How your Community Can Respond to the Charter-Time Warner Merger

California State Association of Counties
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Summary

• Description of the Merger Transaction
• Description of CPUC Proceeding and Timeline
• Description of FCC Proceeding and Timeline
• Description of Impacts
• How to Participate
Description of the Merger

• Charter Communications (4\textsuperscript{th} largest cable provider) will...
  ▪ Merge with Time Warner Cable (2\textsuperscript{nd} largest cable provider) \textit{and}
  ▪ Acquire Bright House Networks (6\textsuperscript{th} largest cable provider)
• Deal with TWC valued at $56 billion
• Acquisition of Bright House for $10.4 billion
• “New Charter” would become the nation’s 2\textsuperscript{nd} largest broadband provider after Comcast
Description of the Merger

• New Charter’s Internet Customers

Internet Customers, Millions, 2014

- Comcast: 22.0
- New Charter: 19.4
- AT&T: 16.0
- Verizon: 9.2

Source: Presentation of Charter, Time Warner Cable, and Bright House
Description of the Merger

• Combined footprint for New Charter
CPUC Proceeding and Timeline

• CPUC approval required for transfer of companies’ certificates of public convenience and necessity (CPCNs)

• CPUC must find that the deal:
  1. provides short- and long-term economic benefits to ratepayers,
  2. equitably allocates economic benefits between shareholders and ratepayers,
  3. does not adversely affect competition, and
  4. is in the public interest (8 criteria)
Public Interest Criteria

(1) Maintain/improve the financial condition of resulting company.

(2) Maintain/improve quality of service to ratepayers in the state.

(3) Maintain/improve quality of management of resulting company.

(4) Be fair and reasonable to affected employees.

(5) Be fair and reasonable to the majority of all affected company shareholders.

(6) Be beneficial on an overall basis to state and local economies, and to the communities in the area served by the resulting company.

(7) Preserve CPUC jurisdiction and to effectively regulate and audit operations in the state.

(8) Provide mitigation measures to prevent significant adverse consequences which may result.
CPUC Proceeding and Timeline

• July 2, 2015: Application filed

• July 23, 2015: categorized as “ratesetting” and preliminarily determined a hearing is needed

• Assigned Administrative Law Judge Karl J. Bemesderfer (same ALJ who reviewed Comcast-Time Warner application)

• August 8: Protests filed by Office of Ratepayer Advocates, Center for Accessible Technology, The Greenlining Institute, The Utility Reform Network, Common Cause, National Diversity Coalition

• Issues raised: competition, service quality and reliability for voice, VoIP, and broadband services
CPUC Proceeding and Timeline

Coming up over next several months
• Prehearing conference
• Scoping memo outlining hearing schedule and issues to be addressed
• Evidence and hearings
• Proposed decision issued subject to 30-day public review period
• Vote by CPUC commissioners
FCC Proceeding and Timeline

• Communications Act requires FCC approval of the transfer of hundreds of licenses (e.g. microwave, satellite and others) from Time Warner Cable to Charter.

• Applicants bear the burden of proving that the deal is in the “public interest, convenience and necessity.”
  ▪ FCC can base its actions on a determination of what the deal’s approval might do to affect the diversity in the marketplace of ideas, competition or localism.
  ▪ FCC decision is afforded considerable deference.
FCC Proceeding and Timeline

• June 25, 2015: Application/Public Interest Statement filed

• July 8, 2015: FCC announced Transaction Team

• Sept. 11, 2015: FCC issued schedule
  ▪ Oct. 13: Comments/Petitions to Deny due
  ▪ Nov. 2: Responses to Comments/Oppositions to Petitions due
  ▪ Nov. 12: Replies to Responses/Oppositions due
Description of Impacts

- New Charter franchises will cover about 41% of all US households.
- New Charter will carry a debt load of about $76 billion, a substantial proportion of which is junk debt, compared to annual free cash flows (FCF) of an estimated $3 billion – in contrast Comcast has annual FCF of about $9.1 billion and would have had an annual FCF of about $10 billion if its proposed deal with TWC had been consummated.
Description of Impacts – A Major Operator in California
Description of Impacts

- To service its debt New Charter will face strong pressure to increase its FCF through:
  - Reducing investments – by not expanding network coverage to rural or underserved areas and not upgrading networks in a timely manner
  - Cutting operating costs – with layoffs and scrimping on customer care
  - Increasing charges to customers – equipment, services, “administrative” fees, and then
- If all else fails: bankruptcy to reduce debt - further impeding or delaying network and service improvements, possibly avoiding franchise fee payments
Consequences

- The records of Charter - went through bankruptcy in 2009) - and John Malone (the most influential shareholder in New Charter) in his previous US cable operation (TCI) justify concerns about the future priorities of New Charter regarding its commitments to customers and the public interest compared to servicing its debt.

- Due to its high debt there is a substantial risk that New Charter will be unable to fulfill any commitments it makes about investments, improved customer care, jobs in the US etc.
How to Participate

• File comments with the FCC and CPUC
  ◦ Raise concerns about merger’s effects on localities and seek conditions protecting local communities (e.g., PEG access, base level Internet service at low price, “last mile” broadband connection to home)
• Discuss with elected officials in Washington, D.C. and at the State legislature
How to Make Participation More Effective

• Federal conditions will depend on showing that merger has harms that conditions will mitigate
• Possible approach: jointly sponsor studies
• Form coalitions to address issues at federal, state, or local level
• …but participation may be important for your community
Questions?

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