



Annual Report – 2017

Activities and Accomplishments

May 1st, 2018

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2017 ACTIVITIES AND ACCOMPLISHMENTS

1. INTRODUCTION

The Western Climate Initiative (WCI) partnership¹ represent the largest carbon market in North America, and the only one developed and managed by governments from two different countries. At the end of 2017, the WCI carbon market was the world's third largest existing carbon market, after that of China (launched in December 2017) and the European Union (operating since 2005). The WCI partnership covers a population of more than 60 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. California, Ontario and Québec participate in the WCI carbon market, 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 and technical 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.

Most of the 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 delivery of CITSS help desk services to program participants of all jurisdictions;
- The development and administration of the [GHG allowance auction and reserve sale platform](#), used by each jurisdiction to auction emission allowances under their Cap-and-Trade programs and to conduct reserve sales;
- The performance of analyses by an independent market monitor to support market monitoring performed by each jurisdiction; and
- Financial administrative services for auctions and reserve sales, which includes evaluation and management of bid guarantees submitted by applicants, financial settlement for sold allowances and the distribution of auction proceeds to the jurisdictions and consigning entities.

The activities and accomplishments of WCI, Inc. in 2017 are divided into three categories: Cap-and-Trade Services, Personnel and Direct Operations, and Governance.

¹ A collaboration among Western 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

Throughout 2017, WCI, Inc., its Participating Jurisdictions and service providers worked to complete Ontario onboarding to the WCI, Inc. Cap-and-Trade services and to prepare for the first planned joint auction of Ontario with California and Québec that took place in February 2018.

This collaborative and dedicated effort 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 2017 for each WCI, Inc. service area, pursuant to its 4.79 million USD [2017 Annual Budget](#) and supported by funding agreements² 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) to develop and support the Compliance Instrument Tracking System Service ([CITSS](#)).

CITSS provides accounts for market participants (approximately 1,000 entities registered as of the end of 2017)³ 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. 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 in English and French for both Québec and Ontario participants.

2017 WCI AUCTIONS

Ontario held the first stand-alone auction of its program in March 2017 with the support of WCI, Inc. services.

During 2017, WCI, Inc. supported the execution of four (4) California–Québec joint auctions and four (4) Ontario stand-alone auctions.

The eight (8) auctions held in 2017 resulted in the sale of about 358.2 million allowances, and estimated proceeds of 5.1 billion USD / 6.6 billion CAD delivered to its Participating Jurisdictions and consigning entities.

² For more details, refer to each Participating Jurisdiction's funding agreement with WCI, Inc. effective in 2017 : [California](#), [Québec](#), [Ontario](#).

³ Source: WCI, Inc. compilation as of January 23, 2018, based on CITSS data published by [California](#), [Québec](#) and [Ontario](#).

During 2017, numerous updates were made to CITSS, to:

- Streamline the auction application process;
- Allow and enhance use of the system by Ontario;
- Continuously improve the system's security, stability, performance and automation; and,
- Develop new functionalities to increase the application's efficiency, to improve usability for Participating Jurisdictions staff and market participants.

Also, in June 2017, upon completion of an open competitive process and approval from its Board of Directors (Board), WCI, Inc. [contracted Gelder, Gingras and Associates \(GGA\)](#) to perform an independent and comprehensive information technology (IT) assessment of CITSS, with the purpose of determining the scalability and sustainability of the application. In November 2017, GGA presented a preliminary report with their observations and recommendations regarding the ability of the CITSS application to scale and adapt successfully to accommodate a range of future changes and expansions to support WCI, Inc., its Participating Jurisdictions, and any new jurisdictions at a reasonable cost and level of effort, without compromising its stability, security and quality of performance. WCI, Inc. strategy on how to implement GGA's recommendations for the future of CITSS is expected to be presented for WCI, Inc. Board consideration in 2018.

2.2 CITSS Help Desk

From October 2012 to the end of September 2017, WCI, Inc. contracted with ICF Incorporated, LLC to provide multi-jurisdictional telephone and online customer assistance for CITSS users in English and French. During those five years, the ICF Help Desk role was to field inquiries from CITSS users, resolve user questions that fell within their scope of service, and refer inquiries that fell outside their scope of services to the appropriate staff designated by WCI, Inc. and the Participating Jurisdictions.

Prior to September 2017, ICF notified WCI, Inc. that they were no longer able to support the CITSS Help Desk. WCI, Inc., in coordination with jurisdiction staff, supported the transition of the shared CITSS Help Desk support to jurisdiction staff.

2.3 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), the auction and reserve sale administrator, to develop and implement an auction and reserve sale platform.

