

PUBLIC UTILITIES COMMISSION  
OF GUAM

DOCKET FILE COPY ORIGINAL

Terrence M. Brooks, Chairman

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Harry M. Boertzel, Esq.  
Administrative Law Judge

Monessa C. Leon Guerrero  
Executive Director

November 13, 2001

Magalie R. Salas  
Office of the Secretary  
Federal Communications Commission  
445 - 12<sup>th</sup> Street, SW  
Washington, D.C. 20554

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NOV 29 2001  
FCC MAIL ROOM

**RE: CC Docket Number ~~96-24~~  
Petition For Waiver**

Dear Ms. Salas:

The Guam Public Utilities Commission [PUC] respectfully petitions the Federal Communications Commission [FCC] for a waiver of the requirement that PUC's annual certification of the eligibility of Guam Telephone Authority [GTA] to receive high-cost universal service support for the first quarter of 2002, be filed on or before October 1, 2001. PUC respectfully submits that the grant of the requested waiver is in the public interest.

At a duly convened PUC meeting on September 10, 2001, PUC authorized and directed its chairman, in accordance with 47 C.F.R. 54.314, to execute and deliver an annual certification of GTA's eligibility to receive high-cost universal service support. The certificate, executed and dated September 10, 2001 was delivered to and received by the U.S. Postal Service [Guam] on September 12, 2001 for delivery by certified mail. Attachment A contains the U.S. Postal Service receipts for the certificate, which was mailed to you and to Ms. Flannery [USAC]. Attachment B is a November 9, 2001 letter from Guam Postmaster San Nicolas, which explains how the events of September 11 disrupted the transit of mail from Guam to the U.S. mainland.<sup>1</sup>

<sup>1</sup> It is noted that the San Nicolas letter asserts that all delayed outbound mail that was held up since September 12, 2001 was sent to Honolulu and the mainland on September 18, 2001. As the certified mail envelopes for the PUC certificates were postmarked September 27 [See, 11/2/01 Flannery email to me, made **Attachment C**], it appears highly unlikely that these letters left Guam until at least September 27 [the date of their postmark] and perhaps later. Should FCC feel that this discrepancy is material to its deliberation of PUC's waiver request, PUC respectfully requests that it be given the opportunity to press Mr. San Nicolas for a clarification of the discrepancy. PUC senses that Guam Postal authorities' are sensitive about the time it took to dispatch the outbound mail, which was backlogged as a result of September 11 and, therefore, decided that unless absolutely necessary not to challenge Mr. San Nicolas on the point.

No. of Copies rec'd 0+1  
List A B C D E

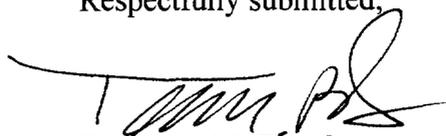
As a direct result of September 11 events, the certificate was held by the Guam Postal authorities until September 27, when it was postmarked and dispatched to Honolulu and the mainland. PUC submits that its posting of the certificate on September 12 was timely, diligent, and in sufficient time [nineteen days], under normal and foreseeable circumstances, to cause its delivery to FCC on or before October 1, 2001.<sup>2</sup> PUC further submits that the cause of the delay in postal delivery was entirely beyond PUC's control.

GTA's timely receipt of high cost support for the first quarter is in the public interest. Attachment D reflects that PUC will be conducting regulatory proceedings in December, 2001 to examine GTA's need for rate relief to cure its default of bond covenants to Rural Utilities Service and to provide GTA with adequate revenues to effectively operate. The availability of first quarter high cost support is of critical importance within the context of this rate proceeding.<sup>3</sup>

By reason of the above, PUC respectfully requests that its petition for waiver be granted for good cause shown and that GTA be determined eligible to receive high cost support for the first quarter of 2002.

Please let me know if you require any further documentation or information to assist in making a favorable ruling on this waiver petition.

Respectfully submitted,



**Terrence M. Brooks**  
Chairman

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<sup>2</sup> Under the still extraordinary circumstances, which followed September 11, the PUC certificate mailed to USAC took 12 days from postmark to delivery and the certificate mailed to you took 19 days from postmark to delivery.

