

# Potential Verifiers and Verification Bodies: Governance and Impartiality

Public Working Meeting for Stakeholder Groups  
December 19, 2016

Webcast: <https://video.calepa.ca.gov/>  
Call-In Numbers: Toll Free 1-888-455-9668 or  
Toll/Outside the U.S. 1-517-308-9289  
Participant Code: 6494695



## Today's Objectives

- Encourage prospective Verification Bodies to track LCFS public rulemaking process
- Begin dialogue on two key areas affecting Verification Bodies
- Solicit input from industry experts to inform regulatory approaches



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## Discussion Outline

- Public Process and Timeline
- Key LCFS Considerations
- Governance Structures
  - CARB MRR and Compliance Offsets
  - EU RED Product Certification Schemes
- Impartiality Protections
  - Existing Verification Provisions
  - Guiding Principles for Proposed Amendments
- Next Steps



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## Expanded Rulemaking Scope: LCFS Post-2020 Targets + Verification Program

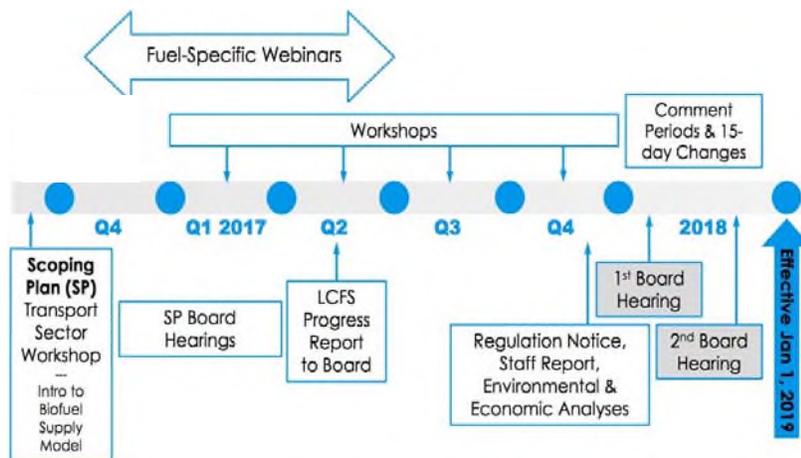
Amendments to be considered include:

- Post-2020 targets
- Third party verification
- Recognition of alternative jet fuels
- Updates to Carbon Intensity (CI) models
- Other program improvements including those previously presented in 2016



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## Expanded Rulemaking Timeline



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## Fuel-specific working meetings

- Meetings cover fuel pathway assessment, reporting requirements, and verification aspects
- **Completed:** biomethane and fossil natural gas; renewable and grid electricity; renewable and fossil hydrogen; co-processing
- **Upcoming:** ethanol; biodiesel, renewable diesel and renewable jet fuel; gasoline and diesel
- Meeting materials available at:  
[https://www.arb.ca.gov/fuels/lcfs/lcfs\\_meetings/lcfs\\_meetings.htm](https://www.arb.ca.gov/fuels/lcfs/lcfs_meetings/lcfs_meetings.htm)

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## Verification Overview (1)

ARB staff is considering mandatory verification of various program aspects including, but not limited to:

- fuel pathway carbon intensities,
- reported fuel quantities (for both high and low carbon fuels), and
- chain-of-custody information (for some feedstocks and finished products).



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## Verification Overview (2)

*Important Considerations—Guiding Principles:*

- ① ARB retains authority over the LCFS program, including verification requirements;
- ② Continual improvement in the detection, prevention, and correction of errors or fraud;
- ③ Identification and implementation of cost reducing strategies, while maintaining verification rigor;
- ④ Policy consistency with other ARB verification programs; and
- ⑤ Consideration of the unique attributes of fuel carbon intensities and fuels marketing structure.



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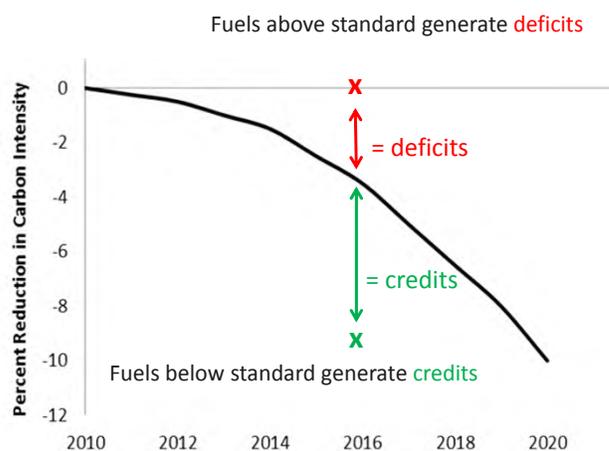
## Key LCFS Considerations (1)

- LCFS is a performance standard that requires reductions in the carbon intensity of California's transportation fuels over time.
- Each fuel's carbon intensity (CI) is calculated based on greenhouse gas (GHG) emissions per unit of fuel energy over the fuel's lifecycle—from raw material or feedstock production through end use.
- Lower-CI fuels produce fewer GHGs per energy unit. Higher-CI fuels, such as traditional petroleum-based fossil fuels, produce more GHGs per energy unit.



