

New Networks

Before the New York State Public Service Commission

The Comcast Time Warner Merger Should Not Go Through Until these Questions are Answered.

Filed with a Special Report from the report: **It's All Interconnected.**"

By: Public Utility Law Project, written by New Networks.

Case Number: 14-M-0183

June 18th, 2014

Contact: Bruce Kushnick
bruce@newnetworks.com

Questions Every Time Warner and Comcast Franchise Area Should Ask Before a Merger is Considered

Part IV: in the series on the new report ["It's All Interconnected."](#)

Time Warner and Comcast are planning to merge. But before they do, we are suggesting that any Time Warner or Comcast franchise holder — i.e. any municipality, city or state, (or regulator, politician or cable customer) — be required to answer a short questionnaire that will help better ascertain, through facts, whether Comcast and Time Warner Cable should merge — or what concessions should be demanded, even if they don't join.

Click here for a "SPECIAL SECTION: Time Warner and the Social Contract" from the Public Utility Law Project's report ["It's All Interconnected."](#), written by New Networks.

1) Time Warner and Comcast Social Contract Commitments and Fulfillment.

In 1995, both companies signed an agreement with the FCC called the "Social Contract" and we are curious to what ever happened for almost two decades.

We will use quotes from these documents:

- [Time Warner Social Contract](#)
- [Comcast Social Contract](#)

New Networks

2) The Length of the Contract and the Costs to Customers.

The Social Contract was signed in 1995 to settle disagreements as the cable companies wanted to offer new services and wire the schools but wanted rate increases, above and beyond normal rate increases. There were caveats, but the companies were given the opportunity to raise rates up to \$5.00 a month per household.

The original Time Warner agreement was for five years and the company was supposed to spend \$4 billion on their networks. According to the Order:

"The Social Contract is for a term of five years. From 1995 through 2000, Time Warner is required to invest \$4 billion to rebuild and upgrade all of its domestic cable systems, including deployment of fiber optic technology, increased channel capacity and improved system reliability and signal quality."

Time Warner Social Contract charged up to \$5.00, adding \$1 more each year till the year 2000.

"To fund this investment, Time Warner will be permitted to increase the monthly rate for the most highly penetrated CPST in each of its systems by \$1.00 during each year of the Social Contract.... Time Warner waives its right to file a cost of service showing to justify any rate increases during the term of the Social Contract."

3) Question 1: The Social Contract was only from 1995-2000 and cost the customers by the end of it was \$5.00 a month. Please supply the following:

- The amount of money collected from subscribers from 1995 -2000 in the franchise area.
- The amount of money collected from subscribers after 2000 in the franchise area.
- Proof that the charges were removed or that the rates were reduced by \$5.00 a month after 2001.
- The total number of subscribers by year in the franchise area.

4) The Wiring of Schools in the Franchise Area

In the Social Contract, the companies committed to bring the Internet to schools in their franchise areas. Schools were all to be given free cable modem service, a free cable modem — and would receive the inside wiring at cost. The Comcast Social Contract states:

New Networks

"Comcast will provide a free service connection to each public and private school located within 200 feet of Comcast's activated cable plant. Comcast will provide a service connection at cost to public and private schools beyond 200 feet of its activated cable plant. Comcast will also provide a free modem and free modem service to all such schools within a year after Comcast makes personal computer-based Internet access service via cable commercially available to residential customers. Free cable service, including basic and enhanced basic service, and service offered on migrated and new product tiers, will be provided to all connected public and private schools. ...Additional internal wiring to serve additional outlets in any school will be provided at cost. Such wiring will be provided at no charge if Comcast is able to coordinate installation with other comparable electrical wiring installation being done in new or rehabilitated schools."

Moreover, the Time Warner "Social Contract" specifically states that the first modem, (the electronic box designed to let the customer use the Internet), is free, and all of the other modems in the school will be 'at cost.'

"If requested, each school will receive one free modem to use this service with additional modems provided at cost."

5) Question 2: For the years 1996-2000 — Starting in the year 1996, please supply the franchisee with all information pertaining to the franchise coverage area for the years 1996-2000.

