Office of the Secretary
Service Date
October 1, 2025

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA CORPORATION'S APPLICATION FOR AN ORDER AUTHORIZING ACCOUNTING AND RATEMAKING TREATMENT OF COSTS ASSOCIATED WITH INVESTMENT IN AN ENTERPRISE RESOURCE PLATFORM	)	**CASE NOS. AVU-E-25-06 AVU-G-25-04** **ORDER NO. 36782**

On July 1, 2025, Avista Corporation ("Company") applied for an order authorizing proposed accounting and ratemaking treatment related to the Company's investment in an Enterprise Resource Platform ("ERP").

On August 11, 2025, the Idaho Public Utilities Commission ("Commission") issued a Notice of Application and Notice of Modified Procedure, setting public comment and Company reply deadlines. Order No. 36713. Staff filed comments to which the Company replied.

Having reviewed the record, the Commission issues this Order approving the Company's Application as follows.

BACKGROUND

According to the Company, many of its software systems have outlived their expected useful life since their installation in 2012. After weighing the costs and benefits of replacing these systems individually, the Company has decided to implement an ERP system. The ERP will combine key functions, like finance, HR, supply chain, and customer service, into one centralized system. This integration will provide real-time data and insights, improve efficiency, and support better decision-making by enhancing coordination across the Company.

The Company included an ERP Business Case report with its Application. The report outlines the ERP's key features and provides an initial cost-benefit analysis comparing the replacement of individual systems to adopting the ERP.

THE APPLICATION

The Company states that the ERP transition will take place in phases over the next few years, anticipating completion by 2028. Accordingly, the Company requests approval to defer or capitalize certain investments, expenses, and costs related to the ERP transition and to use a 15-year depreciation period for the ERP. The Company asks that the Commission issue a final order approving the Application by October 1, 2025, so it can finalize vendor contracts and begin the ERP transition.

STAFF COMMENTS

After reviewing the Company's Application, supporting attachments, responses to production requests, and relevant Commission orders, Staff recommended that the Commission authorize deferral and amortization of the undepreciated costs of retired enterprise software under the current depreciation schedule, subject to future review. Staff also supported deferring additional capital costs necessary to keep existing systems running until retirement, with a carrying charge at the authorized rate of return. Staff believed that the ERP should be depreciated over its contract term or, if none is specified, over 15 years. Although Staff recommended against deferring ERP depreciation expenses, it supports deferring related operating and cloud costs as regulatory assets, with amortization starting immediately and no carrying charge until the next rate case. Staff's analysis supporting these recommendations is described below.

I. ERP Investment

As stated, the Company disclosed that many of its enterprise software systems are at or near the end of their useful life. To address this, the Company considered three options: (1) a Large-Scale Application Rationalization (*i.e.*, purchasing and implementing an ERP); (2) a Small-Scale Application Rationalization (*i.e.*, consolidation of a portion of technology applications within new or existing systems); and (3) Maintain, Sustain, and Evolve (*i.e.*, little or no changes to current technology).

The Company used two vendors to analyze costs and benefits of these three options. The first vendor assessed software and processes, developed a technology roadmap, and compared ERP and non-ERP options with a five-year total cost of ownership ("TCO") estimate. The second vendor prepared requirements for a Request for Proposal ("RFP") to select an ERP, Customer Information System, and Work and Asset Management System. This second vendor also provided its own TCO analysis for the ERP.

The Company received two ERP bids. Both satisfied 92% of the RFP requirements. Using an Association for the Advancement of Cost Engineering ("AACE") Class 4 estimate (±50% margin of error), both vendors concluded that an ERP would be the lowest-cost option over five years. Projections indicated this would save between $51 million and $79 million compared to non-ERP solutions.

The Company plans to adopt the lowest-cost cloud-based ERP system. Staff supported this decision, noting that the ERP is the least-cost option and offers significant benefits over the current "best-of-breed" approach.[1] While most core functions will move to the ERP, some existing applications deemed necessary will remain in use.

Staff noted that the Company is not yet seeking recovery of ERP costs and asks that prudence and cost recovery be determined in a future rate case. Staff agreed that this evaluation should occur later to ensure the project proves least-cost and least-risk overall.

II. Accounting Treatment of ERP Investment

A. Deferral of Undepreciated Enterprise Software Retired for ERP Transition

The Company requested approval to defer as a regulatory asset the undepreciated value of enterprise software retired for the ERP transition, with amortization beginning upon retirement of each. Accounting Standards Codification ("ASC") 980-360-35-1 requires retirement of assets likely to be abandoned. Staff agreed this will occur once the ERP vendor agreement is finalized, which is expected to occur in late 2025. To avoid a write-off, the Company seeks an accounting order to enable recovery. The assets to be retired are valued at $144 million ($41 million for Idaho) as of December 31, 2024, declining to $28 million ($8 million for Idaho) by December 31, 2027. Because the ERP is expected to deliver savings and benefits for the Company and its customers, Staff supported creating the regulatory asset, starting amortization immediately in line with current depreciation expense included in rates, and reviewing the balance and amortization period in a future rate case.

