CASE NO. AVU-E-24-04

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UTILITIES COMMISSION

Avista Corp.
1411 East Mission P.O. Box 3727
Spokane, Washington 99220-0500
Telephone 509-489-0500
Toll Free 800-727-9170

March 5, 2024

Monica Barrios-Sanchez
Idaho Public Utilities Commission
11331 W. Chinden Blvd
Building 8, Suite 201-A
Boise, ID 83714

Re: Case No. AVU_24-_ - Avista Corporation Application for an Accounting Order for Approval of Depreciation and Amortization Rates for Outage Management System & Advanced Distribution Management System Software Investment

Dear Ms. Barrios-Sanchez:

Avista Corporation, dba Avista Utilities (Avista or the Company) hereby provides the enclosed application for an order authorizing the approval of depreciation and amortization rates for its Outage Management System & Advanced Distribution Management System (OMS & ADMS) Software Investment. Please direct any questions related to this filing to Liz Andrews at 509-495-8601.

Sincerely,

/S/Elizabeth Andrews

Elizabeth Andrews
Sr. Manager of Revenue Requirements

DAVID J. MEYER
VICE PRESIDENT AND CHIEF COUNSEL FOR
REGULATORY AND GOVERNMENTAL AFFAIRS
AVISTA CORPORATION
P.O. BOX 3727
1411 EAST MISSION AVENUE
SPOKANE, WASHINGTON 99220-3727
TELEPHONE: (509) 495-4316
david.meyer@avistacorp.com

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION, D/B/A AVISTA UTILITIES, FOR AN ACCOUNTING ORDER FOR APPROVAL OF DEPRECIATION AND AMORTIZATION RATES FOR OUTAGE MANAGEMENT SYSTEM & ADVANCED DISTRIBUTION MANAGEMENT SYSTEM SOFTWARE INVESTMENT	))))))))	CASE NO. AVU-E-24-___

APPLICATION OF AVISTA CORPORATION

I. INTRODUCTION

Avista Corporation, doing business as Avista Utilities (hereinafter "Avista" or "Company"), at 1411 East Mission Avenue, Spokane, Washington, pursuant to Section 61-524 Idaho Code and Rule 52 of the Idaho Public Utilities Commission ("Commission Rules of Procedure"), hereby applies to the Commission to authorize Avista to use a 15-year depreciable life for certain software assets transferring to plant in 2025 within the Outage Management System & Advanced Distribution Management System (OMS & ADMS) project, due to a longer expected life of those software assets.[1] As described more fully below, Avista is currently authorized to amortize software over a five-year period. Accounting guidelines require Avista to amortize capitalized costs over its useful period, which can be different than a standard five-year period. With this application, the Company is not requesting to impact customers' rates, or a prudence review of any related assets at this time.

Avista is a utility that provides service to approximately 406,000 retail electric customers and 373,000 retail natural gas customers in a 30,000 square-mile service territory covering portions of Washington, Idaho, and Oregon. The largest community served by Avista is Spokane, Washington, which is the location of its corporate headquarters.

Communications in reference to this Application should be addressed to:

David J. Meyer, Esq.
Vice President and Chief Counsel for
Regulatory & Governmental Affairs
P. O. Box 3727
1411 E. Mission Avenue, MSC 13
Spokane, Washington 99220-3727
Telephone: (509) 495-4316
E-mail: david.meyer@avistacorp.com

Patrick Ehrbar
Director of Regulatory Affairs
Avista Corporation
P. O. Box 3727
1411 E. Mission Avenue, MSC 27
Spokane, Washington 99220-3727
Telephone: (509) 495-8620
E-mail: patrick.ehrbar@avistacorp.com

Avista Dockets (Electronic Only) - AvistaDockets@avistacorp.com

[1] The Company also requests a 12-year life for related OMS & ADMS software licenses transferring in 2028, or the remaining life of the overall project at that time, anticipated at 12 years.

II. BACKGROUND

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. Tangible assets, usually referred to as plant, property and equipment, are depreciated. Intangible assets, such as software, land rights and rights-of-way, are amortized.

The Commission is empowered to ascertain and determine the proper and adequate rates of depreciation of the Company's property used in the rendering of retail electric and natural gas service under the provisions of Idaho Code Section 61-525. Each utility under the Commission's jurisdiction is required to conform its depreciation accounts to the rates so ascertained and determined by the Commission. The Commission may make changes in such rates of depreciation from time to time as the Commission may find necessary.

Avista updated its depreciation rates in Idaho in Case Nos. AVU-E-23-02 and AVU-G-23-02, with depreciation rates effective January 1, 2024 (See Order No. 36020 issued December 8, 2023). In that depreciation study, certain capitalized software recorded in FERC Account No. 303.1 – Intangibles Software, requires a five-year life.[2]

III. DESCRIPTION OF PROJECTS

Avista foresees a digital future that bridges the Customer, the Grid, Utility Operations, and Utility Enterprise domains. This future will require a technology platform that enables the integration of these domains. The industry standard for this platform is an Advanced

[2] The Depreciation Study was completed in 2022, based on December 31, 2021 plant investment. The capitalized software components of the OMS & ADMS project needing a 15-year life had not been known at that time.

