



phone services had essentially remained constant from the 1983 figures. These statistics indicate that many households, despite economic strata or rate changes, were maintaining their phone services. However, these same statistics indicate that the rate structures currently in place may be prohibitive in nearly 10% of American households. This was troubling, since the trend of rates at that time was down and there was fear that increasing rates would of necessity cause a decrease from the current percentage of subscribership.

### III. Market Penetration

Market penetration is the percent of the available market a provider of goods or services has as its customers. As stated previously the market penetration for telephone services was 92% for all income groups on a nationwide basis.

A study was performed by Mountain States Telephone in 1984 showing the penetration of the market by income group. The results of this study also show the impact of rate changes on market penetration by income category. This change is referred to as "elasticity." The study is summarized as follows:

<u>Income</u>	<u>Existing Penetration</u>	<u>With increase</u>
\$3,491	80.53%	70.28%
\$8,636	89.00%	83.42%
\$15,152	94.15%	89.87%
\$20,761	96.60%	93.77%
\$25,472	97.85%	95.66%
\$30,110	97.91%	96.87%
\$44,822	98.75%	98.29%

Although the income data used in this study is "stale," the results of the study are revealing. As is shown in this table, the existing market penetration for Mountain States Bell, by customer income rises sharply to 94.15% as incomes increase to \$15,152, but is relatively flat from that income level upward. This indicates that telephone service is considered a non-luxury item by most consumers and only as incomes approach the poverty level (\$3,491 in 1984) do the consumers eliminate telephone service from their budgets. The third column is also interesting. It shows the elasticity of telephone usage as Mountain States Bell flat monthly charges increase only slightly. The impact of a rate increase on market penetration is negligible in the higher income brackets, while the same study showed significant elasticity at or slightly above the poverty level. The conclusion that may be drawn from this study is that the upper income brackets are relatively impervious to slight

variations in monthly rates, while even a modest increase in the rates for those at or near the poverty level would lead to a decrease in market penetration levels. Of course, this level was already lower than the total population as a whole.

#### IV. FCC Joint Board Recommendation-Lifeline

The largest regulatory body, charged with the regulation of telephone services, is the Federal Communications Commission (FCC). As early as 1978<sup>2</sup> the FCC indicated its desire for some way to implement universal service. The FCC stated that it wished to consider requests by local telephone companies for waiver of the mandatory monthly flat rate service charges for lower income households that would not be able to afford the current rates. However, the proceedings from which this recommendation evolved did not contain enough factual information to effectively institute these reduced rate services, which would ultimately be termed Lifeline. The FCC established a "Joint Board" to conduct further proceedings and prepare recommendations concerning the institution of "lifeline."

In October of 1985, the Joint Board issued its recommendation concerning the establishment of "lifeline" services. In its order, the FCC stated that it would "match" the amount of reduction in the subscriber's flat monthly rates up to the total amount charged to the customer through what is known as "subscriber line charge," which is currently \$3.50 per month for residential customers, stating that it believed that this

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<sup>2</sup> CC Docket No. 78-72

"matching" would be a strong incentive for the states to provide low cost telephone services for those individuals who qualify and would promote increased subscribership among the low income groups.

The FCC needed assurance that the provisions of this recommendation would be directed to those with the greatest need. This assurance would become known as "targeting." The FCC then required that the States and local telephone companies who wished to receive federal assistance submit relevant information to the FCC of their plans, including the targeting mechanism, in order to demonstrate that the implementation of "lifeline" would be targeted correctly, i.e. that only the truly needy would receive assistance.

The following is a summary of the Joint Board recommendation which was printed in the January 13, 1986 Federal Register:

The Joint Board found that telephone subscribership levels have remained stable in recent years, and should remain stable or increase in the future. This conclusion was based on Census Bureau data showing telephone subscribership levels, Department of Labor data concerning the rate of increase in local rates, data on pending state rate increase requests, and previous Commission studies of the effect of federal policies on local rate levels, in addition to the information contained in the comments. At the same time, the Joint Board recognized that telephone subscribership is below average in the lowest income groups. In order to assist low income households in affording telephone service during this period of rapid change in the telephone industry, the Joint Board recommended that we adopt a federal

lifeline assistance program to supplement the benefits provided under qualifying state or local telephone company lifeline service offerings.

The Joint Board recommended that federal assistance be provided through a waiver of the subscriber line charge, up to the amount of the state funded assistance provided for participating households under highly targeted lifeline assistance programs, for example, those providing benefits to individuals who receive Supplemental Security Income (SSI) or Aid to Families with Dependent Children (AFDC). The Joint Board also recommended that qualifying state or local telephone company programs be required to provide for verification of eligibility. Federal assistance would be available for a single telephone line for the principal residence of eligible households. Under the Joint Board proposal, the state contribution subject to matching federal assistance would include reduced rates for local telephone service, reduced connection charges or customer deposit requirements. State funding would be derived from any intrastate source. State or local telephone company lifeline programs which do not meet these criteria would not be eligible for this federal assistance. No showing of actual imminent declines in telephone subscribership levels would be required as a precondition to receiving federal assistance, however.

The Joint Board also recommended that states and local telephone companies seeking to obtain supplemental federal assistance for their subscribers be required to submit information to the Commission demonstrating that their plans meet these criteria. The Joint Board recommended that the Chief, Common Carrier Bureau, be

given delegated authority to act on these lifeline plans to facilitate implementation. Assistance would be available as soon as the Bureau certifies that the implementation plan satisfies the federal guidelines and the necessary tariff revisions become effective. In addition, the Joint Board recommended that the Commission require participating states to monitor the effectiveness of lifeline programs and provide the Joint Board and the Commission with annual reports concerning certain aspects of their plans. The Joint Board further recommended that it review the effectiveness of the federal lifeline assistance program in conjunction with its review of subscriber line charges scheduled to begin in late 1986. To summarize the Joint Board Decision:

1. **Universal Service is a reasonable goal;**
2. **States and Telephone Companies should strive toward that goal;**
3. **States should consider reductions in:**
  - a. **monthly flat rates;**
  - b. **customer deposits;**
  - c. **other local tariffs.**
4. **FCC would match efforts of State;**
5. **Local agencies should use standards to locate economic disadvantaged; and**
6. **Once instituted, lifeline should be monitored.**

V. State Response to FCC Order



Numerous states filed their respective cases before the FCC for the implementation of lifeline services. While each of the states' filings are different in form and substance, each have certain common elements in those filings.

**A. Existing Penetration:** Most of the state filings we reviewed seem to indicate that their Commission had only limited information concerning the current penetration of the market by income group. However, most of the filings indicated that the State Commissions believed that the lower penetration level into the market by lower income groups was significant enough to warrant the implementation of lifeline rates on at least an experimental basis.

**B. Eligibility Standards:** Most of the state filings we reviewed used the FCC suggested Federal AFDC and SSI programs, as at least a part of the eligibility criteria. The North Carolina Attorney General suggested that the food stamp program be used in conjunction with the AFDC and SSI customers. The Attorney General argued that since the food stamp program is locally administered as opposed to the AFDC and SSI programs which are Federally administered, those individuals who might be eligible for lifeline services would be more easily recognized. Also the food stamp program is available only to those individuals at or below the poverty level. Therefore, the administrative costs of searching for eligible households might be reduced.



Eligibility criteria, as shown in the Utah filing were numerous, apparently because the State of Utah was seeking the broadest possible base of eligible customers. In addition to SSI, AFDC and Food Stamps, Utah included in its eligibility criteria such assistance programs as Emergency Work Programs, General Assistance (welfare); Home Energy Assistance Target Program; Medical Assistance (medicare); and Refugee Assistance.

At the other extreme is the State of Arkansas which used only one criterion for eligibility. If the consumers were eligible in the Food Stamp Program of the State, they would automatically be eligible for "lifeline."

