10-7

Charter COMMUNICATIONS

RECEIVED
APR 15 2011
TELECOMMUNICATIONS & CABLE COMMISIONER'S OFFICE

April 15, 2011

Catrice Williams, Secretary
Cable Television Division
Department of Telecommunications & Cable
1000 Washington Street, Suite 820
Boston, MA 02118-6500

Re: Charter Communications

First Set of Information Requests: Docket No. DTC 10-7

Dear Ms. Williams:

Enclosed please find Charter Communications' ("Charter") response to the First Set of Information Requests concerning the FCC Form 1240 and FCC Form 1205 filings currently under review for 2011 rates.

If you have any further questions or comments please feel free to contact me at (972) 938-9288 x4.

Respectfully yours,

Melissa Bennett

Melissa Bennett
Senior Regulatory Analyst

enclosures

cc: Vicki DeSantis
Tom C. Cohan
Lindsay DeRoche
Alison Lackey
Armine Simonyan
Michael Mael
Benedict Dobbs
Betsy Whittey

Massachusetts Department of Telecommunications and Energy
Cable Television Division
First Set of Information Requests
Charter Communications Docket No. DTC 10-7

<u>FCC Forms 1240</u>

D.T.C. 1-1 For each town on FCC Form 1240, at Worksheet 3 Column 1, for the true-up period, the sum of previous regulated channels is higher than in the prior year's filing. For example, in this year's filing for the town of Auburn, Charter lists sums in the range of 90-94, whereas in the prior year's filing Charter reported sums in the range of 28-38.

a. Please explain the reason for this change.

b. Explain how, if at all, this increase affects or relates to Charter having decreased the numbers of channels listed on Worksheet 3 in last year's rate filing.

Person providing the response:
Melissa Bennett, Senior Regulatory Analyst

Response:
I am sorry for the confusion this has caused, as I had forgotten that we decided, in last year's filing, to only show Basic channels for tracking purposes. We make sure to only apply $0.01 per applicable channel add, as this meets the criteria per the channel chart included in the Form 1240.

Massachusetts Department of Telecommunications and Energy
Cable Television Division
First Set of Information Requests
Charter Communications Docket No. DTC 10-4

FCC Forms 1240

D.T.C. 1-2 On FCC Form 1240, at Worksheet 8: True-Up Rate Charged, Charter notes an increase in the FCC Regulatory Fee by $.01 from $.07 to $.08. However, on the Additional Information & Attachments page of the Form 1240 filing for each town, the Basic Service Tier Rate Structure lists FCC Regulatory Fees of $.08 under current, and $.07 under projected period. Please explain and provide all supporting documentation and relevant calculations for the mentioned increase in the fee and subsequent decrease in the projected period.

Person providing the response:
Melissa Bennett, Senior Regulatory Analyst

Response:

Per the FCC, we recouped $0.88 per subscriber for September 2009 through August 2010, then $0.89 per subscriber for September 2010 through August 2011. Therefore, we allocated the fee at $0.07 until May 2010 when it was increased to $0.08. It was then decreased to $0.07 in February 2011. We left the September 2011 rate at $0.07, since the allocation for September 2011 through August 2012, may likely be $0.07 for several months. See chart below.

	True-up Period 1												
	Oct 2009	Nov 2009	Dec 2009	Jan 2010	Feb 2010	Mar 2010	Apr 2010	May 2010	Jun 2010	Jul 2010	Aug 2010		Average True-up
Monthly Rate/Customer	$0.07	$0.07	$0.07	$0.07	$0.07	$0.07	$0.07	$0.08	$0.08	$0.08	$0.08		$0.07

	Projected Period												
	Jan 2011	Feb 2011	Mar 2011	Apr 2011	May 2011	Jun 2011	Jul 2011	Aug 2011	Sep 2011	Oct 2011	Nov 2011	Dec 2011	Average Projected
Monthly Rate/Customer	$0.08	$0.07	$0.07	$0.07	$0.07	$0.07	$0.07	$0.07	$0.07	$0.07	$0.07	$0.07	$0.07

Massachusetts Department of Telecommunications and Energy
Cable Television Division
First Set of Information Requests
Charter Communications Docket No. DTC 10-7

FCC Forms 1240

D.T.C. 1-3 The towns of East Longmeadow, Ludlow, and Southborough each have new license periods commencing in the projected period. For each town, indicate whether the franchise related cost ("FRC") amounts are based on the terms of finalized licenses. Please explain and provide all supporting documentation and relevant calculations.