B. Deferring Capital Costs for Retired Enterprise Assets

The Company also seeks to defer as a regulatory asset future capital expenditures for enterprise assets that will be retired due to the ERP transition, with a carrying charge equal to the authorized rate of return. The assets are expected to begin being retired in late 2025, while the ERP implementation is projected for 2028. Because of this timing, the Company will incur additional capital costs to maintain the current system until its retirement. Recording these expenditures as a regulatory asset allows potential recovery without a write-off. Staff agreed the Company should be authorized to defer these undepreciated capital costs, with depreciation beginning immediately on the incremental capital, and amortization of the regulatory asset starting when the assets are

[1] According to the Company, "Best-of-Breed" technology refers to proprietary and industry leading applications, systems or software in a specific niche or category.

retired. Since the assets are being abandoned in favor of a least-cost option, Staff supports applying a carrying charge equal to the authorized rate of return.

C. ERP Depreciable Life

The Company requests a 15-year depreciable life for the ERP, noting its similarity to other large Company-owned software systems, which are currently depreciated over 15 years. Despite agreeing that the software is comparable, Staff recommend amortizing the ERP over the term of its hosting contract instead. According to ASC 350-40-35-13, capitalized implementation costs for hosted software should be amortized over the contract term, unless another method better reflects how the Company benefits from the software.

For the Company's ERP, the hosting agreement defines the contract length. Staff believed this is the proper amortization period. As contracts are renewed, payments should be capitalized over the new term. In Case No. IPC-E-20-11, the Commission required Idaho Power to amortize similar software over the contract term. *See* Order No. 34707. If the contract term for the Company's ERP is undefined, Staff agreed that a 15-year depreciable life is appropriate, consistent with other Company-owned software.

D. Deferral of ERP-Related Costs and Depreciation

The Company requests authorization to defer ERP-related depreciation and project costs, with amortization beginning after the first transfer to plant-in-service and a carrying charge at the authorized rate of return. Staff opposed deferring depreciation, noting that the ERP is like typical capital additions. Depreciation on capital assets is normally recovered when the asset is placed in service and deemed prudent in a future rate proceeding. Allowing deferral would let the Company recover depreciation for projects that are either already fully depreciated or not yet included in rates, which Staff believed was inappropriate.

Staff considered other ERP project costs (*e.g.*, pre-project planning, training, and process improvements) to be operating expenses. Staff asserted that these should be recorded as part of the overall ERP project and placed into service when the ERP is operational. Accordingly, Staff supported deferral of these project-related expenses without a carrying charge.

E. Deferring and Capitalizing ERP Cloud Computing Costs as Regulatory Assets

The Company seeks to defer and capitalize cloud-based ERP expenses as a regulatory asset, with a carrying charge at the authorized rate of return. Historically, cloud computing costs have been treated as operating expenses, unlike on-premise hardware and software, which can be capitalized and earn a return. This discourages companies from using cloud solutions, even if they are superior. In 2016, NARUC encouraged commissions to allow capitalization and a rate of return on cloud-based software. Similarly, in Case No. IPC-E-20-11, the Commission approved deferral of certain cloud computing costs as a regulatory asset.

Staff agreed the Company should capitalize cloud-based ERP costs as a regulatory asset as the cloud functions like a physical server. Amortization should begin immediately after the project is placed in service, over the approved life of the asset. However, Staff recommended application of no carrying until the Company's next general rate case when the asset can be included in rate base like a typical capital investment.

COMPANY REPLY COMMENTS

The Company largely supported Staff's recommendations, objecting to only two. First, the Company objected to setting the ERP's depreciable life according to the length of the hosting agreement. To support its objection, the Company asserted that it will incur both implementation costs and ongoing hosting fees as part of the ERP project. Hosting fees have a defined benefit period equal to the contract term, but implementation costs typically provide benefits over at least 15 years. Implementation costs include design, configuration, software interfaces, coding, hardware installation, and testing will be used across initial and future hosting contracts—not just the first five years. Because it expects to renew hosting arrangements throughout the proposed 15-year period, the Company contended that this timeframe better reflects the expected benefits of the implementation costs, consistent with ASC 350-40-35-13. The Company therefore proposes a 15-year useful life for these costs. Using a 15-year period also benefits customers by spreading the investment over a longer time, reducing the immediate impact on rates.

Second, the Company disagreed with Staff's recommendation to deny deferral of depreciation expense for the ERP while allowing deferral of project-related operating expenses without a carrying charge once the ERP is in service. Although the Company believed its original request was appropriate, it considered securing the depreciable life described above to be more important. Therefore, as part of the regulatory compromise and to reach a resolution acceptable to the Commission, the Company accepted Staff's position on deferring depreciation expense after project completion.