<sup>3</sup> PUC estimates that a 13% increase in local basic exchange revenues will be required to bring GTA into compliance with RUS bond covenants. The loss of the first quarter high cost support could increase this already substantial rate increase, and at a time when Guam's isolated tourist based economy and its residents suffer from the aftermath of September 11.

Z 108 792 626

US Postal Service  
**Receipt for Certified Mail**

No Insurance Coverage Provided.  
Do not use for International Mail (See reverse)

Sent to <i>Irene Plannery</i>	
Street & Number <i>2120 L St. NW Ste 600</i>	
Post Office, State, & ZIP Code <i>Washington, DC 20037</i>	
Postage	\$ <i>.57</i>
Certified Fee	<i>2.10</i>
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Addressee's Address	
TOTAL Postage & Fees	<i>2.67</i>
Postmark or Date	<i>12 2001</i>

PS Form 3800 April 1995

Z 108 792 636

US Postal Service  
**Receipt for Certified Mail**

No Insurance Coverage Provided.  
Do not use for International Mail (See reverse)

Sent to <i>M. Roman Salas, FCC</i>	
Street & Number <i>445 12th St SW Room TWB204</i>	
Post Office, State, & ZIP Code <i>Washington, DC 20554</i>	
Postage	\$ <i>.57</i>
Certified Fee	<i>2.10</i>
Special Delivery Fee	<i>.57</i>
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Addressee's Address	
TOTAL Postage & Fees	<i>1.24</i>
Postmark or Date	<i>12 2001</i>

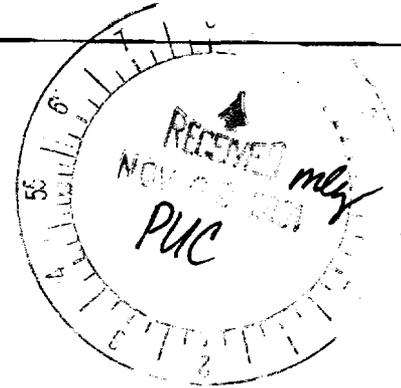
PS Form 3800 April 1995

TONY SAN NICOLAS  
POSTMASTER  
GUAM, GU 96921-9998



November 9, 2001

Ms. Monessa C. Leon Guerreo  
Public Utilities Commission of Guam  
Suite 207, GCIC Building  
P. O. Box 862  
Hagatna GU 96932



Dear Ms. Leon Guerrero:

On September 11, 2001 mainland time and date, the Federal Aviation Administration issued a nationwide directive grounding all commercial aircraft as a result of the attacks in New York and Washington. On September 18, 2001, Guam dispatched all delayed outbound mail that was held up since September 12, 2001 via its first chartered flight to Honolulu and mainland, as a result of the September 11<sup>th</sup> incident.

The delayed transit time on your mail reaching its destination may have been caused by the large mail backlog occurring at major postal facility hubs that processes mail such as in Honolulu and other mainland processing centers. We noticed also that mail addressed both to and from the Washington D.C. area had major security issues not just with the postal facilities, but with other government offices within this area during this period and up to the present time. Additionally, the restrictions imposed by the FAA ruling to restrict movement of mail on commercial passenger aircraft during this period further restricts our ability to meet acceptable service standards. The U. S. Postal Service is also mandated to implement and perform additional Aviation Security measures when accepting and dispatching mail as a result of the September 11 incident.

FAA has now cleared the U. S. Postal Service to board all First-Class letter size mail, registered and Express Mail on commercial passenger aircraft. There is still a FAA restriction on boarding Priority and other mail that are over 16 ounces on commercial passenger aircraft.

We hope this letter can provide an explanation to the USAC as well as the FCC offices in Washington D. C. as your office attempts to file a waiver. We apologize for this unfortunate incident. If you have any questions, feel free to contact me at (671) 734-3921).

Sincerely,

A handwritten signature in black ink, appearing to read "Tony San Nicolas".

