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Ursula Lai
California Environmental Protection Agency
Air Resources Board (ARB) – Stationary Source Division
LCFS Program Planning and Management Branch – Verification
Ursula.Lai@arb.ca.gov || LCFSWorkshop@arb.ca.gov

RE: Proposed LCFS Verification Program

Ms. Lai,

Christianson PLLP is a full-service public accounting firm located in Willmar, MN that has worked with renewable fuels producers for 30 years, providing technical assistance and professional independent services that promote industry compliance.

Our staff participated in your December 19, 2016 workshop via web access and respectfully submits these comments for your consideration in the development of a mandatory third-party verification program.

We appreciate ARB's attention to the varying areas involved in the development of a third-party verification program. We appreciate ARB's solicitation of answers to the "Questions for Verifiers" during these workshops and welcome the opportunity to contribute feedback.

ARB's renewed consideration in developing a definition of "consulting" is a welcome step in the right direction. We and other licensed professional firms have expressed concerns about the potential of a blanket ban on "consulting" which would rule out professional service activities which are not consulting, especially when these do not overlap or connect to LCFS in any way. We applaud ARB's recognition of the importance of this issue and the development of a list of prohibited services as well as the consideration of mitigation for certain professional relationships.

We also support ARB's suggestion of a phase-in of the look-back period for "incompatible activities." The caveat to this, however, would be that the initial start should begin with minimal lookback, zero to one year. Starting with a two- or three-year lookback at this point with a 2019 begin date the verification program would critically limit potential verifiers since the incompatible activities have not yet been determined. Phasing in any lookback would not only provide specific guidance of what is (and is not) compatible to firms looking to pursue Verification Body accreditation, but would allow them the opportunity to create/adjust business operations or services as needed. Potential verifiers anticipating accreditation will need the time to adequately adjust business operations to ensure they are either not conducting the incompatible activities or have undergone sufficient corporate restructuring in order to

ensure the independence of these activities from the verifications element. We're certain ARB recognizes this level of reorganization might not be an easy or quick process. Outlining incompatible activities and then providing a zero or minimal lookback period at the onset of verification requirements in 2019 would open the pool of verifiers with adequate experience as wide as possible while simultaneously ensuring the verification bodies have ceased any incompatible activities before verifications begin. ARB would allow adjustment time for both verification bodies as well as entities requiring verification. ARB could then increase the lookback period going forward to ensure verification bodies continue their compliance [by] not participating in incompatible activities.

On this note, the subject of Verification Body rotation becomes relevant. During the December workshop, ARB posed the question, "If all clients are required to rotate verification bodies, would sufficient verifiers be available?" We believe that the verification body rotation requirement paired with the current conflict of interest and look back requirements would leave a very limited and possibly insufficient pool of verifiers available for stakeholders. Stakeholders have already noted that the pool is limited to one or two parties that they feel have the proper background and experience to complete the verifications and adding the firm rotation increases the problem by forcing them to find at least one other qualified verification body. We also feel it's not only a question of whether sufficient verifiers are available but rather what additional cost and protection is being added to the program. Should a firm rotation become the standard, it is likely most stakeholders would search out two reliable verification bodies and would "swap" verifier entities when the required rotation hits. This will most likely mean that the verified entity is now bouncing between two firms with little change in the staff conducting the audit between rotation cycles.

Instead, we would again suggest audit partner or lead and independent verifier rotations, rather than firm rotation. We believe this allows for the same protection without the unnecessary hassle, expense and inefficiencies of swapping firms. ARB also posed the question "Why would audit quality be inconsistent for new clients?" Much of the first year of an audit engagement is devoted to understanding the client and its processes, their controls, documentation and many other aspects required to complete an efficient and effective audit. Once an auditor becomes familiar with the various aspects of the client and their documentation then it is easier to spot problem areas or things that look unusual for the client, and allows additional time to be spent looking more at the details of the data rather than gaining understanding of why the data looks the way it does. In addition, we would again cite the findings of the Public Company Accounting Oversight Board (PCAOB), which showed that audit partner rotation, rather than firm rotation, was more than sufficient for maintaining independence and audit integrity and resulted in more effective audits.

The PCAOB is only one of multiple organizations which provide oversight to professionals on integrity and independence. While firm rotation might appear to add "greater protection," any perception of added protection is just the illusion of such – independence and integrity are already built into the mechanisms in place by the licensing bodies of multiple professional organizations already involved or looking to be involved in LCFS. [It is our opinion that forcing firm rotation provides only added expense without any added value towards protection to independence.

In this respect, we are interested in hearing ARB comments regarding ISO 14066 audit team selection requirements and the implication on whether or not to require individual verifier accreditation. A question on this subject was posed by ARB during the December workshop. We would be interested in additional information as to how ARB would see this play out if ISO 14066 standards were followed and hope ARB could incorporate this into the next Verification Body workshop. Is ARB proposing a body

accreditation in favor of individual accreditation? How would the adoption of ISO 14066 standards affect the requirement for firm rotation? What are the implications towards ARB-required training for verifiers if individual accreditation is not a requirement? These are just some of the questions this issue provokes, and we would ask ARB to consider elaborating further on this issue during upcoming verification body workshops.

In considering the implications of ISO 14066, we support ARB's position on a simplified GHG model for auditing purposes. ARB noted during recent workshops that the intention was not a complicated lifecycle analysis but rather a simplified verification of inputs and similar auditable information. This is a welcome step forward, as it opens the pool of available verifiers and allows verified entities the opportunity to work with an array of professionals already versed in such auditing fundamentals.

We are also interested in learning more about ARB's consideration of using elements of the Renewable Fuel Standard (RFS) Quality Assurance Program (QAP) into LCFS. We support harmonizing programs like QAP with LCFS; however, we would caution against any notion of making QAP participation a requirement for LCFS. QAP is a voluntary program under a federal regulation, not a mandatory state-run program. Forcing participation in QAP in connection to a state program like LCFS would only amplify costs to LCFS participants. Importantly; only a handful of entities currently offer QAP service. The argument outlining a limited pool of LCFS verifiers has already been well-noted by stakeholders in the past months. Requiring QAP participation will only exacerbate this issue and again, increase costs to LCFS participants. QAP has many merits – but also limitations – and we would be interested in discussing this topic further in subsequent workshops as to how QAP fundamentals might be introduced to LCFS verification guidance.

Christianson PLLP thanks you once again for your time and consideration of our comments.

Sincerely,

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