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MAKING NETWORX WORK: COUNTDOWN TO THE RFP FOR THE FEDERAL GOVERNMENT'S TELECOMMUNICATIONS PROGRAM

HEARING

BEFORE THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

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MAKING NETWORX WORK: COUNTDOWN TO THE RFP FOR THE FEDERAL GOVERNMENT'S TELECOMMUNICATIONS PROGRAM

THURSDAY, MARCH 3, 2005

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

The committee met, pursuant to notice, at 10:05 a.m., in room 2154, Rayburn House Office Building, Hon. Tom Davis (chairman of the committee) presiding.

Present: Representatives Tom Davis, Burton, Gutknecht, Cannon, Marchant, Dent, Waxman, Maloney, Cummings, Clay, Watson, Lynch and Norton.

Staff present: David Marin, deputy staff director/communications director; Ellen Brown, legislative director and senior policy counsel; Rob White, press secretary; Drew Crockett, deputy director of communications; Edward Kidd, professional staff member; John Brosnan, GAO detailee; Teresa Austin, chief clerk; Sarah D'Orsie, deputy clerk; Corinne Zaccagnini, chief information officer; Leneal Scott, computer systems manager; Kristin Amerling, minority deputy chief counsel; Karen Lightfoot, minority communications director/senior policy advisor; Nancy Scola and 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 committee will come to order.

Good morning, and welcome to the Government Reform Committee's hearing and ongoing oversight of the General Services Administration's Networx procurement, one that carries with it the potential to be both the largest telecommunications procurement ever, as well as the one that creates the Federal Government's first digital, government-wide interoperable communications network.

This hearing is our third in the committee's continuing efforts to gather information from industry and other stakeholders to find out whether Networx program, as it has evolved from that contained in its request for information issued last October 2003, and the draft request for proposals issued last November will become the government's acquisition infrastructure for information exchange in today's dynamic telecommunications environment.

First, I would like to briefly set out my expectations for this program and the role I envision for Congress.

Networx must be the driver that facilitates the deployment of communications and information technologies effectively across

government. I firmly believe that the communications infrastructure is the most critical component of the government's Enterprise architecture, and it is the purpose of this hearing today to hear how Networx will fit the government's requirement for an enterprise-wide communications environment.

Networx must be the agent to enable us to better intersect technologies with sound management practices and effective governance principles. To ensure Networx success we need to provide the leadership and resources for those things the government should and must do as an Enterprise, such as the building of a centrally managed telecommunications infrastructure. Networx must be the backbone of that infrastructure. Congress must be an engaged and aggressive partner with the executive branch and industry in ensuring the success of this program. To ensure this success we must think about establishing a governance structure that removes the heavy hand of mandatory use, but puts discipline in the objective of a centrally managed communications environment.

Now, where are we in this oversight of Networx? Since the committee's last hearing and the release of the draft RFP, GSA has spent months listening to industry, customer agencies and congressional and other stakeholders; as a result, the strategy has continued to evolve.

During this time my staff and I have monitored the progression of Networx, conferring with all of the stakeholders and GSA, and consulting with experts, including the Government Accountability Office. The committee intends to continue to monitor Networx closely as it progresses from a strategy to an acquisition, and on to an operating program.

As it stands now, Networx will be a two-part program, with both portions to be awarded concurrently. The full-service portion is called the Universal and will provide the full range of domestic and international network services. GSA has reduced somewhat the much-criticized billing and other management requirements as the strategy has progressed. The smaller, more focused service portion is called Enterprise. It is designed to allow participation by providers who offer specialized services with less extensive geographic coverage than required by Universal. Enterprise does, however, mandate that its participants comply with the same billing and management requirements as Universal.

Both Universal and Enterprise provide for multiple award contracts with relatively low minimum revenue guarantees. The current plan is for a total minimum revenue guarantee of $525 million to be shared by all Universal awardees, and a recently increased MRG of $50 million of all Enterprise awardees. The contracts are to span 4 years, with three 2-year options. The planned schedule provides final solicitation to be issued on April 1, 2005, and for award by April 2006.

So far GSA has made substantial changes to the program as the comment process has advanced. I am not sure, however, that the evolution has been sufficient to ensure that Networx will become the best choice for customer agencies as they design telecom plans to meet their diverse management challenges.

It is not at all clear that Networx, as currently configured, particularly Enterprise, will encourage the broadest participation from

industry, include a broad spectrum of technologies and services, and allow for the introduction of evolving technologies. I have consistently heard from the industry that Enterprise, with its single, rather low minimum revenue guarantee and onerous management and billing requirements is a barrier rather than a gateway for the nontraditional innovative segments of the market.

GSA has moved to improve Enterprise. It has increased the original, rather meager $25 million minimum revenue guarantee to be divided among all awardees to $50 million, and it plans to provide for flexibility within Enterprise by allowing awardees to expand the number of optional services offered during the life of the program. Nevertheless, these changes may not be sufficient to rescue the program. I am not sure that merely providing what is, in effect, Universal with more modest mandatory requirements and narrower geographic coverage will get the job done.

Some argue that Enterprise needs to be fundamentally different from Universal to succeed. They contend that innovation is stifled by complex management and billing requirements, by specifying requirements instead of setting forth a statement of objectives, by dividing the minimum revenue guarantee among an unknown number of participants.

Finally, while I believe that GSA should be the government's agent to manage the government's communications environment, GSA must get its house in order so that it is up to the task. Because of the revelations of contract management challenges at GSA, particularly at the Federal Technology Service, I, along with GSA's top leadership, am reviewing options to resolve the agency's structural and management challenges. I intend to further explore issues relating to GSA's management structure in an upcoming hearing on March 16.

We must be able to assure the American taxpayers that GSA will provide the kind of leadership and management capability a program like Networx demands. We must ensure that GSA exercises financial self-discipline. GSA must not cripple Networx with exorbitant management fees.

Once the program is ongoing, GSA must consider administrative and overhead charges regularly, and adjust them downward as volume targets are achieved. GSA must handle the selection properly, the transition must be as smooth as possible, and the right program performance measures must be developed and consistently applied. I am prepared to take whatever action is needed to ensure that GSA is up to the job.

We hope to receive enlightenment this morning on these challenges, as well as others, such as transition, access to the most current technology, and the impact on the program of the ever-converging and merging telecommunications marketplace. We will examine whether GSA has the capacity to advance from the current planning stage to the execution of what will be a complex and challenging acquisition.

The key to success here is for GSA to take advantage of the wealth of information that has been made available to it throughout the comment-and-discussion process and through these hearings. It is crucial for GSA to design and implement this program properly. It is more important for GSA to do this right than it is

to do it on schedule; timeliness is important, doing it right is imperative.

We have a solid line-up of witnesses today, experts from industry and government. They have a range of views and a breadth of experience. I look forward to their input, and I look forward to working with the government and industry to ensure that Networx achieves its potential.

[The prepared statement of Chairman Tom Davis follows:]

Opening Statement of Chairman Tom Davis
"Making Networx Work: Countdown to the RFP for the Federal Government's Telecommunications Program."
March 3, 2005
10:00 a.m.
Room 2157, Rayburn House Office Building

Good morning and welcome to the Government Reform Committee's hearing and ongoing oversight of General Services Administration's (GSA) Networx procurement, one that carries with it the potential to be both the largest telecommunications procurement ever, as well as the one that creates the Federal government's first digital, government-wide interoperable communications network.

This hearing is our third in the Committee's continuing efforts to gather information from industry and other stakeholders to find out whether Networx program, as it has evolved from that contained in its Request for Information (RFI) issued last October 2003 and the draft Request for Proposals (RFP) issued last November will become the government's acquisition infrastructure for information exchange in today's dynamic telecommunications environment.

First, I would like to briefly set out my expectations for the program and the role I envision for Congress. Networx must be the driver that facilitates the deployment of communications and information technologies effectively across government. I firmly believe that the communications infrastructure is the most critical component of the government's enterprise architecture. And it is the purpose of this hearing today to hear how Networx will fit the government's requirement for an enterprise-wide communications environment.

Networx must be the agent to enable us to better intersect technologies with sound management practices and effective governance principles. To ensure Networx success we need to provide the leadership and resources for those things the government should and must do as an

enterprise, such as the building of a centrally managed telecommunications infrastructure. Networx must be the backbone of that infrastructure. Congress must be an engaged and aggressive partner with the Executive branch and industry in ensuring the success of this program. To ensure this success we must think about establishing a governance structure that removes the heavy hand of mandatory use, but puts discipline in the objective of a centrally managed communications environment.

Now where are we in the oversight of Networx? Since the Committee's last hearing and the release of the draft RFP, GSA has spent months listening to industry, customer agencies and Congressional and other stakeholders. As a result the strategy has continued to evolve. During this time my staff and I have monitored the progression of Networx, conferring with all of the stakeholders and GSA, and consulting with experts, including the Government Accountability Office (GAO). The Committee intends to continue to monitor Networx closely as it progresses from a strategy, to an acquisition, and on to an operating program.

As it stands now, Networx will be a two-part program with both portions to be awarded concurrently. The full service portion is called Universal and will provide the full range of domestic and international network services. GSA has reduced somewhat the much criticized billing and other management requirements as the strategy has progressed. The smaller, more focused service portion is called Enterprise. It is designed to allow participation by providers who offer specialized services with less extensive geographic coverage than required by Universal. Enterprise does, however, mandate that its participants comply with the same billing and management requirements as Universal.

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has been sufficient to ensure that Networx will become the "best choice" for customer agencies as they design telecom plans to meet their diverse management challenges.

It is not at all clear that Networx as currently configured, particularly Enterprise, will encourage the broadest participation from industry, include a broad spectrum of technologies and services, and allow for the introduction of evolving technologies. I have consistently heard from industry that Enterprise, with its single, rather low MRG and onerous management and billing requirements, is a barrier rather than a gateway for the nontraditional innovative segments of the market.

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Finally, while I believe that GSA should be the government's agent to manage the government's communications environment, GSA must get its house in order so that it is up to the task. Because of revelations of contract management challenges at GSA, particularly at the Federal Technology Service, I, along with GSA top leadership am reviewing options to resolve the agency's structural and management challenges. I intend to further explore issues relating to GSA's management structure in an upcoming hearing on March 17.

We must be able to assure the American taxpayers that GSA will provide the kind of leadership and management capability a program like Networx demands. We must ensure that GSA exercises financial self discipline. GSA must not cripple Networx with exorbitant management fees. Once the program is ongoing GSA must consider administrative and

overhead charges regularly and adjust them downward as volume targets are achieved. GSA must handle the selection properly, the transition must be as smooth as possible, and the right program performance measures must be developed and consistently applied. I am prepared to take whatever action is needed to ensure GSA is up to the job.

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We have a solid line up of witnesses today, experts from industry and government. They have a range of views and a breadth of experience. I look forward to their input, and I look forward to working with government and industry to ensure that Networx achieves its potential.

Chairman TOM DAVIS. I now recognize the distinguished ranking member, Mr. Waxman, for an opening statement.

Mr. WAXMAN. Thank you, Mr. Chairman.

I am pleased to join you today to assess the administration's continuing plans on how to purchase telecommunications services for the Federal Government when its current telecommunications contract expires. I look forward to working with you, the administration and the private sector to ensure that the Federal Government continues to receive the best price and highest quality service telecommunications needs.

The telecommunications industry and marketplace have seen dramatic change over the last decade. A startling array of new services and technology has become available, everything from the widespread use of the Internet and cell phone technology to today's emerging satellite security and voice-over Internet protocols.

Along with this rapid technological advance have come changes to the industry as well from the rise of the so-called Baby Bells to the large-scale pending mergers we read about in the newspapers. These changes will no doubt continue and may even speed up. The challenges of structuring an acquisition that will ensure best value in the complex and evolving environment are immense, but I believe GSA is meeting this challenge.

The Federal Telecommunications Service at GSA that has administered the current Federal telecommunications program, FTS2001, and its predecessor, FTS2000, were not totally without problems. These programs have largely been a success. The Federal Government pays between 1½ 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.

GSA issued a draft request for proposals last fall that outlines an acquisition strategy for the new program. This was one step in an ongoing process of consultation between industry, government clients and GSA that will culminate next month with the release of the final request for proposals.

GSA has made revisions to its acquisition strategy that take into account many of the concerns of industry and the government users, and points at the strategy as retaining two critical elements, leveraging Federal buying power and encouraging continuous competition over the life of the contract.

I thank you, Mr. Chairman. I look forward to hearing from our witnesses today.

Chairman Tom DAVIS. Thank you.

Any other opening statements?

Mrs. Maloney.

Mrs. MALONEY. First of all, I thank the chairman and ranking member for holding this hearing.

And just very briefly, more than any other, procurement FTS network has the potential to greatly impact the way that Federal Government agencies conduct their missions and interact with U.S. citizens.

Being from New York, Manhattan and Queens, I understand firsthand the need for more vigorous continuity of operations, disaster recovery and security capabilities. As many of you know, after September 11 the phone system failed for many days in New

York City, and the ability to communicate with firefighters and fire officers, many believe, could have saved their lives and more civilian lives. So this is critically important not only for the utility of government and communications, but in this time of homeland security threats, it is absolutely vital to improve on the system.

I look forward to hearing from GSA and industry on how the procurement will ensure a network program that is responsive to agency mission and security needs, will deliver on the promise of better service for my constituents, and leverage the buying power of the Federal Government.

