COMCAST - MIDWEST/GREATLAND TRANSFER

I. OVERVIEW - TIMING

As part of the Time Warner/Comcast merger, Comcast plans to spin off the cable systems in the Twin Cities area to a new company, Midwest Cable, operating as GreatLand Communications, and apparently most of the day-to-day operations of the company will actually be handled by Charter Communications. The companies have requested approval of this from the Cable Commission and its member municipalities.

Absent a further extension, in order to protect their rights to review the proposed spin-off of the cable system from Comcast to Midwest/GreatLand, the member municipalities of the Commission must act to grant, deny or condition the transfer on or before the end of February 2015. To meet that deadline, the Commission adopted recommendations with respect to the transfer at its February 12 meeting, and those recommendations have been forwarded to member municipalities for final action.

Consultants retained by the Commission (Front Range Consulting and Ashpaugh & Sculco) conducted an analysis and created recommendations for consideration and prepared resolutions that can be adopted by the communities either granting or denying the transfer, or granting subject to conditions. The Cable Commission has sent to each of its member municipalities its recommendations as to what action should be taken on the transfer.

II. HOW YOU SHOULD PREPARE

First, this matter needs to be scheduled on your City Council agenda at a meeting in the required timeframe.

Second, each community may receive visits from GreatLand and Comcast arguing:

- They've already received most of the necessary approvals
- Comcast has been a good corporate citizen, and GreatLand is ready to be a good corporate citizen
- This should all be decided in Washington, D.C.
- If your community stands in the way of the transaction, there will be hell to pay (stated in a little nicer way).

Third, in anticipation of possible visits from GreatLand and/or Comcast, here are key points to know:

- Each of the localities has the right to review the transaction. It is not just a Washington issue.
- In fact, under federal law, local review is a critical part of the merger approval process. A locality is supposed to address non-compliance issues as part of any transfer. There are known non-compliance issues in the areas of customer service; safety code compliance; and rates and charges. There is a temporary resolution of issues regarding compliance with existing franchise requirements for high definition channels, but that temporary resolution will expire soon. Failure to address these issues may result in a loss of rights in the ongoing renewal proceeding.
- In addition, the communities are all in the midst of the cable renewal process. We know that there are significant issues regarding system build-out (to service some areas of the community) as well as continued adequate support for PEG and the INET. If Midwest/GreatLand does not have adequate resources to address these issues, or if you don't have agreements in place that address these issues, the communities may find themselves losing significant dollar support for PEG and for the INET.
- The initial analysis performed by consultants retained by the communities is expected to show that there are substantial questions about the viability of Comcast/GreatLand.
- Other communities have denied, or moved to deny all or a portion of the Comcast/Time Warner merger, and press reports indicate that the company has responded by resolving disputes with those communities, and addressing concerns similar to those identified above.

Fourth, constituents or policy makers may want to know what happens if a community denies a transfer.

If a community denies, then Comcast should retain control of the system until and unless the community and Comcast agree on terms for approval. That does not mean the transaction as a whole is stopped. Comcast can close the deal with Midwest/GreatLand in communities that approve the deal, and would likely do so in other areas of the country.

If Comcast does transfer, Midwest/GreatLand and Comcast may be subject to significant liquidated damages.

Comcast and Midwest/GreatLand could sue communities that deny the transfer if they believe that the transfer was unreasonably denied. But they are more likely to attempt to resolve disputes with the communities as an initial matter. It is quite possible that there will be substantial grounds for denial.

And fifth, folks might want to know what other communities in the Twin Cities region are doing.

Some communities will approve the transaction as part of a settlement of franchise issues. The North Suburban communities are an example, where the existing franchise is being extended. But others are in the same position as you, and we expect decisions to be made early next year.

III. DETAIL – CONCERNS ABOUT THE TRANSACTION

The consultants reported the following:

- Neither Comcast or Midwest/GreatLand have provided information requested by the communities that would allow for a full review of the transaction.
- The information that is available – largely, information that was contained in SEC filings – suggests that Midwest/GreatLand's ability to provide adequate service, meet local needs, and correct past performance issues is questionable. Essentially, the consultants suggest that in the initial years, the company will have negative cash flow, and few options for obtaining the credit required to invest in communities in the Twin Cities area. The merger may create bankruptcy risks.
- Much of the day-to-day operation of the cable system will be handled by Charter Communications. Charter has a very bad customer service reputation. According to J.D. Power, in the North Central Region, Charter ranks below Comcast in customer service ratings http://www.jdpower.com/press-releases/2014-us-residential-television-internet-telephone-service-provider-satisfaction (in other parts of the country, Charter ranks just above Comcast). It is not clear that Midwest/GreatLand will have any real ability to ensure that customer service is adequate
- There may be significant transitional service issues that affect consumers, and the companies have yet to provide any meaningful information that addresses the transitional issues adequately.
- The transfer may require significant increases in rates, or reductions in customer service or capital investment.

This suggests that there may be the following grounds for denying the transfer, with leave to the companies to seek approval at a later date if the concerns are addressed:

- The failure to cooperate in the transfer review
- The failure to show that Midwest/GreatLand are in a position to perform now or meet future needs
- The failure to address and resolve past performance issues

The potential negative effect of the transaction on competition in the provision of cable services (as the region becomes more concentrated, and with Charter's interest in the system, the transaction makes it less likely that competition will develop). CenturyLink has raised concerns about these effects at the FCC, and those concerns may also be considered locally.