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September 12, 2003

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

Re: Response to August 15, 2003 Letter of Pacific Telecom Inc. and New Information; IB Docket No. 03-115

Dear Ms. Dortch:

By the following letter, the Office of the Governor of the Northern Mariana Islands ("Office of the Governor") responds to the August 15, 2003 letter of Pacific Telecom Inc. ("PTI") and calls to the Commission's attention new information which is of significant relevance to the above-referenced proceeding.

A. PTI's is Not Technically Qualified to Assume Operations of MTC.

Over the course of this proceeding, PTI has attempted to base its technical ability to operate MTC, in large part, on its previous ownership of Islacom.[1] To show the fallacy of this argument, in its Petition to Deny, the Office of the Governor offered evidence that Islacom, while under ownership of the Delgados "fell short of commitments to the Philippine government in terms of service coverage."[2] In its Joint Opposition, PTI and Bell Atlantic New Zealand Holdings, Inc. ("BANZHI") acknowledged this fact.[3] However, the Joint Applicants claimed that none of the companies with obligations at the "700,000 line level" were able to meet the Philippine government's deadlines.[4]

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1 *See In re* Pacific Telecom Inc., Petition for Declaratory Ruling Under Section 310(b)(4) of the Communications Act of 1934, as Amended, to Permit Indirect Foreign Ownership Exceeding 25 Percent in Common Carrier Licensee GTE Pacifica Inc., at 8 (April 18, 2003) ("Petition")

2 *See* Petition of the Office of the Governor to Deny, or, in the Alternative, to Designate for Hearing, note 46 (June 9, 2003) ("Petition to Deny").

3 *See* Joint Opposition of PTI and BANZHI, at note 4 (June 24, 2003).

4 *Id.*

The Joint Applicants' statement is misleading. The Philippine National Telecommunications Commission ("NTC") released a report on March 4, 2002, titled "Assessment of the Implementation of Service Area Scheme (SAS)" to assess the progress made by those carriers which had roll out obligations for local wireline service.[5] In that report, the NTC measured progress towards meeting local service obligations in two ways. First, was whether the carrier met the number of local access lines it was required to roll-out. Second, was whether the carrier provided local service to the requisite area within its service region.

With respect to the first criteria regarding the number of local access lines required, the report states that Globe Telecom ("Globe"), Smart Communications ("Smart") and Islacom were the only companies with obligations to roll out 700,000 lines by the government's deadline.[6] According to the report, of those companies, only Islacom failed to roll out the required number of lines, falling some 134,271 lines short (approximately 20% of the total) of the required level.[7] Globe and Smart, as well as numerous other carriers with obligations other than at the 700,000 line level, met their roll out obligations.[8]

In terms of the second criteria, local service coverage area, out of ten companies with obligations to provide service to a particular area, Islacom failed to meet their requirements by the largest margin of any carrier.[9] For example, Islacom failed to cover an area roughly three times the size of the one Smart Communications failed to cover and over ten times the size of the area by which Globe fell short.[10]

Contrary to what PTI would lead the Commission to believe, Islacom's failure to roll-out service was no small matter in the Philippines. An administrative hearing was apparently held by the NTC to determine the proper penalty to assess against Islacom. Furthermore, in mid-2000, the NTC apparently refused to renew Islacom's license due to the company's failure to meet the service deadlines. While Islacom eventually reached an agreement with the NTC for an

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5 *See* National Telecommunications Association, *Assessment of the Implementation of Service Area Scheme (SAS)*. Available at http://www.ntc.gov.ph/whatsnew/sas/pdf (last visited September 2, 2003) ("SAS Report"). A copy of the SAS report is enclosed as Exhibit A. Since PTI is seeking to acquire the monopoly landline telephone network in the CNMI, its past failure to meet local wireline obligations in the Philippines is highly relevant to the issue of technical qualification.

6 *See* SAS Report at 2-3.

7 *Id.* at 4.

8 *Id.*

9 *Id.*

10 The Joint Applicants state that Islacom deployed switching capacity in an amount necessary to meet double the demand actually experienced. *See* Joint Opposition of PTI and BANZHI, at note 4 (June 24, 2003). This is meant only to misdirect the Commission away from Islacom's failures. Since Islacom failed to provide service to their entire service region, and failed to implement over 130,000 lines, it is irrelevant whether Islacom deployed switching capacity to meet demand or not because demand was artificially lowered due to the fact that many customers were unable to obtain service at all.

extension of the deadline, the Delgados sold their interest in the company before the extended deadline expired. The Delgados now wish to predicate their ability to manage a more technologically diverse network encompassing monopoly wireline local services in the CNMI on their failed experiences in the Philippines.[11]

Failures such as these are critical to the instant Applications. As has been established in this proceeding, there is no competition for many services in the CNMI, including basic local exchange service, the very service for which Islacom failed to adequately provide coverage in the Philippines. If similar service failures were to occur in the CNMI, the results would be disastrous with consumers unable to access any telecommunications services (most notably local service) and no other company able to fill the shortfall. Given that the only actual telecommunications experience of PTI's shareholders demonstrates their inability to effectively manage a telecommunications network, the Commission should deny the Applications.