I would add that oftentimes localities will follow the new innovations that we bring to the Federal Government; so I believe it's critically important to the communication systems to New York City and other areas that may face problems.

Let me close by saying that we've been preparing for Networx for several years now, and I am concerned that we are beginning to eat into valuable transition time. I know there have been a number of mergers, but we need to get this going. And we need to give agencies ample time for transition if they are to effectively take advantage of all the new technologies and benefits and innovations that may be out there to help us to better communicate.

This is an important hearing, and I thank the leadership for putting this together.

Chairman Tom DAVIS. Thank you very much.

Ms. Norton.

Ms. NORTON. I thank you, Mr. Chairman, for calling this hearing, an important hearing, as we move toward Networx. I have an interest not only in my Federal, but also because the District of Columbia has used the system with considerable savings.

Federal Government is in the catbird seed here, and I think that's really the most important thing for us to remember here. The savings to the Federal Government and to the District of Columbia as a result of how the system works and has been managed is what I look to. It is the bottom line by which I judge the system.

At the same time, I think GSA deserves credit, given the complexity of the technology and of the industry it faces, truly mind-blowing. One wonders after a while, as new opportunities to use technology comes about, whether we really need all of this in every agency all the time, but as it comes out, we've got to be prepared to take advantage of it. This hearing will be important in assessing whether we are able to do so efficiently, and with a cost saving that the Federal Government is entitled to.

Thank you very much, Mr. Chairman.

Chairman Tom DAVIS. Thank you very much.

It's the policy of the committee that all witnesses be sworn before their testimony, and we will do that in a minute, but I want to recognize today our outstanding panel.

We first have the Honorable Stephen Perry, the Administrator of the U.S. General Services Administration, accompanied by Mr. John Johnson, the Assistant Commissioner for Service Development and Delivery, Federal Technology Service; and Barbara Shelton, the Acting Commissioner of Federal Technology Service.

We also have Ms. Linda Koontz, who is the Director of Information Management Issues, U.S. Government Accountability Office;

and Mr. James Swedman is accompanying her as the Senior Analyst, Government Accountability Office.

Now it's our policy that all witnesses be sworn again, so would you rise with me and raise your right hands.

[Witnesses sworn.]

Chairman Tom DAVIS. Commissioner Perry, we will start with you, and then go to Ms. Koontz.

Thanks for being with us, Stephen, and thanks for your leadership on this.

STATEMENTS OF STEPHEN PERRY, ADMINISTRATOR, U.S. GENERAL SERVICES ADMINISTRATION, ACCOMPANIED BY JOHN JOHNSON, ASSISTANT COMMISSIONER FOR SERVICE DEVELOPMENT AND DELIVERY, FEDERAL TECHNOLOGY SERVICE, AND BARBARA SHELTON, ACTING COMMISSION, FEDERAL TECHNOLOGY SERVICE; AND LINDA KOONTZ, DIRECTOR, INFORMATION MANAGEMENT ISSUES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE, ACCOMPANIED BY JAMES SWEDMAN, SENIOR ANALYST, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

STATEMENT OF STEPHEN PERRY

Mr. PERRY. Thank you, Mr. Chairman, Mr. Waxman, members of the committee. Thanks for this opportunity for GSA to present information about the acquisition of telecommunications services for the Federal Government agencies.

GSA Acting Commissioner Barbara Shelton is here, as well as John Johnson, who is GSA's Assistant Commissioner for Networx Services. And we will respond to your questions, both as they relate to the acquisition strategy that we are developing, and as it relates to our work to finalize the request for proposals that both the government and the industry will have to work with in order to provide the quantity and quality of telecommunications services needed by the government at the best value for taxpayers.

I have submitted a copy of my written statement for the record, so I will be brief in my opening remarks, but I do want to take a moment to thank you, Mr. Chairman, and members of this committee, for holding these hearings, and for your continuing recognition that telecommunications services are indeed critical to the success of day-to-day operations of every Federal agency. And consequently, the telecommunications acquisition process and this Request for Proposal must be developed and executed very well, with careful consideration to many factors involved, with active involvement of Federal agencies, with active involvement of industry contractors, with the oversight of this committee, and the input of other interested stakeholders.

Additionally, GSA must continue to apply every ounce of our market knowledge, our acquisition expertise, and our judgment to develop an acquisition process which will yield the quality services agencies require at best value.

Let me take a moment to mention just four of the highlights that are in my written testimony.

First, the government has a strong track record for acquisitions of telecommunications services, which has been established by GSA

with direction and support from this committee, and with the collaboration of many Federal agencies and industry contractors. While the new Networx acquisition builds on the success of its predecessor program, FTS2001, it is by no means merely an extension of those contracts; rather, Networx is designed to provide agencies with more than three times the service offerings that are in FTS2001, and this includes new technology, and particularly new technology for security.

Also, the Networx acquisition is designed to attract new entrants, to meet the revolving requirements of Federal agencies with the solutions and emerging technologies of industry, and to move the government's telecommunications system to the next generation network environment.

Second, Federal agencies have worked together to define and document their key requirements and program goals that this acquisition must achieve, and these include service continuity. There is a zero tolerance for loss of service by agencies during the transition from FTS2001 to Networx.

Second, highly competitive prices, quality service; the contracts will include performance measures that will be constantly monitored to make sure that we are receiving continuous quality service.

The contracts will provide for access to full-service providers, as well as access to all alternative sources for leading-edge technology and services. It provides for operating support and the need to improve our processes for ordering, for billing, for inventory management and for accountability. And then there are provisions for transition support, including use of the lessons learned from the last transition, including the need for accurate inventories of services; and then performance-based contracts with enforceable service-level agreements.

A third highlight from my written testimony is that since the request for information was issued in October 2003, industry review and input has been obtained at conferences, hearings and other forums, and based on that industry input we have revised the original plans and improved the Networx acquisition process on several occasions. We issued the draft RFP October 29th, and since that date we've continued to solicit industry feedback, and this has resulted in substantial additional revisions and improvements.

Last, as you know, the Networx acquisition consists of two conjoined and simultaneous acquisitions. Networx Universal meets the needs of agencies needing access to full-service providers who provide a broad range of services, including 37 mandatory services, and a wide geographic area of coverage. Networx Enterprise, on the other hand, meets the requirements of Federal agencies needing access to alternative sources for leading-edge services, including nine mandatory Internet protocol and wireless-based service areas. And this will apply in cases where a broad range of service or wide geographic coverage is not a primary requirement.

We think this two-pronged approach will, in fact, attract robust competition from the traditional service providers, from the emergent new service providers, and from systems integrators. The competitive participation of all of these providers is critical to help the

government move its telecommunications system to the next-generation network environment.

Mr. Chairman, members of the committee, I will conclude my remarks here so that we can discuss these and other matters, including the schedule for issuing the RFP, awarding the contracts, and transitioning to the new Networx telecommunications system.

Chairman Tom DAVIS. Thank you very much.

[The prepared statement of Mr. Perry follows:]

Stephen A. Perry, Administrator
US General Services Administration
Before the House Committee on Government Reform
March 3, 2005

Introduction:

Good Morning Chairman Davis and Members of the Committee. Thank you for inviting me here today to continue our discussion concerning the Networx acquisition planning activities.

Since February, a year ago, when I last appeared before you to discuss this important government-wide telecommunications program, GSA has focused attention and energy on open and candid dialogue with our customers, industry, and other stakeholders. Our aim has been to refine a program that will bring needed high quality technology and exceptional value to the government as we move into the future, while ensuring maximum participation and competition from industry.

My remarks today will focus on GSA's vision for the program, a review of concerns raised by industry in response to the Networx draft RFPs, and a review of our schedule and plans for moving forward.

"The focus of this hearing will be on industry concerns about the Networx draft RFP, and GSA's vision for the program and plans for the release of the final RFP."

Tradition of Delivering Value

GSA - with support from this committee, our customers, and industry - has a tradition of delivering innovative and flexible telecommunications programs that respond to future as well as current markets, and meet the evolving needs of our individual agency customers. The Networx program will continue this tradition by providing significant value to our customers and the American taxpayer:

- First, GSA is uniquely positioned to aggregate and compete critical telecommunications service requirements on behalf of the Federal agencies on a scale that has consistently achieved preferred pricing.
- Second, our customers benefit from aggressive and responsive refreshment of services available on our contracts, enabling them to use the latest technologies to improve their operations at prices negotiated for, and available to all.
- Third, as a "shared services" telecommunications acquisition activity for all Federal agencies, we eliminate the cost and effort that would otherwise be required by each of our customer agencies to procure, support and upgrade those same services. This benefit is particularly important in today's budget-constrained environment, in which our success can allow our customers to focus their limited resources on executing their core mission requirements.

In addition, GSA is able to provide leadership across the government-wide communications environment to foster the seamless, secure, efficient movement of information in the most cost-effective manner possible.

Vision to Deliver Value to Support the Networks of the Future:

The era of unprecedented change in the telecommunications industry continues, and at GSA, our need to anticipate the impact of these changes is as great as ever. We have designed the Networx program to respond to these changes while delivering our traditional value to customer agencies and meeting the demands of the future.

Today, GSA's Network Services business line provides everything from common calling cards and local dial tone to Internet Protocol (IP) based services with embedded security. But, we recognize that the services we provide through our strong relationships with industry -- though necessary and essential -- must deliver even more in the future. Looking ahead, the government will require the full range of innovative emerging technologies that can support an environment where enhanced information sharing, discovery, mediation, and collaboration are essential to our national security. We desire to be bold and forward thinking; yet, we recognize that while our focus is on the future, we cannot lose sight of the present, and the many customers who depend on our current service offerings.

With a focus on today's requirements, our customer agencies, as represented by the Interagency Management Council (IMC), have formally approved the following Networx Program Goals:

- Service continuity. All services to all locations that are currently provided on the FTS2001 and Crossover contracts must be included in the Networx program.
- Highly competitive prices. Prices on the Networx program must continue to be better than prices available elsewhere in the telecommunications marketplace.
- High quality service. Service on the Networx contracts must be provided by high quality telecommunications providers. The contracts must include enforceable agreements that will ensure high quality service is delivered throughout the term of the contracts.
- Full service providers. Service providers who are awarded contracts on Networx must be capable of providing a broad array of services.
- Alternative sources. Networx must provide access to a broad spectrum of industry service providers.
- Operations support. Improve ordering, billing, and inventory management.
- Transition assistance and support. The contracts must include provisions that facilitate transition coordination and support.

"The focus of this hearing will be on industry concerns about the Networx draft RFP, and GSA's vision for the program and plans for the release of the final RFP."

- Performance based contracts. The contracts must be performance based with Service Level Agreements to the extent possible.

The goal of Service Continuity is at the top of the list, reflecting its importance to our customers. Yet, in building the Networx program we cannot simply build a bridge to the present – we must build a bridge to the future with our focus on enabling government to exploit the value of the *next generation network* environment.

We know that the legacy network environment is based on a circuit-driven, cents-per-minute business model that is rapidly disappearing in the telecommunications marketplace. The future is a distance-insensitive, packet-driven, converged services model that, with the proper governance, will enable information sharing, seamlessness, and interoperability -- an environment where enhanced Government to Government, Government to Citizen and Government to Industry collaboration can co-exist.

Networx builds upon the success of its predecessor program, FTS2001, but is designed to attract new entrants and new technologies to the federal telecommunications marketplace and provide pathways to the next generation network environment.

As you know, our revised strategy consists of two acquisitions. Networx Universal meets agency requirements for full service providers who can offer a broad range of services and geographic coverage. GSA anticipates that 2 awards on Universal will meet our legacy requirements. Enterprise is

designed to make alternative sources available to agencies from offerors who can provide leading-edge services but do not have the ability to provide the broad services and geographic coverage required from Universal providers. GSA anticipates that 5 awardees will provide the alternative choices, leading edge services, and continuous competition desired from Enterprise during the life of the program.

Networx Universal and Networx Enterprise are two conjoined procurements that collectively satisfy today's needs while providing a path to the next generation network -- more specifically -- a path to some of the future providers of the next generation network. A central question for the Networx program is: Who will these providers be? Will they be the traditional service carriers of today? Will they be emergent new services providers? Will they be system integrators? GSA believes that it will be a combination of all of these. The Networx Program should attract all types of providers to the government telecommunications market.

Networx Enterprise has basically the same scope as Networx Universal yet there are significant differences aimed at broadening the competition. A competitor for Networx Enterprise must bid nine core services, as opposed to 37 in Universal. The core services required under Enterprise are not traditional legacy services. They are evolving IP-based services. Our acquisition strategy is designed to enable the offeror who bids Enterprise the ability to enter the Federal market with fewer mandatory offerings, yet be positioned to help carry the government forward to the next generation

network environment. We would like to see all the players in the telecommunications arena compete for these services.

To further emphasize the opportunities on Networx, awardees will be able to add services beginning two years after initial contract award. This will allow awardees, particularly on Enterprise, the opportunity to grow their business with government as their capabilities evolve. And it will allow government to benefit from their capabilities as they mature.

Networx Acquisition Progress

Over the past year and a half, throughout our acquisition planning efforts, we have continued to listen carefully to your Committee's guidance and to feedback from our customers and our partners in industry. We have actively solicited comment from all stakeholders at every step of our planning process. For example:

- In October 2003, we released a Request for Information (RFI) to industry to solicit comments on the Networx program.
- We held an industry conference in February 2004 to solicit additional input from government and industry stakeholders.
- Your February 2004 hearing provided additional feedback from industry, as well as the Committee's perspectives on our strategy.

