Office of the Secretary
Service Date
June 25, 2020

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR AN ACCOUNTING ORDER FOR COSTS ASSOCIATED WITH CLOUD COMPUTING ARRANGEMENTS	)))))	**CASE NO. IPC-E-20-11** **ORDER NO. 34707**

On March 9, 2020, Idaho Power Company ("Company") applied to the Commission for an order (1) approving the deferral of certain non-capitalized costs associated with cloud computing arrangements to regulatory asset, 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. The Company requested its Application be processed via Modified Procedure.

On April 30, 2020, the Commission issued a Notice of Application and Notice of Modified Procedure setting deadlines for public comments and the Company's reply. Staff filed comments supporting the Company's Application. The Company filed reply comments clarifying points made in Staff's comments. No other comments were received.

Having reviewed the record, we now approve the Company's Application as discussed more fully below.

THE APPLICATION

The Company's information technology system includes on-premise solutions and cloud computing arrangements. On-premise solutions are onsite products or applications for which the Company must buy a license or copy of the software. Cloud computing is the delivery of information technology, including servers, storage, databases, networking, and software, over the internet. Based on accounting guidelines, the Company classifies investments in on-premise solutions as capital expenditures and cloud computing investments as operating expenditures, with the exception that integration costs of cloud computing are capitalized.

The Company states the current accounting treatment provides a financial disincentive for it to invest in certain cloud computing arrangements. The Company proposes to capitalize all costs associated with cost-effective cloud computing arrangements because expenses for cloud computing are "equivalent to that of a traditional on-premise [information technology] solution."

THE COMMENTS

1. *Staff Comments*

Staff recommended the Commission authorize the deferral of reasonable and prudent costs associated with future cloud computing arrangements to a regulatory asset to be eligible for future rate base treatment. Staff also recommended the Commission authorize the associated annual amortization expense for potential recovery in future rate proceedings. Finally, Staff recommended the Company begin amortizing any deferred cloud computing arrangements when it is placed in service and it becomes used and useful.

Staff recommended that the amortization period for deferred cloud computing expenses should be the life of the service contract or, if no contract period exists, then the Company should amortize the expense over five years. Staff suggested the five-year amortization period be consistent with the approved depreciation life of Federal Energy Regulatory Commission ("FERC") Account 303—Miscellaneous Intangible Plant. Staff recommended the book value of any prudent cloud computing arrangement, net of accumulated amortization, should be eligible for rate base treatment in the Company's next general rate case.

2. *Company Reply*

In reply to Staff's comments, the Company clarified that it already capitalizes integration and implementation costs of cloud computing arrangements, but it must expense licensing fees. Because the Company can already capitalize the integration and implementation costs of cloud computing arrangements, it is only requesting authority to defer to a regulatory asset account the costs it currently books as operating expenses.

The Company indicated it agreed with Staff's proposal to begin amortization once the cloud computing arrangements are placed in service, because that is the way on-premise solutions are treated. The Company also noted it could alter the amortization period depending on whether the contract was for a fixed length or an indeterminate length, as recommended by Staff. However, the Company disagreed with Staff's recommendation that contracts of an indeterminant length should be amortized over five years (60-months). The Company stated the Commission approved a 62-month amortization period for expenses booked to FERC Account 303. Case No. IPC-E-16-23, Order No. 33770. The Company asked to use the approved amortization period for FERC Account 303 instead of the five-year period recommended by Staff.

Finally, the Company clarified it already evaluates purchases of all information technology infrastructure (cloud computing arrangements and on-premise solutions) on a case-by-case basis, despite there being an existing financial disincentive surrounding accounting treatment of cloud computing arrangements.

COMMISSION DISCUSSION AND FINDINGS

The Commission has jurisdiction and authority over the Company and the issues raised in this case pursuant to Title 61 of the Idaho Code and the Commission's Rules of Procedure, IDAPA 31.01.01.000, *et seq*. The Commission has thoroughly reviewed the record, including the Company's Application and the comments filed in this case. Based on our review, we find it fair, just, and reasonable to allow the Company to book expenses associated with cloud computing arrangements to a regulatory asset in FERC Account 303, as described below.

We find that a deferral account is the appropriate mechanism to capture cloud computing arrangement expenses that are not already capitalized. We therefore find it fair, just, and reasonable to allow the Company to book any non-capitalized cloud computing arrangement expenses to a regulatory asset. We also find a bifurcated approach to amortization is appropriate for this case. Cloud computing arrangements with a contract period shall be amortized over the life of the contract. Cloud computing arrangements with no contract period shall be amortized over a period of sixty-two-months, pursuant to the Commission-approved amortization period for FERC Account 303. Amortization shall begin when the asset is placed in service and becomes used and useful.

Further, we acknowledge that the unamortized regulatory asset amounts may be considered for rate base treatment and the associated annual amortization expense is eligible for potential recovery in a future rate proceeding.

ORDER

IT IS HEREBY ORDERED that the Company's Application is approved.

IT IS FURTHER ORDERED that the Company may book non-capitalized expenses associated with cloud computing arrangements to a regulatory asset in FERC Account 303. Amortization begins when the asset is placed in service and becomes used and useful. Arrangements for a time certain shall be amortized for the length of the contract. If no contract length exists, the asset shall be amortized according to the amortization period authorized for FERC Account 303 (62 months).

IT IS FURTHER ORDERED that unamortized regulatory asset amounts may be considered for rate base treatment and the associated annual amortization expense is eligible for potential recovery in a future rate proceeding.

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 regarding 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 25th day of June 2020.

Paul Kjellander

PAUL KJELLANDER, PRESIDENT

Kristine Raper

KRISTINE RAPER, COMMISSIONER

Eric Anderson

ERIC ANDERSON, COMMISSIONER

ATTEST:

Diane M. Hanian

Diane M. Hanian
Commission Secretary

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