B. The Serious Threat to National Security Which the Transaction Poses is Becoming Increasingly Evident.

Throughout this proceeding, the Office of the Governor has supplied the Commission with multiple sources stating the importance of the CNMI to the objectives of the U.S. military and the significant threat of terrorism the Commonwealth faces, in part because of its strategic location in the Pacific Ocean. In perhaps the most important piece of information to surface to date, on April 25, 2002, R.G. Meissner of the Office of the U.S. Attorney for the Eastern District of Virginia prepared a Risk Assessment Report for the U.S. Attorney's Office for the Districts of Guam and the Commonwealth, which according to an article in the *Marianas Variety,* (attached as Exhibit B), labels the CNMI as a "high risk" security area and states that the CNMI and Guam are two "strategic areas which constitute the westernmost border of the U.S. homeland." Although the report is classified since it deals with threats to law enforcement and national security, copies of the report were delivered to the U.S. Department of Justice, the U.S. Department of Defense and the U.S. Department of the Interior.

The *Marianas Variety* article indicates that the report states that the CNMI is a "target-rich environment for terrorist activity" and that it has "moved up on the list of potential targets in the Pacific". Additionally, the report states that the CNMI requires "special security attention and consideration". The report attributes a major root of the national security concerns in the CNMI to a growing alien population, among other things. Significantly, the report is purported to detail a growing risk to telecommunications security in the area.

Approval of the Applications will only serve to heighten this security risk. If the Commission cannot fully and satisfactorily conclude that no harm to U.S. national security would result from the acquisition of MTC by PTI -- a conclusion which cannot be reached based on the record -- then it should use its authority under Section 310 of the Communications Act of 1934, as Amended, to deny the Applications.

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11 The Office of the Governor is attempting to obtain the past rulings of the NTC regarding Islacom's local service failures in the Philippines, but thus far has not been successful. Since examination of this complete record (*i.e.*, orders, determinations, sanctions, etc.) is relevant here, PTI should be asked to produce it.

C. Financial Qualification Has Not Been Demonstrated

Over the course of this proceeding, PTI has attempted to base its argument for financial qualification on the assets of its ultimate owners, the Delgados, or on the financial holdings of a PTI affiliate, Citadel.[12] However, on September 3, 2003 all documentation in support of PTI's financial qualification, except for a letter dated June 23, 2003 submitted as Attachment B to PTI's June 24, 2003 Joint Opposition, was withdrawn from the record. Subsequently, on August 27, 2003, PTI submitted materials showing the projected financial status of PTI in the event that the Applications are approved.[13]

PTI is merely a shell company, created purely for the purchase of MTC.[14] Yet the only material on the record that speaks to PTI's financial qualification to operate the monopoly telecommunications network on the CNMI is a *pro forma* balance sheet, prepared and submitted to the Commission with PTI's prior knowledge that the projected financial information contained therein would serve as the sole basis of PTI's financial qualification. Without knowing the financial condition of the underlying owners, projected funding provides little insight into the actual financial capability of the purchase vehicle, PTI.

What little information is known about the assets of the underlying owners indicates that financial qualification to acquire MTC has not been demonstrated. A Dun & Bradstreet business information report obtained by the Office of the Governor on May 21, 2003 for PTI affiliate Citadel Holdings Inc. ("Citadel") raises significant doubts about that company's financial status. In lieu of a rating, Citadel received the symbol of "--" from Dun & Bradstreet in the rating field. This symbol indicates that the information available to Dun & Bradstreet did not permit them to classify the company within their rating system and **that further inquiry should be made before reaching a final credit decision.** Reasons for use of the "--" symbol include: "deficit net worth, bankruptcy proceedings, lack of sufficient payment information or incomplete history". Additionally, the report states that there was a lack of executive background information available when preparing the report and that Dun & Bradstreet did not have "sufficient information about the background of the business and its significant principals to fully assess risk."[15]

The sole letter remaining on the record which purports to show financial qualification of PTI, the June 23, 2003 letter, merely states that in the opinion of one Lorenzo Tan, the Delgados possess sufficient assets to purchase MTC. There is no indication that Mr. Tan has any particular

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12 *See* Petition at 10.

13 *See* Letter from Kenneth Patrich and Timothy J. Cooney, Counsel for PTI, to Marlene Dortch, FCC, Dated August 27, 2003.

14 *See* Petition at 3.

15 A separate credit report obtained by the Office of the Governor shows that Citadel suffered losses in the amount of 534,929,865 Pesos in the year 2000 (which, based on the exchange rate as of June 4, 2003 is $10,064,531.82 USD), recouping only approximately 10 percent of that total with 2001's before tax profits. *See* Petition to Deny at n. 36.

knowledge of what financial obligations such a purchase, and continued operations, would entail. Additionally, the letter discloses nothing about specific net worth or account balances. Furthermore, if the Commission were to rely on such unsubstantiated material, it would be substituting the judgment of an unknown individual for its own judgment in a matter bearing significantly on the whether the proposed transaction will benefit the public interest. Because the record is now fundamentally devoid of reliable information by which the Commission can assess the financial qualification of PTI, the Applications should be denied.

D. Commission Precedent Supports Designation of the Applications for Hearing

In its August 15, 2003 letter to the Commission, PTI provides prior Commission precedent which it claims supports their position that a hearing is not warranted in the instant case. However, the Order put forth by PTI clearly states that a hearing is appropriate when there are material questions of fact present.[16] Additionally, the Order states that a hearing is appropriate in those instances where witness credibility is critical to resolving a controversy.[17] Material questions of fact are present in virtually every issue raised in this proceeding. Especially with regard to the intentional misrepresentations made by PTI to the Commission[18], examination of witnesses at a hearing would serve to elicit key information, such as the mental state of the responsible parties, that cannot be obtained by other means. For this reason a hearing should be held in the event that the Applications are not denied outright.