DISCUSSION AND FINDINGS

The Commission has jurisdiction over the Company's Petition and the issues in this case under Title 61 of the Idaho Code including, *Idaho Code* §§ 61-501, 502, and -503. Based on our review of the record, we find it reasonable to grant the Company's Application as set forth below. Many of the Company's current enterprise software systems are reaching or have exceeded the end of their useful life. To address this, the Company plans to transition to a cost-efficient cloud-based ERP system. This cost-efficient choice benefits both the Company and its customers more than the current best-of-breed system, making the decision to adopt an ERP system reasonable.

Transitioning to an ERP system is not, however, cost free. Implementing an ERP will result in the retirement of existing software, valued at $144M ($41M for Idaho) in 2024, falling to $28M ($8M for Idaho) by 2027. Because the ERP system will benefit both the Company and its customers, we find it reasonable to allow the Company to establish a regulatory asset to avoid writing off the retired software. Specifically, we find it reasonable to allow the Company to defer the undepreciated value of enterprise software retired for the ERP transition as a regulatory asset, with amortization starting when each asset is retired.

The timing of the retirement of existing enterprise assets and the implementation of the ERP creates another financial accounting issue we must address. The Company anticipates retiring assets in late 2025, but the ERP implementation will be completed in 2028. The Company will continue incurring capital costs to maintain the current system until its retirement. To enable the potential recovery of such capital expenditures, we find it reasonable to authorize the Company to defer these undepreciated capital costs as a regulatory asset. Depreciation of the incremental capital will begin immediately, with amortization of the regulatory asset starting when the assets are retired. Because the assets are being abandoned in favor of a least-cost option, the Company may apply a carrying charge to the regulatory asset equal to the authorized rate of return.

The only significant point of disagreement between the parties is the ERP's depreciable life. We find it reasonable to allow a 15-year depreciable life for the ERP system. The implementation costs of an ERP system are consistent with other Company-owned software, which have 15-year depreciable lives. A 15-year depreciable life for the hosting fees of the ERP is also reasonable because the Company expects to renew hosting contracts to provide continuous benefits over at least 15 years. Accordingly, we find it reasonable to allow a consistent depreciable life for both hosting fees and implementation costs in this case.

We do not, however, find deferral of ERP-related depreciation costs to be reasonable. The ERP is like other typical capital additions. Accordingly, depreciation on the ERP should be recovered when the asset enters service and is approved as prudent in a future rate case. Because allowing deferral now would let the Company recover depreciation for projects that are either fully depreciated or not yet accounted for in rates, we decline to authorize such deferral.

We find other ERP project costs, like pre-project planning, training, and process improvements, to be operating expenses. These should be recorded as part of the overall ERP project and placed into service when the ERP is operational. Accordingly, we find it reasonable to allow deferral of these project-related expenses without a carrying charge.

Finally, we must address the expenses the Company will incur for the cloud-based elements of the ERP. Even though cloud-based computing functions like a physical server, cloud computing costs have historically been treated as operating expenses. This discourages the adoption of cloud-based solutions, even when they are better. To avoid this disincentive, we have approved deferral of certain cloud-computing costs as a regulatory asset in at least one prior case. *See* Case No. IPC-E-20-11. We find it reasonable to do so again here. Consequently, the Company is authorized to capitalize cloud-based ERP costs as a regulatory asset. Amortization of the asset should begin immediately after the project is placed in service, over the approved life of the asset without a carrying charge.

ORDER

IT IS HEREBY ORDERED that the Company's request to defer as a regulatory asset the undepreciated value of enterprise software retired for the ERP transition as a regulatory asset, with amortization starting when each asset is retired is granted.

IT IS FURTHER ORDERED that the Company's request to defer the undepreciated balance of capital expenditures necessary to continue operations of existing enterprise systems to be retired is granted. Depreciation of the incremental capital will begin immediately, with amortization of the regulatory asset starting when the assets are retired and a carrying charge equal to the Company's authorized rate of return.

IT IS FURTHER ORDERED that the Company's request for a 15-year depreciable life for the ERP system, including both implementation cost and hosting fees, is granted.

IT IS FURTHER ORDERED that the Company's request to defer depreciation expense for the ERP is denied.

IT IS FURTHER ORDERED that the Company may defer ERP operating expenses when the project is placed into service without a carrying charge.

IT IS FURTHER ORDERED that the Company may defer cloud-based ERP costs as a regulatory asset. Amortization of the asset should begin immediately after the project is placed in service, over the approved life of the asset without a carrying charge.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order about any matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 1st day of October 2025.

EDWARD LODGE, PRESIDENT

JOHN R. HAMMOND JR., COMMISSIONER

DAYN HARDIE, COMMISSIONER

ATTEST:

Laura Calderon Robles
Interim Commission Secretary

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