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WILL "NETWORX" WORK? A REVIEW OF WHETHER A CENTRALIZED GOVERNMENT TELECOM PLAN JIBES WITH AN EVER-EVOLVING MARKET

HEARING

BEFORE THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

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CONTENTS

Page

Hearing held on February 26, 2004 1

Statement of:

D'Agata, Anthony, vice president and general manager, Government Systems Division, Sprint Corp.; Quinten Johnson, regional vice president, SBC Federal Solutions; Kevin O'Hara, president and chief operating officer, Level 3 Communications, LLC; Jerry W. Hogge, senior vice president, Winstar Government Solutions, LLC; David J. Page, vice president, Federal Government sales, BellSouth Corp.; Louis M. Addeo, president, AT&T Government Solutions; Shelley Murphy, president, Verizon Federal Inc.; and Jerry A. Edgerton, senior vice president, Government Markets, MCI 98

Perry, Stephen A., Administrator, U.S. General Services Administration; Sandra N. Bates, Commissioner, Federal Technology Service, U.S. General Services Administration; Linda D. Koontz, Director, Information Management Issues, U.S. General Accounting Office; Drew Ladner, Chief Information Officer, U.S. Department of the Treasury; and Melvin J. Bryson, Assistant Director, Administrative Office of the U.S. Courts 10

Letters, statements, etc., submitted for the record by:

Addeo, Louis M., president, AT&T Government Solutions, prepared statement of 155

Bates, Sandra N., Commissioner, Federal Technology Service, U.S. General Services Administration, prepared statement of 27

Bryson, Melvin J., Assistant Director, Administrative Office of the U.S. Courts, prepared statement of 76

Cummings, Hon. Elijah E., a Representative in Congress from the State of Maryland, prepared statement of 7

D'Agata, Anthony, vice president and general manager, Government Systems Division, Sprint Corp., prepared statement of 100

Davis, Chairman Tom, a Representative in Congress from the State of Virginia, prepared statement of 3

Edgerton, Jerry A.,senior vice president, Government Markets, MCI, prepared statement of 174

Hogge, Jerry W., senior vice president, Winstar Government Solutions, LLC, prepared statement of 133

Johnson, Quinten, regional vice president, SBC Federal Solutions, prepared statement of 108

Koontz, Linda D., Director, Information Management Issues, U.S. General Accounting Office, prepared statement of 51

Ladner, Drew, Chief Information Officer, U.S. Department of the Treasury, prepared statement of 66

Maloney, Hon. Carolyn B., a Representative in Congress from the State of New York, prepared statement of 94

Murphy, Shelley,president, Verizon Federal Inc., prepared statement of ... 163

O'Hara, Kevin, president and chief operating officer, Level 3 Communications, LLC, prepared statement of 112

Page, David J., vice president, Federal Government sales, BellSouth Corp., prepared statement of 147

Perry, Stephen A., Administrator, U.S. General Services Administration, prepared statement of 13

WILL "NETWORX" WORK? A REVIEW OF WHETHER A CENTRALIZED GOVERNMENT TELECOM PLAN JIBES WITH AN EVER-EVOLVING MARKET

THURSDAY, FEBRUARY 26, 2004

HOUSE OF REPRESENTATIVES,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The committee met, pursuant to notice, at 11:20 a.m., in room 2154, Rayburn House Office Building, Hon. Tom Davis of Virginia (chairman of the committee) presiding.

Present: Representatives Tom Davis of Virginia, Burton, Ose, Cannon, Waxman, Maloney, Cummings, Tierney, Van Hollen, and Norton.

Staff present: Melissa Wojciak, staff director; David Marin, deputy staff director/director of communications; Ellen Brown, legislative director and senior policy counsel; Edward Kidd, professional staff member; John Brosnan, GAO detailee; Teresa Austin, chief clerk; Brien Beattie, deputy clerk; Phil Barnett, minority staff director/chief counsel; Kristin Amerling, minority deputy chief counsel; Michelle Ash, minority senior legislative counsel; Mark Stephenson, minority professional staff member; Earley Green, minority chief clerk; Jean Gosa, minority assistant clerk; and Cecelia Morton, minority office manager.

Chairman TOM DAVIS. The meeting will come to order. Good morning, thank you everybody for your patience. We had to get through some of those bills.

I want to welcome everybody to today's oversight hearing on the GSA's proposed government-wide voice and data telecommunications program Networx. Through this hearing, we hope to gather information from industry and other stakeholders, including GSA, to determine whether GSA's proposed acquisition strategy contained in its request for information issued in October will be effective in today's ever-evolving telecommunications environment.

GSA's Federal Technology Service [FTS], in coordination with the Interagency Management Council, is responsible for ensuring that Federal agencies have access to affordable telecommunications and networking services and solutions that meet agency mission requirements. FTS has traditionally met this responsibility through large, government-wide contracts, such as the current FTS 2001 contracts for long distance and international telecommunications services, and the Federal wireless telecommunications contract.

Networx would be GSA's fourth generation government-wide telecommunications program. We are interested in learning whether GSA's overall acquisition strategy is likely to provide robust competition from the entire spectrum of the marketplace. Further, we need to example narrower but still-significant issues related to the proposed acquisition, such as transition strategies, appropriate contract performance period, billing requirements, and the use of minimum revenue guarantees.

The key to success here is to make GSA take advantage of the wealth of information that's been made available to it in response to the RFI and through this hearing. This knowledge, not merely the designs of the past, should guide the structuring of a flexible telecommunications program, based on current and future markets and evolving government needs.

[The prepared statement of Chairman Tom Davis follows:]

Opening Statement of Chairman Tom Davis
"Will Networx Work? A Review of Whether a Centralized Government Telecom Plan Jibes with an Ever-Evolving Market."
February 26, 2004
10:00 a.m.
Room 2157, Rayburn House Office Building

Good morning, I would like to welcome everyone to today's oversight hearing on the General Services Administration's (GSA) proposed government-wide voice and data telecommunications program, Networx. Through this hearing, we hope to gather information from industry and other stakeholders, including GSA, to determine whether GSA's proposed acquisition strategy, contained in its Request for Information issued in October, will be effective in today's ever-evolving telecommunications environment.

GSA's Federal Technology Service (FTS), in coordination with the Interagency Management Council (IMC), is responsible for ensuring that federal agencies have access to affordable telecommunications and networking services and solutions that meet agency mission requirements. FTS has traditionally met this responsibility through large, government-wide contracts such as the current FTS2001 contracts for long-distance and international telecommunications services and the federal wireless telecommunications contract. Networx would be GSA's fourth generation government-wide telecommunications program.

The Committee is interested in learning whether GSA's overall acquisition strategy is likely to provide robust competition from the entire spectrum of the marketplace. Further, we need to examine narrower, but still significant issues, related to the proposed acquisition, such as transition strategies, appropriate contract performance period, billing requirements, and the use of minimum revenue guarantees. The key to success here is for GSA to take advantage of the wealth of information that has been made available to it in response to the RFI and through this hearing. This knowledge, not merely the designs of the past, should guide the structuring of a flexible telecommunications program based on current and future markets and evolving government needs.

Chairman TOM DAVIS. I would now recognize the distinguished ranking member, Mr. Waxman.

Mr. WAXMAN. Thank you, Mr. Chairman. I am pleased to join you today to review the administration's preliminary observations on how to purchase telecommunications services when the current FTS 2001 contracts expire. As everyone knows, this committee has historically played a role in the development of the acquisition strategy for the Federal Government's telecommunications needs. I look forward to working with you, Mr. Chairman, the administration and the private sector to ensure that the Federal Government continues to receive the best price and highest quality service to meet those needs.

The Federal Technology Service at GSA has administered the current Federal telecommunications program, FTS 2001, and its predecessor, FTS 2000. While not totally without problems, the program has been a success. The Federal Government pays between 1.5 and 2 cents per minute for long distance service, well below the best commercial rate. Over its lifetime, the program has saved the American taxpayer close to $2 billion by leveraging Federal buying power and encouraging continuous competition. Any future acquisition should retain these critical features. Could you imagine what the Federal Government could do in the area of pharmaceuticals if we used the collective buying leverage of the Federal Government for Medicare recipients to get the best price, so that we could get the best price, best quality and protect the consumers from high prices, as well as the Treasury and the taxpayers?

GSA issued a request for information last October that provides the outlines of an acquisition strategy for the new program, and has received comments from a wide cross section of the industry. Now is the time to examine questions about whether the proposed strategy will address the fiscal, technological and socioeconomic priorities of the Federal Government. Will the strategy generate enough continuous competition to assure the best price in quality? How will the new technologies be integrated into the program? Will small and minority businesses have sufficient opportunities under the proposed strategy? And what is the best way to ensure a smooth transition from the existing to the new contracts? These are just a few of the questions that I would like to see addressed today.

Mr. Chairman, I thank you and I look forward to hearing from our witnesses. I want to tell the witnesses that we all have a lot of things going on, and I have a conflict. But if I'm not here, I certainly will be monitoring the testimony, my staff is here, and we'll be working with all of you to pursue the best policy. And I would hope that we can keep the record open, so that if there are further questions we want to submit for answers in writing, we'd like to ask that for the record.

Chairman TOM DAVIS. Thank you.

Any other Members wish to make opening statements? The gentleman from Indiana, Mr. Burton.

Mr. BURTON. Mr. Chairman, I want to commend you for holding this hearing this morning. Although the current government telecommunications contract will not expire until 2006, we need to begin today discussing and debating how we want the contract to

be structured. Communications and information sharing is in many ways the life blood of our government.

If we cannot successfully communicate with our constituents or between various Federal agencies or even each other, the business of government will come to a screeching halt. Particularly in the post-September 11 world, it's extremely important that we do this thing right.

Today's hearing gives us an opportunity to listen to the thoughts of the GSA, the telecommunications industry and the other stakeholders about the positives and potential negatives of GSA's proposed contract strategy as outlined by them in their October 2003 request for information. The best solution to this important government procurement issue is going to take compromise by all the major stakeholders, and everybody is probably not going to be completely happy with the final product. I know that from past history.

Mr. Chairman, after overseeing the process the last time this contract was up for consideration, I learned a few valuable lessons. At the end of the day, I hope we will be able to work together to develop a policy that ensures robust and fair competition, contains enough flexibility to provide new technology and innovative solutions to government's ever-evolving information technology needs, such as in the areas of network, Internet and cybersecurity, emergency preparedness and response, disaster recovery and continuity of services in a crisis. Above all, that it's affordable, efficient, well managed and a good value for the American taxpayers.

So in closing, Mr. Chairman, I want to thank you once again for getting the ball rolling by convening this hearing today. I sincerely hope we can work together in an open, fair and bipartisan way to continue moving this process forward constructively. I probably won't be able to listen to all the witnesses because we're getting a briefing on a trip we're taking over to Iraq. But I certainly will follow this very closely, Mr. Chairman.

Chairman TOM DAVIS. Thank you, and we look forward to your guidance on this. You have some experience in this, having gone through it before, and I appreciate your interest. Any other Members wish to make opening statements?

Ms. NORTON. Mr. Chairman, I would like to make a statement.

Chairman TOM DAVIS. The gentlelady from the District of Columbia.

Ms. NORTON. Mr. Chairman, I'm going to the floor, but I'm going to try to remain here to hear these witnesses. I'm impressed that we are here dealing with perhaps the most competitive and technologically driven industry in the country, that literally changes by the minute. We therefore, it seems to me, are in the catbird seat, given the fact that we are surely the largest customer that any of these players could desire.

So I will be interested to know whether the acquisition strategy that is proposed will provide the government the opportunity to take advantage of competition from many sources. I want to see them all go at one another with, to a fare-thee-well. Because we are the ones who will benefit if they have to kill each other in order to get this contract. [Laughter.]

The technology changes every moment, the reason the technology changes is precisely because this industry wants to stay competi-

tive. It stays so competitive that it's often difficult to keep up with what technology one ought to have. We don't need to have, I suppose, minute by minute state-of-the-art technology, but we certainly ought to encourage the government to keep up with the changing technology. And we need to say to these guys, "We're here, let's see what you've got," for the best company with the lowest bid, go at it, and the more you go at it, the better off we'll be.

Thank you very much, Mr. Chairman.

Chairman TOM DAVIS. Thank you very much.

The gentleman from Maryland.

Mr. CUMMINGS. Thank you very much, Mr. Chairman.

Mr. Chairman, I thank you for holding this hearing to collect information from stakeholders in the General Services Administration's proposed government-wide voice and data communications program, Networx.

It's my hope that this hearing will serve as an opportunity for us to explore whether GSA's proposed acquisition strategy will serve as the best solution in our current technologically advanced society. The current telecommunications program, FTS 2001, will expire in 2006. It is important that we are able to implement a new program in a timely, effective and cost-efficient manner.

In the RFI request issued by the FTS in October 2003, the stated goals of Networx were to assure continuity of services, achieve best value by leveraging the government's buying power to obtain the lowest possible prices, while maintaining quality, provide access to a broader range of service than currently available, and provide expanded opportunities for small businesses. It is at this hearing where we can determine whether or not the FTS-proposed Networx does in fact accomplish these goals, or whether it must be adapted to further meet the concerns of all stakeholders involved. I have four main concerns that I hope the witnesses will address today.

First, Networx must have the ability to not only offer but keep up with new technological advances. In light of September 11 and our continuous need to effectively address issues related to our Nation's security, we must be sure that any new telecommunications program we implement is capable of supporting new technologies as they are developed.

Second, the bidding process for Networx must remain a competitive process that does not exclude either new or smaller entities from entering the government-sponsored program. This bidding process must also allow for companies with specialized telecommunications technology to compete in our ever-evolving technology economy.

Third, Networx must remain cost-effective in its new form. If the program does not continue to save the government money, especially in our current budget crunch, then it will miss its most important aim.

And last, Networx must allow for an affordable and efficient transition from the current FTS 2001 telecommunications program. We must be guaranteed that by 2006 there will be a smooth and non-problematic transition into the new program.

With that said, Mr. Chairman, I look forward to hearing from today's witnesses, and once again, Mr. Chairman, I thank you.

[The prepared statement of Hon. Elijah E. Cummings follows:]

Statement of Congressman Elijah E. Cummings
House Government Reform Committee
On
"Will Networx Work? A Review of Whether a Centralized Government Telecom Plan Jibes with an Ever-Evolving Market"
February 26, 2004 at 10:00 a.m.

Thank you, Mr. Chairman for holding this hearing to collect information from stakeholders in the General Services Administration's (GSA) proposed government-wide voice and data telecommunications program, Networx. It is my hope that this hearing will serve as an opportunity for us to explore whether GSA's proposed acquisition strategy will serve as the best solution in our current technologically advanced society.

The current telecommunications program, FTS 2001, will expire in 2006, and it is important that we are able to implement a new program in a timely, effective, and cost efficient manner. In the RFI request issued by FTS in October of 2003, the stated goals of Networx were: "to assure continuity of services, achieve best value by leveraging the government's buying power to obtain the lowest possible prices while maintaining quality, provide access to a broader range of service than currently available, and provide expanded opportunities for small businesses." It is at this hearing where we can

determine whether or not the FTA proposed Networx does in fact accomplish these goals, or whether it must be adapted to further meet the concerns of all stakeholders involved.

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- Third, Networx must remain cost effective in its new form. If the program does not continue to save the government money, especially in our current budget crunch, then it will miss its most important aim.

- And lastly, Networx must allow for an affordable and efficient transition from the current FTS 2001 telecommunications program. We must be guaranteed that by 2006, there will be a smooth and non-problematic transition into the new program.

With that said, Mr. Speaker, I look forward to hearing from today's witnesses, and once again, thank you Mr. Chairman for holding today's hearing.

Chairman TOM DAVIS. Thank you very much.

We have a great first panel, we have a great second panel. Let me say in the second panel, we held a lot of them in the back room. And this is where we could have sold tickets. We had SBC, Sprint, Verizon, MCI, AT&T, Winstar, BellSouth and Level 3 all in the same room, and by all accounts, it was fairly harmonious. So it's a historic first. [Laughter.]

On the first panel we have Steve Perry, the Administrator of the U.S. General Services Administration; Sandra Bates, no stranger to this committee, the Commissioner from the Federal Technology Service, U.S. General Services Administration; Linda Koontz, the Director of Information Management Issues from the U.S. General Accounting Office; Drew Ladner, our Chief Information Officer at the U.S. Department of the Treasury; and Mel Bryson, the Director of Information Technology, Administrative Office of the U.S. Courts.

It's the policy of this committee that we swear witnesses in before their testimony. If you'll rise with me and raise your right hands.

[Witnesses sworn.]

Chairman TOM DAVIS. Thank you very much.

Commissioner Perry, we'll start with you and then we'll move straight on down the line. Your total statement is in the record. Not everybody is here to hear it, so you don't need to go over the time, because that's in the record, and most of the Members will get it off the record. Then we'll have our questions, a lot of them are cued to what your testimony is. So if you can take about 5 minutes, keep your testimony to 5 minutes. We have a light in front of you. When the orange goes on, that means you have 1 minute left, 4 minutes are up.

Steve, thanks for being with us, and thanks for doing a great job over there.

STATEMENTS OF STEPHEN A. PERRY, ADMINISTRATOR, U.S. GENERAL SERVICES ADMINISTRATION; SANDRA N. BATES, COMMISSIONER, FEDERAL TECHNOLOGY SERVICE, U.S. GENERAL SERVICES ADMINISTRATION; LINDA D. KOONTZ, DIRECTOR, INFORMATION MANAGEMENT ISSUES, U.S. GENERAL ACCOUNTING OFFICE; DREW LADNER, CHIEF INFORMATION OFFICER, U.S. DEPARTMENT OF THE TREASURY; AND MELVIN J. BRYSON, ASSISTANT DIRECTOR, ADMINISTRATIVE OFFICE OF THE U.S. COURTS

Mr. PERRY. Thanks, Mr. Chairman. I appreciate the opportunity to testify to the committee on this very important subject.

As has been pointed out, we all know that having an effective and efficient telecommunications program in the Federal Government is very important. It's not only important because we spend billions of dollars to obtain these services, but it's important because this is critical to the communication interactions, and the data transfer of information that we have to do to support the day to day operation of the government.

So we're happy to be here today to talk about our plan for transitioning from FTS 2001 to the new program that we call Networx. The Networx contract, as has been pointed out, will be

the fourth generation of telecommunication contract in the government that started in the mid-1960's. Each successive contract that has been put in place has been an improvement over the prior contract. We expect that will continue to be the case with the new Networx contract that's being put in place.

FTS 2001 certainly has been a success, as Mr. Waxman pointed out. We've derived savings in the government of nearly $2 billion from that program. In short, GSA telecommunications programs of the past have in fact been successful, and as we move forward, we believe we can build upon the lessons learned and the solid foundation that is now in place to make the new program even more successful as we move to the future.

Last October you invited us to talk to this committee about our plans for beginning the transition process and developing a new Networx program as well as an acquisition strategy. Since that time, Sandy Bates and her team have benefited from numerous meetings with the committee staff and we continue to seek your counsel and support. Additionally, as was pointed out, we've had very valuable discussions with customer agencies, and we've had very valuable discussions with the telecommunications industry and other interested parties.

The level of interest is perhaps unprecedented. The quality of comments and the exchange of information and ideas that we've received to date have been very, very helpful. Through this dialog, we are receiving many excellent ideas that we will continue to consider and, where appropriate, incorporate into the development of the Networx telecommunications program, as well as the formulation of our acquisition strategy.

So Mr. Chairman and members of the committee, one of the things I want to emphasize in my remarks is that we will assure you that we understand the importance of the proposed government-wide telecommunications program and we are committed to achieving implementation of the new program in a very successful way. Before I turn the presentation over to Sandy to talk about this in some more detail, I'd like to just highlight a few of the customer requirements that we've learned from our discussions with customers and industry partners and that GSA has committed to achieve in this acquisition.

The first is service continuity. That is, we will ensure that all services currently provided under FTS 2001 are transitioned to the new Networx contract without interruption.

Second is transition assistance. The Networx contract will include requirements for contractors to assist agencies in achieving a timely, efficient transition from the current contract to the new contract.

Then of course, best value. Networx contracts will offer telecommunications services to Federal agencies at highly competitive prices that are at or below current levels. Additionally, agencies can use the Networx contract to meet their telecommunications needs without incurring the costs of developing their separate acquisitions.

And flexibility, the Networx program will give customer agencies maximum flexibility to adapt to changes in the competitive eco-

nomic and technology environment of the telecommunications industry.

Alternative sources. Networx will provide choices to agency customers in selecting from among multiple contractors for services that they require. That will provide for the robust competition that you spoke of.

In the area of operations support, Networx contracts will integrate ordering, billing and inventory management to the extent necessary to meet agency requirements. The Networx contracts additionally will be performance based.

And last but certainly not least, GSA is placing a strong emphasis on the utilization of small businesses by our Networx service providers.

So I want to assure the committee that we understand how important this is and we're working on it that way. We do hope that the result of our work will be that even those agencies that have not taken advantage of the benefits of GSA's telecommunications programs in the past will realize that they have the opportunity to do so, to obtain the telecommunications services that they need, to achieve their agency's missions and at the same time, save money for their agencies and of course for the American taxpayer.

Mr. Chairman, we thank you for holding this hearing. I look forward to continuing to work with you and the other members of the committee to make this new Networx contract a reality. Thank you.

[The prepared statement of Mr. Perry follows:]

STATEMENT OF
STEPHEN A. PERRY

ADMINISTRATOR
OF
GENERAL SERVICES

BEFORE THE

COMMITTEE ON GOVERNMENT REFORM

U.S. HOUSE OF REPRESENTATIVES

FEBRUARY 26, 2004



Good morning Mr. Chairman and Members of the Committee. Thank you for the opportunity to testify today on the General Services Administration's (GSA's) proposed government-wide telecommunications program called "Networx."

At previous hearings of this Committee, we have discussed the efforts GSA is making to improve our performance in providing "best value" service to Federal agencies and to the American taxpayers. We are applying this effort across all areas of GSA including the Public Buildings Service, the Federal Supply Service, and the Federal Technology Service.

We are here today to discuss the Federal Technology Service plan for developing the "Networx" telecommunications program to replace the expiring FTS 2001 telecommunications program.

Specifically, we will discuss the objectives, timetables and our acquisition strategy for the new program.

This new Networx contract is the fourth major competitive acquisition of a government-wide, full service telecommunications program to provide voice, data, video, and other telecommunications and networking services and solutions to support Federal agencies in the achievement of their missions. It all began in 1964 with the original Federal Telecommunications System, followed by FTS2000 from 1988 through 1998, FTS2001 from 1998 through 2006, and soon, Networx.

Each of these telecommunications programs has enabled Federal agencies to have access to affordable telecommunication services and solutions that meet agency mission requirements. FTS has worked closely with this Committee, with our customer agencies on the Interagency Management Council, and with the entire community of stakeholders to properly leverage the volume of Federal government requirements to provide extraordinary

value through low pricing and reliable delivery of telecommunication services that are critical to the efficient and effective operation of each Federal agency.

The current FTS2001 program, now in its sixth year, certainly has provided value. The low prices obtained thus far have resulted in approaching $2 billion in savings to the Federal Government. Additionally, the FTS2001 and related "Crossover" contracts have provided the flexibility agencies need to adapt emerging technologies. The contract has been modified 229 times to meet changing customer requirements. Each year the value provided by the FTS 2001 contract has been improved through price reductions and service enhancements.

Last October, at your invitation, I was pleased to discuss with the Committee the goals, overall features of the Networx telecommunications program and the proposed strategy for Networx to replace the FTS2001 telecommunications contract

and several of our other expiring contracts. We continue to seek your counsel and support as we finalize this work.

Additionally, discussions with customer agencies, the telecommunications industry and other interested parties are well underway, and many excellent ideas have been shared with GSA as we consider options for the various features that will comprise our eventual acquisition strategy.

In my brief remarks today, I want to assure you that GSA recognizes the importance of our proposed Networx acquisition program. We are committed to achieving a successful implementation of Networx, including a well-planned, properly managed transition from FTS2001. This is a top priority of our agency.

Sandra Bates, Commissioner of the Federal Technology Service, and her team has kept GSA's Senior Leadership Team informed over the past several months regarding the release of the Networx "Request For Information" (RFI), and of our ongoing

dialogue with Congress, the telecommunications industry and our agency customers. The level of interest, the quality of the commentary, and the exchange of information and ideas we have experienced to-date encourages us. The overall effectiveness of Networx can only improve by having an open dialogue.

At the same time, there remain questions and concerns with GSA's approach to Networx. We are listening to those concerns, reviewing them carefully and where applicable we are factoring those concerns into the formulation of the acquisition strategy. In a few moments Commissioner Bates will highlight the specific concerns raised through GSA's RFI process and how GSA has fundamentally altered from our original approach based on input thus far received.

In addition, Commissioner Bates will address the specific aspects of the proposed strategy released in the RFI.

I would like to share with you the basic requirements our customers have determined are critical to GSA's Networx acquisition strategy:

Service Continuity – Ensuring that all services currently provided under FTS2001 are transitioned without interruption to Networx.

Highly Competitive Prices – Offering telecommunications prices through Networx that are at or below current levels to assure stability and predictability in agency's telecommunications budgets.

High Quality Service – Networx will require contractors to provide reliable and efficient service to meet customer agency missions.

Full Service Industry Partners – Networx will meet agencies' needs for a broad array of services and the ability to meet a majority of agency telecommunications needs without high administrative overhead cost.

Alternate Sources – Networx will provide choices to agency customers in selecting from among multiple contractors for some services and leveraging the prices of multiple offerors on specific task order requirements.

Operations Support – Networx contracts must integrate ordering, billing, and inventory management to assist agencies in operations and back office functions associated with Networx.

Transition Assistance – We will require Networx contracts to include provisions for timely and efficient transitional services.

Performance Based Contracts – Networx will rely upon performance-based contracts with Service Level Agreements to the extent possible.

Small Business Participation - GSA is placing strong emphasis on the utilization of small businesses by our Networx service providers.

GSA's approach focuses on meeting continuity requirements for current in-place services, to ensure robust competition, and to obtain benchmark pricing. Further, we endeavor to include all services offered under FTS2001 as well as a broader range of additional network enabled technologies and services, including: Embedded security; broadband access; IP-based networking; and managed network services.

It is important to note that Networx gives customer agencies maximum flexibility to adapt to changes in the competitive, economic and technological environment of the telecommunications industry.

GSA has not finalized our Networx strategy, and you have my assurance that we will carefully consider input from Congress, this Committee, industry partners and other interested parties as we contemplate how best to bring the successor of FTS2001 to market.

Our goal in crafting this acquisition strategy is to provide federal agency customers with the ability to purchase networking solutions from GSA that bring best value, taxpayer savings, high-quality service and innovation in support of their missions. Our priorities will be to smoothly transition agency customers from FTS2001, to minimize costs and service disruptions, to provide ongoing flexibility in meeting the government's ever evolving and increasingly complex telecommunications requirements, and to assure that as many agencies as possible choose GSA as their source for telecommunications solutions. Whether directly through the Federal Technology Service, or through other GSA procurement methods, we must assist our federal customers in maximizing savings while benefiting from the full-service, value added business options we provide.

GSA recognizes that agencies have a choice when it comes to buying telecommunications services. Not everyone chooses GSA to meet their needs – as much as half of the government's

telecommunications spending occurs outside of GSA programs. If more agencies were to choose GSA, the government would benefit from less spending and better prices, and the taxpayer would save more from GSA's best value programs. The challenge for us is to find ways to attract more agencies to choose GSA and realize those benefits.

To meet this challenge, we are committed to a three-pronged approach: First, we must make sure our programs offer the latest, most innovative and most cost effective products, services and solutions that meet government's requirements. Second, we must get the word out – we must make sure all agencies are aware of the solutions and value available through GSA's programs. And third, we must actively engage with key decision makers across government to assure that they have the best available information on which to base their buying decisions.

The input and feedback received through the Networx RFI process, and today, during this hearing, will be essential to the successful execution of this approach.

I look forward to hearing the opinions and views of GSA's agency customers, the participants on the industry panel assembled today, and the Members of this Committee. I am happy to answer any questions you may have.

Chairman TOM DAVIS. Thank you very much.

Ms. Bates, thanks for being with us.

Ms. BATES. Good morning, Chairman Davis and members of the committee. Thank you for inviting me to appear before you this morning. I have submitted a detailed written statement, so I will now address the particular issues you raised in your letter.

Effectiveness of the strategy. I readily agree that the proposed October strategy can be improved. We are committed to improving it, industry has suggested items for improving it. For example, some respondents question having separate, staggered universal and select acquisitions. Some believe that universal could overshadow select and result in significantly fewer opportunities for select awardees. This is a fair concern.

Our challenge is to understand the tradeoff and strike an appropriate balance between the desire to be all-inclusive and the need to foster meaningful and effective competition. And there are other areas where industry feedback has been extremely valuable. In each case, we are evaluating the effects of the suggested alternatives and working to develop a more refined and a more effective approach.

Transition. Since May 2003, the IMC-led transition working group has been planning for the Networx transition. Both FTS and our customers are committed to a well-planned, well-executed and effective transition at the lowest possible cost.

Contract performance periods. We have received a variety of comments. The suggestions range from 5 years to 15 years. The final contract duration should attract meaningful competition, justify the resource investment and minimize contract-required transitions.

Billing. We've clearly heard that the billing data elements contained in the RFI may be overly burdensome to industry. However, we need to understand how we can strike the appropriate balance between agencies' needs for information and industry's ability to deliver it with their established commercial offerings.

Services and technologies needed by the government. We believe that Networx should support the continuity of our customers' existing network communications infrastructure. Networx must also look beyond 2006 to the future by providing new capabilities that will be enabled by the networks of tomorrow.

We understand that today not all agencies have selected FTS for contracts for all of their telecommunications needs. Some may believe they can obtain better prices through their own negotiations. For others, the prospect of transitioning complex infrastructure from one contract to another may drive their decision. Then there are those who may be concerned that using an FTS program will mean loss of control over selection of technical solutions, management of their infrastructure or provider relationships.

Let me assure you, Networx will continue to build on FTS' proven success in negotiating the best deals in the industry. We are committed to making a transition smooth and efficient for all customers. Networx will assure flexibility, individually tailored solutions and continuous technology refreshment. For FTS success also depends on fostering productive relationships between customers and providers.

Centrally managed program acquisitions. I certainly believe that we have demonstrated the value of such an approach in the government networking arena. One example of tangible value that comes from central management, price negotiation. I think we can all agree that telecommunications pricing is not straightforward. For agencies to develop individual capabilities for pricing analysis and negotiation would be duplicative and inefficient at the least.

FTS has routinely achieved price levels well under the market, sometimes as low as half the market rates. Agencies negotiating individual contracts cannot be assured of such aggressive pricing. Because we do our homework on behalf of all agencies, we can leverage the government's buying power to achieve the greatest benefit. Nevertheless, we are open to all ideas, including those that might mean significant change. We are not afraid of finding the right answer or of finding a better answer. In fact, we want to do so and I think our job is to do so.

We are committed to crafting a strategy that ultimately reflects best value results and innovation to support the missions of government. Mr. Chairman, we are pleased to have delivered an initial strategy that is already serving its purpose as the basis for productive interaction. I expect to come away from this hearing with more good ideas. I will be happy to address your questions that you may have.

[The prepared statement of Ms. Bates follows:]

STATEMENT OF

SANDRA N. BATES
COMMISSIONER

FEDERAL TECHNOLOGY SERVICE

U.S. GENERAL SERVICES ADMINISTRATION

BEFORE THE

COMMITTEE ON GOVERNMENT REFORM

U.S. HOUSE OF REPRESENTATIVES

FEBRUARY 26, 2004



Good morning, Chairman Davis and Members of the Committee. Thank you for inviting me to appear before you this morning. As always, it is a pleasure to discuss FTS programs that support critical agency requirements and address the future of Government telecommunications. As we develop programs that address the ever changing network technology landscape, we welcome the opportunity to share our perspectives and to solicit ideas and support from the Members of this Committee. In my remarks, I will address the work we are doing to provide our customers critically important technologies to fulfill their mission needs well into the next decade.

Introduction and Background

As you know, the Network Services business line within the Federal Technology Service, formerly called the Federal Telecommunications Service, was established to provide mandatory voice telephone service to all Federal Agencies. That charter has expanded, over the past four decades, to include a broad array of technology services and solutions that agencies use today, not because they are mandatory, but because they represent the best value in the marketplace.

The current FTS2001 program, now starting its sixth year, certainly exemplifies best value. The FTS2001 and Crossover contracts have been modified 229 times for the benefit of all agencies, and have grown from an acquisition offering 21 core services, of which 60 percent were switched voice, to a much more robust acquisition offering 35 core services, of which nearly 60 percent are now data. Advanced services and

networking technologies have been incorporated into the FTS2001 and Crossover contracts at a rate nearly parallel to their introduction into the commercial market. Moreover, price reductions and service enhancements, such as embedded security offerings, have continuously improved the overall value of the contracts to agency customers.

While the scope and structure of the FTS Network Services program has grown commensurate with rapid changes in our industry and technology, certain fundamental objectives remain as important today as they were four decades ago. First, we believe we have demonstrated there is significant government-wide value in providing centralized contracting and program management expertise to develop, award, implement, and administer contracts to meet complex agency needs for networking technology services. Second, leveraging the government's large volume of requirements continues to prove a successful formula to acquire high quality telecommunications and networking services at the lowest possible prices. Finally, coordinated transition planning and life-cycle operations support helps to achieve government-wide efficiencies. FTS has a proud tradition of carrying out its mission to meet these objectives by working closely with this Committee, with user agencies through the Interagency Management Council (IMC), and with the entire community of stakeholders. We are pleased to continue working together as we plan for the replacement of several of our expiring contracts. As in the past, we are depending on your counsel and support as we plan the next generation of telecommunications acquisition strategies.

