



Annual Report – 2018

Activities and Accomplishments

May 14, 2019

Table of Contents

1.	Introduction	1
2.	Cap-and-Trade Services	2
2.1	CITSS.....	2
2.2	Auction and Reserve Sale Services.....	3
2.3	Financial Administrative Services.....	5
2.4	Market Monitor	5
3.	Personnel and Direct Operations	6
3.1	Personnel	6
3.2	Administrative and Professional Services	6
3.3	Strategic Planning	6
4.	Governance	8
4.1	Board Members	8
4.2	Board Meeting Actions	9
5.	WCI, Inc. key numbers in 2018.....	11

2018 ACTIVITIES AND ACCOMPLISHMENTS

1. INTRODUCTION

The Western Climate Initiative (WCI) partnership¹ represents the largest carbon market in North America, and the only one developed and managed by governments from two different countries. At the end of 2018, the WCI carbon market was one of the world's largest existing carbon market. The WCI partnership covers a population of nearly 50 million people and about 3 trillion USD / 4 trillion CAD in gross domestic product (GDP).

Western Climate Initiative, Inc. (WCI, Inc.) is a non-profit corporation formed in 2011 to support the implementation of state and provincial greenhouse gas (GHG) emissions trading programs. At the end of 2018, California, Québec and Nova Scotia were participants in WCI, Inc., building on their common, continuous and collaborative efforts to tackle climate change and reduce GHG emissions from multiple sources in the most cost-effective way possible. The administrative support provided by WCI, Inc. can be expanded to support jurisdictions that join in the future. Each Participating Jurisdiction specifies its regulations and administrative requirements, and WCI, Inc. provides administrative support that meets these specifications in alignment with the various needs of the Partnership.

Most of the administrative support provided by WCI, Inc. is highly technical and has been developed through the use of specialized contractors:

- The development and administration of the Compliance Instrument Tracking System Service ([CITSS](#)), which serves as a single registry for all Participating Jurisdictions;
- The development and administration of the [GHG allowance auction and reserve sale platform](#), used by jurisdictions to auction emission allowances under their Cap-and-Trade programs and to conduct reserve sales;
- Financial administrative services for auctions and reserve sales, which includes evaluation of bid guarantees and financial settlement of accounts (transferring the payments from the auction and reserve sale purchasers to the sellers); and
- The performance of analyses by an independent market monitor to support market oversight performed by each jurisdiction.

The activities and accomplishments of WCI, Inc. in 2018 are divided into three categories: Cap-and-Trade Services, Personnel and Direct Operations, and Governance.

¹ A collaboration among Western U.S. states and Canadian provinces to tackle climate change at a regional level. The partnership developed the [2008 Design Recommendations for the WCI Regional Cap and Trade Program](#) and the [2010 Design for the WCI Regional Program](#). For more details, see the [WCI website](#).

2. CAP-AND-TRADE SERVICES

In 2018, the membership in the WCI partnership changed with the addition of Nova Scotia and the departure of Ontario. In May 2018, Nova Scotia entered into a funding agreement with WCI, Inc. and subsequently named directors to the Board. During 2018, work was completed to enable Nova Scotia to be able to utilize CITSS and the services of the market monitor. Following Ontario's announcement in the summer 2018 to withdraw from the California-Québec-Ontario linked WCI carbon market, WCI, Inc. conducted the necessary activities to complete Ontario offboarding by November 30, 2018.

The collaborative and dedicated effort related to Cap-and-Trade services included the continuous improvement of the platforms and processes which support the execution of coordinated auctions of GHG emission allowances that conform to each jurisdiction's requirements.

The following provides a summary of the activities performed during 2018 for each WCI, Inc. service area, pursuant to its 4.65 million USD [2018 Annual Budget](#) and supported by funding agreements with each Participating Jurisdiction using WCI, Inc. services.

2.1 CITSS

Since 2011, WCI, Inc. and the Participating Jurisdictions have worked with SRA International, Inc. (SRA), now known as General Dynamics Information Technology (GDIT), to develop and support [CITSS](#)².

