

2022 Budget and Projections for 2023

OCTOBER 26, 2021



Table of Contents

1. Introduction	1
2. Cap-and-Trade Services	2
2.1 Market Registry	2
2.2 Auction and Reserve Sale Services	3
2.3 Financial Services	3
2.4 Market Monitoring	3
2.5 Strategic Plan Implementation	4
2.6 Cash Flow Reserve	4
3. Personnel and Direct Operations	5
3.1 Personnel	5
3.2 Office Rent and Equipment	6
3.3 Professional and Administrative Support Services	7
3.4 Insurance Fees	7
3.5 Travel, Meeting and Other Expenses	7

1. Introduction

This document describes the budget for calendar year 2022 and projected expenditures for calendar year 2023 for Western Climate Initiative, Inc. (WCI, Inc.) as adopted by the WCI, Inc. Board of Directors (“Board”) at its October 26, 2021 meeting (pending Board approval).

The requirements for cap-and-trade services were defined by the personnel from the Participating Jurisdictions based on the support needed by the jurisdictions to implement their programs. 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 supervision of cap-and-trade services, as well as to carry out its administrative and organizational responsibilities.

The 2022 budget as well as the 2023 projections are also informed by the implementation of the WCI, Inc. 2022-2024 Strategic Plan (pending Board approval), including:

- The findings of the Enterprise Architecture Assessment, presented to the Board in May 2019;
- The investment strategy to position WCI, Inc. at the forefront of future technology trends and expand its capacity to keep pace with market changes and the evolving needs of the partnership, approved by the Board in September 2019;
- The recommendations of the Compensation Review Committee to maintain WCI, Inc. competitiveness in the industry in order to attract and retain high-quality personnel, presented to the Board in November 2019, and periodic compensation reviews performed by an independent firm;
- The release of the new [WCI, Inc. Auction Platform](#) and the subsequent auction in August 2021;
- The results of recent [procurements](#) for cap-and-trade services.

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., noting that all current *Cap-and-Trade Services* contracts will be recompeteted progressively, as needed. All amounts shown are in U.S. dollars.

The 2022 budget and the projected 2023 expenditures for WCI, Inc. are presented in 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.

WCI, Inc. is fully funded by the jurisdictions that utilize the services it provides. The allocation of costs to the Participating Jurisdictions is based on the following:

- For *Cap-and-Trade Services* that are specific to a jurisdiction (e.g. onboarding, reserve sales or stand-alone auction, development for jurisdiction-specific requirements), those costs are covered solely by the jurisdiction receiving the service.
- For shared *Cap-and-Trade Services* (e.g. joint auctions) as well as for *Personnel and Other Direct Costs*, costs are allocated to each Participating Jurisdiction based on the size of their program or more precisely the emissions cap each jurisdiction has established for their program.

**Table 1. Total Budget for WCI, Inc. for 2022
and Projected Expenditures for 2023**

Category	2022 Budget	2023 Projected
Cap-and-Trade Services	\$ 6,781,553	\$ 7,032,306
Personnel and Direct Operations	\$ 3,997,715	\$ 4,169,197
Total	\$10,779,269	\$ 11,201,503

2. Cap-and-Trade Services

The *Cap-and-Trade Services* category contains estimates for WCI, Inc. to accomplish its purpose to provide administrative and technical services to its Participating Jurisdictions. WCI, Inc. contracts for services requested by the Participating Jurisdictions to support their programs. The 2022 budget and the projected 2023 expenditures for *Cap-and-Trade Services* are 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.

Cap-and-Trade Services support the cap-and-trade programs for all Participating Jurisdictions. The contractors providing each of the services below are capable of expansion, with appropriate funding, to include additional Participating Jurisdictions.

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 market registry that provides accounts for market participants to hold and retire compliance instruments and to record transactions of compliance instruments with other account holders. The market registry is the official record supporting programs in California, Québec, and Nova Scotia.

The market registry hosting includes services and technology (hardware and software) necessary to ensure that the platform is online and available at specified levels of service to all program participants and the jurisdictions' personnel.

Initial development of the market registry was funded by the California Air Resources Board (CARB). As a result of a procurement initiated in January 2012, WCI, Inc. contracted with SRA (now GDIT) in May 2012 for additional application development and hosting. The contract has been amended to support continued application development and hosting. The latest [amendment to the SRA Agreement](#) approved by the Board, covers the period from January 30, 2020 to December 31, 2024.

2.2 Auction and Reserve Sale Services

WCI, Inc. supports Participating Jurisdictions in executing joint-auctions, stand-alone auctions, and stand-alone reserve sales of greenhouse gas emission allowances that conform to each jurisdictions' requirements.