Throughout the tumultuous period that has characterized telecommunications deregulation, and despite the complexities of the industry environment we face today, our acquisition strategies have served our customer agencies well. The FTS2001 program is a resounding success, providing state of the art services at unparalleled low prices. The program achieved its primary objective, as established by this Committee, of ensuring the best service and price for the government while maximizing competition in acquiring those services. In so doing, we reaffirmed the benefits of coordinating across agencies to achieve economies of scale in the acquisition of networking services. And, we have confirmed the idea that by working together we can minimize the resources needed to acquire a large volume of service across a significant number of agencies. Quantitatively, the results have been significant. When compared to best commercial pricing, FTS2001 savings are approaching $2 billion across all agencies and will continue to accrue until the contracts expire.

Importantly, these savings benefit all customers, from the smallest Commission to the largest Agency. All receive the benefits of service enhancements, technology upgrades, intra-program competition, and continually declining prices. In this sense FTS2001 users are treated equally. Those who use more save more, but those who use less save as well since they pay prices they would have little hope of achieving on their own. Even agencies who choose to do their own acquisitions benefit from the low prices achieved in FTS2001 as those prices set a standard to be matched or bettered.

The huge cost savings on FTS2001 do not reflect the whole story. The program also provides agencies with a fast and flexible migration path for acquiring advanced technologies and services. Users have recognized that the FTS2001 contracts have built-in processes for acquiring commercial technologies as soon as they are introduced into the marketplace. This means, for example, that all agencies can obtain the services and technologies they require – from common every day service to sophisticated services that support such missions as law enforcement and homeland security. Agencies can move toward Internet Protocol-based Virtual Private Networks (IP VPNs) that will support a host of new applications and services to meet the demands of the present as well as the future. And agencies benefit from the flexibility to move forward at their own pace, as their mission demands evolve and as budgets permit.

The FTS2001 program will end in just under three years. FTS has begun looking to the future and I would now like to turn the Committee's attention to our initial ideas for the successor program FTS is developing. Our goal is to build upon the success of our current program to create a new acquisition that will enable Government to continue to take advantage of emerging technologies while creating greater contracting and management efficiencies. Let me stress that these plans, just like the planning for FTS2001 a decade ago, will evolve based on a collective dialogue with all of our stakeholders, including our agency customers, the Members of this Committee, the oversight Committees of the other Chamber, and industry.

FTS Networx Goals

FTS is calling our follow-on program, "FTS Networx" (with an "X"). We have chosen this name because it conveys our belief that the future of telecommunications is increasingly about networking and efficiencies that can be achieved through the use of enhanced technology and services. While we believe that Networx should be designed to support the continuity of our customers' current networking communications infrastructure as it will exist almost three years from now, near the end of the FTS2001 program, it must also look beyond 2006 to the future by providing the new capabilities that will be enabled by the networks of tomorrow. Ideally, Networx will entice agencies to move away from their legacy arrangements and to embrace the benefits of the future.

The infrastructure for these newly emerging networks is being deployed as we speak. These so-called "converged" networks will enable the delivery of all types of services – voice, data, and video – over a single unified Internet Protocol (IP) infrastructure. This environment will have a dramatic and beneficial impact on the services delivered and on the management of those services as well. We will be able to access information using mobile, fast, and secure communications in ways we can now only imagine. This future is near, and FTS plans to deliver these capabilities and efficiencies to our agency customers as industry brings them to market.

In partnership with our customers as represented by the Inter-agency Management Council we have established goals for Networx that reflect FTS' ongoing responsibilities to our agency customers and our responsibilities as a procuring agency. Most importantly, our goals reflect our belief that we must assure continuity of telecommunication services and solutions for our customers – and I'm referring to continuity for what will exist three years from today. FTS2001 provides telecommunications services to tens of thousands of locations worldwide. Government users depend on FTS2001 for uninterrupted service to perform their missions, and we must ensure that service continues following the expiration of the current contracts.

In addition, we believe that we must continue to provide best value for all services and solutions by attracting the most innovative and highest quality services from industry at the best possible prices. With your guidance and support, FTS2001 established a benchmark for innovative acquisition that successfully leveraged competition, provided greater choice for federal agencies, and provided a means to engage industry throughout the life of the program. We believe the Networx program must do no less in creating a competitive framework that will achieve comparable success within the current and evolving environment.

Next, we believe we must respond to a changing marketplace by providing access to a broader range of services and service providers than on previous FTS telecommunications contracts. We have seen the benefits of the FTS2001/Metropolitan Area Acquisition strategy as defined in the Federal

Telecommunications Statement of Principles and we plan to continue in that strategic direction to provide the opportunity for more companies to compete over the life of the program. We believe that continuous competition among a larger number of competitors will allow access to new technology more quickly while maintaining downward pressure on prices throughout the program life.

Finally, we seek to offer expanded opportunities for small and medium sized businesses. We believe it will be possible for the Networx strategy to provide opportunities for small and medium sized businesses to compete.

Focusing on these goals and working in collaboration with our customer agencies, we developed an initial acquisition strategy for the Networx program. Last fall we shared that strategy with this Committee. Subsequently, we released the strategy to industry and the public in the form of the Networx Request for Information (RFI). The RFI solicited both general and specific feedback on the proposed Networx strategy that is critically important as we compare our approach to meeting the Government's requirements with industry's ability to respond.

I will now briefly summarize the highlights of the Networx program strategy proposed in the October 2003 RFI.

Networx Description

The RFI proposed that FTS would conduct two phased acquisitions: Networx Universal and Networx Select. Networx Universal would be competed among providers, or teams of providers, who could offer a comprehensive range of domestic and international services. Service providers would be required to provide service to all government locations currently served under existing programs, as well as all commercial locations served by the offeror. This acquisition would be structured to provide Government Agencies with uninterrupted service to all locations currently served and ensure continuity for mission essential activities. The acquisition would be structured such that the competition to win a Universal contract would provide industry with incentives to offer their most attractive prices.

The Networx Select acquisition would establish contracts with more focused service offerings and more flexible geographic coverage. While Networx Universal would require a full and comprehensive set of global offerings, Networx Select would allow each industry provider more flexibility, within the framework of the acquisition, to propose a subset of the required services and geographic coverage based on their core competencies and competitive advantages. This program would offer opportunities for all players in the telecommunications and networking marketplace. Since Select was proposed to be conducted after the Universal competition, the Universal prices would serve as a benchmark that would yield highly competitive prices for Select.

Services on the Networx acquisitions would include all the services on FTS2001 including services added as modifications during the life of the contracts. In addition, approximately 20 new services would be added reflecting new technologies and new customer requirements. The technical service sections of the Networx acquisition would use a performance based specification approach to foster performance-based contracting by Networx customers through the inclusion of detailed performance metrics for each service. These metrics would serve as the basis for contract-defined incentive-based Service Level Agreements upon contact award, providing our agency customers with new leverage for ensuring best-practice service delivery.

Transition to Networx

As we look to the future and the eventual award of replacement contracts for FTS2001, we are reminded of the challenges associated with moving from one contract to another. In anticipation of those challenges, FTS, together with the IMC, have identified transition lessons learned and begun the process of planning for the Networx transition. In May of 2003 we established an IMC-led transition working group and, working with that group, we have agreed on actions that must be undertaken in order to be ready to move forward following the award of the Networx contracts. These actions include the identification of transition funding, FTS and agency roles and responsibilities, inventory requirements, site planning, methods for reporting the progress of the transition, as well as other activities that will help to achieve a more efficient transition.

Networx RFI and Responses

Mr. Chairman, I am happy to report to the Committee that the RFI process has been very successful. We see that there is healthy interest in the program as demonstrated by the large number and high quality of responses provided. We believe the RFI has succeeded in stimulating the type of dialogue we seek with our stakeholders. That dialogue is critical to the success of the strategy development phase we are in right now.

As I have only a brief time to make my remarks, I will attempt to summarize both the extent of the participation in the RFI process as well as the nature of the comments we received.

As to the extent of the participation in the RFI process, Mr. Chairman, we received over 700 substantive comments from nearly 50 respondents. Our experience suggests that 50 responses is a relatively large number, indicative of great interest in the program. Overall, the respondents to the Networx RFI covered all market segments, including traditional long distance carriers, local carriers, integrators, small and medium sized businesses and a few agencies as well. We were especially pleased to receive well over a dozen responses from small businesses.

In general, there was highly useful and constructive feedback from the respondents on the services described in the RFI and on significant aspects of the strategy. For example, most respondents agreed that Networx is needed and appropriate to provide the complex tailored solutions required by agencies.

In the area of billing, there was general consensus that the Government's billing data requirements as outlined in the Networx RFI are too extensive. Respondents generally preferred to offer their commercial billing solutions, or retain current FTS2001 data requirements, rather than incur the expense of undertaking complex modifications to their systems to meet Government requirements.

Respondents generally agreed that our technical service requirements and pricing approaches are sound and cover the appropriate offerings. Industry agreed with our plan to use a performance specification. The responses indicated that converged service offerings are just now emerging. Although there are no commercial standard offerings either technically or with respect to price structure, industry challenged us to develop an innovative service description which will allow them to bid this service.

Overall, Mr. Chairman, we believe that the responses to the RFI were thorough and constructive. In addition, we continue to engage industry in an active dialogue seeking feedback to refine our strategy.

Summary of Networx Benefits

With these responses in mind, FTS continues to review the information obtained from its stakeholders. The Networx strategy to mature as a result of all input we receive.

So, as we move forward and continue to develop the strategy, let me summarize the benefits we anticipate realizing from the ultimate Networx strategy, in whatever form it takes.

First, Networx should offer an orderly migration to the future. We are increasingly convinced that IP based services are the future. Within two years we expect to see substantial advances in IP service quality, reliability, and performance. We must plan carefully now to reap the benefits of these new capabilities. That means we must ensure that Networx provides appropriate stability for the legacy services that will allow government agencies the time needed to chart the most efficient course for deploying and using all-IP infrastructures. In addition, we must ensure that Networx includes, from a wide array of providers, the IP-based services needed to enable this migration.

Second, the Networx program must enable effective management of our future risk as we navigate through the fluid and dynamic industry environment. We do not know who will be the dominant service providers in the future. Perhaps it will be those we know today, but significant change is also possible. For example, a very significant transaction in the wireless component of our industry was consummated just last week.

Accordingly, we believe we must anticipate that new IP services may lead to new service provider options. The dual acquisition approach we proposed in the RFI is one way to open the federal telecommunications market to a wider array of service providers while also providing the Government greater flexibility in adapting to future industry change. Maybe there are better ways to accomplish this. Members of industry have suggested alternatives both in their RFI responses and as recently as last week at the public forum sponsored by the Industry Advisory Council. We are happy to receive them. We are considering them, and we continue to be open to all suggestions.

Finally, as I stated earlier, we must manage performance of the Networx program through performance-based contracting vehicles. We seek to reinforce both program stability and flexibility using incentives to drive our partners' performance. We are currently developing some of the building blocks for defining measures of performance in the basic Networx contracts. We are also considering ways to incorporate specific agency business performance indicators, requirements, goals, and incentives within the task order processes under the basic contracts. We also intend to use performance management to realize improvements in everything from transition performance, to billing systems compliance, to trouble-reporting, to service and technology enhancement. Experience tells us loudly and clearly that this is no simple undertaking and we need help from all in this area.

In short, we intend for the Networx program strategy to build on all we have learned from the past and to accommodate anything that we might encounter in the future. The

RFI offered a starting point for the considerable dialogue needed to develop the very best approach. Frankly, a number of aspects of the RFI strategy are unlikely to persist given the feedback already offered to us so far. The input we have received to date has given us much to reflect on and much to evaluate. Much work is left to be done. One thing we know for sure is that we cannot do it alone. We need criticisms, opinions, advice, and sincere debate to make Networx what it needs to be. After all, in the end, it is not *just* FTS' program, it is our program – all of us.

Response to Committee Invitation Letter

Mr. Chairman, in your letter inviting me to appear here today, you outlined several issues and topics about which you intend for the Committee to gather information. In particular you indicated interest in assessing the effectiveness of the proposed RFI strategy, including issues about transition, contract performance periods, billing needs, and services and technologies requirements. You also indicated interest in gathering multiple perspectives on the centralized program approach to acquiring the Government's telecommunication needs.

As for the effectiveness of the strategy as embodied in the October RFI, I would readily agree that the proposed October strategy can be improved, and that we are committed to improving it. Industry has told us that, and we wanted to hear about how they would suggest it be improved. Its purpose as a straw man or reference strategy has been served. As I indicated earlier we continue to receive much food for thought from our stakeholders.

For example, we heard that some question having separate staggered Universal and Select acquisitions. Some believe that Universal could overshadow Select and result in significantly fewer opportunities for Select awardees. That is a fair concern although it does not reflect the intent we had in mind when we conceived that aspect of the RFI proposal. However, now we have received some substantial suggestions that can help us to refine our thinking. As is the case with many aspects of the strategy, our challenges is to understand the trade-offs and strike an appropriate balance between the desire to be all-inclusive and the need to foster meaningful and effective competition.

We have also heard from some that Minimum Revenue Guarantees (MRGs) do not need to be so large that they reduce agency flexibility in selecting providers. The effect of large MRGs could be to lock out competition where it might otherwise take place. Naturally, we would like nothing more than to be assured we can obtain the best competitive results without establishing an MRG "straight jacket" effect. Again we have received substantial comments and opinions for consideration.

And there are other areas as well where such feedback has been extremely valuable. All of the issues you enumerated in your letter have been the subject of dialogue. In each case as a result of feedback from stakeholders we are assessing the effects of

suggested alternatives, and working to develop a more refined and, we hope, more realistic approach that reflects a better, understanding of our stakeholders' concerns and preferences. This is already stimulating new ideas and analyses within our strategy team.

I spoke briefly about the steps we are taking on transition planning and our goals to get ahead of the curve this time around and do a better job. We are actively engaged in these activities and both FTS and our customers are committed to a well planned, well executed, effective transition.

We have received a variety of comments regarding contract performance periods. The suggestions range from 3 years to 15 years. We believe the best performance period for the Networx strategy will likely attract meaningful competition as well as justify the resource investment required to plan and conduct an acquisition of this magnitude.

Regarding billing, we clearly heard that the billing data elements contained in the RFI may be overly burdensome to industry. Of course this view has been raised in the past, and does not come as a surprise. And, we must bear in mind that billing issues are not confined to the government arena. However, we need to understand how we can strike an appropriate balance between agencies' needs for information, and industry's ability to deliver it with their established commercial offerings. Industry recognizes, I believe, that we cannot accept 20 or 40 different billing formats, and we

understand that industry cannot be expected to revamp their entire infrastructure just to provide us with a certain number in a certain place on an invoice. We will do our best to at least make a significant increment of progress.

As for the value of centrally managed program acquisitions, as I stated earlier, we certainly believe we have demonstrated this value in the Government networking arena. We have the performance measures to illustrate and support our claims. Time and again when OMB or GAO or others need statistics, analyses, or other quantitative data about the government's use of telecommunications, FTS, in our central management role, can provide it. Yet we are more than a statistical service offering mere facts and figures. For example, our leadership and cross-government management role was most valuable during the planning and preparations for Y2K, and again in the damage assessment and emergency response activities immediately following 9-11. We are engaged on an ongoing basis with all our customers – more than 200 of them. We work across a broad spectrum of agencies and with many providers. The knowledge and experience we have accumulated adds tangible value across our customer base. We provide engineering analyses, business analyses, strategic consulting, and ultimately better solutions, because we draw from a multitude of experiences across government. We act as a clearinghouse for information and ideas, from agency to agency, GSA to oversight body, industry to agency, industry to industry, and so forth.

For example, telecommunications pricing is not straightforward. I am reminded of this every time I look at my home phone bill or see the orange-haired fellow on the TV commercials I think we are all so familiar with. For agencies to develop individual capabilities for pricing analysis would be duplicative and inefficient at the least. In addition, without a centrally managed capability, there would be no accumulation of data across agencies to provide a federal management perspective. In the past, GAO has pointed to the difficulties of collecting government-wide information about telecommunications costs and usage when gathering such data from agencies one-at-a-time. Telecommunications pricing, usage and cost data gathered individually from agencies would undoubtedly vary considerably making comparisons difficult or impossible.

Inability to collect meaningful data quickly and reliably has many potentially negative implications in several respects. Perhaps the most tangible result would be a likely loss of leverage in negotiations. Without some knowledge of the price levels being negotiated across government, agencies would have little reliable data on which to base their price evaluations of proposals. Given that we have routinely achieved price levels well under the market, sometimes as low as half the market rates, agencies negotiating contracts at 15 or 25 percent discounts to market might rightly think they are getting the best possible deal. But such deals would be 50 percent higher than our prices.

Because we do our homework on behalf of all agencies, and collect data from a wide variety of sources, we can offer the best perspective on pricing available anywhere. Under the terms of our contracts, the our partners agree to provide data about their best deals to us. We also collect raw data from other sources for analysis, and we consult with experts in telecommunications contract negotiations to round out our understandings of best practices, best rates, and pricing trends. The pricing tools we have deployed on the web are available to anyone who wants to use them. Each month the website receives tens of thousands of hits, from hundreds of users, pricing FTS2001 services. All of this translates into tangible bottom line value for our customers and the taxpayer.

Furthermore, the qualitative value of a centrally managed program can be observed in the IMC itself. The IMC as an institutional coalition of agency technology managers acts as a clearinghouse and technology management transfer agent as well. Agencies come together at the IMC table and discuss issues both common and unique to their agency missions and technology deployments. Without an IMC, established at the behest of Congress, to advise the FTS programs, it would be much less likely that such valuable exchanges of information across agencies would ever take place.

These are just two aspects of a centrally managed telecommunications program that I offer for consideration to the Members of this Committee.

As we look to the future, we see the changing telecommunications environment to be characterized by exciting new technologies and applications that offer great potential, accompanied by significant levels of risk and uncertainty. We believe that a centrally managed approach will enable government to navigate the uncertainty more successfully, will yield better results for our customer agencies, and will reduce costs to the taxpayer.

Nevertheless, Mr. Chairman, we are open to all ideas including those that might mean significant change to GSA and FTS and the roles we have traditionally performed in service to the Government. We are not afraid of finding the right answer, or of finding a better answer. In fact, we want to do so, and we think it is our job to do so. We are committed to looking beyond the diverse assertions to define the issues and determine the pertinent facts and data surrounding the issues. Only then can we begin to assemble the ingredients that will make for an intelligent and robust strategy. We need a strategy built on a foundation of substance, not fad or fashion since we know fads and fashions will change several times at least between now and, say, 2012 or 2014. We are committed to crafting a strategy that in the end reflects a balance among the variety of competing interests and leads to best value results and innovation that will enable government to achieve its mission.

Closing

Mr. Chairman, as in the past, we have coordinated our strategy development with our Agency customers and have received their active support. The RFI process and meetings with industry stakeholders have provided us with comments and suggestions on all aspects of our strategy. I hope to come away from this hearing today with more ideas and suggestions. We will continue to encourage comments and perspectives that will further shape and refine the process we have initiated. We are pleased to have delivered an initial strategy that is already serving its purpose as the basis for productive ongoing discussions. We look forward to the journey as we strive to build on our past accomplishments, incorporate lessons we have learned, and ultimately harness the innovation and entrepreneurial spirit of American Industry to capture the networking solutions required to meet the future requirements of our agency customers in support of the American Taxpayer.

I would be happy to address any questions you may have at this time.

Chairman TOM DAVIS. Thank you very much.

Ms. Koontz.

Ms. KOONTZ. Mr. Chairman, members of the committee, I am pleased to participate in this hearing on the General Services Administration's next generation telecommunications acquisition program, known as Networx. As you know, GSA's planning for this program is taking place within an environment of tremendous change in the telecommunications industry, in underlying services and technology, and potentially in the regulatory environment.

In this context, the Networx initiative can be viewed as a significant opportunity for the Federal Government to flexibly acquire and apply innovative telecommunications services offered by industry to improve agency missions. However, GSA will have to overcome significant challenges if the full potential of the Networx program is to be realized.

The first of these challenges is ensuring that an adequate inventory of information about existing telecommunications services is available to give planners an informed understanding of government-wide requirements. The ongoing research we are doing for you, Mr. Chairman, on private sector best practices in telecommunications acquisition and management, have indicated that leading organizations view a baseline inventory as an essential first step to telecommunications requirements analysis and subsequent sourcing decisions. Quite simply, before you can chart a course for the future, you have to know where you are.

Second, establishing specific measures of success to aid acquisition decisionmaking and effective program management. Again, our work on private sector best practices highlights the need to establish outcome-oriented program goals on which to base acquisition planning decisions, and corresponding measures to assess over time whether the goals are being met by the program.

Third, structuring and scheduling the contracts to ensure timely delivery of competitively priced telecommunications services that meet agency mission needs. The varying views of industry representatives commenting on the request for information raised fundamental questions about the soundness of the proposed acquisition approach. For example, some raised concerns about the broad service and geographic requirements of the universal contracts and the effect that could have on competition. Further, others raised questions about the timing of the awards. It appears that agencies could be asked to make decisions regarding their use of universal service contracts before information is available regarding select leading edge services and solutions that might be more suitable for their needs. The process of sorting out these varying views is a difficult one. However, proceeding with a better understanding of requirements, goals and measures should help GSA in its efforts to structure the contracts. Further, it will be important for GSA to continue to solicit and implement stakeholder feedback.

Last, ensuring a smooth transition from the current contracts by initiating appropriate implementation planning actions. Three years ago, we testified before you on the transition difficulties experienced with the FTS 2001 program. To avoid a repeat of these problems, GSA will need to establish strong program management

and ensure that agencies have detailed inventories needed for transition.

In our recent conversations with GSA, they agreed with these challenges and shared with us their plans to develop baseline inventories and measures of success, prepare for the transition and continue to work toward a final acquisition strategy. While these statements are very encouraging, leadership from GSA and commitment from stakeholders in resolving these issues will be essential in establishing efficient, cost effective and secure telecommunications services.

Actions taken and decisions reached in the coming months to more fully define the Networx program will significantly influence the telecommunications choices Federal agencies will have for the next several years. Unless GSA follows through to resolve the challenges outlined today, the potential of Networx may well not be realized.

That concludes my statement, and I'd be happy to answer any questions at the appropriate time.

[The prepared statement of Ms. Koontz follows:]

United States General Accounting Office

GAO

Testimony

Before the Committee on Government Reform, House of Representatives

For Release on Delivery
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TELECOMMUNICATIONS

GSA Faces Challenges in Planning for New Governmentwide Program

Statement of Linda D. Koontz
Director, Information Management Issues



GAO-04-486T

February 26, 2004

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Highlights

Highlights of GAO-04-486T, testimony before the Committee on Government Reform, House of Representatives

TELECOMMUNICATIONS

GSA Faces Challenges in Planning for New Governmentwide Program

Why GAO Did This Study

The General Services Administration (GSA) has initiated planning for its next-generation telecommunications acquisition program, known as Networx, which will replace the current Federal Telecommunications System (FTS) 2001 for long-distance and international services. It will also replace contracts for wireless and satellite communications products and services.

Planning for this acquisition is occurring within an environment of tremendous change—in the industry, in underlying services and technology, and potentially in the regulatory environment. In this context, Networx can offer a significant opportunity for the federal government to flexibly acquire telecommunications services at competitive rates and apply innovative solutions to improving agency operations.

At the request of the committee Chairman, GAO is providing an overview of acquisition planning steps completed to date, along with its assessment of challenges facing GSA and federal agencies as this acquisition proceeds.

www.gao.gov/cgi-bin/getrpt?GAO-04-486T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Linda D. Koontz at (202) 512-6240 or koontzl@gao.gov.

What GAO Found

Over the past year, GSA has acted to ensure that all interested parties—including industry and agency users—have had a chance to comment on the development of the successor to FTS2001 and associated contracts. In its planning for the Networx acquisition, GSA cited five goals for the program: (1) continuity of telecommunications services, (2) best value, (3) strong competition, (4) a broad range of services and providers in a changing marketplace, and (5) expanded opportunities for small businesses. To achieve this, GSA plans two acquisitions: *Networx Universal*—broad-ranging services with global coverage, and *Networx Select*—leading-edge services but more geographically limited. The table below displays GSA's proposed schedule for the two contracts.

GSA's proposed schedule for Networx Universal and Networx Select acquisitions as of February 2, 2004

Milestone	Networx Universal	Networx Select
Draft RFP* released	Spring 2004	Winter 2005
Draft RFP responses due	Summer 2004	Spring 2005
Final RFP released	Fall 2004	Summer 2005
Final RFP responses due	Winter 2004	Fall 2005
Source selection complete	Fall 2005	Summer 2006
Contract award(s)	Winter 2005	Fall 2006

*Request for proposals

Source: GSA

To take full advantage of the opportunities offered in these new contracts, GSA will need to address four key challenges:

- Ensuring that an adequate inventory of information about existing telecommunications services and assets is available, to give planners an informed understanding of governmentwide requirements.
- Establishing specific measures of success to aid acquisition decision making and effective program management.
- Structuring and scheduling the contracts to ensure timely delivery of competitively priced telecommunications services that meet agency mission needs.
- Ensuring a smooth transition from the current contracts by initiating appropriate implementation planning actions.

Both leadership from GSA and commitment from stakeholders in resolving these issues will be essential to establishing efficient, cost-effective, and secure telecommunications services. If this can be achieved, the Networx contracts will be optimally positioned to leverage the power and creativity of today's telecommunications marketplace to carry the federal government forward well into the 21st century.

Mr. Chairman and Members of the Committee:

I am pleased to participate in the Committee's hearing on the General Services Administration's (GSA) next generation governmentwide telecommunications acquisition program, known as Networx. As you know, GSA's planning for this program is taking place within an environment of tremendous change—in the telecommunications industry, in underlying services and technology, and potentially in the regulatory environment. In this context, the Networx initiative can be viewed as a significant opportunity for the federal government to flexibly acquire and apply innovative telecommunications services offered by industry to improve agency operations. As requested, today I will discuss the background for this current initiative and provide an overview of the acquisition planning activities completed to date. I will also describe four challenges that GSA and executive branch agencies will need to address in the next few months as planning for this major acquisition proceeds.

In brief, over the past year, representatives of GSA, federal agencies, the Interagency Management Council (IMC), the telecommunications industry, and other interested parties have engaged in planning and dialogue over the replacement for the current Federal Telecommunications System (FTS) 2001 and associated contracts. This replacement acquisition program is known as FTS Networx.[1] GSA and the IMC have taken steps to ensure that all interested parties have had an opportunity to comment on at least a portion of their plans for this major initiative and to help refine their acquisition strategy. Nevertheless, significant challenges remain for GSA and the IMC to address in the coming months to help ensure a successful outcome for a more clearly and fully defined Networx program with respect to

- ensuring that adequate inventory information is available to planners to provide an informed understanding of governmentwide requirements;
- establishing measures of success to aid acquisition decision making and enable effective program management;
- structuring and scheduling the Networx contracts to ensure that federal agencies have available to them the competitively priced

[1]The IMC consists of senior government information resources management officials from agencies using FTS 2000. The council provides guidance to GSA officials in administering telecommunications contracts.

telecommunications services they need to support their mission objectives; and

- initiating the implementation planning actions needed to ensure a smooth transition from current contracts to Networx.

My remarks today are based on our previous reviews of GSA's federal telecommunications programs, including implementation of the current FTS2001 contracts, as well as research to date into sound telecommunications planning and management practices that you recently requested. In addition, we reviewed comments submitted by industry and federal agencies to a request for information issued by GSA last October to provide information to potential industry offerors regarding its Networx program plan, and to solicit comments from industry regarding its acquisition strategy. We also attended the Industry Advisory Council's February 17, 2004, forum held to obtain additional industry views on the Networx program and strategy.[2] We conducted our work in January and February 2004, in accordance with generally accepted government auditing standards.

Background

According to GSA, its Federal Technology Service, in conjunction with the IMC, is responsible for ensuring that federal agencies have access to the telecommunications services and solutions needed to meet mission requirements. Its current program to provide long- distance telecommunications services—FTS2001—has two goals: to ensure the best service and price for the government, and to maximize competition for services.

In implementing this program strategy, GSA awarded two contracts for long-distance services—one to Sprint in December 1998 and one to MCI WorldCom in January 1999. Under the terms of these contracts, each firm was guaranteed minimum revenues of $750 million over the life of the contracts, which run for four base years and have four 1-year-extension options. If all contract options are exercised, those contracts will expire in December 2006 and January 2007, respectively. According to GSA, federal

[2]The Industry Advisory Council is a broadly based organization of information technology professionals representing more than 400 companies nationwide that provide products and services to the government. Member firms include telecommunications companies, hardware and software providers, systems integrators, and professional services companies.

agencies spent approximately $614 million on FTS2001 services during fiscal year 2003 alone.

Related governmentwide telecommunications services are provided by other GSA contracts: the Federal Wireless Telecommunications Service contract and the FTS Satellite Service contracts. The wireless contract was awarded in 1996 to provide wireless telecommunications products and services to all federal agencies, authorized federal contractors, and other users. The satellite services contracts are a series of contracts for a variety of commercial off-the-shelf satellite communications products and services, including mobile, fixed, and satellite services. According to GSA, these contracts will expire in late 2004 and in 2007, respectively.

We have periodically reviewed the development and implementation of the FTS2001 program and assessed its progress. In March 2001 we reported to you on the delays encountered during the government's efforts to transition from the previous FTS 2000 to the FTS2001 contracts, the reasons for those delays, and the effects of the delays on meeting FTS2001 program goals of maximizing competition for services and ensuring best service and price.[3] We recommended that GSA take numerous actions to facilitate those transition efforts. In April 2001 in testimony before you, we reiterated those recommendations and noted that the process of planning and managing future telecommunications service acquisition would benefit from an accurate and robust inventory of existing telecommunications services.[4] Ultimately, GSA acted on our recommendations and the transitions were successfully completed.

GSA's Network Program Development Actions Are Continuing

GSA is now planning its FTS Networx acquisition program, including the awarding of new governmentwide contracts for a broad range of long distance and international voice and data communications services, wireless services, and satellite telecommunications services. These contracts are intended to replace the existing FTS2001, Federal Wireless Telecommunications Service, and FTS Satellite Service contracts. GSA and the IMC has identified five goals for the Networx acquisition program:

[3]U.S. General Accounting Office, *FTS2001: Transition Challenges Jeopardize Program Goals*, GAO-01-289 (Washington, D.C.: March 30, 2001).

[4]U.S. General Accounting Office, *FTS2001: Contract Transition Delays and Their Impact on Program Goals*, GAO-01-544T (Washington, D.C.: April 26, 2001).

- Meet agency needs for a comprehensive acquisition that provides continuity of current telecommunications services and solutions.
- Obtain best value (lowest prices while maintaining quality of service levels) for all services and solutions.
- Encourage strong competition for the initial contract award(s), and ensure continuous competition throughout the life of the program.
- Respond to the changing marketplace by providing agency access to a broad range of services and service providers.
- Provide expanded opportunities for small businesses.

To achieve those goals, the program calls for two acquisitions—Networx Universal and Networx Select. The Networx Universal contracts are expected to satisfy requirements for a full range of national and international network services. According to GSA, Networx Universal seeks to ensure the continuity of services and prices found under expiring contracts that provide broad-ranging service with global geographic coverage. GSA expects all Networx Universal offerors to provide a full range of voice and data network services, managed networking services and solutions, and network access, wireless, and satellite communications services. This acquisition is expected to result in multiple contract awards to relatively few offerors because few are expected to be able to satisfy the geographic coverage and comprehensive service requirements. GSA also intends to apply competitive incentives to obtain best value for its customer agencies, although those incentives are not yet defined. Further, GSA expects to establish minimum revenue guarantees for these contracts.

In contrast, GSA plans to award multiple contracts for a more geographically limited set of services under Network Select. GSA generally describes these Select contracts as providing agencies with leading edge services and solutions with less extensive geographic and service coverage than that required by Networx Universal; specific Networx Select service requirements have not yet, however, been defined. Details of pricing structures and Select service delivery mechanisms are planned to be provided in the Networx Select request for proposals, which GSA intends to release in the summer of 2005.

GSA anticipates awarding both the Networx Universal and the Networx Select contracts well before the expiration of the FTS2001 contracts.

Networx Select will be awarded approximately 9 months after Networx Universal. Table 1 displays GSA's schedule for these two acquisitions:

Table 1: GSA's proposed schedule for Networx Universal and Networx Select acquisitions as of February 2, 2004

Milestone	Networx Universal	Networx Select
Draft RFP* released	Spring 2004	Winter 2005
Draft RFP responses due	Summer 2004	Spring 2005
Final RFP released	Fall 2004	Summer 2005
Final RFP responses due	Winter 2004	Fall 2005
Source selection complete	Fall 2005	Summer 2006
Contract award(s)	Winter 2005	Fall 2006

Source: GSA

*Request for proposals

Challenges Remain Before Finalizing the Network Acquisition Program Strategy

Notwithstanding the acquisition planning activities completed by GSA and the IMC to date, these entities face significant challenges in finalizing their program strategy to ensure that Networx is appropriately defined, structured, and managed to deliver those telecommunications services and solutions that will enable federal agencies to most efficiently and effectively meet their mission needs. Specifically, these challenges include:

- *Ensuring that adequate inventory information is available to planners to provide an informed understanding of governmentwide requirements.*
- *Establishing measures of success to aid acquisition decision-making and enable effective program management.*
- *Structuring and scheduling the Networx contracts to ensure that federal agencies have available to them the competitively priced telecommunications services they need to support their mission objectives.*
- *Initiating the implementation planning actions needed to ensure a smooth transition from current contracts to Networx.*

Ensuring Adequate Inventory Information

It is important that GSA and its customer agencies have a clear understanding of agency service requirements in order to make properly informed acquisition planning decisions. According to our ongoing

research on best practices in telecommunications acquisition and management, clear understanding comes at least in part from having an accurate baseline inventory of existing services and assets. More specifically, an inventory allows planners to make informed judgments based on an accurate analysis of current requirements and capabilities, emerging needs that must be considered, and the current cost of services. Although leading organizations acknowledge that establishing and maintaining such an inventory may be difficult, they view this baseline as an essential first step to high-quality telecommunications requirements analysis, and subsequent sourcing decisions associated with meeting those requirements.

