

April 19, 2018

California Air Resources Board
1001 I Street
Sacramento, CA 95814

RE: Proposed LCFS Verification Program

Christianson PLLP is a full-service public accounting firm located in Willmar, Minnesota 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 biofuels producers. We are interested in becoming a verification body for fuel pathway holders for the upcoming LCFS verification requirement and respectfully submit the comments below pertaining to the proposed verification program.

Christianson has been very appreciative of the time involved in private conversations with CARB concerning this regulation and the changes that have already been made. We urge you to continue to consider the following areas of concern in regards to the verification portion of the proposed amendments to LCFS Regulations.

CONFLICT OF INTEREST

There are two additional service areas that Christianson offers to renewable fuel producers, which appear to be high conflict areas according to the current regulation and current interpretations from CARB. Inclusion of these service areas as high conflicts would disqualify Christianson from being a verifier for a number of our clients. We would like to give some background on these two service areas and suggest modification to the current conflict of interest regulations to allow these items to be moderate risks so that they may be mitigated.

Grant Writing Assistance:

Christianson provides a grant writing service to a number of its clients including a large number of renewable fuel producers. The grant that we have been working on with most of our renewable fuel clients is the USDA Rural Energy for America Program (REAP). The REAP grant is to purchase, install or construct renewable energy systems, make energy efficiency improvements and to participate in energy audits. CARB members have told us that this service is considered a high conflict under section 95503 (b)(2)(C). We agree that we are providing a technical service (mainly technical writing services) for the construction of a fuel production facility or energy efficiency.

We would like CARB to understand how the grant writing process works. We at Christianson understand certain grant writing processes and documentation requirements. We help the renewable fuel producer complete the appropriate forms and accumulate, create and/or assemble the proper documentation required to be submitted with the grant.

In providing this service, we rely heavily on transparency in communication with the plant and require the producer to provide our team with all the relevant information and data that the application requires. Our expertise lies in writing the most impactful and complete application package to improve the likelihood of receiving funding. We do not advocate or lobby on behalf of our clients in discussions with any agencies and our compensation is not based on awards received.

In addition to these items, we do have separate teams that handle the grant writing services and the compliance verification programs (LCFS, RFS and Canadian Audits). Our verification services are handled by our accounting team who has extensive experience with auditing whereas our grant writing is handled by a separate team with very little accounting and auditing backgrounds, and strong backgrounds in research and technical writing. The qualifications for each of these two teams does not allow the work to be shared between departments in most instances.

Strategic Board Planning Services

Christianson provides a benchmarking program to the ethanol industry where we collect data from a large number of plants, accumulate all the data, run key industry ratios and then make the data available to the participants in groups large enough so as not to identify any individual participant's data. This data is not used by the firm in audit or verification work. However, many participants of the benchmarking program have engaged Christianson to facilitate strategic planning meetings for their boards of directors. In these meetings, we pull certain data sets from the benchmarking system to present to the board for analysis and interpretation and to assist them in setting goals. Again, this service is presenting the plant's own data from our benchmarking program and facilitating the goal setting process with the board as well as follow up communications after the planning meeting to check on progress of their goals. We do not consult with the board or advise them on any direction the plant should take or explore; we are simply there to keep the board on track with determining and setting goals.

We could not identify a specific high conflict section that this would violate other than our connection with the board of directors, which is not a relationship with any ownership or decision-making authority. Upon initial mention of this service, we were told it would be a high conflict. If CARB is aware of a high conflict item that this fits under, we would appreciate a wording adjustment to exclude this service because we are simply facilitators in a goal setting process.

FIRM ROTATION

We have previously stated in numerous public comment letters that we believe the firm rotation requirement should be removed from the proposed rule and continue to support that opinion. At the same time, we do understand that it is helpful to have someone new review audit and verification data, and we would support a lead verifier rotation on the LCFS verifications.

In past letters, we have cited numerous reasons why the firm rotation is not necessary for this proposed rule. The additional auditor independence, objectivity, and professional skepticism gained from a firm rotation does not outweigh the substantial cost, efficiency, and effectiveness lost. The Public Company Accounting Oversight Board (PCAOB) has done extensive research on this topic, which included auditing certified public accounting firms and collecting a vast amount of data supporting their stance of only requiring audit partner rotation.

They have noted that most of the errors that go unnoted were due to lack of technical competence or experience, insufficient supervision or deficiencies in the firm methodologies, not pro-client bias going into the engagement.

CARB has also reserved the right to audit the verification bodies. If there are concerns with long-standing relationships, we would suggest that CARB specifically choose some of these verification reports to audit so that they can ensure that the longstanding relationship is not having an effect on the auditor's independence or professional skepticism. If CARB feels that there is bias in the procedures being performed due to the relationship, then rotation could be required at that time. Finally, we also wanted to call attention to the limited effect the firm rotation will have for the verifications. It is very likely with the limited pool of verifiers that the regulated parties will identify two firms that they are comfortable with and will rotate between those two firms. This means that there are essentially two audit teams that they will always work with and will get limited exposure to new firms and new procedures. This limited benefit is not worth the added cost and lost effectiveness of the verifications through firm rotation. Including a lead verifier rotation would provide a new look at the data while still maintaining the verification team staff and the efficiencies gained with their knowledge and experience with the regulated party.

Finally, we also would like CARB to consider the firm rotation's effect on other renewable fuel compliance programs and services. CARB has worked very hard at understanding other programs and has modified various items in the regulation to help gain efficiency from other fuel programs and accounting services already provided to the regulated parties. It is very likely that because of the efficiencies gained through other services that rotation of the LCFS verification body could also cause rotation and added costs in other program areas as well, including the QAP and RIN attest services. We again, highly suggest a lead verifier and independent verifier rotation to capture the benefit of a new verifier while still maintaining efficiencies at the staff level of the engagement and on other fuel program engagements.

LCFS READINESS PERIOD

We have had discussions with many of our renewable fuel producer clients that have shown interest in acquiring services to assist in preparing them for LCFS verification implementation. These clients are volunteering to complete some of the major procedures pertaining to high-risk areas in the verification to ensure their processes and procedures are appropriate before implementation of the program. The original idea was to complete many of the verification data checks on 2019 data and to draft a mock corrections log and report to give the client an idea of where they may have issues. This would allow them to make corrections or changes to their processes and documentation prior to the actual implementation period.

Our firm would provide the client with the errors that we would be logging and reporting if the verification regulation was effective, but we would not be advising or consulting on corrective action plans. The corrections log maintained during this interim period would not be accessible to CARB. This would allow the entity to identify errors prior to the LCFS reporting period, making a smoother and more accurate implementation. It would also allow us as the verification body to test and adjust our verification procedures and start creating documentation and reports in anticipation of the effective date of the rule. We would also anticipate bringing questions to CARB and sending in mock reports so that CARB could see and approve our deliverables prior to implementation.

Currently, we have been made aware that any interim verification procedures completed on a voluntary basis would be considered a high conflict of interest item. We did realize that in completing procedures on 2019 data that we are working on a timeframe that would be covered by the first verification. We would like to suggest that at a minimum, we be allowed to complete verification procedures on 2018 data, which will never be included in a verification report to CARB. The renewable fuel producers are proactively preparing for this upcoming requirement and working hard to be in compliance, we strongly urge CARB to support these actions and allow review of 2018 data through limited verification procedures on a voluntary basis.

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

Sincerely,

A handwritten signature in black ink that reads "Kari Battenhoff, CPA". The signature is written in a cursive style with a large initial "K".

Kari Battenhoff, CPA
Compliance Services Manager
Christianson PLLP
Willmar, Minnesota