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IDAHO PUBLIC UTILITIES COMMISSION

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May 28, 2020

ELECTRONIC FILING

Diane Hanian, Secretary
Idaho Public Utilities Commission
11331 W. Chinden Boulevard
Building 8, Suite 201-A
Boise, Idaho 83714

Re: Case No. IPC-E-20-11
Accounting Order for Costs Associated with Cloud Computing Arrangements
Idaho Power Company's Reply Comments

Attached for electronic filing in the above matter is Idaho Power Company's Reply comments.

If you have any questions about the enclosed documents, please do not hesitate to contact me.

Very truly yours,

Lisa D. Nordstrom

LDN:sdh
Enclosures

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Attorney for Idaho Power Company

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF IDAHO POWER COMPANY FOR AN)	CASE NO. IPC-E-20-11
ACCOUNTING ORDER FOR COSTS)	
ASSOCIATED WITH CLOUD COMPUTING)	IDAHO POWER COMPANY'S
ARRANGEMENTS.)	REPLY COMMENTS
)	
)	

Idaho Power Company (“Idaho Power” or “Company”) respectfully submits these Reply Comments in response to the Comments filed by the Idaho Public Utilities Commission (“Commission”) Staff (“Staff”) on May 21, 2020. Idaho Power appreciates Staff’s support of the Company’s request for authorization to defer reasonable and prudent costs associated with future cloud computing arrangements to a regulatory asset to be eligible for rate base treatment and that the associated annual amortization expense is eligible for potential recovery in a future rate proceeding. In these Reply Comments, the Company clarifies its request and addresses certain concerns expressed by Staff.

I. BACKGROUND

For purposes of Information Technology (“IT”), on-premise solutions are those IT products or applications that are kept within Idaho Power’s own premises and require the Company to purchase a license or copy of the software to use it. Cloud computing, on the other hand, is the delivery of IT products, including servers, storage, databases, networking, and software, over the internet or “cloud.” Cloud computing solutions have evolved over the last several decades leading to an environment that primarily favors cloud-based solutions over previous on-premise solutions. Cloud computing services can provide a utility with access to vendors who operate specialized technology, while providing a way to address technological obsolescence as the contracts with these companies allow for renewals that use the latest technologies. These cloud computing services have gained prominence, offering faster and more flexible resources in a secure manner, adding to the umbrella of IT solutions available.

The costs of cloud computing arrangements however are not accounted for the same way as costs associated with the purchase of traditional on-premise IT solutions. Based on current accounting guidelines¹, the Company currently classifies investments in traditional on-premise IT solutions, including certain integration costs, as a capital expenditure, while cloud-based products and services are classified as an operating expenditure, with the exception of certain integration costs which are capitalized. Under the current regulatory accounting treatment there is an inherent financial disincentive for Idaho Power to pursue certain cloud computing arrangements that would otherwise be beneficial to customers over time. In this filing, Idaho Power is proposing to capitalize all

¹ Accounting Standards Codification (“ASC”) 350-40: *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, Financial Accounting Standards Board (“FASB”) Accounting Standards Update No. 2015-05, and FASB Accounting Standards Update No. 2018-15.

costs associated with cost-effective cloud computing arrangements because the services provide the Company with an investment equivalent to that of a traditional on-premise IT solution, thereby removing a financial disincentive to pursuing cost-effective IT solutions that exist today.

II. IDAHO POWER'S REPLY

In its Reply Comments, Idaho Power will respond to Staff's (1) identification of cloud computing costs the Company is requesting be deferred to a regulatory asset, (2) recommendation for the length of the amortization period of the deferred cloud computing costs, and (3) concerns that the Company may only purchase IT solutions that provide financial incentives to Idaho Power.

A. Idaho Power's Proposal is to Record to a Regulatory Asset those Costs Associated with Cloud Computing Arrangements that are not Currently Capitalized Under Current Accounting Guidelines.

Current accounting guidelines require the Company to classify investments in traditional on-premise solutions, including certain integration costs, as capital expenditures while cloud-based products and services, with the exception of certain integration costs which are capitalized, are classified as operating expenditures². Further, on December 20, 2019, the Federal Energy Regulatory Commission ("FERC") issued clarification that Idaho Power may now capitalize implementation costs associated with cloud computing arrangements³. With accounting guidance on the capitalization of integration and implementation costs, the remaining ongoing costs, primarily the licensing fees, must still be expensed.

² Direct Testimony of Matthew T. Larkin, p. 10, II. 7-12.

³ Docket No. AI20-1-000.

Idaho Power wishes to clarify the Company's proposal in this case is for authorization to defer to a regulatory asset only those cloud computing costs currently required to be recorded as an expense under current accounting guidelines. While Staff characterizes the Company's proposed accounting treatment to record all cloud computing costs to a regulatory asset⁴, the Company would like to clarify that its proposal is to continue to capitalize certain integration and implementation costs pursuant to the existing Accounting Standards Updates and FERC guidance⁵. Similar to on-premise solutions, the deferral to a regulatory asset of the remaining ongoing costs would allow for those cloud computing costs to be capitalized.

B. The Company Prefers the Amortization Period for Cloud Computing Arrangements Be Consistent with the Amortization Period for On-Premise IT Solutions.