Despite this importance, it is not clear whether GSA and federal agencies have yet established the comprehensive, accurate inventories needed to support Networx planning. Mr. Chairman, you followed up on this issue in your December 17, 2003, letter to GSA asking to what extent such detailed inventories were currently being maintained and kept accurate and up-to-date for use both in acquisition planning and future contract transitions. In his response, the Administrator of General Services identified sources of information provided by GSA and the FTS2001 vendors—for example, monthly billing information—that would be helpful to agencies in developing inventories of existing services. In addition, the Administrator noted that GSA is examining methods of incorporating better billing and inventory data into the Networx program where practical. However, the Administrator did not provide specific information on the extent to which these inventories exist, or whether agencies are periodically validating that information to ensure that it is accurate and complete. Further, the Administrator acknowledged that the accuracy and completeness of telecommunications service inventories varies among agencies. As a result, without a clear understanding by GSA and its customer agencies of the FTS2001 services used today and the applications they support, it is unclear how properly informed Networx acquisition planning decisions can be made.

Establishing Measures of Success

Our research into recommended program and project measurement practices, which we affirmed in discussions with private-sector telecommunications managers, highlights the importance of establishing clear measures of success to aid acquisition decision making as well as to provide the foundation for accountable program management. Such measures define what must be done for a project to be acceptable to the stakeholders and users affected by it, and in so doing enables measurement of progress and effectiveness in meeting objectives.

Although GSA has established program goals, it has not yet defined a comprehensive set of corresponding performance measures for the Networx acquisition program. According to GSA's Assistant Commissioner for Service Delivery/Development, one of the criteria for measuring Networx success will be identical to that used for FTS2001—that is, savings as measured by contract service costs compared with best commercial pricing. Further, according to this official, this was the sole measure reported to the Office of Management and Budget for FTS2001. While low pricing is an important criterion reflected in program goals, GSA has not yet defined measures about how well its final acquisition plan will deliver the value (service plus price) that agencies need to improve their operations and meet their mission needs. For example, GSA's Networx environmental assessment indicates that agencies want this program to support network planning and optimization, include simple and understandable fees, provide management of contracts and contractors on the agencies' behalf, and include other elements of value. GSA's Assistant Commissioner for Service Delivery/Development recognizes the importance of having such measures, and told us that GSA would be establishing such measures coincident with its actions to finalize the Networx Universal RFP in the coming months. It will be important that GSA follow through on this commitment to establish that appropriate set of measures to evaluate the intended business value of the Networx program and enable the effective management of this significant program over time.

Structuring and Scheduling Contracts to Deliver Needed Services

Once agency requirements are adequately understood and measures of success defined, structuring and scheduling the Networx contracts to successfully encourage industry competition to obtain low prices and high-quality, innovative services becomes the next challenge. The varying views of industry representatives commenting on the request for information raised fundamental questions about the soundness of the proposed acquisition approach for accomplishing this. For example, large, interexchange carriers, like those that hold the current FTS2001 contracts, generally agreed with the broad scope of the Universal contracts. They further suggested that services offered under Networx Select and Universal should be mutually exclusive, and that all carriers should be allowed to compete for both.

In contrast, other carriers criticized the approach. These carriers asserted that some major telecommunications providers might be precluded from bidding on the Networx Universal contracts because of the broad service and ubiquitous geographic coverage requirements described in the request

for information. For example, one vendor stated that it was quite possible that only traditional long distance carriers could effectively bid for Universal, thus denying many players in the industry a realistic chance to compete for major portions of the federal long distance business. One carrier noted that, based on the procurement timetable, the timing of the award for the Select contracts would minimize the opportunity to compete for long-distance telecommunications services. Because of the 9-month lag between the Universal and Select acquisitions indicated in the proposed acquisition schedule, agencies could be asked to make decisions regarding their use of awarded Universal service contracts before information is available regarding Select leading edge services and solutions that may be more suitable for their needs.[5]

Defining an acquisition strategy that appropriately balances the need to ensure the continuation of existing telecommunications services in all current government locations with encouraging strong competition to obtain best value is a daunting challenge. However, proceeding from a clear understanding of requirements and measures of success—as I previously discussed—should aid in meeting this challenge by providing guideposts for a decision that strikes an appropriate balance on contract scope, program structure, and acquisition schedules that can deliver to agencies competitively priced solutions that meet their mission needs. Further, continuing to solicit and effectively implement feedback from stakeholders should help GSA achieve this goal.

Initiating Implementation Planning to Ensure Smooth Transition

As we reported to you in March 2001, the current FTS2001 contracts got off to a rocky start as significant delays in transitioning to the new contracts hindered timely achievement of program goals.[6] Factors contributing to those delays included a lack of data needed to accurately measure and effectively manage the transitions, inadequate resources, and other process and procedural issues. Ultimately, GSA did take action on all of our recommendations and the transition to the FTS2001 contracts was finally completed. In subsequent testimony before you in April 2001 we noted the importance of incorporating the lessons learned from this transition into future procurements. Specifically, we stated that "the

[5]GSA plans to award the Networx Universal contracts at about the same time that it releases a draft request for proposals to solicit public review and comment on the Select services segment of this acquisition program.

[6]GAO-01-289.

process of planning and managing future telecommunications service acquisitions—both by GSA and by the agencies themselves—will benefit from an accurate and robust inventory of current telecommunications services. Further, the value of this critical program to customer agencies will be improved through the application of lessons learned in streamlining and prioritizing the contract modification process, in effectively and expeditiously resolving billing problems, and in holding contractors accountable for meeting agency requirements in a timely manner."[7] Those in industry who commented on the Networx request for information also noted the need for strong and comprehensive program management to ensure successful transition, including not only the availability of accurate inventories but also defined contractor and government responsibilities.

While GSA recognizes the importance of transition planning, it has not yet fully addressed these issues. GSA has emphasized that its development of the Networx program included an analysis of lessons learned from existing programs and previous acquisitions. Further, in his February 11 letter in response to your inquiry about agency inventories, the Administrator outlined the proactive steps GSA plans to take, including actions to establish a working group and to improve the availability of accurate inventory information to support the transition. According to the GSA's Associate Commissioner Service Delivery/Development, these actions will also include developing processes and procedures, identifying funding needs, and training agency personnel in order to support a smooth contract transition. As acquisition plans are finalized in the coming months, it will be important that GSA follow through on these initial steps to ensure that the transition to the new contracts proceeds efficiently and seamlessly, and that a repeat of the FTS2001 transition difficulties is avoided.

In summary, Mr. Chairman, Networx represents a critical opportunity to leverage the strength and creativity of the telecommunications marketplace to make the vision of delivering to agencies the telecommunications business solutions they need to perform their missions better and more cost-effectively a reality, and in so doing to carry the federal government forward well into the 21st century. To accomplish this, however, GSA will need to overcome significant challenges and

[7]GAO-01-544T.

demonstrate solid leadership. Likewise critical will be stakeholder commitment. Actions taken and decisions reached in the coming months to more fully define the Networx program and finalize an appropriate acquisition strategy will significantly influence the telecommunications choices federal agencies will have for the next several years. Unless GSA follows through to resolve the challenges outlined today, the potential of Networx may well not be realized.

Mr. Chairman, this concludes my statement. I would be pleased to answer any questions that you or other members of the Committee may have at this time.

Contact and Acknowledgments

Should you have any questions about this testimony, please contact me by e-mail at *koontzl@gao.gov* or Kevin Conway, Assistant Director, at *conwayk@gao.gov*. We can also be reached at (202) 512-6240 and (202) 512-6340, respectively. Another major contributor to this testimony was Michael P. Fruitman.

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Chairman TOM DAVIS. Thank you very much.

Mr. Ladner, welcome.

Mr. LADNER. Good to be here again, Mr. Chairman.

Mr. Chairman and members of the committee, I thank you for the opportunity to appear today to discuss GSA's government-wide telecommunications program, Networx. The continued leadership of the chairman and the members of the committee is vital if we are to steward taxpayer dollars wisely not only at the Treasury Department, but across the Federal Government.

I serve as the Chief Information Officer of the Treasury Department. As CIO, I provide oversight, management, budgetary approval, and policy direction for all of the information technology programs within the Treasury Department and across its bureaus. I have operational responsibility for shared services across all of our Treasury bureaus, including for the Treasury communications system, one of the largest secure networks in the civilian government.

Let me start by suggesting a list of principles that the Treasury Department seeks to have inform its acquisition of telecommunications services. Reflected throughout my submitted testimony, they include but are not limited to: identifying and adopting innovation, listening to the market laws of supply and demand, relying on marketplace innovation wherever possible, avoiding the creation or promotion of proprietary standards, simplifying business structures, processes and systems, embracing data, IP and managed services, compensating based on performance and results, affording maximum flexibility while keeping costs low, supporting the execution of Treasury's shared service philosophy, and expecting technological obsolescence and therefore not owning assets.

The Treasury Department is committed to acquiring from the private sector the latest in telecommunications innovations, whether in product, process, or otherwise. Because the private sector has the incentive to invest in research and development, the expectation is that the private sector consistently will provide the most attractive offerings in terms of cost and performance.

Today's question is, how does Networx fare in all of this? Early signs are that Networx will constitute a significant improvement over FTS 2001. It appears that Networx will be much more market-driven, in contrast to its more technology-driven predecessor, FTS 2001. As a general rule, at the Treasury Department we believe that the government should rely on performance-based results-oriented specifications, rather than trying to dictate solutions through how to design technology specifications.

Moreover, this underscores an essential philosophical approach to acquiring Networx services, whether the customer is in the public sector or private sector, government agencies should strive to ensure that the customer is provided with the best, most cost-effective services available.

This raises a larger point. As CIO, I need to be able to manage the supply chain, both downstream from our shared service platform into Treasury bureaus, as well as upstream into Treasury's suppliers. Treasury currently depends exclusively on no one carrier, and manages risks by being carrier neutral. Avoiding sole sourcing and preserving flexibility enables us to use multiple com-

panies across a large telecommunications contract. Doing so is critical for several reasons.

First, it is financially advantageous and ensures that competitive forces provide incentive for contractors to price at market levels. Second, in the event of inevitable technological change or obsolescence, a customer can make necessary adjustments quickly and cost effectively. Third, if under-performance provides operational rationale to switch vendors, a government agency is in the better position to do so.

In summary, the key to a successful Networx contract will be to consolidate purchasing power in a flexible, performance-based contract that nimbly accommodates innovation when superior price-for-performance can be achieved. Remaining innovative in our telecommunications programs is essential to national security. Among other reasons, the application of new products and processes leads to even more advances, thanks to the vibrant entrepreneurial spirit of our country and in the small to medium-size businesses that drive 80 percent of our economy.

Again, I am grateful to you, Mr. Chairman, and the committee, for demonstrating leadership in exploring the best ways to acquire telecommunications services, and for the opportunity to discuss this further today. I'd be happy to respond to any form of questions.

[The prepared statement of Mr. Ladner follows:]

Testimony of Drew Ladner

Chief Information Officer, U.S. Department of the Treasury

Before the House Committee on Government Reform

February 26, 2004

Mr. Chairman and Members of the Committee, thank you for the opportunity to appear to discuss the General Services Administration's (GSA) government-wide telecommunications program, Networx. The Secretary of the Treasury welcomes this invitation for reasons relating to both the Department's mission and fiscal responsibility. The continued leadership of the Chairman and the Members of the Committee is vital if we are to steward taxpayer dollars wisely not only at the Treasury Department but across the federal government.

I serve as the Chief Information Officer (CIO) of the Treasury Department. As CIO I provide oversight, management, budgetary approval, and policy direction for all information technology programs within the Treasury Department and its bureaus. I have operational responsibility for shared services across all Treasury bureaus, including for the Treasury

Communications System (TCS), one of the largest secure networks in the civilian government.

The Committee has requested the Treasury view on the Networx Request for Information. Let me start by suggesting a list of principles that the Treasury Department seeks to have inform its acquisition of telecommunications services. Reflected throughout my remarks below, they include but are not limited to:

1. Identifying and adopting innovation
2. Listening to the market laws of supply and demand
3. Relying on marketplace innovation
4. Avoiding the creation or promotion of proprietary standards
5. Simplifying business structures, processes, and systems
6. Embracing data, IP, and managed services
7. Compensating based on performance and results
8. Affording maximum flexibility while keeping costs low
9. Supporting execution of Treasury shared service philosophy
10. Expecting technological obsolescence and not owning assets.

The Treasury Department seeks innovation in the acquisition of telecommunications services for two primary reasons. First, acquiring the most advanced telecommunications offerings provides the highest performance at the lowest cost; because of the Department's large telecommunications program, the Office of the CIO is firmly committed to

acquiring faster, cheaper, and better telecommunications services in order to exercise fiscal responsibility. Second, and equally if not more important, Treasury Department operations depend on the availability of high-performing telecommunications services in order to achieve mission-critical objectives.

The Treasury Department is committed to acquiring from the private sector the latest in telecommunications innovations, whether in product, process, or otherwise. New telecommunication services already have transformed traditional circuit-based voice communications into the digital world of IP-based communications. Because the private sector has the incentive to invest in research and development, the expectation is that the private sector consistently will provide the most attractive offerings in terms of cost and performance.

Today's question is: how does Networx fare in all of this? Early signs are that Networx will constitute a significant improvement over FTS 2001. It appears that Networx will be much more market-driven, in contrast to its more technology-driven predecessor, FTS 2001 (which was a follow on to FTS 2000). As a general rule, the government should rely on performance-

based, results-oriented specifications rather than trying to dictate solutions through "how to" design technology specifications. Moreover, this underscores an essential philosophical approach to acquiring network services, whether the customer is in the public sector or private: government agencies should strive to ensure that the customer is provided with the most cost-effective service available.

Permit an illustrative example. Suppose a company has a need to transport products. There are two major options: (1) purchase parts from many suppliers, assemble trucks, use the trucks to transport products, and keep enough spare parts on hand to support a maintenance program; or (2) purchase fleet services from a trucking company. Option 1 will cost the company more and distract it from its core business. Option 2 reflects how telecommunications services should be acquired wherever possible, yielding the best price for performance.

Consequently, a properly configured Networx can provide a comprehensive set of management services that enables government agencies to acquire the telecommunications services required. A contract resembling FTS 2001 would be more circuit-centric, forcing agencies to

fulfill the rest of its services by building and maintaining program management offices, unnecessarily decentralizing some telecommunications functions, and incurring more costs across the enterprise. For the Treasury Department, this would mean that each one of our dozen bureaus might have a relatively large telecommunications cost center. At the same time that administrative decisions are integrated enterprise-wide, it is important that other decision-making be as decentralized as possible.

This raises a larger point: as CIO I seek to manage the supply chain, both downstream from our shared service platform into Treasury bureaus as well as upstream into Treasury's suppliers. Treasury currently depends exclusively on no one carrier and manages risk by being carrier-neutral. Avoiding sole sourcing and preserving flexibility to use multiple companies across a large telecommunications contract are critical for several reasons. First, it is financially advantageous and ensures that competitive forces provide incentive for contractors to price at market levels. Second, in the event of technological change or obsolescence, a customer can make necessary adjustments quickly and cost-effectively. Third, if

underperformance provides operational rationale to switch vendors, a government agency is in a better position to do so.

Managing the supply chain "upstream" is predicated on knowing what business problems require solutions and how to execute. Facilitating the implementation of new technologies is a crucial area where Networx can help federal agencies solve operational problems. For example, the Treasury Department is reviewing innovative solutions to improve billing processes and to reduce expenditures. With FTS 2001-like contract it is difficult for an agency to initiate and to integrate the introduction, piloting, and deployment of new solutions and technologies. Key to a successful Networx contract will be to consolidate purchasing power in a flexible, performance-based contract that nimbly accommodates innovation when superior price for performance can be achieved.

Shorter-term, performance-based contracts in which suppliers are driven by incentive make such an approach possible. Consequently, it allows the management of telecommunications relationships both at the business and technical levels. Because it is inadequate to have lengthy service level agreements (SLAs) that do not effectively address higher level

business issues, the Treasury Department includes in its IT vision the integration of operating management into portfolio management. Telecommunications operations are no exception: customers or users with access to portfolio management tools can more clearly see and understand whether telecommunications services are meeting commitments and take managerial action as appropriate - also making the supply chain more efficient.

There is one final point on Networx that would boost IT security significantly: applying IT security solutions with equal rigor to backhaul networks. Traditional telecommunication carriers have increasing capabilities to monitor their core networks with intrusion detection, intrusion prevention, and other security technologies. While historically technical limitations have precluded fully using these security services to combat worms, spam, and other network vulnerabilities on high bandwidth, longer-haul portions of networks, innovation has made this possible in recent years. Networx should seek to ensure that its security services receive comparable treatment as large customers in the private sector. While diversified and localized monitoring is still required, integrated monitoring on a much larger scale can eliminate or

reduce the risk of the most common vulnerabilities and prevent the further and wider spread of threats. The result of mandatory, centrally monitored, carrier-based IDS/IPS would be bandwidth savings and a safer, more secure backbone for Networx and its customers.

Innovation is not just about our telecommunications programs; it is essential to national security. Economically, it enables us to do more with less. Politically, it promotes a leadership position on the global stage. Technologically, the application of new products and processes leads to even more advances - thanks to the vibrant entrepreneurial spirit of our country. And it is the lifeblood of the small- and medium-size businesses that drive 80 percent of our economy, the stability and prosperity of which is the mission of the Treasury Department.

Again, I am grateful to the Committee for demonstrating leadership in exploring the best ways to acquire telecommunications services and for driving reform across the federal government. Mr. Chairman, thank you for the opportunity to appear before you today. This concludes my formal remarks, and I would be pleased to respond to any questions.

Chairman TOM DAVIS. Thank you, Drew.

Mr. Bryson.

Mr. BRYSON. Thank you, Chairman Davis, members of the committee. We also appreciate the invitation to appear before you today.

My position is equivalent to the chief information officer with the courts system. Our office provides and manages national voice and data services for more than 750 courthouses and offices throughout the country, including the 50 States, Puerto Rico, the U.S. Virgin Islands, Guam, and the Mariana Islands. Those communications services are critical for our own internal communication, as well as for those who are now getting into the government aspect of the court system, which is our electronic case filing, and those who look for information on what the courts are doing through our public access systems.

The Federal Technology Service contract series has been an essential tool in providing the U.S. courts with a comprehensive set of integrated, cost effective and highly reliable voice and data services for more than a decade. We at the Administrative Office are committed to working with the General Services Administration and others, including this committee, to develop a successful follow-on solution for our wide ranging and ever growing needs for telecommunications services.

The judiciary's experience with the FTS contract series has shown us that such a contract vehicle offers clear advantages in terms of prices as well as significant reductions in overhead for contract management. The FTS contracts also greatly facilitate our engineering tasks by reducing the need to coordinate infrastructure changes with but one vendor team that knows our needs.

The Federal Judiciary was the first major FTS customer to complete the transition from FTS 2000 to the follow-on FTS 2001 contract. That orderly transition was facilitated by our own internal, accurate inventory of the courts' national voice and data services. Our independent inventory streamlined the complex process of preparing, submitting, tracking, and verifying tens of thousands of separate orders for lines, individual phone calling cards, and other specialized telecommunications services as we made this complicated transition.

Our transition experience demonstrates the importance of accurate and integrated management systems. Unfortunately, consolidation of telecommunications vendors over the past few years has not been accompanied by a smooth integration of their separate legacy systems for processing orders, managing circuits and changes, and ensuring billing systems are automatically updated and accurate. In numerous cases, our ability to quickly and efficiently change, add or delete services was hampered by these inefficient vendor tracking systems, or by overly complex and poorly integrated vendor ordering and billing systems.

We are working closely with GSA on the transition to make sure that we address all of those issues. If the transition involves the need to move to multiple new contracts and forces us to make the change to new vendors, the effort will be much more complex and difficult. Ultimately, this will take longer and involve much higher indirect costs to each agency.

As I say, we're making a significant investment in working with GSA to make sure that this follow-on contract meets all of our needs. The things that we think we need from the new contract include these: continuous high quality service; integrated end-to-end processes to order, install, inventory and bill services; flexibility to provide both local and long distance voice and data services; and finally, flexibility in choosing central or local billing and management options.

The Judiciary prefers a single Networx contract that covers the full range of telecommunications solutions. This approach avoids the additional costs associated with the need to research, compete, award, and manage multiple contracts for the myriad parts of our nationwide network infrastructure.

We also strongly prefer a long term non-mandatory solution to assure the best possible pricing for all services. In short, we need to ensure that an efficient and effective vehicle for continued service to the courts is available to replace the expiring FTS 2001 contract.

Again, we thank you for the invitation to appear today, and as with the others, we'd be happy to answer any questions that you might have.

[The prepared statement of Mr. Bryson follows:]

ADMINISTRATIVE OFFICE OF THE UNITED STATES COURTS

STATEMENT OF

MELVIN J. BRYSON
ASSISTANT DIRECTOR

BEFORE

THE COMMITTEE ON GOVERNMENT REFORM

UNITED STATES HOUSE OF REPRESENTATIVES

ON

GENERAL SERVICES ADMINISTRATION NETWORX PROGRAM

FEBRUARY 26, 2004

Good morning Mr. Chairman and distinguished members of the Committee:

My name is Mel Bryson. Thank you for the invitation to appear before you today in my capacity as head of the Office of Information Technology of the Administrative Office of the United States Courts. My position is the equivalent of the Chief Information Officer for the federal court system. The Administrative Office provides and manages national voice and data services to more than 750 courthouses and offices throughout the country, including the 50 states, Puerto Rico, the U.S. Virgin Islands, Guam and the Mariana Islands. Over 30,000 judiciary employees use these telecommunications services on a daily basis. A far greater number of people in the legal community, members of the bar, and the public rely upon the judiciary's expansive telephone systems and our Internet gateways to contact our employees and public access information systems.

Importance of the FTS contract

The Federal Technology Service contract series has been an essential tool in providing the United States courts with a comprehensive set of integrated, cost-effective and highly reliable voice and data services for more than a decade. We at the Administrative Office are committed to working with the General Services Administration (GSA) and its FTS office and our counterpart agency representatives in the executive branch to develop a successful follow-on solution for our wide-ranging and ever-growing needs for telecommunication services. In

late January, the Director of the Administrative Office of the U.S. Courts, Leonidas Ralph Mecham, replied to a request from Chairman Davis for information to assist in the Committee's oversight of the next generation Networx acquisition program. A copy of Director Mecham's response is attached to this statement.

The judiciary's experience with the FTS contract series has shown us that such a contract vehicle offers clear advantages in terms of prices as well as significant reductions in overhead for contract management. The FTS contracts also greatly facilitate our engineering tasks by reducing the need to coordinate infrastructure changes with but one vendor team that knows the judiciary's needs and is a willing partner in providing enhanced products and services.

What we have learned from the transition to FTS2001

The federal judiciary was the first major FTS customer to complete the transition from FTS2000 to the follow-on FTS2001 contract. The judiciary's orderly transition was facilitated by our own internal and accurate inventory of the courts' national voice and data services. Our independent inventory streamlined the complex processes of preparing, submitting, tracking and verifying tens of thousands of separate orders for lines, individual phone calling cards, and other specialized telecommunication services as we made this complicated transition.

Our transition experience demonstrates the importance of accurate and integrated management systems. Unfortunately, consolidation of telecommunications vendors over the past few years has not been accompanied by a smooth integration of their separate legacy systems for processing orders, managing circuits and changes, and ensuring billing systems are automatically updated. In numerous cases, our ability to quickly and efficiently change, add or delete services has been hampered by these inefficient vendor tracking systems and by overly complex and poorly integrated vendor ordering and billing systems. These problems are exacerbated when services are shifted from one vendor to another. For us, change of service is a critical issue in terms of the pain that can be felt by the courts and our technical staffs overseeing the changes and by our customers dealing with the interruptions each time a move is attempted. The costs and efforts of changing to the new contract and possibly to a new vendor or vendors during the future FTS2001 to Networx transition will challenge all of us. If the transition involves the need to move to multiple new contracts and forces us to make the change to new vendors, the effort will be much more complex and difficult. Ultimately this will take longer and involve much higher indirect costs to each agency, further straining us during a period of budget austerity.

Telecommunications services available today at steeply discounted prices via FTS2001 may not be matched by Networx and related contracts due to the changes in the industry and the costs of providing the services. Since agency budgets will undoubtedly remain constrained for the next several years, ensuring the best quality services at the lowest price will continue to be of prime importance to all of us. We also need the flexibility to add new services in order to support opportunities for savings in staffing and workflow that are dependent on telecommunications advances.

The judiciary's commitment to Networx

The Administrative Office has made a significant investment in the process of developing the follow-on contract to FTS2001. My staff is assisting the GSA FTS office, together with other members of the Inter-agency Management Group. We are participating on several working groups to help define the Networx proposal. We are using our experiences to develop practical solutions for the challenges we have faced with each of the previous FTS contracts. We are also working to ensure that Networx incorporates the newest telecommunications products and services based on modern technology enhancements, coupled with the flexibility to add new services and functional capabilities over the life of Networx. We are committed to making Networx a success as it replaces the

expiring FTS2001 and related contracts such as the Metropolitan Area Acquisition vehicles, or MAAs.

What we need from Networx

We have defined key requirements needed to address the judiciary's telecommunications needs. They include:

- continuous, high quality service;
- integrated end-to-end processes to order, install, inventory and bill services;
- flexibility to provide both local and long distance voice and data services; and,
- flexibility in choosing central and local billing and management options.

The judiciary prefers a single Networx contract that covers the full range of telecommunications solutions. This approach avoids the additional costs associated with the need to research, compete, award, and manage multiple contracts for the myriad parts of our nationwide network infrastructure. The Administrative Office also strongly prefers a long-term, non-mandatory solution to assure the best possible pricing for all services. In short, we need to ensure that an efficient and effective vehicle for continued service to the courts is available to replace the expiring FTS2001.

Conclusion

On behalf of Director Mecham of the Administrative Office, I thank you for the opportunity to describe our interest in the Networx acquisition program and the important role its predecessors have played in providing high levels of telecommunications services to the courts and the public. I will be happy to respond to any questions you may have regarding the federal courts' telecommunications needs.

LEONIDAS RALPH MECHAM
Director

CLARENCE A. LEE, JR.
Associate Director

ADMINISTRATIVE OFFICE OF THE
UNITED STATES COURTS

WASHINGTON, D.C. 20544

January 29, 2004

Honorable Tom Davis
Chairman
Committee on Government Reform
United States House of Representatives
2157 Rayburn House Office Building
Washington, DC 20515-6143

Dear Mr. Chairman:

In response to your letter of December 17, 2003, I thank you for this opportunity to provide you with information to assist you in the oversight of the *Networx* acquisition through the General Services Administration (GSA) Request For Proposal process.

The Administrative Office, acting on behalf of itself and the federal courts, is a primary user of the current FTS2001 contract (and its predecessor FTS2000) in support of our mission goals. You should note that our organization received recognition from the GSA Interagency Management Council (IMC) as the first major federal agency to complete the transition to FTS2001. One of the primary reasons for our success was our complete and accurate inventory which factored into our transition planning and risk management. Our inventories for each service acquired via the current FTS2001 contract are also complete and accurate. These inventories are used by us in our telecommunications planning.

The Administrative Office is working closely with the GSA in the development of the federal government's next generation *Networx* telecommunications acquisition program. As an active member of the GSA IMC, we continue to work with each of the other members to identify and validate government-wide requirements. Additionally, we have provided staff to both the *Networx* working group and to the Billing Issues Team that provided significant input into the recently released *Networx* Request for Information (RFI). The RFI, as released, accurately portrays our current and future requirements and the requirements of the government for a broad range of crucial telecommunications needs.

The services available through the current FTS2001 contract are of such significant importance to us that we made an early decision to invest the time of several members of our rather limited information technology staff to assist GSA with the development of the replacement contract. As you have pointed out in your letter, the maintenance of an up-to-date and accurate inventory of services and equipment ordered is a critical factor in the successful management of services of this magnitude. Inventory management, including billing resolution functions, requires that the vendor along with each agency maintain accurate inventory records that share common data elements to facilitate the use of automated tools for comparison and anomaly discovery. We have found that the current vendor method of telecommunications billing is less than optimal. Considering the importance of reconciling vendor provided bills with our in-house inventories, the current billing environment consumes a considerable amount of our limited resources and requires significant interaction with the vendor. We take pride in having led the way in the development of automated tools to assist us and other federal agencies in this chore, but still note that the complexity of today's typical telecommunications bill makes this an onerous and expensive task to perform. Hopefully, the *Networx* contract vehicle can make that task more efficient.

Outside of the FTS2001 contract, the federal Judiciary acquires local dial tone and other telecommunications services through a decentralized approach, allowing individual court units to purchase needed services via procedures and guidelines provided to them by the Administrative Office here in Washington D.C. These guidelines are reviewed and updated periodically and individual audits have confirmed that our courts are in compliance with these procedures. Satellite services supporting one of the federal government's largest dedicated television networks, the Federal Judiciary Television Network (FJTN), are procured using a separate GSA/FTS contract vehicle. A broader range of services on *Networx* will avoid the additional complexities inherent in using multiple contracts for our telecommunications services.

In answer to your specific questions:

- The Administrative Office does maintain an accurate up-to-date inventory that includes services, hardware assets, carrier and costs. Our service level agreements are not separately negotiated with the FTS vendors above those in the FTS2001 contract.

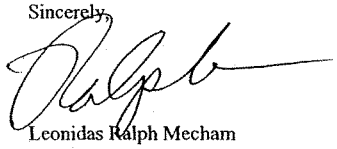
- Our inventory includes long-distance, local and wireless services. Our satellite inventory is tied to a GSA vehicle other than FTS2001.

- We identify priority of service requirements for our assets.

- We perform regular inventory audits and review monthly vendor billing to identify inventory anomalies that may require further research. Our inventory identifies monthly costs down to e.g., a data line or a router. We perform quarterly reviews of our telecommunications program to identify the dollars spent.

The Judiciary looks forward to continuing our work with the IMC and GSA to complete the award of the new *Networx* contract. We believe it offers unique opportunities to streamline and improve the current processes while offering the best value to the Administrative Office and other federal agencies.

Sincerely,



Leonidas Ralph Mecham
Director

Chairman TOM DAVIS. Thank you very much.

I have a bunch of questions. Let me start, Ms. Bates, I'm going to start with you. I think you noted that the current program in its 6th year, referring to the first page of your testimony, exemplifies best value and you talk about how the FTS 2001 and cross-over contracts have been modified 229 times for the benefit of all agencies, and have grown from an acquisition offering 24 core services and so on.

I guess my point is, it's great to modify it and all that, but when you go back to the original bit and who you select, and then you put all these modifications in, isn't it possible, and these are evolving needs, that maybe somebody who lost the original bid might have been better over time in these areas? And aren't we better off with a flexible schedule-type contract, where you can bring in people who might not have been the best value on the original bid, but in time have developed new capabilities and allow them to come into the process, as opposed to amending existing bids with existing contractors? Do you understand what I'm saying? That wasn't in my script.

Ms. BATES. I understand. We'll just talk through it.

First off, I think it is a positive that the contracts have been modified. They are not being modified to correct flaws or insufficiencies at all. But rather, improved processes and recognize that, and then add the new technologies.

If you'll recall, too, in our strategy of FTS 2001, we allowed for crossover from, with the anticipation of companies in the local markets emerging and really promoting public policy in 1996 of telecom reform. I'm happy to report that companies have crossed over in that, so that as an example, the unsuccessful offeror in FTS 2001 did cross over into FTS 2001, as well as Verizon recently crossed over into FTS 2001.

So I think with that strategy, we have allowed for continuous competition of the players that are providing all those services, plus with the initial competition and all those mods, we have continued robust and aggressive price management, where the companies, if you'll recall, bid the full 8-year pricing, declining prices, the best in the world, and continue to do that.

So I think that the strategy that we adopted and were trying to take those good pieces of the strategy and incorporate those into a Networx-type environment. So I think we have the optimum solution today.

Chairman TOM DAVIS. I guess because technology changes so rapidly in this area, and new companies come on with capabilities that weren't envisioned at the beginning of the contract and everything else, it seems, and what the process is, I'm not set on. But you just want to make sure that we are flexible throughout, and that we are constantly shopping for the best value, the best technology.

Ms. BATES. Right.

Chairman TOM DAVIS. The best technologies, the lowest costs. And also to encourage agencies to come in. About half the agencies use this right now. I'm not saying it's a cure-all, but if you have enough flexibility and you use your buying power and everything else you have, we ought to be getting higher participation.

Ms. BATES. I agree with you. I think most of our customers, we provide service today to every agency. It's just not their total service. Of course, our goal is to have a program that is robust enough that it will be so attractive that people will want to use this more.

I think it's also important to note that today on Schedule 70, there are many services, telecommunications services offered, there are line items, there's over 200. It's about 70 companies. So I think that when we talk about whether we have a fully negotiated contract versus a schedule contract, it's not either-or. And that's what we got when we asked the industry.

So I think we're in agreement.

Chairman TOM DAVIS. It's a question of how you best get there.

Let me just ask another question. I'm off the script. But cooperative purchasing, something in the government act we allow for the group 70 schedule, as you noted. Any thought of using, I haven't talked to the companies about this, either, so if they come up out of their chair, allowing State and local governments to use this?