TONY SAN NICOLAS  
Postmaster

GUAM MAIN FACILITY  
GUAM, GU 96921-9998  
(671) 734-3921  
FAX: (671) 734-3925

ATTACHMENT B

**Monessa Leon Guerrero**

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**From:** Irene Flannery <iflannery@universalservice.org>  
**To:** <guampuc@kuentos.guam.net>  
**Cc:** <mporteo@neca.org>; <vahern@nixonpeabody.com>  
**Sent:** Friday, November 02, 2001 3:41 PM  
**Subject:** October 1 certification requirement

Dear Chairman Brooks,

Each state and territory commission is required to certify that all of its rural carriers will use any high cost support received only for the provision, maintenance, and upgrading of facilities and services eligible for support. These certifications were due to the Federal Communications Commission (FCC) and the Universal Service Administrative Company (USAC) on October 1, 2001. USAC received a certification for Guam Telephone Authority from the Guam Public Utilities Commission on October 9 and, in a conversation with the FCC, it was relayed to me that the FCC received the certification on October 15. The letter is dated September 10 and the certified mail envelope was postmarked on September 27.

Under FCC rules, the consequence of failing to be certified by a state or territory commission by October 1 is the carrier's ineligibility to receive high cost support in the first quarter of 2002. Long term support (LTS) is exempt from the requirement at this time, so any LTS support the Guam Telephone Authority is eligible to receive will not be affected by the lack of a certification. All other high cost support, however, will be affected. If the Guam PUC wishes Guam Telephone to be eligible to receive high cost support in the second quarter of 2002, the PUC must submit a certification by January 1, 2002.

In order for Guam Telephone to be eligible to receive high cost support in the first quarter of 2002, the Guam PUC will need to seek a waiver from the FCC. Because the certification requirement is contained in an FCC rule, USAC is not authorized to waive the requirement; only the FCC may do so. The petition for waiver may be in the form of a letter and should explain the reason for the late filing of the certification. The standard that the FCC applies in determining whether a waiver should be granted is a public interest standard; that is, the FCC grants waiver petitions only if special circumstances warrant a deviation from the general rule, and such deviation will serve the public interest.

The waiver petition must reference CC Docket Number 96-24 and, if mailed via standard postal delivery, it should be submitted to the following address:  
Magalie R. Salas  
Office of the Secretary  
Federal Communications Commission

**ATTACHMENT C**

11/13/01

445 - 12th Street, SW  
Washington, DC 20554

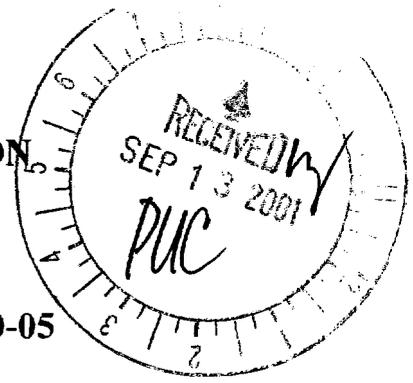
In light of the anthrax situation here in Washington, at the present time anything sent to the FCC via Federal Express or any other express mail service should be sent to the same address listed above, except that the zip code "20024" must be used.

Please do not hesitate to contact me if I can answer any questions or if I can be of further assistance.

Sincerely,

Irene Flannery  
Vice President - High Cost & Low Income Division  
Universal Service Administrative Company (USAC)  
202-776-0200 (phone)  
202-776-0080 (fax)  
[iflannery@universalservice.org](mailto:iflannery@universalservice.org)

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF GUAM**



**GUAM TELEPHONE AUTHORITY** )  
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 )  
\_\_\_\_\_ )

**DOCKET 00-05**

**ORDER RE-INSTITUTING RATE PROCEEDING**

By this Order the Guam Public Utilities Commission [Commission] presents its findings of fact and law and orders, which have been adopted during a duly convened and noticed hearing on September 13, 2001, to address Guam Telephone Authority's [GTA] critical need for regulatory relief to resolve its five year default status under bond covenants with Rural Utilities Service [RUS].

*Findings*

The convoluted history of this docket centers on GTA's efforts to cure its five-year default under bond covenants with the RUS<sup>1</sup> through either rate award and or the statutory transfer of its unfunded pension liability to the government of Guam.

On March 31, 2000, GTA filed a petition for rate relief with the Commission.<sup>2</sup> On November 17, 2000, the Commission granted GTA's request to withdraw its petition so that it could pursue the statutory transfer of its unfunded pension liability.<sup>3</sup> On March 6, 2001 after failing to secure

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<sup>1</sup> Under GTA's bond covenants with Rural Utilities Service, it must achieve a "times interest earned ratio" [TIER] of 1.5 times for the highest two of the three most recent calendar years. GTA has failed to achieve this TIER requirement for the past four years.