C. **Certification and Verification:** The Utah filing is also significant because it carefully delineates both the certification and verification process. The certification required in Utah is self-certification. The applicant provides the utility his name, address, telephone number (if existent) and social security number. In addition, the applicant specifically requests the lifeline service indicating the applicant believes that he is qualified. In the application itself is a signed agreement by the consumer that if it is determined that the information is falsely provided, the applicant will be responsible for the difference between the existing monthly rate and the reduced rate. The telephone company provides, at least annually, computer tapes to the Department of Social Services listing the individual names and social security numbers for cross verification with the Department for confirmation of eligibility.

D. **Reductions:** All of the filings we reviewed indicated that the respective state wished to participate in the FCC's offer concerning a matching reduction in the FCC monthly charge. However, some states went further than that. For instance, the State of Maryland reduced the standard phone installation charges by 50% for those eligible customers seeking new services.

E. **Monitoring:** The filings before the FCC indicate that the respective State Commissions intended to monitor on a annual (or shorter) basis. Such monitoring would include the monitoring of the costs to administer "lifeline" and the success of the program in increasing existing penetration levels by the eligible customers.

## VI. GovGuam Resolution No. 33

On April 3, 1991 the Guam Legislature adopted resolution No. 33. In that resolution, the Legislature requested of the PUC to "establish, develop and implement lifeline rates for the residential consumers of Guam." While the resolution specifically addresses the high costs of the Guam Power Authority, the resolution underlined the legislature's concern with the high costs that would unduly burden the needy, the elderly, those with fixed retirement incomes, and others less fortunate. Since a copy of the resolution was forwarded to GTA management, as well as GPA and PUAG, it is assumed that the resolution intended that the PUC investigate the

phone rates as well as electric rates. It is to this end that the following section of this report is prepared.

## VII. Lifeline Recommendations

Since Guam is currently not under the FCC jurisdiction, the procedures leading up to the implementation of lifeline telephone services is currently at the PUC's discretion. There will be no matching reduction from the FCC as with the other states with implemented plans. However, the efforts already employed by the FCC and various state commissions in the establishment of lifeline services are useful in the determination of a reasonable process to follow.

The Commission must decide whether to go forward. It is our recommendation that the PUC should decide whether to proceed with the implementation of a lifeline program. It should be noted that GTA's monthly flat rate charges are among the lowest rates of which we are aware.

The following are our recommendations concerning a logical schedule of events.

A. The PUC should order that GTA immediately provide to the PUC the amount of market penetration of the residence of Guam, by income bracket, if such information is easily attainable. This is to insure that there is a significant difference in either the market penetration on Guam compared to the mainland and/or a

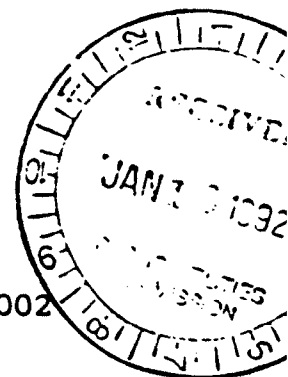
significant difference between the market penetration of different income brackets on Guam.

B. The PUC should order that GTA also provide the number of participants that it estimates would be eligible for lifeline services and the additional costs that GTA would bear for the implementation of these services. In addition, GTA should propose different options for rate reductions for these participants and quantify the lost revenues associated with these options.

C. The PUC should order that GTA provide a suggested application and verification process for eligibility.

Should the results of the above orders indicate that lifeline rates are appropriate, the PUC should conduct abbreviated hearings at which time further deliberations can be made concerning the costs versus benefits of the program. It is assumed that compliance with the above orders can be completed within sixty days. Georgetown will provide assistance to GTA as required. At the completion of the sixty day period, hearings should be held at which time items such as application forms, notification and monitoring of the success of the program may be discussed.

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE TERRITORY OF GUAM



Investigation on the )  
Commission's own motion of )  
the issues pertaining to the )  
implementation of lifeline )  
electric and telephone rates )  
in the Territory of Guam. )  
\_\_\_\_\_ )

Docket No. 92-002

**ORDER INSTITUTING INVESTIGATION**

The Public Utilities Commission ("PUC") hereby institutes an investigation to consider the propriety of, the issues involved in and the potential effects of establishing, developing and implementing lifeline electric and telephone rates in the Territory of Guam.

**BACKGROUND**

On April 3, 1991, the 21st Guam Legislature adopted Resolution No. 33 which requests that the PUC "establish, develop and implement lifeline rates" for residential customers in Guam. Lifeline rates would provide residential customers with an amount of electricity and telephone service deemed necessary to meet their "essential needs" at a price below the actual cost of providing those services. The resolution states that lifeline rates for residential services are necessary in order to make essential utility services affordable to the needy, the elderly, those with fixed retirement incomes and the less fortunate in light of foreseeable increases in utility rates.

In furtherance of the Legislature's request, the PUC, on May 9, 1991, directed Georgetown Consulting Group, Inc. ("GCG") to prepare a report which addressed the steps necessary for the PUC to study: i] the concept of lifeline utility rates; ii] the procedure which should be undertaken to examine relevant policy issues; and iii] the PUC's authority under existing enabling legislation to implement such rates. GCG has complied with the PUC's directive by filing the following reports (the "Reports"):

1. A GCG Report dated December, 1991 addressing the applicability of lifeline services to the Guam telephone system;
2. A Report by Revilo Hill Associates dated October, 1991 entitled "Lifeline Rates For Electric Service and Their Potential Application to the Guam Power Authority"; and

3. A legal opinion dated October 21, 1991 by Wilentz, Goldman & Spitzer, P.C. regarding the establishment of lifeline utility rates by the PUC.

GCG has recommended that the PUC request Guam Telephone Authority ("GTA"), Guam Power Authority ("GPA") and other interested parties to comment on the above reports.

**ACCORDINGLY, IT IS THEREFORE ORDERED THAT:**

1. GTA and GPA are made parties to this investigation;
2. GTA and GPA file with the PUC such data as shall be required by the PUC or its staff pursuant to subsequent requests;
3. The parties to this investigation and all other interested persons may file with the Commission at Suite 400, GCIC Building, 414 W. Soledad Avenue, Agana, Guam comments on the Reports and the following questions on or before Friday, February 28, 1992:

a) What should be the primary objective of lifeline policy?

- Should lifeline rates be structured to ensure the affordability of essential uses of electricity and telephone services for all residential customers; or

- Should lifeline rates be targeted to assist specific sub-groups of the residential customers, such as low income or elderly persons?

b) Assuming the PUC should decide to base lifeline rates in whole or in part, on essential use concepts, how should essential use requirements be established?

c) Assuming the PUC should decide to implement a targeted lifeline rate program, what basis should be used for determining customer qualification for service under lifeline rates?

d) What cost basis, if any, should the PUC require for the establishment of lifeline rates?

e) How should revenue losses that result from lowering rates for recipients of lifeline service be offset to ensure that GPA and GTA financial requirements are met?

- Should lower charges for lifeline service be offset by increased charges for non-lifeline portions of residential services; or

- Should some or all of the cost of offering lifeline service be borne by non-residential customers?

f) Are there identifiable societal costs (as opposed to utility costs) that can be reduced or avoided as a result of lifeline rate offerings, and how should those costs be considered in the development of lifeline rates for GPA and GTA?;

4. The Reports and an invitation to comment upon them and the above-stated questions shall be distributed to the Governor of Guam, the Senators of the 21st Guam Legislature, Guam Power Authority, Guam Telephone Authority and the Department of Public Health and Social Services;

5. Notice be made to the public that the Reports, are available for review at Suite 400, GCIC Building, 414 W. Soledad Avenue, Guam; and

6. The PUC will conduct a public hearing at 6:00 p.m., March 11, 1992 at the Cabinet Conference Room, Governor's Office, Adelup, Guam at which it will consider and discuss the comments filed pursuant to its invitation and receive and invite any further testimony from the general public. Inquiries regarding this Order and the public hearing may be directed to Joseph A. Calvo, Esq. at 477-9708.

