

Your REC Records Are About to Get Audited

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The accounting treatment for RECs just changed. External auditors will apply the same scrutiny to REC records they apply to any other balance sheet asset. The question is whether those records can withstand it.

I. The Problem This Creates

Most utilities track RECs in spreadsheets or systems built for program management, not financial reporting. Topic 818, FASB's new standard for environmental credit accounting, just changed the standard those records are held to: RECs are now GAAP balance sheet assets, subject to the same audit scrutiny as any other asset class. When the CFO, the controller, or an external auditor asks who approved a specific REC retirement, whether the allocation has changed since it was made, and whether the certificate vintage and facility match what was promised to the customer, the answer has to come from somewhere. For most utilities today, it doesn't exist.

“We already report on RECs, through the registry and to FERC. Isn't this the same thing?”

No. Registries prove a certificate is valid and satisfies a state renewable portfolio standard (RPS).² FERC's REC-related requirement is narrower still: it applies only when a REC is bundled into a wholesale energy sale, and even then it's a one-line disclosure on a market-transparency filing, not a valuation.³ Neither one asks what the certificate is worth on the balance sheet, or why. Topic 818 does, for every REC the company holds, bundled or not, reviewed by external auditors rather than a program administrator.

II. What the Standard Requires and Why the Distinction Matters

The standard draws one line that determines how hard compliance is: whether a credit is backing a regulatory obligation or not.

- **Compliance credits** (RPS): recognize as asset, disclose types, costing method, accounting policies, and carrying amounts (current/noncurrent split). No impairment testing. The burden is documentation, not valuation.
- **Noncompliance credits** (green tariff inventory, bilateral deal backing, excess holdings): same documentation burden, plus impairment testing at each reporting date, at fair value, which means writing the credit down if its value drops. The burden is ongoing valuation at scale.

Most utilities hold both, which means both documentation requirements and live impairment testing apply to overlapping certificate inventory. And neither side nets: environmental credit assets and ECO (environmental credit obligation) liabilities must be presented separately on the balance sheet.

III. Provisions Worth Knowing

A few of these provisions add complexity:

- **Self-generated RECs** go on the books at \$0, but full disclosure of quantities and usage is still required. The disclosure burden is real; the impairment burden is not.
- **Green tariff and bilateral deal RECs are noncompliance credits**, which means impairment testing is required each period. Most utilities don't track them that way today.

- **Voluntary net-zero and carbon-neutral pledges are out of scope**, so no liability is required for the gap between where a utility is today and its 2040 or 2050 target.
- **No LIFO**. Every utility books a cumulative-effect adjustment on adoption; LIFO-equivalent costing also forces a method change.

The standard is calibrated for financial reporting, not program management, and that gap is the whole problem.

IV. The Allocation Decision is Also an Accounting Decision

Neither FERC nor the registry records who approved a REC's allocation, or whether it changed. Topic 818 does, and holds that record to GAAP audit standards.

For utilities with green tariffs or bilateral deals, that question is which RECs back which customer contract, at what cost, for what period.

Most utilities treat REC allocation as a program management decision. Under Topic 818, it is also an accounting decision. Designating a REC for a specific customer contract, rather than RPS compliance, shifts its classification to noncompliance and triggers impairment testing. A spreadsheet can't enforce or document that trail.

Auditors need that answer to verify the balance sheet; customers need it for Scope 2 disclosures and CFE attestations. The reach of that obligation depends on deal structure: in green tariffs where the utility retires on the customer's behalf, the Topic 818 exposure stays entirely with the utility; in bilateral deals where the customer takes direct title, those RECs are noncompliance credits on the customer's own balance sheet. In both cases, the customer's auditors will ask for the underlying records. The legal basis differs, but the request points to the same place: the utility's allocation trail.

V. The Decision

Effective date: January 1, 2028 for public entities. The implementation window is closing.¹ The system a utility implements now needs to produce traceable records from day one of the effective period.

The right system also addresses problems that predate Topic 818: fragile spreadsheets, manual exports, and program infrastructure that breaks when one analyst leaves. One platform decision can meet the audit requirement, upgrade the program, and build toward hourly accounting and GHG Protocol Scope 2 revisions.

The compliance deadline forces the decision. It doesn't have to be three separate decisions. It can be one.

¹ [FASB ASU 2026-02](#), Environmental Credits and Environmental Credit Obligations (Topic 818), issued May 2026. Effective for public business entities for annual periods beginning after December 15, 2027 (calendar-year companies: January 1, 2028); all other entities after December 15, 2028. Early adoption permitted.

² Registry/RPS systems (WREGIS, PJM-GATS, M-RETS, NYGATS, NEPOOL-GIS, ERCOT) verify RPS compliance; not a FERC function.

³ FERC has jurisdiction only over RECs bundled into a wholesale energy sale ([FPA §§ 201, 205–206](#); 139 FERC ¶ 61,061 (2012)), reported via an [Electric Quarterly Report \(EQR\)](#), a transparency filing with no REC valuation or audit requirement.

About Singularity Energy

Singularity Energy gives utilities and grid operators a single platform to manage clean energy certificates, match generation to consumption hourly, and produce the compliance and customer-facing CFE reporting that large buyers and regulators now require, with an audit-ready allocation trail built in. All of it runs on utility-sourced data from internal systems. Customers include Southern Company, APS, Evergy, MISO, and SPP. Backed by Energy Impact Partners, Spero Ventures, and Third Sphere. To learn more, visit singularity.energy

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