Person providing the response:
Tom Cohan, Director of Government Relations and Tanya Minnon, Business Manager

Response:
Attached to this response is the FRD spreadsheet previously submitted.

East Longmeadow: Finalized license effective date February 3, 2011; term 5-years; $100,000 capital grant within 90 days of effective date. We used $100,000 amortizing over 5 years when calculating the FRC amounts.

Ludlow: Finalized license effective date September 17, 2010; term 10-years; $115,000 capital grant within 90 days of effective date; and $118,000 at beginning of Year 6. We used $115,000 amortizing over 10 years when calculating FRC amounts.

Southborough: Finalized license effective date September 17, 2010; term 10-years; $83,300 capital grant with a first year payment of $13,300; payments of $15,000 on the second and third anniversary dates; and payments of $10,000 on the fourth, fifth, six and seventh anniversaries of effective date. At the time of the filing, Charter did not have a finalized agreement with Southborough, therefore, we used $100,000 amortizing over 10 years when calculating FRC amounts, as this was the grant figure from the existing license. The license was finalized in October, retroactive to September 17, which was the expiration date of the previous license.

Massachusetts Department of Telecommunications and Energy
Cable Television Division
First Set of Information Requests
Charter Communications Docket No. DTC 10-7

FCC Forms 1240

D.T.C. 1-4 For Southborough, Charter indicates that the FRCs include an "increase in salary due to more troubleshooting required to solve line-signal problems, which are expected to continue in the near future."

a. Please indicate the amount of FRCs projected for this purpose and provide all supporting documentation and relevant calculations.

b. Please explain with specificity why troubleshooting these line-signal problems is a FRC.

Person providing the response:
Tom Cohan, Director of Government Relations

Response:

a. The increase in these costs for this period are related to the Southborough License that expired on 9/17/2010 and are specifically related to additional hours of technical assistance that Charter provided to the Southborough Access group, assisting them in activating their new studio facility and ensuring the PEG Access channel origination capability was working correctly from that studio. The $347.63 amount is based on 15 hours at $23.18/hour salary for public access coordinator employee support for access channel signal checking and problem resolution.

b. The line-signal problem was not referring to the Charter network, but instead what is directly related to the studio.

Massachusetts Department of Telecommunications and Energy
Cable Television Division
First Set of Information Requests
Charter Communications Docket No. DTC 09-5

<u>FCC Forms 1240</u>

D.T.C. 1-5 In Southbridge, Charter indicates a projection for a new license assuming $37,500 with a 6 year amortization.

a. Please indicate the current status of the new license.

b. Please provide the basis for this assumption and provide all supporting documentation and relevant calculations.

Person providing the response:
Tom Cohan, Director of Government Relations

Response:

a. The renewal license is still being negotiated, but should be finalized by late May or early June 2011.

b. When making projections for new franchise related costs for a renewal license that is still subject to negotiations, it is prudent to use the grant figure from the existing license. Any changes will be accounted for in the true up in future filings.

Calculation: ($120,000 - $82,500 excluded / 6 year amort / 12 mos* 6.5 mos) = $3,385

Massachusetts Department of Telecommunications and Energy
Cable Television Division
First Set of Information Requests
Charter Communications Docket No. DTC 10-7

FCC Forms 1240

D.T.C. 1-6 For both Southampton and Upton, in calculating the FRCs, Charter uses projections for the anticipated licenses which assume grant amounts of at least the same as in the prior license agreements.

a. Please indicate the current status of license negotiations for each town.

b. Please explain why these projections for each town are based on the grant amounts in the prior license. Please provide all supporting documentation and relevant calculations.

Person providing the response:
Tom Cohan, Director of Government Relations

Response:

a. The Southampton Renewal License expired in 2007 and has had one short term extension. The Issuing Authority has not been an active partner in negotiating the renewal until very recently. This renewal should be finalized by July 2011.

