



THE STANDARD STANCE

Renewable Energy Credits: Where Environmental Value Meets Financial Reporting

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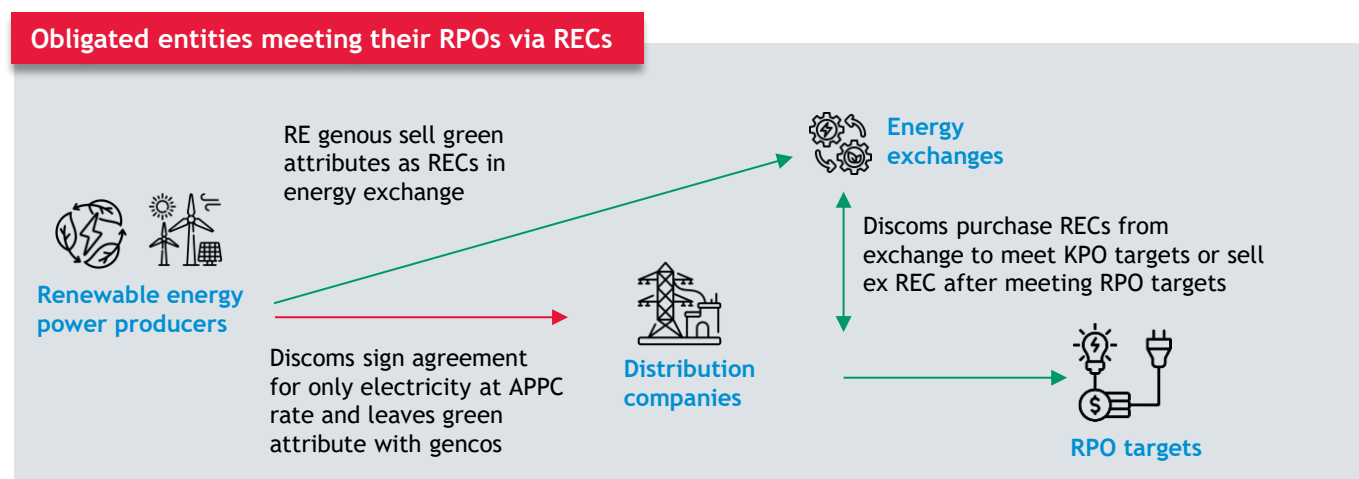
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WHAT ARE RENEWABLE ENERGY CERTIFICATES (RECs)?

A Renewable Energy Certificate (REC) is a market-based instrument that represents the environmental attributes of electricity generated from renewable sources. It is issued by the National Load Despatch Centre (NLDC) to Eligible Entities under the framework laid down under the Central Electricity Regulatory Commission (CERC) [Terms and Conditions for Renewable Energy Certificates] Regulations.

When a renewable energy generator (i.e. an Eligible Entity) produces electricity and injects it into the grid, and the generation is duly verified in line with the regulatory framework, a corresponding REC is issued, evidencing that one megawatt-hour (MWh) of electricity has been generated from renewable sources such as solar, wind, or hydro.

RECs are tradable, standardised instruments representing environmental attributes of renewable energy, which are independent of physical electricity and traded on power exchanges such as Indian Energy Exchange / Power Exchange India Limited.



Source: Council on Energy, Environment and Water; Article on REC

FORMS OF RECs

There are two common forms of RECs - Solar certificates (for generation through solar) and Non-solar certificates (for generation through all renewable sources other than solar).

Salient Features Of The Rec Framework:

- The CERC has designated the NLDC as the central agency for registration of Eligible Entities participating in the REC scheme.
- The Eligible Entities will have two options - either to sell the renewable energy as green energy or to sell the electricity generation and environmental attributes associated with renewable energy generation separately. On choosing the second option, the environmental attributes can be exchanged in the form of REC.
- The value of one REC shall be equivalent to 1 Megawatt-hour (MWh) of electricity generated and injected into the grid from renewable energy sources or deemed to be injected in the case of self-consumption by eligible captive generating stations based on renewable energy sources.

WHY ARE RECs REQUIRED IN INDIA?

RECs are required in India because Renewable Purchase Obligation (RPO) compliance is mandatory under the Electricity Act, 2003, and RECs serve as the regulator-approved mechanism (under CERC Regulations) to fulfil this obligation when direct renewable procurement is not feasible.

