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MEMORANDUM

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FROM: Ernest G. Johnson
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AZ CORP COMMISSION
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DATE: May 16, 2006

RE: IN THE MATTER OF THE APPLICATION OF ACC TELECOMMUNICATIONS, LLC FOR APPROVAL OF ASSIGNMENT OF ASSETS TO TIME WARNER NY CABLE LLC AND TIME WARNER CABLE INFORMATION SERVICE (ARIZONA), LLC (DOCKET NOS. T-04282A-06-0161, T-20448A-06-0161 AND T-20449A-06-0161)

Attached is the Staff Report for the above referenced application. Staff is recommending approval of the application with conditions.

EGJ:AFF:lhmm\MAS

Originator: Armando Fimbres

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LLC AND TIME WARNER CABLE INFORMATION SERVICE
(ARIZONA), LLC

DOCKET NOS: T-04282A-06-0161, T-20448A-06-0161 AND T-20449A-06-0161

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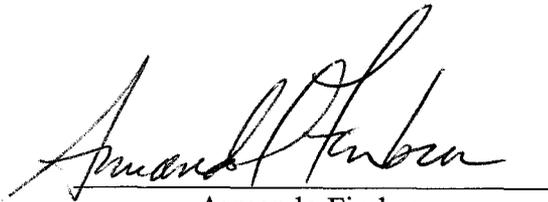
**IN THE MATTER OF THE APPLICATION OF
ACC TELECOMMUNICATIONS, LLC
FOR APPROVAL OF ASSIGNMENT OF ASSETS TO
TIME WARNER NY CABLE LLC AND TIME WARNER CABLE
INFORMATION SERVICE (ARIZONA), LLC**

DOCKET NOS. T-04282A-06-0161, T-20448A-06-0161 and T-20449A-06-0161

May 2006

STAFF ACKNOWLEDGMENT

The Staff Report for ACC Telecommunications, LLC, Time Warner NY Cable LLC and Time Warner Cable Information Service (Arizona), LLC was the responsibility of the Staff member listed below. Armando Fimbres was responsible for the review and analysis of the application for approval of assignment of assets to Time Warner NY Cable LLC And Time Warner Cable Information Service (Arizona), LLC.

A handwritten signature in cursive script, reading "Armando Fimbres", written over a horizontal line.

Armando Fimbres
Public Utility Analyst V

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Introduction

On March 10, 2006, Time Warner NY Cable LLC ("TWN"), Time Warner Cable Information Services (Arizona), LLC, d/b/a Time Warner Cable ("TWCIS"), and ACC Telecommunications, LLC ("ACC Telecom") (collectively, "Applicants"), filed an application for expedited consideration requesting that the Commission consent to the proposed assignment from ACC Telecom to TWNY, and, immediately thereafter, to TWCIS, of existing customer contracts and related assets¹ of ACC Telecom used in connection with the provision of intrastate telecommunications services in Arizona.

Applicants also requested that the Commission waive any applicable "anti-slamming" regulations that this Transaction potentially could violate in the absence of a waiver and in the absence of individual subscriber authorizations. In particular, the Applicants requested that the Commission waive Arizona Administrative Code ("A.A.C.") R14-2-1904 and R14-2-1905, to the extent these rules apply to the Transaction.

Only three non-residential, point-to-point dedicated transport customers will be transferred from ACC Telecom to TWNY, and, immediately thereafter, to TWCIS. The Applicants state that these customers purchase only data telecommunications services from ACC Telecom and receive no voice services. In addition, the Applicants state that this Transaction will cause no change to the terms and conditions of the services provided to these customers. The three customers affected are located in and around the cities of Yuma and San Luis, in southwestern Arizona.

On May 5, 2006, the Applicants provided additional information following discussions with Staff, Legal and Hearing Divisions. The information clarifies that TWCIS seeks, through this Transaction, to acquire any existing assets² of ACC Telecom and to expedite the transfer of ACC Telecom's Certificate of Convenience and Necessity ("CC&N") for intrastate, facilities-based, non-switched, dedicated point-to-point data transport telecommunications services in the state of Arizona.