The above information further underscores the need for denial of the Applications in the instant proceeding. In the event that the Commission chooses not to deny the Applications outright, a hearing should be set for further exploration of the pertinent issues.

Respectfully submitted,

Thomas K. Crowe
Gregory E. Kunkle,
Counsel for the Office of the Governor
of the Commonwealth of the Northern
Mariana Islands

Enclosures

cc: Attached Service List

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16 *In re American Telephone and Telegraph Company Acquisition of ITT Communications Services, Inc. Subsidiaries*, Memorandum Opinion and Order, 2 FCC Rcd 3948, 3952 (1987).

17 *Id.*

18 *See* Petition to Deny at 6.

EXHIBIT A

Assessment of the Implementation of Service Area Scheme (SAS)

A. Introduction

(1) Following the mandate of the 1987 Constitution for the demonopolization of the telecommunications industry, new investors in high margin and new technology operations such as International Gateway Facility (IGF), Cellular Mobile Telephone Systems (CMTS), Very Small Aperture Terminal (VSAT) Satellite, Paging, Trunk Radio Services and Value Added Services started showing interest in the sector.

(2) The award for authorization of new operators for both IGF and CMTS was used as a vehicle for the expansion of the Local Exchange Facility on a nationwide basis under Executive Order 109 issued on July 1993. The new IGF operators were required to roll-out a minimum of 300,000 lines while that CMTS companies were required to roll-out at least 400,000 lines.

(3) Under the Service Area Scheme (SAS), each operator was obligated to roll-out corresponding number of telephone lines in their assigned region initially within five (5) years under EO 109 but subsequently reduced to three (3) years under RA 7925. There were other conditionalities such as the urban to rural ratio of 10:1 and priority roll-out in underserved and unserved municipalities.

(4) In 1994, JICA and DOTC released a report showing a forecasted demand for the years 1994, 1998, 2004 and 2010 which advocated a multi-phase development and supply target of telephone density of 10 per 100 population in year 2010, an accepted international norm for a developing country like the Philippines.

(5) The Philippine Government, however, adopted a more aggressive position by speeding up the roll-out program from five to three years and targeting to have a supply telephone density of 10 by year 2000. In the 1998 update, it was targeted to have 100% coverage of all municipalities by 2001.

(6) The 1997 Asian economic crisis created a slowdown in the demand for telephone service and thus, aggravated the over supply situation in service areas where the roll-out was completed. Some operators who failed to complete the financing in 1997 encountered difficulties in securing additional funding for the last phase of the expansion program.

(7) The profit margin of International Toll Operations, a good source of cross-subsidy for local exchange operations has been declining rapidly due to global competition and availability of cheaper options such as Callback, International Simple Resale and Voice over IP. The business case for IGF operators with LEC obligation was badly affected with these developments.

(8) The growth of cellular phone service was phenomenal in the last few years with the introduction of prepaid cards and text messaging. To some extent, it provided as a substitute for local telephone service.

(9) Internet provides cheaper messaging options with global coverage. It requires however, broadband networks to support favorable acceptance of the service.

(10) Wireless networks such as Wireless Local Loop (WILL), Multi-Access Radio (MAR), VSAT and Satellite Phones provide coverage for hard to reach areas.

B. Legal Framework

(1) The anti-monopoly provision of the 1987 Constitution provided the framework for deregulation and creating a competitive environment for the telecommunications industry.

(2) Executive Order (E.O.) 59 and 109 provided the conditionalities for the deregulation of the industry such as mandatory interconnection and obligation to provide local telephone service for those who were granted authority to operate International Gateway Facilities (IGF) and Cellular Mobile Telephone Systems (CMTS)

(3) RA 7925, the new telecommunications law took into effect in 1995 which carries the service packaging provision of EO 109 while at the same time accelerating the implementation period of the roll-out program from five to three years.

C. Service Area Scheme (SAS) Program

(1) The rule requires that the IGF operator should roll-out a minimum of 300,000 local exchange lines and an additional 300 local exchange lines for every additional international switch termination in excess of 1000 international switch termination.

(2) For CMTS operators, the minimum roll-out obligation is 400,000 local exchange lines and an additional four (4) local exchange lines for every additional CMTS subscribed line in excess of 100,000 subscribed lines.

(3) In the deployment of new local exchange lines, there are provisions for countryside development such as the urban to rural ratio of 10:1 deployment as well as priority given to unserved and underserved areas.

(4) Deployment of Public Calling Office (PCO) at barangay level is given appropriate equivalent credit of local exchange lines.

