



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CAL

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Joint Application of Comcast Corporation, Time Warner Cable Inc., Time Warner Cable Information Services (California), LLC, and Bright House Networks Information Services (California), LLC for Expedited Approval of the Transfer of Control of Time Warner Cable Information Services (California), LLC (U-6874-C); and the Pro Forma Transfer of Control of Bright House Networks Information Services (California), LLC (U-6955-C), to Comcast Corporation Pursuant to California Public Utilities Code Section 854(a).

A.14-04-013
(Filed April 11, 2014)

And Related Matters

A. 14-06-012
(Filed June 17, 2014)

COMMENTS OF THE UTILITY REFORM NETWORK ON PROPOSED DECISION

March 5, 2015



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In accordance with Rule 13.11 of the Commission’s Rules of Practice and Procedure, The Utility Reform Network (“TURN”) hereby submits its Comments on the Proposed Decision (“PD”) in the above-captioned proceeding.

I. INTRODUCTION

At the outset TURN clarifies its position regarding the proposed transaction. TURN categorically opposes this mega-merger for numerous reasons discussed both in our Reply Brief and in Ms. Susan Baldwin’s opening and reply testimony.¹ TURN strongly argued that the proposed transaction is not in the public interest and should be rejected. While we did offer possible conditions, these were provided only in the event the Commission decided, contrary to our recommendation, to approve the proposed merger. TURN requests that the PD be modified to state clearly that TURN opposes this transaction. Furthermore, as is discussed in more detail below, although TURN did propose some possible conditions, we argued that no set of conditions could ameliorate the negative consequences for consumers, competition and the state of California if this deal were permitted to go forward.

Moreover, TURN urges the Commission not to be seduced by the siren call that beckons the Commission to trust that a possible condition-related reduction in the digital divide could outweigh the likely harms of the proposed merger. While overcoming the digital divide is a laudable and important goal of the Commission, the negative impacts of the proposed merger are far and away more significant than the potential for a bridging that divide. It is no doubt very attractive to the Commission to believe that it can get substantial results that can benefit those who are not in an economic position to access the Internet. However, that is not the standard by which mergers such as that under review are to be measured. The Commission cannot trade off benefits for some while most Californians would experience significant negative effects of this deal.

II. THE COMMISSION HAS THE LEGAL AUTHORITY TO REJECT THIS PROPOSED MERGER

While TURN generally agrees with the legal analysis contained in the PD, there is one glaring disconnect. The PD correctly holds that the Commission has jurisdiction under state and

¹ See, TURN’s Reply Brief at 15-22. The PD should be modified at 40-41 to reflect that Ms. Baldwin is not a Dr.

federal law to assess the impacts of the proposed transaction on the voice and broadband markets in California. The PD also correctly rebuts the Applicants' position that Public Utilities ("P.U.") Code Section 710 is a bar to Commission authority to review the broadband aspects of the proposed merger. However, the PD appears to conclude that although the Commission has the requisite jurisdiction to review the transaction and even to impose conditions, it cannot reject the merger. The PD states:

Since Section 706(a) by its terms confers parallel powers on state commissions and the FCC, the same rationale applied by the D. C. Circuit in its review of the FCC's *Open Internet Order* applies to our review of the probable consequences of the merger on broadband deployment in California. In other words, while we may not regulate the terms and conditions on which Comcast sells Internet access to content providers, we may take note of the potentially adverse consequences of Comcast's use of its market power against content providers on the deployment of broadband in California and impose conditions on our approval to mitigate those consequences.²

It is inconsistent to hold that the Commission can impose conditions on the Applicants but the Commission cannot reject the proposed merger. Denial of the merger would not implicate the restrictions in Section 706 on regulating terms and conditions of how Comcast sells Internet access to content providers. In fact, given that the Commission has the power to review this transaction, and has the power to find that the transaction is or is not in the public interest, it is logical to assume that the Commission also has the authority to deny the Applicants' permission to merge in California. The key issue is whether this proposed transaction is in the public interest. If the Commission finds it is not, then ipso facto, the Commission can and must deny the application to merge.