In February 2020, WCI, Inc. initiated the [IT Services Procurement](#). Following the results of this procurement, WCI, Inc. has been working with its Participating Jurisdictions and its vendors to develop, test and implement a new web-based auction solution application. With the release of the new [WCI, Inc. Auction Platform](#), which supported its first auction in August 2021, all auction and reserve sale services are supported by WCI, Inc. personnel.

2.3 Financial Services

To support the execution of auctions and reserve sales, WCI, Inc. provides financial services, which includes the management of bid guarantees and 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. Following procurements in 2013 and 2016, WCI, Inc. contracted with Deutsche Bank to provide financial services of auctions and reserve sales for all of its Participating Jurisdictions. The Deutsche Bank Agreement was last [amended](#) in November 2019, to extend contract term from January 1, 2020 to January 31, 2021 and to support Nova Scotia auctions beginning in 2020. As a result of the [Request for Proposal \(RFP\) 2020-02](#), the WCI, Inc. Board of Directors will consider approval of a new Financial Services agreement.

The 2022 budget and projected expenditures for 2023 for financial services include costs associated with joint auctions and reserve sales for California and Québec and stand-alone auctions and reserve sales for Nova Scotia.

2.4 Market Monitoring

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 include ongoing examination of allowance and offset holdings and transfer activity, as well as the review of secondary and derivative market 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.

Following the [2015 open procurement for Market Monitoring Services](#), the WCI, Inc. Board of Directors approved the [Agreement with Monitoring Analytics](#) and its [Amendment in November 2019](#) to extend contract term to December 31, 2022.

In May 2021, in accordance with the [WCI, Inc. Procurement Policy](#), WCI, Inc. with the assistance of Participating Jurisdictions developed and executed an open and competitive [procurement for Emissions Trading Market Monitoring Services](#). The results of the procurement are pending Board consideration.

The 2022 budget for market monitor services include costs associated with a subscription to California Carbon Info to provide jurisdiction personnel access to market data to support their market monitoring responsibilities.

2.5 Strategic Plan Implementation

The 2022 budget and projected expenditures for 2023 includes costs associated with the investment strategy to position WCI, Inc. at the forefront of future technology trends and expand its capacity to keep pace with market changes and the evolving needs of the partnership.

In order to develop the new integrated platform, as approved by the Board in September 2019, WCI, Inc. must contract with service providers capable of developing, validating, and testing the new platform. Per the results of the [IT Services Procurement](#), WCI, Inc. completed the first phase of the project with the release of the new [WCI, Inc. Auction Platform](#), which supported its first auction in August 2021.

For the second phase of the project, WCI, Inc. personnel will keep working to select and supervise service providers capable of developing, validating, and testing the new registry application.

If there is a transition to new service providers, services from any new service providers will likely overlap with services from incumbent service providers to ensure service continuity. Expenditures from the Strategic Plan Implementation will only occur after approval of new or modified contracts, in compliance with the requirements of the [Procurement Policy](#).

2.6 Cash Flow Reserve

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. A cash flow reserve also recognizes that jurisdiction funding agreements have typically been for two years, while budgets are annual, and allows WCI, Inc., with the approval of the Board and Participating Jurisdictions, some inter-year flexibility in expenditures.

Because of conservative budgeting (e.g., budgeting for reserve sales even though they have not yet been required) and some shifting of the timing of expenses such as hiring WCI, Inc. personnel, WCI, Inc. has had a cash flow reserve since the end of its first full year of operation in 2012. Since mid-2013, that cash flow reserve has been approximately six months of anticipated expenditures. The cash flow reserve does not appear as a budget line item, because it is not a projected expenditure. The development of jurisdiction funding agreements has incorporated and will in the future incorporate the existence of a cash flow reserve. The level of jurisdiction funding agreements could be lower than a future budget, if the cash flow reserve exceeds the targeted level or if it were to be drawn down. The Executive Director recommends that approximately 6 to 12 months of expenses provides an appropriate level of cash flow reserves.

At the beginning of 2022, the cash flow reserve is expected to equal approximately nine months of expenses and would remain within the targeted level, with new Funding Agreements (pending Board approval). Reevaluation of the appropriate level of reserves, development of the 2023 budget, and development of future jurisdiction funding agreements will be done in concert to ensure an appropriate cash flow reserve.

3. Personnel and Direct Operations

The *Personnel and Direct Operations* category contains cost estimates for the operation of WCI, Inc. This category includes expenditures for personnel salaries and benefits, office rent and equipment, professional, technical and administrative support services, insurance fees, travel and meeting expenses, and other direct operating expenses. The budget estimates are based on WCI, Inc. operating experience, and the anticipated evolution of the cap-and-trade program requirements as specified by the Participating Jurisdictions. This includes resources to support the implementation of the Strategic Plan. The 2022 budget and projected expenditures for 2023 are summarized in Table 2 and described in the text below.