D. SAS Assignment and Obligation

(1) Globe Telecoms, with new authority to operate both IGF and CMTS, is required to roll-out 700,000 lines in the following areas:

- Makati, Mandaluyong, San Juan, Marikina and Pasig in Metro Manila
- Cavite, Batangas, oriental and Occidental Mindoro and Palawan
- Lanao del Norte, Lanao del Sur, North Cotabato, Maguindanao and Sultan Kudarat

(2) Smart Communications, with new authority to operate both IGF and CMTS, is required to roll-out 700,000 lines in the following areas:

- Pasay, Parañaque, Taguig, Las Piñas, Pateros and Muntinlupa in Metro Manila
- Pangasinan, La Union, Benguet, Mt. Province, Ilocos Sur, Ilocos Norte and Abra
- Zambales, Bataan, Pampanga, Bulacan, Tarlac and Nueva Ecija

(3) Bayantel, with new authority to operate IGF, is required to roll-out 300,000 lines in the following areas:

- Quezon City, Malabon, Novaliches and Valenzuela in Metro Manila
- Camarines Sur, Camarines Norte, Albay, Sorsogon, Catanduanes and Masbate

(4) ETPI, with authority to operate IGF, is required to roll-out 300,000 lines in the following areas:

- Manila, Kalookan and Navotas in Metro Manila
- Batanes, Cagayan, Isabela, Quirino, Nueva Vizcaya and Kalinga Apayao

(5) Digitel, with authority to operate IGF, is required to roll-out 300,000 lines in Luzon Region.

(6) Islacom, with new authority to operate IGF and CMTS, is required to roll-out 700,000 lines in Visayan Region.

(7) Capwire/PTT, with authority to operate IGF, is required to roll-out 300,000 lines in Rizal, Laguna, Quezon, Aurora, Marinduque and Romblon.

(8) Philcom/Majortel, with authority to operate IGF, is required to roll-out 300,000 lines in the following areas:

- Agusan del Norte, Agusan del Sur, Surigao del Norte, Surigao del Sur, Camiguin, Bukidnon, Misamis Oriental, Davao del Norte, Davao Oriental and Basilan

(9) Piltel, with authority to operate IGF, is required to roll-out 400,000 lines in the following areas:

- Zamboanga del Sur, Zamboanga del Norte, Misamis Occidental, Davao del Sur, South Cotabato, Sarangani, Sulu and Tawi-Tawi

(10) PLDT, with authority to operate CMTS, is required to roll-out additional 300,000 lines in existing lines of operation.

(11) Extelcom, with authority to operate CMTS, is required to roll-out 400,000 lines but the areas of operation is still subject to NTC determination.

(12) Bell Telecom, with authority to operate IGF, is required to roll-out 300,000 lines but the areas of operation is still subject to NTC determination.

E. Facility Deployment

(1) As of yearend 2000, the number of installed lines reached 6,634,934. It must be noted, however, that the obligation of both PLDT and Digitel is 300,000 lines each as IGF operator but have filed for bigger expansion programs.

PTE	Installed	Subscribed
PLDT	2,623,797	1,701,607
Digitel	611,166	344,368
Bayantel	466,493	219,082
Islacom	488,531	150,440
Globe	790,291	158,249
Smart	866,954	116,992
Capwire/PT&T	190,456	50,678
Piltel	463,541	56,967
Philcom / Majortel	64,620	38,539
ETPI / Teletech	69,085	21,677
Total	**6,634,934**	**2,858,599**

(2) High-unsubscribed capacity is an indication of depressed market conditions brought about by the Asian economic crisis as well as market lag factor. Market shift to cellphone also contributed to lowering of demand for telephones. From the technical side, the network may not be fully equipped and wired to cover a big service area thus, limiting its market capability. Some operators encountered financial difficulties during the implementation phase thus delaying the commercial roll-out of its facilities due to delayed completion of network and corresponding project acceptance and turnover of facility.

(3) To optimize the utilization of financial resources, industry practice dictates that the switching system can be equipped and outside plant can be wired depending on current demand plus allowance for growth in one to two years.

(4) It was noted that there is a certain degree of concentration of facilities in major urban centers such as Metro Manila, surrounding towns, as well as cities and provincial capitals thus creating a significant percentage of unsubscribed facility. With the new fiber optic technology, however, the unused switching capacity can be extended to outlying towns and municipalities under a reasonable cost since the cost of outside plant is becoming less sensitive to distance.

(5) To enhance the Universal Service Program, the remaining unserved municipalities has to be covered by a technology neutral Public Calling Office using available systems in the country such as CMTS, fixed wireless system and satellite phones.

F. Status of Compliance

(1) As of 2000, six (6) operators – Digitel, Globe, Bayantel, PLDT, Smart and Piltel were able to roll-out the required number of local lines, and rural deployment but were deficient in covering the required areas.

(2) Three (3) operators – Islacom, Capwire, Philcom were deficient in rolling-out the required number of lines and required areas to be covered but were able to meet rural development

(3) ETPI who started the program in the later period failed to roll-out the required number of lines as well as meeting other requirements.

(4) Both Extelcom and BellTel have not started with their roll-out program.

(5) The compliance profile is presented below.

PTE	SERVICE	COMPLIANCE		
		No. of Lines	SERVICE AREA	URBAN-RURAL DEPLOYMENT
DIGITEL	IGF	✓	X (1)	X
GLOBE	IGF, CMTS	✓	X (14)	X
BAYANTEL	IGF	✓	X (7)	X
PLDT	IGF	✓	✓	-NA-
SMART	IGF, CMTS	✓	X 62)	X
PILTEL	CMTS	✓	X (22)	X
ISLACOM	IGF, CMTS	X (134,271)	X (186)	X
CAPWIRE	IGF	X (144,583)	X (94)	X
PHILCOM/ MAJORTEL	IGF	X (239,583)	X (109)	X
ETPI/TELETECH	IGF	X (229,140)	X (92)	X

G. Financial Overview

(1) The financial statistics were taken from the Annual Report of Public Telecommunications Entities (PTE) to the National Telecommunications Commission (NTC). A few of the Annual Reports, however, are not available such as Piltel for 1998, Bayantel for 2000, Philcom for 1999 and 2000, and Capwire/PTT for 2000. To complete the industry estimate, some rough estimates were inputted. It may be noted, further, that the operation of these companies were relatively small such that it will not significantly change the industry situation.