Distribution Management System (ADMS). Replacing Avista's Outage Management Tracker (OMT) and Distribution Management System (DMS), which is an in-house customer tool, with a single ADMS, will achieve improved operational awareness and grid management capabilities, and enable real-time automated outage restoration. In addition, it will enable real-time grid optimization and performance, improve field and office worker productivity, and provide the ability to reengineer work processes and methods to support the continuous improvement of Avista's Distribution System Operator program. An ADMS solution incorporates industry best practices for optimized workflow, software performance and reporting which will provide Avista with the ability to respond to more stringent and detailed regulatory compliance reporting requirements, such as those for Wildfire Resiliency, as one example. A modern ADMS also enables the ability to deliver more geographically specific Estimated Restoration Time (ERT) information to electric customers during outages. The improved ERT accuracy and restoration status for customers will reduce the number of calls received by our customer service representatives, as well as call durations. Avista anticipates using this product for approximately 15 years. Avista previously used its Outage Management Tracker - OMT for nearly 20 years.

ADMS & OMS Project Phases – 0, 1A and 1B

The implementation costs of ADMS will have three phases, labeled Phase 0, 1A and 1B. Phase 0 delivered the basic build of the ADMS & OMS product in September 2023, totaling approximately $1.3 million, as shown in Table No. 1 below. The Company is not proposing a change in depreciable software life in Phase 0.

Table No. 1 – Phase 0 (2023) Investment

Phase 0	Costs	TTP Date	Depreciation Life Request	Jurisdiction
Hardware	$0.16M	September-23	Normal Life	CD.AA
Software	$1.14M	September-23	5 Years	ED.AN

Phase 1A, as shown in Table No. 2, will deliver the OMS product, totaling $18.8 million. The Company is proposing the licensing software in this phase use a 15-year depreciable life to reflect its expected useful life.

Table No. 2 – Phase 1A (2025) Investment

Phase 1A	Costs	TTP Date	Depreciation Life	Jurisdiction
Hardware	$3.52M	Apr-25	Normal Life	CD.AA
Software	$15.28M	Apr-25	15 Years	ED.AN

Phase 1B, as shown in Table No. 3, will deliver the DMS product, totaling $6.0 million. The Company is proposing the licensing software in this phase also use a 15-year depreciable life to reflect its expected useful life. There are no anticipated hardware costs in this phase.

Table No. 3 – Phase 1B (2025) Investment

Phase 1B	Costs	TTP Date	Depreciation Life	Jurisdiction
Hardware	N/A			
Software	$6.0M	Dec-25	15 Years	ED.AN

The above proposed depreciation plan is in alignment with other large enterprise application implementations, such as the Company's Washington Advanced Meter Infrastructure and the Customer Care and Billing system investments. Avista has a product licensing agreement with General Electric for 10 years. This agreement required that 5 years of license costs would be paid up front (2023), with a locked in price for years 5-10 to be paid in year 5 (2028). Avista will create separate statements of work with General Electric for implementation costs.

As noted in Tables No. 1 through 3 above, hardware costs have been classified as CD.AA (Common, Allocated All), as these investments will be shared assets used by multiple jurisdictions and services at Avista (electric and natural gas in Idaho, Washington and Oregon). The software costs have been classified as ED.AN (Electric Direct, Allocated North), as these investments will support electric services in Idaho and Washington alone.

ADMS & OMS Project - On-Going Costs

Over the life of the ADMS product, Avista will incur ongoing licensing, upgrades and enhancements needed to get full utilization and functionality out of the system. These ongoing costs are not included in the Phase 1A or 1B project costs listed above. In addition, as noted above, the second 5-year product licensing agreement with General Electric (years 5-10) is to be paid in 2028. At the time of this purchase, the Company proposes this investment be amortized over the remaining life of the overall ADMS & OMS project, or approximately 12 years at that time. Upgrades and enhancements to the ADMS & OMS project will occur on a 3–5-year cadence post go-live, and will have a normal 5-year depreciation life. This is consistent with how the company currently depreciates upgrades for larger software projects. These on-going expected costs are shown below in Table No. 4.