Entered this 10th day of January, 1992 pursuant to Commission directive.

*Harry M. Boertzel*  
\_\_\_\_\_  
HARRY M. BOERTZEL *di*  
Administrative Law Judge  
PUBLIC UTILITIES COMMISSION

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE TERRITORY OF GUAM

Investigation on the Commission's own motion of the issues pertaining to the implementation of lifetime electric and telephone rates in the Territory of Guam.

Docket No. 92-002

ORDER INSTITUTING INVESTIGATION

The Public Utilities Commission ("PUC") hereby institutes an investigation to consider the propriety of, the issues involved to and the potential effects of establishing, developing and implementing lifetime electric and telephone rates in the Territory of Guam.

BACKGROUND

On April 3, 1991, the 21st Guam Legislature adopted Resolution No. 33 which requests that the PUC "establish, develop and implement lifetime rates" for residential customers in Guam. Lifetime rates would provide residential customers with an amount of electricity and telephone service deemed necessary to meet their "essential needs" at a price below the actual cost of providing those services. The resolution states that lifetime rates for residential services are necessary in order to make essential utility services affordable to the needy, the elderly, those with fixed retirement incomes and the less fortunate in light of foreseeable increases in utility rates.

In furtherance of the Legislature's request, the PUC, on May 9, 1991 directed Georgetown Consulting Group, Inc. ("GCG") to prepare a report which addressed the steps necessary for the PUC to study: (i) the concept of lifetime utility rates, (ii) the procedure which should be undertaken to examine relevant policy issues, and (iii) the PUC's authority under existing enabling legislation to implement such rates. GCG has complied with the PUC's directive by filing the following reports (the "Reports"):

- 1. A GCG Report dated December, 1991 addressing the applicability of lifetime services to the Guam telephone system.
2. A Report by Revilo Hill Associates dated October, 1991 entitled "Lifetime Rates For Electric Service and Their Potential Application to the Guam Power Authority", and
3. A legal opinion dated October 21, 1991 by Wientz, Goldman & Sotzer, P.C. regarding the establishment of lifetime utility rates by the PUC.

GCG has recommended that the PUC request Guam Telephone Authority ("GTA"), Guam Power Authority ("GPA") and other interested parties to comment on the above reports.

ACCORDINGLY, IT IS THEREFORE ORDERED THAT:

- 1. GTA and GPA are made parties to this investigation.
2. GTA and GPA file with the PUC such data as shall be required by the PUC or its staff pursuant to subsequent requests.
3. The parties to this investigation and all other interested persons may file with the Commission at Suite 400, GCIC Building, 414 W. Soledad Avenue, Agaña, Guam comments on the Reports and the following questions on or before Friday, February 28, 1992:
a) What should be the primary objective of lifetime policy?
Should lifetime rates be structured to ensure the affordability of essential uses of electricity and telephone services for all residential customers, or
Should lifetime rates be targeted to assist specific subgroups of the residential customers, such as low income or elderly persons?
b) Assuming the PUC should decide to base lifetime rates in whole or in part on essential use concepts, how should essential use requirements be established?
c) Assuming the PUC should decide to implement a targeted lifetime rate program, what tests should be used for determining customer qualification for service under lifetime rates?
d) What cost base, if any, should the PUC require for the establishment of lifetime rates?
e) How should revenue losses that result from lowering rates for recipients of lifetime service be offset to ensure that GPA and GTA financial requirements are met?
Should lower charges for lifetime service be offset by increased charges for non-lifetime portions of residential services, or
Should some or all of the cost of offering lifetime service be borne by non-residential customers?
f) Are there identifiable societal costs (as opposed to utility costs) that can be reduced or avoided as a result of lifetime rate offerings, and how should those costs be considered in the development of lifetime rates for GPA and GTA?
4. The Reports and an invitation to comment upon them and the above-stated questions shall be distributed to the Governor of Guam, the Senators of the 21st Guam Legislature, Guam Power Authority, Guam Telephone Authority and the Department of Public Health and Social Services.
5. Notice be made to the public that the Reports, are available for review at Suite 400, GCIC Building, 414 W. Soledad Avenue, Guam; and
6. The PUC will conduct a public hearing at 6:00 p.m., March 11, 1992 at the Cabinet Conference Room, Governor's Office, Agaña, Guam at which it will consider and discuss the comments filed pursuant to its invitation and receive and invite

GPA tests new Dededo generator

By HENRY J. EVANS JR.

Guam Power Authority's Dededo combustion turbine continues to undergo generator testing and has been put on-line generating up to 3 megawatts for brief periods. John M. Banzwiler, GPA general manager told the authority's board of directors yesterday evening. Banzwiler said because of a wiring problem at the Dededo substation, the new generator caused the substation to shut down during testing earlier this week.

The process of working the bugs out of the system, Banzwiler said, is something he doesn't want engineers to rush through. He estimated the unit could be on-line by early next week. GPA wants to have the new 23-megawatt Dededo unit running at capacity before beginning overhaul work on its twin 6-megawatt Cabrera Power Plant generators. In other GPA board news: David J. Sablan, GPA board chair-

man, yesterday signed a letter addressed to the Public Utilities Commission requesting GPA be allowed to delay a management audit the PUC has required. The audit, expected to cost an estimated \$20,000, was made a requirement by the commission upon their October approval of GPA's rate increase request. GPA had earlier requested the PUC rescind the management audit requirement, but the commission refused.

The request to delay the audit is based in part on what GPA management has said is bad timing in beginning such a process. GPA officials have said they would like to see what effects the Customer Supplier Agreement will have on the authority's operations and bottom line before having to comply with the audit. The agreement will make the Navy a paying GPA customer and will place the islandwide power system solely under the GPA's management.

DOC's overtime money runs low

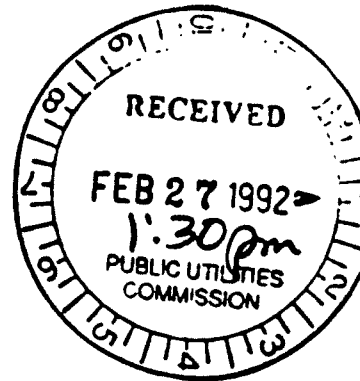
By TAMARA A. BRYANT Daily News Staff Only four months into the fiscal year, the Department of Corrections' budgeted amount would not cover the projected overtime for the officers, staff

Opposing testimony surprises San Agustin

By TAMARA A. BRYANT Daily News Staff Prosecution surprised San Agustin hearing room when committee testified before the committee, opposing the drive hearing room when committee member Sen. Michael Reddy asked Banzwiler that same question.



BEFORE THE  
PUBLIC UTILITIES COMMISSION  
OF THE TERRITORY OF GUAM



DOCKET NO. 92-002

INVESTIGATION ON THE )  
COMMISSION'S OWN MOTION OF )  
THE ISSUES PERTAINING TO THE )  
IMPLEMENTATION OF LIFELINE )  
ELECTRIC AND TELEPHONE RATES )  
IN THE TERRITORY OF GUAM. )

BACKGROUND

Pursuant to the Order Instituting Investigation "Order" in the above captioned docket, Guam Telephone Authority ("GTA"), by its General Manager, submits the enclosed comments. The Order invited parties and other interested persons to submit their comments on the Reports referenced in the Order and to also respond to specific questions enumerated within the Order on or before February 28, 1992.