Ms. BATES. Well, as you know, FTS was instrumental in cooperative working with you early on, with cooperative purchasing.

Chairman TOM DAVIS. Absolutely. You were way ahead of us on that. I'll ask everybody to comment on this question, too. But go ahead.

Ms. BATES. I think that the concept is there. There's nothing in our current thinking that would prohibit it. I think in the area of telecommunications networking that it's so complex, with the margin so thin on pricing, kind of figuring out and keeping dual sets of, I think it would be a good idea. I was going down the line of——

Chairman TOM DAVIS. We're going to hear from industry on that, too.

Ms. BATES. But the cooperative purchasing, in terms of letting State and local governments in, we are all for.

Chairman TOM DAVIS. Steve, any thoughts on that?

Mr. PERRY. I would just add that, as you know, a lot of people, either at the State and local level or Federal level or in the industry had concerns as to whether or not enabling State and local governments and others to purchase on the Federal Government schedule would have bad ramifications. I think though that what we're seeing, now that we've stepped into that with IT, that those fears are not being realized. Small businesses are participating, Main Street companies who were providing for their States before and weren't on GSA schedules, many of them have become GSA schedule holders.

So both the States are benefiting and the industry companies are benefiting. So I think the continued success that we're seeing on IT Schedule 70 may inform us as to how well we could apply the same thing to telecommunications.

Chairman TOM DAVIS. Right. The thing I like about cooperative purchasing, and my time is up, but the fact that you're cutting out a lot of the middle stuff that raises your ratio, the bid protests are gone, all the lawyers are out of it, and that's a good thing. And the fact that a lot of the marketing and strategies that went into pumping stuff up that was so expensive for people coming up with responses to RFPs and proposals, it's really consolidated. That's a

good thing. It saves money for both the government and for our contractors on that.

I'll ask the second panel how they'd react to that. Go ahead.

Ms. BATES. We have left it in scope, in today's contract, and we will have it in scope tomorrow, with the hope that they would be approved. So we have everything in place, ready to go once we get the nod.

Chairman TOM DAVIS. Well, I think a lot of it will depend on industry response to this. We're not eager in bringing, if industry's not interested in doing this, of bringing it in. And I want to get their response as well. But the reality is that the marketing mechanisms they have to use to try to get into State and local governments are expensive. It is a Wild West in terms of its predictability and so on. I'll be interested in hearing their reactions, I'll kind of give them a heads-up that the question is coming.

Ms. Norton.

Ms. NORTON. Thank you, Mr. Chairman.

This idea in this program is of special interest since the District of Columbia has profited from being on the GSA program. I appreciate strongly the efficiencies that must take place in hammering such a huge contract as this. It can't be handled in the way the ordinary government contract is. I agree with what the chairman has said about some of those efficiencies.

I also think that competition and product innovation in this industry is unique. I indicated that in my opening comments, so that I'm trying not to do a cookie cutter approach to how I look at this contract, that is to say, not that you are. But that we are looking at what I regard as a virtually unique industry in our country and in the world. And here we are, a unique party, the Federal Government, able to maximize competition the way no other contracting party could.

So I've got to ask, I want to ask some questions about our role vis-a-vis where the industry is. Now, there's a huge flux in this industry, precisely because it is so innovative. If there were only three bidders to the universal contract, what would happen if something happened to one of those vendors?

Ms. BATES. There could be more. But if there were only three that could, that were successful in terms of meeting the government's requirements and best value and low cost, and something happened to one, I think certainly that would be a shame, and would reduce our options and flexibility. But we would still have two companies in place in universal that could continue to compete. We would also then have, if we were to pursue exactly the strategy laid out in the RFI, which is under modification, we would also have multiple companies in network select that could satisfy some or all of the requirements and fill the void.

So I think we're trying to position ourselves, knowing that this is an industry that by all accounts has not settled out yet, and we're expecting to see further mergers, acquisitions and new entrants. We want to be as open to that, yet steel ourselves against having something happen that would affect us drastically.

Ms. NORTON. I don't know why we wouldn't want to minimize risk and maximize competition. I don't know why we should take any risks here, particularly given the multiple companies in the

field, and particularly given the fact that we may be talking about one industry, but there are so many different categories of what they do, wireless, long distance, Internet—we could go on for some time.

Why not open the door to more competition, given—I mean, what do we have to lose by opening the door to more competition, particularly given the fact that many of these companies are much better in providing certain kinds of services, I don't know, Internet versus long distance or whatever, than others. Why not say, "Y'all come"? And why wouldn't the result be lower cost to the government, and better product innovation as well?

Ms. BATES. I can only address it. Certainly those comments, your thoughts, were also some of the thoughts submitted in response to the RFI, that centered around why don't we just have one competition and do it by categories or levels. And this is under consideration. We are looking at that hard, and going at that, because many of the industry respondents did recommend that a further refining, and like I said in my statement, one contract versus two, and perhaps different ways to grouping, to play to the specialization of certain segments.

Ms. NORTON. I would really like to see, all of us out here in this IT world know good and well that we have the right and we look for who does what best and at a lower cost in these related but highly different categories of service. I must say, I put a great value on the efficiencies you brought to this contract. I don't want to lose any of that.

But for the life of me, I can't see why allowing these guys to go at one another with these very different kinds of service, opening the door to some who may not have been in it all before, that really bothers me. As we look to companies that, and this happens in government work so often, that somebody who has a leg up continues to get the contract.

Well, you know, that might work in some kinds of industries. But in this industry, where the competition has been such that somebody can and does run ahead of somebody else because of a product innovation, so who was good yesterday has been surpassed tomorrow, why shouldn't we say, "OK, let's look at these individual services, let's open the competition, because we are the biggest player in the universe, we're going to drive you so hard, we're going to drive down our costs even more than we've gotten."

I must tell you, I think there's lots more, lots more to be wrung out of this than you've been able to do. I'm looking for ways to do it. Therefore, I must say I'm very pleased to hear you say that you are open to looking at the various categories, wireless, Internet and the rest. And that would mean, of course, that there would be newer companies, companies that may have specialties in one way or another.

Let me ask you about the notion of where the company has to be geographically. There are large bidders and smaller bidders that don't provide, for example, long distance service everywhere. Is this a primary factor in choosing such a vendor?

Ms. BATES. The strategy as stated in the RFI required continuity of service, which would mean service to every place that it is being provided to our government customers today for Networx Univer-

sal. In Networx Select, that requirement was relaxed and respondents would bid wherever they provided the service.

In response to the comments that we received from the RFI, we are deeply probing that requirement on two fronts. One, we are probing with our customers to determine the impact, if that wasn't as specified, and to learn more about that. With regard to the industry, we are probing to see, when we say continuity, what are they hearing. If we were not to have the requirement for continuity, I'm not saying we'd relax it, but if we weren't, who would be left behind?

There is an implication that the person that would be left behind would be Joe in the treetop. Well, I don't know if it's just a few people or if it's major sections of our country that serve the population and the government agencies. So I think that the time we're spending now to really further understand that requirement and probe deeply to get at the facts will help us arrive at whatever the right solution is as we move forward.

Ms. NORTON. That could not be more important. One size does not fit all, and if there are efficiencies in non-universal service that don't hurt anybody, and you're looking closely at that, that's the way to go at it. Let us find out what the underlying facts are.

The assumption that everybody needs everything, when you consider where the government is located, is the point I'm raising. I'm very pleased if you're looking closely to see whether or not that's necessary.

Ms. BATES. Thank you.

Chairman TOM DAVIS. Thank you very much, Ms. Norton.

Mr. PERRY. Mr. Chairman, if I could just add to that answer, please.

Chairman TOM DAVIS. Sure.

Mr. PERRY. I would echo Sandy's comments and yours, Congresswoman Norton, that robust competition is really a hallmark of this. We are not trying to do anything else, other than to drive toward robust competition. That's part of what has driven the low cost of what we've done so far, and it also, as you point out, is what drives technological innovation, all these companies working against each other to move things forward. And we've benefited from that.

We would propose to continue to do that in the new contract, while at the same time making sure that we do all the things necessary to provide for reliable service. That's the other part of that equation. It can't be fragmented to the point that we could have a disruption. So we take your point, and I just wanted to emphasize the fact that robust competition is indeed what we would hope to achieve.

Chairman TOM DAVIS. Thank you very much.

The gentleman from Utah, Mr. Cannon.

Mr. CANNON. Thank you, Mr. Chairman.

Just following on this line of questioning, can you for the whole panel, particularly for the GSA members here, can you give me a sense of what you think the right number of awardees under Networx would be? On the one hand, as has been said by Representative Eleanor Holmes Norton, you have an issue with redundancy, and also network security. Yet if you have too many people, the price suffers.

Have we given any thought to what the number of awardees ought to be?

Ms. BATES. It's very difficult to say, particularly with this industry, as things change. The Networx Universal, as described in the RFI, which was kind of the straw man for comment, had requirements such as continuity, which we were discussing a moment ago. I would think that there are many companies that can provide that universal service, perhaps they wouldn't be able to provide it necessarily predominantly by themselves. But through partnering arrangements——

Mr. CANNON. Let me just ask, have you focused on, we have some major companies, and a lot of minor companies that can provide services. Have you looked at, it would seem to me you'd want more than one, that means two or more. But maybe you don't want as many as five or six. Has there been some focus on what you're looking at for just the number of major contractors?

Ms. BATES. We have not decided yet on a number. We've not gotten that far. If you'll recall, in our strategy for 2001, when we completed it and went out with the RFP, we said there would be a maximum of two awardees, and obviously a minimum of one but a maximum of two. We've not reached that point yet. And we've not even reached a point yet where we would put a limit, because we're not talking about, as your point, 200 companies.

Mr. CANNON. But you will hopefully consider that and come up with some sort of a list?

Ms. BATES. Yes, sir.

Mr. CANNON. Thank you very much. Do you have a sense of how we will be introducing the government Voice Over Internet Protocol in this procurement or in other contexts? What are you thinking about that now?

Ms. BATES. Well, clearly, we are like everyone else realizing that Voice Over IP is the technology for the future, and that all of the network services, as we move on into the 2010, 2012 timeframe, will be IP-based, including Voice Over IP. So it plays heavily in our technical specifications and our concept of operations, reflected throughout our work to date.

The challenge ahead of us is that, when we award the contracts, we need to be able to do two things: satisfy the existing requirements and provide a lighted pathway as people move toward the new technology. It is not going to be 1 day everybody moves. Some people, the early adopters, are moving now. Others may not be.

The industry is in the same way. They don't just start and drop everything. So it's a continuum. But I can assure you that Networx, both universal and select, in whatever strategy we end up with, will cover that in spades.

Mr. CANNON. Thank you.

Mr. Perry, in particular I'm interested in telework and how we're dealing with that. If we talk about DSL, how that fits in and whether you're considering any telework-related items in the Networx solicitation. In particular, is DSL expected to be a component of the Networx Universal, will that be like a distinct service, particularly about how telework is going to be for people working at home or in some other place, and how that will be brought into consideration.

Mr. PERRY. Well, we do support teleworking now, of the type you described, where the person may be teleworking from their home with a DSL line. And we obviously have telework centers where people drive to and agencies or the government provides the facility there. But that would continue to be supported.

It will be driven, obviously, to some large extent, by individual agencies, to the extent they'd want to utilize it. But it is available and will continue to be.

Mr. CANNON. And DSL is going to play a part of that, as you look into the future?

Mr. PERRY. Yes.

Mr. CANNON. As you're looking at all these new kinds of technologies that are coming in, can you talk a little bit about how those are going to fit in, even those that may not be currently available in the commercial market?

Mr. PERRY. I'm sorry?

Mr. CANNON. How are new technologies, how are you dealing with the new technologies, some of which are not even available today, but which we can anticipate?

Mr. PERRY. Right. Again, to some extent, what we've done in FTS 2001, we talked about the 229 modifications that were made in the original contract. Many of those were made to adopt or adapt to new technologies that emerged subsequent to the contract. That will be the case here as well. Whatever those emerging technologies are that we don't even know about today, as they become available they will be incorporated into the contracts.

Mr. CANNON. Thank you, Mr. Chairman. I see my time has expired. I yield back.

Chairman TOM DAVIS. The gentlelady from New York, Mrs. Maloney.

Mrs. MALONEY. Thank you very much. Mr. Perry, you mentioned that the goal is robust competition, as was the goal for FTS 2001. And I think one of the easiest ways to understand how to maximize service and a good product and cost is to really understand what happened in FTS 2000 and 2001. The chairman, in his opening remarks, mentioned that there were 229 modifications to FTS 2001. I'd like a breakdown on how much that cost. You can competitively bid something, but then if there are so many modifications, whether it's a change in the contract for new expenses or new technology, if I recall, I believe that new technology in FTS 2000 and 2001 was supposed to have been competitively bid in a new way. I don't think it was supposed to have been a modification.

So my question is, I'd like to know how much we spent on 2001 contracts, and how much we added onto them with "modifications" and whether those modifications were cost overruns, or we really didn't think we had to do that in our original contract, and how much of it was new technology. As I recall, 2001 was new technology and was to be competitively bid, was it not, in the last contract?

And again, you probably don't have these numbers, but I think that's something that would be important for the committee to understand, why did we have 229 with modifications, and for what reason? It could turn out that the 229 modifications cost more than the original contract. I would just like to look at those numbers.

Mr. PERRY. Sure. We will provide that to you.

I will tell you though, that we talk about those 229 modifications with some pride, because these were not cost overruns or cost increases, generally speaking. These modifications were enhancements, and many times, cost reductions. So we'll be happy to provide that information to you.

Mrs. MALONEY. Do you know how much the 229 modifications cost the American taxpayer?

Mr. PERRY. I don't know the answer to that question.

Mrs. MALONEY. That's what I'd be looking at.

And also, I think that our country has changed dramatically since the last contract and the No. 1 concern for many of us is security and safety. And I want to know if this new contract has a category in it that looks toward a Pentagon attack or a September 11 attack. What are these new technologies that these companies may have that would make the service more secure and reliable in times of a tragedy or a terrorist attack? Is that part of the new contract?

Mr. PERRY. Yes, it will be. There is a feature referred to as "embedded security features." And to go back to the modifications, some of the modifications that were made under FTS 2001 were for an enhanced security by means that weren't available previously, but became available and became more desirable after September 11.

In fact, some agencies of the government, as you would understand, the Defense Department and some others, have not used the FTS 2001 contracts because of concerns on security matters. So we are in the Networx contract addressing those more and more.

Mrs. MALONEY. And since you said security was built into 2001, and when they attacked the World Trade Center Towers, it was primarily government offices. There was some private sector, but we had the SEC there, and we had a lot of Assembly offices there. There were a lot of government offices there. How did the FTS 2000, 2001 respond to the attacks on September 11? I know we were out of power for a while. Was that part of your contract? Were you down at the September 11 site with FTS 2000 and 2001?

Mr. PERRY. Yes. And Sandy may add some details here, but there was a facility there at the site that was destroyed. We used the providers under this contract to reestablish operations. We didn't do it overnight, but we did it very quickly. The response was generally reviewed as being very good.

Ms. BATES. I can only add that after the attack, service was restored to the areas as soon as it could be under FTS 2001, as well as the metropolitan area, the MAAs, the local contracts. We had a robust program working with our brothers in the Public Building Service of helping agencies relocate to other office space, and making sure that they had service at that time.

In addition, many agencies used backups in other parts of the country for their data services, and we had service into there. So I think the companies on both the 2001 and MAA served well in such a disaster, including the restoration of service to the Pentagon.

Mrs. MALONEY. My time is up. Thank you.

[The prepared statement of Hon. Carolyn B. Maloney follows:]

CAROLYN B. MALONEY
14TH DISTRICT, NEW YORK

2331 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-3214
(202) 225-7944

COMMITTEES:
FINANCIAL SERVICES

GOVERNMENT REFORM

JOINT ECONOMIC COMMITTEE

Congress of the United States
House of Representatives
Washington, DC 20515–3214

DISTRICT OFFICES
1651 THIRD AVENUE
SUITE 311
NEW YORK, NY 10128
(212) 860-0606

28-11 ASTORIA BOULEVARD
ASTORIA, NY 11102
(718) 932-1804

WEBSITE: www.house.gov/maloney

Statement of Congresswoman Carolyn B. Maloney
Hearing: "Will 'Networx' Work? A Review of Whether a Centralized Government Telecom Plan Jibes with an Ever-Evolving Market"
February 26, 2004
Room 2154, Rayburn House Office Building

Thank you Chairman Davis and Ranking Member Waxman for holding this important hearing today.

It often comes as a surprise to people, but procurement and procurement reform has been one of my concerns for a long time. I think that contracts and the way our government procures necessary goods and services are the nuts and bolts of any government. After all, you can learn a great deal about government by understanding where it spends it's money. In this case, we are talking about the federal government spending roughly $10 billion over 5 years, which is exactly why this hearing is so important.

I served on this Committee when we first reviewed the FTS2001 acquisition strategy and I'm interested to learn how Networx, as proposed by GSA, will improve upon FTS2001 and how it differs.

I think we can all agree that our goal is to ensure that the federal government gets the best price possible for these services. Saving the taxpayer money. Therefore, we must implement a strategy that allows for the greatest opportunity for competitive bidding and that leverages the government's buying power to ensure the lowest cost.

As I understand it, Networx will be the largest telecommunications contract in federal government history.

We must also recognize the changing times: telecommunications technology has significantly changed and improved since FTS2001 was first implemented in the late 1990's and more companies have entered the market that specialize in providing certain services. In addition, the need for increased security of our networks is at a premium.

I look forward to hearing from our witnesses today. I am hopeful that this is the first in a series of hearings that we will have on this topic so that we can develop a fair, effective, and efficient strategy for providing telecommunication services to our agencies while saving our taxpayers dollars.

Thank you.

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Chairman TOM DAVIS. Thank you very much.

Let me just ask a couple more questions of this panel before we move on. I think I'll start this with Mr. Perry.

We continue to hear expressed a concern that GSA is committed to the centrally managed program outlined in the RFI, and that it's unlikely to change the basic framework as the program goes forward. Will you go forward with a program that's designed based on the information received from industry, agency stakeholders and others, even if it differs fundamentally from that currently set forth in the RFI?

Mr. PERRY. Yes, absolutely. What we will do in the final analysis is do what meets the needs of our customer agencies, and the capabilities of the industry. At the same time, we believe that our history has shown us, as we've been talking here, about leveraging the volume of purchases that the Federal Government represents. The way to do that is through pooling those resources together, not by fragmenting them to the nth degree.

So as a thought about this, we believe that our going-in approach ought to be, how can we work as a Federal Government in a collaborative way to understand what our inventories are, understand what our requirements are, understand what the industry capabilities are, and first, begin with the premise that we will try to fashion a solution that provides the best value to the government as a whole?

Certainly there are some agencies which would have reasons to operate separately. And we would accommodate that, if they don't use the FTS contracts, they are welcome to use other GSA acquisition vehicles, including schedules, or they obviously have the choice of doing it independently. But I think logic would say that a starting point would be for us to collaborate to the greatest extent feasible.

Chairman TOM DAVIS. OK. Ms. Koontz, let me ask you, you note in your statement that the proposed FTS Networx procurement represents the third in a series of major, centralized telecommunications procurements undertaken by GSA on behalf of Federal agencies. What are your thoughts on the viability of using a centralized telecommunications acquisition to meet the government's telecommunications service needs?

Ms. KOONTZ. We think that the concept of a centrally managed program still has merit and is still viable. You don't have to look a whole lot further than the FTS 2001 program itself to see that there is a demand among agencies for a centrally managed program where they are willing to pay a fee to GSA in order to have GSA acquire and manage these services.

I would add to that, in addition, in our research that we've done of private sector best practices that centralization has a couple of benefits. One, you get to leverage your requirements across your organization, or in this case, across multiple agencies. And in addition, you get to leverage your telecommunications expertise, which is often a scarce resource in short supply. So the centralization can also be an appropriate human capital strategy as well.

Chairman TOM DAVIS. OK. Mr. Ladner, Treasury is no stranger to the pain of contract transition that we hear mentioned so often in this. Having gone through to some extent under FTS 2000 and

again at the inception of 2001 of the contract, based on your experiences, are there specific actions you can identify that GSA should be taking now to make future contract transitions less stressful to their government agencies? And I'll ask Mr. Bryson the same thing.

Mr. LADNER. Mr. Bryson actually mentioned a few things in his testimony that address this. I think to add to that, we believe that it's critical for any contract to embed innovation. And one of the aspects which seems to change quickest, which we need to remain most aligned with in the private sector, is in the area of billing.

So as we look to transition off our current contract of TCS, which expires in September 2005, what we are trying to look at and work with FTS most specifically on is in the area of billing. How can we ensure that as we find and address business problems at the operating level, we ensure that those can be managed in the transition process appropriately.

To add to what Ms. Koontz said, we believe as well that a centrally managed program is very, very helpful, and there are a lot of benefits to that. Whether one looks at what's happening in the private sector or public sector, IT government reform is pushing more and more organizations to centralize.

But again, being able to solve business problems and then take how we're solving those business problems and introduce those learnings and those technologies in at the central level is critical. And again, being able to transition what we're already doing in that regard from TCS to say, a Networx contract, would be crucial.

Chairman TOM DAVIS. OK. Mr. Bryson, you might reiterate a couple of things you said just to get it in this part of the record.

Mr. BRYSON. I would, yes. Of the moneys that we spent on telecommunications, about half of them are spent on the national infrastructure, and about half of them are spent actually at the local level for services. We're very much in favor, as I said, of a national contract that allows us to get the kind of savings that the size of the government can generate for all of those services.

So to the extent we have a contract that allows courts or other offices out in smaller locations, away from the major cities, to have better prices for cellular, local dial tone, those kinds of things, we think that is helpful.

As we move to the new contract, we really would like to have GSA and the companies that we deal with look at their interface. It would be nice to have an electronic way to transmit orders, track them, have them implemented, and then get billing back in a timely way, so that the services that we ask for, that we contract for, we know are there, they're done correctly, and that we're being billed correctly for them.

This is a huge juggernaut that we're dealing with here, we have multiple companies. If you're dealing with the small companies around the country as well who have to then bill back through the main providers, it is a serious concern keeping all that straight. All that of course goes through GSA as well, so you've got an interesting dilemma in how you make sure that all that information is correct, that what we're paying in our billing cycles is correct for what we're getting. We think that is an area that really needs to be focused on, the infrastructure that supports this contract needs to be looked at very carefully and improved to really serve us well.

Mr. LADNER. Let me just add, while it's more of a steady state issue, and has a lot of ramifications for what we're transitioning to, and that is, the area of portfolio management, Clinger-Cohen holds that we steward resources well across the Department. So what we've been working hard at is figuring out what we've got, to figure out how we're doing.

With regard to network services, that's no exception. So what we've been trying to do at Treasury is to understand better in as close to real time as possible how we're doing on the network side, and then help our business owners understand how telecommunications services are supporting, achieving mission critical objectives.

So having the right kinds of interfaces to get the information that we need from carriers, from FTS, so we can figure out what's going on, is absolutely critical for our portfolio management initiative.

Chairman TOM DAVIS. Thank you very much.

Does anyone else on the panel want to add anything? We'll keep the record open for a couple of weeks if Members have questions they want to forward. I know Mr. Waxman, I think, will have a couple. And based on the review of some of the comments, we may have a couple followups. But I appreciate your patience, appreciate your being here today.

We'll dismiss this panel, move to the second panel and take about a 3-minute recess. Thank you very much.

[Recess.]

Chairman TOM DAVIS. The committee will come to order.

Just please rise with me and I'll introduce you if we could swear everybody in. Anthony D'Agata, the vice president and general manager from Government Systems Division at Sprint; Quinten Johnson, regional vice president, SBC Federal Solutions; Kevin O'Hara, president and chief operating officer, Level 3 Communications; Jerry Hogge, the senior VP for Winstar; David Page, vice president, Federal Systems, BellSouth; Louis Addeo, the president of AT&T Government Solutions; Shelley Murphy, president, Federal Marks, Verizon, and Jerry Edgerton, senior vice president, Government Markets, MCI.

Please raise your right hands.

[Witnesses sworn.]

Chairman TOM DAVIS. Thank you. Thank you for your patience. Your total testimony is in the record. I figure if everybody takes the allotted time or a minimum of 40 minutes, working out before we get to questions. But you don't have to take it all if you don't want to. But if we can keep on schedule, we all get out of here. I'll remind you, your presence is really important, and as you heard from the previous panel, your comments are really important in shaping this thing.

So we want to make sure—again your total testimony is in the record, I'll just re-emphasize that—but we want to make sure you get your major points across because it's important not just that this committee hear them, but that GSA understands how you underline your important points; take that into account.

We drew out of a hat to see who goes first. This is such a distinguished body, we didn't want to rank one company over another in

the telecom arena. You can understand—[laughter]—so I'm going to start on the left, Mr. D'Agata, with you, and move on down. Thank you.

STATEMENTS OF ANTHONY D'AGATA, VICE PRESIDENT AND GENERAL MANAGER, GOVERNMENT SYSTEMS DIVISION, SPRINT CORP.; QUINTEN JOHNSON, REGIONAL VICE PRESIDENT, SBC FEDERAL SOLUTIONS; KEVIN O'HARA, PRESIDENT AND CHIEF OPERATING OFFICER, LEVEL 3 COMMUNICATIONS, LLC; JERRY W. HOGGE, SENIOR VICE PRESIDENT, WINSTAR GOVERNMENT SOLUTIONS, LLC; DAVID J. PAGE, VICE PRESIDENT, FEDERAL GOVERNMENT SALES, BELLSOUTH CORP.; LOUIS M. ADDEO, PRESIDENT, AT&T GOVERNMENT SOLUTIONS; SHELLEY MURPHY, PRESIDENT, VERIZON FEDERAL INC.; AND JERRY A. EDGERTON, SENIOR VICE PRESIDENT, GOVERNMENT MARKETS, MCI

Mr. D'AGATA. Good morning, Mr. Chairman and members of the committee. My name is Tony D'Agata, I'm vice president and general manager of Sprint's Government Systems Division.

I would like to express my appreciation for the opportunity to share with you this morning Sprint's views on Networx, the follow-on program to FTS 2001. Simply stated, Sprint endorses GSA's network acquisition plan to replace the FTS 2001 program. We will, however, recommend changes to the Networx acquisition.

The Networx acquisition strategy is sound. The government's experience over the past 15 years with multiple award, IDIQ, telecommunications contracts has been extraordinary. These vehicles have enabled the government to aggregate its buying power to the benefit of the smallest government agency.

As of the third year of the FTS 2001, the government had saved over $400 million, compared to the best prices available on FTS 2000. By the end of the term of the FTS 2001, the government savings will approach over $1 billion. Moreover, FTS has provided to the government agencies unprecedented management tools, such as online ordering, pricing and trouble report handling to manage the accomplishment of their respective missions.

But the carriers cannot take all the credit for delivering unparalleled value to the government. The General Services Administration, as a full partner, has played a significant role in the success of these vehicles. While some would say that it's time to change the above winning formula to one resembling a set of schedules, Sprint strongly disagrees. It must be remembered that the schedule procurement model has been successful for the procurement of one size fits all, commercial off-the-shelf commodity items. It is not suited to the delivery of customized telecommunications solutions envisioned by Networx.

The Networx acquisition strategy should be modified, however. First, the Networx carriers, contractors should not be put in the position of assuming the economic risk of an unpredictable access market. The FTS 2001 required carriers to forward price access services for 8 years. Unfortunately, full competition and those projected price reductions in access have not materialized. This has caused significant financial harm to the service providers. As a result, the government must consider the future uncertainties in ac-

cess pricing when forming its price expectations of the Networx offerors.

Second, the existing Networx procurement strategy is to award a universal contract to provide the mandatory ubiquitous services and a select contract to provide niche services. The Networx Select contract should not be used to cannibalize the Universal Networx program. If the select program awardees are permitted to subsequently provide overlapping but geographically limited similar services, the select program provider could cherry pick or cream skim the business base of the universal providers. The select program should be reserved exclusively for small and small disadvantaged businesses to provide them the opportunity to offer services complementary to those provided by the Networx Universal providers. Finally, Sprint recommends that the successor contract not contain a substantial minimum revenue guarantee [MRG]. One major rationale to support a substantial MRG is to guarantee the contractor a specific volume of business to justify the sizable system development costs. However, due to the foresight of the architects of the FTS 2001 acquisition strategy, all of the long distance providers and MAA local service providers already must comply with those requirements. Therefore, as long as the Networx billing and system requirements remain the same, all the likely Networx offerors should already substantially comply with these requirements and there is no need for a significant MRG to cover those costs.

Fundamentally, Sprint's message here today is that the Networx procurement strategy has a long and successful pedigree. We urge the committee to stay the course, and I'd be happy to answer any questions that you may have.

[The prepared statement of Mr. D'Agata follows:]

Testimony of Anthony D'Agata, Vice President and General Manager
Government Systems Division, Sprint Corporation

Good morning Mr. Chairman, members of the Committee, my name is Tony D'Agata, I am Vice President and General Manager of Sprint's Government Systems Division. I would like to express my appreciation for the opportunity to share with you this morning Sprint's views on "NETWORX," the follow-on program to FTS2001.

For Sprint, the FTS program holds a special meaning. It was Sprint's FTS2000 win in December of 1988 that gave "US Sprint," a fledgling up-start company, the confidence and credibility to compete in a long distance industry dominated by giants. Sprint appears before you this morning, over 15 years later, in the unique position as the only provider to be a successful offeror for both the FTS2000 and FTS2001 programs. This experience gives us a unique perspective on the needs of our customer agencies and the industry. This morning, we would like to share this experience and perspective with you.

Simply stated, Sprint endorses GSA's NETWORX acquisition plan to replace the FTS2001 program. Its proposed structure is the evolution of the FTS2000 and FTS2001 programs and is designed to deliver complex telecommunications solutions to the Government well into the 21st Century. We will, however, recommend changes to the NETWORX acquisition strategy in order to make the Program an even more effective vehicle for meeting the needs of the Government.

THE NETWORX ACQUISITION STRATEGY IS SOUND

The Government's experience over the past 15 years with multiple-award IDIQ telecommunications contracts has been extraordinary. These vehicles have enabled the Government to aggregate its buying power to the benefit of the smallest Government agency. As of the third year of FTS2001, the Government had saved over $400M compared to the best prices available on FTS2000. By the end of the term of FTS2001, the Government savings will approach $1B. The FTS program has shown that the carrier/prime contractor is able to design, implement, and deliver complex telecommunications solutions directly to the Government without the costs associated with the involvement of an intermediary management contractor. Moreover, FTS has provided to the Government agencies unprecedented management tools such as on-line ordering, pricing, and trouble report handling to manage accomplishment of their respective missions.

But the carriers cannot take all the credit for delivering unparalleled value to the Government. The General Services Administration, as a full partner, has played a significant role in the success of these vehicles. GSA is in the unique position of facilitator for the rest of the Government. It understands the agencies, the market, and provider expectations. GSA, in its ministerial role, acts as the central procurement management authority, monitors the performance of the providers, enforces contract compliance, and performs a dispute resolution function for the Government. GSA also monitors the performance of the agencies and requires them to take the actions necessary to maximize the advantage for the Government.

While some would say that it is time to change the above winning proven formula for a successful telecommunications program to one resembling a set of schedules, Sprint strongly disagrees. It must be remembered that the schedule procurement model has been successful for the procurement of "one size fits all" commercial off-the shelf commodity items. It is not suited to the delivery of complex customized telecommunications solutions. The services delivered by FTS2001 and envisioned by NETWORX require sophisticated service-level agreements and intricate internet-based management tools.

THE NETWORX ACQUISITION STRATEGY SHOULD BE MODIFIED

Sprint supports the concept of a successor program like NETWORX to replace FTS2001, but its 15 consecutive years of experience as an FTS provider compels us to recommend the following changes to the acquisition strategy.

First, NETWORX carriers/contractors should not be put in a position of assuming the economic risk of an unpredictable access market. FTS2001 required that carriers forward-price access services for eight years. FTS2001 offerors relied on the Telecommunications Reform Act of 1996 to bring open competition to the local access market. Unfortunately, full competition and those projected price reductions in access have not materialized. This has caused significant financial harm to the service providers. As a result, the Government must consider the future uncertainties of access prices when forming its price expectation of the NETWORX offerors.

Second, the existing NETWORX procurement strategy is to award a "Universal" contract to provide the mandatory ubiquitous services and a "Select" contract to provide niche services. But this structure, if not administered properly, could result in pitting the "Universal" and "Select" contractors against each other to the detriment of the

contractors and the Government. The NETWORX "Select" contract should not be used to "cannibalize" the "Universal" NETWORX program. The "Universal" contractors must provide the entire spectrum of NETWORX services ubiquitously at the same price. If the "Select" program awardees are permitted to subsequently provide overlapping but geographically limited similar services, the "Select" program provider could "cherry pick" or "cream skim" the business base of the "Universal" providers. This would destroy the economic basis of the prices bid by the "Universal" providers and could cause substantial economic harm to the "Universal" providers. To avoid this conflict, Sprint recommends that the "Select" program be reserved exclusively to provide opportunities to "small" and "small, disadvantaged" businesses. The services deemed mandatory on the "Universal" NETWORX contract should not be available on the NETWORX "Select" contract. The "Select" contract scope should be limited to giving "small" and "small, disadvantaged" businesses the opportunity to provide non-competing but complimentary services to those provided by the NETWORX "Universal" providers.