III. THE PD ERRS IN FINDING THE PROPOSED TRANSACTION IS IN THE PUBLIC INTEREST

As with its legal analysis, the PD does a very good job in finding that the proposed merger will be harmful³. However, in a way that is totally disconnected from those findings, the PD inexplicably holds that the proposed transaction could be in the public interest if certain conditions are imposed. Significantly, the PD only finds that the "potential harms...*may* be mitigated by the imposition of conditions..."⁴ Given the harms that the PD clearly agrees will

² Proposed Decision Granting With Conditions Application To Transfer Control ("PD") at 66.

³ See, for example, PD at 68-69.

⁴ PD at 69 (emphasis added).

result from the proposed merger, the Commission must have more certainty that the conditions *will* mitigate these harms, not that they merely “may” have that effect. TURN submits that it is legal error for the Commission to hold that it, in essence, hopes that the conditions will act to mitigate harmful effects. P.U. Code Section 854(c)(8) clearly provides that for the Commission to find that a proposed merger is in the public interest it must, among other things, “Provide mitigation measures to prevent significant adverse consequences which may result.” This is an affirmative requirement not merely a hope or prayer that the conditions will, in fact, prevent any harmful impacts from the proposed transaction.

To further compound the problem, the PD never links the proposed conditions with the harms they are supposed to ameliorate. This is most evident in the fact that there are no conditions proposed by the PD that are specifically designed to mitigate the significant negative impacts on competition, although the PD agrees that the proposed transaction will have negative impacts. As the PD states,

Parties have made a convincing showing of the anti-competitive consequences that Comcast’s post-merger market power may have on the deployment of broadband in California, and of anti-competitive harms that would occur in California if the merger is consummated.⁵

Under such circumstances, where there is the real potential for anti-competitive consequences, the Commission must design conditions to alleviate those consequences or, in the absence of such conditions, find the proposed merger to not be in the public interest.

IV. THE STATEMENTS OF THE PUBLIC PARTICIPANTS AT THE ALL-PARTY MEETING SHOULD BE ACCORDED LITTLE EVIDENTIARY WEIGHT

An all-party meeting was convened in this matter on February 25, 2015. At the beginning of the meeting, Commissioner Peterman allowed members of the public to speak ostensibly on the proposed merger and impacts it may have on California citizens. Of the almost thirty people who spoke, the vast majority represented organizations that supported Comcast. None of those speakers presenting on behalf of Comcast connected their statements to the actual issue at hand – whether the proposed transaction would be in the public interest and whether consumers would experience benefits of the proposed merger. Instead, the vast majority of speakers discussed how Comcast has been a “great partner” and the fact that Comcast has given money and other support

⁵ PD at 68.

to these organizations and hence that Comcast is a “good corporate citizen.” While it is laudable that Comcast supports such organizations there is nothing that connects these actions to the merits of the proposed merger. The fact that Comcast, as Pastor Amos Brown stated at the all-party knows “how to spread the manure around” (referring to corporate donations) may be a plus for Comcast but does little to inform the Commission as to whether the proposed transaction is in the public interest. Thus, the Commission should accord these statements at the all-party little weight.

V. THE PD ERRS BECAUSE IT IMPLIES THAT THERE IS A CONCEIVABLE SET OF CONDITIONS THAT COULD RENDER THE PROPOSED TRANSACTION IN THE PUBLIC INTEREST

As discussed above, the PD is flawed because it fails to reject the proposed merger although the record evidence and indeed portions of the PD demonstrate clearly that the merger’s harm to the public interest would greatly outweigh the scant (and vaguely defined) benefits. The PD is also flawed because it fails to identify a set of remedies that would offset those harms. The PD is fatally flawed because its logic evaporates once it makes an implausible and irrational leap from its clearly delineated discussion of potential harm to a simplistic and wishful reliance on conditions that, though numerous, cannot possibly remedy the harm. The comments in this section should therefore be unnecessary because the Commission should unambiguously reject the proposed merger, consistent with the PD’s analysis of inevitable and serious harm combined with the impossibility of developing a set of conditions that would offset that harm.

However, for the same reason that TURN discussed conditions in its reply brief and supporting testimony, TURN devotes this portion of its comments, albeit reluctantly, to the PD’s set of proposed conditions. As is stated earlier in these comments, however, TURN’s engagement with the discussion of merger-related conditions does not indicate support for the fundamentally flawed premise that there is some set of conditions that could tip the scales and transform the merger into a merger in the public interest. There is no such set of conditions.