INTRODUCTION

GTA is pleased to submit comments on the Reports relating to Lifeline Service and to also respond to the specific Lifeline questions presented in the January 10, 1992, Order. GTA would emphasize to the Guam Public Utilities Commission ("Commission") that its primary goal in providing telephone service to the citizens of Guam is to ensure that the residential ratepayers of Guam are afforded every opportunity to obtain reasonably priced basic local exchange service, which is the public policy goal of "Universal Service."

COMMENTS ON GEORGETOWN CONSULTING GROUP, INC., DECEMBER 9, 1991  
REPORT

GTA is in basic agreement with the Georgetown Consulting Group, Inc. (GCG) Report on Lifeline Services. In particular, GTA would point out GCG's statement on page 12, that GTA residence ratepayers already benefit from some of the lowest monthly rates for residential local exchange service. The two comments that GTA would have with the GCG Report are as follows. First, GCG recommends that the Commission order GTA to provide information on market penetration levels by income brackets, "if such information is easily attainable." GTA does not have such information and it is not easily attainable, but would require a costly market study. GTA will, of course, provide the Commission with whatever information is readily available. Second, GTA does not agree that it should be responsible for the suggested application and verification process for eligibility if a Lifeline Program is adopted. GTA believes that the legislature should make the policy decision as to who should be eligible for a Lifeline Program and then should delegate the implementation of that policy.

COMMENTS ON WILENTZ, GOLDMAN & SPITZER, P.C., OCTOBER 21, 1991,  
MEMORANDUM

The legal memorandum prepared by Wilentz, Goldman & Spitzer ("Wilentz Memo") reviews the question of whether sufficient authority exists for the implementation of a Lifeline Program on Guam. The memo concludes that, without specific legislation, "it is uncertain whether the PUC, the GTA, and the GPA, as public

bodies whose powers are prescribed by the legislature, possess the legal authority to implement such rates." Wilentz Memo, p.23. In view of this conclusion, it seems imperative that a legislative solution be adopted. GTA concurs in this conclusion and recommends that legislation be prepared, consistent with the Wilentz Memo recommendations regarding non-discriminatory treatment and stated governmental purpose. While seeking legislation will likely delay the implementation of a Lifeline Program, GTA believes it is necessary in order to avoid the costly and time-consuming legal wrangling which would surely follow if Lifeline were implemented without authorizing legislation.

GTA also recommends that, in considering this legislation, the Legislature recognize that the circumstances surrounding the provision of utility services are not all identical. Specifically, GTA provides basic telephone service at very reasonable rates that have not increased in over fifteen (15) years. This must be contrasted with the rate increases that have been necessary in the provision of energy services. A Lifeline Program designed to protect against power rate increases may not be appropriate for telephone customers. GTA will work with the legislature to assure that whatever programs are designed, they are appropriate for the services being provided.

**RESPONSE TO INDIVIDUAL QUESTIONS WITHIN THE JANUARY 10, 1992 ORDER**

The following is GTA's response to the January 10, 1992, questions

shown in the Commission's Order.

- a) What should be the primary objective of Lifeline policy?
- Should Lifeline rates be structured to ensure the affordability of essential uses of electricity and telephone services for all residential customers; or
  - Should Lifeline rates be targeted to assist specific sub-groups of the residential customers, such as low income or elderly persons?

If a Lifeline Program is adopted, GTA would recommend that the program be targeted to specific groupings of residential customers based on specific "needs tests." But, regardless of which groups are determined to be eligible for the Lifeline Program, GTA does not believe that a rate structure for residential local exchange service can be implemented that would ensure that basic local exchange service would be affordable for all residential customers.

As reported by GCG, the current GTA basic residence local exchange rates are already below the average rates charged to residence customers on the mainland. Since the rate for flat rate basic local exchange service has not changed in over fifteen (15) years, this service is a bargain for the Guam residential customer when compared to the increasing costs consumers are experiencing with other essential goods and services. GTA is committed to promoting the goal of "Universal Service," and this is evident in the

stability of the low monthly rates that GTA has charged its customers over the years.

b) Assuming the Commission should decide to base Lifeline rates in whole or in part, on essential use concepts, how should essential use requirements be established?

Because GTA rates for basic residence local exchange service are flat rated, there is no need to place any essential use requirements on the basic local exchange service. Essential use requirements for residential telephone service should only be a consideration if the Lifeline Program is associated with a local measured service rate structure, which is not the case with GTA. However, there is an important issue that the Commission needs to consider, and that is the long distance usage that could accumulate on a Lifeline subscriber's bill. Since the Lifeline Program has historically been for local service only, the Lifeline subscribers are still accountable for all of their long distance charges, which in many cases would be higher than the basic local exchange charges. Because of this additional financial concern, the Commission must at least consider this information in evaluating the impact of implementing a Lifeline Program.

c) Assuming the Commission should decide to implement a targeted Lifeline rate program, what basis should be used for determining customer qualification for service under Lifeline rates?

GTA believes that this determination is best left to the legislature to decide the criteria ("needs test") of who should be eligible for Lifeline Programs. Whatever "needs test" the legislature decides upon, it should be non-discriminatory, reasonable and targeted to residential groups who currently fall below the income poverty level, or who are eligible for other governmentally supported aid programs. GTA does take a strong position that whatever "needs test" is approved, that it should be certifiable by an authorized governmental agency as delegated by the legislature, and as part of the certification process, each participant in the program must recertify annually to remain in the program. It is not appropriate that this task be performed by the service provider.

d) What cost basis, if any, should the Commission require for the establishment of Lifeline rates?

GTA would propose that because the rate for basic local exchange service is already reasonably priced, instead of developing a specific new rate, the legislature, if it supports a Lifeline Program for telephone service, also legislate the funding of the program through a voucher system, a mechanized credit system, or coupon system similar to the food stamp program. GTA would be willing to work with the Commission or another designated governmental agency to implement an efficient process to implement such a program.

This type of legislated support and funding is a more reasonable means to implement a subsidized support program than requiring GTA customers to pay higher rates to subsidize the Lifeline Program.

e) How should revenue losses that result from lowering rates for recipients of Lifeline Service be offset to ensure that GPA and GTA financial requirements are met?

- Should lower charges for Lifeline Service be offset by increased charges for non-lifeline portions of residential services; or
- Should some or all of the cost of offering Lifeline Service be borne by non-residential customers?

As stated in paragraph (d), GTA supports a legislated program whereby the funding is authorized by the legislature and the subsidy is in the form of a voucher system, a mechanized credit system, or coupon system. However, if the legislature approves a Lifeline Program and does look to the Commission and GTA to develop a plan to subsidize Lifeline through rate increases, GTA would want to ensure that no one class of customer or one service be responsible for the entire subsidy. The subsidy should be reasonably spread among all customers.

f) Are there identifiable societal costs (as opposed to utility costs) that can be reduced or avoided as a result of Lifeline rate offerings, and how should those costs be considered in the development of Lifeline rates for GPA and GTA?

Based on the fact that GTA basic local exchange rates are already low, and if, for example, the residential rate is lowered by approximately 50%, the annual cost benefit for the Lifeline recipient would only be \$72.00. GTA believes that in the case of telephone service, this small benefit to the residential user could actually cause higher costs to be incurred by other Guam governmental agencies and/or GTA as a result of implementing the Lifeline Program.

**SUMMARY**

GTA is committed to the public policy goal of "Universal Service" and it believes that it is currently providing a reasonably affordable service to the vast majority of the residences of Guam. GTA is willing to support any legislatively mandated Lifeline Program so long as GTA is able to meet its overall revenue commitments and that a Lifeline Program does not have any adverse impact on any GTA telephone customers.

GTA looks forward to the March 11, 1992, public hearing and will be willing to participate however the Commission feels appropriate.