"The focus of this hearing will be on industry concerns about the Networx draft RFP, and GSA's vision for the program and plans for the release of the final RFP."

- In August 2004, we convened another public forum attended by more than 223 companies to share information on our revised strategy, technical and price requirements, program operations, and revised billing requirements.

- Your September 2004 hearing on this program provided additional feedback and perspective that we considered and incorporated prior to release of our draft RFPs.

As a result, we revised our strategy and requirements significantly. For example:

- We adjusted our schedule to conduct simultaneous acquisitions for the Networx Universal and Enterprise contracts

- We reevaluated our minimum nationwide service requirement and reduced that requirement by nearly 70%

- We reexamined our ordering and billing requirements and reduced the number of elements required by 62%. We continue to solicit ideas from industry that will enhance our capabilities and efficiencies in this challenging management area.

Two Draft RFPs, one for Universal and one for Enterprise, were released on October 29, 2004. The following week we held a third public forum to present highlights and discuss the Draft RFPs.

"The focus of this hearing will be on industry concerns about the Networx draft RFP, and GSA's vision for the program and plans for the release of the final RFP."

By December 22, 2004, forty private sector companies -- telecommunications service providers, system integrators, and small businesses -- submitted more than 2500 comments in response to our Draft RFPs. Every comment has been carefully reviewed, and examined with the express intent of improving the Networx strategy.

Overview of Comments on the Draft RFPs:

As requested in your invitation, I will provide an overview of the industry comments received, discuss some of the challenges that we are working to resolve, and provide an update regarding priority items of concern raised by GAO with regard to the Networx Program.

Overall, the comments received in response to the Draft RFPs are positive and constructive. The comments reflect five categories of issues:

- technical Issues represent more than fifty percent of the responses received.
- twenty percent are Management and Operations Issues.
- pricing Issues represent just under fourteen percent of the comments received, and
- the remainder is split between Contracting Issues and Strategy Issues.

We were gratified by the many positive comments on the quality of the Draft RFPs, and the good support indicated for some key acquisition

features including performance-based specifications, service level agreements, and service enabling devices.

As you can tell by the numbers, most of the comments were oriented to make the technical portions of the contract better, and we are pleased to say, approximately 40% resulted in a change to the Draft RFP. Of course, some comments submitted by industry cite issues with which we do not agree. I will review those issues and provide comments on GSA's perspective with regard to them.

Acquisition Approach

Some comments suggested that the best approach for Networx is to release a statement of objectives that would provide an umbrella contract under which contractors could propose a unique solution to meet the individual needs of each agency. While we understand this approach, our customers and GSA do not think this would allow the government to capitalize on its tremendous requirements volume to achieve best possible pricing. Furthermore, many agencies believe that this would pose a significant resource burden upon them which would also undermine the value of the program.

We believe that head-to-head fixed price competition for a large volume of services is the best approach to ensure the government receives the best prices across the board. Our approach greatly reduces the time and resources each agency would need to evaluate and compete a unique

agency solution. Finally, our approach introduces a level of standardization, oversight and interoperability across government that would be difficult to obtain if each agency implemented their own unique solution.

Management and Operations

GSA received comments from industry suggesting that the requirements for Management and Operations are excessive. In particular, some stated that the business opportunities on Enterprise do not justify the initial investment dictated by the Enterprise operational requirements. While GSA does not believe the requirements described in the Draft RFPs are inappropriate, we do acknowledge that they are significant. Accordingly, we reviewed Networx Universal and Enterprise Management and Operations sections carefully, in an effort to relax requirements where possible. As a result, GSA reduced the number of reports, made some reports optional at Agency request, and delayed delivery of others. In addition, we extended some provisioning intervals, revised some service level agreements, and reduced some credits based on industry comments. Nevertheless, important operational requirements that reflect the stated needs of our customers remain. For example, the Government requires that potential awardees provide assurance that they can process an order and bill for their service before receiving an order from an Agency. Eliminating this requirement would not be in the best interest of the Government and certainly would not be in the best interest of an industry service provider if

agencies chose to go elsewhere because their requirements could not be met.

In addition, GSA has continued working with customers and industry to ensure that the government requirements for billing and ordering data are not excessive. As previously stated, GSA reduced government requirements by 62% and believes that the result is the minimum requirement for preserving the government's ability to validate and justify telecommunications expenditures, and to maintain required inventories.

Industry Opportunities on Enterprise

Several industry comments suggested that because the business case for competing on Enterprise is difficult to justify, minimum revenue guarantees (MRGs) should be increased. As we have indicated in past testimony, we believe that Enterprise will provide solid opportunities for business growth in the government market. IP and wireless services represent the future of the telecommunications industry, and are mandatory services on Enterprise. Companies that offer these services will be able to expand their service portfolios with new offerings. But, these are opportunities, not guarantees. Agencies, not GSA, will choose the contractors they want to provide services through the Fair Opportunity process.

While GSA strongly believes that the opportunities on Enterprise justify the initial investment, we also understand that the initial investment may discourage some companies from bidding. We desire healthy and robust

competition throughout the life of the program and we know that Enterprise awardees will help make that happen. As a result of industry comments received from the draft RFPs and our further analysis, we have decided to double the Enterprise MRGs to $50M which will be divided equally among the Enterprise contract awardees. In the event of 5 Enterprise awards, each awardee would be guaranteed ten million dollars worth of business.

Price Management Mechanism

Not surprisingly, comments to the Draft RFPs indicate that the Networx price management mechanism is not popular with industry. GSA believes, however, that it is in the best interests of the government for prices on Networx to compare favorably with other prices available in the marketplace. If prices decline below Networx prices, based on changes in technology or other market forces, government prices should remain comparable with the rest of the marketplace. We believe that the process described in the RFP assures visibility into pricing, and is a fair and reasonable approach to assure desirable pricing over the life of the contracts. As such, we have elected to include a price management mechanism in the Universal and Enterprise RFPs.

Other Challenges to be Resolved

In addition to these industry concerns, the program continues to address other issues of importance to the management and long term success of Networx.

"The focus of this hearing will be on industry concerns about the Networx draft RFP, and GSA's vision for the program and plans for the release of the final RFP."

Performance Measures

GSA has developed metrics and performance measures for each of the Networx Program Goals. Success in meeting some of these goals will be measurable when the contracts are awarded, and for others, success will be measured continuously until the contract expires. GSA will continue to review and assess the effectiveness of Networx performance measures after contract award, and will add new measures as needed to assure sound performance management of the program.

Transition & Inventories

We continue to make progress on the transition planning activities that began with establishment of the IMC Transition Working Group almost two years ago. As we have previously discussed, lack of accurate inventories was an important lesson learned from the last transition and has been a subject of continuing focus on the Networx Program. Both GSA and our agency customers realize the importance of accurate inventories and are working hard to ensure that inventories are accurate and complete prior to the start of the Networx transition. In this regard, our requirements for identifying the wire centers that must be priced as part of Universal proposals has been very helpful in validating inventories. At our request, on January 21, 2005, agencies completed a validation of current FTS2001 dedicated services, providing us a core inventory of validated services to which we are adding information from FTS2001 vendors on switched services. Three agencies have already validated their complete

inventories. Others depend on GSA to provide them the best information available for their review and validation. Our goal is to have complete transition-ready inventories that will allow us to move all services from the current contracts to Networx, without stranding any services, one month after the award of the Networx contracts.

Concurrent with our efforts to gather and validate inventory data, we are continuing with other transition activities. GSA and the IMC have agreed on a taxonomy document that allocates transition costs between GSA and customer agencies. We have jointly requested that each agency CIO identify a transition manager to begin planning with the Transition Working Group and within their respective agency. Agencies have begun to respond to this request, and the list of individuals who will be assigned specific duties related to the transition of agency telecommunications services is growing. On February 1, 2005, GSA awarded a transition support contract. That contractor is consolidating lessons learned documentation from GSA and agencies and incorporating them into the comprehensive Transition Strategy and Management Plan. This plan will outline the requirements for the entire transition, including timelines and responsibilities, and will include procedures and guidance to ensure we address the lessons learned from the last transition. Although not complete, an outline of this document is finished and a number of sections have been drafted and are under review. Finally, requirements have been added to the RFP to ensure that Networx awardees provide a Transition Management Plan to confirm their understanding of the transition process,

to describe how they will meet the challenges of managing transition activities, and to identify the resources they will need to accomplish the task.

Schedule

Our schedule for Networx is very aggressive. It must be aggressive to ensure that the contracts are awarded in sufficient time to allow agencies the time they need to transition from current contracts to Networx. We were able to release the draft RFPs a few days ahead of schedule, and we have pressed hard to complete the review and evaluation of all comments received from industry. We have completed source selection and evaluation sections of the RFPs. At this time, we have several remaining challenges that are normal to a complex procurement, but we expect to release the RFPs on or near our current schedule date, with one caveat. While the released RFPs will include all location data for Networx Universal and Networx Enterprise, they will not include specific service and demand data to be provided by GSA on a web-based pricing model. This model will allow industry to perform price modeling analysis and to make overall price determinations. This additional data will be provided in late May. The model is a complex, sophisticated software tool with stringent security requirements to support a very comprehensive program. Development is underway and upon completion, it will require a comprehensive security certification and testing. The pricing model is too important to the program to rush its implementation and risk not getting it right. Therefore, we will

release everything but the pricing model on schedule and will release the pricing model as soon as it is available. Our current schedule calls for industry proposals to be submitted to the government on July 5, 2005. This will give industry a full month to utilize the pricing model prior to that date. Our goal is to remain on schedule for making awards on both contracts in April of 2006.

I want to state for the benefit of the Members of the Committee, the industry representatives, and our customer agencies, that while my GSA executive leadership team is moving forward with plans for the merger of the Federal Technology Service and the Federal Supply Service, the Networx program and the resources necessary to support the program and its schedule will continue under the new organization.

Closing

Mr. Chairman, in your opening remarks at the September 2004 hearing on Networx, you set a high bar for this program: You said "the Networx program must be crafted to become the 'best choice' for customer agencies as they design telecommunications plans to meet their diverse management challenges".

We believe we have done just that: we have listened carefully to your Committee's guidance and the feedback from customers and industry. We have revised our strategy in significant ways. The Networx program is well-defined, has strong support from our agency customers, and offers

significant opportunities for industry service providers. This program continues a proven legacy of achieving low cost telecommunication service while remaining agile to transport government-wide networks well into the future.

Thank you for the opportunity to testify before your Committee. I will answer any questions you may have regarding the Networx program.

"The focus of this hearing will be on industry concerns about the Networx draft RFP, and GSA's vision for the program and plans for the release of the final RFP."

Chairman TOM DAVIS. Ms. Koontz, thanks for being with us.

STATEMENT OF LINDA KOONTZ

Ms. KOONTZ. Thank you, Mr. Chairman, and members of the committee.

I am pleased to participate in today's hearing on GSA's Networx program.

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 in technology, and potentially in the regulatory environment. In this context Networx initiative can be viewed as a significant opportunity for Federal agencies to acquire and apply innovative telecommunications services to support mission needs.

Since we last testified, GSA has made progress in addressing the management challenges we identified and our recommendations. GSA has articulated a strategy for addressing billing concerns and plans to complete transition planning and training for agencies on the identification of service inventories by February 2006. It has also drafted performance measures for each of its program goals.

In the course of our work, we identify three issues that are critically important to the short-term progress of the Networx program. If these issues not are resolved, they could affect the ultimate success of the program.

First, contract size. As you know, Mr. Chairman, vendors commenting on the draft RFP express concerns about what they perceived as the relative small size of the Enterprise minimums compared to the cost of developing proposals and fulfilling the administrative requirements of the contracts. GSA subsequently raised the Enterprise minimums to 50 million, and is examining the administrative requirements to make sure that they are all needed.

While raising the minimum may help address industry concerns, uncertainties remain. These include the Enterprise administrative requirements, the number of awardees, and how business will be allocated between Universal and Enterprise. As a result, whether GSA's actions today are sufficient to encourage robust competition for the Enterprise contracts remains an open question.

Second, GSA has not yet finalized the criteria against which proposals will be evaluated and has not shared this information with prospective offerors. GSA does plan, however, to provide this information in the final RFP.

Third, GSA has not yet determined the location-specific traffic volumes required by agencies due to delays in developing our related system. This information may not be available until mid to late May.

These uncertainties represent risk to potential offerors which may inturn affect the quality of their proposals, particularly their ability to offer the best price to the government. In addition, delays in establishing evaluation criteria and traffic volumes could affect GSA's ability to award the contract by April 2006.

Given the relatively short timeframes before proposals will be due, leadership from GSA and commitment from stakeholders will be critical to resolving these issues and ensuring that the Networx program realizes its potential.

That concludes my statement. I will be happy to answer questions.

Chairman Tom DAVIS. Well, thank you very much.

[The prepared statement of Ms. Koontz follows:]

United States Government Accountability Office

GAO

Testimony
Before the Committee on Government Reform, House of Representatives

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TELECOMMUNICATIONS

GSA Has Made Progress Planning for a New Governmentwide Program, But Critical Issues Remain

Statement of Linda D. Koontz, Director
Information Management Issues

GAO-05-361T

March 3, 2005

GAO
Accountability · Integrity · Reliability

Highlights

Highlights of GAO-05-361T, a testimony before the Committee on Government Reform, House of Representatives

TELECOMMUNICATIONS

GSA Has Made Progress Planning for a New Governmentwide Program, But Critical Issues Remain

Why GAO Did This Study

In October 2003, the General Services Administration (GSA) issued a request for information describing its plans for a new governmentwide telecommunications program known as Networx, which is to replace expiring contracts. The program consists of two simultaneous acquisitions: Networx Universal, which is to provide a full range of national and international network services across the United States, and Networx Enterprise, which is to provide agencies with mainly Internet-based services with less extensive geographic coverage

In September 2004, GAO testified on GSA's actions to address challenges related to this program and made recommendations intended to improve transition planning, performance measures, and billing procedures.