Third, Sprint recommends that the successor contract not contain a substantial minimum revenue guarantee or "MRG." One of the major economic rationales to support a substantial MRG is to guarantee the contractor a specific volume of business to justify the sizable system development costs associated with complying with the billing and management information requirements of the Request for Proposal. However, due to the foresight of the architects of the FTS2001 acquisition strategy, all FTS2001 "long distance" and MAA "local service" program participants must already comply with those requirements. One of the requirements of the existing FTS2001 program is that all FTS2001 long distance providers and all FTS2001 MAA or local service providers must

first comply with the same billing and information management requirements in order to be awarded a "cross-over" modification to their respective contracts to offer either long distance or local service. Therefore, an MAA or local service contractor must comply with the billing and information management requirements of the FTS2001 long distance contract as a condition precedent for being awarded a modification to offer FTS2001 "long distance" services. Similarly, an FTS2001 long distance contractor must comply with the billing and information management systems requirements of the MAA or local service contracts before being awarded a modification to provide "local service". Today, all of the long distance providers and likely offerors for the NETWORX "Universal" program are either awardees of FTS2001 or have been awarded modifications to their MAA contracts to offer FTS2001 services. But even those MAA local service contractors that are without "cross-over" modifications must comply with the management information system requirements in their own contracts. Therefore, as long as the NETWORX billing and information management requirements do not require substantial additional systems development, the likely NETWORX offerors should already substantially comply with these requirements and there is no need for any significant MRG to cover those costs.

Finally, we recommend a change in the Government's mindset on how these telecommunications contracts are administered. All provisions that could grant undue discretion to the Government to deprive contractors of legitimate payment for services provided should be deleted or modified. The burden of proof to deny contractors payment for services rendered must be shifted to the Government. Sprint has provided millions of dollars in free service to the Government under FTS2001 due to a clause that

was intended to prevent the contractor from invoicing for services so long after those services were provided that the Government could not verify the accuracy of the invoice. Because the provision now specifically identifies a hard "90 day" rule, invoices not delivered strictly within the 90 days after the services were initially provided are rejected. This harsh result is not consistent with the intent of the parties

Fundamentally, Sprint's message today is that the NETWORX procurement strategy has a long and successful pedigree. The Government has enjoyed extraordinary success in forging a relationship with industry to provide the Government leading edge services at leading edge prices. We urge the Committee to stay the course that the GSA set with the inception of the FTS2000 program in 1987 and the awards of the FTS2001 contracts in 1998. NETWORX is the evolution of that strategy. It is a winning formula that has stood the test of time.

I would be happy to answer any questions you may have.

Chairman TOM DAVIS. Thank you very much.

Mr. Johnson.

Mr. JOHNSON. Thank you very much, Mr. Chairman, for the opportunity to discuss the Networx contract. My name is Quinten Johnson, I'm the regional vice president with SBC Communications, Federal Solutions. SBC is very pleased in responding to this very important government program.

There are a couple of issues that would help SBC achieve the lowest possible rates for the government under this contract. Historically, our internal rate determination is based on factors such as the volume of the service and the opportunity, and the length of the term of the contract. In this regard, the longer the contract term, such as 5 year base with five 1-year options, would result in lower costs, as would the addition of minimum revenue guarantees demonstrating commitment on the part of the government.

We also believe that the government should seek normal commercial products and services which would allow the companies to provide existing offerings in the government marketplace, as they do in the commercial marketplace, resulting in lower costs.

In the cases of special requirements, we feel that the entity causing the cost should bear the cost. For example, if the government was able to use the normal billing offerings, then the agency or department that requires a government-unique bill, that is CLIN, contract line item number-based, should pay for the extra costs related to that type of bill. Using our normal billings systems would result in reduction of billing errors and transition problems.

In the discussion of the structure of the Networx Universal contract, we feel that requiring all vendors to offer services everywhere that the present contract provides would provide potential higher cost to the government. If vendors have to subcontract to other companies, it would result in higher administrative costs, which would result in higher overall costs.

We would suggest that the government allow for different categories of service and allow vendors to bid on the categories that they have the greatest expertise in providing. Allowing companies who have 7 or 8 categories covered out of 10 would allow for a greater number of companies to participate in the contract, and result in more competition and lower rates to the government. This could result in one single contract, rather than requiring a Networx Universal and Networx Select.

A good model for this kind of bid would be the GSA Connections contract, where vendors were allowed to bid on different categories and task orders were competed within the companies that were qualified in each category. This would allow the government to also have the ability to offer products and services that go from the more commodities-type to the very complex-type networks. Additionally, it would allow companies which have specific expertise to assist the government in each of the different categories.

We are very pleased to see the requirement for managed network services, since we have a history of offering this type of service. We have found that many of these types of services do not fit into a fixed price service-based or equipment-based CLIN. These managed services are better served if they are priced on an individual case

basis, which reflects the customized solution which meets each individual customer's unique situation.

We believe that the converged services, such as Voice Over Internet Protocol [VOIP], and Services Blending products such as local calling, long distance, voice, DSL, and wireless services on one bill are already here. We think that Networx should have the ability to include other services and technologies that will be developed in the future to be included in this contract.

Thank you for allowing SBC the opportunity to participate in these hearings. SBC looks forward to working with you and the GSA on the continued development of the Networx contract. I would be happy to entertain any questions.

[The prepared statement of Mr. Johnson follows:]



Quinten Johnson
Regional Vice President
21240 Ridgetop Circle
Suite 130
Sterling, VA 20166

Congressman Tom Davis
Chairman, Committee on Government Reform
2157 Rayburn House Office Building
Washington DC 20515-6143

Dear Mr. Chairman and members,

Thank you for the opportunity to discuss the Networx contract. SBC is very pleased in responding to this very important government program.

There are a couple of issues that would help SBC achieve the lowest possible rates for the government under this contract. Historically, our internal rate determination is based on factors such as the volume of the service in the opportunity and the length of the term of the contract. In this regard, the longer the contract term such as five-year base with five one-year options would result in lower costs as would the addition of minimum revenue guarantees demonstrating commitment on the part of the government.

We also believe that the government should seek normal commercial products and services which would allow the companies to provide existing offerings in the government marketplace as they do in the commercial marketplace resulting in lower cost. In the cases of special requirements, we feel that the entity causing the costs should bear the costs. For example, if the government was able to use the normal billing offerings then the agency or department that requires a government unique bill, that is CLIN (contract line item number) based, should pay for the extra cost related to that type of bill. Using our normal billing systems would result in reduction of billing errors and transition problems.

In the discussion of the structure of the Networx Universal contract, we feel that requiring all vendors to offer services everywhere (that the present contract provides) would provide potential higher cost to the government. If vendors have to subcontract to other companies it would result in higher administrative costs which would result in higher overall costs. We would suggest that the Government allow for different categories of service and allow vendors to bid on the categories that they have the greatest expertise in providing. Allowing companies who have 7 or 8 categories covered

out of 10 would allow for a greater number of companies to participate in the contract and result in more competition and lower rates to the government. This could result in one single contract rather than requiring a Networx Universal and Networx Select.

A good model for this kind of bid would be the GSA Connections contract where vendors were allowed to bid on different categories and task orders were competed within the companies that were qualified in each category. This would allow the government to also have the ability to offer products and services that go from the more commodities type to the very complex type networks. Additionally, it would allow companies which have specific expertise to assist the government in each of the different categories.

We are very pleased to see the requirement for Managed Network Services since we have a history of offering this type of service. We have found that many of these types of services do not fit into a fixed-price, service-based or equipment-based CLIN. These managed services are better served if they are priced on an individual case basis which reflects the customized solution which meets each individual customer's unique situation.

We believe that the converged services such as Voice over Internet Protocol (VoIP) and services blending products such as Local Calling, Long Distance Voice, DSL and Wireless services on one bill are already here. We think that Networx should have the ability to include other services and technologies that will be developed in the future to be included in this contract.

Thank you for allowing SBC the opportunity to participate in these hearings. SBC looks forward to working with GSA on the continued development of the Networx Contract.

Sincerely,

Quinten Johnson
Regional Vice President

Chairman TOM DAVIS. Thank you very much.

Mr. O'Hara.

Mr. O'HARA. Thank you. Good afternoon, Mr. Chairman.

I believe if we look back, I think we would all conclude that the FTS program has generally worked well and served the needs of the government. However, since the time that the FTS was last awarded, there has been tremendous change in our industry. And we believe strongly at Level 3 that the Networx approach, particularly the universal approach, as contemplated in the RFI, does not allow the government to take advantage of the changes in our industry, and in fact would limit the government's ability to derive best value.

Level 3 was founded on the principle of deploying the technology that pushes the cost-of-service down. Our goal was not to have the lowest cost of service the day our network construction was complete, but rather design and construct our networks in a way that allowed us to take advantage of future changes in technology and always enjoy the lowest cost of service.

We invested $14 billion toward this goal, and in those areas where we offer service, we have become a formidable competitor. In a matter of a few short years, we've become one of the top three Internet backbones in the world. We're one of the top two providers of dial-up services to the Internet, and we're one of the top transport service providers in both the United States and Europe.

Our goal has never been to emulate the incumbents, as we saw the industry realigning itself around areas of sustainable competitive advantage. We believe that in a world changing as radically as ours, trying to be good at all things while competing against focused competitors is a difficult, if not impossible task.

In this environment, where both the services and the industry winners and losers are far from certain, it is perilous to try and predict the future. Instead, users are far better off taking advantage of and accommodating the inevitable changes in their plans. While the last 5 years have been difficult ones for our industry, there is no reason to believe that the rate of change is going to slow down. Against this background, we believe that the government can best achieve best value by considering the following alternatives.

First, allow companies to play to their strengths. Requiring potential bidders to support all services, including legacy services everywhere, will have the unintended consequence of higher prices. In the IP arena for instance, where vigorous competition has emerged over the last few years, we've seen prices drop approximately 80 percent just in the last 2 years.

Second, define the services and the required product attributes that the government desires, not the underlying technology. Level 3 supports approximately 25 billion minutes per month of calling in support of our ISP customers. If measured separately, this volume would place us among the top five local phone companies in the country. Our customers consistently rate us as their best quality provider. However, we do not own or deploy a single circuit switch. Instead, we support the volume with a soft switch, essentially a general purpose computer replacement for the very expensive traditional switching technology. Since we first introduced our

soft switch services 4 years ago, our customers have enjoyed approximately an order of magnitude decrease in price.

Third, the government should maintain flexibility on which providers they do business with, not just today, but throughout the life of any contract they enter. Since FTS was last awarded, dozens of new entrants have raised hundreds of billions of dollars of capital. The cumulative effect on innovation, pricing and quality brought about by this set of market forces is far greater than any benefits derived from a long term contractual commitment. Locking into one or two providers today would deny the government the market benefits over the life of the contract.

In summary, the telecommunications market today does not look like the industry that existed just a few short years ago. In order to best derive best value, we believe that the government's approach to communications procurement should take advantage of these market changes.

Thank you.

[The prepared statement of Mr. O'Hara follows:]

Testimony
Of

Kevin O'Hara

President and Chief Operating Officer

Level 3 Communications, LLC

1025 Eldorado Blvd, Broomfield, CO 80021

Before the

U.S. House of Representatives

Committee on Government Reform

Oversight Hearing on Networx

February 26, 2004

Thank you Chairman Davis and the committee for inviting me here today and for allowing me to share my thoughts on how the government can best procure communications services through its Networx program.

For fifteen years, GSA's FTS procurements have brought lower prices and better service to the government. GSA is to be commended for its efforts. We are here today to offer suggestions that we believe will help continue its success into the future.

Though the prior procurement processes have served us well, we are in the middle of a new era in communications – one of extremely rapid and disruptive technological, economic, and market change. In such an environment, it is important to maintain as much flexibility as possible. From that position, you can get the best value. As currently contemplated, we believe that the Networx program does not allow the government appropriate flexibility to react to, and take advantage of, ongoing changes in the telecommunications marketplace.

Level 3 was founded on this basic principle. In the mid-1990s, we started our company because we saw an opportunity. Revolutionary changes in technology were occurring -- technological advances that, when deployed, disrupted economics from the users standpoint. And, these technologies were not being deployed by the incumbent providers in our industry.

Our original strategy is still in place today. It was to construct upgradeable long-distance and metropolitan networks, and develop industry-leading operational and product capability. Our ability to upgrade the network continuously is critical in that it allows us to adapt our network, services and prices to the rapidly changing environment, and to pass those benefits on to our customers and to end-users.

Today, Level 3 employs about 3300 people in our communications business and provides services internationally. Over the last five years, we have invested approximately $14B and constructed one of the most advanced telecommunications networks in North America and Europe. We now operate one of the largest Internet backbones in the world, are one of the largest providers of wholesale dial-up service to Internet Service Providers in North America and are the primary provider of Internet connectivity for millions of broadband subscribers, through our cable and DSL partners. The company offers a wide range of communications services over its 22,500 mile broadband fiber optic network including Internet Protocol (IP) services, broadband transport and infrastructure services, colocation services, managed modem services and voice services.

Our customers include

- The ten largest communications carriers in the world
- The nation's four largest local telephone companies
- The nation's top six Internet Services providers
- The nation's top six Wireless phone companies
- The nation's top six cable television companies

We also count as our customers the country's largest corporations and institutions, including computer manufacturers, broadcast and media companies, Systems Integrators, financial services firms, and finally, the federal Government.

Before I discuss our specific recommendations, I would like to set the stage by briefly highlighting how rapidly the communications industry is changing - in the areas of technology, industry players, regulation, and security. We believe these areas will continue to change significantly through this decade.

First, rapid technological changes in the areas of communications, optical systems, computing technology, and software have created new capabilities, while dramatically disrupting the economics of traditional service providers. As a result, the cost of communications has dropped dramatically over the last decade, resulting in significantly lower prices to telecommunications users. The lower costs and new technological advances are enabling the creation of products and services not anticipated just a few years before. Meanwhile, companies that have not kept pace with these changes, and have not adopted new technologies, find themselves significantly behind in costs, services, and capabilities.

Here are some facts demonstrating the magnitude of the change:

- Internet traffic grew at a 106% compounded annual growth rate from 1999 through 2003, and grew over 1700% overall during that period.
- In 1999, there were 1.7M broadband subscribers. That number is estimated to grow to 32.3M in 2004. This represents 1800% growth.
- In 1998, Voice traffic constituted 82% of service provider traffic, Data was 11%, and IP traffic was 7%. In 2004, it is estimated that Voice traffic will constitute 20%, Data will be 10%, and IP traffic will be 70%.
- US cable modem subscribers have grown to over 15 million, representing 62% annual growth since 2000.

As result of the rapid growth of IP based services, the cost per IP bit has dropped 81% between 2001 and 2003.

Second, we are seeing significant shifts in the players in the market. A more competitive environment, with higher service expectations and substantial price compression, has challenged companies with weak operating models from both a technological and financial standpoint. Some competitors have left the market entirely. Companies with plant and equipment from a prior generation now find it difficult to respond to the market's demands and are increasingly unable to compete effectively.

The current market challenges all participants. Less than ten years ago, just three large companies, ATT, Sprint, and MCI, bid on the FTS2001 contract. Today, we find that all three have revised their business plans. One is working hard to emerge from bankruptcy. Revenues for all three continue to decline.

Over that same period of time, many new entrants, such as Level 3, have raised significant amounts of capital and deployed that capital on new technology and services.

The net result is arguably the greatest shakeout of any industry over the last 100 years. And while the changes have been difficult for the industry participants, there is reason to believe that new products and services, introduced by new service providers, will continue indefinitely.

The third trend is a regulatory environment under pressure and likely in transition. The current environment encourages new technologies, allowing them the room to grow without unnecessary regulatory constraint. For example, the Internet's explosive growth can be partly attributed to an appropriate regulatory profile. We expect new services and technologies, such as Voice over IP, to benefit from a similar level of regulation and to create additional economic benefit for users.

Finally, the events of September 11 have focused the thoughts of the entire country on issues of threats and safety. The government and the civilian world are now aware, as never before, of the needs for security, reliability, and redundancy in critical infrastructure, including the nation's communications infrastructure. It is important to note that in the immediate aftermath of the September 11 attacks, the services that were least disrupted were internet-based, services that were not anticipated to play a main stream role in communications at the time FTS 2001 was awarded. It is accepted that the mission-critical needs of all major telecommunications users, including the government, should be supplied by multiple providers to ensure continuity of operations.

As I stated at the start of my testimony, in an environment of rapid technological and market change, we believe the government should design contract structures that allow it the flexibility to benefit from these changes. In this way, it will be able to obtain the best economic return, or 'best value', for the taxpayer.

Recommendations

Based upon these observations, we have set forth below a number of recommendations that we believe would make the Networx procurement more effective for the government. We have also submitted our response to the Networx RFI, as background.

1. Allow bidders to play to their strengths

Networx should not require bidders to supply all products. It should also not require bidders to supply products in all geographies. It should allow bidders to provide the products core to their business, on which they can provide the highest quality for the best price, and in the locations where they can provide them for the best value.

Requiring all bidders to provide all products, including outmoded legacy products, creates an artificial "barrier to entry" - a barrier that hurts the Government as the consumer of these services. The nation's newest companies - the ones that are driving the technology revolution - cannot invest in declining technologies and simultaneously sell services based on newer technologies to the government at the lowest possible cost.

In addition, by disaggregating the broad spectrum of services defined in the Networx Universal option, the cumbersome need for broad industry partnerships and teaming arrangements will be

reduced. As written, Universal may require inefficient and unnecessarily expansive teams of integrators, hardware vendors, and service providers, increasing risk to the prime contractor and raising costs to the government.

2. Specify the service required, not the technology to provide it

The government should specify the services it requires, without requiring a specific technology to be deployed to provide that service. As an example, Networx currently proposes complex parameters for 'circuit-switched' services - technical definitions based upon old technology. Instead, Networx should allow bidders to propose voice services with specified service and quality attributes derived from the best technologies available to each provider. That technology might be circuit switching, IP based switching, or some as yet unknown technology.

A competitive market also means that some products will become obsolete, and Networx should be flexible enough to accommodate those changes. Product decline was true for FTS2000 in 1989, for FTS2001 in 1996, and is true today. Products such as 'circuit-switched data', ATM, and Frame Relay, are losing traction in the marketplace to IP based services because the older products are more costly. The government should maintain its ability to have access to these legacy products, but it should not require that all Networx bidders provide all products as a price of entry into the federal market.

3. Avoid getting locked in to one or two providers

Networx should accommodate the fact that over the life of the contract, the players in the market are likely to continue to evolve. Incumbents will be challenged to provide the best economics and to compete for new services, given their investments in older technologies and operating models. New providers, with more economically competitive services, driven by advancing technologies, will continue to gain in the market. To leverage the new economics delivered by the new technologies, the government should have a clear and established mechanism for adding new providers to their contracts.

We recommend that there be a clear 'roadmap' for inserting new providers into the program. This roadmap would include both a published schedule and process for accommodating the different providers. For example, every two years, GSA could issue a 'Broad Agency Announcement' to explicitly attract new companies, with competitive products based on new technologies. Under such a 'BAA', new and existing Networx providers would submit proposals to deliver new, competitive services. This would ensure both technology refreshment and continued price competition.

4. Allow for adoption of best practices for operational support

The government could realize substantial cost savings by embracing commercial models for operational support. Industry has invested billions in improving operational infrastructures and has passed these improvements on to their commercial customers. The government should allow for flexibility and creativity in areas such as billing, provisioning, and administering services to take advantage of these changes, again focusing on the desired services rather than the methods of delivery.

Finally, I would like to point out recent innovative government contracts that have incorporated some of these recommendations.

The House of Representative's 'Wide Area Network' procurement allowed industry participants to bid to their strengths. It defined the networking requirements of the House in a single bid. Companies were invited to bid on any and all parts, singly or in combination, wherever they thought they could best compete. The contracting officer then chose the set of offers, from multiple bidders, which minimized cost and maximized value to the government.

GSA Connections also allowed several industries to bid to their strengths. The procurement demonstrated the value of a multiple award program in which bidders could propose single or multiple categories of offerings, including hardware, services, and consulting. Because of this flexibility, multiple awards were made to system integrators, consultants, and small businesses.

For the Defense Information Systems Network (DISN), the Department of Defense (DOD) understood the value of new services and incorporated them into requirements. The acquisition of optical fiber and equipment for DISN was an effective way for DOD to benefit from the changing marketplace for fiber optic networks. DISA analyzed the bandwidth requirements of network-centric warfare and analyzed the latest product offerings in the telecommunications marketplace. Rather than staying the traditional course of acquiring services, DISA realized an optical fiber acquisition would best meet their needs. Similarly, Networx should not attempt to anticipate the changing landscape and services. Rather, it should accommodate the inevitable changes for services as they occur.

GSA's MAA Program used a 'pre-qualification stage' to efficiently identify bidders. A first stage evaluation was made of 'past performance', 'business worthiness', 'management systems', and other capabilities. Companies that passed this first screen were then 'qualified' to present complete in-depth technical proposals for services. This saved money and time for both the government and business in bid and proposal costs.

Conclusion

The last five to seven years have been difficult for the industry, but telecommunications users now experience more service choices with better economics. We believe this trend will continue; that is, we will continue to see disruptive changes in the industry, with ever-increasing service options and improved economics to consumers. The government should have a procurement structure that allows it to benefit from these changes.

Level 3 started its business to take advantage of the new economics of the Internet revolution. In a few years we have built a vibrant, efficient and financially sound company. We are prepared to, and are capable of, serving some of the government's needs very efficiently and look forward to participation in the Networx program.

Thank you, Chairman Davis, for the invitation to participate in this hearing, and I thank the committee for its time and interest.

APPENDIX:

RESPONSE TO
FTS NETWORX ACQUISTION STRATEGY
REQUEST FOR INFORMATION
NOVEMBER 17, 2003

Submitted by:
Level (3) Communications, LLP
Federal Markets
8270 Greensboro Drive
Suite 900
McLean, Virginia 22102

INTRODUCTION

Over the past two decades, GSA has realized many successes with the FTS program. From FTS through FTS2001, the FTS procurements have consistently added benefits to the Government through new and innovative technology while driving down costs dramatically. With each successive procurement, GSA has made strides in the procurement process itself, making it simpler and more open to competition and at the same time providing consistently higher service levels to the end user. In short, GSA has steered the FTS program well, adding technology, improving service levels and reducing costs.

Federal agencies have been the primary beneficiaries of GSA's ability to create and administer programs, which not only foster competition, but also allow for technology refreshment and improved service. The challenge for GSA is to continue this model with the Networx program in an environment that has undergone dramatic change, and will continue to evolve affecting the ability of GSA to provide superior service the Federal end users.

GSA has stated five overarching goals for its Networx procurement that must be met in this ever changing environment:

- ***The acquisition should be comprehensive.*** *That is, with this procurement, all of the Government's needs for data, voice, and video over the next decade should be met.*

- ***The Government seeks Best Value.*** *This involves a combination of features, services, and support weighed against price.*

- ***The Government would like to maximize competition.*** *Competition will not only ensure low prices, but will also solicit and enable active and creative solutions to the Government's networking needs.*

- ***The Government is seeking a broad range of services and providers.*** *Increasing the range of suppliers and offers will provide multiple service options for the agencies as well as some assurance of business continuity.*

- ***Small business participation is actively solicited.*** *This goal is implicit in the support of the other objectives of maximizing competition and providing choice to the users of the Networx contract.*

The past five years, since the FTS 2001 procurement, have witnessed pervasive changes in the telecommunications and information technology marketplace. Many events have created significant challenges for the current program, not least of which have been the duress on the telecommunications industry due to market conditions and corporate scandal. The comments contained in this document highlight Level 3's contention that the marketplace will continue to change and evolve over the coming years. Profound changes in the Government's mission, technology evolution and regulatory structure will influence every player, large and small, in the marketplace. In each section following we summarize key areas of evolution which drive our observations and recommendations.

RFI SECTION 2 – BACKGROUND AND STRATEGY

Level 3 Discussion

Market Drivers

- **The regulatory environment continues to evolve.**

Just as the Telecommunications Act of 1996 influenced the FTS 2001 procurement, Networx will be impacted by the actions of the FCC and the state regulatory commissions. Currently pending before the FCC are rule-making procedures that provide ILEC Relief and a decision on the Voice over IP data/voice controversy. The Networx procurement must anticipate further disruption and evolving service definitions.

- **Technology and competition continue to compress prices.**

In the last three years, there has been a dramatic compression in the price of telecommunications services, resulting from advances in fiber and electronics design, as well as market factors. Despite some industry claims, we expect this price compression to continue, especially by those who have most recently invested in upgradeable network architecture and IP-centric service platforms. Such new generation infrastructures provide a fundamental base upon which better services can be delivered as well as the means to continually price benefit their customers. Just as 'CrossOver' provides competition within the FTS20001 program, Networx should continue to

explicitly encourage and allow continual competition, and make provisions for new entrants throughout the program life.

- **Market forces will continue to disrupt the communications industry.**

The dramatic economy disruptions in the years 2001 and 2002 pushed many technology companies to the edge of viability. The telecommunications marketplace will remain a challenging environment for many years, even as the economy improves. Only the companies with strong operating models and financial discipline who have invested in upgradeable infrastructure will thrive. Networx should closely examine the qualifications of its providers, including their financial resources, history of financial/management responsibility and their operational ability to keep pace with long term competition and technology evolution.

- **Homeland Defense has become a critical national priority.**

The events of September 11, 2001 created a profound and pervasive understanding of the importance of the nation' infrastructure. Disruption of the infrastructure, indeed, just the *risk* of disruption imposes great costs. The Federal Government has dramatically reorganized itself in many ways, most prominently by creating the Department of Homeland Security and the unified command, NORTHCOM, within the Department of Defense. Through their new missions and responsibilities these new organizations have generated a great appreciation for the importance of our national infrastructure. Networx should be sensitive to their missions and responsibilities by explicitly anticipating their problems, by including provisions for the continuity of operations in a crisis. These provisions should include redundancy and allow for physical and logical diversity of facilities, systems, access, transport and providers to every department and agency in the federal Government.

Level 3 Observations

Level 3 has carefully read GSA's Request for Information and has a number of observations that identify RFI elements contrary to the stated objectives:

- **The scope of the procurement is too broad.** No single company is able to provide all that is required and yet the current scope would require every 'Universal' bidder to provide every service. By forcing bidders to provide services that are not in their core offerings, they impose upon industry an approach that will create excessive product cross-subsidization and unnecessary cross-industry relationships. This environment will have deleterious effects upon service delivery, management risks and costs—all of which will hinder GSA's ability to attain their goals and support their customers. **Notes 1, 2**

- **The Universal procurement mandates the delivery of declining services**. The requirement for the provision of declining legacy services by every "Universal" bidder will dramatically reduce competition. Companies will be reluctant to invest and build services for which the general market is declining, such as Internet fax, content delivery, and very low speed analog/digital services. Consequently, bidders will be unwilling to meet the restrictive requirements of the RFI and competition will be reduced. **Note 6**

Level 3 Recommendations

1. A fundamental recommendation to GSA is to depart from the format of past procurements, where a few of the largest players were selected to provide the bulk of services to the Government and all but the largest players were practically locked out (despite the successes of Crossover) for the duration of the program. Ongoing qualification and entry of new providers should be instituted to augment the acknowledged success of the contract modification process.

2. There should be a single procurement that allows each bidder to offer those services for which they have core competencies. GSA will ensure a level playing field for all, including small businesses, and maximize competition. **Note 1, 11**

3. To minimize the risk of 'stranded services'--the possibility that no viable bids will be received for some legacy technologies, or services whose overall demand is too small to justify investment-- the Government should establish a minimum revenue guarantee, for any services considered at risk.

4. A single procurement may generate a multitude of voluminous offers. GSA's proposal evaluation efforts can be reduced through the institution of a two-phase proposal process. In the first phase, bidders would be 'pre-qualified' by being evaluated on their overall technical capabilities, financial strength, operational support systems and past performance. Those bidders who pass this first phase would then be invited to submit service and price proposals.

RFI SECTION 3 – NETWORK SERVICES

Level 3 Discussion

Market Drivers

- **IP-centric technology is the predominant force in communications technology.**

The competitive market has confirmed that IP is the preferred service platform for communications. In just a few years, the economics of IP and its continual technology development have pushed it to every desktop computer, and into every large service provider's fundamental platform. At the time of the FTS2001 procurement the Internet was still in its infancy, and it could not have been anticipated that it would become the fundamental building block of all data networks, but soon, of all voice networks. Networx must anticipate future evolution of the IP model of technology and economics by describing its service requirements as end-to-end requirements. ATM, Frame Relay, IP, Ethernet and VoIP services delivered over a single common IP-oriented (i.e., multi-protocol label switching – MPLS) framework are already proven technologies. Networx should acknowledge and prepare for an even broader range of services (such as video and private line) to be carried on the same common MPLS transport backbone.

Level 3 Observation

Some services or features are over-specified in the RFI. The procurement should specify service requirements rather than the method of delivery. For example, the RFI requires that voice services be delivered via circuit switching technology. The successful delivery of voice services no longer requires circuit switching. Allowing offerors to address requirements instead of infrastructure will increase competition. **Notes 2, 3, 4, 5, 9**

Level 3 Recommendations

1. Requirements for services should be technology neutral. The Government should specify service features and performance requirements, not infrastructure attributes. **Note 2, 3, 4, 5, 9**

2. The portfolio of services to be offered by each bidder should be at the bidder's discretion. Allowing the service providers to 'self-group' the services in which they can

most economically compete will facilitate the Government's goals of strong competition, best value, and a broad range of services and providers.

RFI SECTION 4 – PRICING

No comment at this time

RFI SECTION 5 – MANAGEMENT & OPERATIONS SUPPORT

Level 3 Discussion

Market Driver

Level (3) understands that the Government must have specific information in order to order, verify and re-bill its own customers. Commercial customers often have the same general requirements and communication companies are able to satisfy those requirements with their commercial-off-the-shelf systems. Attachment B of the RFI however dictates the manner in which offerors satisfy the general requirements and does not allow flexibility in the offerors solution. This inflexibility forces offerors to then unnecessarily develop unique support systems and pass the costs incurred in the effort on to the Government.

Level 3 Observation

- **The Management and Operations Support requirements are onerous.** MOPS requirements are driven by past FTS implementations. By embracing COTS solutions and the established best practices of industry for its MOPS requirements, GSA could reap the benefits of lower costs, faster implementations, and simpler systems. **Notes 8, 10,**

Level 3 Recommendation

1. The Government should seek to simplify its pricing, billing, and MOPS requirements to incorporate the best practices and COTS solutions. Simplification will ensure constant technology refreshment as well as lowest price and best value.

RFI SECTION 6 – TRANSITION

No comment at this time

SUMMARY

In summary, we believe the GSA is poised for success in acquiring communications services under the Networx program. However, GSA's current approach merits careful consideration and revision. Level 3 has made several recommendations that will enable GSA to achieve all of its goals and objectives, and to ultimately achieve the greater goal of delivering the best communication services at the best prices to Government agencies.

APPENDIX A - EXPLANATION OF NOTES

NOTE 1
The RFI requires services that are typically provided by separate and distinct industries. Communication companies focus on the delivery of Network and Managed services, while consulting firms and/or integrators focus on Applications and Business Operations Solutions. The strength of the communications industry is its relentless pursuit of competitive advantage in a capital-intensive business. The strengths of the consulting services industry come from its pursuit of labor productivity. Therefore the two industries operate under significantly different management priorities. By implementing this model, the Government will unnecessarily increase the cost to deliver these services.

NOTE 2
One example of excessive scope is Satellite services. Every Networx bidder is capable of subcontracting to provide satellite services to the Government. Since these arrangements come with management, technical, and financial risk for the prime contractor, the prime will pass his added business costs on to the Government. The Government could secure the same services by allowing the satellite provider to bid directly.

NOTE 3

The past five years, since the award of FTS2001, have witnessed the continued drive toward IP-centric technologies and services in the telecommunications and IT industries. This true paradigm shift has created a profound and pervasive change as new, more cost efficient technologies and services have overtaken the economics and technical capabilities of legacy services. The Networx RFI has not embraced this shift; indeed, it appears to reflect the period leading up to the FTS 2001 awards, where the Internet and IP-centric approaches were still in their infancy. The RFI's focus on Circuit Switched Services offers clear evidence of this inaccurate reflection of the current technological/service landscape. Beyond the basic service requirement, the RFI uses circuit switching terminology to define contract requirements including service measurement, feature requirements, billing, provisioning, and management/operations., all of which are based upon the economics and technical constraints of legacy Circuit Switched Products.

NOTE 4

The communications industry already understands that today's technology for Voice over IP (VoIP) is less expensive than circuit switched services. This is true for network backbone, for 'switches', for software, for access, and, by eliminating the local PBX, is becoming true behind the service delivery point. Many federal Government offices have already deployed VoIP telephone handsets. Extending them to the wide area is an obvious next step. Adding features

and new services to a VoIP system is also cheaper, faster, and easier on a well-crafted VoIP platform—because data centric network technology sees 'voice' as merely an application that runs on a more powerful data network. The economics of VoIP are so strong that the new, competitive companies are not and will not invest in costly and inefficient legacy 'Switched' Services. They will and are building VoIP-based network services. Consequently, they will be unable to participate in the Universal procurement as it is currently written and the Networx procurement will experience less competition and innovation from the start.

NOTE 5

A second example of the ongoing paradigm change is data services. GSA has defined a set of services oriented to traditional data services such as ATM, Frame Relay, and Ethernet, which legacy providers have deployed through separate infrastructures tailored to the specific characteristics of the user interface. The RFI then dictates complex support requirements to support each service, catering to the foibles of each protocol. Meanwhile the communications industry has begun to coalesce around the deployment of a single unified transport that supports a broad set of user interfaces to support both legacy services as well as emerging service needs. The deployment of MPLS (multi-protocol label switching) in provider core networks offers an extremely efficient, class of service-capable infrastructure that fully embraces the evolution to IP-centric services. Level 3 believes the use of a common core network, and its ability to greatly reduce provider operational complexity and network expense, will continue to evolve and expand to include services such as private line. This emerging infrastructure also greatly simplifies and reduces the costs of the networks for customers, while facilitating the addition of new features and capabilities, and migration from legacy services. The Networx procurement should reflect this evolving environment, specifying data service requirements as interfaces to customers rather than specifying the internal infrastructure.

