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 NOS. AVU-E-20-09 AVU-G-20-06** **ORDER NO. 34891**

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 solutions ("IT solutions"). Application at 1. The Company requested its Application be processed by Modified Procedure. *Id*. at 9.

On November 16, 2020, the Commission issued a Notice of Application and Notice of Modified Procedure establishing public comment and Company reply deadlines. *See* Order No. 34835. Staff filed comments supporting the Company's Application. No public comments were received. The Company filed reply comments.

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

THE APPLICATION

The Company's intangible assets, including software, are amortized. *Id*. at 2. Its tangible assets including plant, property, or equipment, are depreciated. *Id*. 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. *Id*.

When cloud computing arrangements include a license to internal-use software, the software license costs are capitalized over a five-year period under authorized accounting practices. *Id*. at 1, 4. The Company requests approval to use an amortization period for the license to internal-use software and implementation costs of cloud computing arrangements that reflects the actual useful life of the software arrangement. *Id*. at 8.

The Company anticipates the changes it is requesting 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. *Id*.

The Company is not requesting to impact customers' rates at this time and will only being to utilize the new amortization period for projects that become used and useful after obtaining Commission approval. *Id*. at 5. The impact on amortization expense would be included in a future general rate case. *Id*.

THE COMMENTS

Staff Comments

Staff recommended the Commission approve the Company's Application and allow the Company to use an amortization period for its capitalized software license and capitalized software integration costs aligning with the life of the underlying contract plus expected extensions. Staff Comments at 2. According to Staff, matching the amortization period for IT 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 accounting and regulatory reporting. *Id*.

Staff's comments discussed the history of the Company's software and hardware procurements and how changes in business models have led to the Company leasing many IT solutions opposed to purchasing them. With the advent of leasing IT solutions, the license terms and contract lengths do not always align with the Commission-approved five-year amortization or depreciable lives. *Id*. at 2-3.

Staff comments mentioned that the Financial Accounting and Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-05 to Accounting Standards Codification ("ASC") 350-40 which provided direction and treatment for cloud computing arrangements (IT solutions)—specifically how to treat software license fees, and under certain conditions, which fees can be considered intangible assets and therefore be capitalized. *Id*. at 3. Staff noted that ASU No. 2018-15 provided additional clarification and provided users an opportunity to capitalize and amortize the costs over the term of the cloud computing arrangement. *Id*.

After ASU No. 2018-15 was issued, Federal Energy Regulatory Commission ("FERC") provided additional guidance to utilities regarding cloud computing arrangements involving service contracts in Docket No. AI20-1-000. *Id*. Docket No. AI20-1-000 stated: "ASU No. 2018-15 clarified that an entity obtaining a service contract in a cloud computing arrangement should follow the existing guidance of [ASC] 350-40 to determine which implementation costs can be capitalized…shall be amortized over the term of the associated arrangement." Additionally, Staff indicated that 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." *Id*.

To ensure consistency for recovery of the Company's capitalized IT solution expenses, Staff recommended that the amortization period for expenses associated with each IT solution should be the length of the specific contract for that solution, or its useful life. *Id*. at 4. However, if no contract period exists, Staff recommended that the Company continue to use the five-year amortization life already authorized. *Id*.

Company Reply

The Company replied, noting its appreciation of Staff's comments and agreeing with Staff's position. The Company agreed with Staff's position that for contracts of indeterminant length, the amortization period should be five years. Company Reply Comments at 2-3.

COMMISSION DECISION 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 use an amortization period for its capitalized software license and capitalized software implementation costs that aligns with the life of the underlying contract for IT solutions. However, IT solutions with no contract period shall be amortized over five years, pursuant to the Commission-approved amortization period.

We find this allows the Company to ensure its investments in IT solutions are amortized according to FASB and FERC authorized accounting standards and practices. This also permits the Company to properly match its revenues with the benefits received from the IT solutions and eliminates the need for the Company to maintain separate books for accounting and regulatory reporting.

///

ORDER

IT IS HEREBY ORDERED that the Company use amortization periods for its capitalized software license costs and capitalized software implementation costs that align with the life of the underlying contract. If no contract period exists, the Company shall use the five-year Commission-approved amortization period for its IT solutions.

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 14th day of January 2021.

Paul Kjellander

PAUL KJELLANDER, PRESIDENT

Kristine Raper

KRISTINE RAPER, COMMISSIONER

Eric Anderson

ERIC ANDERSON, COMMISSIONER

ATTEST:

Jan Noriyuki

Jan Noriyuki
Commission Secretary

I:\Legal\ELECTRIC\AVUE2009_AVUG2006\Orders\AVUE2009_AVUG2006_final_dh.docx