



FAQ - E-liability Approach

Purpose

This document provides more detail on the E-liability approach and how it operates, to support implementation. It sets out FAQ and suggested approaches on accounting treatment.

FAQ

Should transportation emissions be included?

We recommend including transportation emissions if they are material. Be sure to consider factors such as the mode of transportation (electric rail line or diesel). The allocation of responsibility for transport emissions, within the framework of the E-liability methodology, hinges on the contractual agreements. If the buyer assumes responsibility upon the product's departure from the seller's factory, the accountability for emissions rests with them. However, if this responsibility commences upon the product's arrival at the buyer's premises, transport emissions are not within their domain. Ownership of shipping trucks plays a decisive role in determining transport emissions responsibility. The negotiation process serves as the cornerstone, akin to the sharing of costs across different tiers of the supply chain.

How are E-liabilities factored for recycled goods?

Recycled inputs typically have a 0 emissions factor since they come from consumer use. Processing the recycled inputs incurs emissions, however, which must be factored in. Recycling accounting will also involve negotiation between businesses and other stakeholders.

How should we consider the depreciation of carbon liabilities?

In the USA, tax authorities restrict depreciation to a maximum of 30 years. A fair rule of thumb for depreciation for plants is 25 years for buildings and 10 years for capital equipment. Nonetheless, it is vital to factor in the actual useful lifecycle when determining depreciation periods.

Example: Consider a university building, comprising diverse materials like steel, glass, and concrete. Divide the construction emissions (including raw materials) by the building's useful life. You can then allocate these emissions to each student or degree earned as an output.

Obtaining emissions data

When dealing with older buildings, relying on average emissions data based on specific sizes proves effective. You can, for example, roughly calculate emissions per square metre. If a



building or piece of capital equipment has outlived its standard useful life-cycle, but is still in use, then you can consider its emissions to be fully depreciated.

Salvage value and immediate allocation

Another factor to consider is the 'salvage value'. This entails the ratio of the device's resale price, to its initial purchase price. Applying this ratio, a portion of the total CO₂ emissions can be removed from the depreciated total. Items that are destined for disposal should have their emissions fully allocated across their useful lifespan. Disposables should be allocated immediately.

Example: If a \$800 fridge is sold for \$200 after 5 years, only 3/4 of the total CO₂ emissions need to be depreciated across the 5 years, on a monthly basis.

Should emissions from waste be included?

The allocation of waste emissions hinges on the existence of a market demand for waste i.e. steel slag being purchased for concrete production. Should no buyer exist, then all waste must be allocated to your products.

Which emissions from entity accounting and facilities should be included?

The inclusion of work-from-home emissions, such as food and electricity for remote workers should also be considered in the pilot. From an accounting perspective, only elements under an entity's (i.e., your) control are accounted for. This differs from cases like on-site cafeterias, which are controlled and thus accounted for by the company. Facilities that are established solely due to the company's presence, like temporary housing, should be included in emissions allocation.

Can you apply mass balancing when allocating emissions?

The E-liability approach allows for the utilisation of "mass balance numbers" for raw materials. It is not a partial equilibrium framework, but rather a full equilibrium framework which empowers you to maximise the benefits of mass balancing. As the E-liability method becomes widely accepted, mass balancing emerges as an accurate technique for comprehending emissions comprehensively and allocating them appropriately.

Example: If a steel maker receives two shipments of iron from different mines - one with higher embodied carbon and one with lower embodied carbon - these can be mixed together and the company can take the average emissions of the proportion of low vs high carbon iron.