REC and GHG Financial Reporting

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• 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)
Current Accounting Practices

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
• 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?