GSA subsequently issued a draft request for proposals (RFP) in October 2004. In response, the telecommunications industry and federal agencies provided more than 2,500 comments, covering technical issues such as the inclusion of certain standards and more general topics, such as the level of small business set-asides.

GAO was requested to provide a progress report on GSA's planning for this program.

www.gao.gov/cgi-bin/getrpt?GAO-05-361T.

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

What GAO Found

Since GAO's testimony in September, GSA has made progress in addressing the program's challenges and our recommendations. GSA has articulated a strategy for addressing billing concerns and has plans to complete transition planning and guidance for agencies on the identification of service inventories by February 2006. It has also drafted performance measures for each of its program goals.

Critically important to the short-term progress of the Networx program are three issues that could, if unresolved, affect the ultimate success of the program:

- **Contract scope.** In commenting on the draft RFP, vendors indicated concerns about the potential size of the acquisitions as proposed by GSA. Subsequently, GSA doubled the minimum amounts to be bought under the Enterprise acquisition and is reexamining certain aspects of the acquisitions' requirements to ensure that they are all necessary.
- **Evaluation criteria.** GSA has yet to identify the evaluation criteria and share this information with prospective offerors.
- **Traffic volumes.** GSA has not yet determined the traffic volumes required by agencies at specific locations. Agency officials estimate that this information on the government's needs may not be ready until mid to late May 2005, after the final RFP is scheduled to be released.

These uncertainties represent risks to potential offerors which may, in turn, affect the quality of their proposals particularly their ability to offer the best prices to the government. In addition, delays in establishing evaluation criteria and traffic volumes could affect GSA's ability to award the contract by April 2006 as planned.

I am pleased to participate in the Committee's hearing on the General Services Administration's (GSA) next generation, governmentwide telecommunications acquisition program, which is 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 federal agencies—GSA's customers—to acquire and apply innovative telecommunications services to improve their operations.

We previously reviewed, at your request, GSA's initial planning efforts for Networx and identified several challenges GSA faced in ensuring a successful outcome for the program.[1] In September 2004, we testified that GSA had addressed the initial concerns about the timing and structure of the Networx acquisition.[2] While work was under way to address the challenges related to the need for transition plans, an inventory of current services, and effective measures of performance and billing procedures, GSA had not yet completed its efforts. We made several recommendations to GSA to assist it in addressing these challenges. In November, you requested that we assess GSA's progress in addressing the challenges that we previously identified, our recommendations, and other outstanding issues. My testimony today presents our results to date on these topics.

Results in Brief

Since we testified in September 2004, GSA has continued to make progress in addressing the program's challenges and our recommendations.

[1]GAO, *Telecommunications: GSA Faces Challenges in Planning for New Governmentwide Program*, GAO-04-486T (Washington, D.C.: Feb. 26, 2004).

[2]GAO, *Telecommunications: GSA Has Made Progress in Planning Governmentwide Program But Challenges Remain*, GAO-04-1085T (Washington, D.C.: Sep., 15, 2004).

- Transition planning. As we recommended, GSA developed a transition time line. It has also recently awarded a contract for support in transition planning and expects to develop procedures that apply the lessons learned from previous transitions by February 2006.
- Inventories. GSA continues to work with agencies to develop accurate, detailed inventories of current services to enable an effective transition. It is also developing guidance for agencies on gathering this information and plans to provide the agencies with further training on inventory issues. The guidance is expected to be included in the transition management plan scheduled for completion in February 2006.
- Billing issues. In response to our recommendation that GSA develop a strategy for addressing billing issues, it has made plans to first, attempt to resolve billing issues internally, and second, refer unresolved issues to a working group of agency officials. It has also begun a long-term effort to identify changes to its current billing process.
- Performance measurement. As we recommended, GSA has drafted an initial set of performance measures intended to address the program's eight goals. GSA is continuing to work on these measures and plans in order to begin using them in 2006.

Critically important to the short term progress of the Networx program are three issues regarding the requirements underlying the Networx acquisitions. These issues could, if unresolved, affect the ultimate success of the program:

- Contract scope. In commenting on the draft RFP, vendors indicated concerns about the potential size of the acquisitions as proposed by GSA. Subsequently, GSA doubled the minimum amounts to be bought under the Enterprise acquisition and is reexamining certain aspects of the acquisitions' requirements to ensure that they are all necessary.
- Evaluation criteria. GSA has yet to identify the evaluation criteria and share this information with prospective offerors.
- Traffic volumes. GSA has not yet determined the traffic volumes required by agencies at specific locations. GSA officials currently estimate that this information will not be available until mid-to-late

May, even though the final request for proposals is scheduled for release on April 1.

These uncertainties represent risks to potential offerors which may, in turn, affect the quality of their proposals, particularly their ability to offer the best prices to the government. In addition, delays in establishing evaluation criteria and traffic volumes could affect GSA's ability to award the contract by April 2006.

My remarks today are based on audit work conducted at GSA headquarters, where we reviewed program planning documents, public presentations, and comments on GSA's plans. We also interviewed program officials and representatives of four vendors who provided comments to GSA and we reviewed analyses conducted by GSA as well as our previous work on FTS2001 and related contracts. We conducted our work in Washington, D.C., and Fairfax and Arlington, VA, between December 2004 and February 2005 in accordance with generally accepted government auditing standards.

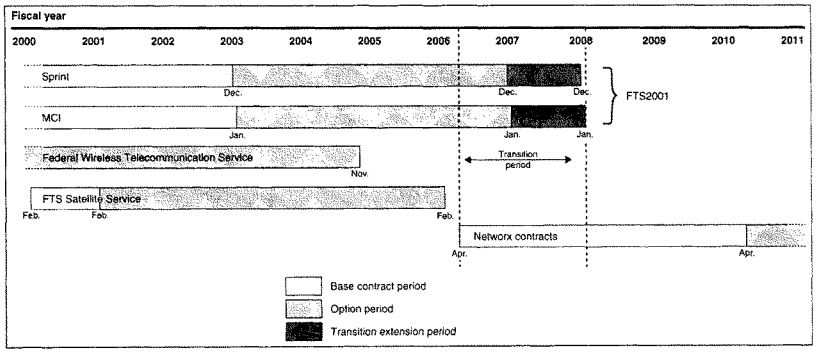
Background

GSA's Federal Technology Service (FTS) is responsible for ensuring that federal agencies have access to the telecommunications services and solutions needed to meet mission requirements. Currently, GSA uses a series of contracts intended to meet agency needs for various telecommunications services. Specifically, it awarded two large, governmentwide contracts for long-distance services—one to Sprint in December 1998 and one to MCI in January 1999—known together as FTS2001. According to GSA, federal agencies spent approximately $614 million on FTS2001 services during fiscal year 2003 and $780 million during fiscal year 2004.

Related governmentwide telecommunications services are provided through additional 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 such as agency-sponsored laboratories. Satellite services are provided through a series of contracts for a variety of commercial off-the-shelf satellite communications products and services, including mobile, fixed, and broadcast services.

Figure 1: Time Periods for GSA's Current and Planned Telecommunications Contracts



Source: GSA.

GSA has begun the process of replacing all of these expiring contracts with a new set of contracts, collectively known as the Networx program. In October 2003, GSA released a request for information (RFI) that describes its initial strategy for Networx. In the request, GSA proposed two indefinite delivery/indefinite quantity acquisitions—Networx Universal and Networx Select. Awards under the Universal and Select acquisitions were to be staggered, with the Select acquisition to be awarded 9 months after the Universal acquisition. The Universal acquisition was expected to satisfy the requirements for a full range of national and international network services and, according to GSA, was intended to ensure the continuity of services and prices found under expiring contracts that provide broad-ranging services with global geographic coverage. By

contrast, GSA planned to award multiple contracts for a more geographically limited set of services under the Select acquisition. The services required under these contracts focus on Internet-based offerings and related security and management services. This would provide agencies with leading-edge services and solutions and less extensive geographic and service requirements than Universal.

GSA has worked with representatives of federal agencies, the telecommunications industry, and other interested parties to lay the groundwork for the Networx program. Agencies work directly with GSA and through the Interagency Management Council (IMC), a group of senior federal information resource officials who advise GSA on issues related to telecommunications contracts. GSA and the IMC have agreed on eight goals for the Networx program that include an emphasis on ongoing support and performance-based contracts. Table 1 lists each of the program's goals.

Table 1. Networx Program Goals

Goal	Description
Service continuity	Contracts should include all services currently available under FTS2001 to facilitate a smooth transition.
Competitive prices	Prices should be better than that available elsewhere in the telecommunications marketplace.
High quality services	Contracts should ensure a high quality of service throughout the life of the contracts by using enforceable agreements.
Full service vendors	Vendors should be capable of providing a broad array of services and provide follow-on services to avoid duplication of administrative and contracting costs.
Alternate sources	Agencies should be able to choose from a greater number of competing vendors that provide new, enhanced services and emerging technologies throughout the life of the contract.
Operations support	GSA should provide fully integrated ordering, billing, and inventory management.
Transition assistance and support	Contracts should include provisions that facilitate transition coordination and support.

Goal	Description
Service continuity	Contracts should include all services currently available under FTS2001 to facilitate a smooth transition.
Performance-based contracts	Contracts should be performance-based and include service level agreements where possible.

Source: GSA.

In our September 2004 testimony, we reported that GSA had made progress in planning the acquisition by responding to industry and agency concerns over the nine-month lag between the release of the Networx acquisitions, the geographic coverage requirements for the Universal acquisition, and the number of billing elements that vendors were to provide. Specifically, GSA decided to release the Universal and Enterprise (the current name for the contract formerly called Select) acquisitions simultaneously. It also reduced the geographic coverage requirements for the Universal acquisition by 76 percent. In addition, through a collaborative effort with the IMC and the Industry Advisory Council, GSA reduced the number of required billing elements by 62 percent.

However, we also stated that additional efforts were necessary to fully address the management challenges we identified. We recommended that GSA finalize and implement processes for managing transition efforts, develop measures to monitor program performance and a strategy for using them, and develop and implement a strategy for resolving agency concerns about the usability of billing data.

GSA released the draft requests for proposals (RFP) for Networx in October 2004, providing industry and agencies an additional opportunity to comment on the structure and content of the Networx acquisition prior to the release of the final RFPs. In response, the telecommunications industry and federal agencies provided more than 2,500 comments, covering technical issues such as the inclusion of certain standards and more general topics, such as the level of small business set-asides.

The draft RFPs were described by GSA as nearly complete versions of the final RFPs, which are scheduled to be released on April 1,

2005. According to program officials, GSA provided as much detail as possible in the drafts because potential offerors will have only 3 months to submit proposals once the final RFPs are released. After evaluating the submitted proposals, GSA plans to award contracts under both acquisitions in April 2006.

GSA Is Addressing Networx Management Challenges

Since we testified in September 2004, GSA has continued to make progress in addressing the program's management challenges and our recommendations on transition planning, inventory development, billing procedures, and performance measures.

GSA Continues to Plan for Contract Transition

As we testified previously, adequate transition planning is one of the challenges that GSA must address to effectively complete the move to Networx. Further, experience demonstrates the need for comprehensive transition planning and an effective transition strategy. For example, the current FTS2001 contracts got off to a rocky start when efforts to transition services to the new contracts took more than 24 months, hindering timely achievement of program goals. Subsequently, a subgroup of the IMC—the Transition Working Group—identified past transition issues and documented 22 lessons learned, including that the magnitude of the effort was not fully appreciated. The working group recommended that the findings of the lessons learned effort be used as input to the Networx program management strategy and specifications. In testimony before you in September 2004, we recommended that GSA develop a transition time line and use the lessons learned to develop procedures to prevent the reoccurrence of transition difficulties.

In response, GSA has taken steps to begin preparing for the transition to the planned Networx contracts. For example, GSA has developed a document that defines the transition cost elements and identifies how those elements will be allocated to the GSA Networx program and its customer agencies and has also developed an

outline of a transition management plan. Also, in response to our recommendation regarding a transition time line, GSA developed a high-level transition time line that depicts 28 tasks, beginning with the development of the document that defines transition cost elements and ends with the disconnection of services under the FTS2001 contract (transition end). These tasks span the time from July 2004 through January 2008. GSA estimates that the transition from the FTS2001 contracts to Networx should require at least 18 months.

Additional steps are in progress. For example, GSA has begun work on the outline of a transition management plan, which is intended to be used as a guide by GSA, customer agencies, the Transition Working Group, and the contract awardees to facilitate a smooth transition. The outline identifies planning steps that agencies should undertake and lists the lessons learned from past transitions. GSA has also recently awarded a contract for transition planning assistance. This contractor is to assist in finalizing the transition management plan, including developing procedures to address lessons learned as we recommended. The plan is scheduled to be finalized in February 2006. If completed as planned, this should position GSA to effectively implement the planned transition.