   The Upton License Renewal negotiations are just about complete. This renewal should be finalized by June 2011.

b. When making projections for new franchise related costs for a renewal license that is still subject to negotiations, it is prudent to use the grant figure from the existing license. Any changes will be accounted for in the true up in future filings.

   Southampton Calculation: = ($30,000 / 3 year amort / 12 mos* 0.5 mos) = $417

   Upton Calculation: ($30,000 / 10 year amort / 12 mos* 6 mos) = $1,500

Massachusetts Department of Telecommunications and Energy
Cable Television Division
First Set of Information Requests
Charter Communications Docket No. DTC 10-7

FCC Forms 1205

D.T.C. 1-7 On FCC Form 1205, at Schedule C: Capital Costs of Leased Customer Equipment, Charter does not list Multi-room 2nd TV Mate in "Other Equipment" as in last year's filing. Please explain why it is not listed.

Person providing the response:
Jason Buscher, Senior Director, Corporate Accounting

Response:

As a result of Charter emerging from bankruptcy, GAAP required the company to perform Fresh Start accounting, which resulted in resetting the entire company's assets to fair market value. Charter utilized a third party firm to produce those estimates. There was no value on the books for this equipment, they are no longer being deployed, and all of the units in service reside in one system that this type of equipment was offered. There are no customers in Massachusetts that have this equipment on their accounts, as this equipment was not offered in the Massachusetts system.

Massachusetts Department of Telecommunications and Energy
Cable Television Division
First Set of Information Requests
Charter Communications Docket No. DTC 10-7

FCC Forms 1205

D.T.C. 1-8 On FCC Form 1205, at Schedule D: Average Hours per Installation, Charter introduces one new item: Average Hours per Wall Fish. Please provide a complete description of this item, and a detailed explanation of its addition in this filing.

Person providing the response:
Melissa Bennett, Senior Regulatory Analyst

Response:

A Wall Fish is the custom installation of a cable outlet which requires fishing of cable wire through the interior of a wall. Prior to 2009, Charter referred customers to outside vendors to perform this activity. In 2009, Charter established this charge, performing these charges in-house. As this is a company-wide Form 1205, the calculation for Wall Fish is shown on the Massachusetts filings. However, in Massachusetts, Wall Fish activity is not performed by Charter (i.e. referred to outside vendors).

Massachusetts Department of Telecommunications and Energy
Cable Television Division
First Set of Information Requests
Charter Communications Docket No. DTC 10-7

FCC Forms 1205

D.T.C. 1-9 On FCC Form 1205, at Schedule D: Average Hours per Installation, Charter combines three items from the previous filing (Amplifier install, A/B Switch install and VCR/DVD/Home Theater hookup) into a single item, Ancillary Equipment. Please explain why these items are presented as one item in the current year's filing, as well as any associated changes in cost.

Person providing the response:
Melissa Bennett, Senior Regulatory Analyst

Response:
The purpose of combining these three items was to simplify the process. We took the time and motion averages of 10 min – 15 min – 20 min and provided a combined average of 15 minutes. Combining these items would not measurably change the overall study. The simplification was also driven because we are seeing less of these activities performed yearly which lowers the overall impact to this study. Lastly, it is helpful to have one rate code for these items from a customer care perspective.

Massachusetts Department of Telecommunications and Energy
Cable Television Division
First Set of Information Requests
Charter Communications Docket No. DTC 10-7

FCC Forms 1205

D.T.C. 1-10 Regarding FCC Form 1205, at Schedule D and Explanations to FCC Form 1205 and Supporting Documents to Schedule D:

a. Please explain the increase in drive time from 14.1 minutes to 18.8 minutes for all types of installations. Provide all supporting documentation and relevant calculations.

b. Please explain the increase in Installer labor for Service Call Charge (no Wire Maintenance) from 47.1 minutes to 49.0 minutes. Provide all supporting documentation and relevant calculations.