(2) The study covers all the active participants of Service Area Scheme (SAS) excluding Extelcom.

(3) The purpose of the report is to make general financial assessments after the initial roll-out and to set revenue framework to make the industry more attractive to investors.

(4) Resource Generation – The total assets of the PTEs grew from P246.1 billion in 1996 to P611.7 billion in 2000. For the same period, the stockholders equity rose from P116.5 billion in 1996 to P209.8 billion in 2000. Similarly, the liability rose from P129.6 billion in 1996 to P401.9 billion in 2000. Prior to deregulation of the telecom industry, the acceptable debt to equity ratio is 2:1. Overall, the industry appears to be within the acceptable debt to equity ratio except for a few entities. Those entities encountering financial difficulties require additional capital infusion and new resources of revenue.

(5) Investment on Property, Plant and Equipment

Being a capital-intensive industry, the investment in property, plant and equipment rose from P180.3 billion in 1996 to P 475 billion in 2000. It represents 73.3% of total assets in 1996 and 77.8% of total assets in 2000.

Plant and Equipment is generally designed for long service life ranging from 10 to 20 years with the traditional objective of bringing down the amortization rate and ultimately rates and tariff of the service. Current industry average is around 13 years.

(6) Operating Expense Excluding Depreciation

Annual operating expenses rose from P22.6 billion in 1996 to P56.9 billion in 2000. Current operating expense would represent around 12.0% of investment on property, plant and equipment.

(7) Gross Revenue

Gross revenue went up from P43.9 billion in 1996 to P98.1 billion in 2000. Current gross revenue would represent around 20.6% of Investment on property, plant and equipment. It may be noted that the revenue from International Toll Operation is declining significantly over the last five years due to rapid decline in the rates and tariff. Domestic toll revenue is not growing significantly since the traffic is shifting to cellular facility and the rate is also declining.

Revenue from cellular operation is growing rapidly due to significant subscriber uptake from prepaid call offering. Average revenue per subscriber is relatively low at around P450 – P500 per month due to high proportion of prepaid subscriber.

LEC operators are experiencing slow market uptake due to prevailing economic conditions coupled with market lag. Market lag usually happens in unserved areas since community of traffic interest among the subscriber has to develop over a period of time.

(8) Revenue Requirement

Under the cost based formula, the amortization cost of capital at 15% of money for 13 years is around 17.9% of investment. Moreover, at 18% cost of money, the amortization cost of capital will be around 20.4% of investment. Foreign investors targetting a rate of return of at least 15% would have a revenue requirement of around 30% (17.9% + 12%) of investment plus tax. At 18% cost of money, the revenue requirement would be around 32.4% (20.4 + 12) of investment.

It may be noted that the current industry revenue relative to investment is only 20.4% of which is way below the required revenue of 30-32% to make it attractive to foreign investors. A continuing marketing program is needed to improve revenue generation from existing plant facilities.

Operating expenses excluding depreciation should represent only around 40% of gross revenue instead of prevailing 50% to make the targetted attractive rate of return on investment.

H. Conclusion

(1) While the program attracted new investments into the telecommunications sector, it will be more prudent for the government to adopt a more realistic program consistent with the projected demand and market absorption factor especially for the basic telephone service where the rate for residential service is highly socialized and dependent on cross-subsidy form toll services.

(2) Due to short preparatory period and urgency to complete the project on time, distribution of facility was not well managed resulting to over-provisioning of facility in major urban centers and under-provisioning in the countryside. It may be a contributing factor for the under-subscription of telephone facility due to low affordability level of the households, which constitute the majority of the subscribers.

(3) New PTEs without any track record for massive expansion program and full support from foreign partners found it difficult to fund fully the required expansion program due to the magnitude of funding required and short period of implementation.

(4) The required supporting program such as rate restructuring was not in place prior to deregulation thus making it more difficult to implement when competitive forces started to play and thus weakening the financial position of the industry.
Safety net was not provided by the Government incase of slow market uptake and economic downturn.

I. Recommendation

(1) As part of Universal Service Program, the government should pursue to cover the unserved municipalities with Public Calling Offices and Telecenters by requiring the PTEs who are interested to secure a Certificate of Compliance and undertaking an expansion program to cover the unserved municipalities by adopting a technology neutral policy with flexibility in tariff application.

(2) The Government should lead in subscribing additional telephone facilities in local government offices to provide better service to their community. This is in line with the provision of E-Commerce Law requiring the Government to go on-line within two years from the effectivity of the law.

J. Moving Forward

Task 1

- updating status of LEC, CMTS and IGF Facility Provisioning and municipality covered as of June 30, 2001.

Task 2

- develop a Program for covering unserved municipalities before year 2004.
- make it a conditionality for granting certificate of compliance, authority for expansion and rates and tariff, as well as grant of additional frequency
- continue with the policy of requiring the PTEs who are undertaking an expansion program to allocate portion of their budget for rural development
- adopt a technology neutral policy and flexible rate and tariff,.
- provide certain incentives such as five-year exclusivity for the operation in unserved area

Task 3

- process the application to operate in unserved area by giving priority to assignee in each service area.

