

Western Climate Initiative, Inc.

Annual Report – 2016 Activities and Accomplishments

December 6, 2016

Table of Contents

Introduction	3
Cap-and-Trade Services	3
<i>CITSS</i>	4
<i>CITSS Help Desk</i>	4
<i>Auction and Reserve Sale Services</i>	4
<i>Financial Administrative Services</i>	5
<i>Market Monitor</i>	5
Personnel and Direct Operations	5
Governance	6

WCI, Inc. 2016 Activities and Accomplishments

Introduction

Western Climate Initiative, Inc. (WCI, Inc.) supports the implementation of state and provincial greenhouse gas (GHG) emissions trading programs. British Columbia, California, Ontario, and Québec participate in WCI, Inc. The administrative support provided by WCI, Inc. can be expanded to support jurisdictions that join in the future.

The jurisdictions specify their administrative requirements, and WCI, Inc. provides support that meets these specifications.

Most of the administrative support provided by WCI, Inc. is highly technical or specialized and has been developed through the use of contractors. WCI, Inc. maintains contracts to provide administrative support including the following cap-and-trade services:

- Coordinating the development and administration of the Cap-and-Trade Compliance Instrument Tracking System Service (CITSS);
- Coordinating the development and delivery of CITSS help desk services to California, Québec and Ontario cap-and-trade program participants;
- Coordinating the development and administration of an allowance auction platform, used by California, Québec and Ontario to auction emission allowances under their cap-and-trade programs and to conduct reserve sales;
- Coordinating the performance of analyses to support market monitoring performed by each jurisdiction; and
- Coordinating auction and reserve sale financial administration, which includes evaluation of bid guarantees and settlement (transferring the payments from the auction and reserve sale purchasers to the sellers).

The activities and accomplishments of the Corporation are broken down into three categories: Cap-and-Trade Services, Personnel and Direct Operations, and Governance.

Cap-and-Trade Services

WCI, Inc., the Participating Jurisdictions and WCI, Inc. service providers have been working throughout 2016 to onboard Ontario to the WCI, Inc. cap-and-trade services. Ontario signed a funding agreement with WCI, Inc. in March 2016 and passed legislation and published regulations to implement a cap-and-trade program in May 2016.

The following provides a summary of each service area and the activities performed during 2016.

CITSS

CITSS provides accounts for market participants to hold and retire compliance instruments and to record transactions of compliance instruments with other account holders.

CITSS is available for use in the primary language(s) of each Participating Jurisdiction. In California the primary language for use is English. In Quebec the primary language for use is French, but CITSS is also available in English. Ontario participants can currently use CITSS in English, while French will be made available in a future release. CITSS hosting includes services and technology (hardware and software) necessary to ensure that CITSS is online and available to program participants and the jurisdictions' staff.

During 2016, updates were made to CITSS to 1) streamline the auction application process, 2) allow for use of the system by Ontario, and 3) improve security and automation of the system.

CITSS Help Desk

The WCI, Inc. Help Desk provides multi-jurisdictional telephone and online customer assistance for CITSS users in English and French. WCI, Inc. has contracted with ICF Incorporated, LLC to field 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.

From January 1, 2016 to October 31, 2016, the Help Desk fielded 634 calls and 482 email inquiries in support of the cap-and-trade programs implemented by the Participating Jurisdictions. In November 2016, the Help Desk was seamlessly relocated from the United States to Canada to ensure availability of support in English and French.

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 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.

During 2016, WCI, Inc. supported the execution of four joint auctions. In addition, reserve sales were scheduled and opened for registration as required, but were consequently cancelled due to low participation. In addition, in support of the onboarding of the Province of Ontario to WCI, Inc., significant work has been completed to support the first planned Ontario stand-alone auction in March 2017.

Financial Administrative Services

In 2016, 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 a Financial Services Administrator. The result of this procurement was the selection of Deutsche Bank. The Board approved the agreement with Deutsche Bank on October 18, 2016.

During 2016, with the support of Deutsche Bank, WCI, Inc. supported four joint auctions. No reserve sales were held in 2016. In addition, in support of the onboarding of the Province of Ontario to WCI, Inc., significant work has been completed to date to prepare Ontario to utilize the financial administrative services provided by WCI, Inc. to support Ontario stand-alone auctions starting in 2017.

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. The analyses also 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.

During 2016, contractor Monitoring Analytics continued to support multi-jurisdictional monitoring for California and Quebec linked auctions and linked markets. In addition, work was started to prepare for Ontario stand-alone auctions in 2017.

Personnel and Direct Operations

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 four staff positions are:

- an Executive Director located in the U.S.;
- an Assistant Executive 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.

