



2019 Annual Report

Activities and Accomplishments

MAY 14, 2020



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1. Introduction

Western Climate Initiative, Inc. (WCI, Inc.) is a non-profit corporation formed in 2011 to provide cost-effective technical and administrative solutions for supporting the coordinated development and implementation of each Participating Jurisdiction's greenhouse gas (GHG) emissions trading program.

At the end of 2019, [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 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 support that meets these specifications in alignment with the various needs of the Partnership.

Most of the support provided by WCI, Inc. is highly technical and has been developed using specialized contractors to develop and administer the:

- Centralized market registry for all Participating Jurisdictions;
- GHG allowance auction and reserve sale platform, used by jurisdictions to auction emission allowances under their respective 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
- Independent market monitor analysis to support market oversight performed by each jurisdiction.

Our Participating Jurisdictions

WCI, Inc.'s Participating Jurisdiction programs represent the largest carbon market in North America and the broadest scope of sectorial emissions coverage in the world. At the end of 2019, the WCI, Inc. carbon market covered a population of nearly 50 million people and about 3.3 trillion USD / 4.3 trillion CAD in gross domestic product. The 2019 cap of 416 Mt of CO₂ equivalent GHG emissions represents roughly 80% of the economy-wide emissions of all Participating Jurisdictions.

With just about 3,100 miles / 5,000 kilometers and a national boundary separating them, California and Québec separately operate the most geographically dispersed linkage between cap-and-trade programs. Their goals to reduce GHG emissions in a cost-effective manner has resulted in a stable yet flexible carbon market and an example of what the future of climate change collaboration can look like.

Nova Scotia joined WCI, Inc. in 2018 and began operating its own provincial cap-and-trade program in 2019.

Together, WCI, Inc. Participating Jurisdictions are driving change and creating a safer, healthier, low-carbon world for us all.

2. Cap-and-Trade Services

During 2019, 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 auctions and tracking of GHG emission allowances that conform to each jurisdiction's requirements.

The following provides a summary of the activities performed during 2019 for each WCI, Inc. service area, pursuant to its 3.83 million USD [2019 Annual Budget](#) and supported by [funding agreements](#) with each Participating Jurisdiction using WCI, Inc. services. To learn more about the 2019 Financials of WCI, Inc., refer to section 6 of the current document.

2.1. Market Registry

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 the centralized market registry.

During 2019, numerous application and software updates were made to improve system 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.

The latest [amendment to the SRA Agreement](#) covers the period from January 30, 2020 to December 31, 2024.

What is the Market Registry?

The market registry is the official record used to issue, transfer, track, and retire compliance instruments in accordance with the regulatory requirements of the Participating Jurisdictions. As of December 2019, a total of 920 entities were registered in the market registry for [California](#), [Québec](#) and [Nova Scotia](#).

The market registry is designed to simplify the participation in the emissions trading program for market participants, jurisdiction staff, and contractors. The registry is available in English and French, based on each jurisdiction's needs and provide the following functionalities:

- Account Registration and Management
- Compliance Instrument Registry
- Compliance Processes
- Auction and Reserve Sale Application

To learn more about each functionality, refer to the WCI, Inc. [Market Registry Page](#).

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 jurisdiction's requirements. Since 2011, WCI, Inc. and the Participating Jurisdictions have worked with Markit Group Limited (Markit) to develop and implement an auction and reserve sale platform, and to serve as the auction and reserve sale administrator. The latest [Amendment to the Markit Agreement](#) covers the period from June 15, 2016 to January 31, 2023.

In 2019, WCI, Inc., the Participating Jurisdictions and Markit worked to enable Nova Scotia standalone auctions, to maintain the security and the stability of the platform, and to implement enhancements for administrative users and market participants.

During 2019, the auction platform supported the execution of four California–Québec joint auctions. No reserve sales were scheduled by California or Québec in 2019. Similar to previous years, the auction and reserve sale platform (in conjunction with other WCI, Inc. services) has demonstrated that it is a reliable and secure platform.

