



Policy Title: Asset Retirement Obligations
Adopted by: Executive Leadership Team
Effective Date: January 9, 2023
Last Amended: N/A
Policy Owner(s): Financial Support

1. PURPOSE

- 1.1. The purpose of this policy is to establish a governance framework for the administration, financial accounting and reporting of assets, liabilities, and expenses associated with Asset Retirement Obligations (AROs) in accordance with PSAS 3280: Asset Retirement Obligations.

2. POLICY STATEMENT

- 2.1. The City of Calgary (The City) will review and report an Asset Retirement Obligation, as at the financial reporting date for each calendar year, for those assets that meet all of the following criteria established by Public Sector Accounting Standard 3280 in the Annual Report.
- 2.2. AROs are assigned to the Business Units or Consolidated Related Entity that is the steward of the related Tangible Capital Asset.

3. DEFINITIONS

- 3.1. *In this administration policy:*
- a. **“Accretion Expense”** means the increase in the carrying amount of a liability for asset retirement obligations due to the passage of time;
 - b. **“Asset Retirement Obligation” (ARO)** means a legal obligation associated with the retirement of a tangible capital asset;
 - c. **“ARO Asset”** refers to an asset retirement obligation associated with the economic resources controlled by The City as a result of past transactions or events and from which future economic benefits are expected to be obtained;
 - d. **“Consolidated Related Entities”** means organizations accountable for the administration of their financial affairs and resources to The City who are controlled by The City and consolidated in The City’s annual financial statements, excluding ENMAX Corporation which is reported as a Government Business Enterprise;
 - e. **“Discount Rate”** means the time value of money and the risk specific to the liability for asset retirement obligations, for which future ARO cash flow estimates will be adjusted based on the Landfill Retirement Obligation model (LROM) as validated by Corporate Economics;

- f. **"Inflation Rate"** means the rate of increase for the general level of prices for goods and services based on the Landfill Retirement Obligation model (LROM) as validated by Corporate Economics;
- g. **"Legal Obligation"** means a clear duty or responsibility to another party that justifies recognition of a liability. A legal obligation can result from:
 - i. Agreements or contracts;
 - ii. Legislation of another government;
 - iii. A government's own legislation; or
 - iv. A promise conveyed to a third party that imposes a reasonable expectation of performance upon the promisor under the doctrine of promissory estoppel;
- h. **"Promissory estoppel"** is "the principle that a promise made without consideration may nonetheless be enforced to prevent injustice if the promisor should have reasonably expected the promisee to rely on the promise and the promisee did actually rely on the promise to his or her detriment";
- i. **"Retirement"** means the permanent removal of a tangible capital asset from service. This term encompasses sale, abandonment or disposal in some other manner but not its temporary idling; and
- j. **"Tangible Capital Asset" (TCA)** means non-financial assets having physical substance that:
 - i. Are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;
 - ii. Have useful economic lives extending beyond an accounting period;
 - iii. Are to be used on a continuing basis; and
 - iv. Are not for sale in the ordinary course of operations.

4. **APPLICABILITY**

- 4.1. This Policy applies to The City's Business Units and its' Consolidated Related Entities, including the employees within.

5. **LEGISLATIVE AUTHORITY**

- 5.1. The City is required to present its annual financial statements in accordance with the Public Section Accounting Standards (PSAS) as established in the Chartered Professional Accountants (CPA) Handbook. Fulfilling this requirement includes accounting for and reporting liabilities related to Asset Retirement Obligations.

- 5.2. This administration policy is established in accordance with the Municipal Government Act (Alberta) Section 276 and the Environmental Protection and Enhancement Act (Alberta). This Act together with the regulations, guidelines, codes and standards established thereunder, establish the regulatory framework governing environmental standards and regulatory liability applicable to Asset Retirement Obligations in Alberta.

6. **ROLES AND RESPONSIBILITIES**

- 6.1. Executive Leadership Team (ELT) is responsible for the oversight, governance of, and adherence to, this policy. The ELT may delegate, in whole or in part, this responsibility to any individual or group.
- 6.2. *The Chief Financial Officer (CFO) is responsible for:*
- a. All matters related to the corporate financial accounting and reporting of AROs;
 - b. Interpreting this policy, resolving disputes, and determining appropriate corporate financial reporting practices for AROs. The CFO may delegate these authorities, in whole or in part, to any individual or group; and
 - c. Measuring the success of this policy according to the following success indicators:
 - i. Compliance with federal, provincial and municipal regulations which result in a legal obligation to The City; and
 - ii. Compliance with the Asset Retirement Obligations standard – PS 3280.
- 6.3. The City Solicitor is responsible for providing decisions on unusual or complex matters related to the assessment of Legal Obligations for AROs. The City Solicitor may delegate, in whole or in part, the responsibility for conducting Legal Obligation assessment.
- 6.4. *Business Units are responsible for:*
- a. Analyzing and reviewing their TCAs stewarded for Legal Obligations that may require an Asset Retirement Obligation;
 - b. Accounting for the stewardship of the AROs; and
 - c. Requesting the funds to meet the liability for AROs and funding any shortfalls.
- 6.5. *Finance is responsible for:*
- a. Overseeing The City's compliance with this policy, including the presentation and disclosure of reported assets and liabilities, accretion expense, amortization expense, settlements, and revisions of AROs in The City's annual financial reports in accordance with PSAS 3280;
 - b. Approving the ARO discount rate and ARO inflation rate on a triennial basis; and
 - c. Establishing supporting procedures regarding the management, financial accounting, and reporting of AROs.

6.6. *Law is responsible for:*

- a. Assessing The City's legal liability for AROs as required; and
- b. Providing a legal opinion on a Legal Obligation when one is required by an impacted party (Business Units, Consolidated Related Entities, or Finance.)

6.7. *Consolidated Related Entities are responsible for:*

- a. Developing and following internal policies and procedures for standalone financial statements; and
- b. Providing ARO financial information to Finance, annually, that is consistent with The City's accounting policies and asset hierarchy.

7. **CONSEQUENCES OF NON-COMPLIANCE**

- 7.1. Failure to adhere to this Administration policy and its associated standards and procedures may result in disciplinary action in accordance with either the Labour Relations or Exempt Employee policies.

8. **HISTORY**

Policy Action	Date	Report Number	Description
New Policy	Jan 9, 2023	ELT2023-0010	New policy approved by ELT