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CABLEVISION: EDISON CHEATING CUSTOMERS

SAYS COMPANY LEASING ASSETS TO RCN AT FRACTION OF TRUE VALUE

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Author: By Bruce Mohl, Globe Staff

Date: FRIDAY, February 27, 1998

Page: E1

Section: Business

A cable television company and Attorney General Scott Harshbarger yesterday accused Boston Edison of shortchanging its customers by close to \$100 million by leasing assets to a cable TV venture in which it is a stockholder at a fraction of their true value.

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Citing the testimony of three experts, Cablevision Systems Corp. said Edison illegally transferred valuable assets to the fledgling Residential Communications Network and then undervalued those assets by nearly \$100 million.

If true, it means Edison's electric customers will be forced to pay higher electric rates than they should. Under the state's new electric deregulation law, utilities are supposed to use the profits from any sale or lease of assets to help reduce rates.

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"Boston Edison's customers are entitled to that money and we want it to come back to them as quickly as possible," said George Dean, Harshbarger's top utility regulator.

Harshbarger cited the testimony submitted by Cablevision in asking the Department of Telecommunications and Energy to delay any decision on Edison's request to set up a holding company. Dean said the creation of a holding company would make it nearly impossible for state regulators to track the transfer of assets between the electric company and its for-profit ventures.

Edison officials dismissed the charges. "There's nothing new here," said spokesman Michael Monahan. "It's simply Cablevision throwing

another trash can in the street trying to stop competition."

Edison vice president Dick Hahn said the utility previously offered use of its fiber-optic network to Cablevision and other cable companies and they showed no interest. He said a number of telecommunications companies, including MCI, are currently renting capacity from the network.

The dispute puts the Department of Telecommunications and Energy in an awkward position. Acting Governor Paul Cellucci, who appoints the commissioners, has hailed the emergence of RCN as a competitor to existing cable monopolies, including Cablevision in Boston and Brookline. A ruling against RCN could put the brakes on that competition.

The dispute is also full of irony. RCN has mounted a massive advertising campaign geared around its bid to tear down the existing cable monopolies in Massachusetts communities. But the charges raised by Cablevision suggest RCN may be getting some monopoly help itself.

The issue dates back to 1993, when Boston Edison won approval from state regulators to invest \$45 million in an unregulated subsidiary. Cablevision says the subsidiary was restricted to investments in three specific areas and was not allowed to invest in RCN.

Thomas May, Edison's current chief executive, acknowledged in 1993 that Edison would have to get state approval to invest in any other venture.

But Hahn said May misspoke in 1993 and that Edison was legally allowed to enter into a joint venture with RCN in 1997. He also said Edison at all times has sold access to its fiber-optic network to RCN and other companies at market value.

But affidavits filed yesterday with the Department of Telecommunications and Energy suggest Edison has invested more than \$45 million in its unregulated subsidiary and substantially undervalued some of those investments.

According to Gary Harpster, a consultant hired by Cablevision, Edison has made contributions of cash, assets, and guarantees to the unregulated subsidiary that, if priced at full market value, would be \$140.8 million.

"By transferring its fiber-optic network to the joint venture at far below full market value, Edison has shifted a substantial portion of the economic value associated with these assets from its ratepayers to its shareholders," added consultant Richard Silkman in his own affidavit for Cablevision.

Peter Bradford, the third consultant hired by Cablevision, said Edison's actions "establish beyond a shadow of a doubt that Boston Edison is harming electric customers. . . . Edison is making its electric customers the victims of a stranded-asset shell game."

MOHL ;02/26 NIGRO ;02/27.06:01 RCN27

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February 27, 1998

Ms Janet Gail Besser, Chairwoman
Department of Telecommunications & Energy
100 Cambridge Street, 12th Floor
Boston, MA 02202

Re: Application of Boston Edison Company, D.P.U / D.T.E. 97-63

Dear Chairwoman Besser,

On behalf of New Energy Ventures, Inc. ("NEV"), would like to register our strong support for the motion filed by Cablevision Systems Corporation to reopen the record and stay the proceedings in this docket. This motion raises issues central to developing a competitive energy marketplace in Massachusetts.