- A list of all of the schools that were wired for broadband and Internet and in what years
- Total number of classrooms served
- Total number of lines installed
- Total number of equipment units installed, and in what years.
- Were these units upgraded and in what years?
- The speed of the Internet services provided, by year.
- Were the speeds and capacity increased based what was offered to residential and business customers?
- Total of the costs for the schools, by year (at cost, of course.)
- Whether they have also been provided cable programming

6) Question 3: For the years 2001-2014 — Assuming that the company was still collecting the money from customers for the years 2001-2014, Please supply the franchisee all information pertaining to the franchise coverage area.

- A list of all of the schools that were wired for broadband and Internet and in what years
- Total number of classrooms served
- Total number of lines installed

New Networks

- Total number of equipment units installed, and in what years.
- Were these units upgraded and in what years?
- The speed of the Internet services provided, by year.
- Were the speeds and capacity increased based what was offered to residential and business customers?
- Total of the costs for the schools, by year (at cost, of course.)
- Whether they have also been provided cable programming

7) Question 4: Other Questions

- Please supply documentation to show that the schools were properly notified that they could be a benefactor of the Social Contract in every school year.

8) Profits Currently from the Business Areas that Were Being Funded by the Social Contract.

In the next exhibit we have information from Time Warner Cable's 2012 Annual Report that supply a) the cost to Time Warner to offer to the customer cable, broadband-internet and phone service b) the average price the customer will pay, c) the profit from the customer, d) the profits over the costs as a percentage and e) the overall profit margin (costs/profits.)

Time Warner, Costs to Offer, Cost to the Customer Profits over Cost and Profit Margin, 2012

	A	B	C	D	E
	Cost To Offer	Price To Customer	Profit Per Customer Item	Profit Over Cost	Profit Margin
Video	\$33.60	\$74.90	\$41.30	123%	55%
Voice	\$9.46	\$44.07	\$34.61	366%	79%
High-speed data	\$1.34	\$34.06	\$32.72	2442%	96%

9) Question 5: Essay question

Please explain how the high speed data services, which were being funded by parts of the Social Contract, have a profit margin of 97% and that the cost per month internally is \$1.34 a month.

And please supply in your answer what it would cost another Internet Service Provider (ISP) if it would be charged if they were able to use the Time Warner network.

10) Why is Everyone Picking on Time Warner and Comcast?

New Networks

The latest American Customer Satisfaction Index survey, May 2014 claims that Time Warner and Comcast are some of the [most hated companies in America](#) for their Internet service and even the cable service.

May 20, 2014, [ACSI Telecommunications and Information Report 2014](#)

“Time Warner Cable lags behind the entire industry following its second consecutive yearly decline, down 7% to an all-time low of 56. The combination of low and downward-trending customer satisfaction for both Comcast and Time Warner Cable is cause for concern amid merger talks between the two companies. The issue at stake is not that the proposed merger will limit competition as the service territories of the two companies do not overlap. Instead, it is the question of whether a combination of two pay-TV providers with such poor records could possibly create a better customer experience, especially given the volume of evidence from ACSI data suggesting that mergers in service industries tend to damage satisfaction—at least in the short term.”

Subscription Television Service ACSI Scores			
Company	2013	2014	% Change
Subscription Television Service	68	65	-4.4%
DIRECTV	72	69	-4%
AT&T (U-verse)	71	69	-3%
Verizon Communications (FiOS)	73	68	-7%
DISH Network	70	67	-4%
All Others	69	66	-4%
Cox Communications	65	63	-3%
Charter Communications	64	60	-6%
Comcast	63	60	-5%
Time Warner Cable	60	56	-7%

11) **Question 6: Essay Question:** What steps are you planning to take to return the confidence and support of customers for this merger?

Conclusion of this Questionnaire.

Thank you. ...

New Networks

NOTE: We do not consider the responses to this questionnaire proprietary about our franchise area and we will be comparing it with other franchise areas to help better ascertain whether Comcast and Time Warner Cable should merge.

_____ Cable Franchise Location

_____ Cable Franchise Representative

_____ Representative, Time Warner Cable

_____ Representative, Comcast

_____ Date:

Contact: Bruce Kushnick, New Networks bruce@newnetworks.com