Dated this 27th day of February, 1992.

Respectfully submitted,

**GUAM TELEPHONE AUTHORITY**

By: 

**JAMES H. UNDERWOOD,  
Its General Manager**



**CARLSMITH BALL WICHMAN MURRAY CASE MUKAI & ICHIKI**

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**February 27, 1992**

**CONFIRMATION COPY**

**VIA TELECOPIER**  
**477-2511 / 477-0783**

**Harry M. Boertzel, Esq.**  
**Moore, Ching & Boertzel**  
**Suite 400, GCIC Bldg.**  
**414 West Soledad Avenue**  
**Agana, Guam 96910**

**Re: DOCKET NO. 92-002 ORDER INSTITUTING INVESTIGATION**

**Dear Mr. Boertzel:**

GPA has prepared this response to the Commission inquiries set forth in Item 3 of the January 10, 1992 Order Instituting an Investigation of Life Line Rates (Docket 92-002). GPA's responses are provided below:

**ITEM 3.a)**

**COMMISSION INQUIRY**

**What should be the primary objective of lifeline policy?**

- **Should lifeline rates be structured to ensure the affordability of essential uses of electricity and telephone services for all residential customers; or**
- **Should lifeline rates be targeted to assist specific subgroups of the residential customers, such as low income or elderly persons?**

**GPA RESPONSE**

GPA has filed testimony with the Committee on Energy, Utilities and Consumer Protection that supported a lifeline rate targeted to assist specific subgroups of residential customers. GPA

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**FEB 27 1992**

**460**

Harry M. Boertzel, Esq.  
MOORE, CHING & BOERTZEL  
February 27, 1992  
Page 2

believes a targeted lifeline rate will ensure affordable essential electric service to those residential customers who can justify the need. GPA recommends that the program would be a subsidy to the customers who qualify for lifeline assistance.

GPA does not believe that a lifeline rate based on a rate reduction for an initial block of usage (e.g. 500 kwh) applicable to all residential customers will effectively provide affordable essential electric service to the needy. It is GPA's belief that the lifeline rate applicable to all customers is not effective because low use customers are not necessarily low income customers and high-use customers are not necessarily high income customers. Mr. Bruce Oliver also states this on Page 4, Footnote 1 of his report. Thus, GPA believes the targeted lifeline rate with a direct subsidy should be adopted by the Commission.

**ITEM 3.b)**

**COMMISSION INQUIRY**

Assuming the PUC should decide to base lifeline rates in whole or in part, on essential use concepts, how should essential use requirements be established?

**GPA RESPONSE**

The essential use could be developed based on GPA Engineering Department preparing a study on essential usage for a residential customer. The study should include an independent assessment by GPA, a survey of other lifeline programs and information contained in the Edison Electric Institute and the U.S. Department of Energy studies referenced by Mr. Bruce Oliver on Page 11, Footnote 1 of his report. The study should also obtain input from the Committee on Energy, Utilities & Consumer Protection.

**ITEM 3.c)**

**COMMISSION INQUIRY**

Assuming the PUC should decide to implement a targeted lifeline rate program, what basis should be used in determining customer qualification for service under lifeline rates?

**GPA RESPONSE**



Harry M. Boertzel, Esq.  
MOORE, CHING & BOERTZEL  
February 27, 1992  
Page 4

lifeline rates. GPA would point out that if it was a subsidy, all taxpayers would participate in funding the lifeline rate program and that the majority of GPA's customers are taxpayers.

**ITEM 3.f)**

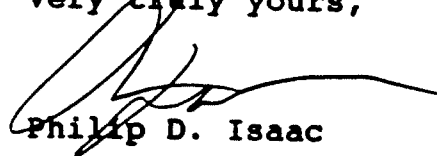
**COMMISSION INQUIRY**

Are there identifiable societal costs (as opposed to utility costs) that can be reduced or avoided as a result of lifeline offerings, and how should those costs be considered in the development of lifeline rates for GPA and GTA?

**GPA RESPONSE**

GPA has not identified any societal cost at this time.

Very truly yours,



Philip D. Isaac

PDI/csnm  
012149-35  
cc: John Benavente (via telecopier)  
Greg Tarasar (via telecopier)  
G9202172

**CARLSMITH BALL WICHMAN MURRAY CASE MUKAI & ICHIKI**

**ATTORNEYS AT LAW**

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March 6, 1992

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**VIA TELECOPIER**  
**477-2511 / 477-0783**


Harry M. Boertzel, Esq.  
Moore, Ching & Boertzel  
Suite 400, GCIC Bldg.  
414 West Soledad Avenue  
Agana, Guam 96910

Re: PUC DOCKET NO. 92-002-LIFELINE

Dear Harry:

As best I can determine, the attached letters to Senator Parkinson dated March 27, 1991 and October 17, 1990 from GPA Chairman David Sablan constitute the testimony referred to in my letter of February 27.

Very truly yours,

  
Philip D. Isaac

PDI/csnm  
012149-35  
cc: John Benavente (via telecopier)  
Enclosures  
G9202484

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MAR 9 1992  
358  
Law Offices of  
MOORE, CHING & BOERTZEL



# GUAM POWER AUTHORITY

Board of Directors



March 27, 1991

Senator Don Parkinson  
Chairman, Committee on Energy,  
Utilities & Consumer Protection  
21st Guam Legislature  
Agana, Guam 96910

RE: RESOLUTION NO. 33

Dear Senator Parkinson:

Thank you for the opportunity to comment once again on resolutions pursuant to "lifeline" utility rates.

Attached is Guam Power Authority's testimony which was submitted on October 17, 1990 with respect to Resolution No. 578. Our position remains the same, and we are, therefore, resubmitting our comments pursuant to Resolution No. 33.

As always, please be assured that GPA will work with the PUC on the issue.

---

Sincerely,



David J. Sablan  
Chairman

attachment

/yac



# GUAM POWER AUTHORITY

Board of Directors



October 17, 1990

Senator Don Parkinson  
Chairman, Committee on Energy,  
Utilities & Consumer Protection  
Twentieth Guam Legislature  
Agana, Guam 96910

RE: RESOLUTION NO. 578

Dear Senator Parkinson:

GPA appreciates the opportunity to appear before your Committee on Resolution 578, which would ensure 'reasonable rates' to every household on Guam by urging the Public Utilities Commission to establish certain 'factors associated with electricity consumption and adopt and implement LIFELINE rates to ensure that people in need are not deprived of this essential utility'.

GPA has found that several other states and jurisdictions have experimented with 'lifeline rates' with differing results, e.g. some have found it illegal, some offer financial assistance to a certain level if rates exceed a certain amount, some are still testing it, etc. GPA would be more than happy to work with the PUC in developing criteria for such rates and fully appreciates the needs of its customers.

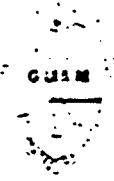
We would suggest that if such a program is to be undertaken, that it be done more on the basis of General Fund Subsidy, rather than a reallocation of any resultant revenue shortfall between and among one or more customer classes. This approach would minimize the tendency for such costs to be absorbed by customers in the higher KWH consumption brackets, and avoid questions regarding discriminatory rates.

In any event please be assured GPA will work with the PUC on the issue.

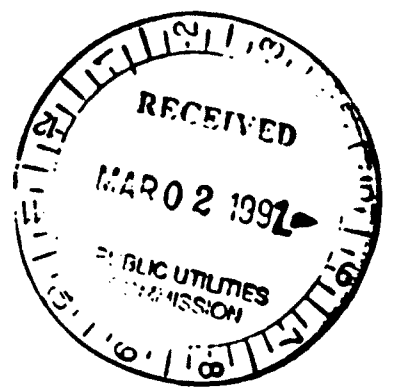
We will answer any questions you may have.