TURN respectfully disagrees with the PD’s conclusion that despite being “troubled by the protesters’ and intervenors’ many examples of potential harms that may flow from the merger, we believe that those harms may be mitigated by the imposition of conditions on our approval consistent with our powers under state and federal law.”⁶ As an initial matter, the PD’s

⁶ PD at 69.

apparent conclusion that the conditions “may” mitigate the harms is simply not reassuring (and, as is discussed above, is legal error). Moreover, although the conditions reflect well-intentioned policy, many would be hard to enforce. Furthermore, it was clear from the all-party meeting that Comcast has not yet agreed to these conditions and that it may oppose the Commission’s authority to impose those conditions as well as take the position that it cannot implement some of the conditions.

Although TURN acknowledges and appreciates the PD’s efforts to design conditions that might benefit consumers, competitors, and the state of California, ultimately, no set of conditions can ameliorate the insurmountable merger-related harms. While conditions upon the approval would be necessary, they are not sufficient. Moreover the Applicants have failed to meet their burden of proof that the proposed mega-merger satisfies the public interest standard. The PD recognizes the harms that would occur in the wake of the merger yet fails to show how the proposed conditions would eliminate them. Despite stating that it will “now consider conditions proposed by the protesters to mitigate the adverse consequences of the merger” the PD fails to provide an analysis for each condition, individually, and in turn, whether it addresses a specific enumerated harm. Conversely, the PD fails to examine whether each and every identified harm has been addressed (let alone eliminated) by a condition, and, if so, by which condition and how. Similarly, the PD does not explain its failure to adopt all or part of intervenors’ individual proposed conditions. As a result, the set of 25 conditions comes across as a public policy wish list that is detached from the PD’s prior analysis of the proposed merger.

The PD recognizes the substantial harms of the proposed merger, yet fails to remedy those harms by adopting conditions that do not (and cannot) address those harms.

The PD accurately identifies and analyzes the substantial competitive harm that the proposed merger will cause,⁷ but prescribes no remedy for this harm, nor, more importantly, does the PD acknowledge that no additional conditions exist that *could* provide such a remedy. Even if Comcast were to agree to a structural separation of its video operations from the rest of its operations, such a measure would still not offset the harm to competition in relevant markets.

The PD aptly recognizes the numerous harms that intervenors have identified. For example, citing the position of the intervening parties that the merged company will be “a de

⁷ See, e.g., PD at 61-68.

facto state-wide monopoly”⁸ the PD concludes: “In the provision of broadband speeds at or above 25 Mbps, which represents Comcast’s standard broadband offerings and is considered the FCC’s benchmark speed, almost 80% of Californians will have Comcast as their only provider.”⁹ Rejecting the argument from the Applicants that the merger does not “materially change” the companies’ relative dominance, the PD observes that the merger is more than a name change in that “the corporate policies and practices of Comcast will supplant the policies and practices of Time Warner” so to the extent that Time Warner had better practices or service or it provided more reliable service, some customers would see a decline in service. The PD explains further: “The merger presents Time Warner customers with the real possibility that they will receive poorer customer service, fewer service offerings, and fewer program choices from Comcast after the merger than they received from Time Warner before the merger.”¹⁰

The PD also appropriately gives credence to parties’ concerns regarding the loss of a potential competitor¹¹ and the loss of a benchmark¹² as well as acknowledging that the loss of “policy competitors” may be significant.¹³ Furthermore, in its Findings of Fact, the PD states: “The anti-competitive effects of the merger, absent any mitigation measures, will hinder broadband development in California.”¹⁴ The PD errs because despite this comprehensive and well-reasoned analysis of harms, the PD neglects to address which, if any, of the proposed conditions mitigate those effects.

The Proposed Conditions focus almost exclusively on addressing the digital divide while failing to address serious anti-competitive harms.

Generally, the PD proposes conditions that seek to bridge the digital divide by facilitating some consumers’ broadband adoption and by expanding broadband deployment to underserved and unserved communities, but the PD fails to address the anti-competitive harms that all consumers will experience. In the end, the PD acknowledges intervenors’ concerns, but waves away these concerns by summarily and implausibly concluding that the merger’s potential harms

⁸ PD 60.

