

September 15, 2017

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

RE: Proposed LCFS Verification Program

Ms. Lai and team,

Christianson PLLP is a full-service public accounting firm located in Willmar, MN that has worked with renewable fuel producers for 30 years, providing technical assistance and professional independent services that promote industry compliance. We are currently a RIN attest provider under the Renewable Fuels Standard and work primarily with biofuel producers. We are interested in becoming a verification body for any type of participant of the upcoming LCFS verification requirement and respectfully submit the comments below pertaining to the proposed verification program.

GAINING EFFICIENCIES/DATA SHARES

In completing and discussing a cost analysis per CARB's request, we had been discussing whether our bid included any efficiencies that may be gained through a QAP program. Our firm is not currently an approved QAP provider, so no efficiencies were noted. However, as we got further into these discussions we noted many efficiencies that could be gained through the RIN attest engagement, especially for ethanol.



Another program that we think should be reviewed for efficiencies are procedures related to the Efficient Producer Pathways that the ethanol industry is utilizing. As the ethanol plants expand their capacities, they are required to prove a 20% GHG reduction to the EPA in order to generate RINs.

Many of the plants are doing this through the Efficient Producer Pathways where the basic assumptions for a dry mill plant processing corn and sorghum are in a template model and the plant must track feedstock, feedstock moisture, ethanol production, natural gas usage, electricity usage and biogas usage and input those factors into a calculator tool to show they meet a certain GHG requirement (very similar to CARB's simplified calculators). Many of the inputs and data collected for these pathways are the same or similar to data required for the LCFS pathways. The RIN attest requires that we review the data in the calculator for accuracy to ensure RIN generation is valid. Therefore the RIN attest provider for any plant utilizing the efficient producer pathway would already have some of the data required for LCFS verification and could do a data comparison ensuring the reported data to both agencies is the same where applicable. There are currently 81 approved Efficient Producer Pathways with 9 being added so far this year, so the number of plants tracking this data is increasing. I have attached a copy of the EPA's Efficient Producer calculator tool and instructions for your review.

FIRM ROTATION

We have previously expressed our concerns about a firm rotation requirement and the efficiencies that would be lost with switching firms and also the lack of verification bodies to complete the verifications. Based on conversations with CARB staff and through the CARB hosted webinars, we identified the main mitigation factor for firm rotation as having fresh eyes review the material for errors and in speaking with CARB staff have noted that many times in other programs when the required rotation occurs, new errors have been identified. We have the same thing happen when we provide RIN attest engagements.

Typically, when we receive a new client from another attest provider there are issues that we discover that the other firm did not. We believe that the errors discovered when a verifier/auditor is rotated are due to two main items. First is a difference in procedures being completed in the attest and second is due to varying interpretations of the regulations. We believe that a firm rotation is not needed because CARB has already put protections in place to mitigate the two items noted above. CARB is planning to require a verification plan to be submitted and approved prior to beginning a verification. In this plan the verification body will be required to tell you the procedures that it plans to complete and discuss the sampling methodology it intends to use, among other things. By requiring approval of this information prior to the start of the verification, CARB is removing one of the items that causes errors to be caught with a firm rotation. If all verification bodies are following very similar procedures, which CARB has control over, then a firm rotation will not catch additional errors because we will all essentially be doing the same checks. CARB is also already mitigating the second item related to interpretation of regulations by requiring an accreditation including training classes and tests developed by CARB to properly train the verification body on the regulations.

Based on the discussion points above, we feel that a regulated party should receive similar results from any verification body since we should all be providing very similar procedures in our verifications and all have the same training and have demonstrated the same knowledge base. In addition, we have heard mention that CARB staff will be randomly auditing the verification bodies. This schedule to audit the verification bodies could include a certain number of verifications that have a longstanding relationship with its clients to ensure that the audits are still working effectively.

Finally, in lieu of a firm rotation, we would still support a lead auditor and independent reviewer rotation on the audits to still maintain the “fresh eyes” benefit that CARB is seeking. We feel the partner rotation would be more cost effective for the regulated parties and the verification bodies because it would maintain the knowledge base and familiarity with the regulated party to gain additional efficiencies in the verification procedures at the staff level, but still give a fresh review of the data by the lead auditor and independent reviewer.

