



2020 Annual Report

Activities and Accomplishments

MAY 12, 2021



Message from the Chair



Jason Hollett
Chair
WCI, Inc.

I am very pleased to be able to provide this annual report in my first year as the Chair of the WCI, Inc. Board of Directors. While 2020 brought new and unexpected challenges from the COVID-19 pandemic, WCI, Inc. and our Participating Jurisdictions worked together to ensure that the services provided were able to continue uninterrupted. The Board would like to recognize the hard work of the WCI, Inc. team and the teams from California, Quebec and Nova Scotia who helped us to navigate through this new normal. We are proud of the response and how we continue to build a strong, sustainable organization.

For the past two years we have been focused on providing a high level of service to our Participating Jurisdictions and implementing the strategic plan approved by the Board of Directors in 2018. Through the implementation of this plan, we have further strengthened the partnership; continued to deliver high quality, efficient and responsive services; built a high-performing team of professionals; and continued to establish WCI, Inc. as a respected leader in the carbon market world.

In 2021 we will complete the implementation of our first strategic plan and begin planning for the next phase of growth for the organization, focusing on meeting the needs of current and future jurisdictions and their emissions trading programs.

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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 2020, [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 used for the issuance of emission allowances, recording the ownership of emission allowances and account information, performing and recording emission allowance transfers, and facilitating the verification of compliance;
- 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 2020, the WCI, Inc. carbon market covered a population of nearly 50 million people and about 3.1 trillion USD / 4.0 trillion CAD in gross domestic product. The 2020 cap of 402 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, began operating its own provincial cap-and-trade program in 2019, and held its first auctions in 2020.

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 2020, 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 2020 for each WCI, Inc. service area, pursuant to its 7.2 million USD [2020 Annual Budget](#) and supported by [funding agreements](#) with each Participating Jurisdiction using WCI, Inc. services. To learn more about the 2020 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 2020, 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 2020, approximately 950 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.

During 2020, the auction platform supported the execution of four California–Québec joint auctions and two Nova-Scotia stand-alone auctions. No reserve sales were scheduled by California, Québec or Nova Scotia in 2020. 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 six auctions held in 2020 resulted in the sale of 216 million allowances and proceeds of 3.7 billion USD / 4.9 billion CAD delivered to its Participating Jurisdictions and consigning entities in California and Nova Scotia¹.

Throughout 2020, the settlement price for 2020-vintage allowances sold during [California–Québec joint auctions](#) fluctuated from 17.87 USD / 23.69 CAD to 16.93 USD / 22.15 CAD for a 2020 average price of 17.04 USD / 22.76 CAD (not weighted by volume of allowances sold in each auction). An average total of 81 qualified bidders (60 California bidders and 21 Québec bidders) were approved to participate in the four California–Québec joint auctions held in 2020.

The 2020 [Nova Scotia stand-alone auctions](#) settlement prices for 2020-vintage allowances fluctuated from 17.92 USD / 24.00 CAD to 19.10 USD / 24.70 CAD for a 2020 average settlement price of 18.51 USD / 24.35 CAD (not weighted by volume of allowances sold in each auction). An average of 14 qualified bidders were approved to participate in the two Nova Scotia stand-alone auctions.

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 Auction data are based on WCI, Inc. compilation from Auction Results published by [California](#), [Québec](#) and [Nova Scotia](#).

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 six auctions in 2020.

On May 14, 2020, the WCI, Inc. Board of Directors approved an [Amendment to the Agreement with DBNTC](#) to extend contract term from February 1, 2021 to January 31, 2022.

On October 21, 2020, as a result from the [Request for Proposal 2020-02](#), WCI, Inc. Board of Directors approved the [Alter Domus Financial Services Agreement](#), including contract term running through January 31, 2026.

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 2020, 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, which currently does not allow trading of greenhouse gas emission allowances with other jurisdictions.