⁹ PD at 61, citing Selwyn Declaration at 71-72. See, also, TURN Reply Brief at 17-18; Baldwin Opening Testimony at 48-54.

¹⁰ PD at 64.

¹¹ PD at 65.

¹² PD at 64.

¹³ PD at 64-65.

¹⁴ PD at 86 (Findings of Fact, #19).

can be mitigated with the imposition of conditions upon the merger's approval.¹⁵ The PD unpersuasively concludes that "The Applicants must meet the conditions adopted herein in order to provide reasonable assurance that the proposed transaction will be in the public interest in accordance with Pub. Util. Code § 854(a) and (c)."¹⁶ Seemingly, one is to deduce that the set of 25 conditions will somehow counter-balance the public interest harm and justify exposing consumers and competition to unwarranted harm.

The PD omits any conditions that act on the authority that the PD posits exists to prevent Comcast's discrimination against content providers. Their absence suggests that *there are no such measures that could remedy the harm*.¹⁷ Numerous stakeholders raise valid and serious concerns about the proposed merger's impact on content diversity from which the PD concludes accurately that the proposed merger "reduces the possibilities for content providers to reach the California broadband market"¹⁸ and that "Comcast will have significantly expanded market power to act anti-competitively if it so chooses."¹⁹ Noting that the FCC's new network neutrality rules "*may mitigate some*" of the harm,²⁰ the PD nonetheless concludes that the scale of the merger continues to cause concern.²¹ TURN is not reassured by the PD's apparent reliance on other regulatory bodies to analyze and mitigate the substantial harms of the merger in this regard.²² In so doing, the PD abdicates the Commission's responsibility to protect California consumers.²³

¹⁵ PD at 69.

¹⁶ PD at 3.

¹⁷ TURN does not consider Condition #9 a serious attempt at addressing the harms related to content. Condition #9 simply freezes any current treatment of content provision platforms for TWC's customers in place. The condition is an overly specific condition seeking to address a wide-ranging problem. In addition, although TURN recommends that, at a minimum, Comcast should commit to be bound by the current net neutrality rules (see below), TURN does not believe that such a commitment solves the serious harms identified by intervenors.

¹⁸ PD at 68.

¹⁹ PD at 67. See, generally, PD at 63-64, 67-68. See, e.g., PD at 68, stating: "In more concrete terms, the proposed merger between Comcast and Time Warner reduces the possibilities for content providers to reach the California broadband market."

²⁰ PD at 68 (emphasis added).

²¹ PD at 68.

²² See PD at 63 (emphasis added), stating: "The ability to exercise that increased market share on Internet content *may be constrained* by some of the conditions of this Decision, and will likely be analyzed in more detail in the proceedings before the Federal Communications Commission (FCC), the U.S. Department of Justice (USDOJ), and State Attorney Generals (State AGs)."

²³ See, also, PD at 66, concluding that the CPUC has authority to address Comcast's ability to discriminate against content providers and to adopt conditions to mitigate that ability.

The PD lacks adequate enforcement mechanisms, and Comcast's economic gain from non-compliance likely will outweigh any sanctions the Commission could impose.

The PD acknowledges by implication that Comcast's past regulatory compliance track record is inadequate, yet the PD fails to incorporate meaningful enforcement mechanisms and sanctions to detect and to deter non-compliance with the merger-related conditions that would apply to Comcast's future operations. Specifically the PD's Condition No. 6 indicates that Comcast presently is failing to comply with the Commission's long-standing directive regarding battery back-up power. Condition No. 6 directs Comcast to "fully implement the guidelines for customer education programs regarding backup power systems adopted by this Commission in Decision (D.) 10-01-026." *If Comcast had been complying with the Commission's directive during these past five years, the PD would not have needed to include this regulatory "reminder."*

The PD's laundry list of conditions is flawed because it lacks enforcement mechanisms and because it fails to acknowledge that enforcement (though necessary) would be time-consuming, costly, and burdensome for the Commission, consumers, and competitors. Furthermore, there is no specific penalty outlined for non-compliance other than a vague cite to the Commission's rules and California Public Utilities Code. Even if it were theoretically possible to detect non-compliance, any enforcement would necessarily occur *after* harm had occurred. Moreover, it is hard to conceive of sanctions that would deter profitable anticompetitive behavior by a \$90-billion company – that is, Comcast's economic incentive to discriminate against its rivals combined with its ability to do so overshadow any sanction that may ensue for such discrimination. Ultimately, Comcast bears negligible risk for non-compliance, and consumers, competitors, and the economy bear substantial risk for the company's non-compliance with any conditions to which Comcast may agree in the context of seeking regulatory approval for its acquisition of Time Warner.