Overview of Applicants

ACC Telecom represents it is a wholly-owned subsidiary of Adelphia Communications Corporation ("Adelphia") that provides telecommunications services in Arizona. The Commission granted ACC Telecom's application for a ("CC&N") to provide private line services in Decision No. 68650, Docket No. T-04282A-04-0763, on April 12, 2006.

Adelphia represents that it is the fifth largest cable operator in the United States. As of the end of 2004, Adelphia's consolidated managed cable operations served more than five million basic subscribers. Adelphia anticipates exiting bankruptcy late in the second quarter of

¹ The Applicant has expressed to Staff that ACC Telecom has \$0 assets.

² The Applicant has expressed to Staff that ACC Telecom has \$0 assets.

2006 and plans to immediately sell its assets to TWNY and Comcast upon bankruptcy court approval.

TWNY is a wholly-owned subsidiary of Time Warner Cable ("TWC") and was established for the purpose of completing this Transaction.

TWC represents it is a division of Time Warner Inc., a publicly-traded media and entertainment company with a market capitalization as of February 2006 in excess of \$79 billion. Pursuant to the completion of the Transaction described in this application, TWC also will become a publicly-traded company, with Time Warner Inc. holding 82 percent of TWC's common stock. TWC is the second largest cable operator in the United States, owning or managing cable systems serving approximately 10.9 million subscribers in 27 states.

TWCIS is a wholly-owned subsidiary of TWNY, and is authorized to do business in Arizona as a foreign LLC. At this time, TWCIS intends to assume responsibility for the provision of only those services being provided by ACC Telecom.

Proposed Transaction

On June 25, 2002, Adelphia filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code. On April 20, 2005, Adelphia, TWNY, a wholly-owned subsidiary of TWC, and Comcast Corporation ("Comcast") entered into an Asset Purchase Agreement ("Agreement") pursuant to which TWNY and Comcast propose to acquire substantially all of the assets of Adelphia and its affiliates and subsidiaries, including Adelphia's cable television systems and other facilities, equipment and personnel used in markets across the United States. The Transaction is valued in excess of \$17 billion.

In Arizona, TWNY proposes to acquire the CC&N and customer contracts held by ACC Telecom related to the provision of regulated telecommunications services in the state. Thereafter, TWNY proposes to assign those assets to TWCIS. The network assets used to deliver services to ACC Telecom customers, which today are part of the cable facilities owned and controlled by Adelphia, will be acquired by TWNY and assigned to TWC for use by TWCIS.

TWCIS will assume full responsibility for fulfilling, during their remaining terms, the customer contracts to Arizona subscribers held today by ACC Telecom.

ACC Telecom will no longer offer regulated telecommunication services in Arizona.

The Company's Request

The Applicants request that the Commission consent to the proposed transfer from ACC Telecom to TWNY, and, immediately thereafter, to TWCIS, of existing customer contracts and

acquisition of any existing ACC Telecom assets³ used in connection with the provision of intrastate telecommunications services in Arizona.

The Applicants also request the Commission waive any applicable "anti-slamming" regulations that this Transaction potentially could violate in the absence of a waiver and in the absence of individual subscriber authorizations, in particular, .A.C.C. R14-2-1904 and R14-2-1905, to the extent these rules apply to the Transaction.

Staff's Analysis & Conclusions

For 2005, Time Warner, Inc. reported Total Assets of \$122.5B, Total Shareholders' Equity of \$62.7B and Total Net Income of \$2.9B. Based on the financial information submitted by the Applicants, Staff believes that TWCIS will have sufficient financial resources from its parent to offer telecommunications services in Arizona.

Since all assets in Arizona are held by Adelphia, the proposed Transaction effectively involves the transfer of Adelphia assets used to serve ACC Telecom customers to TWNY and, ultimately, to TWCIS.

ACC Telecom has no employees in Arizona; Adelphia has 41 employees in Arizona. The applicants stated that the nature and scope of the telecommunications operations will continue unchanged for the foreseeable futures. No layoffs are anticipated and no changes are anticipated in the management personnel currently employed by Adelphia, therefore, Staff believes TWCIS will have the technical capability to provide the services involved this Transaction.