Person providing the response:
Melissa Bennett, Senior Regulatory Analyst

Response:

a. These average drive times are based on an automated workforce tool (PDA) that technicians use to complete their daily work routes. Between year ending 2008 and the start of 2009 we made an adjustment to the way we measure drive time. The 14.1 minutes was drive time from job to job, whereas the 18. 8 minutes also includes time that the technician has to go to a warehouse to pick up additional equipment and/or materials.

b. Due to the complexity of our services (modulations schemes, upstream capabilities, bandwidth utilization) delivered to our customers we are finding that technicians are spending more time trouble shooting and correcting the customer's problem during a trouble call. The times provided for this portion of the study are based on the automated work force tool (PDA) used by each technician that stamps the time they start a job and when they complete the job.

Massachusetts Department of Telecommunications and Energy
Cable Television Division
First Set of Information Requests
Charter Communications Docket No. DTC 10-7

FCC Forms 1205

D.T.C. 1-11 On FCC Form 1205, at Schedule A, please explain the following increases/decreases between last year's and this year's filings:

a. The decreases in Gross Book Value of Vehicles, Maintenance Facilities, Furniture & Fixtures, and Capitalized Labor, by 73.1%, 42.08%, 74.03% and 99.65%, respectively.

b. The increase in Gross Book Value of Tools by 68.88%.

c. The decreases in Accumulated Depreciation for all types of equipment and plant by 95.78%-99.99%.

d. The increases in Deferred Taxes, for Vehicles, Tools, Maintenance Facilities, and Furniture & Fixtures by 2,881.37%, 11,023.34%, 2194.52%, and 4319.45%, respectively.

e. The increase in the Grand Total of Annual Capital Cost of equipment and plant by 33.56%.

Person providing the response:
Jason Buscher, Senior Director, Corporate Accounting and Tim Runge, Director of Tax

Response:

a. As a result of Fresh Start (see question D.T.C 1-7), the costs within vehicles, maintenance facilities and furniture and fixtures were reduced to fair market value. The value related to capitalized labor was written to zero and included within the category of cost it represented.

b. As a result of Charter emerging from bankruptcy, GAAP required the company to perform Fresh Start accounting, which resulted in resetting the entire company's assets to fair market value. Charter utilized a third party firm to produce those estimates.

c. As a result of fresh start, the balances sitting in the accumulated account were net booked against cost and then cost was adjusted to fair market value. The total amounts in the accumulated accounts as of 12/31/09 reflected only one month of depreciation post emergence.

d. This increase results from many factors. The primary factor was the write-up of PP&E for GAAP purposes for fresh start accounting. Fresh start accounting requires a valuation of all assets. The valuation received by Charter for its assets reflected a significant increase in value of its tangible personal property.

e. This change is the result of the revaluation of assets due to bankruptcy, plus gross up on the Rate of Return, from less interest paid in the year.

See attached Fresh Start Section from the Charter 10K.

Massachusetts Department of Telecommunications and Energy
Cable Television Division
First Set of Information Requests
Charter Communications Docket No. DTC 10-7

FCC Forms 1205

Fresh start section straight from the CCI 10K:

Fresh Start Accounting — Upon the Company's emergence from bankruptcy, the Company adopted fresh start accounting. This resulted in the Company becoming a new entity on December 1, 2009, with a new capital structure, a new accounting basis in the identifiable assets and liabilities assumed and no retained earnings or accumulated losses. Accordingly, the consolidated financial statements on or after December 1, 2009 are not comparable to the consolidated financial statements prior to that date. The financial statements for the periods ended prior to November 30, 2009 do not include the effect of any changes in our capital structure or changes in the fair value of assets and liabilities as a result of fresh start accounting.

The Company selected December 1, 2009 for adoption of fresh start accounting. Accordingly, the results of operations of the Company for the eleven months ended November 30, 2009 include reorganization items of $644 million and a pre-emergence gain of $6.8 billion primarily resulting from the discharge of long-term debt under the Plan. In addition, we recorded a pre-tax credit to earnings of $5.7 billion resulting from the aggregate changes to the net carrying value of our pre-emergence assets and liabilities to record their fair values under fresh start accounting.