Collection of Inventory Information is Ongoing

When we last testified on this program, we noted the importance of GSA and its customer agencies having a clear understanding of agency service requirements in order to make properly informed acquisition planning decisions. This 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. In addition, the FTS2001 transition lessons learned document identified the lack of a good starting inventory as the cause of problems in a number of areas and a contributing factor to the slow start on the FTS2001 transition.

GSA is addressing the need for inventory information in several ways. It first developed an inventory of the services currently used by its customers by reviewing the existing contracts, modifications to them, and billing information. Then, GSA used the inventory information from these sources in acquisition planning, for example, to justify GSA's decision on which services to include in the proposed Networx contracts and which to make mandatory.

In addition, GSA recently asked agencies to provide and verify detailed inventory information that includes the geographic locations of those services that are used and how much they are used. In January, GSA released a preliminary list that identified the geographic locations of required services.

GSA will need to continue to work with its customer agencies to gather the even more detailed information that will be needed to conduct an effective transition, including the specific location of equipment within a room, provisions for accessing the equipment, and contact information for personnel authorized to access the space. According to the Networx program manager, GSA expects agencies to use site plans developed by the incumbent vendors to assist in developing this information. In addition, GSA is developing guidance for the agencies on gathering this information and plans to provide further training to the agencies on inventory issues. This guidance, according to GSA, will be included in the transition management plan scheduled for completion in February 2006.

GSA Has Developed a Strategy to Address Billing Issues

Clear, accurate, and complete billing records are an important internal control: they record the detail of each telecommunications transaction for later verification and management oversight. However, bills and billing systems have been a problem in the current generation of FTS programs and continue to be a concern for their proposed replacement. Agencies have commented that, in the past, billing information they received hampered their efforts to reconcile invoices, resulting in hundreds of thousands of dollars of additional costs. In testimony before you in September 2004, we recommended that GSA develop and implement a strategy for addressing the billing data issues raised by its customer agencies.

Under FTS2001, GSA resolved agency billing problems by establishing a Billing Issues Team that was responsible for tracking issues through to resolution. GSA stated that, for example, due to the efforts of this team, it has already altered the way it processes the vendor-provided billing data so that it now aligns with agency needs.

In response to our recommendation, GSA officials identified several methods for addressing possible billing data issues, including

- service level agreements that hold the contractors accountable for the accuracy of the billing data they provide and
- a requirement that contractors assign a unique identifier to each transaction, which agencies believe will improve both billing and inventory management.

Further, according to GSA officials, it will first attempt to address internally any future billing issues raised by customer agencies after contract award. Any unresolved issues will be raised to the IMC for additional action.

GSA has also initiated a long-term strategy to address the billing process as a whole. In January 2005, GSA issued a RFI that asked vendors to identify potential alternatives to the way it currently consolidates carrier billing data and provides the data to agencies. GSA is considering several billing options, including the option of contracting out bill consolidation and the potential costs and benefits of those options. The study is a part of a larger GSA effort to define the requirements of FTS's future operating environment.

GSA Has Developed Draft Performance Measures

Our research into recommended program and project measurement practices highlights the importance of establishing clear measures of success to aid acquisition decision making as well as to provide the foundation for program management. Such measures define what must be done for a project to be acceptable to the stakeholders and users affected by it; these measures enable measurement of progress and effectiveness in meeting objectives. In our testimony before you in September 2004, we recommended that

GSA finalize its efforts to identify measures to evaluate progress toward program goals and develop a strategy for using those measures for ongoing program management.

In response, GSA provided the first draft of a Networx strategic business plan that lists performance measures for the eight program goals previously discussed. (These preliminary measures are listed in table 2.)

Table 2. GSA's Initial Draft Performance Measures for Networx

Strategic goal	Performance goal	Performance measure
Service continuity: contracts should include all services currently available under FTS2001 to facilitate a smooth transition	98% of agency transition orders filled without the need for contract modification	Number of modifications compared to services transitioned
Competitive prices: prices should be better than those available elsewhere in the telecommunications marketplace	Average prices attained on Networx are at least 25% less than comparable, negotiated commercial prices	Quarterly price comparison of commercial and Networx for like services
High quality service: contracts should ensure a high quality of service throughout the life of the contracts using enforceable agreements	95% of all service metrics met on an annual basis	Contractor performance per annual service level agreement report
Full service vendors: vendors should be capable of providing a broad array of services and provide follow-on services to avoid duplication of administrative and contracting costs.	Awardees deliver 98% of services ordered under Universal	Services delivered by transition end
Alternative services: agencies should be able to choose from a greater number of competing vendors that provide new, enhanced services and emerging technologies.	Awardees can provide 98% of mandatory services offered under Enterprise	Transition end
Transition support: contracts should include provisions that facilitate transition coordination and support	98% of services transitioned within planned transition period	Quarterly audit of services that do not have disconnects completed before contract expiration date
Performance-based contracts: contracts should be performance based and include service level agreements where possible	95% of contracted services have metrics	Audit of contracts at contract award

Strategic goal	Performance goal	Performance measure
Operations support: GSA should provide fully integrated ordering, billing, and inventory management	Ordering: 90% of orders provisioned within standard intervals in contract or by firm order commitment in project plans. No more than 5% annual growth in ordering data elements.	Ordering: monthly service level agreement compliance report. Data elements added annually through contract modification
	Billing: 90% of monthly billed revenue is without error. No more than 5% annual growth in data elements for billing	Billing: monthly service level agreement compliance report. Data elements added annually through contract
	Inventory: inventory audits produce at least 95% match with agency inventories	Inventory: annual audits of FTS inventory with service order completion notices, billing data, and downloads from industry partners, then comparison with agency inventories

Source: GSA.

GSA is continuing to work on these measures. For example, the draft measures for the operations support goal—which calls for GSA to establish integrated ordering, billing, and inventory management—address the individual functions without addressing the overall management of the services or their integration. GSA officials are aware of the need to refine the measures and are working to determine how to address integrating ordering, billing, and inventory. They stated, however, that this is a longer-term effort and will not be resolved by contract award. GSA does not yet have an expected completion date for the measures but plans to begin using them in 2006.

Critical Issues Regarding Requirements Have Not Yet Been Addressed

Critically important to the short-term progress of the Networx program are three issues that could, if unresolved, affect the ultimate success of the program. These issues involve setting the scope of the contacts, establishing the criteria against which proposals will be evaluated, and determining the traffic volumes required by agencies at specific locations.

GSA Has Not Released Information on the Estimated Scope of Networx that Potential Offerors Need to Estimate Business Risks

Federal acquisition regulations require indefinite-quantity contracts such as Networx to estimate the minimum and maximum levels of goods or services that will be purchased by the government. The minimum must be more than a nominal quantity, but it should not exceed the amount that the government is fairly certain to order.[3] In addition, reasonable minimum quantities provide potential competitors with an understanding of what will be required of them and allow them to compete on a reasonable basis.[4]

GSA has not yet estimated contract maximums; it proposed minimums in the form of minimum revenue guarantees (MRG) for each contract, subsequent to the release of the draft RFP. GSA proposed a minimum for the Universal acquisition of $525 million for all awardees over the life of the acquisition and a minimum of $25 million for all awardees for the life of the Enterprise acquisition. According to the Networx program manager, these figures were derived by taking 75 percent of the estimated total revenue (less fees, taxes, and surcharges) expected under the two acquisitions in their first year. The total was then allocated between the two acquisitions based on estimates of the relative level of business during that first year. He added that GSA was purposefully conservative in defining the minimums for several reasons:

- it experienced program delays when it did not fulfill the MRGs as fast as originally estimated on the FTS 2001 contract,
- it was unsure how much agencies will use the Enterprise contracts and did not want to risk being unable to recover the MRGs within the 4-year base period of the contract, and
- vendors are aware of the overall level of revenue generated by FTS2001 which should provide them with an indication of the scope of the new acquisitions, regardless of the size of any MRGs.

[3] FAR 16.504, 48 C.F.R. 16.504

[4] B-244710, Nov. 13, 1991; and B-291185, Nov. 8, 2002.

In commenting on the draft RFP, vendors expressed concerns about the potential size of the acquisitions as proposed by GSA. In addition to noting the absence of maximum amounts, vendors commented on:

- uncertainty over how business will be allocated between the two acquisitions and the number of awards to be made under each;
- the time period during which the MRGs will be paid; and
- the relatively small size of the Enterprise MRG compared to the costs of developing proposals and fulfilling the administrative requirements of the contracts. (Administrative requirements in the RFP call for the contractors to provide, for example, training, management reporting, and systems to perform billing, ordering, and other functions.)

These vendors commented that, because of such uncertainties, they have difficulty estimating the revenue potentially available to them. This, according to their comments, may cause difficulties in developing viable business cases to support proposals, particularly on the Enterprise acquisition. Vendors also raised the possibility that their proposed prices for the Enterprise acquisition would need to be raised to account for the risk of not recovering initial costs.

Subsequently, GSA took several actions. Specifically, it recently raised the MRG for Enterprise to $50 million. In addition, according to GSA officials, GSA is also reexamining the acquisitions' requirements to ensure that they are all necessary. Finally, the program manager indicated that maximum amounts would be included in the final RFP.

Establishing the required maximums should help offerors determine the potential size of the contracts; however, until GSA fully resolves the issues surrounding the Enterprise MRGs and administrative requirements, uncertainty about contract requirements could result in proposals that limit the government's ability to leverage its buying power and obtain necessary services at favorable prices.

GSA Has Not Finalized its Evaluation Criteria for Networx Proposals

Federal acquisition regulations require that, when an agency plans to base award decisions on factors other than price, it must describe in its solicitation:

- all evaluation factors and significant subfactors that will affect contract award and their relative importance and
- whether all evaluation factors other than cost or price, when combined, are significantly more important than, approximately equal to, or significantly less important than cost or price.[5]

The draft Networx RFP released by GSA did not include information on the evaluation criteria GSA planned to use. According to the Networx program manager, GSA thought it would be premature to release the evaluation criteria at that time, given its state of development. He added that GSA plans to identify the necessary evaluation criteria in time to include them in the final RFP.

In commenting on the draft RFP, vendors asked that GSA should make the evaluation criteria available to them in draft form. For example, one vendor commented that the evaluation criteria and other instructions to offerors drive the strategy and framework for technical and business offers. The earlier the service provider community receives such information, the more time can be spent on refining offers and arriving at the solution set that provides the best value to the government.

While GSA's approach will fulfill FAR requirements, it is inconsistent with the broader strategy for Networx, which has featured several opportunities for interested parties to review different aspects of the program and comment on them; public forums, the October 2003 RFI, and the October 2004 draft RFP. Because the selection criteria will receive limited outside input and vendors have only a 3-month time period to prepare proposals, GSA risks delaying contract awards should any unanticipated concerns

[5] FAR 15.101-1, 48 C.F.R. 15.101-1

arise that require it to revise the criteria. In addition, continued uncertainty about the criteria could affect the quality of the proposals received in response to the Networx RFPs.

Information on Traffic Volumes May Be Delayed

As previously indicated, an accurate inventory of current services is critical to defining the government's requirements for Networx. The inventory should identify the level of services needed at each location (traffic volumes) to allow offerors to assess the government's requirements and submit a proposal that accurately reflects those requirements. Further, information on the level of service needed at each location is necessary for GSA to ensure achievement of the goal of service continuity, which requires all services currently available under FTS2001 be included in the Networx acquisition.

GSA has yet to finalize its assessment of the volume of traffic that will be necessary at each location. In January, GSA released a preliminary list of the locations to which offerors must provide services under the Universal acquisition to ensure continuity of existing services. GSA provided the list to allow potential offerors to begin assessing how they can meet the government's needs. However, according to the Networx program manager, the additional analysis needed to finalize traffic volumes has not been completed due to delays in developing an underlying software system. He estimated that the traffic volumes would not be available until mid-to-late May.

Since this information is critical to developing proposals, delays in providing this information to potential offerors further diminishes the time frames they have to respond to the RFP and may ultimately affect the quality of their proposals. Further, if GSA decides to provide offerors with additional time to prepare and submit proposals, it could ultimately delay GSA's ability to award contracts by April 2006.

In summary, since our testimony in September, GSA has made progress in addressing the management issues we previously identified, as well as our previous recommendations. However, several critical issues present significant short-term hurdles to GSA's timely achievement of the program's goals. GSA has not yet fully resolved issues concerning the MRGs, including determining the validity of administrative requirements. In addition, less than one month before the scheduled release of the final RFP, GSA has yet to finalize its assessment of traffic volumes and to share evaluation criteria with potential offerors. Resolving these issues will be a significant challenge for GSA considering the tight schedule it has outlined. However, if these issues are not resolved promptly, GSA risks limiting its ability to deliver improved services to its customer agencies at favorable prices.

Mr. Chairman, this concludes my statement. I would be pleased to answer any questions from you or other members of the Committee.

Contacts and Acknowledgements

Should you have any questions about this testimony, please contact me by e-mail at koontzl@gao.gov or James Sweetman at sweetmanj@gao.gov. We can also be reached at (202) 512-6240 and (202) 512-3347, respectively. Other major contributors to this testimony were Jamey Collins, Nancy Glover, and Nicholas Marinos.

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Chairman TOM DAVIS. Anybody else want to add anything? You have your—I think we're ready to move with the questions.

Let me start, Commissioner Perry, with you.

In your statement you indicated that GSA anticipates two awards on Universal and maybe five on Enterprise; is that correct?

Mr. PERRY. Yes. That is an estimate.

Chairman Tom DAVIS. It could be three; it could go back and forth?