Chart 1 SELECTED FINANCIAL INDICATORS

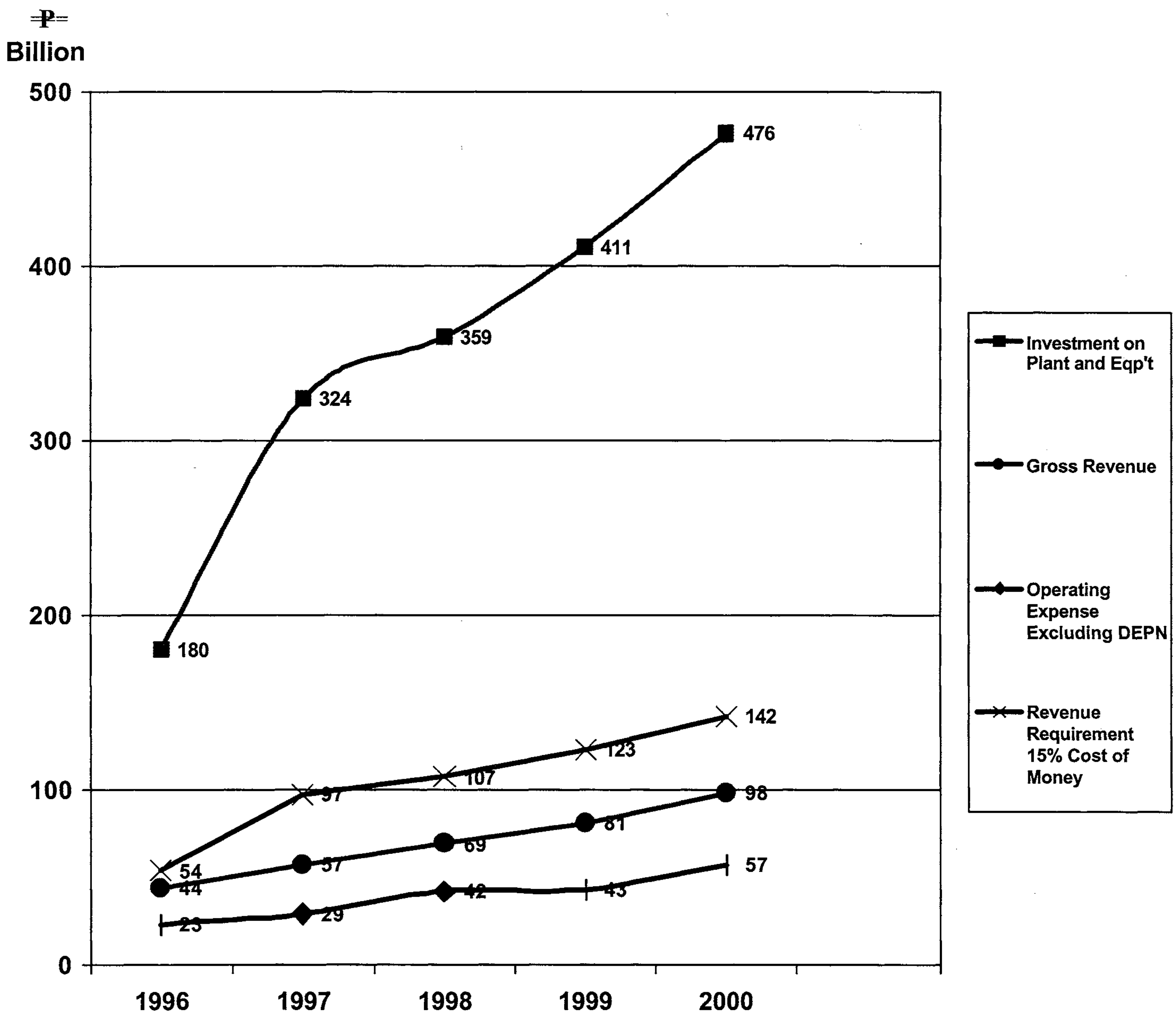

Table 1 – SELECTED FINANCIAL INDICATORS (In Billion Pesos)

Indicators	2000	1999	1998	1997	1996
a) Resource Generation Asset	611.7	528.4	446.9	410.2	246.1
Liabilities	401.9	340.9	291.3	254.8	129.6
Equity	209.8	187.5	155.6	155.4	116.5
b) Property, Plant, Equipment	475.6	411.2	358.5	324.4	180.3
Per Cent of Asset	77.8	77.8	80.2	79.1	73.3
c) Operating Expense excluding Depreciation	56.9	43.0	41.8	29.0	22.6
Per Cent of Investment on Property, Plant or Equipment	12.0	10.5	11.7	8.9	12.5
d) Gross Revenue	98.1	80.7	68.5	57.1	43.9
Per Cent of Investment on Property, Plant & Equipment	20.6	19.6	19.1	17.6	24.3

