administrative services. No contract was awarded as a result of that process. WCI, Inc. plans to undertake a new procurement for financial administrative services in 2016. The budget for financial administrative services in 2016 is \$502,000, and is based on the WCI, Inc.'s experience working with Deutsche Bank under the existing contract. The projected expenditures for 2017 are estimated to be \$748,000. The expenditure increase in 2017 is based on the expected additional costs associated with providing services to a new Participating Jurisdiction, 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 collaboration with the Participating Jurisdictions, ARB 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 provide market monitor services. The Monitoring Analytics contract has been amended to provide services through January 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 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 2016 budget of \$212,562 for market monitor services was developed based on the recently awarded market monitor contract, and includes costs for providing services to a new Participating Jurisdiction, Ontario. Nonetheless, the 2016 budget is lower than the projected expenditure prepared in 2014. The 2017 projected expenditures are \$137,537, and are expected to decline from 2016 because the monitoring related start-up costs to support Ontario and the new auction platform are expected to be completed in 2016.

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 2016 and 2017 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 are anticipated that could lead to the need to support additional Participating Jurisdictions.

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 2016 budget and 2017 expenditure projection each include \$300,000 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.

2015 Procurement Reserve

The 2015 budget, approved by the Board on December 5, 2014, included a procurement reserve of \$500,000 designated to support costs associated with the procurement activities undertaken during 2015. It was anticipated that additional development work would be required for any new or modified systems. Furthermore, if there was a transition to new service providers, it was anticipated that an overlap of service providers could increase the cost of cap-and-trade services. The Board determined that the procurement reserve may also be used to cover costs associated with modifying the cap-and-trade services to accommodate new jurisdictions joining WCI, Inc. Expenditures from the procurement reserve were designated to require Board approval of new or modified contracts.

As discussed above, a new contractor was selected to provide auction and reserve sale administrator services. Payments for work under the new contract began in 2015. The 2015 payments to the new contractor will total less than the full \$500,000 in the 2015 Procurement Reserve. For 2016, the funds from the 2015 Procurement Reserve that remain unspent will be applied to the 2016 budget, and consequently will be available to support a portion of the auction and reserve sale costs budgeted in the 2016 budget. The amount remaining in the 2015 Procurement Reserve reduces the funding required from the Participating Jurisdictions to support WCI, Inc. in 2016, but does not affect the expected budget expenditures in 2016. Consequently, the 2015 Procurement Reserve is not reflected in the budget tables in this document.

Table 2: 2016 Cap-and-Trade Services Budget and Projected Expenditures for 2017

	2016 Budget	2017 Projected
CITSS Development, Support, and Hosting	\$1,470,000	\$1,220,000
CITSS Help Desk	\$15,000	\$15,000
Auction Services	\$938,594	\$839,803
Financial Administrative Services	\$502,000	\$748,000
Market Monitor	\$212,562	\$137,537
Support for Planning and Analysis	\$300,000	\$300,000
Subtotal	\$3,438,156	\$3,260,340

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, 2014, and 2015, and the anticipated evolution of the cap-and-trade program requirements as specified by the Participating Jurisdictions. The 2016 budget and projected expenditures for 2017 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 2016 budget and projected 2017 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 2016 personnel budget and projected 2017 expenditures include salary and benefits for employees and payments to contractors providing advisory services. The budget for personnel and staffing is \$604,512 in 2016 and the projected expenditures for personnel and staffing in 2017 are \$604,512.

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 2016 (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 \$81,600 in 2016 and projected expenditures for these items in 2017 is \$84,000.

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 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 in 2016 is \$263,000 and projected expenditures in 2017 are \$261,600. The 2016 budget includes \$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, \$30,000 per year for IT services, and \$9,600 per year for payroll services. The budget 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 2016 budget and projected 2017 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 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 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: 2016 Personnel and Direct Operations Budget and Projected Expenditures for 2017

	2016 Budget	2017 Projected
Personnel	\$608,942	\$623,550
Office Rent and Equipment	\$81,600	\$84,000
<i>Office Rent – US</i>	<i>\$39,600</i>	<i>\$42,000</i>
<i>Office Rent – Canada</i>	<i>\$18,000</i>	<i>\$18,000</i>
<i>Equipment, supplies, telephone</i>	<i>\$24,000</i>	<i>\$24,000</i>
Professional and Administrative Support	\$263,600	\$263,600
<i>Legal Services</i>	<i>\$84,000</i>	<i>\$84,000</i>
<i>Accountant Services</i>	<i>\$36,000</i>	<i>\$36,000</i>
<i>Auditor Services</i>	<i>\$36,000</i>	<i>\$36,000</i>
<i>Translation Services</i>	<i>\$48,000</i>	<i>\$48,000</i>
<i>IT Services</i>	<i>\$30,000</i>	<i>\$30,000</i>
<i>Payroll Processing</i>	<i>\$9,600</i>	<i>\$9,600</i>
<i>Communications/Outreach</i>	<i>\$20,000</i>	<i>\$20,000</i>
Insurance Fees	\$48,000	\$48,000
Travel, Meeting and Other Expenses	\$80,000	\$80,000
<i>US Travel</i>	<i>\$30,000</i>	<i>\$30,000</i>
<i>Canadian Travel</i>	<i>\$18,000</i>	<i>\$18,000</i>
<i>US Meeting Costs</i>	<i>\$10,000</i>	<i>\$10,000</i>
<i>Canadian Meeting Costs</i>	<i>\$10,000</i>	<i>\$10,000</i>
<i>Other Expenses</i>	<i>\$12,000</i>	<i>\$12,000</i>
Total	\$1,082,142	\$1,099,150