3.1 Personnel

WCI, Inc. personnel carry out the responsibilities for WCI, Inc. as directed by the Board and are responsible for the day-to-day operations of the organization and for oversight and management of the contractors hired to provide cap-and-trade services as described above. The 2022 budget and projected 2023 expenditures include the following positions:

- Administrative and Operations Personnel:
 - an Executive Director responsible for the organization's consistent achievement of its mission and financial objectives;
 - an Assistant Executive Director to support the Executive Director with day-to-day operations, including managing organizational and administrative tasks to assist with oversight of personnel and contractors;
 - an Accounting and Administrative Specialist to maintain the internal administrative systems that support the activities of the corporation;
 - an Administrative Assistant to support the day-to-day business operations of the corporation;
 - a Contracts Manager responsible for the management and adherence of external service providers;
 - and an IT Administrator responsible for ensuring all office software, computers, printers, and phones are maintained to support operations of WCI, Inc.
- Technical Personnel:
 - a Chief Product Officer to lead and direct service delivery to meet program needs for current and future partners;
 - a Chief Technology Officer to lead and direct all Information Technology (IT) development and operations;
 - Project Managers to coordinate the development and implementation of cap-and-trade services;
 - IT Business Analysts to support Project Managers in the documentation and coordination of cap-and-trade services;
 - a Solutions Architect to drive architectural direction of IT systems towards scalability, security and performance;

- a Database Architect to provide leadership to build a solid, secure and stable data architecture increasing the business value of data and supporting data analytics;
- a Security Architect to provide leadership on best practices for security, risk assessment and mitigation strategies;
- a DevOps Manager and a DevOps Engineer to manage and monitor the IT infrastructure;
- Software Developers to establish coding standards, perform code reviews, and ensure IT applications meet requirements;
- a User Experience/Interface Specialist to lead the design of our platforms;
- a Quality Assurance Specialist to lead applications testing and performance initiatives.

The 2022 personnel budget and projected expenditures for 2023 include salary and benefits for employees providing technical and administrative services. The budget for personnel is \$3,140,217 in 2022 and the projected expenditures for personnel in 2023 are \$3,340,316.

3.2 Office Rent and Equipment

WCI, Inc. opened an office in Sacramento, California, in September 2012 and an Office in Québec City in March 2016. Following Board approval, WCI, Inc. relocated its Sacramento office to support evolving personnel and operations requirements of the corporation. The Québec City office is in an executive office and fully furnished; rent includes access to a copier, internet and other standard office amenities.

The budget for office rent, computers, office supplies, and other equipment necessary to support the operations of WCI, Inc., totals \$154,684 in 2022, and the projected expenditures in 2023 are \$157,225.

3.3 Professional and Administrative Support Services

WCI, Inc. has engaged the services of professionals to support WCI, Inc. operations in Sacramento and Québec, including:

- legal counsel;
- accountants to administer the accounting systems, advise on accounting procedures, report on the financial activities of the corporation, and prepare tax returns;
- an auditor to provide audit and tax services;
- advisor services to support IT audits, compensation reviews, financial controls, or other technical work as needed;
- human resources services, including support for payroll services, payroll tax filings and the management of employee benefits;
- translation services (French and English) to support the production of bilingual materials and real-time interpreter services for Board meetings;
- information technology (IT) support for the purchase and maintenance of IT equipment and security certificates (SSL) for the WCI, Inc. websites to administer the program; and
- outreach and communication services to cover the cost of developing and communicating key program information through the [WCI, Inc. website](#) and participation in outreach activities or public events as determined by the Board and Executive Director.

The total estimate for these professional and administrative support services is \$466,273 in 2022, with projected expenditure level of \$433,969 for 2023 and of \$398,802 for 2024.

3.4 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 \$156,736 in 2022 and projected expenditure level are the same for 2023 to support the evolving needs of the Participating Jurisdictions.

3.5 Travel, Meeting and Other Expenses

The 2022 budget and projected 2023 expenditures include travel by U.S. and Canadian personnel as necessary to carry out their project management responsibilities and to attend organizational meetings. 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. and Canadian 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. 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 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 total estimate for Travel, Meeting and Other Expenses is \$79,805 in 2022, with projected expenditure level of \$80,951 for 2023.

**Table 2. 2022 Personnel and Direct Operations Budget
and Projected Expenditures for 2023**

Sub-category	2022 Budget	2023 Projected
Personnel	\$ 3,140,217	\$ 3,340,316
Professional and Administrative Support	\$ 466,273	\$ 433,969
Office Rent and Equipment	\$ 154,684	\$ 157,225
Insurance Fees	\$ 156,736	\$ 156,736
Travel, Meeting and Other Expenses	\$ 79,805	\$ 80,951
Total	\$ 3,997,715	\$ 4,169,197