

Western Climate Initiative, Inc. Budgets for Calendar Years 2012 and 2013

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Contents

Introduction	1
Cap-and-Trade Services	2
Compliance Instrument Tracking System Service (CITSS) Development	2
Compliance Instrument Tracking System Service (CITSS) Customization.....	3
Compliance Instrument Tracking System Service (CITSS) Operation.....	3
Auction Services	4
Financial Services.....	4
Market Monitor	5
Placeholders for Additional Services.....	5
Personnel and Direct Operations.....	6
Personnel.....	6
Administrative Services	7
Office Rent and Equipment	7
Travel and Meeting Expenses.....	7
Other Expenses and Contingency Reserve Fund.....	7

Introduction

This document describes the 2012 and 2013 budgets for Western Climate Initiative, Inc. (WCI Inc.). All amounts shown are in U.S. dollars.

These budgets are based on best estimates of the anticipated fiscal requirements for the operation of WCI, Inc. in 2012 and 2013. The budgets will be updated as necessary by the WCI, Inc. Board of Directors as these estimates are further refined and more information becomes available.

The total expenditures for WCI, Inc. in 2012 and 2013 are broken down into 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.

Table 1: Total Expenditures for WCI, Inc.

	2012	2013	Subtotal
Cap-and-Trade Services	\$1,215,000	\$1,775,000	<i>\$2,990,000</i>
Personnel and Direct Operations	\$1,146,000	\$1,251,000	<i>\$2,397,000</i>
Total	\$2,361,000	\$3,026,000	<i>\$5,387,000</i>

Cap-and-Trade Services

The *Cap-and-Trade Services* category contains cost estimates for WCI, Inc. to provide key program functions and activities. These costs are summarized in Table 2, and the activities are described in greater detail below.

The working assumption used to prepare these budgets is that WCI, Inc. will contract for many, if not all, of the services required for cap-and-trade operations, with oversight of these contracts provided by the WCI, Inc. staff and Board of Directors. The following areas of contract services are anticipated:

- Compliance Instrument Tracking System Service Development
- Compliance Instrument Tracking System Service Customization
- Compliance Instrument Tracking System Service Operation
- Auction Services
- Financial Services
- Market Monitor

The budget estimates for each of these services is described below. This section also lists two potential additional service areas, market surveillance and offset program support.

Compliance Instrument Tracking System Service (CITSS) Development

A system for managing and tracking compliance instruments, including allowances and offset certificates, is required to administer the emissions trading program. The Participating Jurisdictions, led by CARB, are working with Systems Research and Applications Corporation (SRA) to adapt an existing cap-and-trade account and transaction registry. The detailed scope for this project is available at

<http://www.arb.ca.gov/cc/capandtrade/trackingsystem/EPW090212-30RHQ.pdf>.

System design and development work on the CITSS platform began in 2011 to ensure sufficient lead time for development and testing prior to implementation of the cap-and-trade program. The roll-out schedule for the CITSS platform consists of the three major release phases:

- *Release I – Go-Live of Registration for Cap-and-Trade.* User registration functions will be implemented by the end of Q1 2012. SRA will provide short-term hosting for the tracking system test environment, with transition to a long-term host solution early in 2012.
- *Release II – Stakeholder Testing of Basic Market Operations.* Stakeholder testing and training of issuance, allocation, auction, and transaction functionality will be conducted from April 2012 through June 2012.
- *Release III – Go-Live of Basic Market Operations.* Allowance issuance, allocation, auction, and transaction functionality will be released in July 2012.

Development costs for the CITSS platform are expected to be \$750,000 in 2011 and \$1,000,000 in 2012. CARB has committed to fund directly the tracking system development work in 2011 and 2012; these funds will not pass through WCI, Inc. The budget includes a placeholder for additional tracking system development in 2013, but costs have not yet been included in the budget.

Compliance Instrument Tracking System Service (CITSS) Customization

Jurisdiction-specific customization of the tracking system may be necessary. The WCI, Inc. budget includes a placeholder for this work, but costs have not yet been included in the budget. Specification of the funds required for this work is pending a gap analysis in Q2 2012 to assess and define needs.