Throughout 2017, WCI, Inc., Participating Jurisdictions and Markit worked to redesign and build a new consolidated [auction and reserve sale platform](#), to develop a series of enhancements for administrative users and market participants, and to ensure reconciliation with CITSS. The migration to the new auction platform was completed in June 2017, and enabled the successful execution of the California–Québec joint auction in August 2017 and the Ontario stand-alone auction in September 2017 on the new auction platform. In addition, to support the linking of the Ontario Cap-and-Trade program with the carbon markets of California and Québec, Participating Jurisdictions staff completed significant work to update joint auction procedures and related materials to support the first planned joint auction of Ontario with California and Québec in February 2018.

During 2017, WCI, Inc. supported the execution of four (4) California–Québec joint auctions and four (4) Ontario stand-alone auctions, while Ontario held the first stand-alone auction of its program in March 2017. In addition, four California reserve sales were scheduled and opened for registration as required, but were ultimately not held due to lack of any qualified applicants.

The eight (8) WCI auctions held in 2017 resulted in the sale of about 358.2 million allowances, and estimated proceeds of 5.1 billion USD / 6.6 billion CAD delivered to its Participating Jurisdictions and consigning entities. The average settlement price for 2017-vintage allowances sold at California–Québec joint auctions was 14.30 USD / 18.63 CAD, and 18.45 CAD for Ontario stand-alone auctions. With an

THE AUCTION AND RESERVE SALE PLATFORM IN BRIEF

This secure platform allows qualified bidders 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, allowances are transferred to successful bidders.

average total of 133 qualified bidders⁴ — 60 in California, 22 in Québec and 51 in Ontario — approved in each quarter of 2017 to participate in WCI auctions, the auction and reserve sale platform (in conjunction with other WCI, Inc. services) has demonstrated that it is a reliable, secure and flexible source of allowances for the numerous market participants in each Participating Jurisdiction’s Cap-and-Trade program.⁵

2.4 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 sales. This includes the evaluation and management of financial bid guarantees from auction applicants and qualified bidders through the provision of escrow services until the financial settlement of sold allowances and the distribution of proceeds to Participating Jurisdictions and consigning entities.

During 2017, with the support of DBNTC, WCI, Inc. supported four (4) California–Québec joint auctions and four (4) Ontario stand-alone auctions. No reserve sales were held.

2.5 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 the beginning of WCI, Inc. 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 2017, Monitoring Analytics continued to support multi-jurisdictional monitoring for California and Québec joint auctions and linked markets, as well as for the Ontario stand-alone auctions and market. In addition, they began to prepare for the first joint auction of Ontario with California and Québec in February 2018, by reviewing the market participants’ corporate structures and by providing support to jurisdictions staff to monitor the overall joint auction process.

⁴ 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 California Air Resources Board (CARB), Ministry of the Environment and Climate Change (MOECC), or Ministry of Sustainable Development, Environment, and Fight Against Climate Change (MDDELCC) 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](#).

⁵ Source: All auction data included in this paragraph are based on WCI, Inc. compilation from Auction Results published by [California](#), [Québec](#) and [Ontario](#).

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 2017, WCI, Inc. staff positions included:

- an Executive Director located in the United States;
- an Assistant Executive Director located in Canada to support the Executive Director with operational and business requirements and to assist the Project Managers for Cap-and-Trade services;
- two (2) Project Managers to coordinate Cap-and-Trade services; 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;
- technical support, communication, interpretation and translation services.

3.3 Strategic Planning

Beginning in 2016, WCI, Inc. launched an extensive effort to envision its goals and to operationalize the mission, vision and values espoused by its Board. Since then, WCI, Inc. staff has been working collaboratively with the WCI, Inc. Board and Participating Jurisdiction staff to determine WCI, Inc.'s new direction over the coming years. This work is expected to result in WCI, Inc.'s first comprehensive strategic plan for Board consideration in 2018. This strategic plan will be built on three cross-cutting themes approved by the Board in December 2016: Manage Strategically, Use Technology Effectively, and Communicate Effectively.