Mr. PERRY. Yes, it is in that range. But we believe the service that the government would require, has required, and will continue to require in the future could be met easily by the two.

Chairman Tom DAVIS. But it could be three, it could be four, could be five, it could be six, correct?

Mr. PERRY. Yes.

Chairman Tom DAVIS. Those are just your estimates.

Did you derive these numbers based on your assessment of the likely competitive market, or is this just what you would like to see?

Mr. PERRY. No. It's based on the government need and our sense of the competitive marketplace.

Chairman Tom DAVIS. You indicated that GSA will raise the minimum—the MRGs on Enterprise to $50 million for all offerors and will guarantee $10 million to each offeror in the event there are five Enterprise awards. What does that mean? Does that mean that you wouldn't go to six awards and divide it, or is that, again, a flexible number?

Mr. PERRY. Well, the minimum guarantee amount of $50 million would be divided equally among however many awardees there are; so in your example of five, then it would be $10 million each. The larger number of awardees, that minimum guarantee would decrease proportionately.

I think on the subject, if I may add——

Chairman Tom DAVIS. Sure.

Mr. PERRY. The things that competitors—and Enterprise, for example, or for that matter Universal—will look at in making their determinations to compete first of all will be their view or their perception of how well their product or service matches up with the government need. That is going to be preeminent. The second thing would be for them to take an assessment of their ability to provide those products and services to the government in a superior package as compared to their competitors. If they assess that is the case, then they go to the third question, which is to see that there is an opportunity for them to have a profitable return on their investment by investing. That is the time in which the minimum revenue guarantees come into place.

Ideally their profit, their return on their investment will come from the sale of their products and services, not from the minimum revenue guarantees. The minimum revenue guarantees are there to ensure that there will be robust competition. Our assessment is that will be the case at the level that they have now established.

Chairman Tom DAVIS. Thank you.

Ms. Koontz, you have been reviewing the program for us for over a year now. Based on that experience, how would you rate GSA's overall performance in developing their Networx strategy?

Ms. KOONTZ. I think that GSA has followed a very good course of events in developing their strategy. They spent a lot of time, I think, with industry, they spent time with us in terms of developing a strategy. I also think that they have listened to the stakeholders as they have moved forward.

Chairman Tom DAVIS. Do you think that they have been responsive, then, to suggestions from industry and from you?

Ms. KOONTZ. I think they have been; and I think that they're not done yet. So I don't know what their final proposal is going to be, but I sense that they are attentive to what industry is telling them.

Chairman Tom DAVIS. Do you think that GSA currently has adequate resources to manage the program and the anticipated transition; and if not, what else would you think would be required?

Ms. KOONTZ. I don't think that we've taken a detailed look enough at the resources at this point for me to give you a good answer on that, Mr. Chairman.

Chairman Tom DAVIS. OK. Compared to the last transition, do you think—is GSA better prepared for the transition to Networx? Do you think that GSA will have the transition management plan completed in time for the award?

Ms. KOONTZ. GSA seems to have a greater recognition this time, given what happened last time, of what it is going to take to transition. They also have a plan this time, they have a schedule for completing it. If they adhere to what they say they're going to do, and if they stay on time, they should be in a much better position to manage the next transition than the one that we saw a number of years ago.

Chairman Tom DAVIS. Well, you noted the number of issues that have been raised concerning the draft RFP regarding such matters as the size of the minimum revenue guarantees, the lack of evaluation criteria, the traffic volume data. Do you think they can resolve these matters and still issue an RFP by April 1st?

Ms. KOONTZ. Obviously not all the issues will be resolved by April 1st because GSA has already told us that the traffic volumes for specific locations won't be available until mid to late May; however, it seems to us that there is probably enough information for them to release the draft RFP on April 1st. I think they need to remain sensitive, though, given the short time that they have for prospective offerors to do their proposals, to perhaps looking at having to lengthen that time if it becomes necessary.

Chairman Tom DAVIS. Do you think it would be appropriate for GSA to issue a second draft RFP to allow comment on such matters as the evaluation criteria?

Ms. KOONTZ. I don't think that is necessary. I think that they have heard the comments that they need to have at this point.

Chairman Tom DAVIS. All right. Thank you.

Mrs. Maloney.

Mrs. MALONEY. First of all, I saw in one of your letters, the letter to the GSA and your performance accountability report, that the contracts literally save the government money in the last term. So I would like to understand the timeframe a little better. You're going to come out with the RFP on April 1st, and then how long do the contestants have to respond to it?

Mr. PERRY. The request for proposals would be issued on April 1st, and at that point, as has been pointed out, there would be some information that GSA would not yet have available, and we would make that information available in no later than the end of May, and then the respondents would take that information and complete that and then submit their proposals by July 5th.

Mrs. MALONEY. By July 5th.

Mr. PERRY. Yes.

Mrs. MALONEY. And then how long will the government review these proposals and make a decision?

Mr. PERRY. My plan would be to make the review and actually issue the awards in April 2006.

Mrs. MALONEY. In April 2006.

And I understand you are allowing for competition, new ideas, new innovations in order to move us more into the 21st century. And if there is a transition period, what is the length of the transition period allowed for agencies? Say Homeland Security wants to get into a new system that is more secure, how much time would they have to get into a system that may be more secure? And who pays for the transition cost; does the government pay for it, or does the contractor pay for it?

Mr. PERRY. Well, in terms of the time that would be allocated for transition, we're allocating 18 months.

Mrs. MALONEY. Eighteen months?

Mr. PERRY. And that would be a period of time that enables us to complete the transition without having to extend the existing contracts, which is our plan. As a contingency, we do have the ability to extend the existing contracts should that become necessary, but we don't expect that to be the case.

So the last transition that we've talked about took almost 3 years; it took over 2½ years. We are saying this one will be done much more quickly not only because GSA has worked with industry and with customers, agencies to develop a better transition plan, but because agencies themselves are better prepared for the transition. So we believe that it all can be accomplished within the 18 months that's in this schedule as we projected it, but we have contingencies to deal with——

Mrs. MALONEY. And who would pay for the transition?

Mr. PERRY. The cost is paid for, in effect, by the government because we have a fund that GSA accumulates as a result of the fees that we charge to agencies for telecommunications acquisition services, and those funds would be used to pay for transition costs.

Mrs. MALONEY. Let me ask you something. You said it took 3 years for the first transition to take place, and now you're only allowing 18 months. That's a huge discrepancy.

Mr. PERRY. It is, it is. But the previous transition had a number of things happening, including a major strike of a provider during that period of time. It was not—we didn't have the benefit of the lessons that we've learned now. So by virtue of the fact that we started probably at 2 years ago to begin preparing for this new transition, we have worked to streamline it, make it such that it can be done more quickly. Still 18 months is more like it.

Mrs. MALONEY. I want to say that our country has changed dramatically since the last time we reviewed these contracts, and I

would say that the priorities have changed dramatically. I mean, there's more of an emphasis on security and communications during times of possibly a tragedy, and just moving into the 21st century, so I question the length of your contracts.

I'm glad that we're coming back and looking at new technologies and new security items in these contracts. I understand you're proposing a 4-year base period, with 32-year options, and what is the rationale for that particular contract length, given the speed of change in the telecommunications industry? It's hard to keep up with all the mergers and what they mean and how it's going to change the telecommunications industry, and what you're proposing is a potential 10-year contract. And is that wise, given the speed with which telecommunications changes, the speed of new startups and new ideas and new protocols, or whatever, in the industry? Do we want to tie ourselves into a 10-year contract given the massive speed and change of this particular industry, and given the fact that as we, as a Nation, evolve, our priorities may change in how we want to communicate in the future, given the world situation and security and so forth?

Mr. PERRY. Let me kind of just briefly, first on the first part of what you were discussing, namely the transition issue and the tradeoff that we have to make between how quickly we launch the award, because, as you pointed out, the more that gets delayed, the less time we have for a transition, which is the reason why we do need to proceed.

On your second point—and I'll ask John to followup on this a bit—even though the contracts have a duration, there is nothing that prevents the continuous refreshment of technology during the course of that first 4 years and subsequently. So technology is not frozen in place; in fact, quite the contrary, the project is designed—or contracts are designed to allow for the continuous refreshment of technology as these technologies emerge and mature.

Mrs. MALONEY. But what if the technology comes from a competitor company? I mean, obviously the company that gets the contract can build on their technology. Say a new company comes out with a new technology and patents it, you understand what I'm saying, and we're tied into a 10-year contract?

Mr. PERRY. Well, that would be the case. It probably wouldn't prevent the government from having access to that company and that technology, provided that it wasn't available under the Networx contract.

John, do you want to comment on that?

Mr. JOHNSON. Let me just add to that. First of all, we've anticipated the types of security requirements that we believe are necessary to carry us forward into the future. Now that being said, we can't anticipate the future completely, so we do have a very robust modification process to make sure that we can introduce new technologies and services over time to remain current, such as we have with FTS2001.

With regard to the new technologies that are security technologies, for example, that could be introduced, it's likely that because we will have a robust portfolio of service providers, those service providers would be motivated to form teaming arrangements or other arrangements to provide the requisite services re-

quired under the contract to meet customer demand. So I can't imagine that would be a large problem. If it were a large problem, however, we would take action to correct it by perhaps considering an additional contract for security services.

Mrs. MALONEY. My time is up.

Mr. BURTON [presiding]. The gentlelady's time has expired.

Ms. Koontz, you indicated that the criteria was going to be ready when?

Ms. KOONTZ. The evaluation criteria will be released with the final RFP.

Mr. BURTON. And when will that be?

Ms. KOONTZ. April 1st.

Mr. BURTON. When will the committee get a chance to take a look at that.

Ms. KOONTZ. I think that's a question for GSA.

Mr. BURTON. Well, I think because of the interests of the committee, all the members, Democrat and Republican alike, we would like to see that as quickly as possible so if there is a problem that we visualize, we would like to respond to it.

Mr. JOHNSON. We are nearing the completion of the evaluation criteria, and as was indicated, it would—it's planned to go out coincident with the release of the final RFPs, but certainly it could be available for the committee to review prior to that time.

Mr. BURTON. Yes. It would be great if we could have it a little ahead of time; it would be, you know—the chairman, I'm sure, and everybody on the committee would like to have that.

I understand that the telecommunications industry has expressed concern regarding the price management mechanism in the contract. And some members of the industry feel that the mechanism, as they understand it, allows the government to reduce prices unilaterally. Is that accurate?

Mr. PERRY. I would not characterize it that way. It's part of the effort that the government makes as a major purchaser, not only in telecommunications, but in a variety of other areas, to attempt to obtain the best pricing that a particular company offers to any of its customers, if we're their biggest customer. What the price mechanism enables us to do is to compare the prices that GSA or the government is being charged with the prices that same company is charging to its commercial customers, and in the event that those prices to commercial customers were as much as 5 percent below the government price, then we would expect that the government would be offered the better price. But it's not beyond that. In fact, that's a concept that's used in our multiple award schedules and a variety of other government purchasing vehicles; the expectation is that if we are a large purchaser, as comparable to their many large commercial buyers, then we try and negotiate that we get a price that's at least the same as their commercial customers.

Mr. JOHNSON. I might add, if I may, that there has been a criticism about the inclusion of the price management mechanism based on previous history. And the fact remains that we haven't had to use the price management mechanism because our prices have been very attractive. But the uncertainty of the future market just causes us to believe that the price management mechanism for the future is much more important because we don't really know

where the industry is headed, and we think that it is at least a good tool for us to keep prices at bay and competitive.

And I might also indicate that it's generally not our practice—or it isn't our practice to unilaterally adjust prices without negotiation with our service providers. We do create a dialog to make sure that our perceptions of prices are accurate, and that the price adjustments that we would want to make are necessary to maintain attractive pricing.

Mr. BURTON. Well, I understand that we want to get the very best price for the taxpayer, we want to save the taxpayers money, and we want to make sure that the service is quality, while keeping the price low; but once those contracts are negotiated, you know, a company may have a small margin of profit regardless of what they're charging corporate America. And so I think it's very important that you don't put some company—and I know that hasn't happened in the past, but don't put some company into an economic trick bag that might drive them out of business because you're arbitrarily and unilaterally lowering those prices. I mean, the contract should be negotiated in good faith so that the companies don't have to worry too much about that.

I understand that the draft RFP doesn't contain a section M, which is the customary section that spells out the evaluation criteria that will be used to choose the contract awardees. Is this accurate; and if so, why was this omitted from the RFP?

Mr. JOHNSON. The evaluation criteria, the RFP has not been released yet. We released a draft RFP that did not include the evaluation criteria. One of the reasons for that is because when we released the draft RFP, we knew that as a result of industry comment, that the RFP would change significantly, and it has. As a matter of fact, many of the issues that we're discussing today have been resolved. We received roughly 2,500 comments from industry as a result of the draft RFP, of which we've accepted about 40 percent in terms of changes that have been made to the RFPs.

So we knew that we would be making substantial changes, of which we have. So the criteria that we would develop obviously would be necessary with regard to the new or the revised RFP, so we thought that would create a lot of confusion.

The second part is that we just have not completed the evaluation criteria to be released in time for the draft.

Mr. BURTON. Maybe we will see that in advance.

Mr. JOHNSON. Yes.

Mr. BURTON. Who is next up?

Ms. NORTON. I think I'm next, Mr. Chairman.

Mr. BURTON. Well, then, we will recognize the gentlelady from the great city of Washington, DC.