Table 2 – Concentration of Telephone Facility in Urban Centers

AREA	INSTALLED LINES	% OF TOTAL INSTALLED LINES
(1) Metro Manila	3,248,046	47.03
(2) Cebu, Mandaue, and Lapu-Lapu City	322,951	4.68
(3) Bacoor and Kawit, Cavite	113,846	1.65
(4) Davao City	85,757	1.24
(5) Baguio City	75,406	1.09
(6) Angeles City	71,116	1.03
(7) Bacolod City	66,609	0.96
(8) Malolos, Bulacan	60,218	0.87
(9) Biñan, Laguna	58,224	0.84
(10) Iloilo City	54,949	0.80
(11) Antipolo City	51,398	0.74
(12) Gen Santos, South Cotabato	49,348	0.71
(13) Batangas City	47,132	0.68
(14) Cabanatuan City	46,760	0.68
(15) Cainta, Rizal	45,702	0.66
(16) Imus, Cavite	40,693	0.59
(17) Lipa City	39,148	0.57
(18) Dagupan City	38,900	0.56
(19) Iligan City	37,480	0.54
(20) Naga City	37,100	0.54
(21) Taytay, Rizal	36,608	0.53
(22) Koronodal, South Cotabato	34,014	0.49
(23) Tacloban City	30,794	0.45
(24) Tarlac	30,612	0.44
(25) Vigan	26,474	0.38
(26) Meycauyan, Bulacan	22,340	0.32
(27) Calamba	22,182	0.32
(28) Tagbilaran City	21,234	0.31
(29) San Fernando, La Union	20,776	0.30
(30) Laoag City	18,020	0.26
(31) Binangonan, Rizal	17,680	0.26
(32) Zamboanga City	17,642	0.26
(33) Baliuag, Bulacan	16,750	0.24
(34) Legaspi City	16,088	0.23
(35) Angono, Rizal	15,794	0.23
(36) Mabalacat, Pampanga	11,000	0.16
TOTAL	4,950,791	71.64%

Note:
(1) Figures above need further updating
(2) Total installed capacity including PAPTELCO operators is 6,905,562

Table 3 – Tentative List of Unserved Municipality

Abra (Smart)	**Kalinga-Apayao (ETPI)**	(52) Javier	(80) Veruela
(1) Bucay	(28) Calanasan	(53) Mayorga	(81) Loreto
(2) Licuan	**Zambales (Smart)**	(54) Julita	**Bukidnon (Philcom)**
(3) Malibcong	(29) Candelaria	(55) Tabontabon	(82) Malitbog
(4) Tineg	**Palawan (Globe)**	(56) Dagami	(83) Baungon
Ilocos Norte (Smart)	(30) Culion	(57) Pastrana	(84) Impasug-ong
(5) Adams	(31) Cagayancillo	**South'n Leyte (Islacom)**	(85) Lantapan
(6) Dumalneg	(32) Kalayan	(58) Limasawa	(86) Cabanglasan
(7) Carasi	(33) Balabac	(59) Macrohon	(87) Dangcagan
(8) Nueva Era	**Aurora (PT&T)**	(60) San Francisco	**Misamis Occ (Piltel)**
Ilocos Sur (Smart)	(34) Dingalan	(61) Toma Oppus	(88) Don Mariano Marcos
(9) Sugpon	**Oregon (PT&T)**	(62) Bontoc	**Misamis Orientl (Philcom)**
(10) Suyo	(35) Plaridel	(63) Libagon	(89) Naawan
(11) G. del Pilar	(36) San Andres	(64) St. Bernanrd	(90) Magsaysay
(12) Quirino	**Aklan (Islacom)**	(65) Hinundayan	**Surgao del Norte (Philcom)**
(13) Sigay	(37) Madalag	**East'n Samar (Islacom)**	(91) Burgos
(14) Lidlidda	(38) Balete	(66) Arteche	(92) Malimono
(15) San Emilio	**Capiz (Islacom)**	(67) Jipapad	**Davao del Sur (Piltel)**
(16) Nagbukal	(39) Cuartero	(68) Maslog	(93) J.A. Santos
La Union (Smart)	(40) Ma-ayon	**North'nSamar (Islacom)**	(94) Don Marcelino
(17) Bagulin	(41) Dumalag	(69) San Vicente	(95) Sta Maria
(18) Tubao	(42)Tapaz	**West'n Samar (Islacom)**	(96) Kiblawan
Cagayan (ETPI)	**Iloilo (Islacom)**	(70) Almagro	**Davao del Norte (Piltel)**
(19) Baggao	(43) Bingawan	(71) Jiabong	(97) Talaingod
(20) Calayan	(44) San Rafael	(72) San Jose de Buan	(98) Braulio Dujali
(21) Rizal	**Negros Occ. (Islacom)**	(73) Tagapul-an	**Lanao del Sur (Globe)**
(22) Sta Praxedes	(45) Candoni	**Zam. del Norte (Piltel)**	(99) Kapai
Ifugao (ETPI)	(46) Salvador Benedicto	(74) Sibuco	(100) Bumbaran
(23) Asipulo	**Guimaras (Islacom)**	(75) Sirawai	(101) Sultan Dumalondong
(24) Tinoc	(47) San Lorenzo	(76) Baliguian	**Maguindanao (Globe)**
Isabela (ETPI)	(48) Sibunag	**Agusan del Sur (Philcom)**	(102) Barira
(25) Dinapigue	**Leyte (Islacom)**	(77) Rosario	(103) Matanog
(26) Palanan	(49) Hindang	(78) Trento	(104) Talitay
(27) Divilican	(50) Inopacan	(79) Sta Josefa	**Sultan Kudarat (Globe)**
	(51) Mahaplag		(105) Palimbang

Note

(1) The above listing is subject to validation based on the latest performance report.

(2) Digital covers the whole region of Luzon while PLDT has nationwide coverage.