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## Key LCFS Considerations (2)



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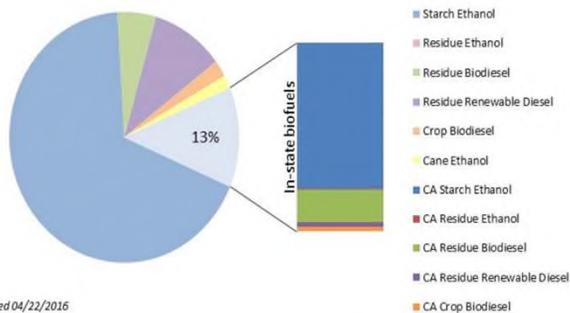
## Range of Fuel Pathway Complexity

| Application Type                         | T1 Re cert | T2 Re cert | T1 New | T2 New | Total |
|--|------------|------------|--------|--------|-------|
| <b>Ethanol</b>                           |            |            |        |        |       |
| Submitted                                | 76         | 16         | 115    | 14     | 221   |
| Consolidated/Rejected/Withdrawn/Deleted  | 3          | 6          | 64     | 14     | 87    |
| Certified                                | 73         | 10         | 51     | 0      | 134   |
| <b>Biodiesel/Renewable Diesel</b>        |            |            |        |        |       |
| Submitted                                | 46         | 3          | 64     | 7      | 120   |
| Consolidated/Rejected/Withdrawn/Deleted  | 19         | 2          | 44     | 5      | 70    |
| Certified                                | 27         | 1          | 20     | 2      | 50    |
| <b>RNG/NG and Others</b>                 |            |            |        |        |       |
| Submitted                                | 66         | 13         | 12     | 2      | 93    |
| Consolidated/Rejected/Withdrawn/ Deleted | 16         | 2          | 3      | 2      | 23    |
| Certified                                | 50         | 11         | 9      | 0      | 70    |
| TOTAL Submissions                        | 188        | 32         | 191    | 23     | 434   |
| TOTAL Certifications                     | 150        | 22         | 80     | 2      | 254   |



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## Geographic Breadth of Fuel Supply Processes



Last Updated 04/22/2016

| Year:  | 2011        | 2012        | 2013        | 2014        | 2015        |
|--|-------------|-------------|-------------|-------------|-------------|
| Share of Total Reported Liquid Biofuel Volume that is Produced In-state: | 11.04%      | 12.03%      | 11.13%      | 13.90%      | 12.90%      |
| Total In-state Volumes (GGE):  | 117,396,998 | 128,677,363 | 135,078,599 | 171,969,371 | 174,106,886 |



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## Governance Structure Discussion

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## Designing an LCFS Governance Structure

- Establish ARB as the accrediting body to oversee verification quality
- Scope must cover both domestic and international fuel pathways
- Recognize existing quality assurance and certification systems to support administrative verification functions

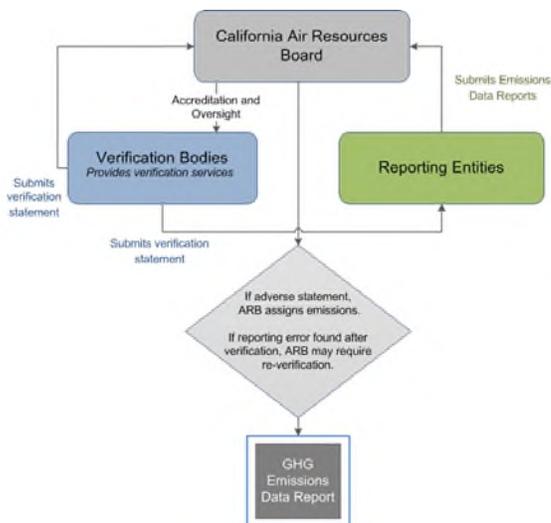
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## Relevant Governance Structures to Consider

- CARB MRR Verification
- CARB Compliance Offsets Verification
- EU RED Certification

