

DECISION MEMORANDUM

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

FROM: GRACE SEAMAN

DATE: FEBRUARY 1, 2012

RE: CABLE ONE INC.'S BROADBAND TAX CREDIT APPLICATION
FOR 2008, 2009, 2010; CASE NO. GNR-T-11-05.

BACKGROUND

In 2001, House Bill 377 was enacted authorizing income tax credit for the installation of qualifying broadband infrastructure in Idaho. *Idaho Code* § 63-3029B(3)(a)(ii). In particular, Section 63-3029I allows a taxpayer to receive an investment tax credit for eligible broadband equipment installed during a calendar year.

“Qualified broadband equipment” is defined as those network facilities capable of transmitting signals at a rate of at least 200,000 bits per seconds (bps) to a subscriber and at least 125,000 bps from a subscriber. *Idaho Code* § 63-3029I(3)(b). If the equipment is installed by a cable or open video system operator, “such qualifying equipment must 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). To be eligible for the tax credit, the taxpayer must obtain from the Commission an Order confirming that the installed equipment meets the statutory definition of qualified broadband equipment. *See* Procedural Order No. 28784 and *Idaho Code* § 63-3029I(4). Once an Application is filed with the Commission, the Staff reviews the information and determines that the installed equipment is eligible for the broadband equipment tax credit and an order along with the original Application is forwarded to the Idaho Tax Commission.

THE APPLICATION

On September 19, 2011, Cable One Inc. (“Cable One,” “Company”) submitted an Application seeking approval of broadband equipment tax credit for 2008, 2009, and 2010. In the Application, Cable One states that it delivers high speed data services through a “Hybrid Coax Network” (HCN) designed to offer data services using bi-directional fiber optic receivers, transmitters and related equipment. The HCN provides transmission rates of 1500 Kbps to over 4 Mbps. The Company estimates that 99.9% of its customers have access to broadband services and the Company’s system reaches approximately 91% of the population in the areas served by Cable One. The Company confirms that the switching equipment and routers for T1 and internet connections “in front” of the headends are not included in the qualifying equipment list. The Application includes materials and labor necessary to bring the cable to the outside of the subscriber’s house. Cable One asserts that with the upgraded equipment and services, it increased the connectivity speeds for Idaho subscribers.

When determining broadband expenses, the Company explains that it is standard industry practice to use 60% to identify the cost to extend the drop to a house; whereas current engineering suggests the outside cost to be closer to 80% since most homes are pre-wired. In its Application, Cable One elected to take the more conservative approach by using 60% for its drop material and drop labor. In addition, expenses for the cable systems crossing the border to Oregon and Washington were reduced by 5% and 35% respectively to reflect the drop spending for Idaho Systems.

After Staff review of the Application and follow up discussions with Cable One, the Company submitted a revised itemization of its broadband investments for the three years. Each year’s broadband investment is discussed below. *See Revised Head End and Plant Expenditures for Broadband Tax Credit.*

2008 Broadband Equipment Expenses

By end of calendar year 2008, Cable One estimates 383,993 potential subscribers are served by the Company. Approximately 2,900 miles of aerial coaxial RF distribution plant, 3,180 miles of underground coaxial RF distribution plant, and 1,095 miles of fiber optic cable are in use by the cable television systems serving Boise, Idaho Falls, Lewiston, Twin Falls, Pocatello, and surrounding areas. The Company invested approximately \$18,648,800 in 2008.

2009 Broadband Equipment Expenses

By end of calendar year 2009, Cable One estimates 384,734 potential subscribers are served by the Company. Approximately 2,960 miles of aerial coaxial RF distribution plant, 3,390 miles of underground coaxial RF distribution system plant, and 1,153 miles of fiber optic cable are in use by the cable television systems. In 2009, Cable One invested approximately \$15,380,400.

2010 Broadband Equipment Expenses

By end of calendar year 2010, Cable One estimates 387,204 potential Idaho subscribers are served by the Company. Approximately 2,970 miles of aerial coaxial RF distribution plant, 3,410 miles of underground coaxial RF distribution system plant, and 1,225 miles of fiber optic cable are in use by the cable television systems. Cable One invested approximately \$7,032,460 in 2010.

STAFF REVIEW AND RECOMMENDATION

Staff has reviewed the list of proposed broadband equipment submitted by Cable One. Staff notes that some of the itemized investments contained in the Application were for expenses associated with the rerouting or 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. The Company asserts that these expenses were accepted in past Applications. Staff notes that in the Company's most recent Commission Order No. 30506 issued on February 29, 2008, the Commission stated that the Idaho Tax Commission is best qualified to determine the eligibility of such investments. Order No. 30506, at 3.

Consequently, Staff can state that the itemized equipment meets the eligibility requirements for broadband services pursuant to Idaho Code § 63-3029I, but can make no such statement regarding the qualification of the expenses associated with relocation or replacement of portions of Cable One's network. It is for the Idaho Tax Commission to determine whether investments identified as "replacement," "reroute," "relocation" or "realignment" on the itemized list of expenses are eligible for a tax credit as a "qualified investment" under *Idaho Code* § 63-3029B(3), rather than pursuant to Idaho Code § 63-3029I. Further, Staff believes Cable One's

adoption of standard industry practice of an estimated 60% allocation is conservative and accepts this estimate for expense related with “drop spending.”

Staff recommends that the Commission issue an Order confirming the equipment is qualified broadband equipment and forward the approving Order along with a copy of the original Application to the Idaho Tax Commission.

COMMISSION DECISION

Does the Commission wish to issue an order confirming the equipment identified in Case No. GNR-T-11-05 is qualified broadband equipment as defined in Idaho Code § 63-3029I(3)(b)(iii), and forward it to the Idaho Tax Commission?



Grace Seaman

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