Renewable Purchase Obligations

RPOs are a critical policy instrument in India's transition toward clean energy. The regulations mandate certain electricity consumers and utilities to procure a specified percentage of their power from renewable sources. RPOs ensure sustained demand for renewable energy and provide regulatory backing for India's climate commitments.

RPOs apply to obligated entities, which include:

- a) **Distribution Licensees (DISCOMs)** - These are utilities that purchase electricity and supply it to consumers.
- b) **Open Access Consumers** - These are large consumers who procure electricity directly from generators or the market instead of DISCOMs.
- c) **Captive Power Producers (CPPs)** - These are entities that generate electricity for their own consumption.

Objectives Of Market Participants Of RECs

- a) **Entities buying RECs, i.e., Obligated Entities** - Their principal objectives include regulatory compliance by meeting RPO targets set by respective State Electricity Regulatory Commission (SERC) as a part of their corporate sustainability goals, such as ESG, improve carbon credentials and reporting.
- b) **Entities Selling RECs, i.e., Eligible Entities** - Their objectives include having an additional revenue stream, thus improving the financial viability of renewable energy investments and market flexibility to sell electricity separately from environmental attributes.
- c) **Entities generating renewable energy and holding RECs for own use** - These participants are typically renewable energy generators who are also obligated entities (e.g., captive power producers). Their objectives include using the internally generated RECs to comply with RPO instead of purchasing from the market and supporting ESG Goals.

ACCOUNTING TREATMENT FOR RECs

The accounting for environmental credits and certificates, including Renewable Energy Certificates (RECs), is an evolving area with limited comprehensive guidance under existing standards. In this context, the Financial Accounting Standards Board (FASB) has recently issued ASU 2026-02, *Environmental Credits and Environmental Credit Obligations (Topic 818)*, which establishes a structured framework for the recognition, measurement, presentation, and disclosure of environmental credits and related obligations. This guidance is effective for public business entities for annual periods beginning after 15 December 2027 (including interim periods), and one year later for other entities.

The International Accounting Standards Board (IASB) has also introduced amendments vide *Contracts Referencing Nature-dependent Electricity* (IFRS Bulletin 2025/02), which amended IFRS 9 (Financial Instruments) and IFRS 7 (Financial Instruments: Disclosures). However, the amendments do not address the accounting for RECs. RECs are expected to be dealt with by the IASB's pipeline project on pollutant pricing mechanisms.

In the Indian context, the accounting treatment of RECs is not explicitly covered by a specific Ind AS but is derived using general principles from multiple standards. The treatment depends on the nature of the entity (Eligible Entity vs Obligated Entity) and intent.

RECs, while often associated with nature-dependent electricity contracts, do not qualify as nature-dependent contracts themselves. RECs are tradable commodities that certify the environmental benefits of renewable energy generation but operate independently of the actual electricity produced.

This issue of The Standard Stance provides an overview of the accounting treatment for RECs under Ind AS, driven by the entity's purpose for holding the certificates.

ACCOUNTING TREATMENT APPLICABLE TO ELIGIBLE ENTITIES UNDER IND AS

Accounting for recognition of RECs received from regulators

RECs are issued by regulatory authorities as part of a government scheme to incentivise renewable energy generation and therefore may qualify as government grants under Ind AS 20 (Government Grants), para 3, which defines government grants as assistance by government in the form of transfers of resources in return for compliance with certain conditions.

As per Ind AS 20, para 7, government grants (including non-monetary grants like RECs) should be recognised only when there is reasonable assurance that:

- the entity will comply with the conditions attached; and
- the grant will be received.

In India, RECs are issued only upon fulfilment of specified regulatory conditions laid down under CERC Regulations. Hence, RECs could be considered as non-monetary grants as per Ind AS 20.

As per Para 23 of Ind AS 20, RECs in nature of non-monetary grants could be recognised at a nominal value or fair value at initial recognition, depending on the entity's chosen policy.

Where the REC is initially recognised at fair value, a credit entry is recorded in the statement of profit or loss as either a reduction in production costs for the period (on the basis that the purpose of the grant is to compensate the producer for the higher cost of using renewable energy

sources) or as other income, but not as revenue.