The four auctions held in 2019 resulted in the sale of 314 million allowances and proceeds of 5.3 billion USD / 7.0 billion CAD delivered to its Participating Jurisdictions and California consigning entities. Throughout 2019, the settlement price for 2019-vintage allowances sold during [California–Québec joint auctions](#) fluctuated from 15.73 USD / 20.82 CAD in the February 2019 auction to 17.00 USD / 22.46 CAD in the November 2019 auction, for a 2019 average price of 16.94 USD / 22.40 CAD (not weighted by volume of allowances sold in each auction). An average total of 91 qualified bidders — of which 67 in California and 24 in Québec — were approved to participate in the four California–Québec joint auctions held in 2019¹.

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 to the jurisdictions and consigning entities (in California only), allowances are transferred to successful bidders in the market registry.

¹ All auction data included in this paragraph are based on WCI, Inc. compilation from Auction Results published by [California](#) and [Québec](#).

2.3. Financial Services

Since 2013, WCI, Inc. has contracted with Deutsche Bank North American Trust Company (DBNTC) to provide financial administrative services of auctions and reserve sales.

With the support of DBNTC, WCI, Inc. supported four joint auctions in 2019.

In parallel, WCI, Inc. staff presented the results of the [request for proposal for Canadian Financial Services](#) to the Board in May 2019, and conducted additional follow-up activities throughout the year following guidance received from the Board.

On November 5, 2019, the WCI, Inc. Board of Directors approved an [Amendment to the Agreement with DBNTC](#) to extend contract term from January 1, 2020 to January 31, 2021 and to support Nova Scotia Auctions beginning in 2020.

The Financial Services Administrator

Before each auction, the financial services administrator establishes and verifies bank accounts for all auction applicants. It also receives, reviews and manages all financial bid guarantees on behalf of each auction participant.

Upon certification of the auction by the jurisdiction(s), the financial services administrator processes payments from successful bidders and returns bid guarantees to unsuccessful bidders. If necessary, the financial services administrator facilitates a currency exchange to ensure that each jurisdiction receives proceeds in its own currency and that Canadian entities pay in the currency they selected during bid guarantee submission.

Finally, the financial services administrator sends the auction proceeds to the jurisdictions and consigning entities.

2.4. Market Monitoring

WCI, Inc. supports the Participating Jurisdictions by contracting for analyses that support independent market monitoring. WCI, Inc. has contracted with Monitoring Analytics to provide these services since 2012.

During 2019, Monitoring Analytics supported the multi-jurisdictional monitoring for the California and Québec linked Cap-and-Trade programs. In addition, Monitoring Analytics supported monitoring for Nova Scotia's standalone Cap-and-Trade program, launched on January 1, 2019, which currently does not allow trading of greenhouse gas emission allowances with other jurisdictions.

On November 5, 2019, the WCI, Inc. Board of Directors approved an [Amendment to the Agreement with Monitoring Analytics](#) to extend contract term from January 31, 2020 to December 31, 2022.

What is Market Monitoring?

Independent market monitoring analyses include:

- The review and evaluation of auctions and reserve sales to identify any inappropriate market activity or deviations from jurisdiction regulatory requirements.
- The continuous monitoring of market participant corporate structures, allowance and offset holdings and transfer activity in CITSS.
- The review of secondary and derivative market activity to identify any potentially inappropriate market activity.

Market monitoring analyses are provided directly to the Participating Jurisdictions. Each Participating Jurisdiction is responsible for conducting market oversight and retains the authority to enforce the regulation that governs their program.

Any deviation from jurisdiction regulatory requirements or inappropriate market activity may be subject to investigation and prosecution under the laws and regulations of each Participating Jurisdiction's program.

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 corporation and for oversight and management of the contractors hired to provide Cap-and-Trade services as described previously.

3.1. Personnel

During 2019, a Chief Technology Officer and a Solution Architect were hired to enhance the technical capabilities of the corporation. At the end of 2019, the WCI, Inc. team included a total of eight staff positions, including seven staff positions located in the United States and one staff position located in Canada:

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

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

During 2019, extensive effort from WCI, Inc. and the staff from the Participating Jurisdictions has been devoted to operationalize the mission, vision and values endorsed by the WCI, Inc. Board in 2016 and to implement the [WCI, Inc. 2018-2021 Strategic Plan](#), adopted in October 2018:

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. Ultimately, the strategic intent of WCI, Inc. is that **“Over the next decade, WCI, Inc. will be recognized as the provider of world-class services that enable the success of its Participating Jurisdictions’ emissions trading programs”.**