During 2018, numerous application and software updates were made to CITSS, to:

- Onboard Nova Scotia and offboard Ontario;
- Continuously improve the system's security, stability and automation; and,
- Develop new functionalities to increase efficiency, to improve usability for Participating Jurisdiction staff and market participants, and to complete changes required due to regulatory updates.

² The latest Contract Amendment to the CITSS Agreement with SRA covers the period from January 1, 2019 to December 31, 2020 and includes one 1-year option to extend contract through December 31, 2021.

During the first quarter of 2018, [Gelder, Gingras and Associates \(GGA\)](#) completed an independent information technology (IT) assessment. The results of the assessment indicated that the current version of CITSS is reliable and secure, and responds adequately to the present needs of WCI, Inc., the Participating Jurisdictions, and market participants. The assessment also included recommendations regarding the ability of the CITSS application to scale and adapt successfully to future changes and expansions. WCI, Inc. strategy on how to implement GGA's recommendations for the future of CITSS were presented for WCI, Inc. Board consideration in May 2018. A series of corresponding activities have been undertaken toward the implementation of this strategy and will be ongoing in the coming years as part of the implementation of the WCI, Inc. 2018 – 2021 Strategic Plan (further described in section 3.3 of this report).

There was also a successful compliance event executed in CITSS. On November 1st, 2018, through a process completed in CITSS, all regulated emitters were able to surrender the necessary allowances to cover their greenhouse gas emissions for the second compliance period (2015-2017) in both California and Québec.

2.2 Auction and Reserve Sale Services

WCI, Inc. supports Participating Jurisdictions in executing coordinated auctions and reserve sales of GHG emission allowances that conform to each jurisdictions' requirements. Since 2011, WCI, Inc. and the Participating Jurisdictions have worked with Markit Group Limited (Markit)⁴ to develop and implement an [auction and reserve sale platform](#), and to serve as the auction and reserve sale administrator.

Throughout 2018, WCI, Inc., Participating Jurisdictions and Markit worked on the improvement of the consolidated auction and reserve sale platform, to finalize the implementation of a series of

WHAT IS CITSS?

CITSS provides accounts for market participants to hold and retire compliance instruments and to record transactions of compliance instruments with other account holders, as well as apply to auctions and reserve sales. As of the end of 2018, there were approximately 850 entities registered in CITSS for California and Québec².

More specifically, CITSS is used to register market participants and track compliance instruments (e.g., emissions allowances and offsets) from the point of issuance by the WCI, Inc. Participating Jurisdictions to ownership, transfer by regulated GHG emitters and other voluntary or general market participants, and final compliance retirement by regulated entities.

CITSS is designed to simplify the participation in the Cap-and-Trade program for market participants, jurisdiction staff, and contractors involved in implementing Cap-and-Trade programs within Participating Jurisdictions. To accommodate the primary languages of each Participating Jurisdiction, CITSS is available in English for California and Nova Scotia, and in English and French for Québec participants.

³ WCI, Inc. compilation as of January 24, 2019, based on data published by [California](#) and [Québec \(French\)](#).

⁴ The term of the [current Auction and Reserve Sale Administrator Services Agreement with Markit](#) is from June 15, 2016 to January 31, 2021.

enhancements for administrative users and market participants, and to maintain the security and the stability of the platform.

During 2018, the auction platform supported the execution of four joint auctions, including two California–Québec–Ontario joint auctions in the first half of 2018, and two California–Québec joint auctions in the second half of 2018, following Ontario’s decision to withdraw from WCI, Inc. In addition, four California reserve sales and one Québec reserve sale were scheduled and opened for registration as required but were ultimately not held due to lack of applicants.