<sup>2</sup> GTA's March 2000 rate petition sought an award of regulated revenues of \$5.3 million dollars, which would bring it into TIER compliance after the passage of two years from the date of the award. By letter dated April 11, 2001 RUS informed GTA, by letter dated October 3, 2000 [Attachment A] that this approach would be acceptable to RUS as a path to bond covenant compliance.

<sup>3</sup> In its November 17, 2000 Order in this Docket, the Commission found that this transfer would create sufficient extraordinary income credits to enable GTA to comply with its RUS TIER bond covenants without any award of rate relief. The Commission also found that this transfer would not relieve GTA of

Legislative interest in enacting legislation to transfer the liability, GTA petitioned the Commission to reopen the rate proceeding. This request was granted by Commission Order dated March 6, 2001.

A public hearing was held on the petition on May 23, 2001 to consider a stipulation between GTA and the Commission's regulatory consultant [Georgetown Consulting Group] in support of the award of rate relief [Attachment B]. However, during the May, 2001 regulatory session, the Commission did not have a quorum of five members, which is necessary for it to act on GTA's rate petition.<sup>4</sup> Under then existing law [12 GCA 12018] the Commission's failure to act on the petition within 120 days of its final filing<sup>5</sup> constituted approval of the petition. However, prior to this event, the Legislature amended section 12018 by Public Law [P.L.] 26-27 to provide that the Commission's failure to act within 120 days would constitute a **denial** of the petition. Accordingly, GTA's petition was denied by operation of P.L. 26-27.

Further complicating the history of this docket is the Legislature's enactment in July, 2001 of P.L. 26-23, which created the requirement in 12 GCA 12001.2 that a regulated utility must provide its customers with three months notice prior to filing a rate petition and that the Commission must conduct a staffing study of the utility before it can act on a utility filed rate petition.

By letters dated June 18, 2001[Attachment C] and August 28, 2001 [Attachment D], RUS has expressed serious concern over GTA's failure to cure its default status under RUS bond covenants and has strongly urged the Commission to award GTA rate relief to cure its default under RUS bond covenants. RUS cautions that if the Commission fails to act promptly, it will have no alternative other than to "explore its remedies under the bond covenants".

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the statutory responsibility for pension contributions under 4 GCA 8137, which include contributions to retire the unfunded liability.

<sup>4</sup> Under 12 GCA 12006 the Commission requires a quorum of 5 members to do business. During the May, 2001 regulatory session there were only four Commissioners in office.

<sup>5</sup> GTA and Georgetown stipulated with ALJ approval that this 120-day period started on March 6, 2001 and would end on July 5, 2001.

The above record evidences GTA's diligent but frustrated efforts to obtain either rate relief or legislation to cure its default under RUS bond covenants. As evidenced by the August 28 RUS letter, the situation has become gravely serious. The Commission is, therefore, faced with the decision of whether, in response to the RUS letter, to re-institute, on its own initiative, proceedings to consider GTA's March 31, 2000 rate petition. In the alternative, the Commission could direct GTA to initiate a rate request in compliance with the requirements of 12 GCA 12001.2.

In collateral proceedings in Docket 00-01[GWA Rate Matters], the Commission has ruled that upon a finding of extraordinary circumstances, it will exercise its independent authority under 12 GCA 12004 and 12015 to initiate rate proceedings on its own accord when the delay embodied in section 12001.2 would cause the utility significant harm. After careful consideration and in consultation with its ALJ, the Commission is reasonably persuaded by the following facts and circumstances that it should issue an order, on its own initiative, reinstating the rate petition filed by GTA on or about March 31, 2000. These extraordinary circumstances include:

1. The sense of urgency communicated by the RUS June 18, 2001 and August 28, 2001 letters.
2. The fact that the GTA staffing study, which under section 12001.2(d) must be considered in a utility initiated rate proceedings, will not be completed until the March 2002 regulatory session.
3. An alternative solution to GTA's loan default [transfer of unfunded pension liability] has been before the Legislature since October 1999 [see **Commission Order in Docket 99-05 dated October 5 1999**], without action.
4. The government of Guam is actively pursuing the privatization of GTA. There is a substantial probability that unless promptly cured, GTA's loan default will negatively impact on GTA's marketability and value in these privatization efforts.