The Commission Should Not Construe TURN's Condition-Specific Commentary As Evidence that TURN Believes Conditions Can Render the Transaction in the Public Interest

Given the foregoing, TURN, somewhat reluctantly, addresses some of the conditions that the PD proposes and also addresses some conditions that TURN proposed that the PD, without explanation, omitted. First and foremost, the conditions should not sunset. Based upon TURN's review of the PD and the complexity and quantity of issues that the conditions seek to address,

TURN opposes time frames.²⁴ Intervenors, at the all-party, articulated accurately that the harms of the merger have no sunset. Therefore, sunsets, such as those contained in Condition 17 and 19, should be removed.

The PD fails to adopt key conditions that TURN recommended; however, even if they were adopted, the merger would not be in the public interest. Despite TURN's major misgivings about the ultimate inability of conditions to remedy the merger's flaws and the significant challenges of getting Comcast to abide by them, TURN discusses some of the conditions below. Silence on a particular condition should not be construed as lending support of opposition to the particular condition.

Broadband adoption: TURN applauds the expansion of eligibility for Internet Essentials to households without children that meet low-income benchmarks (Condition #12), but is still concerned that the program will not reach households with disabled and elderly members.²⁵ TURN cautions the CPUC, however, not to view the adoption of a comprehensive Internet Essentials program by Comcast as sufficient to mitigate the harms of the merger.

Unbundled broadband Internet access: The adoption of a stand-alone broadband service at current TWC prices is commendable. However, TURN recommends that the CPUC modify Condition #17 to include TURN's recommendation that the CPUC require "Advertising in community-appropriate languages for the stand-alone option through television, radio, and subway ads."²⁶ Comcast has every incentive to "bury" this offering and focus its sales on it lucrative bundles of services.

Nondiscriminatory access: TURN is perplexed that the PD fails to adopt TURN's recommendation that the CPUC seek a commitment from Comcast to extend the Comcast/NBCU net neutrality commitment beyond the fast-approaching federal sunset date.²⁷ While the PD appropriately recognizes that the Federal Communications Commission (FCC) is adopting new network neutrality rules²⁸, those rules likely will be the subject of protracted litigation and may

²⁴ TURN recommended time frames relative to some of its proposed decision in hopes of making them more palatable to the Applicants, but upon further reflection, recommends that the vast majority of the conditions exclude sunset dates.

²⁵ TURN Reply Brief, at 22; Baldwin Opening Testimony at 75-77.

²⁶ TURN Reply Brief, at 23-24.

²⁷ TURN Reply Brief, at 24. See, also, Baldwin Opening Testimony, at 85-87.

²⁸ PD at 68.

not be applicable for some time.²⁹ Comcast agreed to follow the FCC's original network neutrality guidelines in the context of its application to the FCC for authority to purchase NBCU – however, that commitment expires in 2017. The PD errs because it does not seek a commitment from Comcast to extend that commitment pending the adoption of the FCC's new net neutrality rules.

Unbundled voice: TURN recommended that the CPUC adopt a condition requiring Comcast to offer stand-alone voice service for no more than \$20 month. The PD, without explanation does not adopt this recommendation, which would further the state's goal of universal service. TURN commends the efforts of the ALJ in the PD to address voice availability and affordability through extension of the Lifeline program to Comcast's customers; however, affordability concerns remain for consumers at large. Comcast is one of essentially only two providers of landline service in the state. All consumers should be able to obtain an affordable alternative to the plain old telephone service ("POTS") that incumbent local exchange carriers offer. With respect to affordability, there are disabled and elderly consumers (and consumers in general) living just above the income levels required for Lifeline service who also merit an affordable connection to the public switched telephone network and to public safety resources. TURN's recommended condition should not sunset (as originally indicated in TURN's filings) because intervenors' have shown that the effects of the merger will have no sunset.