In addition, WCI, Inc. has retained administrative and professional services necessary to carry out its mission to support the cap-and-trade programs of its Participating Jurisdictions in the U.S. and Canada, including:

- legal counsel;
- accountants 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;
- a payroll service that also supports all payroll tax filings and the management of several human resources activities, including employee benefits; and
- interpretation and translation services.

In support of WCI, Inc. operations in Canada, the Corporation established an office in Quebec City and bank accounts to pay expenses incurred in Canada.

Governance

WCI, Inc. is governed by a Board of Directors according to its By-Laws and the Policies adopted by the WCI, Inc. Board of Directors (Board).

From November 20, 2015 to September 29, 2016, the acting Board Members were:

- Mary Nichols (Chair)
Chair, California Air Resources Board
- Robert Fleming (Vice Chair)
Assistant Deputy Minister, Climate Change and Environmental Policy Division, Ontario Ministry of the Environment and Climate Change
- Matthew Rodriguez (Treasurer)
Secretary for Environmental Protection, California Environmental Protection Agency
- Jean-Yves Benoit (Secretary)
Director of Carbon Market, Ministry of Sustainable Development, Environment and Fight Against Climate Change

- Genevieve Moisan
Assistant Deputy Minister, Fight Against Climate Change, Ministry of Sustainable Development, Environment and Fight Against Climate Change
- Jim Whitestone
Assistant Deputy Minister, Environmental Programs Division, Ontario Ministry of the Environment and Climate Change
- Tim Lesiuk
Executive Director, Business Development and Chief Negotiator, Climate Action Secretariat
- Assembly Member Richard Bloom, appointed by the Speaker of the Assembly (non-voting director)
- Mr. Kip Lipper, appointed by the Senate Rules Committee (non-voting director)

From September 29, 2016 to December 6, 2016, the acting Board Members were:

- Matthew Rodriguez (Chair)
- Robert Fleming (Vice Chair)
- Mary Nichols (Treasurer)
- Jean-Yves Benoit (Secretary)
- Genevieve Moisan
- Jim Whitestone
- Tim Lesiuk
- Assembly Member Richard Bloom, appointed by the Speaker of the Assembly (non-voting director)
- Mr. Kip Lipper, appointed by the Senate Rules Committee (non-voting director)

During 2016 the Board held six board meetings. The following provides an overview of actions taken by the Board:

- March 14, 2016
 - Actions taken by the Board during an open session included:
 - Approval of the November 20, 2015 Board Meeting Minutes
 - Approval of Funding Agreements with the State of California and the Provinces of Québec and Ontario.
 - Approval of an amendment to the Funds Management Policy to enable the allowable cash holdings to be between 0% and 100% of the Corporation's assets.
 - Actions taken by the Board during the executive (closed) session included:
 - Approval of the November 20, 2015 Executive Session Meeting Minutes
- May 12, 2016
 - Actions taken by the Board during the open session included:

- Approval of the March, 2015 Meeting Minutes
 - Approval of the Federal and State tax forms
 - Acceptance of the 2015 Audit Report and Year End Financial Statement
 - Actions taken by the Board during the executive (closed) session included:
 - Approval of the March 14, 2016 Executive Session Meeting Minutes
- June 14, 2016
 - Actions taken by the Board during the executive (closed) session included:
 - Approval of the May 12, 2016 Executive Session Meeting Minutes
 - Approval of the CSRA Termination and Release Agreement
 - Approval of the Markit Auction Services Administrator Services Agreement
- September 29, 2016
 - Actions taken by the Board during the open session included:
 - Approval of the May 12, 2016 Board Meeting Minutes
 - Election of Officers and Standing Committee Members for 2017
 - Approval of an amendment to the Funds Management Policy to allow for cash to be held in accounts insured by the Autorité des marchés financiers (AMF) to support the operations of WCI, Inc.'s Quebec Office.
 - Approval of the 2017 Budget and Projected Expenses for 2018
 - Actions taken by the Board during the executive (closed) session included:
 - Approval of the June 14, 2016 Executive Session Meeting Minutes
- October 18, 2016
 - Actions taken by the Board during the executive (closed) session included:
 - Approval of the September 29, 2016 Executive Session Meeting Minutes
 - Approval of the Deutsche Bank Financial Services Administrator agreement.
- December 6, 2016 (pending)
 - Actions taken by the Board during the open session included:
 - Approval of the September 29 2016 Board Meeting Minutes
 - Approval of an amendment to the Accounting Policies and Procedures to
 - Approval of the Québec Employee Handbook
 - Approval of the WCI, Inc. 2016 Annual Report