The four auctions held in 2018 resulted in the sale of 380.5 million allowances and proceeds of 5.7 billion USD / 7.3 billion CAD delivered to its Participating Jurisdictions and California consigning entities. Throughout 2018, the settlement price for 2018-vintage allowances sold fluctuated from 14.61 USD / 18.44 CAD in the [first California–Québec–Ontario joint auction](#) held in February 2018, to 15.31 USD / 20.27 CAD in the [California–Québec joint auction held in November 2018](#), for a 2018 average price of 14.91 USD / 18.98 CAD (not weighted by volume of allowances sold in each auction). An average total of 124 qualified bidders⁵ — 64 in California, 20 in Québec and 40 in Ontario — were approved to participate in the two WCI auctions held in the first half of 2018, and an average total of 86 qualified bidders — 67 in California and 19 in Québec — were approved to participate in the two WCI auctions held in the second half of 2018. As in years past, the auction and reserve sale platform (in conjunction with other WCI, Inc. services) has demonstrated that it is a reliable and secure source of providing

THE AUCTION AND RESERVE SALE PLATFORM

This secure platform allows market participants who have completed the application process to post bids during the open bidding window for each auction and reserve sale, and to review results once each event is certified.

The platform algorithm automatically applies the currency exchange rate and different bidding limitations — i.e., auction minimum price, bid guarantee limits, purchase limits and holding limits — to accept, reject and sorts bids submitted by qualified bidders, and then determine settlement price and allowance awards, before completing reporting for auction and reserve sale events. The platform also generates reports to support auction monitoring and implementation, and to inform auction participants.

Following completion of financial settlement and distribution of auction proceeds by the financial service administrator (refer to section 2.3) to the jurisdictions and consigning entities (in California only), allowances are transferred to successful bidders in CITSS.

⁵ A “qualified bidder” is an entity that completed an auction application, submitted a bid guarantee that was accepted by the Financial Services Administrator, and was approved by the Participating Jurisdiction where it is registered to participate in the auction. Qualified bidders may or may not have participated in the auction. The term “bid guarantee” refers to “bid guarantee” as described in the [California Regulation](#), “financial guarantee” as defined in the [Québec Regulation](#), and “financial assurance” as described in the [Ontario Regulation](#) (revoked July 3, 2018).

allowances for the numerous market participants in each Participating Jurisdiction's Cap-and-Trade program.⁶

2.3 Financial Administrative Services

Since 2013, WCI, Inc. has contracted with Deutsche Bank North American Trust Company (DBNTC) to provide financial administrative services of auctions and reserve sales⁷. This includes the evaluation and management of financial bid guarantees from auction applicants and qualified bidders through the provision of escrow services for the financial settlement and distribution of proceeds to Participating Jurisdictions and California consigning entities.

With the support of DBNTC, WCI, Inc. supported four joint auctions in 2018.

In December 2018, WCI, Inc. also posted a [request for proposal for Canadian Financial Services](#). The proposer ultimately awarded the contract under this solicitation will be expected to be able to coordinate efforts and cooperate with DBNTC, or provide contingency services for United States-based financial services, as needed.

2.4 Market Monitor

WCI, Inc. supports the Participating Jurisdictions by contracting for analyses that support independent market monitoring. Monitoring Analytics has served as this contractor since 2012⁸. 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 participant corporate structures (ownership and affiliates), and of allowance and offset holdings and transfer activity in CITSS. The analyses also review secondary, derivative and related market activity (e.g., energy) to identify any potentially inappropriate market activity. The results of the analyses are provided to the Participating Jurisdictions, each of which retains its own market monitoring responsibilities and authorities.

During 2018, Monitoring Analytics continued to support multi-jurisdictional monitoring for California and Québec joint auctions and linked markets, which were also linked with Ontario in the first half of 2018. In addition, Monitoring Analytics prepared for the launch of Nova Scotia's Cap-and-Trade program on January 1, 2019. At the time of this report, Nova Scotia does not allow trading of greenhouse gas emission allowances with other jurisdictions.

⁶ All auction data included in this paragraph are based on WCI, Inc. compilation from Auction Results published by [California](#), [Québec](#) and [Ontario](#).

⁷ The term of the [current Financial Services Administrator Agreement with DBNTC](#) is from October 19, 2016 to January 31, 2020 and includes one 1-year option to extend contract through January 31, 2021.