Ms. NORTON. Mr. Perry, I have a question. I look at pages 4 and 5 of your testimony where you outline the Networx program goals, the last of the goals is performance-based contracts. As you know, government has been traditionally far better at awarding contracts than in monitoring contracts; it's very difficult to monitor contracts.

We're dealing with a mammoth contract here. We were very concerned last session in discovering just how difficult it is and just how easy it is for the contractor to, frankly, get away with not meeting the expectations of the government, largely because of the

difficulty the government has in monitoring what the contractor does. Now, that is difficult in the ordinary ABC contract. I really have a question about this contract, particularly in light of the GAO report.

We saw, for example, in Iraq huge difficulties; you can see that there would be larger difficulties there than here, but the size and complexity here, it seems to me, are of some concern when it comes to what the GSA says about performance measures. It says that you have developed draft performance measures, but it goes on to recommend—the GAO goes on to recommend that the GSA finalize your efforts to identify—and here I'm using the GSA's language—identify measures to evaluate progress toward program goals and develop strategy for using those measures for ongoing program management.

That is a huge challenge, and I would like you to speak about how far you are along in identifying measures to evaluate progress. Are they written down? How are you going about doing it for a contract this large and complex?

Mr. PERRY. Yes. Thank you for that question, and I will start and ask John to maybe fill in a bit.

You are correct that in any performance-based contract, it may be difficult to measure. First of all, the first difficulty is to establish what the metric should be, what are the indicators as to what are good services being provided? We've worked together collaboratively with all of the other Federal agencies to understand what's important to them in terms of what these goals should be, and then obviously we worked with the industry to understand their perspective on how they should be held accountable and what they should be held accountable to achieve.

Measures are beginning to be developed. We have measures—maybe these are sort of mundane or routine, but in the transition period we have measures on various transition steps that have to occur, and we would be measuring whether or not those various steps are taking place within the time standard allowed, and have very high expectations. In many cases the measure says that 98 percent of the modifications will be made within the standard time allowed. And then in some measures—in my own view, the measures should say 100 percent, but a couple of them are at this point at 98 percent. But those measures, in this case we are able to track some of them because they are things like what is the time interval for accomplishing this modification; and if they are not able to accomplish them in that time interval, then the record will show that measure was not achieved, and it will have consequences.

John, you may want to add to your thought there.

Mr. JOHNSON. I appreciate the recognition of the complexity of measuring a program of this magnitude. As Mr. Perry indicated, some of our program measures, such as transition success or the ability to have alternate service providers and so forth, have been clearly stated, and the GAO testimony referred to that in terms of our maturing the measures in terms of how we class success at some point in time.

But also we have internal operational measures that we use to evaluate the effectiveness of our operation in terms of monitoring SLA compliance and other such things; in other words, making

sure that we're getting what we asked for and paying for what we've asked for appropriately.

Ms. NORTON. Do you get feedback from the agencies that use the service?

Mr. JOHNSON. Yes, ma'am. And we also receive feedback from the agencies in terms of the quality of service that they receive, and the overall operational characteristics of the program itself.

So we have these measures, and as a result of these measures, we make adjustments to the program for continuous improvement.

But I might state that moving from the traditional contract environment to a service-level agreement environment does require a certain amount of restructuring, if you will, of infrastructure in terms of how you manage contracts; and we are working on that right now in terms of our operational systems.

Ms. NORTON. This is a big challenge, and I think this is where the—this is how the contract should ultimately be measured.

Mr. JOHNSON. Right.

Ms. NORTON. I thank you very much, Mr. Chairman.

Mr. BURTON. I thank the gentlelady.

Mr. Cannon.

Mr. CANNON. Thank you, Mr. Chairman.

Mr. Perry, as you know, agencies are not required to use FTS2001 for their telecommunication needs, despite the fact that GSA offers better pricing than other contract vehicles. I would put some bites in that becoming a commodity; basic economics suggest that we don't want to factualize the government's buying power if we're seeking the lowest possible prices.

One suggestion I heard is that the administration use a buy-smart approach where agencies would be required to use Networx unless they provided justification as to why going it alone would provide a better value for taxpayers. What are your thoughts on that idea?

Mr. PERRY. Well, first of all, I certainly agree that government agencies should work together, and we should leverage the purchasing power of the government. And I also agree that in this area the item being purchased is sufficiently similar that there shouldn't be wide deviations from agency to agency.

Now, as to my feeling about that, I think that we are making really good progress in terms of getting more and more agencies to recognize just the point that you're making, that this is the only appropriate and smart way to go. I think some of the reason why we might not have achieved that to the extent that we would have liked to up to this point, first of all it starts, I believe, with a general notion that agencies have historically had that we are independent, we operate independently, we don't do things across agency boundaries. But that is changing; that's changing rather dramatically partly because in an environment of constrained resources, and in an environment where agencies recognize that we do have to collaborate in the future much more than we have in the past, now that is changing. I think the nature of technology is enabling that change, not only in the telecommunications arena, but in financial management systems, in human resource management systems, in all the e-government initiatives that the administration has taken on. Agency boundaries have been crossed in order

for agencies to collaborate and get a better deal. And so all of that serves coming together and making this an idea whose time has arrived.

And I also would say—I'll compliment our GSA team in not only engaging with the industry, but engaging very much with agencies, including some agencies that did not participate in FTS2001, to help them be a part of crafting this Networx acquisition, and as a result I think we'll have much more buy-in from other agencies than we may have had in the past.

Now, without going all the way to a mandatory requirement, there is a very significant emphasis by OMB on agencies to, in fact, present a justification if they plan to deviate from a government-wide acquisition initiative, and I would expect that would be adhered to on Networx.

Mr. CANNON. So you don't feel that you need us to create a requirement; OMB, you think, is sufficient for that purpose?

Mr. PERRY. I think it starts, again, with the agencies themselves. I think a lot of this is agency initiation, but I think OMB is a backstop to that; and hopefully the combination of GSA, the agencies and OMB would make our compliance happen even without congressional action.

Mr. CANNON. I'm really excited, I think, as you know, about Internet protocol and what we can do with that to work with you there.

What do you see happening with IP and Networx and the services being made available that way; and what do you expect happening to cost over time because of new IP services?

Mr. PERRY. I will also ask John, as the expert, to talk about that. But the little bit I know will tell me that we are moving from a telecommunications system where you try to get the line cost down as low as you possibly could, and you switch services, a means of delivering; whereas today, with IP protocols and with other packet delivery systems, you can have a very ubiquitous telecommunications system that operates actually for, I would say, fractions of the cost of what used to be the case. We've seen the costs come down dramatically during the period of time of FTS2001, and the expectation is that some of that will continue as new technology comes on.

Mr. CANNON. John, as you begin to approach that question, I was talking to a guy in the industry the other day who was very sure that the cost would be a thirtieth, at least, and after some discussion sort of concluded that you actually end up with maybe a hundredth the cost for IP. What do you see that coming out as?

Mr. JOHNSON. With industry behind me, I'm afraid to answer that question, but certainly I think there are many opportunities to save on the cost per megabit, if you will, of delivery, whether it be voice, video, data, as a result of converging our traditional applications toward an IP-based environment.

And as we all know today, for example, as was mentioned in the chairman's opening comments, voice, for example, is between 2½ and 2 cents per minute, and as that voice migrates over to IP, it could be that it is far less than that. I don't know what the actual cost per minute would be if that were the measure.

The idea is that by moving all of our applications to an NPLS IP environment, it will allow us a great opportunity to save on each service that's migrated that path, as well as on infrastructure costs that's traditionally developed and maintained in terms of managing each service separately.

So I think that there is great promise in savings for both government and industry in the cost per delivery.

Mr. PERRY. Congressman, if I may add to that question just a second.

A lot of the emphasis that we were just talking about is as it would relate to industry bringing forth technology at reduced cost. Some of the opportunity for savings is also on the customer side; that is, that as agencies are smarter in the use of this technology and telecommunications area, the same thing will happen.

You've already mentioned the issue of agencies collaborating and participating fully. That will help. But the other is that agencies will move from handling each of their bureaus independently, going to agencywide or enterprise-wide acquisitions for both their voice data and video, and that will also bring savings to the government.

Mr. CANNON. And perhaps save us some travel; that would be good.

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

Chairman Tom DAVIS. The Chair will recognize Mr. Clay.

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

Let me hear from anyone on the panel. What are the unique benefits of a centrally managed telecommunications acquisition program that could not be obtained in other models; in other words, is there a firm that can do it all? Could somebody attempt to answer that?

Mr. PERRY. I'll start with that. But the way we would interpret the phrase "centrally managed telecommunications system" is centrally within the government; that is, that as opposed to each of the agencies independently acquiring their own telecommunications system and operating it and maintaining it separately, we are following a model, and have for some time, that tries to centralize that, at least to the extent that GSA and a collaboration of the agencies form this centralized operation. It's not that one company would be asked to do it, but that the government would act in unison in acquiring its telecommunications services.

Mr. CLAY. And you think that is more efficient?

Mr. PERRY. Yes, I certainly do. I think that's a model that has been successful in a variety of organizations that are complex and far flung; that if you have a particular activity that's occurring in 20 or 30 places, if you can consolidate that expertise and at the same time continue to be sensitive to the needs of those 20 or 30 end locations, if you can do both sides of that equation, then, yes, it can be very effective. If you centralize and lose sight of the needs of those independent units, then you have a big problem; but if you do both, you can.

Mr. CLAY. I see. Thank you.

Can anyone give us your best estimate of the number of companies that will be able to compete for Networx? Does anyone want to take a stab at it?

Mr. JOHNSON. I am fairly confident that there are a large number of companies that can compete for Networx. I would have to answer that question by the responses that we received to the draft RFP, which we received responses from 40 companies with regard to their interest and making comments. So I would say that there is the potential for very robust competition.

Mr. CLAY. Can you name several of them today and then just give me the names, which ones are they? I mean, which ones just pop up in your head?

Mr. JOHNSON. I could name many of them. They range from large carriers to systems integrators, as well as some of the traditional smaller carriers; but it's across the board, quite frankly, in terms of who those companies are and who responded.

Mr. CLAY. You don't want to say specific names? That's fine.

Mr. JOHNSON. I'd prefer not to.

Mr. CLAY. Let me say that GSA has indicated that relatively small minimum revenue guarantees will be provided to winning contractors, $525 million for Universal and $50 million for Enterprise. These MRGs will be split equally among all awardees. Would you please explain the rationale for these decisions on minimum revenue guarantees to the committee?

Mr. PERRY. Yes, if I may, Congressman, I will try to put it in context. What we are trying to achieve in this is robust competition, and to make it attractive to not only the traditional carriers who have provided telecommunications services to the Government, but also to the emerging companies that may have leading-edge technology to participate in this arena.

And to my mind, there are two or three things that a company would think about before they would decide to participate in this competition. One is that they would see a match between the Government's needs and requirements and their own products and services. And as John says, there are at least 40 companies who potentially see a match there.

A second issue they would look at before they get to MRGs would be whether or not they would be, in their judgment, able to compete in offering a value proposition to the government that would be superior to that of some of their competitors. If they get past that hurdle, then they would say, is there a way in which I can do this and do it profitably and derive a return on my investment. That is where the MRG may come in. And I think they would want their profit on their investment to be derived from the sale of their products and services, not necessarily from a guaranteed minimum revenue amount.

However, we believe that the minimum revenue guarantee needed to be added in order to sweeten the whole proposal, if you will, so that some companies who have a high hurdle in terms of the cost of putting together a bid proposal, and there is—and they would confront a great deal of uncertainty as to whether or not they would be able to generate enough revenue to make this all worthwhile, the minimum revenue guarantee is intended to bring those people into the competition.

We think having established that the way we did is reasonable. We took the projected total revenue and then we divided that, 95 percent to the Universal group and initially 5 percent to the Enter-

prise group, and subsequently increased the Enterprise group to $50 million. But hopefully in that context one would say, OK, if all of those other things are in place, if companies believe they can compete, they have a product, they have a value proposition, and there is some assurance that they will be—have at least some amount of minimum revenue, we believe that will generate the robust competition that we need.

Mr. CLAY. OK. I thank the panel for their response.

Thank you, Mr. Chairman.

Chairman TOM DAVIS. Thank you very much.

Mr. Marchant, any questions?

Mr. MARCHANT. No.

Chairman TOM DAVIS. Mr. Lynch, any questions?

Mr. LYNCH. Thank you, Mr. Chairman.

The ability of customers to utilize new technologies and to have that flexibility in cost-saving technology as well depends, I think, in part on the ease of transition to actually adopt some of those technologies and, if necessary, to change carriers.

The last time that we were here on this matter, I know Ms. Koontz had identified some transition challenges that we still—at that point I believe your statement was that GSA had not developed procedures or a time line or contractor support to allow people to actually transition to the advantage of the customer and use some of these new technologies and change carriers.

I am wondering, have we made any progress on that? And do we see any other obstacles that need to be addressed with respect to that transition occurring?

Ms. KOONTZ. Since we we last testified on this subject, I think GSA has made some progress; first, in mapping a schedule out and mapping a strategy for preparing for the transition. I also think that one of the things that was a very fundamental problem in the prior transition was the lack of service inventories or adequate service inventories so that agencies had identified exactly what services needed to be transitioned to the new carriers.

I think GSA, based on the experience that they had last time, have a recognition that this is important. They spent a lot more time in developing service inventories, and again they have a strategy and a deadline for getting those completed in time for the transition.