Fresh start accounting provides, among other things, for a determination of the value to be assigned to the equity of the emerging company as of a date selected for financial reporting purposes. In the disclosure statement related to the Plan, the reorganization value of the Company was set forth as approximately $14.1 billion to $16.6 billion, with a midpoint estimate of $15.4 billion. Reorganization value represents the amount of resources available for the satisfaction of post-petition liabilities and allowed claims, as negotiated between the Debtors and their creditors. Reorganization value, along with other terms of the Plan, was determined after extensive arms-length negotiations with the Company's creditors. The value was based upon expected future cash flows of the business after emergence from Chapter 11, discounted at rates reflecting perceived business and financial risks (the discounted cash flows). This valuation and a valuation using market value multiples for peer companies were blended to arrive at the reorganization value. Reorganization value is intended to approximate the amount a willing buyer would pay for the assets of the Company immediately after the reorganization.

The valuation analysis relied predominantly on the discounted cash flows ("DCF") analysis and the comparable company analysis. While a precedent transaction analysis was performed, the reliance on such methodology for purposes of determining the reorganization value was minimal. The precedent transaction analysis is based on the enterprise values of companies involved in public merger and acquisition transactions that have operating and financial characteristics similar to the Company. Due to factors including, (i) the market environment is not identical for transactions occurring at different periods, and (ii) circumstances pertaining to the financial position of the company may have an impact on the resulting purchase price, less reliance is applied to the precedent transaction analysis. A more detailed explanation of the DCF analysis and comparable company analysis is discussed below.

The basis for the DCF analysis was the projections published in the Plan. These five-year projections were based on management's assumptions including among others, penetration rates for basic and digital video, high-speed Internet, and telephone; revenue growth rates; operating margins; and capital expenditures. The assumptions are derived based on the Company's and its peers' historical operating performance adjusted for current and expected competitive and economic factors surrounding the cable industry. The DCF analysis was completed using discount rates ranging from 10.5% to 11.5% based on the Company's cost of equity and after-tax cost of debt and perpetuity growth rates of 2.5% - 3.5%. The reorganization value and the resulting equity value are highly dependent on the achievement of the future financial results contemplated in the projections that were published in the Plan. The estimates and assumptions made in the valuation are inherently subject to significant uncertainties, many of which are beyond its control, and there is no assurance that these results can be achieved. The primary assumptions for which there is a reasonable possibility of the occurrence of a variation that would have significantly affected the reorganization value include the assumptions

FCC Forms 1205
(continued)

regarding revenue growth, programming expense growth rates, the amount and timing of capital expenditures and the discount rate utilized.

The valuation also utilized a comparable companies methodology which identified a group of publicly traded companies whose financial and operating characteristics were similar to those of Charter as a whole; examined the trading prices for the equity securities of such companies in the public markets; added the aggregate amount of outstanding net debt for such companies (at book value and at current market values); and noncontrolling interest less the market value of unconsolidated investments. A range of valuation multiples was then applied to the projections to derive a range of implied enterprise values for Charter. The multiples ranged from 5.0 to 6.0 depending on the comparable company.

Based on conditions in the cable industry and general economic conditions, the mid-point of the range of valuations was used to determine the reorganization value. Under fresh start accounting, this reorganization value was allocated to the Company's assets based on their respective fair values. The reorganization value, after adjustments for working capital, is reduced by the fair value of debt and other noncurrent liabilities, and preferred stock with the remainder representing the value to common shareholders. The market capitalization of Charter's common stock may differ materially from this value.

The significant assumptions related to the valuations of our assets in connection with fresh start accounting include the following:

Property, plant and equipment — Property, plant and equipment was valued at fair value of $6.8 billion as of November 30, 2009. In establishing fair value for the vast majority of the Company's property, plant and equipment, the cost approach was utilized. The cost approach considers the amount required to replace an asset by constructing or purchasing a new asset with similar utility, then adjusts the value in consideration of all forms of depreciation as of the appraisal date as described below:

- Physical depreciation — the loss in value or usefulness attributable solely to use of the asset and physical causes such as wear and tear and exposure to the elements.
- Functional obsolescence — a loss in value is due to factors inherent in the asset itself and due to changes in technology, design or process resulting in inadequacy, overcapacity, lack of functional utility or excess operating costs.
- Economic obsolescence — loss in value by unfavorable external conditions such as economics of the industry or geographic area, or change in ordinances.

The cost approach relies on management's assumptions regarding current material and labor costs required to rebuild and repurchase significant components of our property, plant and equipment along with assumptions regarding the age and estimated useful lives of our property, plant and equipment.