

DECISION MEMORANDUM

TO: COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSIONER KEMPTON
COMMISSION SECRETARY
LEGAL
WORKING FILE

FROM: GRACE SEAMAN
WAYNE HART

DATE: FEBRUARY 4, 2008

RE: CABLE ONE'S 2005 AND 2006 BROADBAND TAX CREDIT
APPLICATIONS; CASE NOS. GNR-T-06-4 AND GNR-T-07-5.

BACKGROUND

To be eligible for the broadband equipment tax credit, the taxpayer must obtain from the Commission an Order confirming that installed equipment qualifies for capital investment credit. Order No. 28784 and *Idaho Code* § 63-3029I(4). The broadband equipment must be capable of transmitting signals at a rate of at least two hundred thousand (200,000) bits per second to a subscriber and at least one hundred twenty-five thousand (125,000) bits per second from a subscriber. *Idaho Code* § 63-3029I(3)(b). In the case of a cable or open video system operator, such qualifying equipment shall extend from the subscriber's side of the headend to the outside of the structure in which the subscriber is located. *Idaho Code* § 63-3029I(3)(b)(iii).

DISCUSSION

Cable One, Inc. filed two separate Applications seeking Commission Orders to certify equipment for the broadband tax credit for 2005 and 2006. In both Applications, Cable One states that the Company enhanced its Hybrid Fiber Coax Network (HFC) with the installation of coaxial cable and fiber optics in and around the Company's service areas of Boise, Idaho Falls, Twin Falls, Pocatello and Lewiston. Cable One offers Internet and broadband services to homes and businesses in Idaho at minimum upstream and downstream transmission rates of 128 kbps to 1.5 Mbps.

In addition to the electronics, fiber optic and coaxial cable, Cable One's Applications also include labor and material costs for supporting hardware such as connectors, conduit, splicing equipment, and enclosure materials. Cable One states that these costs are necessary for the operation of the network and for extending the services to the subscriber's house. Each Application is discussed in more detail below.

2005 Broadband Tax Credit Application; Case No. GNR-T-06-4

On October 12, 2006, Cable One filed an Application for broadband tax credit for calendar year 2005. Staff's recommendation for this Application was delayed due to the Company's protracted response time to Staff's request for additional information and clarification of certain itemized expenses.

In the 2005 Application, Cable One states that its Idaho network at the end of the year consisted of approximately 2,524 total miles of aerial coax, 2,537 miles of underground coax and 907 miles of fiber optic cable and passed by more than 332,000 out of a possible 363,190 Idaho homes and businesses. Cable One states that all equipment listed was purchased and installed between January 1, 2005 and December 31, 2005. The amount of the requested tax credit for 2005 is approximately \$353,000.

2006 Broadband Tax Credit Application; Case No. GNR-T-07-5

On September 17, 2007, Cable One filed an Application for broadband tax credit for calendar year 2006. As in the previous year's Application, answers to Staff's request for were delayed.

In this Application, Cable One states that its year end 2006 network consisted of approximately 2,478 miles of aerial coax, 2,735 miles of underground coax and 930 miles of fiber optic cable and passed by more than 344,000 out of a possible 351,491 Idaho homes and businesses. Cable One states that all equipment listed was purchased and installed between January 1, 2006 and December 21, 2006. The amount of the requested tax credit for 2006 is approximately \$390,000.

STAFF REVIEW

Staff has reviewed the list of proposed broadband equipment submitted by Cable One for 2005 and 2006. Staff notes that some of the itemized investments contained in both Applications were for expenses associated with the replacement of existing broadband network facilities as a

result of road or utility construction. These expenses did not necessarily expand the availability of broadband services to additional subscribers. Staff certifies that the itemized equipment meets the eligibility requirements for broadband services pursuant to *Idaho Code* § 63-3029I, but remains neutral regarding the qualification of these expenses for broadband tax credit. *Idaho Code* § 63-3029I(b).

Cable One also specifies that the itemized equipment complies with *Idaho Code* § 63-3209I (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 Applications, Cable One explains how this standard was used to determine the qualifying amount of expenses related to “drop spending.” 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 adoption of standard industry practice of an estimate of 60% allocation is conservative and accepts this estimate.

Staff believes that the itemized equipment on both Applications qualifies as broadband equipment, but Staff does not take a position regarding the amount of the investment eligible for the tax credit. Likewise, the Staff takes no position regarding the tax credit for broadband equipment that replaced existing broadband equipment. Staff feels the Idaho Tax Commission is best qualified to determine the eligibility of such investments. Staff recommends that the Commission forward a copy of the original Applications along with an Order certifying that the equipment meets the qualifications for broadband tax credit, to the Idaho Tax Commission.

COMMISSION DECISION

Should the Commission approve Cable One’s Applications for the broadband investment tax credit for calendar years 2005 and 2006?


Grace Seaman