NOTE 6

GSA's RFI requires that all legacy and declining services be provided under the Universal approach. Instead of encouraging a broad range of suppliers, this requirement will have the effect of restricting the bidders to the few companies that have built and continue to maintain those services. New entrants will be unable or unlikely to bid Universal as there will be limited incentive to invest. The option of subsidizing the legacy/declining services with other elements of a bid similarly offers little help as such subsidization would be unlikely to lead to a winning bid. Therefore the current Universal requirements that include legacy and declining services is likely to limit new competition and it is often these new competitors who bring lower prices and the most innovation. Agencies will be compromised in the post award environment because the "Universal" provider will not be anxious to offer services that cannibalize existing product offerings—even though it may be in the best interests of the Government

NOTE 7

The concept of awarding Select subsequently to Universal will put all Select awardees at a considerable competitive disadvantage. Universal contract holders will have a significant lead time in marketing to federal agencies and consequently, Select contract holders will be left without a meaningful market to penetrate. Eliminating the segregation of the two procurements would establish a larger competitive field and provide agencies with greater choices.

NOTE 8
If Government agencies require specific unique information, they should be able to negotiate on an individual case basis with contract holders for a solution that meets their individual needs. Otherwise the Government unnecessarily burdens all contract holders with requirements that perhaps only a few users require.

NOTE 9

Several examples exist in the current RFI where the Government has specified infrastructure rather than a service requirement. Level 3 believes the Government should specify an end-to-end requirement for services. Consider satellite services, we recommend that the Government, if desired, specify a requirement for end-to-end service with appropriate characteristics that would allow satellite to be included. Providers can then determine the best way to provide end-to-end service without regard to the type of infrastructure supported.

NOTE 10
Commercial services are commonly sold in simplified units to ease billing requirements. For example commercial wireline service (including all local, long distance, and DSL) is now commonly being sold to residential customers for a flat monthly fee. Some initiatives in the IP voice arena have suggested selling service on a "seat" basis rather than traditional minutes of voice and it concomitant requirement to report extensive usage data. This is not a pricing 'gimmick' but reflects the underlying economics of the industry—generating a traditional complex bill, with its concomitant costs, is far more costly than the value added by the detailed bill.

NOTE 11

House of Representative Wide Area Network. This single procurement described all the capabilities required to build a nationwide communications network. Bidders were encouraged to bid, via one proposal, any and all piece parts that they were prepared to offer. The contracting officer then chose the cost minimizing combination of offers that maximized value to the Government.

DISA Global Information Grid Bandwidth Expansion. This procurement anticipated the changing marketplace for optical infrastructure based solutions. DISA analyzed the bandwidth requirements associated with the DoD network-centric warfare strategy and the latest product offerings in the telecommunications marketplace. Rather than staying the traditional course of acquiring managed "lit" service offerings, DISA realized an optical fiber acquisition would enable their goal of removing bandwidth as a constraint. Similarly, Networx must anticipate the changing landscape of voice/data services and the underlying MOPS.

GSA Connections The Connections procurement demonstrated the value of a multiple award, IDIQ procurement in which bidders were able to propose single or multiple categories. Awards based on the service groupings ensured best value to the Government because the offerors were able to propose only those services categories that fit their organizational models. Different types of organizations were able to participate in the procurement because of this flexible structure, resulting in awards to carriers, system integrators, and small businesses.

GSA Metropolitan Area Acquisition The (MAA) procurements utilized the notion of 'pre-qualification'. Bidders were evaluated on their general capabilities, management systems, and business worthiness. Those 'making the gate' then developed technical proposals specific to the geographic areas in which they were strongest, accompanied by price offers. This process also helped ensure best value to the Government while also reducing industry's overall proposal costs.

These examples of successful programs illustrate that accomplishing the goals and objectives of GSA while supporting a flexible and creative procurement are not mutually exclusive. In fact, it is quite attainable.

Chairman TOM DAVIS. Thank you very much.

Mr. Hogge.

Mr. HOGGE. Good afternoon, Chairman Davis and members of the committee. I appreciate the opportunity to appear today to discuss the GSA's Networx program. My name is Jerry Hogge, and I am senior vice president of Winstar Government Solutions. I'm here to offer Winstar's perspective as an incumbent supplier in GSA's MAA and FTS 2001 programs, and to offer our specific recommendations as to each of the six issues outlined in your February 17th letter to industry.

In addition to the six important issues raised by the committee, I'd like to comment on what Winstar views as the most vital, overarching issue for the Networx program, and that is the ability of the program to properly address homeland security, continuity of operations and their relationship to our Nation's telecommunications networks.

As we all know, communications are essential to the efficient and effective operation of any organization. This is particularly true with large, distributed organizations such as the Federal Government, where our telecommunications networks are at the heart of all forms of communication, whether voice, data or video. Through the terrible events of September 11, 2001, we learned some very valuable lessons about the importance of communication and the essential role our telecommunications networks serve in crisis situations. Unfortunately and more importantly, we were also confronted with some of the frailties and limitations of our telecommunications networks.

One aspect of homeland security and telecommunications networks is physical diversity into and out of key Federal sites. In fact, numerous independent third party experts and observers have concluded that all key commercial and government buildings need to be served by at least two separate facilities-based networks and enter and exit the building from separate points.

As such, Winstar contends the Networx program should directly address this important issue. In order for Networx to adequately address these important issues, there should be an express requirement for: One, a comprehensive network inventory assessment; two, a program mandate that critical government sites be identified and that special communications requirements be determined, including physically diverse infrastructure requirements; three, a time down requirement for procuring diverse network connectivity at these critical sites; and four, an ongoing program of review.

I will now direct the remainder of my remarks to the six key issues raised by the committee. Concerning a centrally managed program strategy, Winstar continues to see substantial and lasting value in its relationship with the GSA FTS, and believes that there are meaningful benefits for the competitive industry and the Federal agency users through FTS's acquisition expertise and program leadership. A centralized acquisition and program approach can facilitate the establishment of standards, promulgate shared, best common practices, provide an organized evaluation of alternatives, and lend a sensible, unified approach to contract management.

For national network requirements, such as those intended to be within the scope of Networx Universal, a centralized approach also

reduces transaction costs for the government and for industry participants, thereby making the procurement action more efficient for the parties involved. Both small and large agencies can benefit from GSA's ability to aggregate Federal buying power, and from their highly specialized expertise and telecommunications acquisition and program management.

Transition strategies and cost and contract performance period. The transition from one major program to another is a daunting task. Direct costs, such as service initiation charges, as well as indirect costs, such as lost productivity and temporary interruption of operations can be substantial. The time, capital and human resource commitments required by the government as well as the vendor community weigh heavily in the complex calculus of an agency's decision to make a change and thus have a direct link to the contract's period of performance.

The transition from the original FTS program to FTS 2000 took roughly 18 months, and reportedly cost several hundred million dollars. Approximately 10 years later, the transition from FTS 2000 to FTS 2001 took roughly 2 years to complete and also came at a substantial cost. The magnitude of these transition costs and the lengthy timeframes required to complete the task create inertia against change.

We know empirically that movement between programs and among vendors is not something agencies take lightly nor engage in frequently. However, in order for there to be sufficient business opportunity to drive competition at the time of contracting, transition must be a practical and sensible option for agencies as they evaluate the costs and benefits of making a change.

In order for Networx to represent a meaningful business opportunity to industry and a rational choice for agency users, GSA must balance these competing factors by: One, creating a shared financial resource to defray one-time costs of transition; two, establishing a 10 to 15-year contract period of performance structured as two or three 5-year periods; and three, providing minimum revenue guarantees sufficient to motivate competition and justify specialized investment that may be required to comply with the requirements of the Networx program.

Billing requirements. As with any business opportunity, industry will evaluate the revenue potential against the cost of acquiring and maintaining that revenue. The Federal Government has longstanding and unique requirements for billing telecommunications services. But as the cost of telecommunications services has declined over the past decades, the rationale for many of these unique requirements has diminished. The government and industry have jointly recognized this fact, and have made changes to certain billing requirements. Winstar expects the trend toward commercial standards to continue into the Networx program.

Services and technologies required by the agency users. In order for the GSA and the Federal agency users to achieve maximum benefit through the Networx program, there must be a means for ensuring that both mature and leading edge technologies are available to agency users. By mandating 14 major service categories, each with multiple sub-service components that must be provided on a ubiquitous basis, the Networx program will inherently limit

the number of potential bidders to only the largest telecommunications companies. At a time in our history when technology advances and service innovation are occurring at such a rapid pace, this broad mandate and resulting limitation on potential prime bidders works against the government's interest. Winstar recommends that GSA consider a tiered approach to service offerings designed to take advantage of the strengths of as many companies as possible.

In conclusion, I'd like to again congratulate GSA on its accomplishments through FTS 2001 and the MAA program initiatives. GSA has done an exceptional job at managing complex programs through some of the most challenging times in our industry and in our country.

At this time in our Nation's history when homeland security is one of our greatest challenges, I submit that economic savings should not be the most important objective for the Networx program. Instead, our collective focus in this procurement should be on ensuring that the Networx program does everything possible to guarantee that telecommunications services are available to facilitate the efficient operation of government in routine and crisis situations, and achieve these objectives by utilizing the strengths of as many telecommunications companies as possible.

[The prepared statement of Mr. Hogge follows:]

WRITTEN TESTIMONY OF JERRY W. HOGGE

SENIOR VICE PRESIDENT, WINSTAR GOVERNMENT SOLUTIONS, LLC

BEFORE THE HOUSE GOVERNMENT REFORM COMMITTEE

I. Opening/Introduction

Good morning Chairman Davis, and members of the Committee. I appreciate the opportunity to appear today to discuss the General Service Administration's "Networx" Program. My name is Jerry Hogge, and I am Senior Vice President of Winstar Government Solutions LLC. I am here to offer Winstar's perspective as an incumbent supplier in the General Services Administration's MAA and FTS2001 programs, and to offer our specific recommendations as to each of the six issues outlined in your February 17, 2004 letter to industry. Winstar appreciates this opportunity to share information, exchange ideas, and have a candid discussion about this important program.

In addition to the six important issues raised by the Committee, I would like to comment on what Winstar views as the most vital, overarching issue for the Networx program – the ability of the program to properly address homeland security, continuity of operations, and continuity of government and their relationship to our nation's telecommunications networks.

As we all know, communication is essential to the efficient and effective operation of any organization. Without communications, private industry and government agencies cannot be effective nor operate smoothly. With large distributed organizations such as the Federal government, our nation's telecommunications networks are at the heart of all forms of human and

computer system communication whether voice, data, or video. The Government's ability to share information, correlate events and take appropriate responsive action is possible only if people and computer systems communicate effectively and efficiently. Public sector organizations' as well as private industry's ability to perform essential and routine functions, execute planned actions, or respond to emergency situations is greatly controlled by their ability to communicate. Through the terrible events of September 11, 2001, we learned some very valuable lessons about the importance of communication, our need to quickly organized emergency response teams, and the essential role our telecommunications networks serve in crisis situations. Unfortunately, and more importantly, we were also confronted with some of the frailties and limitations of our telecommunications networks. Numerous independent third party experts and observers have concluded that all key commercial and Government buildings need to be served by at least two separate facilities-based networks that enter and exit the building from points separated by multiple levels in multi-story buildings, and by at least 100 feet in single story buildings.[1] As such, Winstar contends that the Networx program should directly address this important issue.

[1] *See e.g.* Randolph J. May, *Preventing a Communications Blackout: The Need for Telecom Redundancy, available at* http://www.pff.org/publications/comunications/pop10.24blackout.pdf (2003) [hereinafter May]. *See also,* Young and Berman, "Exposed Wires: Trade Center Attack Shows Vulnerability of Telecom Network. Damage to Verizon Facility Snarled City's Phones; A Legacy of Monopoly?," *The Wall Street Journal,* A1. (Oct. 19, 2001). Chairman Harvey L. Pitt, U.S. Securities and Exchange Commission, Remarks at the Security Industry Association Annual Meeting (Nov. 9, 2001). www.sec.gov/news/speech/spch521.htm.

II. Winstar offers a unique perspective:

As you know, Winstar is a facilities-based, fixed-wireless broadband services company certified as a Competitive Local Exchange Company (CLEC) in the nation's largest cities, and is one of only two Competitive Local Exchange Carriers participating in GSA's MAA and FTS2001 programs. More importantly, Winstar is the only facilities-based, competitive local exchange carrier that is offering local and long distance services to Federal customers primarily using a fixed wireless "last mile" technology. These technological and physical distinctions can have profound implications to the survivability and availability of communications networks at key government locations.

Winstar has service-marked its wireless technology Wireless Fiber[sm] because it offers our customers the same quality and reliability as in-ground fiber optic systems. With this technology, Winstar offers the federal government a telecommunications solution that can be completely independent of in-ground infrastructure, thereby delivering high quality services that are *physically and technologically distinct* from traditional networks. Winstar's Wireless Fiber[sm] technology can be used to connect federal customers to each other such as in campus environments, to Winstar's switched and data networks, to the public switched telephone network (PSTN), and to long distance networks – such as Winstar's national network, FTS2001, DSN, and ultimately Networx.

When a government user places a phone call or sends data from his/her computer, Winstar's fixed wireless technology uses a radio antenna located at the customer's building to securely transmit the data via 38 GHz or other

exclusively licensed radio frequency spectrum bands to a receiving antenna located within Winstar's network. Winstar then routes the transmission over its fiber optic backbone to the receiving customer, or to the appropriate terminating network interconnection point.

By implementing a fixed wireless connection, or other suitable technologies at key Federal buildings, many "single points of failure" in the "last mile" networks -- the very network elements that were destroyed or that failed in New York on September 11, 2001 -- are eliminated. The "last mile" is the key to the resiliency of the telecommunications network. While it can be difficult and costly to create diversity in the "last mile," mature technologies exist that can be deployed in a cost effective manner to address these essential network elements.

Fixed wireless technology is in no way a contingency for every possible eventuality. For example, if a massive catastrophic event destroys many government buildings, or makes them unsuitable for human inhabitation, then it makes sense to direct operations and communications to another site. That said, short of measures that require physically relocating personnel, fixed wireless does represent a widely available and cost effective means for improving the probability that the network will be available in the event of a manmade or natural crisis. Other technologies such as free space optics, satellite services, and other microwave systems can also be used to fortify essential network connections at our nation's key Federal buildings and improve the likelihood that essential dial-

tone and "data tone" network connections are available and operating in the event of an emergency.

Despite the events of September 11, 2001 and the hard lessons that were learned, Winstar believes that insufficient progress has been made in the past two years to implement physically diverse network solutions at many key government sites. The time has come to address this issue and the GSA Networx program can be a catalyst for implementing these important services.

III. Networx and Physical Diversity

Winstar views the GSA's Networx program as a timely and important next step in the evolution of our nation's network services. The Networx program will be competed and implemented at a time in our nation's history where the threats to our homeland security, public safety and the continuing operation of the government are of utmost importance and concern. As such, the Networx program has significant implications to United States national security and public safety. The current Request for Information (RFI) does not appear to place sufficient emphasis on these aspects of the procurement. Instead, industry is confronted with essentially a business as usual approach where services are to be competed on a heavily aggregated basis, without direct recognition of these important national security implications of network services.

In order for Networx to adequately address these important network and homeland security issues, there should be an express requirement for: 1) a complete and comprehensive inventory assessment – every agency should have

a crystal clear understanding of its network, its weaknesses, and where single points of failure exist; 2) the Networx program should mandate that critical government buildings/sites be identified throughout the country and that special communications requirements, including physically diverse infrastructure requirements for those sites be determined. As a minimum, this assessment should address establishing physically separate rights of way, physically separate ingress and egress, and physically diverse switching/routing centers; 3) a time-bound requirement should be established for diverse network connectivity to be procured and implemented at these critical buildings/sites; and 4) an on-going program of review and reassessment of this important inventory should be implemented. I direct the remainder of my remarks to the six key issues raised by this Committee.

IV. A Centrally Managed Program Approach

Winstar continues to see substantial and lasting value in its relationship with the GSA – Federal Technology Service (FTS) and believes that there are meaningful benefits for the competitive industry and Federal agency users through GSA-FTS's acquisition expertise and program leadership. Turmoil in the telecommunications industry, the continuing pace of technological change, all cast against an uncertain national security landscape within the United States, create a challenge for GSA-FTS and the successor program to balance these issues and risks, while delivering highly reliable telecommunications services to end-user agency customers.

A centralized acquisition and program approach can facilitate the establishment of standards, promulgate shared best common practices, provide an organized and comprehensive evaluation of alternatives, and lend a sensible and unified approach to contract and program review and refreshment over the life-span of the resulting program. For national network requirements, such as those intended to be within the scope of "Networx," a centralized approach also reduces transaction costs for the government and for industry participants thereby making the procurement action more efficient for the parties involved.

Over the past several decades, commercial entities have increasingly outsourced non-core activities so that they can focus on their core business. GSA's centralized procurement and acquisition center provides a similar outsourcing capability for Federal agencies. Smaller agencies that may not have sufficient means to conduct their own comprehensive procurements derive clear benefits through this arrangement. Even large agencies with more sophisticated and comprehensive acquisition capabilities can benefit from GSA's ability to aggregate Federal buying power, and from their highly specialized expertise in telecommunications acquisition and management.

V. Transition Strategies and Costs & Contract Performance Period:

The transition from one major program to another is a daunting task. Direct costs, in the form of service initiation charges, reconfiguration charges as well as indirect costs, in the form of lost productivity, possible interruption of operations and temporary loss of service can be substantial. The time, capital and human

resource commitments required by the government as well as the vendor community weigh heavily in the complex calculus of an agency's decision to make a change, and thus have a direct link to the contract's period of performance.

The transition from the original FTS program to FTS2000 took roughly eighteen (18) months and reportedly cost several hundred million dollars. Approximately ten years later, the transition from FTS2000 to FTS2001 took roughly two years to complete and also came at a substantial cost. The magnitude of these tangible and intangible transition costs creates inertia against change, and suggests strongly that agency movement between programs and among approved vendors is not something that is taken lightly nor engaged in frequently. However, in order for there to be sufficient business opportunity to drive competition at the time of contracting, transition must be a practical and sensible option for agencies as they evaluate the costs and benefits of making a change.

In order for Networx to represent a meaningful business opportunity to industry, GSA must balance these competing factors and provide a substantial period of performance together with an appropriate revenue commitment for all successful bidders. This can be accomplished by: 1) establishing a sufficient contract period of performance, 2) creating a shared financial resource available to agencies to defray the one-time costs of transition, and 3) providing minimum revenue guarantees sufficient to motivate competition and rationalize specialized investment that may be required to comply with the requirements of the Networx

program. Without a substantial contract performance period, the cost of transition cannot be amortized over a sufficient amount of time that rationalizes movement between program vendors. Industry will also find it more difficult to rationalize a business case supporting the costs of bidding, transitioning customers and investing in unique systems and capabilities required to meet mandatory requirements. Without a centralized transition resource a substantial barrier to entry exists since non-incumbent bidders will discount the prospective value of any replacement program by the probability that agencies will simply not be able to rationalize the one-time cost of transitioning to their network. For these reasons, Winstar recommends a ten to fifteen-year contract performance period for the Networx program, and further that the term should be structured as two or three five-year periods. Furthermore, each Networx contract should include a minimum revenue commitment sufficient to motivate the initial competition and justify the investment required to capture the business and satisfy government-unique requirements. In sum, GSA should act to remove any inherent bias in the process so that all vendors have an equal opportunity and motivation to win the business.

VII Billing Requirements

As with any business opportunity, industry must evaluate the revenue potential against the cost of acquiring and maintaining that revenue. The Federal government has longstanding and unique requirements for billing telecommunications services. As the cost of telecommunications services has

declined over the past decades, the rationale for many of these unique requirements has diminished. The government and industry have jointly recognized this fact and have made changes to rationalize certain billing requirements. Winstar hopes that this trend will continue into the Networx program and that the requirements for billing Networx services will approximate as closely as possible those found in the commercial marketplace.

Specialized system development and ongoing maintenance and support for unique "one-off" systems add substantial costs for industry vendors. As such, these costs must either passed on the government customers or they diminish the profit margins available to industry. In either instance, if the unique billing requirements are not essential for satisfying specific accounting or payment regulations, the resulting service prices to agency customers are less than optimal. We know from the Interagency Management Council that one of the agencies' top priorities is to maintain the unprecedented low prices for key voice and data services. If this goal is to be achieved, there needs to be a sensible limit on unique mandatory billing requirements. The details of these requirements will become clearer as we are provided with the draft request for proposal.

VIII Services and Technologies Required by Agency Users:

In order for the General Services Administration and the federal agency users to achieve maximum benefit through the Networx program, there must be a means for ensuring that both mature and leading edge technologies are available to agency users. By mandating fourteen (14) major service categories, each with

multiple sub-service components that must be provided on a ubiquitous basis, the Networx program will inherently limit the number of potential vendors to only the largest telecommunications companies. At a time in our history when technology advances and service innovation is occurring at such a rapid pace, this broad mandate and resulting limitation on potential prime bidders will produce a sub-optimal competition. It may very well be possible for smaller companies to join the teams of larger bidders as a means for participating in the program. However, by simplifying the mandatory service requirements and relaxing the need for service ubiquity, Winstar believes Networx will produce substantially more competition at the time of contracting by expanding the universe of potential bidders, and enhance competition post-award by allowing specialized companies to vigorously compete where they have their strengths.

IX. Conclusion

In conclusion, I would like to again congratulate GSA for their accomplishments through the FTS2001 and MAA program initiatives. Like the telecommunications industry, GSA has had to manage very complex programs through difficult and challenging times over the past few years while continuing to deliver exceptional value to its agency customers. At this time in our nation's history where homeland security and the safety of our citizens are some of our greatest challenges, I submit that economic savings should not be the most important objective for the Networx program. Instead, our collective focus in this procurement should be on ensuring that the Networx program does everything

possible to guarantee that the agencies of our Federal government are able to communicate without interruption, that telecommunications capabilities are available to facilitate the efficient operation of government in routine and crisis situations, and achieve these objectives by taking full advantage of the strengths of as many telecommunications companies as possible.

Chairman TOM DAVIS. Thank you very much.

Mr. Page.

Mr. PAGE. Thank you, Mr. Chairman and members of the committee. My name is Dave Page, and I'm the vice president for BellSouth Federal Division.

It's a privilege to appear before you today to present the views of BellSouth on this new important government program, Networx. Our response to the Networx RFI emphasized the need for open and fair partnering, use of best commercial practices in as many areas of the acquisition process as possible, and an innovative contracting strategy designed to concurrently drive prices downward and reduce contract modification overhead. We have four recommendations.

First, Mr. Chairman, we believe both Networx Universal and Networx Select awards should be made at the same time. As the RFI is written today, Networx Universal will receive their award 9 months prior to Networx Select. Under this scenario, Networx Universal awardees will have established themselves as vendors of choice for almost a year prior to Networx Select awardees being able to begin. Subdividing procurements by areas of need would complement the select and universal categories. For example, instead of finding two or three companies in the world that might be universal by the early definitions, you could have 10 companies who offer long distance, VOIP, etc.

Second, we also strongly advocate the use of standard commercial pricing structures in billing platforms. CLIN-based pricing, which is an artificial bundling of charges, is government-specific and does not represent best practices in commercial business. CLIN-based pricing requires either the development of a customized billing platform or manual conversion from commercial billing to CLIN billing, both of which are inconsistent with lowering costs.

Third, we believe timely contract modifications are needed to provide the most advanced and up to date services to end-user agencies. The current modification process under an MAA takes far too long. Specifically, we believe the modification process should be handled either at the regional or national level, but not both. Required information for modification requests should be simple and straightforward: brief technical descriptions, brief descriptions of benefits and pricing. The government should commit to a rapid timeframe within which the modification request would be processed, say 30 days.

Finally, moving beyond the incremental to the innovative, addressing timely contract modifications and more flexible pricing strategy, the automatic inclusion of approved tariffs under Networx and the use of tariff pricing as not to exceed pricing would be a significant step forward for GSA. I emphasize that the pricing should be used as a ceiling; discounts would be handled on an individual case basis.

Mr. Chairman, BellSouth's recommendations are straightforward and direct. GSA is moving forward with good intentions to be a true best provider to its customers. With the suggestions made today, BellSouth is confident GSA will continue to be the govern-

ments' best answer to complex, involved communications contracts awards.

Mr. Chairman, BellSouth appreciates the opportunity to share its views, and we welcome any questions you may have.

[The prepared statement of Mr. Page follows:]

Testimony

of

David J. Page

Vice President
Federal Government Sales

BellSouth Corporation

before the

Committee on Government Reform

U.S. House of Representatives

February 26, 2004

Introduction

Mr. Chairman and Members of the Subcommittee, my name is Dave Page and I am the Vice President for BellSouth Business-Federal Division. It is a privilege to appear before you today and to present the views of BellSouth on this new important government program, Networx.

In the past 20 years, BellSouth has grown from a $9.5 billion revenue business to a $23 billion communications company serving nearly 44 million customers in 14 countries.

As industry participants, we recently provided input to the FTS Networx Acquisition Strategy RFI designed to provide more cost-effective and technologically advanced solutions to the GSA customer base. Our response emphasized the need for open and fair partnering, use of best commercial practices in as many areas of the acquisition process as possible, and an innovative contracting strategy designed to concurrently drive prices downward and reduce contract modification overhead.

I see the acquisition approach taken by the FTS/IMC Team as a positive step, but one that would benefit greatly by expanded use of commercial best practices and adoption of the mindset of an innovative commercial integrator, of course with appropriate cost protections for end user agencies. These issues can be addressed as follows.

FTS Networx Issues

I see a fundamental conflict between the inclusion of some government-specific requirements for telecommunications services, and the stated (FTS) / (IMC) goal of "best value (lowest prices while maintaining quality of service levels)". I would suggest that this conflict be mitigated by common schedule timing requirements, use of established best commercial practices, and timely contract modification processes.

Schedule Timing

Specifically, I believe that both Networx Universal and Networx Select awards should be made at the same time. As the RFI is written today Networx Universal will receive their awards 9 months prior to Networx Select. Under this scenario the Networx Universal awardees will have established themselves, as vendors of choice for almost a year prior to the Networx Select awardees being able to begin.

Subdividing procurements by areas of need would complement the Select and Universal categories. For example, instead of finding two or three companies in the world that might be universal by the early definitions, you could have ten companies who offer Long Distance service, VOIP, or etc.

Commercial Pricing Structures

I strongly advocate the use of standard commercial pricing structures and billing platforms. CLIN-based pricing (which is an artificial bundling of charges) is government specific and does not represent "Best Practices" in commercial

business. CLIN-based pricing requires either the development of a customized billing platform or manual conversion from commerical billing to CLIN billing, both of which are inconsistent with lowering costs.

Timely Contract Modifications

Timely contract modifications are needed to provide the most advanced and up-to-date services to end user agencies. The current modification process under MAA takes too long and is, in a word, onerous. Hopefully Networx can correct this type of inefficiency.

In today's rapidly changing environment, all contracts should lend themselves to quick and easy modifications in order to take advantage of changing technology. With this in mind, I would recommend the following items for ***incremental*** improvement of the contract modification process for Networx and existing contracts:

1. The modification process should be handled either at the regional or at the national level, but not both.
2. Modifications for pricing should be simplified so they can be dealt with quickly.
3. Required information for modification requests should be simple and straight-forward in nature (i.e., brief technical description, brief description of benefits and pricing).
4. The government should commit to a rapid time frame within which modification requests will be processed, say, thirty (30) days.

While these recommendations are incremental in nature, the GSA also has the unique opportunity to adopt a more aggressive approach.

Innovative Pricing Strategy

Moving beyond the incremental and to the innovative, addressing timely contract modifications and a more flexible pricing strategy, the automatic inclusion of approved tariffs under Networx and the use of tariff pricing as **"not-to-exceed"** pricing would be a significant step forward for GSA. I emphasize that this pricing should be used as a ceiling and that discounts should be handled on an individual case basis. Of course, specific tariff changes that the Government finds unacceptable could be addressed individually. Having new tariffs, either FCC or GSST, included *by default* under the Networx would be a significant step toward positioning GSA as a solutions provider with the greatest possible array of contractor services to draw upon, and provide current technology at all times!

Conclusion

Mr. Chairman, BellSouth's recommendations are straightforward, direct, and are in complete accord with previous testimony. GSA is moving forward with good intentions to be a true best value provider to its customers.

With the minor suggestions made today, BellSouth is confident that GSA will continue to be the government's best answer to complex involved communications contracts.

Mr. Chairman, BellSouth appreciates this opportunity to share its views. We welcome any questions you may have.

Chairman TOM DAVIS. Thank you very much.

Mr. Addeo.

Mr. ADDEO. Good afternoon, Chairman Davis and members of the committee. My name is Lou Addeo, I'm the president of AT&T Government Solutions.

I appreciate the opportunity to present AT&T's views concerning GSA's Networx acquisition strategy. AT&T commends the committee's interest in this important acquisition, and looks forward to working with both the committee and GSA to meet government telecommunications and network needs. AT&T has a proud history of providing service to the government. Thousands of AT&T employees provide sophisticated integration information solutions, professional services and network technology.

Networx is a logical follow-on to GSA's successful FTS 2001 Fed wireless and satellite programs, and GSA should be commended for its initiative in preparing the Networx acquisition. If properly structured, Networx can provide agencies and taxpayers three important advantages: convergence of services, security and ubiquitous service. We have recommendations for each.

First, Networx can encourage convergence of services over IP, Internet Protocol, with the promise of improved technical capability, increased security and lower costs. Agencies will be attracted to providers that can offer such innovations as Web-based business transactions, multi-media instant message, broad band wireless, and grid networking.

Second, in the post September 11th era, Networx must address the government's need to have unsurpassed network security and survivability. AT&T has made huge investments in its network, nearly $3 billion in 2003 alone, so it can provide security IT services. Events such as the September 11th attacks, the 2003 blackout, the seemingly daily attacks by computer viruses and worms, and the recent anthrax and ricin attacks on Capitol Hill further demonstrate the need for national security emergency preparedness and continuing plans. For this reason, AT&T recommends that robust security capabilities be expressly required in Networx.

Third, the agency mission requirements demand ubiquitous services. Networx should guarantee the agencies that the successful Networx contractors will serve all their existing personnel and customers. AT&T supports the acquisition goals of service continuity to all existing and new FTS 2001 users. We must be able to provide service virtually anywhere. Agencies simply cannot afford to leave some constituencies behind. They must reach every corner of the United States and perhaps around the globe.

These three opportunities, convergence, security and ubiquity, make it critical that the Networx acquisition should stay on its present schedule, or perhaps be accelerated, so the government can realize the benefits of both converged technologies and large scale contracting. Our analysis indicates that many agencies recently have bypassed FTS 2001 and acquired services through independent acquisitions. Agencies may be taking these unilateral actions because the remaining period of FTS 2001 is short. This short time period introduces substantial limitations into an agency's ability to plan for and address telecommunications and network requirements. For this reason, a new contract is critical.

We understand that GSA has the goals of continuous competition, ease of acquisition, use of commercial methods and expeditious transition. Let me discuss each of these. Continuous competition. Multiple contract awards will maximize competition, reduce costs and provide contractors enough business to recover costs and provide best value.

Schedule contracts. AT&T agrees with the multi-tiered acquisition strategy because it provides agencies choice and flexibility in satisfying their network needs. To bring agencies even greater flexibility, GSA should provide an additional option for agencies of basic telecommunications-like schedule.

Three, contract term and practices. Many GSA objectives can be met through commercial contract terms and practices. For example, some agencies may be satisfied to be billed using commercial billing systems. Commercial systems typically result in simplification, better prices, easier transitions, and more flexible business arrangements. AT&T looks forward to working with GSA and agencies to bring commercial best practices into Networx.

Modernization and transition. GSA and user agencies must actively manage and accelerate transition. I urge the Federal Government to move expeditiously on Networx to bring an unparalleled level of service and innovation to U.S. citizens in the 21st century E-Gov. world.

I thank the committee for the opportunity to share AT&T's views on Networx acquisition. AT&T is committed to serving the government to assure that this opportunity is fully met. I look forward to any questions you may have.

[The prepared statement of Mr. Addeo follows:]

Statement of Louis M. Addeo
President
AT&T Government Solutions
Written Testimony Given Before
The House Committee on Government Reform
February 26, 2004

Good morning Chairman Davis and members of the House Committee on Government Reform. My name is Lou Addeo. I'm the President of AT&T Government Solutions.

I appreciate the opportunity to present AT&T's views concerning GSA's Networx acquisition strategy. AT&T commends the Committee's interest in this important acquisition and looks forward to working with both the Committee and GSA to meet government telecommunications and network needs. AT&T has a long and proud history of providing telecommunications services to the federal government, including our present work as an FTS-2001 Crossover provider. AT&T does not simply provide telephone and data services to the government. In fact, thousands of AT&T Government Solutions employees, backed by AT&T Labs' renowned research and development, provide sophisticated integrated information solutions, professional services, and network technology.

Networx is a logical follow-on to GSA's successful FTS-2001, Fed Wireless, and Satellite programs and GSA should be commended for its vision and initiative in preparing the Networx acquisition. FTS 2001 has evolved over time to provide agencies broad solutions. The Networx program takes the next step and will provide even greater flexibility. In fact, Networx will provide agencies and tax payers three important advantages:

- First, Networx encourages convergence of services over the Internet protocol with the promise of improved technical capability and lower costs versus current telecommunications technologies.