The Applicants clarified that the three non-residential, point-to-point dedicated transport customers who will be transferred from ACC Telecom to TWNY and, ultimately TWCIS, in this proposed Transaction, comprise 8 total contracts all of which are due to expire in 2008.

In response to Staff's data request, the Applicants clarified that current customer contracts do not contain provisions permitting customers to transfer carriers as a result of the proposed Transaction, however, customers will be given a minimum of 60 days to transfer without penalty.

TWC does not currently operate in Arizona. Through the acquisition of Adelphia assets, TWC, will begin operations of a cable system in and around the city of Yuma, Arizona.

In response to Staff's data request, the Applicants explained that TWC and Time Warner Telecom ("TWT") are related through Time Warner Inc.'s investment in both companies. TWT, a/k/a Time Warner Telecom of Arizona, LLC, was granted a CC&N transfer from GST Net by Decision No. 63262 on December 14, 2000 and primarily provides private line services in

³ The Applicant has expressed to Staff that ACC Telecom has \$0 assets.

Phoenix metro. TWC and TWT are separate and distinct corporate entities with different corporate boards and different executive management teams. In addition, TWT is a publicly traded company, separate from Time Warner Inc. Time Warner Inc., the parent of TWC, owns a non-controlling equity interest (44 percent) in TWT and has a minority presence on the TWT Board of Directors. No direct relationship is expected between TWCIS and TWT in Arizona.

ACC Telecom does not own or operate an end-office switch, does not provide switched or voice telephone service and does not have any NPA-NXX number assignments in Arizona.

Staff notes that this Transaction comes immediately following the granting of a CC&N to ACC Telecom by Decision No. 68650 on April 4, 2006.

The Applicant's provided Staff with information normally provided in a CC&N application:

- 1- a Certificate of Good Standing for TWCIS in Arizona.
- 2- financial information for Time Warner, Inc, the parent of TWCIS.
- 3- assurance that TWCIS is not providing telecommunications services in any other states and as such has no complaints in other jurisdictions.
- 4- assurance that TWCIS officers are not currently involved in criminal or civil proceedings.
- 5- assurance that TWCIS officers have not been involved in criminal or civil proceeding within the last 10 years.
- 6- assurance that TWCIS will submit a tariff that mirrors the tariff of ACC Telecom and meets the conditions of Decision 68650.

Staff does not believe that this transaction will have a negative customer impact nor should this transaction negatively impact the competitive local exchange situation.

Staff has reviewed the proposed customer notice provided with the Transaction application (see Exhibit 1) and believes it to be acceptable contingent on the recommended conditions.

Staff's Recommendations

Staff recommends that this joint application of TWNY, TWCIS, and ACC Telecom seeking the Commission's consent to (1) the proposed transfer of existing customer contracts from ACC Telecom to TWNY, and, immediately thereafter, to TWCIS pursuant to A.R.S. § 40-

285 and (2) the waiver of A.A.C. R14-2-1904 and R14-2-1905 be approved with the following conditions:

1. That current ACC Telecom customers have 90 days following the date of the Commission's order to transfer to another carrier without penalty.
2. That the proposed customer notice be changed to inform customers of their right to call the Consumer Services Section of the Commission Staff at 602-542-4251 or 1-800-222-7000 with any questions or concerns.
3. That TWCIS be required to docket a tariff which mirrors that of ACC Telecom within 60 days of this decision.
4. That with the transfer of the ACC Telecom CC&N, granted by Decision No. 68650, Docket No. T-04282A-04-0763, on April 12, 2006 for the provision of intrastate telecommunications services in Arizona, TWCIS be required to comply with all conditions ordered in Decision 68650 and restated as follows:
 - a. That TWCIS shall file with Commission Docket Control, as a compliance item in this matter, tariffs for its point-to-point dedicated data service that conform to the revised tariff filed by ACC Telecom on September 16, 2005, within 365 days from the date of an Order in this matter or 30 days prior to providing service, whichever comes first.
 - b. That if TWCIS fails to timely comply with the preceding Ordering Paragraph, that the Certificate of Convenience and Necessity granted herein shall become null and void after due process.
 - c. That TWCIS shall comply with all of the Staff recommendations set forth below:
 - i. That the Applicant be required to notify the Commission immediately upon changes to the Applicant's name, address or telephone number;
 - ii. That the Applicant comply with all Commission rules, orders, and other requirements relevant to the provision of intrastate telecommunications service;
 - iii. That the Applicant maintain its accounts and records as required by the Commission;
 - iv. That the Applicant file with the Commission all financial and other reports that the Commission may require, and in a form and at such times as the Commission may designate;