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 December 6, 2016, to the WCI, Inc. Annual Board meeting in October 12, 2017, the acting Board Members were:

- Matthew Rodriguez (Chair)
Secretary for Environmental Protection, California Environmental Protection Agency
- Rob Fleming (Vice Chair, resigned on September 29, 2017, upon his retirement)
Assistant Deputy Minister, Climate Change and Environmental Policy Division, Ontario Ministry of the Environment and Climate Change
- Mary Nichols (Treasurer)
Chair, California Air Resources Board
- Jean-Yves Benoit (Secretary)
Director of Carbon Market, Québec Ministry of Sustainable Development, Environment and Fight Against Climate Change
- Genevieve Moisan (resigned on July 19, 2017, due to her nomination in another Ministry)
Assistant Deputy Minister, Fight Against Climate Change, Québec Ministry of Sustainable Development, Environment and Fight Against Climate Change
- France Delisle (appointed July 21, 2017)
Executive Director, Carbon Regulation and Emission Data Branch, Québec 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
- Alex Wood (appointed October 11, 2017)
Executive Director, Climate Change Directorate, Ontario Ministry of the Environment and Climate Change
- Tim Lesiuk
Executive Director, Business Development and Chief Negotiator, British Columbia Climate Action Secretariat
- Richard Bloom,
Assembly Member appointed by the Speaker of the California Assembly (non-voting director)
- Kip Lipper, appointed by the California Senate Rules Committee (non-voting director)

Starting from October 12, 2017 through the end of 2017 the acting Board Members were:

- Matthew Rodriguez (Chair)
- Jim Whitestone (Vice Chair)
- Jean-Yves Benoit (Treasurer)
- Mary Nichols (Secretary)
- France Delisle
- Alex Wood
- Tim Lesiuk
- Richard Bloom, Assembly Member appointed by the Speaker of the California Assembly (non-voting director)
- Kip Lipper, appointed by the California Senate Rules Committee (non-voting director)

4.2 Board Meeting Actions

The following provides an overview of actions taken by the Board during the five (5) meetings held in 2017:

- March 27, 2017
 - Actions taken by the Board during the open session included:
 - Approval of the [December 6, 2016, Board Meeting Minutes](#);
 - Approval of [2016 Canadian Sales Tax forms](#);
 - Approval of 2016 Report of Foreign Bank Account and Financial Accounts.
- April 20, 2017
 - Actions taken by the Board during the open session included:
 - Approval of the [March 27, 2017, Meeting Minutes](#);
 - Acceptance of the [2016 Audit Report](#) and [Year End Financial Statement](#);
 - Approval of the [2016 U.S. Federal and State tax forms](#);
 - Authorization of the Executive Director to file Canadian Federal and Provincial Sales Tax forms;
 - Approval of the amendment to the [Funds Management Policy](#).
 - Action taken by the Board during the executive (closed) session was:
 - Approval of the December 6, 2016, Executive Session Meeting Minutes.
- June 27, 2017
 - Actions taken by the Board during the executive (closed) session included:
 - Approval of the April 20, 2017, Executive Session Meeting Minutes;
 - Approval of the [Gelder, Gingras and Associates Agreement](#) to Complete an IT Assessment on CITSS and Provide Recommendation;
 - Approval of the Ross Strategic Agreement for Administrative Support Services.

- July 26, 2017
 - Action taken by the Board during the executive (closed) session was:
 - Approval of the June 27, 2017, Executive Session Meeting Minutes.

- October 12, 2017
 - Actions taken by the Board during the open session included:
 - Approval of the [April 20, 2017, Board Meeting Minutes](#);
 - Approval of Amendments to WCI, Inc. [By-laws](#) and [Procurement Policy](#);
 - Election of officers and appointment of standing committee members for 2018;
 - Approval of the Grant to Support Carbon Pricing Discussions for the State of Oregon;
 - Approval of the California Carbon Information Agreement;
 - Approval of the [2018 Budget and Projected Expenses for 2019 and 2020](#).
 - Actions taken by the Board during the executive (closed) session included:
 - Approval of the July 26, 2017, Executive Session Meeting Minutes;
 - Approval of the amendment of the [SRA CITSS Agreement](#);
 - Approval of the proposal from WCI, Inc. staff to offer group health insurance to full time employees.

5. WCI, INC. KEY NUMBERS IN 2017

1

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

3

Participating Jurisdictions using WCI, Inc. services

8

Auction events supported, of which 4 California–Québec Joint Auctions and 4 Ontario stand-alone Auctions

19

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

22

Actions taken by the WCI, Inc. Board

133

Average qualified bidders approved in each quarter to participate in WCI auctions (of which 60 in California, 22 in Québec and 51 in Ontario)

1,000+

Entities registered into CITSS or potential WCI carbon market participants

358.2 M

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

\$4.79 M

2017 Annual Budget supported by funding agreements with each Participating Jurisdiction using WCI, Inc. services

5.1 billion USD /
6.6 billion CAD

Total Estimated Auction Proceeds allocated in 2017 to Participating Jurisdictions' GHG Reduction Funds and Consigning Entities