Compliance Instrument Tracking System Service (CITSS) Operation

Support will be required to operate and maintain the CITSS database, once it has been developed and implemented. Delivery of ongoing tracking system operations is expected to include the following:

1. System Hosting – this will be an ongoing expense.
2. Operational Support and Maintenance– this will be an ongoing expense.
3. User Communications and Training – this will be an ongoing expense.
4. Acceptance and Beta Testing– this is likely to be a one-time expense in 2012. Additional testing could potentially be required in the future (i.e. 2013 and beyond) depending on WCI, Inc. needs.
5. Security/ Penetration Testing and Security Audit – this will be an ongoing expense.

WCI, Inc. is expected to procure tracking system operation services in 2012. Work to define service requirements and refine the cost estimates for tracking system operations is ongoing

and should be complete in 2011 in order to inform development of a procurement request for these services.

The currently budgeted estimates for tracking system operations are \$1,050,000 in 2012 and \$950,000 in 2013.¹

Auction Services

WCI, Inc. will develop, implement, and maintain the capability to execute a coordinated auction of greenhouse gas emission allowances that conforms to the requirements of Participating Jurisdictions. The first auction is expected to take place in late 2012 and will continue thereafter as specified by the Participating Jurisdictions' the programs.

In collaboration with the Participating Jurisdictions, CARB has issued a solicitation for competitive proposals from experienced and qualified contractors to conduct the auctions of greenhouse gas emission allowances for the Participating Jurisdictions' cap-and-trade programs. The solicitation describes the scope of work in greater detail, and is available at http://www.arb.ca.gov/cc/capandtrade/contracts/auction_operator_rfp.pdf.

The budget estimate for the auction services contract is a total of \$750,000 for calendar years 2012 and 2013. This budget assumes that CARB will enter into a contract for these services and administer the contract directly for 2012, at a cost of \$375,000. These funds will not flow through WCI, Inc. The WCI, Inc. budget includes \$75,000 in 2012, and \$375,000 in 2013 for the auction services contract. The 2012 budget (\$75,000) is to cover contractor costs for transitioning from the CARB-funded services to the WCI, Inc. funded services.

Financial Services

WCI, Inc. will provide financial services for the greenhouse gas emission allowance auctions and reserve sales.

In collaboration with the Participating Jurisdictions, CARB has issued a solicitation for competitive proposals from experienced and qualified contractors to provide financial services for the auctions and reserve sales. The solicitation and detailed scope of work is available at: http://www.arb.ca.gov/cc/capandtrade/contracts/financial_services_rfp.pdf.

The budget estimate for the financial services contract is a total of \$500,000 for calendar years 2012 and 2013. This budget assumes that CARB will enter into a contract for these services and administer the contract directly for 2012, at a cost of \$250,000. These funds will not flow

¹ Estimates for tracking system operations expenses are preliminary and pending further refinement by the Tracking System Work Group, expected in mid-November, 2011.

through WCI, Inc. The WCI, Inc. budget includes \$50,000 in 2012 and \$250,000 in 2013 for the financial services contract. The 2012 budget (\$50,000) is to cover contractor costs for transitioning from the CARB-funded services to the WCI, Inc. funded services.

Market Monitor

WCI, Inc. will develop, implement, and maintain capability to conduct market monitoring of allowance auctions and allowance and offset certificate trading that conforms to the requirements of each Participating Jurisdiction’s program.

In collaboration with the Participating Jurisdictions, CARB has issued a solicitation for competitive proposals from experienced and qualified contractors to monitor the transfer and holdings of allowances and compliance offset credits. The solicitation and detailed scope of work is available at:

http://www.arb.ca.gov/cc/capandtrade/contracts/market_monitor_rfp.pdf.

The budget estimate for the market monitor services contract is a total of \$400,000 for calendar years 2012 and 2013. This budget assumes that CARB will enter into a contract for these services and administer the contract directly for 2012, at a cost of \$200,000. The WCI, Inc. budget includes \$40,000 in 2012 and \$200,000 in 2013 for the market monitor services contract. The 2012 budget (\$40,000) is to cover contractor costs for transitioning from the CARB-funded services to the WCI, Inc. funded services.