Sincerely,

  
DAVID J. SABLAN  
CHAIRMAN



FEB 25 1992



Joseph T. Duenas  
Chairman  
Public Utilities Commission  
P.O. Box 862  
Agana, Guam 96910

Dear Mr. Duenas,

In response to your request for comments regarding Guam Public Utilities Commission Implementation of Lifeline Rates for the Utilities; Docket No. 92-002, the following are submitted:

1. Any additional benefits which might be afforded the elderly, especially the needy elderly, should be supported by the Department of Public Health and Social Services. This would be in keeping with our position as the primary advocate for the senior citizens of the territory.
2. In this vein, any efforts to provide economic relief to the needy seniors, if indeed they be the target group, is to be deemed laudatory.
3. According to the latest U.S. Census Bureau report, it is projected that there are 12,307 individuals age 65 and above currently residing on Guam. Unfortunately, there are no statistics available to support any projection as to the number of these seniors whom might fall into the needy category. Should approximately 10% of these seniors, out of these seniors who are unable to rely on a limited income, would certainly be unburdened. In essence, without sufficient evidence there can be no guarantee as to the number of seniors who would benefit from any preferential rates.

If the PUC does not have sufficient statutory authority, it would be necessary for such rates to be set by local legislation. Such legislation, if targeted and not universal, could well be considered unreasonably discriminatory and in violation of the equal protection clause of the Bill of Rights in the Organic Act of Guam.

Sincerely,  
  
LETICIA C. ESPALDON



**Michael J. Reidy**  
Senator  
Guam Legislature



February 24, 1992

*REIDY*  
*Law Offices*  
**MOORE, CHINA & BOERTZEL**

Attorney Harry M. Boertzel  
Public Utilities Commission  
Suite 400, GCIC Building  
414 West Soledad Avenue  
Agana, Guam 96910

Dear Sirs:

In response to your request, here are my comments on "Lifeline" utility rates and on the consultants' reports on this subject. As indicated by my support for adopting Resolution No. 33, I am in favor of establishing lifeline utility rates on Guam. My response to the questions asked by the PUC follows. (Letters refer to the question in the PUC document.)

a) The primary objective of lifeline policy should be as the legislative resolution states, to fill the "need for 'lifeline' rates for the most needy so they may continue to be served with those utility services considered essential for an acceptable standard and quality of living at basic and affordable rates". It refers to those in need, the elderly, those on fixed retirement incomes, those on public financial assistance and other less fortunate.

The resolution also states that lifeline rates will establish incentives to conserve energy and water. The intent is also stated to place the burden of the cost of increasing the island's capacity and reserve capacity on those most responsible for the unprecedented increase in demand. These objectives are likely to be a minor consequence of lifeline rates. Major revision of rate structures would be required to attain these goals.

To attain the primary goal, lifeline rates should be targeted to the groups mentioned.

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The cost of minimal essential telephone service and electricity is low enough on Guam to make it unnecessary to provide lifeline rates for all residential customers.

b) For electric rates, GPA should easily be able to establish essential use requirements. For telephone rates, the least costly service available from GTA should provide essential service.

c) Qualification for lifeline rates:

1. Those on food stamps should qualify for lifeline utility rates.
2. Those on public financial assistance would qualify, but they are already receiving assistance for utility costs. (See discussion of consultants' reports below).
3. Elderly persons and those on fixed retirement incomes present a more complicated picture, since some families in these categories may not require assistance. Simple administrative procedures are necessary for determining eligible households in these categories to keep administrative costs from getting larger than the rate reduction savings. A gross income level, adjusted for household size, could be set for these categories, with assistance from the Department of Public Health and Social Services. Below these levels (substantiated by income tax returns) lifeline rates would be authorized. Income tax returns would also demonstrate dependence on fixed retirement income, and other documentation would be required to establish age greater than that set to qualify as elderly.

d) It appears unnecessary on the part of the PUC to require a cost basis for establishing lifeline rates. The cost basis arguments in the consultant's report are more rationalizations than rationales, and it would be extremely difficult to determine specific costs. Quite simply, the Legislature requested the PUC to implement lifeline rates, without concern for embedded costs, incremental capacity investment costs, avoided costs, etc.

e) The preferred procedure for recovering lost revenue from introducing lifeline rates should spread the costs over the whole population since the whole society benefits from having essential utility service available to all. This can be achieved by uniformly increasing rates for all other utility customers. From the numbers involved, it appears that increases would be quite small. A preferable alternative would be legislative appropriations to the utilities to make up for lost revenue. In this case, the cost would spread over the whole population. Legislative study would show which of these choices would be most efficient and economical.

f) It is difficult to quantify the reduced or avoided societal costs provided by lifeline rates. Having widespread phone service available is advantageous to society since emergencies and crimes can be reported more quickly. Electric service makes it possible to receive emergency broadcasts and respond appropriately, avoiding possible costly consequences. Water, and to some extent electricity, are essential for sanitation and health, benefitting the whole society. The populace in general feels better knowing that no one on the island is suffering the deprivation of these services for lack of money.

#### The Level of Lifeline Rates:

A reasonable level for telephone service would be half the present basic month rate, or \$6.00, which is a low cost because the basic rate in Guam is already very low. A reduction in the installation fee would also be appropriate to make phone service more available. For electricity, a rate of 5 cents per kilowatt hour would probably provide essential service for fifteen to twenty dollars a month, (300 to 400 kilowatt hours per month). The amount saved for a household compared to standard rates would then be around twenty to thirty dollars a month. This is enough to be helpful to the needy, but is probably not enough to encourage less needy families to bother with the procedure for applying for lifeline rates, thus holding down costs.

## COMMENTS ON CONSULTANTS' REPORTS

While the reports contain much useful information, they also include a lot of extraneous material. Over a quarter of the report on legal issues discusses court cases in which Public Utilities Commissions were not permitted to implement lifeline rates because legislatures had not given them authorization. This has little relevance to Guam since the legislature here is requesting the PUC to establish these rates.

Guam is not under the jurisdiction of the Federal Communications Commission, yet half of the report on telephone lifeline rates discusses regulations of the Federal Communication Commission concerning lifeline services. The example in this report relating fraction of households with phones to income in the Mountain States Bell area is of little use because it includes insufficient data.

The report on electric power is overly wordy and uses too much jargon. Simple things are explained at great length and complex things are described with the language of economics and not explained. The basic premise of the study is that if rates are decreased for some rates will have to be increased for others. This basic assumption may not even be applicable to Guam. Further, GPA should be able to make all the calculations necessary to show rate increases required for other customers to make up for decreased income from lifeline customers.

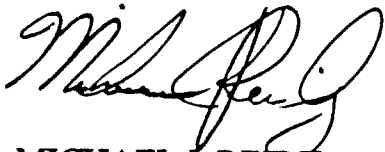
While the legislative resolution also includes water as a utility, there is no report on lifeline rates for water and sewer charges, apparently since PUAG is not under PUC, who hired the consultants.

Finally, relevant to all reports, a phone call to the Guam Department of Public Health and Social Services would have given the consultants some very useful information for all their reports. Food stamps are currently issued to about 3500 cases on Guam, or about 11,400 people. (Cases are roughly equivalent to families or households.) Of these, about 1300 cases, including about 3600 people, are receiving financial aid related to dependent children, old age, blindness, or disability. Financial aid for these cases includes money for paying their utility costs--phone, water and electricity, so lifeline rates are not relevant

because federal or local funding pays these costs. There remain about 2200 cases who receive only food stamps, who seem likely candidates for lifeline rates.

In conclusion, it appears that the remaining work to be done in establishing lifeline rates can be done by the PUC and the agencies involved, without further effort from the consulting firm which prepared the reports.

