



REC and GHG Financial Reporting

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Lack of Reporting Guidance

- 2 major standard setting bodies for financial reporting
- Financial Accounting Standards Board (FASB)
 - US Generally Accepted Accounting Principles (GAAP)
- International Accounting Standards Board (IASB)
 - International Financial Reporting Standards (IFRS)

Inventory

- Measured at cost
- Costs of credits used are charged to cost of sales
- Subject to lower of cost or market
- Inventory
- Operating activity on statement of cash flows

Intangible Asset

- Measured at cost
- Costs of credits charged to expense when sold or used
- Impairment
- Long-term assets
- Investing activity on statement of cash flows

- Cost
 - Common inventory methodologies – first in first out, weighted average cost, etc.
- Inventory cost pools for different vintages
- Possibly inventory cost pools for different regulatory markets



REC generation

- Usually \$0 value allocated to generated REC
- Is this representative of value associated with REC?
- Possible use of other cost models
 - Fair value
 - Full cost



Compliance vs. Voluntary

- Should RECs and emission credits be treated the same way when intended to meet compliance standards and voluntary standards?
 - Depends on business model (business with several distinct business lines)
 - Trading RECs and credits more inline with inventory approach
 - Compliance – recognize asset and liability?

- Markets are becoming more sophisticated
 - Develop derivatives
 - Forward contracts
 - Swaps
 - Options
 - Used to either hedge risk or speculate
 - Derivative accounting (fair value)?

- IASB/FASB joint committee met on October 21st
- Recognition of Assets and Liabilities in a cap and trade scheme
 - The project is expected to cover both cap and trade and baseline and credit schemes (whether government mandated or voluntary), as well as project-based certificates and renewable energy certificates
 - Purchased and allocated allowances - assets
 - Allocation of allowances creates an obligating event – liability
 - Received allowances possibly recognized at fair value?