

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
LEGAL
WORKING FILE

FROM: DOUG COOLEY

DATE: MAY 28, 2004

RE: BROADBAND TAX CREDIT APPLICATIONS
CASE NOS. IZ2-T-04-2; GNR-T-04-10; VZN-T-04-06; QWE-T-04-08;
AND CUS-T-04-01.

BACKGROUND

In April and May 2004, the Commission received several Applications asking for approval of equipment for the broadband tax credit pursuant to Order No. 28784 and *Idaho Code* § 63-3029I(4). To be eligible for the tax credit, the taxpayer must obtain from the Commission an Order confirming that installed equipment qualifies for the tax credit.

STAFF ANALYSIS

IDACOMM - IDACOMM's Application states that the Company installed fiber optic cable, line cards, supporting power supply and electronics during 2003 in expanding its optical transport network. The Company offers high-speed Internet and other point-to-point data services to customers in Idaho's Treasure Valley. IDACOMM indicated that it offers high-speed access to customers at transmission rates from 1.544 Megabits per second (Mbps) up to 1000 Mbps. All of IDACOMM's customers are Idaho subscribers. The Company also included right of way fees related to broadband projects as part of its investment. IDACOMM's 2003 broadband investment was approximately \$840,000.

Velocitus stated that, during calendar year 2003, it installed various components as part of its wireline and wireless broadband network for the provision of high-speed Internet access and other point-to-point data services to customers in Idaho's Treasure Valley and other communities in Idaho. Such components include transmitting/receiving antennae, data traffic

concentrators, switches and routers. VELOCITUS also included in its Application such items as installation and labor as part of its investment cost. The Application for calendar year 2003 is for approximately \$161,000 of broadband investment. VELOCITUS indicated that it began offering high-speed access to customers in 2001 at transmission rates from 256 kilobits per second (kbps) up to 45 megabits per second (Mbps).

Verizon Northwest states in its Application that during calendar year 2002 the Company installed equipment used to provide DSL and high-speed data (e.g. T-1) services to customers in the exchanges of Bayview, Bonners Ferry, Coeur d'Alene, Clark Fork, Hayden Lake, Hope, Kellogg, Moscow, Mullan, Oldtown/Albeni, Orofino, Pinehurst, Plummer, Priest Lake, Priest River, Rathdrum, Spirit Lake, Wallace, Sandpoint, and St. Maries. Such components include digital access platforms, long-range digital transport, line cards, access ports, fiber optic cable, fiber terminals, and supporting software. Verizon states that transmission rates range from 128 Kbps to well beyond 6 Mbps. The Application states that Verizon invested approximately \$7,300,000 in qualifying broadband equipment during 2002.

Qwest's Application states that, during calendar year 2002, it installed various components as part of its wireline broadband network for the provision of high-speed Internet access to customers in many of the Company's respective Idaho service areas. The Company also stated that the equipment was installed in 2002 that is capable of offering high-speed access to customers at transmission rates from 256 kilobits per second (kbps) to more than 100 megabits per second (Mbps).

Specifically, Qwest stated that it installed Digital Subscriber Line (DSL) switches, fiber optic and copper cable, supporting line cards, power and racks. In addition, Qwest installed Asynchronous Transfer Mode (ATM) switches and Frame Relay switches at various locations throughout its southern Idaho service area. Qwest included in its Application interoffice trunks and facilities that are necessary for connecting customers to the Internet. The interoffice facilities "do not constitute specific individual broadband services that are offered to subscribers. Rather, these assets comprise part of the network that provides the means by which the above services are offered." Consistent with Part 32 of Federal Communications Commission Rules and Regulations, Qwest also capitalized such items as labor, engineer, transportation, and other overhead costs associated with the installation of this equipment amounting to a total broadband investment of approximately \$8,000,000 for 2002.

Custer Telephone Co-op, Inc. stated in its Application that during 2003, it installed various components as part of its wireline broadband network for the provision of high-speed Internet access to customers in its Idaho service area. Some of these components included fiber optic and copper cabling, a Fujitsu optical transport platform, digital line cards, cabinets, power supply, software and batteries. Custer also included in this Application the supporting engineering and overhead costs associated with these broadband projects. The Company indicated that it began offering high-speed Internet services in 2001 at transmission rates between 128 kilobits per second upstream and 1.5 Megabits per second downstream. Custer states that its broadband investments for 2003 were approximately \$3.7 million.

STAFF REVIEW

Staff has reviewed the lists of proposed broadband equipment submitted by the Companies and believes that the equipment identified qualifies for the investment tax credit pursuant to *Idaho Code* § 63-3029I. Staff recommends approval of the Applications and further recommends that the Commission forward the approving Orders along with a copy of the original Applications to the Idaho Tax Commission.

COMMISSION DECISION

Should the Commission approve the Applications for the broadband investment tax credits?



Doug Cooley

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