**Order**

After careful consideration of the above record and findings and on motion duly made, seconded and supported by the affirmative vote of five Commissioners, and for good cause shown, the Commission **HEREBY ORDERS THAT:**

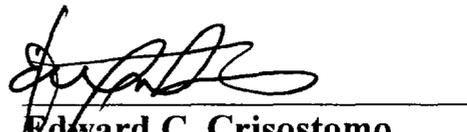
1. Docket 00-05 is hereby reopened on the Commission's own initiative to consider GTA's rate petition, as originally filed on or about March 31, 2000 and as subsequently supported in amended form by stipulation between GTA and Georgetown dated May 31, 2001. The Commission's ALJ is hereby authorized and directed to institute proceedings toward public hearings during the Commission's December regulatory session to consider the petition.
2. This Order shall not have force and effect until GTA brings itself into compliance with the Commission's December 17, 1999 Administrative Order.

Dated this 13<sup>th</sup> day of September 2001.

  
Terrence M. Brooks

  
Joseph M. McDonald

  
Filomena M. Cantoria

  
Edward C. Crisostomo

  
Gerald M. Woo



United States Department of Agriculture  
Rural Development

Rural Business-Cooperative Service • Rural Housing Service • Rural Utilities Service  
Washington, DC 20250

October 3, 2000

Ms. Veronica M. Ahern  
Attorney at Law  
Nixon Peabody LLP  
401 9<sup>th</sup> Street, NW, Suite 900  
Washington, D.C. 20004-2128

Dear Ms. Ahern:

Thank you for your letter of September 29, 2000, concerning the possible transfer of the Guam Telephone Authority's (GTA) unfunded pension liability. If legislation is passed authorizing the transfer of the unfunded pension liability to the Government of Guam and the transfer is made, GTA would realize income in the amount of the liability transferred.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a debtor derecognizes a liability if, and only if, it has been extinguished. SFAS No. 125 defines a liability as having been extinguished when the debtor is legally released from being the primary obligor under the liability, either judicially or by the creditor. Therefore, if legislation is passed and the Government of Guam assumes the unfunded pension liability, GTA should remove the liability from its records.

SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt, requires any gain or loss, upon extinguishment, to be reported as an extraordinary item, net of any related income tax effect, if the gain is material. Therefore, if the \$13.5 million gain is material to the financial statements taken as a whole, it should be recorded in Account 7610, Extraordinary Income Credits, and reported on Line 28, Extraordinary Items, of the Rural Utilities Service's Form 479, Financial and Statistical Report. If the gain is deemed to be immaterial, it should be recorded in Account 7360, Other Nonoperating Income, and reported on Line 27, Nonoperating Net Income, of the Form 479. In calculating the Times Interest Earned Ratio, all income items reported on the Form 479, including Lines 27 and 28, are included. Therefore, if the transfer of debt occurs, the income realized would be included in GTA's net income and TIER in the year of the transfer.

If you have any further questions or if we can be of any additional assistance, please contact us.

Sincerely,

ROBERTA D. PURCELL  
Assistant Administrator  
Telecommunications Program

cc: Vincent P. Arriola, Guam Telephone Authority  
Harry M. Boertzel, Esq., Guam Public Utilities Commission  
Jamshed K. Madan, Georgetown Consulting Group  
Carl O. Thorsen, PricewaterhouseCoopers

Rural Development is an Equal Opportunity Lender  
Complaints of discrimination should be sent to:  
Secretary of Agriculture, Washington, DC 20250

RECEIVED OCT 12 2000

ATTACHMENT A

RECEIVED  
NOV 27 2001

*nlr*  
PUBLIC UTILITIES

**BEFORE THE PUBLIC UTILITIES COMMISSION  
TERRITORY OF GUAM**

**IN THE MATTER OF GUAM )  
TELEPHONE AUTHORITY ) PUC DOCKET NO. 00-05  
APPLICATION FOR RATE RELIEF )**

Guam Telephone Authority ("GTA") and Georgetown Consulting Group, Inc. ("GCG") hereby stipulate as follows:

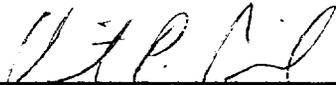
1. In February 2000, GTA filed a request for rate relief with the Public Utilities Commission ("PUC"), which created the above-captioned docket to consider GTA's request. On October 25, 2000, GTA filed a letter asking to withdraw its request in anticipation of legislation that would transfer GTA's unfunded pension liability to the Government of Guam Long-term Debt Account Group ("LTDAG"). At the time GTA made its withdrawal request, which was granted by the PUC on November 27, 2000, the Guam Legislature was considering transfer legislation as well as legislation that would enable GTA to borrow additional funds to provide flexibility to meet future construction program requirements.
2. The Guam Legislature has not taken action on these two related issues. Consequently, on March 6, 2001, GTA sought reinstatement of its request for rate relief. GTA's request seeks to increase rates to produce additional regulated revenues of \$5.3 million in order to achieve a Times Interest Earned Ratio ("TIER") of 1.5 times for a single calendar year. GTA points out that the Rural Utilities Service ("RUS"), GTA's principal lender, requires GTA to achieve an average TIER of 1.5 times for the highest two out of three most recent calendar years. To comply, GTA would be required to request rates to produce additional revenues of \$11 million. Therefore, GTA's request for additional regulated revenues of \$5.3 million is a short-term relief measure that would only meet the RUS requirement after it has been in effect for two full years.
3. On April 11, 2001, GTA informed RUS that it had requested revenues sufficient to achieve a TIER of 1.5 times on a single calendar year basis pursuant to a plan to increase local service rates. On May 10, 2001, RUS informed GTA that the plan proposed by GTA is acceptable to RUS.
4. The test year as filed in this proceeding is FY 2000 (the 12 months ending September 30, 2000). Since the filing was originally made in February 2000, much of the data in the proceeding originally was estimated. Actual information for FY 2000 is now available. GTA and GCG agree that the use of actual information for FY 2000, adjusted for limited one-time items that occurred in FY 2000 but which will not recur in FY 2001, is appropriate for determining the level of rate relief in this rate proceeding.

**ATTACHMENT B**

5. GTA and GCG agree that using actual data for the test year, adjusted appropriately for one time events, produces a TIER for the test year of 0.874 times. In order to achieve a TIER of 1.5 times for a single calendar year, the additional regulated revenues required to be produced are \$3.6 million, approximately \$1.7 million less than GTA's March 6 request.
6. GTA and GCG jointly recommend the approval of the price changes shown on Attachment 1 to this stipulation to achieve the additional \$3.6 million of revenues recommended. GTA will file with the PUC no later than June 1, 2001 the appropriate tariff pages as approved by GCG.
7. GTA's and GCG's joint recommendation in paragraph 4 above contains agreement on the rate requests contained in GTA's March 21, 2001 letter to the PUC. These requests were for approval for two new services, Public Pay Telephone Services ("PPTS") and Synchronous Digital Subscriber Line ("SDSL") Service. Minor wording changes related to provision of telephone directories and Asynchronous Digital Subscriber Line ("ADSL") Service have also been agreed upon.
8. GTA and GCG recommend that the proposed tariff changes become effective on July 5, 2001. GTA and GCG agree that if, prior to July 5, 2001, GTA's unfunded pension liability is transferred to the Government of Guam LTDA, GTA shall request that its petition for regulated tariff increases be dismissed by the PUC.
9. GTA and GCG continue to recommend the transfer of GTA's unfunded pension liability to the Government of Guam LTDA and the passage of legislation that would enable GTA to borrow additional funds to meet construction requirements.
10. As of the date of this Stipulation, the PUC is unable to act on GTA's request for rate relief because of a lack of a quorum. Under 12 GCA §12018, if the PUC fails to act on a rate request change within 120 days of a final filing by a public utility, the rate request change shall be deemed approved. A final filing occurs when a utility has filed all the documentation necessary to support the request for a rate change. Because GTA's March 6, 2001 request sought reinstatement of a request for rate relief in which supporting documentation, including discovery, had been completed, GTA and GCG recommend that GTA's March 6, 2001 request for reinstatement should be considered a "final filing" for purposes of 12 GCA §12018 and Rule 24(e) of the PUC Rules. GTA and GCG request that the ALJ issue a ruling to this effect. Thus, the rate increases contemplated herein would go into effect on July 5, 2001, in the absence of specific action by the PUC.
11. GTA's March 6, 2001 request sought additional regulated revenues of \$5.3 million. However, GCG and GTA hereby stipulate to a rate increase producing additional regulated revenues of \$3.6 million, as shown in Attachment 1. GTA specifically waives its right to the rate

increase contemplated in its March 6, 2001 request, in favor of that shown in Attachment 1.