The latest [Amendment to the Agreement with Monitoring Analytics](#) extends 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 2020, WCI, Inc. hired new staff to enhance the capabilities of the corporation. At the end of 2020, the WCI, Inc. [team](#) included a total of fourteen staff positions, including thirteen staff positions located in the United States and one staff position located in Canada:

- an Executive Director;
- an Assistant Executive Director;
- a Chief Technology Officer;
- a Solution Architect;
- two Information Technology (IT) Project Managers;
- three IT Business Analysts;
- a DevOps Manager;
- a Security Architect;
- a Software Engineer;
- a Contracts Manager and
- an Administrative Assistant.

3.2. Administrative and Professional Services

In addition, WCI, Inc. has retained administrative and professional services necessary to carry out its operations 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 2020, 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 2020, 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 2020 that support four major goals of the Plan:

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

- The development, use, and maintenance of additional collaborative spaces and secured information tools accessible for both WCI, Inc. and Participating Jurisdiction staff.
- The continuous use of video and web conferencing for meetings with jurisdictions and contractors.
- Updated jurisdiction funding agreements to establish a standardized process for jurisdiction withdrawal from the partnership.

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

- The continued implementation of best practices to enhance the efficiency of user acceptance testing to better support the quality of services provided to jurisdictions.
- The continued implementation of a new project governance structure and enterprise architecture tools to better align business and information technology strategies.
- Further 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. 2021 Budget approved by the Board at the 2020 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 continued implementation of the recommendations of the independent Compensation Survey, approved by WCI, Inc. Board in November 2019, in compliance with the [Compensation Committee Charter](#) and the [Compensation Philosophy](#).
- Ongoing cross-training and mentorship of staff.

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

- The release of the redesigned [WCI, Inc. website](#), in March 2020, included new content to communicate more effectively with WCI, Inc.'s broad audience and to showcase WCI, Inc.'s purpose, services, [team](#), [career opportunities](#), as well as the [results and impacts](#) of the WCI carbon markets.
- The presentation of WCI, Inc. services to 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 November 17, 2019, through the end of 2020 the acting Board Members were:

- **Éric Thérout** (Chair until resignation as of November 30, 2020)
Assistant Deputy Minister, Fight Against Climate Change, Québec Ministry of Environment and Fight Against Climate Change
- **Jason Hollett** (Secretary until October 21, 2020, Treasurer until December 17, 2020, and Chair from then)
Executive Director, Climate Change Unit, Nova Scotia Environment
- **Mary Nichols** (Vice Chair until October 21, 2020 and director from then)
Chair, California Air Resources Board
- **Jared Blumenfeld** (Director until October 21, 2020 and Vice Chair from then)
Secretary for Environmental Protection, California Environmental Protection Agency
- **Jean-Yves Benoit** (Treasurer until October 21, 2020, Secretary until December 17, 2020, and Treasurer from then)
Director of Carbon Market, Québec Ministry of Environment and Fight Against Climate Change
- **Lilani Kumaranayake** (Director until December 17, 2020, and Secretary from then)
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 five meetings held in 2020:

- [February 5, 2020](#)
 - Open session
 - Approval of the [November 7, 2019 Board Meeting Minutes](#)
 - Approval of the [California Funding Agreement \(January 1-June 30, 2020\)](#)
 - Executive (closed) session
 - Approval of the November 7, 2019 Executive Session Meeting Minutes
 - Approval of the Markit Auction Administrator Agreement Amendment
 - Approval of the SRA (GDIT) Market Registry Agreement Amendment
 - Review of Compensation Report
 - Approval of the Executive Director's Performance Review
- [March 23, 2020](#)
 - Open session
 - Approval of the [February 5, 2020 Board Meeting Minutes](#)
 - Approval of the [Amendment to the WCI, Inc. Accounting Policies and Procedures](#)
 - Approval of the [Amendment to the WCI, Inc. Procurement Policy](#)
 - Executive (closed) session
 - Approval of the February 5, 2020 Executive Session Meeting Minutes
 - Approval of the [Amendments to the WCI, Inc. Bylaws](#)
 - Approval of the [Quebec 2020-2021 Funding Agreement](#)
 - Approval of the Bank of the West Banking Resolutions
 - Discussion of legal matters
- [May 14, 2020](#)
 - Open session:
 - Approval of the [March 23, 2020 Board Meeting Minutes](#)
 - Acceptance of the [2019 Audited Financial Statement](#)
 - Approval of the [2019 U.S. Federal and State tax forms](#) and the [2019 Canadian Sales Tax forms](#)
 - Approval of the [Nova Scotia 2020-2021 Funding Agreement](#)
 - Approval of the [2019 Annual Report](#)
 - Executive (closed) session
 - Approval of the March 23, 2020 Executive Session Meeting Minutes

