

Order No. 5/25

**AN ORDER RESPECTING WATER AND/OR WASTEWATER UTILITIES
IMPACT OF ASSET RETIREMENT OBLIGATION REPORTING STANDARDS
ON CALCULATION OF WORKING CAPITAL FOR RATE SETTING PURPOSES**

January 14, 2025

BEFORE: Shawn McCutcheon, Panel Chair
Robert Gabor, K.C., Board Chair
Irene Hamilton, K.C., Panel Member
Jim Hrichishen, B.A. (Hon), M.A., Panel Member
Patrick Ireland, MBA, Panel Member
Marilyn Kapitany, B.Sc. (Hon), M. Sc., Panel Member
Kim Sharman, Panel Member

Table of Contents

1.0 Executive Summary 3

2.0 Background 3

3.0 Board Findings 4

4.0 IT IS THEREFORE ORDERED THAT: 5

1.0 Executive Summary

By this Order, the Public Utilities Board (Board) sets out a revised calculation of working capital for rate setting purposes:

Accumulated Fund Surplus/Deficit (Schedule 8)
Deduct tangible capital assets (Schedule 8)
Add asset retirement obligation (Schedule 8)
Add long term debt (Schedule 8)
Add utility reserves (Schedule 6)
Equals Working Capital Surplus/Deficit
Utility expenses (Schedule 9)
20% of utility expenses (target)

Further details are under Board Findings.

2.0 Background

In Board Order No. 93/09 the Board established a requirement that the working capital surplus must be equal to or greater than 20% of annual expenses. The working capital surplus is defined as the utility fund balance excluding any capital related items plus utility reserves.

New accounting standards (PS 3280) for asset retirement obligations (AROs) are in effect for municipal audited financial statements beginning with the 2023 audit. These standards are established and introduced by the national Public Sector Accounting Board, which establishes consistent accounting standards for all levels of government.

An ARO is any legal obligation that comes from a future requirement to permanently retire a capital asset, such as a wastewater lagoon.

In preparing the 2023 audit, municipalities were required to review capital assets and identify any AROs. This process was completed with the cooperation of municipal staff and its auditors. AROs associated with utilities should have been identified, recorded in the 2023 year end and detailed in the notes and Schedule 8 audited financial statements.

The journal entry to record ARO is:

Debit: Capital asset account

Credit: ARO account

3.0 Board Findings

The Board considered the impact of recording ARO for utilities on its processes and metrics. The working capital calculation is a metric used by the Board to assist in determining the financial health of the utility.

It is intended to reflect the utility fund balance excluding capital related items. The Board finds the new ARO account would therefore appropriately be treated in the same manner that long term debt is treated in its calculations, by adding back into surplus.

The Board will direct municipalities to use the following revised calculation in determining working capital surplus or deficit, for regulatory purposes:

Accumulated Fund Surplus/Deficit (Schedule 8)
Deduct tangible capital assets (Schedule 8)
Add asset retirement obligation (Schedule 8)
Add long term debt (Schedule 8)
Add utility reserves (Schedule 6)
Equals Working Capital Surplus/Deficit
Utility expenses (Schedule 9)
20% of utility expenses (target)

4.0 IT IS THEREFORE ORDERED THAT:

1. The working capital calculation previously set out in Board Order No. 93/09 is revised to include Asset Retirement Obligation.

Fees payable upon this Order - waived

Board decisions may be appealed in accordance with the provisions of Section 58 of *The Public Utilities Board Act*, or reviewed in accordance with Section 36 of the Board's Rules of Practice and Procedure. The Board's Rules may be viewed on the Board's website at www.pubmanitoba.ca.

THE PUBLIC UTILITIES BOARD

"Shawn McCutcheon"

Panel Chair

"Jennifer Dubois, CPA, CMA, CTAJ"

Assistant Associate Secretary

Certified a true copy of Order No. 5/25
issued by The Public Utilities Board



Assistant Associate Secretary