Sincerely,

A handwritten signature in cursive script, appearing to read "Michael J. Reidy".

MICHAEL J. REIDY

1           The Legislature further finds that energy conservation  
2 may be a benefit of imposition of lifeline rates and  
3 appropriate gradual differentials between rates for  
4 respective blocks of usage because a greater premium placed  
5 on higher demand levels would make the rewards of  
6 conservation more visible to consumers.

7           The Legislature further finds that, relative to  
8 electric power utilities, general lifeline rate schemes can  
9 be justified on the basis of traditional cost of service  
10 principles which demonstrate that commercial and high usage  
11 residential demand are primarily responsible for additional  
12 generating capacity needed to meet an increasing peak  
13 demand.

14           It is therefore the intent of the Legislature to  
15 authorize the PUC to implement general lifeline rates and  
16 appropriate gradual differentials between rates for  
17 respective blocks of usage for utilities.

18           **SECTION 2.** A new subparagraph (c) is added to 12GCA  
19 §12000 to read:

20                   (c) *General lifeline rate means a lower than*  
21                   **average cost per unit charge for a level of utility**  
22                   **service necessary to fulfill the essential needs of all**  
23                   **residential customers.**

24           **SECTION 3.** 12GCA 12004 is amended to read:

25                   §12004. **General Powers and Duties.**

26                   The Commission shall have regulatory oversight  
27 supervision of rates as set forth in this Chapter over

1 each public utility and shall perform the duties and  
2 exercise the powers imposed or conferred upon it by  
3 this Chapter. The Commission in the discharge of any of  
4 its duties or the exercise of any of its powers, except  
5 a final determination affecting a public utility, may  
6 act through one or more of its Commissioners designated  
7 by the Commission for this purpose. The Commission  
8 shall investigate and examine any rates and charges  
9 charged by any utility, and all records pertinent  
10 thereto. The Commission may seek advice from an  
11 independent utility expert, shall approve, disapprove,  
12 increase or reduce rates for each utility. The  
13 Commission shall establish and modify from time to  
14 time, reasonable rates and charges for services,  
15 including General Lifeline Rates, which as far as Guam  
16 Telephone Authority and Guam Power Authority are  
17 concerned, when all rates for respective blocks of  
18 usage are considered together, shall be at least  
19 adequate to cover the full cost of such service or  
20 subject to any contractual agreements of the utilities  
21 to the holders of any bonds and shall increase rates or  
22 charges from time to time as may be necessary pursuant  
23 to any contractual obligations, except that General  
24 Lifeline Rates may only be increased when the total  
25 actual overall cost of providing service to all classes  
26 of customers, increases by no less than twenty percent.  
27 The utilities shall not, however, enter into any

1 contractual agreements or obligations which could  
2 increase rates and charges [as of the effective date of  
3 this Act,] prior to the written approval of the  
4 Commission. No money in any utility sinking fund may be  
5 released except for the purpose for which it is  
6 dedicated.

7 No rate change may be approved by the Commission  
8 unless it is affirmatively established, by a  
9 preponderance of the evidence, that a rate change is  
10 necessary. The Commission shall conduct such  
11 investigation and hearings as to any such rate changes  
12 as it deems necessary. As to the Guam Power Authority,  
13 the Commission shall ensure that rates will, at all  
14 times, be sufficient to enable the utility to meet its  
15 financial obligations, operating expenses, debt service  
16 and capital improvement needs. Any rate change shall be  
17 considered by the Commission using standards and  
18 financial criteria consistent with generally accepted  
19 rate-making practices of Public Utilities and in full  
20 consideration of the requirement to establish and  
21 maintain General Lifeline Rates.

22 The Commission shall have the power to enter into  
23 contracts and execute all instruments necessary or  
24 convenient in the exercise of its powers, adopt a seal,  
25 and sue or to be sued in its own corporate name.

26 **SECTION 4.** 12GCA §12015 is amended to read:

27 §12015. **Regulation of Rates.**



1 All rates, charges, all assessments, costs made or  
2 charged by any public utility shall be just and  
3 reasonable and in conformance with public law, and  
4 shall be filed with the Commission, and no rate,  
5 charge, or assessment cost, shall be established,  
6 abandoned, or modified, departed from or changed  
7 without a public hearing and the prior approval of the  
8 Commission. The Commission, upon notice to the public  
9 utility, may suspend the operation of any proposed  
10 rate, charge or assessment cost, or any proposed  
11 abandonment or modification thereof or departure  
12 therefrom, and after a public hearing by order  
13 regulate, fix and change all such rates, charges,  
14 General Lifeline Rates, or assessment costs so that the  
15 same shall be just and reasonable, and may prohibit  
16 rebates and discrimination between localities, or  
17 between consumers, under substantially similar  
18 conditions.

19 **SECTION 5. Implementation of General Lifeline Rates.**

20 Upon the effective date of this act the Public Utilities  
21 Commission shall begin the process of implementing General  
22 Lifeline Rates for Guam Power Authority and Guam Telephone  
23 Authority residential customers. Such rates shall be  
24 implemented as soon as practicable, but in no case later  
25 than October 1, 1993.





SENATOR JOE T. SAN AGUSTIN (D)  
SPEAKER

# Office of the Speaker

TWENTY-SECOND GUAM LEGISLATURE

155 Hesler St.

Agana, Guam U.S.A. 96910

Tel: (671) 477-8527/9120 • Fax: (671) 477-5570

February 1, 1993


Senator John P. Aguon  
Vice-Speaker & Chairperson  
Committee on Tourism & Transportation  
22nd Guam Legislature  
155 Hesler St.  
Agana, Guam 96910

Dear Mr. Vice-Speaker:

Enclosed is a copy of a letter to the Chairperson, Port Authority of Guam Board of Directors, regarding the possible lost of transshipment business of Guam's port to the CNMI.

Inasmuch as the recently approved tariff rate adjustments at the Port was processed thru your Committee, would appreciate your Committee's review of the possible lost of Port revenues, not to mention the lost of Guam's role being considered as a transshipment port or the possible increased shipping cost of goods from New Zealand and Australia to Guam (via CNMI).

Sincerely yours,

  
JOE T. SAN AGUSTIN

enclosure

cc: All Senators

# Jones & Guerrero Co. Inc.

AUSTRALIA OFFICE  
1ST FLOOR, 38 YORK STREET, SYDNEY N.S.W. 2000 AUSTRALIA  
POSTAL ADDRESS: BOX 3539 GPO SYDNEY 2001

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OFFICE OF THE SPEAKER

DATE: 2/1/93

TIME: 9:40 am

RECD BY: JMG

TELEPHONE: (CC61) (2) 262 2880

FAX: (CC61) (2) 262 2028

Kenneth T. Jones, Jr.  
PRESIDENT

John Thos. Brown  
VICE PRESIDENT AUSTRALIA AND GENERAL COUNSEL

Merlyn Connolly  
SPECIAL ASSISTANT TO THE PRESIDENT

L.M.P. Lonngren  
EXPORT AND SHIPPING

January 29, 1993

C  
O  
P  
Y

Mr. Phil Flores  
Chairman of the Board  
Port Authority of Guam  
1026 Cabras Highway. Suite 201  
Piti, Guam 96925

REFER TO  
LEGISLATIVE SECRETARY



DEAR PHIL,

I would like to deliver a eulogy to the great experiment in establishing Guam as the Micronesian transshipment port.

Not too long ago there was no transshipment business at POG to speak of. Indeed, the US suppliers do not even need such a service because they find it cheaper and more convenient to ship direct to the islands on PM&O. PM&O does not have Jones Act restrictions or costs and the consignees using that service can count on regular and frequent calls. Consequently, US sourced products can be more competitively priced in the islands.