- Approval of the [California Funding Agreement \(July 2020-December 2021\)](#)
 - Approval of the [Amendment to the Deutsche Bank Financial Services Agreement](#)
 - Discussion of procurement, and legal matters
- [October 21, 2020 Annual Board Meeting](#)
 - Executive (closed) session
 - Approval of the May 14, 2020, Executive Session Meeting Minutes
 - Approval of the [Alter Domus Financial Services Agreement](#)
 - Approval of the change to the location of WCI, Inc.'s principal office
 - Discussions of jurisdiction, personnel, and legal matters
 - Open session
 - Approval of the [May 14, 2020 Board Meeting Minutes](#)
 - Review of corporate policies ([Ethical Guidelines and Conflict of Interest Policy](#))
 - Approval of the [Amendments to the Accounting Policies and Procedures](#)
 - Election of officers and appointment of standing committee members
 - Reception of the [2020 Treasurer's Report](#) and of the [2021 Budget and Projected Expenses for 2022](#)
- [December 17, 2020](#)
 - Open session
 - Approval of the [October 21, 2020 Board Meeting Minutes](#)
 - Election of officers
 - Executive (closed) session
 - Approval of the October 21, 2020, Executive Session Meeting Minutes
 - Approval of the Executive Director's Performance Review

5. WCI, Inc. key numbers in 2020

1

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

3

Participating Jurisdictions using WCI, Inc. services

6

Auctions supported of which 4 California–Québec Joint Auction and 2 Nova-Scotia Stand-Alone Auctions

14

staff positions as of December 31, 2020

>25

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

>35

Actions taken by the WCI, Inc. Board

81

Qualified bidders in average for each WCI Quarterly Joint Auction (of which an average of 60 in California and 21 in Québec)*

>950

Entities registered in the Market Registry as of December 2020

216 M

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

\$7.2 M

2020 Annual Budget supported by funding agreements with each Participating Jurisdiction using WCI, Inc. services

402 Mt

CO₂ eq. of GHG emissions cap covered in 2020 by Participating Jurisdictions

\$3.7 T

USD / 4.9 trillion CAD Auction Proceeds delivered in 2020 to Participating Jurisdictions' GHG Reduction Funds and Consigning Entities

Note: *In average, Nova Scotia had 14 qualified bidders for its two stand-alone auctions.

6. Fiscal Year 2020

January 1, 2020 – December 31, 2020

Statement of Activities ¹		Statement of Financial Position	
Total Revenues	\$7,460,781	Total Assets	\$8,477,986
California Funding	\$5,515,711	Cash & Cash Equivalents	\$3,881,915
Québec Funding	\$1,409,733	Investments	\$1,500,000
Nova Scotia Funding	\$535,337	Receivables	\$1,774,651
Other Income, Net ²	\$64,075	Property and Equipment, Net	\$905,794
		Other Assets	\$415,626
Total Expenses	\$4,115,246		
Cap-and-Trade Services	\$1,862,533	Total Liabilities	\$1,387,143
Personnel	\$1,645,566	Accounts Payable & Accrued Expenses	\$448,067
Direct Operations	\$607,150	Accrued Payroll	\$205,486
		Deferred Revenue	\$733,590
Net Assets, End of Year	\$7,090,843	Net Assets – Without Donor Restrictions	\$7,090,843
Net Assets, Beginning of Year ³	\$3,681,233		
Change in Net Assets	\$3,409,610	Total Liabilities & Net Assets	\$8,477,986

1. Audited financial statements are available at <https://wci-inc.org/documents/audit>.
2. Includes investment interest (\$18,930), foreign exchange rate gain (\$40,785) and other refunds (\$4,360).
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. [2020 Annual Budget](#).