- v. That the Applicant maintain on file with the Commission all current tariffs and rates, and any service standards that the Commission may require;
 - vi. That the Applicant cooperate with Commission investigations including, but not limited to, customer complaints;
 - vii. That the Applicant abide by and participate in the AUSF mechanism established in A.A.C. R14-2-1204B(3)(b);
 - viii. That if in the future, Applicant wishes to provide telecommunications services different from those addressed in this application, that Applicant be required to file an application with the Commission so indicating; and
 - ix. That the Applicant be required to notify each of its private line service customers and the Commission 60 days prior to filing an application to discontinue service pursuant to A.A.C. R14-2-1107 in the event Applicant desires to discontinue service.
- d. That if TWCIS desires to discontinue service, TWCIS shall notify each of its private line service customers and the Commission 60 days prior to filing an application to discontinue service pursuant to A.A.C. R14-2-1107.
5. That the authority for ACC Telecom to provide intrastate telecommunications services in Arizona be withdrawn and ACC Telecom shall have no remaining compliance obligation related to Decision 68650.

Exhibit 1

DRAFT

Dear Customer:

**YOUR ACC TELECOMMUNICATIONS, LLC SERVICES WILL BE TRANSFERRED TO
TIME WARNER CABLE BY [transfer date - 30 days]
UNLESS YOU CHOOSE A NEW SERVICE PROVIDER**

Thank you for being a loyal ACC Telecommunications, LLC customer. After many years of providing regulated telephone services in Arizona, we now plan to exit the market. As of [DATE], 2006, ACC Telecommunications, LLC ("ACC Telecom"), will no longer be providing data services in Arizona. ACC Telecom is in the process of selling (has sold) its Arizona regulated telecommunications assets to Time Warner Cable Information Services (Arizona), LLC d/b/a Time Warner Cable ("Time Warner Cable"), an affiliate of Time Warner Cable. This provider transition from ACC Telecom to Time Warner Cable requires no action on your part.

As your new service provider, Time Warner Cable will continue to provide you with the same telecommunications services you currently receive in accordance with the rates, terms and conditions of your existing contract or effective tariffs on file with the Arizona Corporation Commission. If in the future Time Warner Cable determines that rates, terms, or conditions require modification, it will follow the contract terms or the Arizona Corporation Commission rules regarding such changes, including, where required, written 30 day notice to customers. ACC Telecom will continue to be responsible for the resolution of any complaints filed or otherwise raised until the sale is finalized.

The transfer of your service to Time Warner Cable will be invisible to you because Time Warner Cable will utilize the same facilities that currently serve your account. Moreover, there will be no change in your services. The transfer of your services to Time Warner Cable will be seamless and without down time or modification to existing services or rates. This transfer requires no action on your part and the only difference will be the name of the carrier on the monthly bill you receive for your telecommunications services. The local ACC Telecom employees who service your account today will also transfer to Time Warner Cable and will continue to provide you the excellent service that you have experienced to date.

Instead of becoming a Time Warner Cable customer, you may, in accordance with the terms of your contract, select another service provider on or before _____ [Transfer date - 30 days]. If you do not select another provider Time Warner Cable will automatically become your service provider effective _____. You will not incur any charges for the change to Time Warner Cable. However, should you select another provider, you may incur additional charges. Please be aware that you are responsible for paying all bills rendered to you by ACC Telecom during this transition. You may be subject to termination of your service in accordance with the terms of your contract and applicable Commission rules if you fail to pay your telephone bill.

If you do not want service from Time Warner Cable you must select a new provider as soon as possible. Otherwise, you need do nothing and your service will seamlessly transfer to Time Warner Cable.

If you have any questions regarding this notice please call 888-XXX-XXXX.