

February 20, 2024

California Air Resources Board
1001 I Street
Sacramento, CA 95814
RE: Proposed 2024 LCFS Amendments

Dear California Air Resources Board,

As a renewable fuel producer and participant in CARB's LCFS program, my team and I value the partnership and mission shared with you and your state to reduce the carbon intensity of transportation fuels.

I am writing to share our company's perspective on several key program areas for your consideration. These requests address the topics of **CCS protocols, Low-CI Electricity, LCFS modeling & crop-based biofuels, and Verification**.

Fuels Produced Using Carbon Capture and Sequestration

We support and encourage CARB to approve fuel pathway applications from entities utilizing the CCS Protocol dated August 13, 2018 so that they may receive credits associated with net GHG reductions from CCS projects.

Low-CI Electricity

CARB Staff proposes to update language in Sections 95488(i)(1), 95490(b)(8), and 95491(d)(4)(D) related to modifications to book-and-claim accounting of low-CI electricity to produce hydrogen used as a transportation fuel and for process electricity in direct air capture projects. The rationale in Appendix E states that the process of capturing CO₂ directly from the atmosphere has higher electricity demand, which makes it financially challenging and may drive the need for additional electricity load. The proposal permits low-CI electricity with quarterly demonstration of trackable deliverability to be used for hydrogen production for hydrogen used as a transportation fuel as well as at a direct air capture facility, which aligns with the requirement for renewable or low-CI process energy (section 95488.8(h)(1)(C)). On page 34 of the ISOR, CARB staff also recommends allowing for power purchase agreements but can only be from new or expanded capacity for low CI hydrogen production.

We would like to highlight that adding the process of carbon capture from controlled, high CO₂ concentration sources (e.g. fermentation vessels at an ethanol plant) also require a higher electricity demand and may also need additional electricity load, which makes it financially challenging. Therefore, we **request CARB treat all CO₂ capture and sequestration activities similarly and allow the book-and-claim accounting for low-CI electricity or the expanded use of PPAs for carbon capture facilities with fuel pathways claiming CCS credits by producers of alternate transportation fuels.**

LCFS Modeling & Crop-Based Biofuels

To reduce the risk that rapid expansion of biofuel production and biofuel feedstock demand could result in deforestation or adverse land use change, CARB staff are proposing additional guardrails on the use of crop-based feedstocks for biofuel production. CARB staff are proposing to require pathway holders to track crop-based and forestry-based feedstocks to their point of origin and require independent feedstock certification to ensure feedstocks are not contributing to impacts on other carbon stocks like forests. As crop-based biofuel producers may have field level information to comply with this provision, we **request that LCFS modeling be granular and allow the inclusion of on-the-farm carbon accounting and factor lower carbon intensity grain associated with climate smart and regenerative agriculture farming practices.**

Verification - Firm Rotation

The existing regulations within the LCFS verification program stipulate a mandatory rotation of audit firms every six years to assess participants' carbon intensity (CI) and fuel quantities compliance.

Our request is that CARB amend the mandatory firm rotation regulation to include an exception for licensed CPA firms. Of the 30 approved LCFS verification bodies, there are only four licensed CPA firms.

An approved verification body, that is also a licensed CPA firm, exceeds the standards in place for verification bodies and is already subject to additional oversight on the entity's quality control system in accounting and auditing practices through the required AICPA peer review process.

Due to the increased regulatory oversight, we suggest a CPA firm not be subject to the audit firm rotation but would instead adhere to a Lead Verifier rotation after six consecutive years.

A licensed CPA firm differs from other consulting agencies by adhering to more rigorous standards and oversight at a state and national level. If a verification body were to violate a Lead Verifier rotation requirement, it would put the firm license at risk. The firm license is required for all services provided by the firm, not just the LCFS verification services, thereby ensuring adherence to requirements.

Licensed CPA firm requirements

- A licensed CPA firm must be comprised of over 50% of the ownership being licensed CPAs.
 - To earn the accreditation to be a CPA, one must pass a rigorous four-part CPA exam, accumulate education hours, and in many states, one must fulfill 1-2 years of work experience.
- 3-year peer review audit
 - Each licensed CPA firm must enroll in an approved peer review program with reviews conducted every 3 years. The peer review requirement is a requirement of the American Institute of Certified Public Accountants (AICPA)

and is an external review of a firm's quality control system in accounting and auditing practices. CPA firms' peer review results can be found on AICPA's website under the [Peer Review Public File Search](#).

- State Boards of Accountancy (SBOA) are found in each state's statute to aid state governments in the licensing and regulation of the public accounting profession.
 - SBOAs provide further oversight on CPA firms by evaluating CPA licensees' examinations and regulatory oversight to ensure a firm is practicing within their statutory scope.

The audit quality and efficiency improve as the auditor becomes more familiar with our company's processes. In addition, with the limited number of firms available as verification bodies and a five-year lookback period in place, it is proving difficult to identify a quality verification body that is not also working with our facility in other consulting capacities. The number of people available with the proper expertise to assist us in design and development of projects and to reserve for verification purposes has proven even more limiting, which is also why we request a Lead Verifier rotation rather than a full firm rotation.

Less Intensive Verification

Regarding less intensive verification, we noted in Appendix E staff's proposal for less intensive verifications for when electricity is used as a transportation fuel, allowing verification bodies to skip site visits if they visited the site in the last two years and issued a positive verification statement.

The rationale for this proposed change states, "there is little change of operation from reporting period to reporting period thus reducing the benefit of annual site visits." Additionally, staff rationale states, "There is no or little risk to the integrity of the LCFS program to allow for less intensive verification services without a site visit in the annual verifications for the following two years. This should reduce the cost of verification services which is often passed on to program participants."

Currently, the proposed language limits this allowance for less intensive verifications to QFTR third-party verification bodies for fuel reporting entities only reporting electricity transactions.

We agree with the staff's stated rationale, but **we request for less intensive verification to be extended as an option for verification bodies on all validations and annual verifications for any reporting entities.**

In CARB's MRR program (section 95130), less intensive verification is applied without prejudice to verification services by accredited verification bodies.

We agree with staff that less intensive verification leads to little to no risk to the integrity of the LCFS program and that there is little change in operation from reporting period to reporting period, while also providing cost savings to verification providers and passed on to our company as program participants.

We acknowledge the importance of adhering to CARB's specified conditions that necessitate comprehensive verification services. These conditions include the issuance of an adverse verification statement or a qualified positive verification statement in the preceding year and the occurrence of a change in operational control of the reporting entity in the previous year.

Thank you for your time and consideration. Please reach out to us if you have any questions.

Sincerely,

Don Gales
CEO