Japanese shipping companies have long tried to supply the islands, but they do not have the products to fill the ships, and the history of that trade is one of patchy service as the successive carriers find the going too costly to continue. I am sure you do not have to remember back too far to recall the problems we faced from failed or failing shipping companies who had been trying to service the islands.

J&G has long tried to sell in the islands and was always frustrated by the unavailability of a reliable shipping service. You know the story of how Zim Lines was induced to service Guam from Australia by Ken Jones' guaranty of adequate tonnage. The Zim service not only opened up Australia and New Zealand as a reliable source of products for all of Guam, it also created a new burst of product flowing to the islands, topping up the Japanese ships, assuring sufficient cargo to justify the service.

When J&G induced Zim to Guam, we had discussions with the POG people about what we were trying to do, and they were ecstatic with the new tonnage from Down Under and particularly the extra work and revenue from the transshipment potential. It appears the ecstasy has turned to greed and that will in due course bury the business.

The new transshipment rates cannot, in my mind, be justified. The twelve dollar increase is not an issue. What I do not understand is, what cost basis is there for imposing a TWO HUNDRED

SEVENTY DOLLAR increase on the 15th day when there is no such need on the 14th day? Neither the timing nor the amount of the increase make sense. The increase is not a function of rent as you have also brought forward the demurrage charges from 30 days to 15 days.

The \$270 increase, which is a TWO HUNDRED THIRTY-FIVE PERCENT increase, is not related to anything that the shipper or consignee has any control over, but it is they who will be stuck with the cost before they pass it on to the consumer. All you need is for one of the feeder ships to have a little engine problem and the cost of goods in the container, which have been ordered in expectation of a certain cost, is suddenly uncompetitive. We recently experienced that when one ship couldn't sail, was put back, and when its replacement came, it was so late as to be practically full before it got to Guam, so it could not take many liftings and we had 3 transhipments sitting at POG through no fault of our own timing or control. This wrecked the value of the product, the flow of distribution of basic staples to people who needed it and our costings; if you tacked the increase PAG costs on top, it would be the final straw.

Our competitors in the islands who source from the US do not face these added costs or logistical problems. Indeed they have no transshipment headaches at all. Your new rates will diminish our ability to compete, perhaps eliminate it. For instance, our main bulk commodity is rice, which is big on volume but extremely thin on margins. Pennies a bag make the difference between a sale and no sale. No sale means significant reductions in tonnage; tonnage is necessary for Zim to call Guam and for the Japanese feeder ships to remain as viable as they are (which is precarious in any event).

What you must remember is that, in the island trade, our competitors are POG's competitors; if their price is cheaper, they (PM&O) get the tonnage, plain and simple. When you kill this goose and its marvelous golden transshipment eggs, not only will you lose the revenues and work that come from the transshipment, you risk having any Australian service at all. As it is, Zim is uncertain if there will be adequate Guam cargo to justify its deviation. If Zim discontinues the call, POG loses and the consumers of Guam lose. You lose the port activity, you lose the competitive edge that alternate sourcing provides, and you diminish the tax base.

As an example, we have an employee who does not much else than service the islands, getting sales, seeing to the deliveries and following with collections. I would suspect that most of the transshipment business is originated on Guam and that other companies have similar set-ups. If we do not have the shipping service, we do not need that position. If we do not make island sales, our revenues are down. Our revenues and our payroll are tax sources for GovGuam. Killing off the transshipment services feeds through the port activities and touches the very economic and tax base of the community.

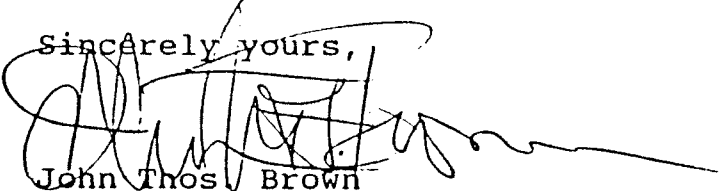
The Port obviously has the monopoly powers to force through

whatever price increase it wants; there are not any attractive transshipment alternatives that we have identified, even with all of our contacts and involvement in the shipping business through Australia. But we do caution that this exercise of your monopoly power is likely to be self-destructive.

Your monopoly over our transshipment facilities does not affect our competitors; in fact, it plays directly into their hands. Rather than enable us to lift tonnage through POG, your actions just about guaranty that our tonnage will decline to the point of questionable viability. Meanwhile, all of our efforts to get the Zim service into Guam and to establish Guam as the shipping hub of Micronesia and to establish Guam businessmen and women as the major players in the Micronesian distribution business will be laid to rest.

We will not rest in peace.

Sincerely yours,



John Thos Brown

PS: This was written in draft yesterday and today the attached message from Kyowa was received; the rumor of its death is not greatly exaggerated.

ATTN: ROY SULLIVAN

HAP--003

RCA JAN 26 0334#  
6101 HAPSHIP GM

2424651 KYOWA J  
26 JAN 93 08:32 GMT  
93/01/26 TKA0284

TO SEAWAY SPR            TO HAPSHIP GAM  
TO JARTAI BKK            TO SAISHIP SPN  
TO KYOSHIP HK  
TO FORMOSA TPE  
TO SAMINSHIP JKT  
TO DONGSHIN SEL  
CC KYOWA OSK  
FM KYOWA TKY

URGENT AND IMPORTANT

RE: TRANSHIPMENT CARGO FOR S. PACIFIC AND MICRONESIA.

PORT AUTHORITY OF GUAM DECIDED TO INCREASE STEVEDORAGE ETC AS FROM FEB. 5, 1993. HOWEVER THE RATES ARE EXTREMELY HIGH AND WE CAN NOT ABSORB THE NEW COST ON TRANSHIPMENT CARGO. THEREFORE WE CHANGE TRANSHIPMENT PORT FROM GUAM TO SAIPAN FROM THE NEXT EARLIEST SHIP. PLEASE NOTE. ALSO DISCRIBE 'TRANSHIPMENT AT SAIPAN' ON NECESSARY DOCUMENTS.

B. RGDS  
2424651 KYOWA J  
#  
6101 HAPSHIP GM



**ZIM SHIPPING**  
**AUSTRALASIA PTY LTD**  
ACN 008 381 473

Our Ref. AS:A:988.  
27th January, 1993.

General Manager,  
Port Authority of Guam.  
1026 Cabras Highway, Suite 201,  
PITI, GUAM 96924.

Dear Sir,

**RE: PAG NEW TARIFF TRANSHIPMENT & DEMURRAGE COSTS.**

We have received your new Tariff Agreement effective 5th February, 1993, which we found somewhat different to the draft we had in our hands prior to the ratification of the Tariff.

The conditions relating to Transhipment (i.e. minimum 40 containers per feeding vessel in 15 days) cannot be met and as a result the increase in cost rises by hundreds of percents.

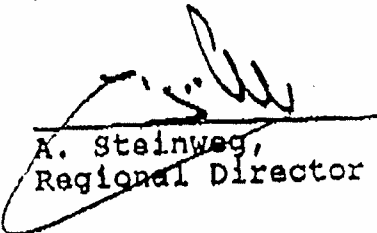
It is very difficult to imagine that it can be absorbed either by the Shipping Line or by the trade.

The same applies to the Demurrage costs, where the same conditions as abovementioned are resulting in increases in costs which are far more than the trade will be able to pay.

We fear that as a result of the above the volume of cargo which is shipped to the Islands will drop. Without enough volume we as a Shipping Line will not have the incentive to call Guam Port.

We respectfully request you to reassess your Transhipment Tariff to practical figures where every one can still breath.

Respectfully yours,  
ZIM SHIPPING AUSTRALASIA PTY. LTD.

  
A. Steinweg,  
Regional Director for Australasia.

C.C. Maritime Agencies of the Pacific/R. Hahn.