Accounting for recognition of RECs held for sale as inventories

As per Ind AS 2 (Inventories), para 6, inventories are defined as assets held for sale in the ordinary course of business. Hence, RECs would qualify as inventory under Ind AS 2 if held for sale or to settle an emissions liability in the ordinary course of business. Inventories shall be measured at cost as per Ind AS 2, para 10, where cost includes costs of purchase, conversion, and other costs. On subsequent measurement, RECs should be measured at the lower of cost and net realisable value (NRV) where NRV is defined in Para 6 of Ind AS 2 as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The REC is derecognised on sale by the producer.

Accounting for recognition of revenue on sale of RECs

To account for the sale of RECs, the entity should apply Ind AS 115 (Revenue from Contracts with customers). A reporting entity engaged in the sale of RECs will need to determine how and when to recognise revenue related to REC sales with their corresponding carrying amount being recognised as cost of sales.

As per Ind AS 115, para 31, an entity shall recognise revenue when (or as) it satisfies a performance obligation by transferring a promised good or service (i.e., an asset) to a customer. In accordance with para 33, an asset is transferred when (or as) the customer obtains control of that asset.

In the case of RECs, delivery is effected through regulatory administration processes prescribed under the applicable framework (such as the CERC REC Regulations and relevant SERC guidelines). Accordingly, in line with Ind AS 115, it is critical to evaluate the method and timing of such delivery to determine when control of the REC is transferred to the customer, which drives the timing of revenue recognition. Further, for REC transactions, the consideration will be typically determined by reference to market-driven prices on power exchanges.

ACCOUNTING TREATMENT APPLICABLE TO OBLIGATED ENTITIES UNDER IND AS

Accounting considerations have been discussed below for:

- a) Obligated Entities that are producers of renewable energy
- b) Obligated Entities that are not producers of renewable energy

a. Accounting treatment applicable to Obligated Entities that are producers of renewable energy

When the Obligated Entity is also a producer of renewable energy, it has the option to use RECs granted to it or to sell them on the market and pay a penalty if it has insufficient RECs to remit to the government in accordance with the provisions of Section 142 of the Electricity Act, 2003.

Accounting for recognition of receipt of RECs

RECs are issued by regulatory authorities as part of a government scheme to incentivise renewable energy generation and therefore may qualify as government grants under Ind AS 20. Thus, entities shall apply the guidance laid down in the section 'Accounting treatment applicable to Eligible Entities' above for recognition of RECs as government grants in accordance with Ind AS 20.

Accounting for recognition of RPOs

Obligated Entities are required to submit RECs with regulatory authorities to comply with regulatory requirements. As per Ind AS 37 (Provisions, Contingent Assets & Contingent Liabilities) para 14, a provision should be recognised when the entity has a present obligation, there is a probable outflow of resources, and a reliable estimate can be made of the amount of the obligation. In respect of RECs, the entity should recognise a provision representing the obligation to remit the certificates to the government as sales of energy are made to customers.

In determining the best estimate of provision, Ind AS 37, para 39 permits the use of estimation techniques such as expected value or most likely outcome, depending on the nature of the obligation. Accordingly, where the obligation is settled using a combination of certificates already held and those yet to be acquired, the measurement should incorporate:

- the carrying amount of certificates currently held, and
- the expected cost of acquiring additional certificates, based on prevailing market conditions at the reporting date.

Accounting for recognition of RECs held for sale as inventories and recognition of revenue on the sale of RECs

Subsequently, self-generated RECs intended for sale are generally accounted as Inventories as per Ind AS 2, in accordance with the guidance laid down in the section 'Accounting treatment applicable to Eligible Entities'.

When RECs are sold to other Obligated Entities, the entity should apply Ind AS 115 to recognise revenue in accordance with the guidance laid down in the section 'Accounting treatment applicable to Eligible Entities' above.

Accounting for recognition of RECs held for own use

As per para 8 of Ind AS 38, intangible assets are defined as identifiable non-monetary assets without physical substance. RECs could be considered as Intangible assets as they are non-monetary in nature, and the Obligated Entity would realise the benefits by submitting the certificates with the SERCs for RPO compliance. Entities shall measure such assets using the cost model unless an active market exists, in which case the revaluation model may be applied in accordance with Ind AS 38.

b. Accounting treatment applicable to Obligated Entities that are not producers of renewable energy

Accounting for recognition of RPOs

The requirement for Obligated Entities to meet RPO compliance gives rise to a present obligation requiring recognition of provision in accordance with para 14 of Ind AS 37. Thus, entities shall apply the guidance laid down in the section 'Accounting treatment applicable to Obligated Entities who are producers of renewable energy' above for recognition of provision in accordance with Ind AS 37.