- Second, in the post-September 11th era, Networx recognizes the need for the government to have unsurpassed network security and survivability as addressed by agency Continuity of Operations Plans. AT&T has made huge investments in its network – nearly $3 billion in 2003 alone – so it can provide these services.

- Third, mission requirements demand ubiquitous service. Networx guarantees the agencies that the successful Networx contractors will serve all their existing personnel and customers. This is a reasonable requirement because service providers routinely work with one another to fashion solutions responsive to global needs.

To be most effective, we believe that the Networx acquisition should stay on its present schedule – or even be accelerated - so the government can reap the benefits of both converged technologies and large-scale contracting, which together will better serve our country. Our analysis indicates that many federal agencies recently have by-passed FTS 2001 entirely and acquired telecommunications and network services through independent acquisitions. Although these independent acquisitions permit agencies to acquire new technologies, they deprive agencies of the immense benefits of large-scale, government-wide contracting. Agencies may be taking these unilateral contract actions because the remaining period for FTS 2001 is so short. This short time period introduces substantial limitations into an agency's ability to plan for and address telecommunications and network

requirements. For this reason, a new contract – with a meaningful contract term (5 to 8 years) of stability – is absolutely critical.

The Networx acquisition should proceed quickly and, following contract award, GSA should aggressively manage transition from the present FTS 2001 contracts to Networx. Agencies – in addition to GSA – must take ownership of transition and actively manage their telecommunications needs and networks. Only upon successful transition can agencies achieve the full benefit of a converged platform of services.

Innovation to Benefit the Government

Networx does and should encourage innovative technology to meet agency needs. AT&T strongly supports the Networx acquisition's goals of service continuity to all existing and new FTS 2001 users. AT&T can and will provide the ubiquitous solutions necessary to support the government's national and international needs.

While GSA necessarily must consider a wide range of telecommunications and networking services, we believe that GSA should particularly focus upon and emphasize two technical areas: convergence of technologies, National Security/Emergency Preparedness ("NS/EP") and Network Security. Because of the importance of these technologies in meeting the government's needs, the Networx acquisition evaluation criteria should specifically recognize these requirements and accordingly assign substantial evaluation importance to them.

Convergence of Technologies Over the Internet Protocol. The convergence of nearly all telecommunications services over the Internet protocol will allow offerors the ability to provide a full range of telecommunications services on an end-to-end basis, with increased

security, improved capabilities, and at a reduced cost versus current methods. Therefore, the Networx acquisition should favor the most advantageous convergence solutions especially those that include innovations such as broadband, wireless, multimedia instant messaging, and web and grid services. These emerging technologies offer agencies the potential for quantum leaps in productivity while also saving money.

National Security/Emergency Preparedness Requirements. AT&T recommends that National Security/Emergency Preparedness and Network Security requirements be explicitly specified in the Networx Statement of Work and heavily weighed during the source selection process to assure that agencies can be responsive to OMB's COOP and Cybersecurity instructions. Events such as the September 11th attacks, the 2003 blackout, the seemingly daily attacks by computer viruses and worms, and the recent anthrax and ricin attacks on Capitol Hill further demonstrate the need for agency Emergency Preparedness and continuity plans. Networx offerors should be required to demonstrate robust security features and continuity capabilities.

The Benefits Of Government-Wide Contracting

As outlined in the recent RFI, GSA's goals for the Networx program are to accommodate present and future agency mission needs, realize the potential offered by emerging technologies, provide simplified acquisition, management and administration, and assure best value. The Networx acquisition will allow federal agencies to obtain these goals through large-scale contracting. AT&T recommends that the following additional contract issues be considered:

1) Continuous Competition. Multiple contract awards (3 to 4) with a modest Minimum Revenue Guarantee, will maximize competition, reduce costs and provide contractors

enough business to recover costs and provide best value. In addition, like the current FTS 2001 Crossover contracts, we recommend that Networx also permit other contractors to crossover into Networx after transition. Therefore, GSA should maintain a set of complementary and partially redundant contracts to assure that agencies will have the options and flexibility to re-compete new requirements as necessary.

2) Schedule Contracts. The Networx program presently contemplates two acquisitions: Networx Universal and Networx Select. GSA designed Networx to enable the government to acquire a wide range of services from a broad array of providers using flexible, results-oriented solutions. AT&T agrees with this tiered strategy because it provides agencies choice and flexibility in satisfying their network needs. To provide agencies even greater flexibility, GSA should provide an additional option for agencies -- a basic telecommunications schedule-like contract vehicle.

3) Commercial Contract Terms and Practices. In many instances, GSA's objectives for best value, broad choice, innovative and responsive products can be met through the use of commercial contract terms and practices. Thus, for example, some agencies may be satisfied to be billed using commercial billing systems. Commercial systems typically result in simplification, better prices, easier transitions, and more flexible business arrangements.

However, we also recognize that certain agencies may have specific billing needs, mandated by mission requirements. AT&T has the ability to satisfy these special billing requirements and looks forward to working with GSA and individual agencies to address these billing needs.

4) Modernization of Transition. Several network service providers have recently deployed web-services-based systems that provide an extensive "electronic-bonding"

capability to enable transactions among themselves, their suppliers and their customers. For example, AT&T has recently invested over $500M in these technologies to provide customers more visibility and control over their network services and operations. As a result, transition risk and inconvenience can be reduced relative to the 2000-2001 transitions. In today's world these new e-bonding arrangements will result in more timely and less costly transitions. Although GSA and user agencies must still be actively involved, the operational risk will be lower. As previously mentioned, GSA and user agencies must actively manage and accelerate transition.

Conclusion

AT&T Government Solutions thanks the Committee for the opportunity to share our views of the Networx acquisition effort. We believe the Networx contracts will be performed during a time of major innovation and unparalleled opportunities for the government. We hope the federal government will move expeditiously to take advantage of the opportunity that Networx offers to bring secure, innovative services to U.S. citizens in the 21st Century e-government world. AT&T is committed to serving the government to assure that this opportunity is fully met.

Chairman TOM DAVIS. Thank you very much.

Ms. Murphy.

Ms. MURPHY. Mr. Chairman and members of the committee, I want to thank you for giving me the opportunity to testify today.

The current acquisition strategy as described in the RFI for Networx is unlikely to provide robust competition from many sources, thereby restricting the government from securing cost-effective, high quality services. Moreover, the current plan does not encourage industry to provide new technology or innovative solutions to meet the government's increasingly complex information technology requirements.

We believe that the two-contract award approach of Networx Universal and Networx Select is flawed. The Networx Universal acquisition is geared to the traditional long distance carriers, and represents business as usual for FTS and the agencies. The universal procurement would have a small number of awardees. The large number of mandatory services that must be delivered within the United States and to international locations under the Networx Universal procurement reduces competition, limits new market entrants and also reduces the attractiveness of the Networx Select procurement to other competitors.

The Networx Select procurement appears to be for all other vendors, both large and small. However, it is unclear how the select vendors will compete with the universal providers, since the select contract is scheduled for award 9 months after the award of the universal contract. The select procurement would not allow incumbent local exchange carriers, competitive local exchange companies, wireless carriers, satellite providers, systems integrators, or small businesses to directly compete with traditional long distance vendors.

Some would say that the universal procurement approach is needed to provide service continuity for existing customers. We agree that service continuity should be provided for those customers who do not want to make a change at this time. However, all customers will eventually transition to new technologies, either because they have new application requirements or to take advantage in the improvement in price performance that those new technologies, like Convergence or Voice Over IP will provide. It is incumbent upon industry, GSA and government customers to work together to ensure smooth transitions to different providers or new service platforms. Verizon is confident that we can mitigate transition risks for those customers choosing to make a transition by active project management with dedicated resources.

There is no need to artificially create two procurement classifications of universal and select, when the marketplace can determine the best solution. For example, if the Department of Agriculture, with numerous remote sites, has a requirement for services at all locations, then a vendor with greater infrastructure coverage will have an advantage over a vendor with fewer facilities. Conversely, there are other agencies with requirements for services primarily in major metropolitan areas or specific regions where more vendors, including Verizon, could compete equally against traditional long distance carriers.

Competition in the marketplace and customer requirements should determine the awardees for these specific task orders. Verizon requests that the government consider several key changes to the Networx acquisition strategy to maximize competition, reduce risk and achieve best value, while ensuring rapid introduction of new technologies and offerings.

First, eliminate the distinction between Networx Universal and Networx Select and create one Networx procurement with several service categories, allowing for multiple awardees within each category. Significantly reduce the number of mandatory and ubiquitous service offerings. Develop multiple categories of services, for example, voice, data, converged solutions, and others to allow all segments of the industry to participate in direct competition with the traditional long distance carriers. If desired, some of the standard commodity based service offerings could be placed on GSA schedules. Allow vendors to structure their offerings to the geographies where they provide services with the opportunity to expand them during the life of the contract. Reduce the number of government-unique management, operation, and billing requirements to allow vendors to use their commercial systems, thereby reducing costs and risk for the government. Finally, create a rapid contract modification process to add new technologies as they are made available.

In summary, GSA should allow the marketplace to drive the service offerings, geographic coverage and prices for the Networx acquisition. The dual procurement approach will only dilute the power of the marketplace and cause increased costs, higher risks and added confusion for the government. A single procurement with multiple awards based on several categories of service configured for maximum industry participation will produce the most flexible and stable contract platform for the future and result in cost savings for the government.

I thank the committee for the opportunity to discuss the Networx procurement, and would be pleased to answer any questions.

[The prepared statement of Ms. Murphy follows:]

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

WRITTEN TESTIMONY BY SHELLEY MURPHY,

PRESIDENT,VERIZON FEDERAL INC.

GENERAL SERVICES ADMINISTRATION NETWORX ACQUISITION PROGRAM

FEBRUARY 26, 2004

Mr. Chairman and Members of the Committee, Verizon Federal Inc. respectfully submits the following written comments on the NetworX Acquisition to become part of the Committee Record.

Verizon Federal Inc. submits that the General Services Administration's (GSA) proposed acquisition approach for the NetworX program of acquiring services through two separate contracts, NetworX Universal and NetworX Select, raises several significant concerns including the ability of the GSA to maximize competition and establish the best value for Federal government customers. The acquisition approach should be reformed to eliminate the Universal and Select dichotomy and to permit bidding by suppliers on a service and geographic basis. These reforms will permit competition by incumbent and competitive local exchange carriers against the incumbent long distance carriers in areas of geographic competition, improve price competition for services, and promote innovation that will not be fostered by Universal and Select approaches. The latter approaches appear to be structured to favor a business as usual approach for existing long distance incumbents under the FTS2001 regime. Only those carriers will be able to provide global service at postalized rates.

Additionally, due to the proposed timing outlined for the Select procurement, the Universal procurement will undoubtedly cut off any potential business for those limited to that procurement, depriving the government of the stated benefits of Select. The Universal procurement appears to be a rollback of the progress made when the FTS2001 and Metropolitan Area Acquisitions were designed, without the opportunity to "crossover" currently afforded by the FTS2001 program. The ability to "Crossover" was provided in the prior FTS2001 program allowing holders of Metropolitan Area Acquisition (MAA) contracts, which provided local services to "crossover" and become bidders of the Long Distance services when they were able to meet the requirements. This approach ensured continuous competition and allowed for new market entrants throughout the life of the long distance contract FTS2001.

Acquisition Structure and Recommended Change to Approach

The proposed approach of holding two procurements would seem to maximize the government's program risk and minimize true competition for the follow-on procurement. Based on the outlined program, it is quite possible that only traditional long distance carriers can effectively bid for the Universal Contract, thus denying many

communications players (including major companies) in the industry a realistic chance to compete for major portions of the federal government's telecommunications business.

While we understand that the GSA is planning to satisfy small business goals and other niche capabilities with the NetworX Select procurement, the Select procurement appears to have some shortcomings. Based on the stated procurement timetable, the nine month delay in awarding the Select contract will serve to effectively minimize the opportunity for many companies to provide the Federal government important telecommunications services and reduce the Federal agencies desire to consider niche solutions that may provide greater value to the customer than the Universal solution set given the volatility and rapid technological changes in the telecommunications marketplace. The proposed acquisition strategy gives minimal details on the Select procurement, which serves to preclude vendors from effectively commenting on the planned acquisition strategy.

There appears to be little room for the non-traditional FTS vendors to play in the main Universal procurement, as currently envisioned by GSA. Today, the government has various vendors and capabilities available to them to increase the survivability of their telecommunications infrastructure, provide best value and quality to meet federal telecommunications requirements. The Universal procurement would appear to limit federal customers to a few vendors while the Select procurement will offer limited business opportunities for smaller companies and non-traditional FTS long distance carriers.

Verizon respectfully suggests that GSA implement the following recommendations to change the structure of the program:

- Eliminate the distinction between NetworX Universal and NetworX Select and create a single NetworX Procurement with several service categories, allowing for multiple awardees within each category. A detailed example of this will be provided later in this document.
- Significantly reduce the number of mandatory and ubiquitous service offerings.
- Develop multiple categories of services, e.g. voice, data, converged solutions and others to allow all segments of the industry to participate in direct competition with the traditional long distance carriers.
- If desired, some of the standard commodity based service offerings could be placed on GSA schedules.
- Allow vendors to limit their offerings to the geographies where they provide services, with the opportunity to expand them during the life of the contract.
- Allow vendors to bill all customers directly without going through GSA.

- Reduce the number of government unique management, operations and billing requirements to allow vendors to use their commercial systems thereby reducing costs and risk for the government.

- Create a separate new technology insertion mechanism that allows for rapid contract modifications to add new technologies, as they are made available.

This approach does ensure that agencies with remote locations will have service providers available to meet their needs. Where agency offices are predominantly located in major cities with many potential providers, these vendors will be able to provide services at potentially lower rates. Since many new technology offerings are limited to major metropolitan areas, agencies will also be able to "pilot" new offerings for these sites, potentially minimizing transition issues and keeping pace with the current rapid technical changes. This approach allows more competition and provides the best value for the government customer. Many non-traditional long distance vendors will be able to provide service to the vast majority of the government customers if the requirement to provide complete geographic coverage domestically or internationally is removed. Verizon recommends GSA revise the original procurement to reflect the following categories of service and eliminate the ubiquitous requirement to reflect this market reality as follows:

Category 1 – Circuit Switched Voice Global*	Category 2 – Circuit Switched Voice Regional
Category 3 – Circuit Switched Voice International	Category 4 – Network Data Services – Frame & Cell Relay, Dedicated Transmission Services
Category 5 – Convergence, Combined and New Technologies/Solutions – Combined (Service Bundles), Virtual Private Network (VPN), Managed Network Services, Internet, Wireless, Remote & mobile users, VoIP	Category 6 - Management & Application Services – Conferencing, Security, Applications & Bus Operations Solutions, Outsourcing
Category 7 – Access Services	Category 8 – Satellite Services

- Category 1 can be selected by agencies that require a single vendor to provide a ubiquitous worldwide voice service for service continuity, all other categories are provided by vendors based on their geographic coverage or particular service capabilities.

Suggested Contract Term and Minimum Revenue Guarantees

GSA requested that vendors suggest a contract term and a minimum revenue guarantee for the Universal procurement. Based on the government's extensive custom management and operation requirements, the NetworX contract length should allow time

for industry to recover investments made to meet the government's unique requirements. This is especially true for non-traditional FTS vendors. Therefore, Verizon recommends that the contract term be for a total of ten years, with a five-year base period and five one-year options. The GSA should also consider awarding a minimum of four to six contracts in the various service categories to provide the government protection from the uncertainties of the ever-changing telecommunications environment.

Verizon recommends that the GSA consider very small minimum revenue guarantees, which are guaranteed payments to winning vendors. The GSA should let competition drive the price. Even with small minimum revenue guarantees, the GSA achieved extremely competitive pricing for their local services contracts: WITS2001 and MAAs. In lieu of establishing a large minimum revenue guarantee, GSA should allow the federal customer to choose vendor supplied pricing options, which are consistent with specific term lengths to obtain a better pricing. Term and volume plans with early termination liabilities are used very effectively in the commercial market to drive better prices and meet customer's specific needs. If the procurement allows for customers to choose pricing based on different term lengths, customers will still receive low prices for signing up for longer terms, and GSA will not have to worry about vendors meeting artificially established MRGs. Since Agencies tend to only transition between providers at the end of a contract period, they are already in effect committing to a de-facto term plan. Verizon understands that there will be issues to resolve regarding Indefinite Delivery Indefinite Quantity (IDIQ) contract terms and firm fixed pricing structures in this proposed term pricing approach, however, this modification will provide the government with the best price, utilize commercial practices, and eliminate risks of meeting large MRGs.

Suggested Evaluation Approach

GSA should award on best value utilizing several evaluation criteria. While incumbency cannot be held as a disadvantage to new vendors, one specific portion of the criteria should address the vendor's proposed transition plan. Transition (moving services from one vendor to another) in the past has been difficult for the government and the contractors. If able to compete, there are vendors who currently provide a substantial portion of the government's existing local access service and have experience with transition. These vendors will have the line and circuit inventories to allow for a smooth transition with minimal disruptions. Other new vendors may offer new technologies to minimize service disruption. Transition planning should be key evaluation criteria for NetworX.

Given the volatility of the telecommunications market, an examination of a bidder's past performance as well as a true assessment of the bidders' financial resources and the ethics of their business dealings must weigh heavily in the evaluation criteria. The government must seek to ensure that only solvent corporations with firm financial positions are allowed to receive awards for this critical procurement. Corporations should also demonstrate their commitment to the federal market as well as demonstrate their funding

strategy and commitment to new technology insertion and expansion of their existing network infrastructure.

The GSA should require that vendor's operational and management systems be a part of the evaluation criteria given the level of customization required by the government for their provisioning, invoicing and network management systems. Though all requirements cannot be available at time of the evaluation, the government should use the Operational Capabilities Demonstrations (demonstrates that test the operational readiness of proposed systems) to make a risk assessment on the ability of the vendor to upgrade its current systems to meet government schedule.

General Comments on Suggested Pricing Approach for NetworX

The pricing approach for NetworX must be geographically based to maximize competition and achieve price reductions. If GSA requires a single rate for ubiquitous access and transport within the continental United States, they effectively limit the competition to traditional long distance carriers only. Many non-traditional long distance vendors have local tariff access pricing structures and service delivery constraints, which limit their ability to offer a single ubiquitous flat rate, access price for each service type across the continental United States. Allowing pricing to be geographically based will ensure that the government receives the lowest possible pricing structure for the vast majority of its requirements. Pricing by city or state will allow more players into the competition and drive lower prices for the government.

Verizon supports the GSA's plan allowing vendors to utilize their existing state and local tariffs to the maximum extent possible. By allowing vendors to propose discounts from existing tariffs, GSA will reduce the administrative burden of adding new area codes, new exchanges and new service wiring centers, which continuously change throughout the life of the contract.

If GSA mandates universal pricing in this procurement, bidders will average their rates across multiple locations and likely penalize customers in larger cities where lower pricing is available. If GSA requires end-users to have single universal rates, they can internally create a universal pricing scheme using there government fee structure.

Proposed Service Incentives

Verizon believes, and would recommend to GSA, that service incentives be included in the NetworX procurement to reward excellent performance by the winning vendors. Through the use of service incentives, GSA can ensure that vendors meet minimum performance requirements without financial penalties, while rewarding vendors that provide exceptional performance with financial rewards.

Verizon suggests that GSA consider inclusion of the following types of service incentives for network data services in the technical requirements:

- Quality of Service (QoS)
- Premium offer available with four (4) classes of service (voice, video, data and best effort)
- Operational and Performance Metrics including Mean Time to Repair (MTTR), Latency, Jitter, Throughput and Network Availability

Service incentives should be included as part of the evaluation criteria for the Management and Operations requirements. Examples of these incentives include service order completion, trouble ticket clearance, on-time billing, and level of electronic bonding with the Government. All of these areas combined provide a complete representation of the overall performance of the vendors in delivering quality service to the customer.

NetworX Service Offerings

The service offerings under the NetworX procurement need to be consistent with trends in technology. The use of facsimile has substantially declined over the last several years. Various forms of broadband communications are becoming more readily available for teleworkers as well as Internet protocol - virtual private network (IP VPN) services. The use of managed service offerings is increasing dramatically as agencies lose senior personnel as a result of the aging of the federal workforce. The use of packet/frame technologies for the transport of circuit switched data services is a major industry trend. Moreover, the last few years have shown an increase in the use of packet/frame technologies to transport voice. The proposed mandatory services offerings may not reflect the needs of the agencies in the next few years as the procurement is being developed, awarded and transition begins. Coupled with the current geographic coverage requirements, users may in fact be discouraged to evolve their networks. Technology insertion (the addition of new technology during the contract's life) will be difficult if GSA implements the current structure of the procurement.

Billing - Government Unique versus Commercial Requirements

With regards to the billing requirements, Verizon urges GSA to encourage the vendors to utilize existing commercial systems as they apply to billing. Telecommunications providers can bill the customer directly and take GSA out of the middle. Appropriate oversight and reconciliation processes can be provided by the carrier to ensure the government's fiduciary responsibilities are being met.

Transition Planning

Transition is a key issue in determining the ultimate success of the NetworX program. Verizon strongly urges GSA to include transition planning as a significant factor in the

evaluation of potential NetworX offers. Verizon also suggests that GSA require each vendor to explain in their transition plans how they will deal with the various local service providers for acquiring their line and circuit inventories as well as determining the availability of access facilities for specific customer locations. Each winning NetworX vendor should be held accountable for the success of the transition process they manage and compliance with their transition plans.

Communications is crucial to a successful transition. Each vendor involved in the process as well as representatives from GSA and the end-user agencies should participate in a Transition Planning Integrated Process Team (IPT) that will be chartered to identify, escalate and resolve all issues impacting successful transition of services. Vendors should be given incentives to deliver quality services on time. Customers need to help minimize issues and work with vendors to establish achievable timelines so that 'customer not ready' concerns do not negatively impact the transition schedule. Web-enabled technologies are available to help solve some of the daily communications issues once the appropriate resources are identified and provided to participate in the Integrated Process Team.

Once the Integrated Process Team is put in place, vendors need to also identify service specific recovery contingency plans for each agency's transition. There are many issues, associated with areas like number portability, which are in reality difficult to reverse once a cutover begins. Vendors need to work diligently to identify these areas and ensure customers have a realistic assessment of the potential problems associated with major cutovers and a clearly defined procedure to follow when these problems arise. Vendors should be required to establish specialized technical teams to support specific service offerings for transition purposes to minimize service disruption. GSA and agency customers should consider having small-scale pilot transitions to test these processes and procedures before completing large-scale transitions. Additionally, CPE requirements need to be quickly established, particularly if agencies are using NetworX for leasing CPE to be used during transition. A rapid assessment of in-place inventory must occur shortly prior to or immediately post award. Agency personnel can share the results of this inventory assessment with their chosen vendor to help define site-specific cutover schedules.

Conclusion and Recommendations

Verizon appreciates the opportunity to testify on the NetworX Acquisition strategy. Verizon respectfully requests that the following changes are made to the proposed acquisition strategy:

- Eliminate the distinction between NetworX Universal and NetworX Select and create a single NetworX Procurement with several service categories, allowing for multiple awardees within each category.

- Significantly reduce the number of mandatory and ubiquitous service offerings.

- Develop multiple categories of services, e.g. voice, data, converged solutions and others to allow all segments of the industry to participate in direct competition with the traditional long distance carriers.

- If desired, some of the standard commodity based service offerings could be placed on GSA schedules.

- Allow vendors to limit their offerings to the geographies where they provide services, with the opportunity to expand them during the life of the contract.

- Allow vendors to bill all customers directly without going through GSA.

- Reduce the number of government unique management, operations and billing requirements to allow vendors to use their commercial systems thereby reducing costs and risk for the government.

- Create a separate new technology insertion mechanism that allows for rapid contract modifications to add new technologies, as they are made available.

Without these changes, Verizon believes that the Government will not receive the benefit of vigorous competition from many sectors of the telecommunications and information technology industry unnecessarily inhibiting the number and type of companies from effectively competing for the major portions of this procurement. This strategy will result in restricting competition, increased costs and not serve the interests of the government.

I thank you for allowing me to provide this testimony.

Chairman TOM DAVIS. Thank you very much.

And Jerry, before we get to you, let me just note, that was a vote. We have two votes on the floor. What I intend to do is let you finish your testimony, try to get a question or two in, then I'm going to turn the meeting over to Ms. Norton. Unfortunately, she doesn't get to come over and vote with us. Now, we're trying to change that, but that's another whole story. [Laughter.]

And I'm going to give her some of my questions to ask. And Chris, if you want to come back, we can hold them or we can give the questions, we can get them all in the record. That way we can move you on. I know from your perspective, when this is over, instead of holding you for what could be some time, consultants bill the whole time. So we are conscious of that—[laughter]—and I want to get them out of here as quick as we can, so our phone bills stay low. Mr. Edgerton.

Mr. EDGERTON. Thank you, Mr. Chairman and members of the committee. Good afternoon. My name is Jerry Edgerton, I'm the senior vice president of MCI's Government Markets Division. I appreciate the opportunity to appear before the committee today. Thanks to you, Mr. Chairman, and the committee, for your support of the FTS program.

I'm here today to share MCI's perspective on GSA's upcoming Networx procurement. MCI is the largest telecommunications provider to the U.S. Government. My company supports more than 75 Federal agencies, and some of the most complex and demanding networks in the world.

MCI has had the privilege of working under a number of contract vehicles to provide the best possible service on behalf of the government to the American taxpayer. Our guiding principle has been and will always be to make sure that the Federal agencies get the full benefits of competition, including the best available technology, world class service, innovative problem solving, and most importantly, low prices.

I would like to also thank the GSA, particularly the FTS organization, for their leadership during a tumultuous time in the industry. Their leadership has resulted in the FTS 2001 program that has delivered very strong results across all government agencies. According to a recent GSA IG report to Congress, and as has been previously mentioned here today, FTS has saved the government more than $574 million in fiscal year 2003 alone, and almost $2 billion for the life of the program. The same report finds that the pricing for FTS 2001 services are 53 percent lower than the same services provided to commercial clients. Agencies and taxpayers have been well served by FTS 2001.

MCI has worked closely with GSA and government agencies to deliver innovative solutions in many areas, including call centers, security solutions, and importantly, disaster recovery. These services were added to the FTS contract as customer need and technology evolved since the original award in 1998.

MCI continues to bring competition and innovation to the FTS program. Even through the difficult challenges of the past 2 years, we have remained laser focused on quality and customer service. MCI has overcome the challenges and is here today a new company. We have a new board of directors and a new senior manage-

ment team. We have an unsurpassed commitment to the highest business ethics, and will be the model for corporate governance.

The new MCI has been working tirelessly to restore public trust and successfully emerge from Chapter 11. With the exception of completing our financial filings, MCI has satisfied all significant tasks required for its emergence, including obtaining all Federal and State regulatory approvals. Emergence is expected within the next couple of months.

In addition, after a careful review by GSA, MCI was found to be a responsible government contractor. An independent third party conducted a customer satisfaction survey in August 2003 to gauge how well MCI is serving our government customers on the FTS 2001 program. MCI received universally high marks for communication and overall performance. I'm proud to say that our customers cited MCI's people as its greatest strength. This is important to us, because it reaffirmed that our account teams and customer service specialists were continuing to focus on our customers, despite the challenges facing the company during this period.

MCI is convinced, based on our experience, that the Networx program will continue to build on the success of the FTS 2001, and can maximize its primary goals of continuity, innovative solutions and flexible and competitive pricing. In our response to the Networx RFI, we recommended a three-tiered approach. The first category would be commodity-like services with commercial support. The second would add more complex services and government-specific management and operations support, similar to FTS 2001. The third would be task orders for customized complex requirements. This three-tiered approach will maximize cost savings by leveraging the buying power of the entire government, maintaining the flexibility to obtain customers services and benefit from ongoing innovations and technology.

Mr. Chairman, there are a couple of additional issues that I would like to bring to the committee's attention that will affect the ultimate success of the Networx program. First, a binding consideration for many agencies is the continuity of service. Agencies with remote small locations should not be left behind, nor should the constituents that they serve. The Networx contract must require the winning vendors to provide service everywhere that service is provided to today. Vendors may need to form partnerships to achieve this goal. It is a critical necessity for agencies that offer services directly to the public, such as the Social Security Administration or the Indian Health Services or the Department of Agriculture, as well as agencies responsible for national security and defense.

Second, to reduce the overall costs to agencies and ultimately the taxpayers, GSA should limit the expansion of the FTS 2001 billing, reporting and monitoring requirements. Current FTS 2001 requirements provide significant benefits to all agencies. However, if an agency has unique requirements, a task order approach eliminates the possibility of a significant cost increase borne by all agencies for a solution that benefits only a few.

In conclusion, let me answer directly the question posed by the committee: Does a centralized government telecom plan jive with an evolving market? The answer is definitely yes. The FTS 2001

program saved government agencies both large and small hundreds of millions of dollars, while at the same time allowing them to address the unique requirements of their missions. The Networx contract will continue to build on the success of FTS 2001 by providing similar cost savings, assuring that agencies have the flexibility to meet all of their communications needs, and providing an efficient vehicle for Federal users to obtain innovative solutions in an evolving marketplace.

I thank you for the opportunity to appear. I'm available for any questions.

[The prepared statement of Mr. Edgerton follows:]

WRITTEN STATEMENT OF

JERRY A. EDGERTON

SENIOR VICE PRESIDENT – GOVERNMENT MARKETS

MCI

BEFORE THE

COMMITTEE ON GOVERNMENT REFORM

U. S. HOUSE OF REPRESENTATIVES

FEBRUARY 26, 2004

Mr. Chairman and members of the Committee, good morning. My name is Jerry Edgerton. I'm the Senior Vice President of MCI's Government Markets division. I appreciate having the opportunity to appear before the Committee today. I'm pleased to share my 15 years of experience as a government contractor in providing MCI's perspective on GSA's upcoming Networx procurement.

The existing federal telecommunications program, FTS2001, has been very successful in delivering state-of-the-art services -- often customized for mission-specific requirements -- to agency users at the lowest possible prices. MCI strongly believes that Networx can build on the successes of FTS2001 and through its unique program design deliver maximum flexibility, innovation and value to the federal government. We believe that the proposal that best ensures this outcome is the three-tiered approach described in detail below. First, I would like to say a few words about MCI's support of government telecommunication programs.

MCI's Strong Record of Delivering Benefits to Government Users

MCI is a leading global communications provider and operates the industry's most expansive global IP backbone. MCI develops the converged communications products and services that are the foundation for commerce and communications in today's market. In addition, MCI is one of the largest telecommunications providers to the U.S. government. We support more than 75 federal agencies and we have designed and implemented some of the most complex government networks in the world.

Over the last 16 years, MCI has grown from a small player in the government marketplace to become the premier provider of advanced telecommunications networks and systems to customers in federal and state governments. Our guiding principle is to make sure that government users get the full benefits of the competition on which MCI thrives – world-class service quality, the best available technology, and innovative problem-solving – all at a competitive price.

We have continued to excel in the government marketplace, despite the recent challenges that confronted the company, because of our commitment to customer service and performance. MCI has overcome those challenges and is today a new company. We have a new board of directors and a new senior management team. We have an unsurpassed commitment to the highest business ethics and are striving to be the model for good corporate governance. MCI employees have been working tirelessly to restore public

trust and to successfully emerge from Chapter 11 bankruptcy. With the exception of completing its financial filings, MCI has satisfied all significant tasks required for its emergence from bankruptcy, including obtaining all federal and state regulatory approvals and creditor approval. In addition, after careful review by the GSA, MCI has been found to be a "responsible" government contractor.

We are proud of our track record of helping government agencies meet their business requirements to serve their constituents. And we are proud that the services we provide to federal, state and local governments help make a difference in the lives of ordinary Americans. Let me offer a few examples:

- Airline passengers can rest assured that the communications network used by the air traffic controllers to safely guide their planes – MCI's LINCS network – is the most reliable network of its kind ever created.
- As the steady flow of mail to and from your constituents continues on a daily basis, keep in mind that MCI's networks link thousands of Postal Service locations across the country.
- When your constituents call the Social Security Administration (SSA), their calls are answered more quickly and at lower cost to the SSA because of MCI's advanced call routing network.

- America's troops, stationed across the country and around the world, are supported by advanced telecommunications services provided by MCI.

Based on research conducted for MCI by an independent third party, our federal customers are pleased with our performance. A telephone survey conducted with 40 agency executives in July and August 2003 gauged how well MCI is serving our government customers on the FTS2001 contract. The majority of the respondents (87 percent) were involved in recommending or making decisions related to telecommunications procurement. The questions covered many areas including: MCI's overall performance, cost, service delivery/installation, and engineering/operations support.

I am pleased to report that our customers gave us universally high marks for overall performance and communications. Our customers cited MCI's people as its greatest strength. This was important to us because it reaffirmed that our account teams were continuing to focus on service, performance and customer satisfaction, despite the challenges facing the company during this period.

Networx Can Build on FTS2001's Successes

MCI's perspective on the Networx project is framed by its 16 years of experience as a government contractor. The question at hand is, "Does a centralized government telecom

plan jibe with an ever-evolving market?" Based on our experience with FTS2001, the answer is a resounding "yes."

When GSA initially awarded the FTS2001 contract in 1998, a major goal was to obtain flexibility, innovation and value for government users. I believe that FTS2001 has met or exceeded these goals. According to GSA's FY2003 Annual Performance and Accountability Report, FTS2001 has:

- Saved taxpayers $574 million in fiscal 2003;
- Saved more than $1.6 billion over the life of the contract; and
- Produced pricing that is 53 percent lower than comparable services purchased by large commercial clients.

