

DECISION MEMORANDUM

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

FROM: DOUG COOLEY

DATE: AUGUST 25, 2004

**RE: CABLE ONE'S APPLICATION FOR BROADBAND EQUIPMENT TAX
 CREDIT; CASE NO. GNR-T-~~08-28~~
 04-11**

BACKGROUND

On July 20, 2004, the Commission received an Application from Cable One, Inc., to receive an investment tax credit for eligible broadband equipment pursuant to Order No. 28784 and *Idaho Code* § 63-3029I(4). 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.

DISCUSSION

Cable One stated that, during calendar year 2003, 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. According to its Application, Cable One's network offers high-speed data services using fiber optic receivers and transmitters, Motorola RF network amplifiers, signal equalizers, and couplers and taps. In addition to the electronics, fiber optic cable, and coaxial cable, Cable One also included in its Application its labor costs and the supporting hardware such as connectors, conduit, splicing equipment, and enclosure materials. The amount of the requested tax credit for 2003 is just over \$348,000.

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.

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. Cable One also specified that the listed equipment complies with *Idaho Code* § 63-3029I (3)(b)(iii) which requires that qualifying equipment extends “from the subscribers’ side of the headend to the outside of the subscriber structure.”

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 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 Application for the broadband investment tax credit?



Doug Cooley

udmemos/dcooley/cable one 3