Throughout 2019, WCI, Inc. and Participating Jurisdictions have prioritized critical activities and adjusted the timeline necessary to implement the Plan. Based on discussions with the WCI, Inc. Board of Directors in May 2019, WCI, Inc. staff have been working to streamline reporting and revised associated metrics. The following summarizes the main activities and accomplishments of WCI, Inc. during 2019 that support four major goals of the Plan:

1 Strengthen the Partnership through enhanced collaboration, communication and decision-making

- The development of additional collaborative spaces and secured information tools accessible for both WCI, Inc. and Participating Jurisdiction staff.
- The increased use of video and web conferencing for meetings with jurisdictions and contractors.
- The gathering of information on Nova Scotia onboarding process to support the upcoming development of a formal onboarding manual for new jurisdictions.
- The conversion of Ontario offboarding lessons learned into changes to new funding agreements to ensure symmetry amongst the Participating Jurisdictions and clarify the offboarding procedures.

2 Consistently meet or exceed expectations by delivering high-quality, efficient and responsive services

- The implementation of best practices to enhance the efficiency of user acceptance testing to better support the quality of services provided to jurisdictions.
- The implementation of a new project governance structure and enterprise architecture tools to better align business and information technology strategies.
- The analysis and planning to ensure that future systems required to support the jurisdiction cap-and-trade programs are secure, reliable and scalable. The resulting analysis informed the WCI, Inc. Budget approved by the Board at the Annual Meeting.

- The continued development and implementation of contingency plans for Cap-and-Trade services.

3 Build and effectively manage a highly skilled and engaged workforce

- All WCI, Inc. staff job descriptions were updated to include current job requirements.
- The creation, deployment and continuous updating of new staff welcome packet and onboarding/offboarding checklists.
- The continued implementation of informal peer to peer recognition practices and workplace culture improvements to build morale and a positive work environment.
- The provision of professional development stipends to employees.
- The creation of a Compensation Review Committee, which developed the [Compensation Committee Charter](#) and the [Compensation Philosophy](#) and lead the procurement and the oversight of the independent Compensation Survey, completed through the terms of the [Mercer Agreement](#), for which recommendations were presented for WCI, Inc. Board consideration in November 2019.

4 Establish WCI, Inc. as a recognized leader and reference within the carbon market space

- The substantive work completed to redesign the [WCI, Inc. website](#), including new content to showcase WCI, Inc.'s purpose, services, team and results, as well as the impacts of the carbon markets of our Participating Jurisdictions.
- The presentation of WCI, Inc. services at carbon market events and ongoing discussions with new jurisdictions that are contemplating the implementation of their own Cap-and-Trade program.
- The development of performance-oriented metrics and dashboards for project management governance.

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 11, 2018, through the end of 2019 the acting Board Members were:

- **Éric Thérout (Chair)**
Assistant Deputy Minister, Fight Against Climate Change, Québec Ministry of Environment and Fight Against Climate Change
- **Mary Nichols (Vice Chair)**
Chair, California Air Resources Board
- **Jean-Yves Benoit (Treasurer)**
Director of Carbon Market, Québec Ministry of Environment and Fight Against Climate Change
- **Jason Hollett (Secretary)**
Executive Director, Climate Change Unit, Nova Scotia Environment
- **Matthew Rodriguez (resigned January 17, 2019)**
Secretary for Environmental Protection, California Environmental Protection Agency
- **Jared Blumenfeld (appointed January 17, 2019)**
Secretary for Environmental Protection, California Environmental Protection Agency
- **Lilani Kumaranayake**
Executive Director, Fiscal Policy, Economics and Budgetary Planning with the Nova Scotia Department of Finance and Treasury Board

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

4.2. Board Meeting Actions

The following provides an overview of actions taken by the Board during the three meetings held in 2019:

- [May 14, 2019](#)
 - Open session:
 - Approval of the [November 14, 2018 Board Meeting Minutes](#);
 - Acceptance of the [2018 Audit Report](#) and [2018 Financial Statement](#);
 - Approval of the [2018 U.S. Federal and State tax forms](#) and the [2018 Canadian Sales Tax forms](#);
 - Approval of the amendment to the [U.S. Employee Handbook](#) and the [Québec Employee Handbook](#);
 - Approval of the amendment to the [Funds Management Policy](#);
 - Approval of the [Amendments to the Nova Scotia 2018-2019 Funding Agreement](#);
 - Approval of the [Compensation Committee Charter](#), the [Compensation Philosophy](#), the Compensation Committee members, and the procurement of an independent consultant to conduct a compensation review of WCI, Inc. staff;
 - Approval of the [2018 Annual Report](#).
 - Executive (closed) session:
 - Approval of the December 17, 2018, Executive Session Meeting Minutes;
 - Discussion of procurement, personnel and jurisdiction matters.
- September 4, 2019
 - Executive (closed) session:
 - Approval of the May 14, 2019, Executive Session Meeting Minutes;
 - Discussions of procurement matters.
- [November 7, 2019](#)
 - Open session:
 - Approval of the [May 14, 2019, Meeting Minutes](#);
 - Review of corporate policies ([Ethical Guidelines and Conflict of Interest Policy](#));
 - Election of officers and appointment of standing committee members for 2020;
 - Reception of the [2019 Treasurer's Report](#) and of the [2020 Budget and Projected Expenses for 2021](#).
 - Executive (closed) session:
 - Approval of the September 4, 2019, Executive Session Meeting Minutes;
 - Approval of the [Monitoring Analytics Agreement Amendment](#) and of the [Financial Services Administrator Agreement Amendment](#);
 - Discussion of personnel, jurisdiction and legal matters.

5. WCI, Inc. key numbers in 2019

1

WCI, Inc.'s Participating Jurisdiction programs represent **the largest carbon market in North America**

3

Participating Jurisdictions using WCI, Inc. services

4

California–Québec Joint Auctions supported

8

full-time staff position as of December 2019

21

Contractors retained for technical and administrative services necessary to carry out WCI, Inc.'s mission

>25

Actions taken by the WCI, Inc. Board

96

Qualified bidders in average for each WCI Quarterly Joint Auction (of which an average of 67 in California and 24 in Québec)

>920

Entities registered in the Market Registry as of December 2019

314 M

Allowances sold by Participating Jurisdictions and California consigning entities through the Auction Platform

\$3.83 M

2019 Annual Budget supported by funding agreements with each Participating Jurisdiction using WCI, Inc. services

416 Mt

CO₂ eq. of GHG emissions cap covered in 2019 by Participating Jurisdictions

\$5.3 B

USD / 7.0 billion CAD Auction Proceeds delivered in 2019 to Participating Jurisdictions' GHG Reduction Funds and Consigning Entities

6. Fiscal Year 2019

January 1, 2019 – December 31, 2019

Statement of Activities ¹	
Total Revenues	\$3,316,284
California Funding	\$2,000,000
Québec Funding	\$865,492
Nova Scotia Funding	\$389,128
Other Income, Net ²	\$61,664
Total Expenses	\$3,623,400
Cap-and-Trade Services	\$2,171,523
Personnel	\$1,038,838
Direct Operations	\$413,039
Net Assets, End of Year	\$3,681,233
Net Assets, Beginning of Year ³	\$3,955,505
Change in Net Assets	(\$274,272)

Statement of Financial Position	
Total Assets	\$4,040,578
Cash & Cash Equivalents	\$1,133,476
Investments	\$1,750,000
Receivables	\$1,143,088
Property and Equipment, Net	\$4,216
Other Assets	\$9,798
Total Liabilities	\$359,345
Accounts Payable & Accrued Expenses	\$279,399
Accrued Payroll	\$79,946
Net Assets – Without Donor Restrictions	\$3,681,233
Total Liabilities & Net Assets	\$4,040,578

1. Audited financial statements are available at <https://wci-inc.org/documents/audit>.
2. Includes investment interest (\$49,678), foreign exchange rate gain (\$6,406) and other refunds (\$5,580).
3. Net assets at the beginning of the year included carry-over funds from previous years. Prudent management of funds and cash flow requires that WCI, Inc. maintain funds such that an unexpected expenditure or an unexpected delay in receipt of funds through the funding agreements would not impede its ability to provide services to the jurisdictions. Since mid-2013, that cash flow reserve has been approximately six months of anticipated expenditures. The development of jurisdiction funding agreements has incorporated and will in the future incorporate the existence of a cash flow reserve. To learn more, refer to the WCI, Inc. [2019 Annual Budget](#).

