Federal Supplier Greenhouse Gas
Emissions Inventory Pilot
Resource Sheet — Defining Your Inventory Boundary Control vs.
Equity Approach

<u>Control Approach</u>: The control approach describes the type of control a company has over its activities that cause greenhouse gases to be emitted into the atmosphere. There are two kinds of control approaches—operational and financial-that one can use when drawing the boundary around their company to select which sources to include when developing a company-wide GHG inventory.

A) Under **operational control**, a company has the full authority and ability to introduce and implement operating policies and procedures. A company can physically control the property and processes it uses for its business, such as driving its vehicles or changing out the lighting or heating systems in its facility. <u>For most small businesses, the operational control is usually the most straightforward and recommended approach.</u>

Example 1: Company A leases two floors within a larger building. The landlord provides Company A with a sub-metered breakdown of its monthly energy use. Company A is also considering switching out the lighting on its floors and is changing the settings of the office's IT equipment to be more energy efficient. It has the ability to implement these changes. Company A should include this lease within its organizational boundary.

Example 2: Company B leases a floor in another building. It pays for its energy bill as part of its monthly rent and does not receive a breakdown for its portion of the building's energy use and has not been successful in having its energy use sub-metered or seeing its energy bills reflect the company's actual energy usage over time, even though it has been trying to introduce energy savings measures among its employees. The landlord also has control over affecting the building systems (e.g. lighting, air conditioning, etc). Company B should not include the lease within its organizational boundaries. (However, as a caveat, Company B could include these emissions from this lease as part of the scope 3 emissions in its value chain that lie outside its operational control if it chooses to include optional scope 3 sources in its GHG inventory, though doing so is not mandatory).

B) Alternatively, control can be expressed as **financial control**, where a company includes all sources of emissions where it retains the risks and rewards of owning the operation's assets. A company has financial control over the operation if it can direct the financial and operating policies of the company with the view to gaining economic benefit from the activities.

Example 1: Company C owns a subsidiary, where 100% of the subsidiary's income and expenses, and assets and liabilities are taken into Company C's profit and loss account and balance sheet. Company C does not have the ability to affect the day- to-day operations of its subsidiary, such as driving its trucks or operating its machinery, despite owning the subsidiary. Nonetheless, Company C would include 100% of the subsidiary's GHG emissions in its own corporate-wide inventory if it uses a financial control approach.

Equity Share Approach: Under this approach, operations are included in the inventory based on the company's share of equity (typically by percentage of ownership in the operation). The equity share approach makes sense for companies that have joint ventures or subsidiaries, where they may own a part or the whole of an organization, but not be able to direct any of their day-to-day operations. Typically, this approach would not be necessary for a small business, however if small companies own, or have a joint venture with other companies, this approach may be appropriate.

Example: Company D is developing its corporate-wide GHG inventory. Company D has a joint venture with Company E, where both companies have equal financial share of a company's operation. If Company D uses an equity share approach, it should include 50% of all emissions resulting from the company's operations and activities.

What about leases? A company should assume operational control of a lease if it has the ability to track the energy use and other GHG emissions sources from the lease. For example, if a company leases office space and has the ability to sub-meter its activities and affect how it uses equipment that generates emissions, such as lighting, HVAC systems or onsite computers, it should include the lease within its organizational boundary using an operational control approach.

Under a financial control or equity share approach, the company (the lessee) should only account for emission from leased assets that are treated as wholly owned assets in financial accounting and are recorded as such on the balance sheet of a company's finances. A finance/capital lease is one that transfers substantially all the risks and rewards of ownership to the lessee. All leased assets that do not meet this criterion for finance/capital leases are considered operating leases. The majority of small businesses have operating leases.