In its motion, Cablevision presents substantial evidence that Boston Edison Company has invested improperly in its telecommunications venture by making its investments without disclosure to the Department and by using ratepayers assets to benefit its competitive affiliates. In addition to its telecommunications affiliate, Boston Edison, like other electric utilities in the Commonwealth, has an energy affiliate. If electric utilities are able to transfer assets to such affiliates at below market value, to cross-subsidize the affiliates, and to provide them with unfair competitive advantages, the goals of electric industry restructuring will be frustrated because taxpayers will not receive the full measure of anticipated rate reduction and real competition will not emerge.

To assure the development of competition, the Department must maintain a close watch over the continuing transmission and distribution monopolies. Otherwise, competitive entrants such NEV will channel investment to states where incumbents do not enjoy the same advantages.

Cablevision's motion therefore presents a significant test of the Department's willingness to supervise the behavior of transmission and distribution monopolies in competitive markets. Because of its desire to see the Department actively protect such markets, NEV urges the Department to grant Cablevision's motions.

Respectively submitted,


Barbara Kates-Garnick
Executive Vice President
New Energy Ventures

Cc: Mary Cottrell
Alicia Matthews
Parties of Record

COMMONWEALTH OF MASSACHUSETTS
SUPREME JUDICIAL COURT

SUFFOLK COUNTY
S.J. 98-0287

CABLEVISION SYSTEMS CORP.,
Petitioner, Appellant,

v.

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY,
Respondent/Appellee.

ON APPEAL FROM AN ORDER OF THE DEPARTMENT OF
TELECOMMUNICATIONS AND ENERGY

**SUBMISSION OF AMICUS CURIAE MASSACHUSETTS PUBLIC
INTEREST RESEARCH GROUP**

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STATEMENT OF INTEREST

The Massachusetts Public Interest Research Group (MASSPIRG) is a non-profit, non partisan organization dedicated to safeguarding the public interest. MASSPIRG frequently intervenes in proceedings such as the proceeding before the DTE that is the subject of this appeal in order to raise issues of public concern. MASSPIRG's interest is to promote full and fair consideration of all issues impacting the public interest including consumer and environmental issues. MASSPIRG believes that the DTE's ruling in this case could lead to further narrowing of the scope of public debate in similar proceedings in the future, to the detriment of MASSPIRG and its members.

STATEMENT OF POSITION

MASSPIRG respectfully files this submission as amicus curiae in strong opposition to the Massachusetts Department of Telecommunications and Energy's (DTE) recent order approving the Boston Edison reorganization plan. In approving the plan, the DTE adopted the dangerous position that it is not required, in assessing whether a reorganization, merger, or acquisition is "consistent with the public interest" (as required by the applicable Massachusetts statute), to consider all relevant costs and benefits of the reorganization.

In the particular case at hand, the DTE arbitrarily concluded that the potential negative impact of the Boston Edison reorganization on competition in the telecommunications and cable markets – an impact that Cablevision and others intended to prove was significant – is simply irrelevant to whether the reorganization is "consistent with the public interest." Such a conclusion, we think, defies common sense, as well as established "public interest" review precedent. It also led to the exclusion of substantial evidence that Boston Edison has repeatedly harmed electric ratepayers by using ratepayer assets to cross subsidize its entry into the telecommunications and cable markets – evidence that should no doubt have given the DTE serious pause before giving Boston Edison holding company status with the attendant freedom

from ongoing scrutiny.

As electric deregulation is implemented in Massachusetts, competitors and public interest intervenors have both the capability and motivation to call attention to activities that harm customers by stifling emerging markets. These groups play a vital role in ensuring that issues of relevance to consumers and the environment are addressed by DTE under its mandate to weigh "public interest" concerns. Cablevision's intervention in the BECo proceeding serves as a case in point. Had the matter been left exclusively to the DTE, BECo's efforts to force electric customers to subsidize its unregulated telecommunications and cable venture may have gone unnoticed.