Table No. 4 – On-Going Investment

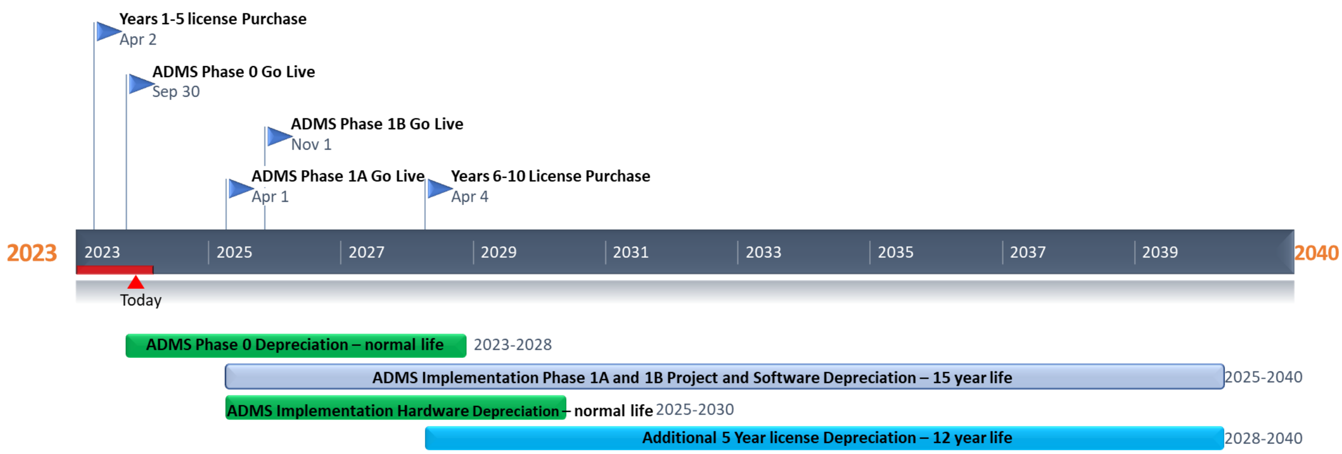
Ongoing	Costs	TTP Date	Depreciation Life	Jurisdiction
Software Licenses	$2.34M	2028	12 years	ED.AN
Upgrades	TBD	2028	5 Years	
Enhancements	TBD	Varies	5 Years	

IV. SUMMARY OF PROPOSAL

Avista is authorized by the Commission to amortize software costs over 5 years, whereas certain software assets transferring to plant in 2025 and 2028 within the OMS & ADMS project are expected to have a longer useful life. The Company is therefore requesting a 15-year life for the software assets transferring in 2025, and a 12-year remaining life of the overall project, for the software assets transferring in 2028, due to a longer expected life of those software assets. Of the 2025 transfers-to-plant expected for the project, approximately $21.3 million will be associated with this 15-year asset, and $2.3 million is expected in 2028, reflecting a 12-year asset.

Illustration No. 1 below summarizes the proposed timeline and depreciation lives for the ADMS & OMS project.

Illustration No. 1 – Proposed Timeline and Depreciation Lives - ADMS & OMS Project



A dependable OMS is critical for Avista to provide safe and reliable energy to our customers. A modern ADMS enables the ability to deliver more geographically specific ERT information to electric customers during outages. Without approval in this case to use a 15-year depreciable life for certain software, the Company would be required to depreciate the project over 5 years, which would substantially increase the cost to customers, while not reflecting the fact that Avista will in all likelihood use this new system for well beyond its 15-year requested life (as demonstrated by how long Avista has used its present system).

V. PROPOSED ACCOUNTING TREATMENT

Under Section 61-525 Idaho Code, which authorizes the Commission to determine the proper and adequate rates of depreciation of property used by a public service company, the Commission may ascertain and by order fix the proper and adequate rates of depreciation of utility property. Each utility must conform its depreciation accounts to the rates ordered by the Commission. Currently, the Commission has approved a depreciable life of five years for certain software, with a depreciation rate of 20.0 percent.

The Company is requesting the Commission approve a depreciable life for the ADMS & OMS software to reflect its useful life of 15-years for assets transferring in 2025, or 12-years (remaining useful life of project) for assets transferring in 2028. If the Commissions were to not approve the 15-year (or 12-year) life for the OMS/ADMS software as described in this application, Avista would be required to depreciate this asset over a 5-year period, resulting in this asset being fully depreciated long before its useful life end.

To maintain consistent depreciation rates across all states, the Company has also requested to use a life that reflects the useful life of the OMS & ADMS software investment in its Washington electric jurisdiction. Avista anticipates receiving approval for using a rate that agrees with the useful life from Washington before year-end 2024. Maintaining consistent depreciation rates across all states is critical to avoid multiple sets of depreciation accounts and records that would impose a costly administrative burden on the Company and unnecessary expense for the Company's customers.

VI. <u>MODIFIED PROCEDURE</u>

Avista believes that a hearing is not necessary to consider the issues presented herein, and respectfully requests that this Application be processed under Modified Procedure; i.e., by written submissions rather than by hearing. RP 201, et seq.

VII. **REQUEST FOR RELIEF**

WHEREFORE, Avista respectfully requests that the Commission issue an Order approving Avista to use an amortization period for specific OMS & ADMS software investment that aligns with the life of the asset of 15-years for assets that transfer in 2025 (or 12-years for assets transferring in 2028). Avista is not requesting to impact customers' rates at this time. Avista will begin utilizing the new amortization period when the project becomes used and useful. Once approved, the impact on amortization expense would be included in a future general rate case.

DATED at Spokane, Washington, this 5th day of March 2024.

AVISTA CORPORATION

By /s/ David Meyer

David Meyer
Vice President and Chief Counsel
for Regulatory and Governmental Affairs
Avista Corp