USDA Rural Development

United States Department of Agriculture
Rural Development

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SUBJECT: Recommended Accounting for Renewable Energy Credits (RECs)

TO: All RUS Electric Borrowers

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On July 13, 2007, the Rural Utilities Service (RUS) published proposed revisions to 7 CFR Part 1767, Uniform System of Accounts – Electric (Part 1767). Comments were due on September 11, 2007. Among the many items addressed in the proposed revisions, was the first attempt at establishing accounting requirements for Renewable Energy Credits (REC). After reviewing the comments received regarding the accounting requirements for RECs, RUS made a decision to remove this particular provision from the final rule when it was published on May 27, 2008, pending further investigation and discussion.

RECs are created when renewable energy facilities, such as wind farms, biomass generators, and solar facilities, generate electricity. These RECs represent the environmental benefits of renewable energy. When a purchaser acquires RECs, the price represents the benefit of displacing non-renewable sources of generation, such as coal, oil or gas. Energy is generated and injected into the grid from a number of sources. Because electricity is a fungible commodity, energy being purchased from the grid cannot be specifically identified as to its source. To facilitate the sale of renewable energy nationally, a system has been created that separates energy generated from renewable resources into two parts; the energy itself and the benefits derived from displacing energy generated from non-renewable sources. These RECs overcome the issues of providing renewable energy to purchasers who are often geographically remote from the renewable generation facility. The REC can be sold in combination with the sale of electricity or may be sold independently of the sale of energy.

In an effort to achieve consensus on a unified approach to accounting for RECs, RUS established a working group to study the issue and provide recommendations. These recommendations have been vetted within RUS by operations, engineering and accounting and as a result, we are issuing the following guidance to be used in accounting for RECs.

Costing of Inventory

RECs may be created and/or received in conjunction with Purchase Power Agreements with renewable generating units. RECs acquired in this way are inventoried as units with the necessary vintage information associated but are not assigned values for accounting purposes.

RECs may also be purchased separately from their generation source and therefore have a cost associated with them at purchase. These RECs are inventoried as units with the necessary vintage information associated along with their cost.

RUS is establishing Account 159, Renewable Energy Credits, to be used for recording the purchase and sale of RECs. RUS recognized that RECs may be valued by using weighted average, first in first out (FIFO), or specific identification methods; however, we recommend the use of the weighted average method.

Sale of Renewable Energy Credits

Amounts received for the sale of RECs should be recorded as revenue. RECs sold should be removed from inventory at carrying value, if any, and charged against an expense account at the time of sale.

RUS is establishing Account 459, Revenue from the Sale of RECs, under the functional category Other Operating Revenues, and Account 559, Renewable Energy Credit Expenses.

Renewable Portfolio Standards (RPS)

RECs that are used to satisfy state or regional RPS should be removed from inventory at cost and an offsetting expense recorded if the RECs are being carried with an associated dollar value. RECs accounted for as units with no associated costs shall reduce the number available for sale but will result in no recordable income statement transaction.

Accounting Requirements

1. The following journal entry is to be used to record the purchase of Renewable Energy Credits:

Dr. 159, Renewable Energy Credits	XXX	
Cr. 131.1, Cash – General Funds		XXX
To record the purchase of Renewable Energy Credits.		

2. The following journal entry is to be used when recording the sale of Renewable Energy Credits held in inventory:

Dr. 131.1, Cash – General Funds		XXX
or		
Dr. 142/143, Accounts Receivable	XXX	
Cr. 459, Revenue from the Sale of RECs		XXX
Dr. 559, Renewable Energy Credit Expenses	XXX	
Cr. 159, Renewable Energy Credits		XXX
To record the sale of RECs and to reduce inventory accordingly.		

3. The following journal entry is to be used to record RECs used to satisfy Renewable Portfolio Standards (RPS):

Dr. 555, Purchased Power (may be subaccounted)	XXX	
Cr. 159, Renewable Energy Credits		XXX
To recognize the use of RECs to satisfy RPS.		

If RECs are being purchased and sold strictly for investment purposes, the accounting requirements found in Part 1767, Interpretation No. 629, Investments in Debt and Equity Securities, is appropriate.

If you have any questions regarding the accounting for renewable energy credits, please contact the Technical Accounting and Auditing Staff at 202-720-5227.

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