Accounting for recognition of RECs held for sale as inventories / for recognition of RECs held for own use

Upon purchase, RECs represent resources that will be used to settle the RPO obligation and are submitted to the respective CERC as evidence of compliance. The accounting for such purchased RECs depends on their intended use.

Where RECs are held for sale, entities shall recognise inventories by applying Ind AS 2 in accordance with guidance laid down in the section 'Accounting treatment applicable to Eligible Entities' above. Where RECs are held for own compliance with RPO, the entities shall apply Ind AS 38 (Intangible assets) in accordance with the guidance laid down in the section 'Accounting treatment applicable to Obligated Entities who are producers of renewable energy' above.

Industry Practice - Iberdrola, S.A. (Extract of Disclosure on Emission Allowances and Renewable Certificates from Annual Report)

"Inventories of emission allowances and renewable energy certificates are measured at acquisition cost, calculated using the average weighted price method, or production cost if generated through the energy produced by own facilities that make use of renewable resources. Subsequently, they are measured at either cost or net realisable value, whichever is lower. No valuation adjustments are made to emission allowances or renewable energy certificates to be delivered to governmental agencies in compliance with environmental obligations.

Emission allowances and energy renewable certificates acquired for the purpose of benefiting through fluctuations in their market price are measured at fair value with a credit or debit to the consolidated income statements.

Certain Group companies are required to deliver to governmental agencies emission allowances - in accordance with CO₂ emissions throughout the year in Europe - and renewable obligation certificates (ROCs) in accordance with the MWh of electricity supplied to customers in the United Kingdom under the Renewables Obligation mechanism. This obligation is recorded by recognising a provision under "Supplies" in the consolidated income statement and its amount is calculated (i) as the carrying amount for allowances and certificates held at the end of the reporting period and (ii) the closing listed price for allowances and certificates not held at the end of the period and that must be acquired in order to comply with the aforementioned obligations.

Emission allowances and renewable energy certificates are derecognised from the consolidated statement of financial position when they are sold to third parties, have been delivered or expire. When the emission allowances are delivered, they are derecognised with a charge to the provision made when the CO₂ emissions with no impact on the consolidated income statement were generated.

Income and expense from trading of inventories are recognised in the consolidated income statement under "Revenue" and "Supplies", respectively, with the resulting change in the inventories."



The below table summarises the accounting treatments applicable to each category of entity:

Particulars	Eligible Entities	Obligated Entities (Producers)	Obligated Entities (Non-Producers)
Nature of RECs	RECs generated and held for sale	RECs generated and held for sale or compliance with respect to RPO	Purchased REC for compliance with respect to RPO or for sale
Initial Recognition	Recognised as government grant under Ind AS 20	Recognised as government grant under Ind AS 20	Recognised on purchase of REC
Classification	Typically Inventory under Ind AS 2 if held for sale	If held for sale then- recognised as Inventory under Ind AS 2 If held for RPO compliance then- recognised as Intangible asset under Ind AS 38	If held for sale then- recognised as Inventory under Ind AS 2 If held for RPO compliance then- recognised as Intangible asset under Ind AS 38
Revenue	Revenue recognised on sale of REC under Ind AS 115	Revenue recognised on sale of REC under Ind AS 115 if held for sale	Revenue recognised on sale of REC under Ind AS 115 if held for sale
Recognition of Obligation (RPO)	Not applicable	Provision recognised under Ind AS 37	Provision recognised under Ind AS 37

CONCLUSION

The REC mechanism plays a crucial role in India's renewable energy framework by bridging the gap between regulatory mandates and market realities.

From an accounting perspective, the absence of a specific Ind AS standard necessitates a principles-based approach, wherein the treatment of RECs depends primarily on the intent of the holder—classified as inventory when held for sale and as an intangible asset or compliance cost when used for RPO fulfilment. The requirement to recognise provisions further strengthens financial discipline under Ind AS 37.

Overall, RECs not only support India's climate and energy goals but also introduce unique accounting considerations that require careful judgment, consistent policy application, and transparent disclosures in financial statements.



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