On page 5 of their Comments, Staff recommends Idaho Power begin amortization of deferred costs associated with cloud computing arrangements "when they are placed in service and become used and useful." Although not specified in the request, Idaho Power supports Staff's recommendation that the amortization period that begins once the services for the cloud computing arrangements commence as this treatment is commensurate with that of on-premise solutions that begin amortization when placed in-service. Staff further proposes the amortization period for each arrangement should be the length of the specific contract for the arrangement or, if a contract period is indeterminate, an amortization period of 5-years, "which is consistent with the depreciation life of FERC Account 303, Miscellaneous Intangible Plant."

⁴ Staff's Comments p. 4.

⁵ ASC 350-40, FASB Accounting Standards Update Nos. 2015-05 and 2018-15, and FERC Docket No. AI20-1-000.

1. Idaho Power's Amortization Period of Plant Account 303 – Miscellaneous Intangible Plant (“Account 303”) is Sixty-Two Months.

While Staff identified the amortization period of Account 303 as five years, the current amortization period approved in Case No. IPC-E-16-23 with Order No. 33770, the Company's most recent depreciation study, is slightly longer at sixty-two months. Idaho Power wishes to clarify the amortization period of Account 303 is sixty-two months rather than five years as discussed by Staff.

2. The Company Prefers that the Amortization Period of a Cloud Computing Arrangement Correspond to that of an On-Premise Solution.

As explained in the direct testimony of Matthew T. Larkin, the services provided under a cloud computing arrangement are equivalent to that of traditional on-premise IT solutions⁶. The primary differences are the method of delivery (on-premise or via the cloud) and ownership (product purchased or service delivered). Cloud computing services have gained prominence because they offer faster and more flexible resources adding to the umbrella of IT solutions available. As such, the Company prefers that the amortization period of an IT solution is indifferent to how the product is delivered or its ownership. This approach, which mirrors that of Idaho Power's other asset categories in which like assets are grouped and an amortization or depreciation rate is uniformly applied to each depreciable group, will maintain consistency among two similarly situated assets.

Similar to Staff's recommendation that, to maintain consistency between IT solutions, the amortization period of a cloud computing arrangement should begin when it is placed in service⁷, Idaho Power believes the length of the amortization of all IT

⁶ Direct Testimony of Matthew T. Larkin, p. 15, ll. 17-22.

⁷ Staff's Comments, p. 2.

solutions should coincide. However, if the Commission believes Staff's proposal is more appropriate and that the amortization period for each arrangement should be the length of the specific contract for the arrangement or, if a contract period does not exist, the amortization period should be equivalent to Account 303, the Company can implement Staff's alternative amortization period.

C. Idaho Power's Proposal Aligns Customer and Shareowner Interests.

Current accounting guidelines and FERC guidance require the Company to classify investments in traditional on-premise solutions as a capital expenditure while cloud-based products and services, with the exception of certain integration and implementation costs, are classified as operating expenditures⁸. Absent the ability to capitalize costs associated with cloud computing arrangements, Idaho Power cannot earn a return on a cost that would otherwise be authorized for inclusion in rate base if purchased through a non-cloud-based software solution, displacing an earnings opportunity. As pointed out in the Resolution adopted by the National Association of Regulatory Commissioners included as Exhibit No. 1 to the testimony of Mr. Larkin, "the disparity in accounting treatments . . . creates unintended financial hurdles that hinder utilities from realizing the benefits that so many other industries are experiencing with cloud-based software."

The Company, however, wishes to alleviate the concerns expressed by Staff on page 5 of their Comments that Idaho Power "is only making economic cloud computing arrangements if there are incentives to the Company." Although the financial disincentive exists, Idaho Power evaluates the purchase of all IT infrastructure on a case-by-case

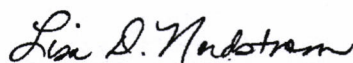
⁸ ASC 350-40, FASB Accounting Standards Update Nos. 2015-05 and 2018-15, and FERC Docket No. AI20-1-000.

basis and only pursues cost-effective on-premise solutions for which the Company may capitalize expenditures. Idaho Power's request in this case simply equalizes the treatment of future expenditures associated with on-premise solutions and cloud computing arrangements, aligning the interest of both customers and the Company's shareowners. The proposal does not alter the Commission's ability to determine prudence of these costs in the Company's next general rate proceeding.

III. CONCLUSION

Idaho Power reiterates its appreciation of Staff's support of the Company's request in this case. To remove disincentives for cost-effective cloud-based investments, Idaho Power respectfully requests that the Commission issue an order (1) approving the deferral to a regulatory asset of costs associated with cloud computing arrangements that the Company must expense, and (2) acknowledging that the unamortized regulatory asset amounts are eligible for rate base treatment and the associated annual amortization expense is eligible for potential recovery in a future rate proceeding.

DATED at Boise, Idaho, this 28th day of May 2020.



LISA D. NORDSTROM
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 28th day of May 2020 I served a true and correct copy of IDAHO POWER COMPANY'S REPLY COMMENTS upon the following named parties by the method indicated below, and addressed to the following:

Commission Staff

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