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2020 DEC -7 AM 9:47
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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA CORPORATION'S APPLICATION FOR AN ACCOUNTING ORDER FOR APPROVAL OF DEPRECIATION AND AMORTIZATION RATES FOR INVESTMENTS IN SOFTWARE	**CASE NO. AVU-E-20-09** **AVU-G-20-06** **COMMENTS OF THE COMMISSION STAFF**

STAFF OF the Idaho Public Utilities Commission ("Staff"), by and through its Attorney of record, Dayn Hardie, Deputy Attorney General, submits the following comments.

BACKGROUND

On October 9, 2020, Avista Corporation dba Avista Utilities ("Company") applied to the Commission seeking an accounting order authorizing it to use an amortization period for its capitalized software license costs and capitalized software implementation costs that aligns with the life of the underlying contract for Information Technology ("IT") services.

The purpose of depreciation and amortization expense is to provide for recovery of the original cost of plant (less estimated net salvage) over the used and useful life of the property by means of an equitable plan of charges to operating expense. Intangible assets, including software, are amortized and tangible assets like plant, property, or equipment, are depreciated. *Id.* at 2. The Company's depreciation rates were updated in 2019 (*see* Order No. 34276) but that case did not address the amortization period for capitalized software costs.

If cloud computing arrangements include a license for internal-use software, then the software license is capitalized over a five-year period under authorized accounting practices. The Company requests approval to use an amortization period for the license of internal-use software and implementation costs of cloud computing arrangements that reflect the actual useful life of the software arrangement.

The Company anticipates this would cause the lives of its various software and other cloud computing arrangements and extensions to be amortized over periods from two to ten years.

The Company is not requesting a change to customers' rates at this time and will only begin to utilize the new amortization period for projects that become used and useful after obtaining Commission approval. The impact on amortization expense would be included in a future general rate case.

STAFF ANALYSIS

Staff recommends the Commission approve the Company's Application allowing the Company to use an amortization period for its software licenses and its capitalized software integration costs that aligns with the life of the underlying contract plus expected extensions. Matching the amortization period for IT software solutions with contract lengths provides the proper matching of revenues with the benefits received from the services and will not require the Company to maintain separate books for Generally Accepted Accounting Principles reporting and regulatory reporting. The Comments below discuss the appropriate accounting treatment for the amortization of IT software solutions.

IT Software Solutions

Historically, the Company has either purchased off-the-shelf software or self-developed its software and the costs were capitalized and amortized over a five-year life.[1] Technological changes over the last several decades have led the Company to begin leasing IT solutions, including hardware and software. There are several methods of leasing IT solutions, including acquiring the applications to run on Company-owned equipment with a term license, or by

[1] For larger IT projects like the Company's Customer Information System and the Meter Data Management System, the Company requested and received approval for longer amortization periods.

acquiring the applications to run on a hosted service or the "cloud." When leasing IT solutions, license terms and contract lengths do not always align with the Commission approved five-year amortization or depreciable life of IT solutions.

Accounting Treatment

Fee structures for cloud computing and licensing arrangements can vary but generally reflect a monthly, quarterly, or annual payment schedule. For a traditional on-premise IT solution, an upfront payment can be made in return for a reduced monthly fee—or no ongoing fee at all—over the course of the contract period. Cloud computing arrangements are not accounted for the same way as the purchase of traditional on-premise IT solutions. Current accounting guidelines allow the Company to classify investments in traditional on-premise IT solutions—including the integration costs—as a capital expenditure. Cloud-based products and services are generally accounted for as operating expenditures.

In April 2015, Financial Accounting Standards Board ("FASB"), issued Accounting Standards Update No. 2015-05 to Accounting Standards Codification ("ASC") 350-40: Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, which provides further direction and treatment for cloud computing. The update provided additional guidance of how to treat software license fees, and under certain conditions in which fees can be considered intangible assets and therefore be capitalized. In Accounting Standards Update ("ASU") No. 2018-15, FASB provided additional clarification and provided users an opportunity to capitalize and amortize the costs over the term of the cloud computing arrangement.

On December 20, 2019, the Federal Energy Regulatory Commission ("FERC") issued Docket No. AI20-1-000, that provided additional guidance to utilities regarding cloud computing arrangements involving a service contract. "ASU No. 2018-15 clarifies that an entity obtaining a service contract in a cloud computing arrangement should follow the existing guidance [ASC] 350-40 to determine which implementation costs can be capitalized...shall be amortized over the term of the associated arrangement." ASC 350-40-35-13 states, "a Service Contract ... shall be amortized over the term of the associated hosting arrangement, on a straight-line basis."

The Company proposes to amortize the associated costs of cloud computing and leasing arrangements over the terms of their useful lives. The Company anticipates using lives between two and ten years that will align with the terms of the various arrangements and expected extensions to contracts.

To be consistent with the recovery of on-premise IT solutions, Staff recommends that the amortization period for each arrangement should be the length of the specific contract for that arrangement or its useful life. If no contract period exists, Staff recommends that the Company continue to use the amortization life of five-years.

STAFF RECOMMENDATION

Staff recommends the Commission approve the Company's Application allowing the Company to use amortization periods for its software licenses and its capitalized software integration costs that align with the length of the underlying license or contract. If the contract length is indeterminant, the amortization period should default to five-years.

Respectfully submitted this 7th day of December 2020.

Dayn Hardie
Deputy Attorney General

Technical Staff: Travis Culbertson

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 7TH DAY OF DECEMBER 2020, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NOS. AVU-E-20-09/AVU-G-20-06, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

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