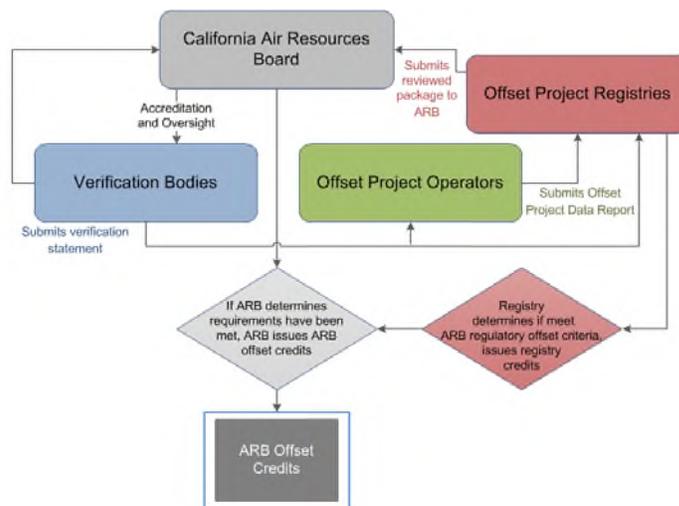
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## MRR Governance Structure



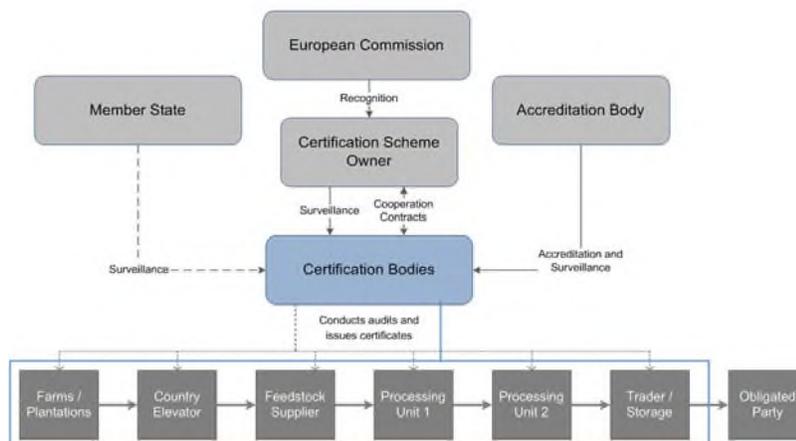
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## Compliance Offset Verification Governance Structure



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## EU RED Certification System Governance Structure



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## Governance Questions for Verifiers

- Staff is seeking stakeholder feedback on which model or program elements best respond to the geographic breadth and range of pathway complexity of the LCFS program.
- Staff would like stakeholder feedback on whether certification bodies that audit GHG lifecycle emissions and mass balance conformance should be accredited consistent with ISO 14065: 2007 (Greenhouse gases – Requirements for greenhouse gas validation and verification bodies for use in accreditation or other forms of recognition), ISO 17065: 2012 (Conformity assessment -- Requirements for bodies certifying products, processes and services), or some other standard.
- What prior experience with GHG lifecycle emissions calculations, the mass balance conformance approach, and/or particular fuel-specific production operations and common supply chains should ARB specify for individual auditors?
- If accredited verification/certification bodies select audit team members based on competency requirements consistent with ISO 14066: 2011—Competence requirements for greenhouse gas validation teams and verification teams, should ARB also separately accredit individual verifiers as in the MRR and Offsets programs?

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## Impartiality Protection Discussion

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## Impartiality Protections: Considerations

“Conflict of interest” is a situation in which a person or body is unable to or potentially unable to render an impartial verification statement of a potential client’s report to ARB, or objectivity in performing verification services is or might be otherwise compromised

ARB staff are considering:

- verification body rotation requirement,
- look-back period for review of incompatible activities by verification bodies and individual verifiers,
- list of specifically prohibited services/activities that are considered incompatible, and
- mitigations for allowed professional and personal relationships.

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## Impartiality Protections: Questions for Verifiers

- Staff would like additional stakeholder feedback on the firm rotation requirement, given previous feedback expressing concerns about verifier availability. If all clients are required to rotate verification bodies, would sufficient verifiers be available?
- Why would audit quality be inconsistent for new clients and continuing clients?
- What requirements should ARB consider to lessen the on-boarding period for new clients and improve verification quality or efficiency? Staff is considering requiring reporting parties to conduct a CI sensitivity analysis and have a monitoring plan. Would a requirement for reporting parties to implement a management system, consistent with ISO/IEC 17065, be expected to improve verification quality or efficiency for new clients?
- Should ARB consider incentivizing a shorter firm rotation period by limiting the look-back period for credit invalidation when a new verification body is hired?
- Should the look-back period for incompatible activities be phased in?
- Are there other threats to impartiality that ARB should consider?

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## Next Steps

- Consider feedback on governance and impartiality requirements
- Complete remaining fuel-specific working meetings
- Assess feedback and develop staff proposal for third-party verification requirements
- Plan second Verification Body webinar in 2017 to discuss staff proposals

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## THANK YOU!

Please send feedback to  
[LCFSworkshop@arb.ca.gov](mailto:LCFSworkshop@arb.ca.gov)  
by February 15<sup>th</sup>, 2017

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