**GUAM TELEPHONE AUTHORITY  
GOVERNMENT OF GUAM**

By:   
\_\_\_\_\_  
**VINCENT P. ARRIOLA**  
*Its General Manager*

DATED: MAY 23, 2001

**KLEMM, BLAIR, STERLING & JOHNSON  
A PROFESSIONAL CORPORATION**

By:   
\_\_\_\_\_  
**WILLIAM J. BLAIR**  
*Attorneys for Georgetown  
Consulting Group, Inc.*

DATED: MAY 23, 2001

**ATTACHMENT: "ATTACHMENT 1"**

Guam Telephone Authority  
Summary of Rate Requests

**Stipulation**  
**\$3,570,342**

	Current	Proposed	Increase	Units	Add'l Revenues
Basic Exchange Res	14.00	16.50	2.50	44,133	\$1,323,990
Business SL, Key & Test	39.00	44.00	5.00	14,431	865,860
Bus Rotary	36.00	41.00	5.00	3,358	201,480
Bus CTX	36.00	41.00	5.00	8,136	488,160
Bus DID/DOD Trunks	49.00	55.00	6.00	409	29,448
Bus Trunk Line	49.00	55.00	6.00	2,170	156,240
Paystation Lines	36.00	44.00	8.00	200	19,200
<b>TOTAL BASIC EXCHANGE</b>				<b>72,837</b>	<b>\$3,084,378</b>
Increase Cust. Calling/CLASS Features			1.00	23,715	<b>\$284,580</b>
Increase Non Publish			1.00	16,782	<b>\$201,384</b>
<b>TOTAL INCREASE IN REGULATED REVENUES</b>					<b>\$3,570,342</b>



United States Department of Agriculture  
Rural Development

Rural Business-Cooperative Service - Rural Housing Service - Rural Utilities Service  
Washington, DC 20250

June 18, 2001

Mr. Vincent P. Arriola  
Manager  
Guam Telephone Authority  
P.O. Box 9008  
Tamuning, Guam 96931

Dear Mr. Arriola:

As you are aware, the Rural Utilities Service (RUS) is very concerned over plans to bring Guam Telephone Authority (GTA) in compliance with the terms of its bond covenants. Specifically, GTA must maintain a Times Interest Earned Ratio (TIER) of 1.50, based on the average TIER of the highest 2 of the preceding 3 years. Over the past 4 years (1997 through 2000), GTA has failed to meet this requirement.

RUS has been working diligently with GTA over the past several years to seek solutions to remedying this situation. In a letter dated April 10, 2001, GTA indicated that it would seek a rate increase from the Guam Public Utilities Commission (PUC) in such an amount that would enable GTA to meet its TIER obligations. On May 10, 2001, RUS responded favorably to that plan and requested that, upon approval of such rate increase, GTA provide time frames for meeting the TIER requirement.

Unfortunately, RUS has learned that GTA's planned rate increase is in question and faces the possibility of non-action due to the lack of a PUC quorum and the Guam legislature's passage of Bill No. 97 which amends Guam law to provide that failure of the PUC to act upon a rate change within 120 days will be deemed a final order denying the rate change. While RUS has attempted to work with GTA to resolve its noncompliance, it appears that the only mechanism to do so, a modest rate increase, is at risk. If such a rate increase is not implemented and GTA's financial condition does not improve, RUS will have no other alternative than to explore its remedies under the bond covenants. Please be advised that RUS recognizes the severity of the financial situation facing GTA and is extremely concerned about GTA's ongoing inability to meet its TIER requirements.

OPTIONAL FORM NO. 7-99

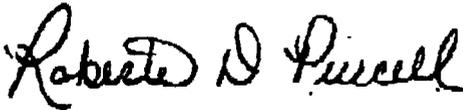
FAX TRANSMITTAL		Page 2
U. Arriola	From: B. Purcell	
Dept./Agency	Phone: 362-720-9554	
702/585-8080	Fax:	

Mr. Vincent P. Arriola

2

The plan that RUS supported, to implement a rate increase, appears to be a prudent course of action without placing undue financial burden on GTA and its subscribers. We hope that GTA will continue to seek a remedy to this situation before it deteriorates further.

