

June 23, 2016

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LCFS Program Planning and Management Branch – Verification  
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RE: Proposed LCFS Verification Program

Ms. Lai,

**About us**

Christianson & Associates, PLLP is a full-service public accounting firm located in Willmar, MN that has worked with renewable fuels producers for over 20 years, providing technical assistance and professional independent services that promote industry compliance.

**Inspiring confidence and transparency**

Development of a third-party verification program by CARB is an opportunity to strengthen the integrity of the low carbon fuels market in California, providing transparency and adding confidence. It can make producing and supplying low carbon fuels into California an appealing and strategic business decision.

However, we would encourage you to not overlook the potential costs and burdens placed on renewable fuels producers during the development of an LCFS program.

**Awareness of impact, cost of compliance**

The cost of compliance must be worth the effort and time invested weighed against the value added, and it is a disservice to mistake obstacles for safeguards. The scope, requirements, and cost involved in the current proposal have the potential to:

- limit the number of renewable fuels producers to only those who are the most persistent and willing to navigate the myriad of complexities in LCFS  
*while simultaneously*
- critically narrowing the choices of qualified organizations able to support those who do choose to participate

By fusing cost with value, CARB can create an effective and prudent program that meets the state's intent in LCFS.

**A model to be replicated, not a mistake to be avoided**

California has a unique opportunity to be a pioneer of innovative environmental quality programs. The key to being a state whose policies are modeled throughout the U.S. depends on continued use of

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accessible, clearly outlined, and value-added standards that are transferrable and manageable.

In contrast, complex, inaccessible, process-heavy regulations drives policies that are expensive, irrelevant, and undesirable for others to duplicate – a lesson learned instead of a standard to be replicated.

### **Comments and suggestions**

Our staff participated in the June 2, 2016 workshop via web access and respectfully submits these comments for your consideration during the process of revising an LCFS mandatory third-party verification program:

#### **1. Regarding requirements of Verification Body**

- a) Christianson & Associates fully supports the legal entity requirement, as well as criteria for internal conflict of interest, liability insurance, and confidentiality policies.
- b) However, the current requirements for individual verifier members within the verification body provide an over-reliance on specific expertise/background at the expense of competence and capability.

#### **2. Regarding requirements for accreditation of individual verifiers**

- a) Christianson & Associates supports the necessity for competent, licensed professionals to act as verifiers. Maintaining rigorous standards as minimum requirements is important to ensure competency and compliance.
- b) However, by overemphasizing such specified background and experience, the proposed criteria needlessly complicates minimum requirements. The current criteria for individual verifiers unnecessarily limit the pool of potential verifiers.
- c) Potential verifiers can and should be drawn from the diverse pool of professionals across the number of industries available to verified entities. Offering multiple corridors for individual accreditation provides flexibility to pathway holders and credit transactions parties while keeping the cost of compliance worthwhile.
  - 1) The current requirement for Lead Verifier experience under CCAR, the United Kingdom Accreditation System, or ISO 14065 or 19011-certified entities critically limits the eligibility of potential verifiers. In mandating such specific criteria, the situation is rife for exponential cost escalation to entities requiring verification. This is amplified by the ambiguity of the conflict-of-interest language currently proposed.
  - 2) Individuals meeting any of these criteria should be eligible candidates as verifiers, but this should be one of multiple corridors for achieving accreditation.
  - 3) Licensed professionals have already proven their expertise and reliability towards validation services under RFS. This experience should be accepted as proof of proficiency towards eligibility as an individual verifier.
  - 4) To this end, Christianson & Associates supports the proposed requirements for Fuel Pathway verifiers and Transactions verifiers to undergo a rigorous CARB class and pass an exam before achieving accreditation.

### 3. Regarding requirements for conflict-of-interest

- a) The proposed criteria for verification bodies and self-assessment of conflict-of-interest are both nebulous and subjective. Christianson & Associates supports CARB's intention of allowing verification bodies to self-assess this factor, but worries the current language is too ambiguous to provide the necessary clarity for making this assessment.
- b) To this end, the proposed language is also needlessly repetitive. Conflict-of-interest safeguards already in place for licensed professionals and independent third-parties provide the surety towards mitigating bias in verifications. This is further enhanced by CARB's proposed requirements of the Independent Verifier.
- c) The language regarding "long term professional relationships" is superfluous. Professional relationships, especially with licensed entities, are already under requirements to maintain independence and should not be considered a conflict-of-interest.
- d) The proposed standard for "6 years on, 3 off" could be problematic when viewed through the lens of business ethical practices.
  - a. Frequent switching of business partners can raise red flags for SEC-regulated entities.
  - b. As a hand-off from old to new verification body occurs, there exists the potential for confidential business information to be compromised. The requirement that previous verification reports be provided to competitors provides them with a large amount of information detailing company confidential processes and procedures in which time and money was invested in developing.
  - c. Consistent professional familiarity with the regulated party could enhance the likelihood of finding deficiencies, spotting when information is out-of-the ordinary.
- e) The current conflict-of-interest language, when paired with the current proposed criteria for verification bodies and individual verifiers, will critically minimize the availability of verifiers for entities requiring verification. This poses a risk for promoting a supply-demand situation with the cost of verification services escalating exponentially given the lack of availability.

### 4. Regarding scope and substance of procedures

- a) A clear definition of criteria for "high risk" pathways contributors must be detailed. The current situation creates an atmosphere where few verifiers will want to assess any element as "high risk" since this will drive up the cost. This could inspire a "race to the bottom," with price, not process integrity and compliance, being the driving factor in risk assessment.
- b) The proposed extent for tracing feedstock, co-products, and finished fuel up- and downstream poses risks of compromising the business confidentiality of pathway holders' suppliers and vendors. Assurance could be gained through other avenues, such as having the producers procure and maintain signed affidavits from customers and vendors confirming all information CARB requires.
- c) Christianson & Associates supports the requirement of a verification plan from verifying body. This provides CARB the opportunity to review prospective verifiers and confirm the proposed

verification procedures meets the intent of LCFS regulations before verification begins. However, we suggest that an annual submission would be sufficient for this requirement.

#### **5. Regarding frequency of work performed**

- a) The required frequency for site visits for high risk CI pathway components must be dependent on explicit clarification of what is constituted by “high risk.” To this end, a less rigorous schedule could be applied, such as semi-annual site visits instead of quarterly. By specifically detailing high-risk criteria, a clear precedent is set for pathway holders’ compliance and verification bodies’ validation standards, and a less laborious site visit schedule could be applied.
- b) CARB’s proposed schedule for annual site visits of the verification body could be supplemented by a frequency standard reducing the rate for verification bodies showing consistent compliance. For example, a verification body favorably reviewed by CARB three consecutive years could have their site visit frequency reduced to once every three years. This would reduce the workload for CARB as well as reinforcing verification body credibility with a showing of good faith in due diligence.
- c) The proposal regarding visits to feedstock suppliers is an unnecessary duplication in light of the proposal for forensic testing of feedstocks. Site visits to feedstock suppliers would offer no value added when weighed against the quantitative validation offered through scientific testing and the added cost of completing these site visits. Also, most producers use multiple feedstock vendors, meaning the proposal for site visits to feedstock suppliers could be cost-intensive.

#### **Thank you**

Thank you for the opportunity to submit comments in response to the June 2, 2016 workshop regarding a preliminary LCFS verification program.

Areas that received our comment represent key areas for improvement prior to proceeding with further action; however, the absence of other feedback is not indicative of the presence of support.

Sincerely,



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