⁸ The term of the [current Market Monitoring Services Agreement with Monitoring Analytics](#) is from December 1, 2015 to January 31, 2020 and includes one 2-year option to extend contract through January 31, 2022.

3. 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.

3.1 Personnel

At the end of 2018, the WCI, Inc. team included five staff positions located in the United States and one staff position located in Canada:

- an Executive Director;
- an Assistant Executive Director (located in Canada);
- an Operations Manager;
- two Information Technology (IT) Project Managers; and
- an IT Business Analyst.

3.2 Administrative and Professional Services

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;
- payroll services that also support all payroll tax filings and the management of several human resources activities, including employee benefits;
- IT technical support, communication, interpretation and translation services.

3.3 Strategic Planning

The first strategic plan developed by WCI, Inc. was approved by the Board in October 2018. This plan represents an extensive effort from WCI, Inc. and Participating Jurisdictions staff to operationalize the mission, vision and values endorsed by its Board in 2016.

The Plan describes how the organization 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, joint 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.

The Plan has 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 and reference within the carbon market space.

The purpose of this Plan is to build on the success of this strong partnership to help everyone work even better together, keeping in mind the potential broadening of the Partnership in the upcoming years. In addition, the [2019 budget and 2020 – 2021 projections](#) include funding to support the implementation of the Plan. WCI, Inc. staff have prioritized the activities and adjusted the timeline necessary to complete the Plan. WCI, Inc. will provide regular updates to the Board at Board meetings and through future annual reports.

4. 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.

4.1 Board Members

From October 12, 2017, to the WCI, Inc. Annual Board meeting in October 11, 2018, the acting Board Members were:

- Matthew Rodriguez (Chair)
Secretary for Environmental Protection, California Environmental Protection Agency
- Jim Whitestone (Vice Chair, resigned September 28, 2018)
Assistant Deputy Minister, Environmental Programs Division, Ontario Ministry of the Environment and Climate Change
- Jean-Yves Benoit (Treasurer)
Director of Carbon Market, Québec Ministry of Environment and Fight Against Climate Change
- Mary Nichols (Secretary)
Chair, California Air Resources Board
- Tim Lesiuk (resigned January 12, 2018)
Executive Director, Business Development and Chief Negotiator, British Columbia Climate Action Secretariat
- Alex Wood (resigned September 28, 2018)
Executive Director, Climate Change Directorate, Ontario Ministry of the Environment and Climate Change
- Éric Thérroux (appointed January 25, 2018)
Assistant Deputy Minister, Fight Against Climate Change, Québec Ministry of Environment and Fight Against Climate Change
- Lilani Kumaranayake (appointed August 2, 2018)
Executive Director, Fiscal Policy, Economics and Budgetary Planning with the Nova Scotia Department of Finance and Treasury Board
- Jason Hollett (appointed August 2, 2018)
Executive Director, Climate Change Unit, Nova Scotia Environment

During that period, non-voting Board Members were:

- Richard Bloom, Assembly Member appointed by the Speaker of the California Assembly
- Kip Lipper, appointed by the California Senate Rules Committee

Starting from October 11, 2018 through the end of 2018 the acting Board Members were:

- Éric Thérroux (Chair)
- Mary Nichols (Vice Chair)
- Jean-Yves Benoit (Treasurer)
- Jason Hollett (Secretary)
- Matthew Rodriguez
- Lilani Kumaranayake

During that period, non-voting Board Members were:

- Richard Bloom
- Kip Lipper

4.2 Board Meeting Actions

The following provides an overview of actions taken by the Board during the six meetings held in 2018:

- February 9, 2018
 - Actions taken by the Board during the open session included:
 - Approval of the [October 12, 2017, Board Meeting Minutes](#);
 - Nomination of the newly appointed Director, Mr. Thérroux, to the Audit Committee;
 - Approval of [California](#) and [Ontario](#) 2018 – 2019 Funding Agreements.
- March 27, 2018
 - Actions taken by the Board during the open session included:
 - Approval of the [February 9, 2018, Board Meeting Minutes](#);
 - Approval of [Québec 2018 – 2019 Funding Agreement](#);
 - Reception of the Executive Director’s Report.
 - Actions taken by the Board during the executive (closed) session included:
 - Approval of the October 12, 2017, Executive Session Meeting Minutes;
 - Executive Director performance review.
- May 11, 2018
 - Actions taken by the Board during the open session included:
 - Approval of the [March 27, 2018, Meeting Minutes](#);
 - Acceptance of the [2017 Audit Report](#) and [Year End Financial Statement](#);
 - Approval of the [2017 U.S. Federal and State tax forms](#) and the [2017 Canadian Sales Tax forms](#);
 - Reception of the status update on the [Grant to Support the Pacific Coast Collaborative Carbon Pricing Technical Working Group](#);

- Approval of the amendment to the [WCI, Inc. By-laws](#) to include Nova Scotia as a Participating jurisdiction and specify how Nova Scotia names their directors to the WCI, Inc. Board;
 - Approval of the [Nova Scotia 2018-2019 Funding Agreement](#);
 - Approval of the [2017 Annual Report](#);
 - Action taken by the Board during the executive (closed) session was:
 - Approval of the March 27, 2018, Executive Session Meeting Minutes.
- October 11, 2018
 - Actions taken by the Board during the executive (closed) session included:
 - Approval of the May 11, 2018, Executive Session Meeting Minutes;
 - Approval of the [Amendment 2012-01-006 of the SRA CITSS Agreement](#);
 - Approval of the Enterprise Architect Agreement.
 - Actions taken by the Board during the open session included:
 - Approval of the [May 11, 2018, Meeting Minutes](#);
 - Review of corporate policies ([Ethical Guidelines and Conflict of Interest Policy](#));
 - Election of officers and appointment of standing committee members for 2019;
 - Approval of the [Amendment to the WCI, Inc. By-laws](#) to remove Ontario as a Participating Jurisdiction;
 - Approval of the WCI, Inc. 2018-2021 Strategic Plan;
 - Reception of the [2018 Treasurer's Report](#) and approval of the [2019 Budget and Projected Expenses for 2020 and 2021](#);
 - Approval of the [Agreement to Support the Development of an Impact Assessment](#);
 - Heard an update from the Executive Director on [Grant to Support Carbon Pricing Discussions](#).
- November 14, 2018
 - Actions taken by the Board during the open session included:
 - Approval of the [October 11, 2018, Meeting Minutes](#);
 - Approval of [Amendment No. 2 to the Ontario Funding Agreement](#).
 - Actions taken by the Board during the executive (closed) session included:
 - Approval of the October 11, 2018, Executive Session Meeting Minutes;
 - Heard an update on WCI, Inc. Corporate Insurance.
- December 17, 2018
 - Actions taken by the Board during the executive (closed) session included:
 - Approval of the November 14, 2018, Executive Session Meeting Minutes;
 - Executive Director performance review.

5. WCI, INC. KEY NUMBERS IN 2018

1

WCI partnership is the largest carbon market in North America and one of the largest in the world

3

Participating Jurisdictions using WCI, Inc. services at the end of 2018

(while Ontario participated until November)

4

Joint Auctions supported, of which 2 California–Québec Only Joint Auctions, and 2 events including Ontario

18

Main contractors retained for administrative and professional services necessary to carry out WCI, Inc. mission

34

Actions taken by the WCI, Inc. Board

84-127

Range of Qualified bidders approved to participate in each WCI Quarterly Joint Auction (of which an average of 66 in California, 19 in Québec and 40 in Ontario*)

*For the first 2 auctions of 2018 only.

850

Entities registered into CITSS or potential WCI carbon market participants in California and Québec

380.5 M

Allowances sold by Participating Jurisdictions and California consigning entities through the Auction Platform (including current and future vintages)

\$4.65 M

2018 Annual Budget supported by funding agreements with each Participating Jurisdiction using WCI, Inc. services

5.7 billion USD /
7.3 billion CAD

Total Estimated Auction Proceeds delivered in 2018 to Participating Jurisdictions' GHG Reduction Funds and California Consigning Entities