In addition, GSA has added a large number of innovative solutions to the FTS2001 contract as government needs and technology evolved. MCI has added 148 modifications to the contract, helping ensure that our federal customers remain on the cutting edge of telecommunications technology. GSA anticipated the need to quickly deploy new technologies by including provisions for custom design documents to meet unique agency needs. Here are a few examples of how the GSA uses contract modifications and custom design documents to meet agency-specific missions:

- Social Security Administration (SSA). MCI delivers customized intelligent call routing to the SSA. This capability delivers the call to the first available agent with the appropriate skill to help that caller. The FTS2001 contract has also allowed MCI to deliver speech recognition technology that makes it easier for citizens to obtain information while reducing costs to SSA.

- Department of Health and Human Services (HHS). HHS uses advanced speech recognition to support its Medicare and Medicaid programs. The FTS2001 contract provided the flexibility for a pilot program in Pennsylvania that improved service to the public and enhanced Departmental efficiency. HHS is now deploying this program nationally.

- The Bureau of Indian Affairs (BIA). The BIA worked with GSA and MCI to implement a comprehensive security solution that supports the distribution of funds under the Trustnet program.

- The Federal Bureau of Investigation (FBI). The FBI obtained diverse routing capabilities to assure business continuity in the event of disasters that might otherwise disrupt critical communications.

MCI's Vision of Networx

We believe that if fully implemented, Networx will yield equally positive results for federal government agencies. We foresee a Networx program that will continue to serve the needs of government agencies by ensuring a flexible contracting vehicle, offering agencies an efficient means to obtain emerging technology solutions and providing competitive prices.

MCI recommends that Networx incorporate a three-tiered approach, managed entirely within the Networx program, to enable the federal government to maximize agency flexibility, technological innovation and potential cost savings:

- First, create a catalogue for government users under which each contractor will offer commodity-like services featuring commercial ordering, implementation, billing, customer service and reporting. Examples of these Type 1 services include outbound voice and standard domestic private line services.

- Second, group together a comprehensive suite of services similar to FTS2001 offerings today. These Type 2 services would accommodate fixed price services that support the government-unique management and operations support requirements for ordering, billing, customer service and reporting. Those services

that are less mature, or that offer optional features and enhancements, would fall only under Type 2. An example would be toll free services with enhanced call routing or interactive voice response features.

- And third, employ task orders to procure customized, complex solutions unique to individual agencies. We have found that a "one-size fits all" approach does not adequately meet the needs of all federal agencies. With these Type 3 services, agencies would be able to request custom solutions with pricing benefits that result from a larger contract. In addition, contractors would be able to propose unique, bundled offerings that include elements from the larger, competitively awarded Networx contract. An example is a nationwide managed network service supporting mission-critical applications such as an enterprise data network.

Appendix A sets forth a chart that details the characteristics, acquisition process, back office support and level of oversight associated with each tier.

To optimize efficiency and minimize disruption to agency telecommunications, we recommend that Networx Universal offerors be required to offer all Type 2 services. That would ensure that the government achieves its goal of service continuity from FTS2001 to Networx. In addition, this requirement would allow GSA's Federal

Technology Services (FTS) to make like-kind comparisons among vendor responses. FTS must be able to evaluate the proposals based on equivalent services from all vendors.

Figure 1 illustrates the relationship among Type 1, 2 and 3 offerings. While less mature services, or those that offer enhanced features/functionality such as toll free service with enhanced call routing or interactive voice response, would be offered only under Type 2, vendors would have the option to propose commodity-like commercial services under Type 1. This would give agencies a choice between Type 1 and Type 2 offerings for some services. Type 3 offerings would be customized solutions comprised of one or multiple Type 2 offerings. A Type 3 offering might also incorporate services beyond those included elsewhere in the contract. This approach allows agencies to achieve flexibility and innovation as their requirements evolve.

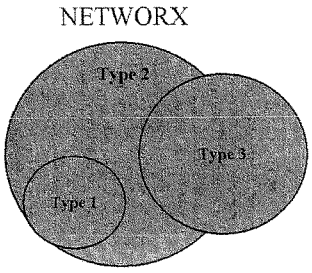


Figure 1

Including each of these service types under a single contract vehicle ensures that agencies retain centralized management control of their telecommunications services regardless of which tier they choose. It also allows the government to leverage its buying power, thus benefiting large and small agencies alike. In short, this three-tiered approach would benefit agencies in the following ways:

- Preserve agency flexibility to implement innovative solutions;
- Benefit from the lowest competitive pricing by leveraging the buying power of the entire government; and
- Maintain the centralized management support that has been provided under FTS2001.

Several other issues will play an important role in the ultimate success of the Networx program. These are: ensuring continuity of service from FTS2001 to Networx, minimizing additional administrative requirements, and allowing Networx contractors to offer Select and Regional services.

Continuity of Service is a Critical Requirement

Perhaps most important to agencies is the requirement for "continuity of service." GSA defines this as the requirement to support all existing locations now served by FTS2001. Agencies with remote or small locations *cannot* be left behind. The Networx contract

must require the winning vendors to provide service everywhere that service is provided today. Vendors can form teams or partnerships to achieve this goal, but this is a mandatory requirement for agencies offering services directly to the public, such as the Social Security Administration, Veterans Administration or the Indian Health Service. It is equally important for those agencies responsible for protecting national security. If Networx does not require continuity of service, agencies will be required to spend significantly more for critical services they now have. MCI believes any new procurement cannot compromise continuity of service.

Limit Administrative Requirements to Those Currently Available to the FTS2001 Contract

Another step to limit overall costs to government agencies and ultimately taxpayers would be to limit the expansion of current FTS2001 billing, reporting and monitoring requirements. Those requirements now in place, including an inventory of services procured under the contract, provide significant benefit to *all* agencies. MCI recognizes that some government agencies may have additional monitoring or billing requirements, but we strongly believe that these specific needs can best be served through a task order rather than modifying the entire contract. The task order approach eliminates the possibility of significant cost increases being born by all agencies for a solution that benefits only a few.

Allow Networx Universal Awardees to Offer Select Services

To stimulate innovation, MCI recommends that vendors awarded a Networx Universal contract automatically become eligible to provide services under the Select program. This will allow Universal vendors to introduce new services more quickly into the smaller, select and regional markets instead of waiting until the service is available on the national scale of the Universal contract requirement. In addition, it would allow Universal providers to work with small businesses that have the ability to provide emerging solutions on a regional or limited basis.

Conclusion

In conclusion, in responding to the Committee's question, it is clear from our experience with the FTS2001 contract that a centralized government telecom plan will succeed with an ever-evolving market. FTS2001 has evolved to allow flexibility and innovation (including the introduction of additional vendors). Further, the program has saved government agencies, large and small, hundreds of millions of dollars. MCI believes the Networx contract will assure that the communications needs of all agencies are met, offer a vehicle to obtain innovative solutions in an evolving marketplace and provide similar financial benefits.

I appreciate the opportunity to appear before the Committee. I would be pleased to answer any questions you may have.

Appendix A: Recommended Three-Type Acquisition Strategy

	Type 1 Schedule Services	Type 2 Firmed Fixed Price IDIQ Services	Type 3 Negotiated Services
Characteristics	• Commodity services • Fully mature marketplace • Relatively easy to transition • Limited need for agency-wide choice of single vendor • Limited architecture and engineering support needed	• Commodity services plus those with technical differentiation by vendor • Mature but evolving marketplace • Higher cost/risk for transition • Management complexity favors single-vendor selection • Some architecture and engineering support required	• Highly-tailored solutions • Evolving/dynamic marketplace • Very high cost/risk transitions • Extreme complexity requires single vendor/team solution • Extensive architecture and engineering support required
Acquisition Process	• Require commercial services and support • Verify commerciality of offering	• Require commercial services and support plus specified federal enhancements • Verify past performance and compliance with RFP technology and management specifications	• Require commercial services and support plus specified federal enhancements • Verify past performance in federal/commercial markets
Back Office Support	• Commercial	• Current FTS2001 MOPS	• Defined by task orders
Required FTS Oversight	• Low	• Medium	• High
Examples	• Outbound voice service • Standard private lines	• Toll Free service with enhanced call routing • Frame Relay service	• Complex IP network solutions • Security solutions • Bundled service offerings

Chairman TOM DAVIS. Thank you.

Let me just very quickly throw out two questions that I've got, then Ms. Norton has some others, and I'll turn the gavel over to her, and we'll go over and vote. I'll come back if she's not through, but we may well be through.

No. 1, is expanding the scope of the contract to allow State and local governments to participate off the schedule, how does that affect you? Your rates are so low in this case that you can't afford to do this to others. I'd like to just get a reaction to that, to the State and local governments being able to use this and buy anything whether it's GWAC schedules, whatever.

And second, some have suggested that it's imperative that all government locations be served by a single, ubiquitous contract, others argue that innovative solutions to some communications needs would be encouraged by not mandating service to all current locations, and perhaps the standard ubiquitous service model may not be appropriate. What's your response to that? The ubiquitous model or scenarios that are tough to serve, they're areas where you don't make any money. I've gotten different reactions to that as I hear the testimony.

So those are my general questions. I'm turning the gavel over to Ms. Norton, and she has the authority to adjourn this if she wants. I told her not to get too comfortable in the chairman's chair. [Laughter.]

But we are working together on this, and I thank you very much.

Ms. NORTON [assuming Chair]. I'm not going to sit in the Chair's seat, because I would surely be tempted not to give it up if he comes back. [Laughter.]

But I am going to allow any of you who wish to begin to answer the questions first that the Chair has just posed.

Mr. D'AGATA. Ms. Norton, I would support State governments having the opportunity to procure off of Networx. They, I know, would be delighted to have that opportunity. It would save procurement costs on their part, and it would benefit industry from having to compete on a State-by-State basis for the needs of the States.

Ms. NORTON. On that question, on that one issue, is there anyone else who wants to respond?

Mr. ADDEO. Yes, Congresswoman Norton. I support it in a general sense, having supported State and local governments for a few years. They do have some special approaches to doing business.

Now, I think in general, they could take advantage of a contract of this type. But some State and local governments also pass down their price performance to non-State and local governments. So it would almost look as if they were passing down the pricing to commercial business. In that particular case, I would see that is a blending of the protection generally afforded Federal Government, State and local government in terms of pricing, that would be an issue. Other than that, I don't think it would be an issue.

Ms. NORTON. What kind? Are those commercial entities, or non-profits?

Mr. ADDEO. Yes, they're commercial. Some could be non-profits, some could be commercial and some could be construed as both.

Ms. NORTON. Any other responses on that?

Mr. EDGERTON. I'd like to respond to that. We provide services to several States. What we find generally in conflict is that their procurement regulations are State specific, and they would probably have to make some exceptions in order to deal with, and buy off of, the FTS contract. It would not be a universal, just the privilege to buy off the FTS contract, but not necessarily allow the States to do that.

Ms. NORTON. No, it wouldn't, so those who wanted to might and those who didn't——

Mr. EDGERTON. If their procurement rules allow that. We're seeing all kinds of different procurement rules.

Ms. NORTON. And some might be quite willing to change their procurement rules if in fact there were cost savings here, as I assume there would be. I'm certain for the District of Columbia there would be.

Are there other responses to the Chair's first question? Then we'll go on to his second question. Yes, Ms. Murphy.

Ms. MURPHY. With respect to the first question, Verizon would also support cooperative purchasing, assuming that it could be limited to governmental entities. We see that as allowing all of the public sector to take advantage of the broader purchasing power of the Federal Government.

Ms. NORTON. How about Mr. Davis' second issue? Does anyone want to comment on that one?

Ms. MURPHY. Ms. Norton, with respect to ubiquitous service or not, Verizon's position is that if you had a procurement approach that provided specific task orders, the agencies could decide whether they needed service to be provided ubiquitously or not. When we look at traditional voice long distance services, for example, those have traditionally been offered on a ubiquitous basis. We certainly wouldn't want to disadvantage those agencies that want to continue that way.

But as you look at the emergence of new technologies, very often those are not available on a ubiquitous basis, they may come out first in larger metropolitan areas and then be offered more broadly over time. We would especially want newer technologies to be available to the government on a non-ubiquitous basis, so that the agencies could perhaps have the opportunity to pilot new technologies, which would allow them to ease their transition costs and risks.

Ms. NORTON. My understanding from the question that I asked the prior panel is that they are willing to look into that. I'm not sure. It does seem to me if you're talking about a country as big and diverse as this, we've got to look at those options. I was pleased to see that was seriously being considered.

Mr. Edgerton.

Mr. EDGERTON. Yes, Madam Chairwoman. Do you like that title?

Ms. NORTON. I'll accept that. [Laughter.]

Mr. EDGERTON. Our experience in dealing with the customers and the agencies is that, when they roll out a program, they roll it out ubiquitously. They may do it on a timing basis, but the people in New Mexico or the people at Social Security Administration, I think our toughest site was at the bottom of the Grand Canyon.

They want the same level of service. They want the same response time as the people in Baltimore get.

So it's a demand brought about by technology. I was thinking about what's changed since we entered into this contract. Most of us had modems. What's a modem? And we dialed up at 56 kilobytes, and now most of us have cable TV access or DSL from Verizon. And in turn, just the expectations have changed. And that's taking place in the agencies and by the customers. So the ability to provide ubiquitous services is a demand. We are in a position and have attempted to fulfill that demand.

Ms. NORTON. Mr. Addeo.

Mr. ADDEO. I'm not as sweet talking as Jerry, but—[laughter.]

Ms. NORTON. Just try a little bit of it. [Laughter.]

Mr. ADDEO. I'll work on it.

Mr. EDGERTON. And you never will be.

Mr. ADDEO. No, I won't. I won't.

I think ubiquitous service in the dimension that we just talked about is one that we all support. The network and the carrier community and the partners here at the table are not just using and looking at ubiquity from the perspective of providing basic service alone in themselves, but of providing services through partners. And networks are evolving technologically, and so are we evolving through partnerships, and we know how to do not only the basic network work, but we also know how to do network integration work, which is a natural evolution of where we're going in terms of telecommunications.

Ms. NORTON. Mr. O'Hara.

Mr. O'HARA. Ms. Norton, I believe that there is an absolute requirement for ubiquity of service. However, it's not apparent to me that a single provider needs to be relied upon to provide that service. No carrier on this panel is capable of providing all services themselves. They do partner, they do select teaming partners, etc. However, there is a cost associated with that partnership, depending on the sophistication of the company involved. Either way, those costs of the partnership get passed through to the government, and I would submit that in many instances, the government may be better off by taking business, and buying, for instance, from a Verizon in Verizon territory versus an SBC in Verizon territory that would probably be subcontracting to Verizon.

So while there may be a need at the agency level for ubiquity of service, it's not apparent that you'd need to have a requirement that all providers provide all things everywhere.

Ms. NORTON. Yes, sir, is this Mr. D'Agata?

Mr. D'AGATA. Yes. Ms. Norton, I think one of the beauties of the FTS 2001 program is that the General Services Administration is able to aggregate requirements to the benefit of all agencies. So contractors consider that and provide prices that are very competitive.

Most of the agencies that we do business with want a single point of contact for their services. So if it happens to be Customs and Border Patrol and they have services going to remote sites around the country, they want someone to manage that for them. They want someone to provide a wide area network for all of those

locations, and they want service level agreements to be met at each site. One site is not necessarily more important than another.

So I think the benefit to the FTS 2001 program and hopefully the Networx program is that it will be able to provide ubiquity to all of the agencies.

Ms. NORTON. This discussion is most important. First of all, we've broken down ubiquity to what it means. Yes, for Border Patrol, but what about the 50 other agencies who may have needs that are far more concentrated? That's why somebody needs to look at this. If we've got the big bucks here, we have to look at what in fact ubiquity means, and whether indeed what we have now is all things told, the best way to do it, because you don't make a hell of a lot of savings breaking it up into several companies.

But it's clear from the testimony of the prior panel they don't know. But what is also clear is that they want to find out. And that's why I think everybody here ought to be satisfied with that notion. Was there anyone else who wanted to respond on the ubiquity question?

Mr. PAGE. I would like to just kind of tag along on what you just said. For example, Health and Human Services might want a ubiquitous nationwide network, but CDC, which is located in Atlanta, may have some very unique requirements that don't fit that ubiquitous network. I think we need to have the flexibility to be able to look at the people that do want the network that's nationwide, and the ones that are just very local in nature, with very specific needs.

Ms. NORTON. Are there any other responses there? Let me ask a question that the chairman wanted to ask. And I'd like to hear what each of you, what the response of each of you would be to this question. Will your company be able to participate with a reasonable chance of success in Networx as it is currently configured in the RFI? Why don't we just start here and go down the line.

Mr. D'AGATA. From Sprint's standpoint, Ms. Norton, we feel that we will be able to compete in the Networx architecture.

Mr. JOHNSON. Ms. Norton, from SBC, absolutely we could compete. I think there would be some of the issues that we outlined earlier, transition, billing, things like that, but absolutely we'd be in a position to compete.

Mr. O'HARA. From a Level 3 perspective, I suspect that we could compete. We may choose not to compete for the universal portions of the program, as the government through that program is essentially shifting risks and costs onto Level 3 where we don't see adding a lot of value. To the extent that a tiered approach or some other select approach is adopted, then I think we could bring tremendous value through this process to the government.

Mr. HOGGE. As far as Winstar is concerned, I guess the answer depends upon the ultimate answer to the ubiquity question, how that turns out. In terms of Winstar competing for this as a prime bidder, if ubiquity turns out to mean everything everywhere, particularly with some concept of a postalized rate, that would be quite a challenge for Winstar, given our network architecture and infrastructure is focused and concentrated in major metropolitan markets. If ubiquity turns out to mean something else, then the answer to my question would improve in terms of Winstar compet-

ing for Networx as a prime bidder. Certainly, as an incumbent provider in the MAA program and FTS 2001, we have a substantial incumbency position, particularly on the local side. So we have demonstrated our ability to compete. It's just the scope and breadth of the way the RFI is written today that is giving us some cause for concern.

Mr. PAGE. From a BellSouth perspective, we certainly could go after the universal part of Networx. However, we would have to do that through many layers of subcontractors to be able to hit the ubiquity that it currently calls for. At that business case review, we might choose not to do so. That's why we feel strongly that we need to have the merging of the select and the universal with different categories.

Mr. ADDEO. AT&T feels strongly that we could compete, given the current RFI. I think over 49 respondents came in and responded to it. And with regard, as we follow on with the discussion on ubiquity, I think it really brings to the fore one of the key questions. We will be partnering with other carriers, other companies and other partners, either directly in, and neither to the universal and/or the other and perhaps on the schedule side.

Ms. MURPHY. Ms. Norton, Verizon would have difficulty responding to the universal portion of Networx on our own, without extensive partnerships that would add cost to the government. We have not yet determined whether we would be interested in participating in the select portion, because that has not been as well defined so far. Assuming that GSA, because of its openness to some of the ideas discussed today, combines the procurements into one with some multiple categories where there is the ability to provide services on a more flexible basis, then Verizon would be well positioned to compete on the Networx contract.

Mr. EDGERTON. I find it fascinating that we, in fulfillment of the current set of services of FTS 2001, use all the people at this table to fulfill those services. We have contracts and basically use these competitors to provide the services in fulfillment of FTS 2001. So we are in a position to compete and look forward to it.

Ms. NORTON. All right, now, I want to get a little competition going on the panel. [Laughter.]

As you might have gleaned from my earlier comments, I'm interested in the lowest price for the government, of course with the requisite quality of service. But I belong to the "show-me school" when it comes to lowering prices. There's a kind of instinctive notion that if you have several categories of service and multiple awards in each category that you would lower prices. But that's instinctive. I'm not sure it's true.

Would any of you be prepared to tell me why the price for the government would be lower than it is now in your view, if in fact we have that kind of competition among categories of service and with multiple awards to a number of companies? Why would the price be lower than it is now?

Mr. ADDEO. At the risk of starting the war, Madam Chairwoman, although I don't think there would be—I do think that a couple of comments first of all, I don't think, if this was a like-for-like contract, that you'd see a significant amount of price reductions. Although I don't think it will be.

I do think, however, that some of the——

Ms. NORTON. Why don't you think so? If competition is supposed to do that, why doesn't it do it in this case?

Mr. ADDEO. I think that the current services, if you compare them against previous contracts, they're managed every year down, automatically there's a price reduction, and there's some market-to-market benchmarking already that exists within the contract. I think you heard already that the gentleman from Sprint had indicated that there was some concern as to the pricing on access, because there was not, in his forward view, the pricing on access reductions that he put into his contract where perhaps the others didn't win.

But I think that there's convergence coming on with the network, where you'll see price performance enhancements and things like voice and video, which cost probably more than they need to cost right now, over time being converged into a technology that will be able to help reduce costs. That has to be identified and borne out over the next few months, few years. But you'll get substantial price reductions and price performance changes. But not on the like-for-like services.

Ms. NORTON. Yes, Mr. O'Hara.

Mr. O'HARA. This is a case where, not surprisingly, I actually do disagree with a number of the other members of the panel. I think if you just look at what has happened in the private sector over the course of the last 3 or 4 years, at the differences in terms of price, the rate of price performance improvement or price compression. In those segments of the business that have been highly competitive versus those other segments of the business that have been less competitive, at least on a relative basis, you see radical changes in the rate of price performance.

I don't see any reason to believe that same dynamic would not play out within the government sector. Whether you take the government's buying and you break it up into two or three buckets, they still represent massive buckets. Even if you were to break it down into many dozens of buckets, it would still have the wherewithal and the clout to bring tremendous pricing, complimented by much more rigorous competition for some segments of the business. And in those segments where you may not have as rigorous a competition, I think what I'm hearing for the Montanas and the Border Patrols and the like, you're still going to have at least three people competing, which is as good as you're likely to get through the universal approach in those areas.

So I think there's tremendous benefit to be gleaned. I think the evidence from the private sector would bear that out.

Ms. NORTON. You know, Mr. Addeo, I hear what you're saying, and with this kind of contract, perhaps it is the case, you understand it is counterintuitive. It's counterintuitive to say, particularly when we're dealing in IT, there are things that even my IT people, they're almost giving them away now compared to what we were paying for them 3 years ago. It doesn't happen in everything that way, but certainly in IT, you just can't keep up with what competition has done.

And again, I recognize this is a unique contract. There's not another contract like this in the world. So I'm willing, and I believe

that GSA is willing, to look at what Mr. O'Hara refers to, which is the experience in the private sector, to see if it obtains here. But we ought to see if it obtains here, recognizing the uniqueness of the area in which we are operating with this GSA contract.

Let me ask another question while the chairman is getting himself together here. Does the bundling of services, which is what we have here, make it harder or easier for small and minority businesses to participate in this contract?

Mr. JOHNSON. Ms. Norton, I think absolutely, because I think there's always going to be a certain niche——

Ms. NORTON. What is absolutely?

Mr. JOHNSON. That it would help, having minority businesses involved. I think certain services, especially a lot of the new tech, Voice Over IP, broadband deployment, I think there's going to be an active role, especially in certain geographies where there's a role for those businesses to play.

As was stated earlier, I don't think any one industry participant can be all things to all people. There's going to have to be those kinds of relationships.

Ms. NORTON. Mr. Page.

Mr. PAGE. I honestly think this is one of those ubiquity questions also, because I think where you really get the most for your small, disadvantaged businesses, the most use for them, the most advantage for them is in those unique little small areas, niche areas, where they can be probably more nimble than most of the organizations represented on this panel today. And they are able to work with a larger company or on their own to go after those niche, very specific need businesses.

I think it would offer them, being able to bundle a lot of things together would give them a unique advantage.

Ms. NORTON. Your industry provides an opportunity for the new crop, particularly, of women and minorities who missed out when the great companies of the United States were built. So we hope you're not building another white male industry, when in fact we're starting from the ground up, and there are lots of young people out here from the broad spectrum of American society who could easily participate on the ground floor and at the highest levels in this industry.

Mr. Addeo.

Mr. ADDEO. I think at this table, we certainly have that problem. But I do think there is no doubt that the GSA is going to have this in mind when they do this contract. And there are probably all these companies here before you have what they call small business mentoring programs, use of 8(a)'s. And again, we keep talking about the network business at its basic level. We're going to be providing basic services. When we talk about applications and new changes into the network and new partnership space, all that space or a majority of that space should be taken up by partners and then serious partners with regard to mentoring programs and small businesses.

Ms. MURPHY. Ms. Norton, I feel honor-bound to respond, under the circumstances. Scary as it may be, I'm going to agree with Mr. Addeo that when you're providing basic services, those commodity-

like services, the players that are currently in the marketplace are the players who will be providing those.

But as you look at the new technologies and the ability under the Networx contract to provide solutions to meet agencies' needs, there's a tremendous opportunity for partnering with small business, women and minority-owned firms and 8(a). I know that's an area that we've had particular success, when there is a solutions component to these contracts that allow us to provide a broader suite of services.

Ms. NORTON. Mr. Chairman, if I could just ask one final question.

Chairman TOM DAVIS. [resuming Chair]. Sure.

Ms. NORTON. I'm a member of the Homeland Security Committee. Obviously security is a primary issue in your business. I'm wondering about concentration, a contract that concentrates services. When the airlines went out, and who would have thought that would ever have occurred in this region, Mr. Davis and I were left with an airport that was closed for 2 weeks, amazingly more than any place else.

But what happened was, people hopped on Amtrak and got out of Dodge that way, and I suppose other ways as well. But Amtrak had a great flow of business during that time. I'm wondering whether we increase or diminish security by multiplying service providers and what your view of that is?

Ms. MURPHY. Ms. Norton, you speak to something that's very important, and it comes down to how you define ubiquity or continuity of service as part of the new contract, and why there needs to be a place for telecommunications providers to provide services in perhaps not all the way to the bottom of the Grand Canyon in every single case.

If we look at the events of September 11, in particular what happened in New York and at the Pentagon, one of the great lessons learned by our customers is that continuity of operations requires diversity up to and including vendor diversity, carrier diversity, to make sure that in the event of another disaster they can continue to operate.

Ms. NORTON. Mr. Edgerton.

Mr. EDGERTON. I'd like to comment that since September 11th, there have been lots of changes in network architecture and technology and diverse routings and so forth, to again provide the assurance that you have continuity of service, at least on your backbone networks. The next piece is how do you do that last mile and make sure there's continuity of service. That's one of the benefits of a procurement like this, that you can aggregate services traditionally in GSA facilities or government areas, and then get even a further level of redundancy as part of the overall solution.

Ms. NORTON. Mr. Edgerton, on this you all have my sympathy. All I can tell you is that when we had that blackout in the Northeast, it spread all over the country because of the interconnection of all of these.

Mr. EDGERTON. The good news is the telecommunications system continued to work. [Laughter.]

Ms. NORTON. OK. Mr. Chairman, I do want to say, in turning back your gavel, that you indicated that I did not have a vote on

the House floor. And I want to thank you for helping me in that great 200-year fight. But I do want to put everybody on notice that I do have a vote in this committee. [Laughter.]

Chairman TOM DAVIS. And a strong voice, if you haven't noticed. [Laughter.]

Ms. NORTON. And Mr. Chairman, I want to compliment you finally because as I looked at the size of this panel and noted the many—this is the biggest panel I think this chairman has had since he took over the gavel—I think it shows that the chairman believes in competition, because he's brought the whole industry here. And I'm going to coin a new slogan for him, leave no company behind. [Laughter.]

Chairman TOM DAVIS. Let me thank the panel for bearing with us. We started late this morning, and you never know. When we started the markup it was going to be like that, and things happened along the way.

We appreciate your bearing with us. I appreciate GSA for being here and continuing to take notes on this. I think the industry input is really important. The difficulty is that what we think we're going to get today isn't what we'd have gotten 2 or 3 or 4 years ago. You're one of the most rapidly technologically developing industries in the world. And we need to maintain that flexibility, where we can come in and out and just get the best deal for the U.S. taxpayers and the government every step of the way.

Your companies are leading the world. We're proud to have you here today. Good luck to all of you. Thank you.

[Whereupon, at 1:56 p.m., the committee was adjourned, to reconvene at the call of the Chair.]

[Additional information submitted for the hearing record follows:]



Written Statement to the

House Government Reform Committee

Regarding the Networx Acquisition

Delivered By:
Qwest Communications International, Inc.
Qwest Government Services, Inc.
4250 North Fairfax Drive
Arlington, VA 22203
James F.X. Payne
Senior Vice President and General Manager
Qwest Government Services Division
703.363.3376 james.payne@qwest.com

www.qwest.com

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Qwest
Spirit of Service

Introduction.

Thank you for the opportunity to offer Qwest Communications International Inc.'s (Qwest's) testimony on the Networx acquisition.

This committee plays an important role in charting the direction of future government telecommunications acquisitions, and we look forward to participating in the discussion.

Qwest is a provider of global telecommunications solutions. Our broadband network spans more than 180,000 miles, and delivers service to more than 25 million government, business, and consumers worldwide. We count the federal government among our most valued customer-partners.

Telecommunications Services

Today's intelligent networks offer a vast array of function and features, and are able to meet the needs of the most sophisticated federal agency customers worldwide.

Given this level of sophistication, where applications will rely upon the intelligence of the network to deliver end-to-end service, Qwest believes the government should rely upon network service providers to deliver services under the Networx program.

That is not to say that there is no legitimate role for other other companies, such as systems integrators. However, these other parties may add unnecessary overhead cost and project layers to what are essentially network services.

The GSA schedules provide opportunities for customers to buy individual services and some bundles at fair prices. The number of transport services that are now made available to agencies under Schedule 70 of the GSA's Federal Supply Schedule has beginning to increase.

These schedules of individual services are, at times, an efficient and necessary means by which agencies can obtain services. However, generally, government agencies need integrated services, that must be procured as total solutions, which are not easily facilitated by means of supply schedules.

Commercial Services and Commercial Practices Yield Best Value

By taking advantage of telecommunications providers' existing infrastructures, the government can benefit from these integrated services. Through telecommunications providers, agencies may have direct access to integrated electronic billing of services in multi-media forms, electronic ordering, provisioning status, and service discontinuation capability in web-enabled environments.

While participating companies' formats and interfaces may vary, the capabilities delivered are common. These user-friendly interfaces are available to Qwest's government customers today. Highly specialized, "one off' and unique government ordering, provisioning, and billing requirements only add cost to the overall prices paid.

One of the objectives of competition and the use of commercial practices is to increase choice. Competition will ensure the introduction of newest technologies and services at the best value to the government. Competition also will ensure that new entrants have every opportunity to participate in the process. And, competition will ensure that natural market pressures

remain the drivers that push contractor performance, compliance, innovation and price.

Whatever the ultimate timing is for acquiring these telecommunications services, and whether the current Networx Universal and Networx Select contract categories remain, every consideration must be given to prevent barriers that are really for administrative convenience and not based upon a sound regard for public policy considerations or protection of the critical infrastructure. Nor is it the role of the government through this acquisition to manage artificially the marketplace. Certainly, these are among the lessons we have learned from FTS2000 and FTS2001.

Evaluation of Proposals

How services are delivered is becoming increasingly irrelevant. For example, the delivery of voice services may be done over dedicated facilities, circuit switched or over the internet protocol (IP). As decisions are made over how to structure the defined service offerings, service descriptions and pricing must reflect technology neutrality and functional descriptions of customer need. We believe that the academic community and other industry specialists could help the government to provide this

broad service definition. This mirrors what was done as part of the process of moving from FTS to FTS2000 and from FTS2000 to FTS2001. Moving away from technology-driven service definitions to technology-neutral service descriptions will shift the method of offers evaluation method and ultimately determine the best value.

Qwest recommends that transition costs not be part of the initial evaluation of Networx. Incumbency ought not be rewarded. And, negative experiences from past transitions should not be allowed to stagnate forward movement. Qwest transitions customers everyday seamlessly and without disruption. Such an objective is achievable.

Qwest suggests that the GSA consider evaluating the Networx pricing offers only for the base period (four or five years). For evaluation purposes, option year prices should be an extension of the prices quoted for the last base-year. There are simply too many variables and too much risk to ask the industry to commit to prices beyond a base period of 4 to 5 years. The government should allow actual out-year prices to be determined by on-going service competitions among the competitors at the task order level.

Finally, we urge that GSA not limit the number of awards, but use instead an evaluation method that results in contracts awarded to deserving, qualified companies that make available an ongoing, continuously competitive services set to all federal agencies.

Summary.

In summary, Qwest believes the government needs a centralized government telecommunications plan that is broadly constructed and recognizes the evolving scope of the commercial marketplace. Whether that plan should assume a centralized government procurement will be determined after the academics and independent industry analysts have reviewed and compared it to the needs assessment already performed by the Interagency Management Council, the Industry Advisory Council, GSA-FTS, and this Committee. Clearly, a strategy must be devised to assure continuity of operations for government agencies.

That kind of continuity does not equate to continuity of the same service or "business as usual" for agencies. Rather, the continuity we favor is one in which the fundamental needs of the agency are met even if the voice services, for example, are

delivered over IP. Continuity should never become a code word for stagnation or an excuse for institutional inertia.

Much has been accomplished in the years since the old FTS network was built to bring the government closer to parity with the commercial world in the use and acquisition of state-of-the-art service applications. We foresee a day when the government is uniformly the first to use the applications and technologies enabled by the still evolving telecommunications infrastructure. To ensure this objective is achieved, the government should acknowledge and anticipate changes within any post-FTS2001 acquisition planning and thereby ensure that:

- RFP requirements are technology-neutral and aligned with the emerging commercial telecommunications marketplace,
- government customers have access to major, market-leading commercial-off-the-shelf service innovations, and
- the evaluation method recognizes and rewards flexibility to adapt to the future rather than incumbency.

The importance of multiple awards cannot be overstated. We see the dual award environment as anti-competitive moving forward.

No one, two or even three companies should have a lock on the government's business.

Multiple awards - four even five awards - will assure that the government's future options are never limited in an environment where telecommunications industry mergers, acquisitions, and consolidations will continue for the foreseeable future.

We thank you for the opportunity to comment.