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Report: NMI, Guam high risk security areas

By Ulysses Torres Sabuco
Variety News Staff

THE degree of criminal activities in the CNMI and Guam — which involve illegal drugs, money laundering, gambling, prostitution, and a growing alien population — has transformed the Marianas into "high risk security areas," according to a report prepared by R.G. Meissner, regional security specialist for the U.S. Attorney's Office for the Eastern District of Virginia.

The 34-page risk assessment report was submitted on April 25, 2002 upon the request of the U.S. Attorney's Office for the Districts of Guam and the Northern Marianas.

According to the report, "If the present high risk environment is allowed to stand, it will continue to threaten federal and public interests and seriously jeopardize the national security of the United States."

The report said the laws that govern the relationship between the U.S. and the Mariana islands were "products" of an environment that existed decades ago.

"The current environment has changed radically since that time and so has the need to more aggressively protect the homeland," the report said.

"We cannot loose sight of the fact that the homeland extends into the far reaches of the Pacific (and) Guam, the CNMI, Micronesia and other Pacific locations require special security attention and consideration," the report said.

According to the report, the current national focus on the war on terrorism requires a "realistic, current and pro-active protective measures" to safeguard U.S. citizens and interests in the CNMI and Guam — "two strategic areas which constitute the westernmost border of the U.S. homeland."

"Maximum protection of these vital areas is...essential to U.S. interests," the report said.

The report noted a growing alien presence in the Marianas, particularly from China.

On Guam, it added, when the Department of Defense ceded the former U.S. Navy ship

repair facility to the territorial government, it was put up for sale.
Two bids received were from China. Federal intervention withdrew the sale, and the territorial government subsequently entered into a 20-year lease agreement with a Japanese firm. However, the report said, China owns a large share of the company.
The facility is found near the U.S. Navy munitions storage and ship unloading facility, the report said.
"One U.S. Navy official indicated that shortly after the lease, crew members of a (Chinese) vessel were observed photographing operations on the U.S. Navy side," the report said.
It said the operation of Tinian Dynasty Hotel & Casino is also a cause for concern.
"In March of 2002, this casino became the subject of investigation by federal authorities because it received $3.5 million in fraudulent loans in connection with the Bank of Saipan fraud scheme," the report said.

Illegal activities

The report said "most common illegal activities" in the CNMI and Guam are "public corruption, the importation and sale of crystal methamphetamine or 'ice,' and immigration crimes."
These criminal activities take "an entirely unique perspective" when it is considered that the federal government has no immigration and customs control, and "the local agencies that do are susceptible to corruption and influence from within the territorial governments."
The illegal immigration situation within the CNMI is "particularly critical," the report said.
Illegal schemes abetted by public corruption have resulted not only in the entry of a large number of illegal aliens, but also members of transnational criminal organizations, the report said.
Individuals belonging to "Chinese Triad gangs, Japanese Yakuza, Russian Mafia, and Korean Mafia organizations" each participate to "some degree in the criminal activities in the Northern Marianas."
Gambling, prostitution, drugs, money laundering and the exploitation of the alien population are "fully orchestrated" by these organizations, the report said.
"Because of the Covenant provisions allowing the territorial government to regulate immigration and customs, federal authorities cannot prevent entry and must therefore adopt a reactive approach," the report said. "This greatly taxes meager federal assets and creates an environment in which organized crime can flourish."
In addition, money laundering investigations and prosecutions are significantly handicapped by the political empowerment of both Guam and the CNMI, the report

said.
It noted that three CNMI banks are not members of the Federal Deposit Insurance Corp. Moreover, banks and money remittance businesses "have no designated federal or territorial government oversight."
Guam and the CNMI, moreover, offer a "target-rich environment for terrorist activity," the report said.
Federal law enforcement agencies, military facilities, visiting U.S. Navy vessels, munitions storage facilities, fuel storage sites, Marine preposition ships and military personnel constitute sizable and attractive terrorist targets, the report said.
There was a growing sentiment that after the foiled attacks against U.S. facilities and interest in 2002 in Malaysia and Singapore, Guam and the CNMI "have now been moved up on the list of potential targets in the Pacific," the report said.

Recommendations

Meissner's primary recommendation is for the U.S. Department of Justice to request that the provisions of the Covenant be reviewed for the purposes of extending federal immigration law to the CNMI.
"The decision to extend this provision was congressional but the federal government has always maintained the ability to review the immigration delegation. Congress could alter the immigration provisions at any time and restore federal... control to the CNMI," the report said, citing how the present territorial control over immigration has led to "institutionalized abuses" that have been the subject of "INS and Department of the Interior study for several years."
The following are the report's other recommendations:
• The Department of Justice should consider "seeking national command authority attention and review of the current program permitting territorial control of customs functions on Guam and in the CNMI."
• The U.S Coast Guard should implement countermeasures against illegal drugs, weapon and alien smuggling which would serve as an effective deterrent to terrorist activity.
• To thwart money laundering schemes, the Departments of the Treasury and Justice should open offices for the U.S. Customs Service and the Internal Revenue Service in the CNMI, to serve as "onsite treasury agents."
• The CNMI should have federal detention facilities.
• A protective barrier and security for visiting military vessels and personnel in the CNMI should be established.

CERTIFICATE OF SERVICE

I, Jessica Hankins, a legal assistant with the Law Offices of Thomas K. Crowe, P.C., certify that on September 12, 2003, a copy of the foregoing *Response to August 15, 2003 Letter of Pacific Telecom Inc. and New Information; IB Docket No. 03-115*, was served by first class United States mail, postage prepaid upon the parties listed below.

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