

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF CABLE ONE, INC. FOR AN) CASE NO. GNR-T-11-05
INVESTMENT TAX CREDIT FOR)
INSTALLING QUALIFYING BROADBAND) ORDER NO. 32468
EQUIPMENT)

On September 19, 2011, the Commission received an Application from Cable One, Inc. (“Cable One” or “Company”) requesting an Order, pursuant to Commission Order No. 28784 and *Idaho Code* § 63-3029I(4), confirming the Company’s broadband investments in Idaho during tax years 2008, 2009, and 2010.

THE APPLICATION

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 1,500 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 confirmed that the switching equipment and routers for T1 and Internet connections “in front” of the head ends 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 year period

of 2008-2010. Each year's broadband investment is discussed below. See Revised Head End and Plant Expenditures for Broadband Tax Credit.

2008 Broadband Equipment Expenses

By the 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 the 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 plant, and 1,153 miles of fiber optic cable are in use by the cable television systems. The Company invested approximately \$15,380,400 in 2009.

2010 Broadband Equipment Expenses

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

STAFF REVIEW

Staff reviewed the list of proposed broadband equipment submitted by Cable One and found that the equipment identified meets the statutory criteria outlined in *Idaho Code* § 63-3029I(3)(b). Staff determined that Cable One's installed equipment is "necessary to the provision of broadband service and an integral part of a broadband network." *Idaho Code* § 63-3029I(3)(b)(i).

Staff noted 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 noted that in the Commission's most recent

Order assessing the Company's broadband investments in Idaho, the Commission stated that the Idaho Tax Commission is best qualified to determine the eligibility of such investments. See 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 Staff was not prepared to offer a judgment as to 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* § 63-2039B(3), rather than pursuant to *Idaho Code* § 63-2029I. 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 recommended 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 FINDINGS

In order to be eligible to obtain the tax credit, the taxpayer must first obtain an Order from the Commission "confirming that the installed equipment is qualified broadband equipment." *Idaho Code* § 63-3029I(4). "Such qualifying equipment shall be necessary to the provision of broadband service and an integral part of a broadband network." *Idaho Code* § 63-3029I(3)(b)(i). Qualified broadband equipment is defined as those network facilities capable of transmitting signals at a rate of at least 200,000 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).

Based upon our review of the Application and the recommendations of Staff, we find that the Application for a qualifying broadband equipment Order should be granted. Cable One has adequately demonstrated that during the tax years of 2008, 2009, and 2010 it has installed qualifying broadband equipment subject to the tax credit.

The Commission also finds that the installed equipment is an integral part of the Company's broadband network and that it is necessary to facilitate the delivery of broadband Internet service to Idaho customers. It is therefore appropriate for the Commission to issue this Order confirming that the equipment identified in Cable One's Application is qualifying broadband equipment. "The Commission makes no findings regarding the costs of the installed broadband equipment." Order No. 30506 at 3. "In addition, the Commission makes no finding whether Cable One, Inc. may obtain a tax credit for broadband equipment that replaced existing broadband equipment." *Id.*

ORDER

IT IS HEREBY ORDERED that the Application of Cable One, Inc. seeking an Order certifying that it has installed qualifying broadband equipment in Idaho during tax years 2008, 2009, and 2010 is granted.

IT IS FURTHER ORDERED that a copy of this Order and a copy of Cable One's Application be served upon the Idaho State Tax Commission.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *Idaho Code* §§ 61-626, 63-3029I(4).

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 23rd
day of February 2012.



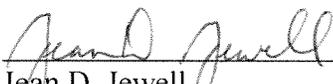
PAUL KJELLANDER, PRESIDENT



MACK A. REDFORD, COMMISSIONER

Out of the Office On this Date
MARSHA H. SMITH, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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