VERIFICATION TEAM TRAINING REQUIREMENTS

Based on previous information obtained through webinars and discussions with CARB staff, we believe the verification body requirements are currently set to require CARB accreditation courses for the entire team that is working on the verifications/validations. We are highly concerned with requiring an entire team to receive accreditation directly through an in person CARB training. Our verification teams are planned to utilize a lead verifier and independent reviewer (who we agree should be accredited and trained by CARB), however we will also be including staff accountants on the verification team to assist with sampling and other substantive work.

Our primary business is a public accounting firm which has a high rate of turnover at the staff level. For the RIN attest engagements, we have a full day training course every year to train incoming staff who will be assisting with those projects. To spend the time and money to send new staff out to California for accreditation each year would be a large burden both on us to achieve the training and also on CARB to provide accreditation courses and exams every year.

We would like to make some alternative suggestions for how this could be handled. The lead verifier and independent reviewers are planned to be Management and Partner level employees of the firm who will attend the accreditation courses and take the required exams. The turnover at this level of the firm is very low or none, which is why we would plan to hold the accreditation at that level. The other members of the team would likely switch each year based on schedules and our traditional accounting work load. As I previously noted, we train staff each year for the RIN attest engagements using our own materials that we have developed. If CARB wanted more control over training, you could put out a training package that could be directed by the lead auditor or independent reviewer at our own office locations. We could also supply CARB with staff training logs or certificates noting when the internal training was completed. This would alleviate both the time and cost on the verifying body and also the time for CARB to host the trainings.

INSURANCE

We held some personal phone calls with CARB staff and were asked to comment on E&O Insurance requirements and a potential \$4 million minimum coverage. As part of our accounting practice we already hold an E&O policy in excess of that minimum, so these requirements would not be an issue for our firm.

CONFLICT OF INTEREST

Our accounting firm has a very large presence in the biofuels industry and we provide a number of services in that space. Below is a list of services that we provide to the biofuels industry so that you have an idea of why the conflict of interest is very concerning for us.

Services: Financial audits, income tax preparation, forecasting, writing feasibility studies, writing business plans, grant writing, RIN attest engagements, Intellego Software provider (grain receiving and ethanol/co-product shipping software that links with Great Plains Accounting software and meter software), Benchmarking for ethanol industry (collect data, run standard calculations on data collected and make results available for participants), Strategic Planning facilitation for board of directors.

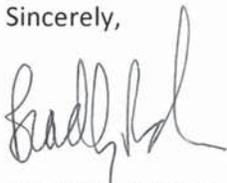
Engagements with Independence Requirements – We would like to suggest that engagements that require independence from other professional standards be considered a low risk for the LCFS conflict of interest rules. These engagements already have robust independence requirements from our professional standards and may provide additional efficiencies in understanding and completing the LCFS verification work. We would be willing to submit a list of low risk engagements that the firm is involved in to CARB for review with the verification plan.

Engagements without Independence Requirements – For services that do not require independence and are not directly related to the LCFS we would suggest these being moderate risks in which we can supply a mitigation plan, such as using separate staff for each of the engagements.

Revenue Mitigation – In some of our conversations with CARB staff we have been discussing a major risk factor for them as being the risk of giving a false positive statement on the LCFS verification in order to keep the revenue from other more lucrative engagements. The main mitigation factor we can note for this risk is the fact that none of our clients represent a concentration that if the business was lost would significantly hurt the firm as a whole. We would be willing to disclose the percentage of total revenues of the firm that the client represents in our verification plan so that CARB can be assured that there is no concentration present. We would suggest that only clients that meet a certain percentage of total revenue be considered a high risk where we would be prohibited from providing verification services.

Christianson PLLP would like to thank you for the consideration of our comments and would welcome any further discussion related to the statements made in this letter.

Sincerely,



Bradley Pederson, CPA
Partner



Kari Battenhoff, CPA
Compliance Services Manager