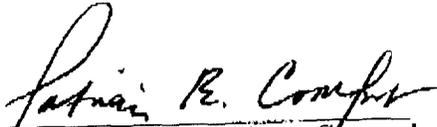
DTE's refusal to address the public interest review standard sets a dangerous precedent for future proceedings. Since the convergence among and between related industries is virtually certain to increase over time, DTE's arbitrary dismissal of the claim that BECo's reorganization detrimentally affects telecommunications and cable markets may preclude MASSPIRG from raising similar issues in future proceedings. The stare decisis effect of DTE's decision would substantially undermine the ability of MASSPIRG to raise significant issues of public concern in other DTE proceedings.

Under the logic of the DTE's decision, legitimate concerns relating to environmental and consumer impacts raised in future proceedings may be deemed similarly irrelevant. Such an approach is the antithesis of "public interest" review. Such review, as well as sound agency decisionmaking, envisions consideration of all relevant concerns, with the parties representing such concerns each with an equal chance of proving that the benefits or harms they allege are real.

As Massachusetts reduces regulation of utility prices and terms of service, the voices of public interest intervenors and competitors are crucial in determining the shape of emerging

markets. Now more than ever the DTE needs to consider the claims of private parties when their interests are aligned with issues of public concern. MASSPIRG fully expects to disagree with these private party perspectives on many occasions, but wants to be able to review and choose among them, not to have them stifled at the outset.

Respectfully submitted,



Patricia Comfort, Asst. Counsel

BBO#564176

MASSPIRG

29 Temple Place

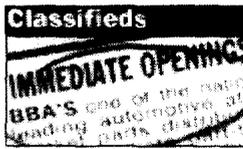
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Dated: June 12, 1998

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RCN TO RAISE CABLE RATES BY 12% TO 25%

Author: By Joann Muller, Globe Staff

Date: THURSDAY, February 19, 1998

Page: E6

Section: Business

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RCN Corp., which has positioned itself as the competitive alternative to high-priced cable companies, is raising its rates by 12 to 25 percent.

The price of RCN's basic cable service, which includes 75 channels, is increasing from \$24.95 to \$27.95 per month.

Customers who also select RCN as their local telephone service provider will still get a break on cable, but the rate will jump from \$19.97 to \$24.95, a 25 percent hike.

RCN chief executive David McCourt said the new prices mark the end of a six-month introductory offer that had been extended several times since the Princeton, N.J.-based company first launched its competitive cable service in Boston about two years ago.

"The original promotion was below our cost," he said. "Now, we're trying to get up to a competitive level. Twenty-seven ninety-five was the rate we always intended to charge."

McCourt said RCN must raise its rates to cover the higher costs of programming, but noted that RCN's prices are still below those of Cablevision's, its market rival in Boston.

Cablevision last month raised its rates by 2.5 percent, to \$29.60 for a comparable basic service plan. That rate doesn't include the rental of a set-top converter box.

RCN service doesn't require a converter.

Only RCN's 20,000 customers in Boston will be affected by the new prices. Thousands of customers in Somerville who have signed up for RCN cable service will continue to pay the introductory rate, for at least

six months. RCN is expected to launch service there in a few months.

P.A. Carr, a spokeswoman for Cablevision of Boston, said ``We've heard much rhetoric, seen expensive advertising and a state investigation into potentially illegal transfers from Boston Edison of ratepayers' money, and now we see double-digit rate increases.

``We welcome competition, but ratepayers should not be forced to subsidize unknowingly Boston Edison and RCN's speculative venture.

She was referring to a Department of Telecommunications and Energy investigation into whether money is being transferred from Edison into its unregulated, for-profit joint venture with RCN to expand RCN's cable network.

MULLER:02/18 NIGRO ;02/19,06:41 RCN19

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CERTIFICATE OF SERVICE

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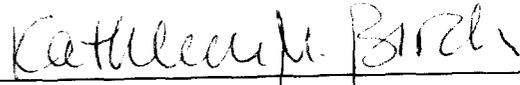
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Kathleen M. Birch