Public safety and reliability: The inclusion of requirements regarding backup batteries and consumer education regarding the limitations of VoIP-based services during power outages certainly is essential (Conditions #3 and #6) and should be required *regardless of the outcome of this proceeding*. TURN continues to advocate that the Commission adopt additional public safety and reliability conditions, including: (1) Commitment to work with local and state emergency officials to prepare for and respond to natural and manmade emergencies and power outages, and to report to local and state emergency officials on lessons learned from such efforts and (2) Commitment to report outages to the Commission that affect (a) voice or (b) broadband Internet access. Condition #22, as it now stands, is simply too vague and Condition #23 should

²⁹ Indeed, Comcast has opposed the application of Title II classification to broadband Internet access. The FCC's new rules rely upon that classification. The FCC has not yet released its Order adopting the new rules, but provides a fact sheet: <http://www.fcc.gov/document/fcc-adopts-strong-sustainable-rules-protect-open-internet>. See Comcast corporate blog post, at: <http://corporate.comcast.com/comcast-voices/fcc-votes-on-new-open-internet-rules>.

provide for monthly (rather than semi-annual) reports on service outages, customer complaints, and degraded service.

Affordability: The proposed transaction, by further entrenching Comcast’s market power, would jeopardize affordability of essential voice and broadband Internet access services. The PD errs because it fails to adopt TURN’s recommendation that Comcast agree to: a (1) five-year commitment to allow Time Warner Cable’s customers to retain the products at the prices that were in effect at the time the Application was submitted to the Commission (i.e., April 11 2014); and (2) five-year commitment to not raise the rates for any products for Time Warner Cable and Comcast residential customers, whether offered on a stand-alone, packaged, or bundled basis.³⁰

Transition: The record evidence shows that, post-merger, consumers may face confusion and service issues, and further shows that the Applicants do not have a firm migration plan and plans for the integration process are “fluid.”³¹ Nonetheless, the PD fails to adopt TURN’s recommended conditions to address the transition of consumers from TWC’s network to that of Comcast, including: (1) Commitment to seek approval from the Commission of proposed education of customers regarding customer migration from Time Warner Cable to Comcast. (2) Commitment to increase staffing levels at the time of transition to handle customer queries promptly.³²

Compliance with merger-related commitments and enforcement if Comcast fails to comply: The Commissioners’ questioning during the all-party meeting and the dialogue that ensued in response to those apt questions underscored the difficulty of ensuring post-merger compliance with conditions. Even the best-designed conditions are worthless if flouted. The PD inexplicably failed to adopt TURN’s proposed condition that (1) Comcast demonstrate compliance with its commitments through submission of annual reports to the Commission and to all intervenors to this proceeding, and (2) Intervenors have the ability to petition the Commission to pursue enforcement if intervenors determine that Comcast has failed to comply with the merger-related commitments it makes in this proceeding.³³ While Conditions #24 and #25 incorporate reporting requirements (#24) and clarify that parties have the right to “take enforcement action”, as we detail in these comments above, there is no way to ensure

³⁰ In this limited case, it is appropriate to adopt a sunset on the condition.

³¹ Baldwin Opening Testimony, at 89. See, generally, *id.*, at 89-92.

³² TURN Reply Brief, at 25.

³³ TURN Reply Brief, at 25.

compliance and no way to enforce these conditions. Moreover Comcast should bear the burden of demonstrating compliance.

The Commission should move forward with pursuing worthy public policy goals based on its authority outside of the merger approval process and reject the proposed merger.

In conclusion, TURN urges the Commission to reject the merger and then to pursue some of the goals that are reflected in the well-intentioned conditions outside the merger process. Many of the public policy issues that the proposed merger raises exist regardless of the merger (e.g. public safety and the digital divide) – the merger may exacerbate the concerns, but the Commission should address those concerns regardless. The 25 conditions underscore existing market failures and the need for policy solutions regardless of the proposed merger’s outcome. If the Commission, contrary to TURN’s firm recommendation to the contrary, approves the merger, it should do so conditionally, based upon the changes to the proposed conditions as are discussed in these comments.

VI. CONCLUSION

For the reasons set forth above, TURN urges that the Commission reject the proposed transaction.

Date: March 5, 2015

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