Placeholders for Additional Services

The proposed budget also includes placeholders, but costs have not yet been included, for the following services:

- Market surveillance activities: this is pending a decision by Participating Jurisdictions about whether to obtain this support through WCI, Inc. for these services.
- Offset protocols: support for the technical review and administrative processing of offset project documentation is pending final recommendations by Participating Jurisdictions of the offset system process and protocol review process.

Table 2: Cap-and-Trade Services Cost Estimates

	2012	2013	Subtotal
Tracking System Development ²	\$0	TBD	TBD
Tracking System Customization ³	TBD	TBD	TBD
Tracking System Operation ⁴	\$1,050,000	\$950,000	\$2,000,000

² CARB has committed to fund the tracking system development work in 2012; these funds will not pass through WCI, Inc. A placeholder is noted for any additional tracking system development costs in 2013.

³ Pending a gap analysis in Q2 2012 to assess and define needs.

Auction Services⁵	\$75,000	\$375,000	\$450,000
Financial Services	\$50,000	\$250,000	\$300,000
Market Monitor	\$40,000	\$200,000	\$240,000
Market Surveillance	TBD	TBD	TBD
Offset Protocols	TBD	TBD	TBD
Subtotal	\$1,215,000	\$1,775,000	\$2,990,000

Personnel and Direct Operations

The *Personnel and Direct Operations* category contains cost estimates for the operation of WCI, Inc. This category includes expenditures for staff salaries and benefits, administrative services (IT, legal, accounting, audit, communications), office rent and equipment, meeting expenses, and other direct operating expenses. This budget assumes that WCI, Inc. will begin full operation in 2012 and that the corporation will eventually maintain operations in both the U.S. and Canada. These costs are summarized in Table 3 and described in the text below.

Personnel

WCI, Inc. is projected to have a limited staff with most services (allowance tracking, auctions, financial services, market monitor) performed by contractors with oversight by the WCI, Inc. staff and Board of Directors. The budget assumes a full-time Executive Director for WCI, Inc. located in California, with an Assistant Director located in Canada. The Executive Director will be hired first, and will then be engaged in hiring the Assistant Director and any additional staff.

Salary and fringe for the Executive Director is budgeted at \$190,000 per annum, beginning in 2012. Salary and fringe for the Assistant Director is budgeted at \$130,000 per annum, beginning in 2012. The budget does not currently include adjustments for inflation or cost of living increases.

Additional staff support will likely be required for WCI, Inc. The budget includes a mid-level professional added in 2012, and a second mid-level professional added in 2013. The staff in 2012 is proposed to assist on the oversight of the tracking system services. The second staff person is proposed for 2013 based on potential expanded activities in all aspects of the work. Salary and fringe for each position is budgeted at \$105,000 per annum.

⁴ Estimates for tracking system operations expenses are preliminary and pending further refinement by the Tracking System Work Group, expected in mid-November, 2011.

⁵ This budget assumes that CARB will enter into contracts for auction services, financial services, and market monitor, and administer these contracts for 2012. The WCI, Inc. budget includes costs for transition in 2012, and contract services for 2013.

To the extent that the WCI, Inc. Board of Directors wants or needs continued support before WCI, Inc. increases its staffing levels, Participating Jurisdictional staff and the existing WCI staff may provide interim project management and staffing support, particularly in 2012 while WCI, Inc. transitions into a fully functional regional administrative body.

Administrative Services

The budget includes cost estimates for legal, finance and accounting, audit, IT, translation, and outreach and communications services to support WCI, Inc. operations.

The total estimate for these administrative support services is \$345,000 in 2012 and \$345,000 in 2013.

Office Rent and Equipment

The working assumption is that WCI, Inc. will be headquartered in California, with a second office in an eastern Canadian province. Specific office locations will be selected once the Executive and Assistant Directors are hired. Other budgeted expenses related to office space include furniture and fixtures; computers, printers and copiers; office supplies; and telephone, internet and conference call expenses. The budget also includes a line-item estimate for insurance and fees.⁶

The total estimate for office rent and equipment is \$206,000 in 2012 and \$206,000 in 2013.