Sincerely,



ROBERTA D. PURCELL  
Assistant Administrator  
Telecommunications Program  
Rural Utilities Service

cc:

Ms. Veronica M. Ahern ✓  
Attorney-at-Law  
Nixon Peabody LLP



United States Department of Agriculture  
Rural Development

Rural Business-Cooperative Service • Rural Housing Service • Rural Utilities Service  
Washington, DC 20250

August 28, 2001

Mr. Terrence M. Brooks, Esq.  
Chairman  
Guam Public Utilities Commission  
414 West Soledad Avenue  
GCIC Building  
Hagatna, Guam 96910

*my*  
*PUC*

Dear Mr. Brooks:

The Rural Utilities Service (RUS) is a Rural Development agency of the U. S. Department of Agriculture whose mission is to provide financing to ensure that rural communities have access to the same level of electric, telecommunications, water and waste disposal service as urban and suburban communities. To further this mission, RUS has made loans to the Guam Telephone Authority (GTA) pursuant to an Indenture dated October 4, 1985, as amended, under which RUS and the Rural Telephone Bank (RTB) are the bondholders (RUS and RTB are hereinafter concurrently referred to as the "Government"). GTA's outstanding indebtedness to the Government is currently in excess of \$110 million dollars and the Government is greatly concerned about GTA's ability to repay this indebtedness as it has agreed.

In accordance with the covenants of GTA's bond indenture, GTA is required to maintain a Times Interest Earned Ratio (TIER) of 1.50, based upon the average TIER of the highest 2 of the preceding 3 years. Over the past 4 years (1997 through 2000), GTA has failed to meet this requirement and preliminary financial information indicates that GTA will, once again, fail to meet this requirement in 2001.

The Government has been working diligently with GTA over the past several years to seek solutions to remedy this situation. GTA responded by significantly reducing expenses and improving its operational efficiency in an effort to improve its financial performance. These measures alone, however, proved insufficient without a modest rate increase. In a letter dated April 10, 2001, GTA indicated that it would seek a rate increase from the Guam Public Utilities Commission (PUC) in such an amount that would enable GTA to meet its TIER obligations. On May 10, 2001, the Government responded favorably to that plan and requested that, upon approval of such rate increase, GTA provide time frames for meeting the TIER requirement. Unfortunately, the Government now understands that GTA's requested rate increase did not receive

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Secretary of Agriculture, Washington, DC 20250

OPTIONAL FORM 99 (7-90)

**FAX TRANSMITTAL**

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End

**ATTACHMENT D**

Mr. Terrence M. Brooks, Esq.

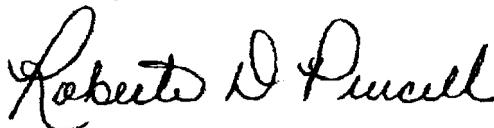
2

action due to the lack of a PUC quorum and the Guam legislature's passage of an amendment which provides that failure of the PUC to act upon a rate change within 120 days will be deemed a final order denying the rate change.

However, it is also the Government's understanding that, in accordance with 12 G.C.A. § 12004, "General Power and Duties", it is the PUC's duty to establish reasonable rates and charges for GTA's service that are adequate to cover the full cost of such service or as necessary to meet its contractual agreements to the Government as a bondholder. Since GTA has not met the contractual agreements of its bond indenture since 1996, the Government is hereby requesting that the PUC act prudently by imposing the rate increase requested by GTA in its petition dated January 18, 2000. The rate increase requested by GTA appears to be a prudent course of action without placing undue financial burden on GTA and its subscribers. If such a rate increase is not implemented and GTA's financial condition does not improve, the Government will have no other alternative than to explore its remedies under the bond covenants. Please be advised that the Government recognizes the severity of the financial situation facing GTA and is extremely concerned about GTA's ongoing inability to meet its TIER requirements.

It is RUS' sincere hope that the PUC will consider the Government's request and provide a remedy to this situation before GTA's financial condition deteriorates further and additional action is required.

Sincerely,



ROBERTA D. PURCELL  
Assistant Administrator  
Telecommunications Program  
Rural Utilities Service

cc:

Ms. Veronica M. Ahern  
Attorney-at-Law  
Nixon Peabody LLP