

DECISION MEMORANDUM

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

FROM: DOUG COOLEY

DATE: FEBRUARY 24, 2004

RE: CABLE ONE'S SUPPLEMENTAL APPLICATION FOR BROADBAND
EQUIPMENT TAX CREDIT; CASE NO. GNR-T-03-25.

BACKGROUND

On February 3, 2004, the Commission received a supplemental Application from Cable One, Inc. asking for the approval of additional equipment for the broadband tax credit. Cable One's initial Application (also Case No. GNR-T-03-25) was received by the Commission on July 9, 2003, and subsequently approved in Order No. 29326. In that initial Application, Cable One stated that, during calendar years 2001 and 2002, it installed coaxial cable and fiber optics as part of its "Hybrid Fiber Coax Network" (HFC) in and around the areas of Boise, Idaho Falls, Lewiston, Twin Falls, and Pocatello. Cable One states that it offers high-speed Internet and broadband services to homes and businesses in Idaho at upstream and downstream transmission rates of 128 kbps to 1.5 Mbps. Cable One's network in Idaho consists of approximately 2,447 miles of aerial coax, 1,877 miles of underground coax and 524 miles of fiber optic cable and passes by over 290,000 Idaho homes and businesses.

To be eligible for the tax credit, the taxpayer must apply for and obtain from the Commission an Order confirming that installed equipment qualifies for the tax credit. (Order No. 28784 and *Idaho Code* § 63-3029I(4))

DISCUSSION

In its supplemental Application, Cable One includes the labor and materials associated with headend equipment that was not included in its original Application of July 9, 2003. Cable One states that this headend equipment is located on the subscriber's side of the headend in accordance with § 63-3029I (3)(b)(iii) and is related to Cable Modem Termination System (CMTS). The supplemental Application includes \$7,175 of tax credit in 2001 and \$2,578 of tax credit in 2002 related to such equipment.

Cable One also includes \$35,416 of tax credit in 2001 and \$38,495 of tax credit in 2002 related to drop equipment and labor that was not included in its original Application of July 9, 2003. The Company states the included drop equipment is outside of the structure in which the subscriber is located in accordance with § 63-3029I (3)(b)(iii).

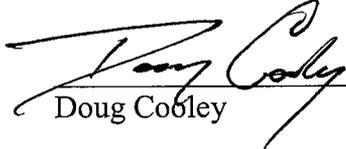
STAFF REVIEW

Staff has reviewed the list of proposed broadband equipment submitted by Cable One and believes that the equipment identified qualifies for the investment tax credit pursuant to *Idaho Code* § 63-3029I. In the case of the headend equipment, the CMTS separates the digital signals from other programming on the cable network and converts them into IP packets for routing to an Internet Service Provider and onto the Internet in much the same way that splitters and Digital Subscriber Line Access Multiplexers (DSLAM) do on a telephone network.

In the case of the drop equipment, Cable One keeps one account for expenses related to the drop line between the utility pole (or pedestal) and the cable modem inside the subscriber's premises. Understanding that the broadband tax credit only applies to expenses up to the outside of the structure in which the customer is located, Cable One estimated 60% of its expenses to be associated with the drop line between the utility pole and the outside of the customer's structure. Because the broadband tax credit applies to relatively new investment and considering the number of home and businesses that are built pre-wired with coaxial cable, Staff believes Cable One's estimate is conservative and accepts its 60% allocation. Therefore, Staff recommends approval of the Company's supplemental Application and further recommends that the Commission forward the approving Order along with a copy of the original Application to the Idaho Tax Commission.

COMMISSION DECISION

Should the Commission approve Cable One's supplemental Application for the broadband investment tax credit?



Doug Cobley

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