Travel and Meeting Expenses

The budget includes funds for WCI, Inc. staff travel expenses, as well as expenses associated with meetings of the Board of Directors.

The total estimate for travel and meeting expenses is \$110,000 in 2012 and \$110,000 in 2013.

Other Expenses and Contingency Reserve Fund

The budget includes a category for other direct costs that are not otherwise budgeted or anticipated. The budget also includes a contingency reserve fund to cover 1) budgeted costs that turn out to be higher than was expected, and 2) necessary infrastructure upgrades. The amount in the contingency reserve fund will likely need to be increased over time, given the likely need for future updates and upgrades to program infrastructure.

⁶ This is for Directors and Officers liability insurance, as well as a placeholder for any other type of insurance WCI, Inc. may need.

The total estimate for other expense and the contingency reserve fund is \$60,000 in 2012 and \$60,000 in 2013.

Table 3: Personnel and Direct Operations Cost Estimates

	2012	2013	<i>Subtotal</i>
Salary - Executive Director	\$150,000	\$150,000	<i>\$300,000</i>
Fringe - Executive Director	\$40,000	\$40,000	<i>\$80,000</i>
Salary - Assistant Director	\$100,000	\$100,000	<i>\$200,000</i>
Fringe - Assistant Director	\$30,000	\$30,000	<i>\$60,000</i>
Salary – Staff #1	\$80,000	\$80,000	<i>\$160,000</i>
Fringe – Staff #1	\$25,000	\$25,000	<i>\$50,000</i>
Salary – Staff #2		\$80,000	<i>\$80,000</i>
Fringe – Staff #2		\$25,000	<i>\$25,000</i>
Legal Fees – US	\$100,000	\$100,000	<i>\$200,000</i>
Legal Fees – Canada	\$50,000	\$50,000	<i>\$100,000</i>
Finance and Accounting	\$60,000	\$60,000	<i>\$120,000</i>
Audit	\$35,000	\$35,000	<i>\$70,000</i>
IT services – US	\$10,000	\$10,000	<i>\$20,000</i>
IT services – Canada	\$10,000	\$10,000	<i>\$20,000</i>
Outreach and Communications	\$50,000	\$50,000	<i>\$100,000</i>
Translation Services	\$30,000	\$30,000	<i>\$60,000</i>
Office Rent – US	\$36,000	\$36,000	<i>\$72,000</i>
Office Rent – Canada	\$36,000	\$36,000	<i>\$72,000</i>
Furniture and Fixtures – US	\$10,000	\$10,000	<i>\$20,000</i>
Furniture and Fixtures – Canada	\$10,000	\$10,000	<i>\$20,000</i>
Computers, Printers, Copiers– US	\$10,000	\$10,000	<i>\$20,000</i>
Computers, Printers, etc. – Canada	\$10,000	\$10,000	<i>\$20,000</i>
Office Supplies – US	\$6,000	\$6,000	<i>\$12,000</i>
Office Supplies– Canada	\$6,000	\$6,000	<i>\$12,000</i>
Telephone, Internet, Conf Calls – US	\$36,000	\$36,000	<i>\$72,000</i>
Telephone, Internet, etc – Canada	\$6,000	\$6,000	<i>\$12,000</i>
Insurance and Fees – US	\$20,000	\$20,000	<i>\$40,000</i>
Insurance and Fees – Canada	\$20,000	\$20,000	<i>\$40,000</i>
Travel – US	\$35,000	\$35,000	<i>\$70,000</i>
Travel – Canada	\$15,000	\$15,000	<i>\$30,000</i>
Meeting Expenses – US	\$50,000	\$50,000	<i>\$100,000</i>
Meeting Expenses – Canada	\$10,000	\$10,000	<i>\$20,000</i>
Other – US	\$10,000	\$10,000	<i>\$20,000</i>
Other – Canada	\$10,000	\$10,000	<i>\$20,000</i>
Contingency Reserve Fund	\$40,000	\$40,000	<i>\$80,000</i>
Subtotal	\$1,146,000	\$1,251,000	<i>\$2,397,000</i>