Mr. LYNCH. OK. Just going back just to the lessons learned from previous transition efforts, what have we learned? What were the major obstacles or major challenges in transition before, and how have we overcome these obstacles going forward?

Ms. KOONTZ. Again, I thought one of the issues was the lack of adequate inventories, but I can—do you have anything to add about the challenges?

Mr. SWEDMAN. There are a few more. A lot of it has to deal with the agencies, just recognizing the scope of the challenge, recognizing that it is hard. And there has been a lot of talk within the Interagency Management Council. GSA has been putting in some contractor support to help them with their portion of the transition management. There are a few things, and GSA is working on a plan on that. They expect that to be finished by February 2006,

which would put it in place a few months before the transition has to actually begin.

Mr. LYNCH. OK. Thank you.

Thank you, Mr. Chairman.

Chairman TOM DAVIS. Thank you.

Mr. Burton.

Mr. BURTON. Mr. Chairman, thank you.

I just have one quick question. You said in these contracts you were putting in minimum revenue projections to help entice bidders to bid; is that correct?

Mr. PERRY. That is correct.

Mr. BURTON. Now, can the government reduce that minimum revenue projection unilaterally?

Mr. PERRY. No.

Mr. BURTON. They cannot? That is a floor?

Mr. PERRY. It would be in the proposal, the document. Whatever we determine it to be, once that is final, then we would not change it.

Mr. BURTON. OK. Thank you very much.

Chairman TOM DAVIS. Let me just followup on that. If you intend to keep the minimum revenue guarantees pretty much where they are, and to maintain substantially the same level of management and operations requirements, is it realistic to expect to obtain robust competition, particularly in the Enterprise, from a market that almost universally maintains that the expense of competing is prohibitive?

Mr. PERRY. Thank you very much for that question. The first point is that some of the continued changes that we are making in the area of management and operation requirements are not even yet known to the industry, because we haven't had an opportunity to communicate that to them. In other words, we are continuing to look at the objections that they have raised in these areas, and we are continuing to bring that number down so that we have fewer and fewer government-specific requirements in that area.

My hope is that when they see the changes that we have made or the changes that we will continue to make that will make this less onerous, and at the same time meet the needs of the Government, that they will find that we have met or certainly moved a great distance toward meeting their expectation in that area.

I think that is going to be good news. That obviously then takes some of the pressure off of the minimum revenue guarantees, because if we take some of the onerous things that are driving up their costs, then that should help. So I would hope, while we would look at all aspects, everything is still on the table, we would look at all of those things, I would hope that they are going to see a much better balance than was in the RFP that they have in front of them now.

Chairman TOM DAVIS. Also, just one other issue, it is a concern to me the fees that GSA charges its customer agencies. Do you have any plans to review the process GSA uses to calculate the management fees charged to the agencies under Networx?

Mr. PERRY. Yes. We do review them annually now, but the review that we have in the future, I think, will be much more substantial, because certainly, as you know, Mr. Chairman, we are

doing some things—first of all, let me back up and say that the fees that we charge are intended to cover our out-of-pocket or our total expense of providing acquisition services, nothing more than that. In fact, we have no incentive to charge anything greater than that. It is not the way we operate. It should be a break-even operation.

We are doing things that we believe will help to continuously improve the efficiency of our agency, which would help continuously reduce our own costs, which will have some impact on the fee. In fact, in the schedules area, over the last couple of years we have reduced those fees already once, and we will reduce them again in 2006.

The review that will happen as a result of the efficiency changes that we make in GSA as a whole will also be reflected in the next time that we take a look at what that charge should be. We expect it will continue to be contained.

Chairman TOM DAVIS. OK. Also knowing that there is a tendency in agencies to avoid transition difficulties by just keeping their incumbent vendors, how do you feel about the Enterprise acquisition being successful, and why are the mandatory Enterprise services also mandatory on Universal? Does that reduce the chance that the agencies would use the Enterprise? That is my concern.

Mr. JOHNSON. The services on both contracts are very similar, as you indicate, but the mandatory offering on—or the services on Enterprise, in terms of how—the number of them that are mandatory are fewer than in Universal. The reason for that was that we wanted to open up competition and give some of those service providers that do not have the full breadth and scope of ability to meet our broad demands the ability to enter the marketplace.

It is hopeful, however, that based on the services that we have cited as mandatory, the advance technology such as IT and wireless services, VPN-type services and what have you, that the agencies will be motivated to move toward that technology to improve their infrastructures and their operations.

So I think that it allows industry, one, to enter with relative ease as compared to Universal, and also it hopefully will motivate agencies to look seriously at the Enterprise providers because of the emerging technologies that they offer.

Mr. PERRY. Let me just add to that. If you look at it from the point of view of—let's say of a potential Enterprise contractor, if the only thing we had available was Universal, with 37 mandatory requirements, there would be some companies who would have a particular sweet spot among those 37, but they wouldn't be able to take on all of them.

So we go to Enterprise and say, OK, you don't have to take on all 37; you only have to take on 9. Now, yes, they are nine that are also on the Universal, but from the Enterprise contractor that gives them the opportunity of saying, OK, well, I do not have to worry about those other 26 and/or 28, and I don't have to worry about wide geographic application, I can bid in my sweet spot area.

Chairman TOM DAVIS. Who knows where technology will be 4 or 5 years down the road? The real question is that the more vendors you have, the more opportunity you are going to have to take care of that down the road.

So those are, I think, all of the questions that I have for this panel. Anyone else want to ask a question? If not, I will dismiss this panel. I appreciate very much your continuing to work with us. I know you are going to be listening to all of the testimony today so that we can factor that into the final RFP.

Linda, thanks for being with us. We appreciate all of the work that you're doing. And, Mr. Swedman, thank you.

We will take a 2-minute break and get our next panel up.

[Recess.]

Chairman TOM DAVIS. We are ready to move to our second panel. We have Mr. Jerry Hogge, senior vice president, Level 3 Communications; Mr. Robert Collet, who is the vice president of AT&T; Ms. Shelley Murphy, vice president, Federal Markets, Verizon; Mr. Jerry Edgerton, senior vice president, Government Markets, MCI; Mr. Jeff Storey of WilTel Communications; and Mr. Anthony D'Agata, who is the vice president and the general manager from Sprint.

It is our policy that we swear everyone in.

[Witnesses sworn.]

Chairman TOM DAVIS. Thank you very much.

Your entire statement is in the record. Not only do we read it, but we are making sure that GSA reads it as we go through this. If you could try to hold it to 5 minutes, we can try to move through this quickly and then get into questions.

Jerry, we will start with you, and we will move straight on down the line. We appreciate your patience in being with us today.

STATEMENTS OF JERRY HOGGE, SENIOR VICE PRESIDENT, LEVEL 3 COMMUNICATIONS, LLC; ROBERT COLLET, VICE PRESIDENT, ENGINEERING, AT&T GOVERNMENT SOLUTIONS; SHELLEY MURPHY, VICE PRESIDENT, FEDERAL MARKETS, VERIZON; JERRY EDGERTON, SENIOR VICE PRESIDENT, GOVERNMENT MARKETS, MCI; JEFF STOREY, CEO, WILTEL COMMUNICATIONS; AND ANTHONY D'AGATA, VICE PRESIDENT AND GENERAL MANAGER, SPRINT GSD

STATEMENT OF JERRY HOGGE

Mr. HOGGE. Thank you. Good morning, Chairman Davis and members of the committee, and thank you for inviting me here today to speak about the Networx program. My name is Jerry Hogge, and I am senior vice president and general manager of Level 3 Communications, Government Markets.

In prior testimony, Level 3 praised the GSA for revising its Networx strategy for incorporating the best elements of past programs' successes while building in flexibility and choice for the future. We believe that GSA has taken positive steps in many areas of this procurement, and that Networx, through the competitive benefits of both Universal and Enterprise, holds great promise for realizing the Government's stated goals of encouraging competition, creating new sources of supply, and achieving the best value for the taxpayer's dollar.

In its current form, however, the draft RFP requires two fundamental revisions. First, the minimum revenue guarantee for En-

terprise awardees should be increased to ensure vigorous and broad-based participation by existing and new entrants.

Second, the final RFP should clearly describe the mechanism that will be used to ensure full and fair competition between and among Enterprise and Universal contract awardees, especially the fair opportunity process that will be used to transition from FTS2001 to Networx.

In our judgment, unless those issues are properly resolved, Networx is not likely to achieve the best value for the Federal Government, and is not likely to attract aggressive competition from new bidders.

In order for Networx to achieve its stated goals, they must be structured to encourage competitive bids from a wide range of potential bidders. Incumbent and nonincumbent bidders are most likely to compete vigorously for a Networx contract if an award carries with it a reasonable expectation of business commensurate with the market opportunity and appropriate to the unique costs and investments associated with complying with the contract requirements.

Based on our understanding of the draft RFP, Networx will require bidders to make a substantial amount of program-specific investment, as well as incur sufficient upfront bid and proposal costs. As such, Networx will attract bidders, particularly new entrants, only if success in receiving a contract award carries with it a corresponding assurance of business through the contract.

The threshold measure of this business expectation is the contract's minimum revenue guarantee. Accordingly, Level 3 recommends a minimum revenue guarantee of at least $25 million for each Enterprise award, to be satisfied over the base contract period. An MRG of this size is appropriate to the size of the market for Enterprise services, does not present undue budgetary risk to the government, and is necessary given the unique investments and costs required.

Even more important than the government's minimum expression of business commitment is the successful bidder's expectation to be given a fair opportunity to compete and win business throughout the life of the program. GSA's acquisition strategy acknowledges this important aspect to the program in the deliberate and substantial overlap that has been created between the Universal and Enterprise RFPs.

Level 3 fully supports this concept, but believes that the expected competitive benefits of the program will be realized only if Universal and Enterprise are formally linked. The need for a formal direct linkage is essential, particularly for purposes of transition-related fair opportunity bidding. Agency decisions made during the FTS2001-to-Networx transition period will significantly impact the ultimate value of each Networx contract.

In our judgment, a direct linkage can be achieved either by reforming the procurement at the outset, by designing a single contract vehicle with multiple vendor categories, or by keeping the separate contracts for Universal and Enterprise, but linking the two sets of contracts through a cross-over approach similar to that used to connect the FTS2001 and MAA contracts. As we noted in

our formal comments on the draft RFP, ample precedent exists for both approaches.

Finally, the RFP must define a clear process for ensuring that the competition among and between Universal and Enterprise contracts is robust and fair. The fair opportunity process should not only set forth clear guidelines to require agencies to solicit fair opportunity proposals from all Universal and Enterprise winners capable of meeting the stated requirements, but it should also set forth objective guidelines for how bids will be evaluated and how the results will be tracked and communicated. Such a process will allow both Universal and Enterprise winners to compete on a level playing field for agency business post award. An equitable approach would make it unnecessary, indeed would not permit a single company to receive prime contract awards for both Universal and Enterprise.

Properly resolving these key issues, as well as the many detailed issues raised by the comments GSA received in response to its draft RFP, is at the heart of the Networx program's future success. We are less than a month away from the schedule release of the final RFP, and the two fundamental elements I described remain either partially or wholly unresolved. Other essential information, such as the evaluation criteria, the instructions for proposal preparation, a detailed site inventory, and GSA's response to over 2,500 detailed comments, has not been released.

As a prospective nonincumbent bidder, it is certainly our preference for this procurement to move forward without delay. However, given the profound nature of the issues I have discussed, I believe it is even more important to take reasonable time for these issues to be properly resolved before a final RFP is issued. The strategic importance of the Networx program in terms of its estimated $10 billion value, its broad-based agency use, and 10-year duration require elevating substance over strict adherence to a predetermined time line. Accordingly, I recommend that GSA clarify its final position on these issues in the form of a second draft RFP. Doing so will minimize the number and complexity of amendments that would otherwise be required, and ensure that all potential bidders are presented with a comprehensive and clear statement of GSA's requirements.

In summary, GSA has listened to industry, to the Federal agencies, and has made many improvements to the initial procurement strategy. However, a few strategic issues remain to be resolved. Left unchanged, these issues are likely to significantly limit the success of Networx, particularly Networx Enterprise, and potentially deter both existing and new bidders from pursuing these contracts.

Level 3 is hopeful that the leadership of GSA and this committee will recognize the importance of these issues, and that they will be favorably resolved before Networx moves forward. Level 3 looks forward to continuing to work with GSA and Chairman Davis and the

Government Reform Committee to ensure that Networx is a success.

Thank you, Chairman Davis and the committee, for your time and consideration, and I am happy to answer any questions.

Chairman TOM DAVIS. Thank you very much.

[The prepared statement of Mr. Hogge follows:]

Testimony

of

Jerry W. Hogge

Senior Vice President & General Manager
Government Markets
Level 3 Communications, LLC

8270 Greensboro Drive
McLean, VA 22102

Before the

Congress of the United States

House of Representatives

Committee on Government Reform

March 3, 2005

Good morning Chairman Davis and members of the Committee. Thank you for inviting me here today to speak to you about the Networx Program. My name is Jerry Hogge, and I am Senior Vice President and General Manager of Level 3 Communications, Government Markets.

In prior testimony, Level 3 praised the General Services Administration for revising its Networx strategy to incorporate the best elements of past program successes while building in flexibility and choice for the future. We believe that GSA has taken positive steps in many areas of this procurement and that Networx, through the competitive benefits of both the Universal and Enterprise contracts, holds great promise for realizing the Government's stated goals of encouraging competition, creating new sources of supply and achieving best value for the taxpayer's dollar.

In its current form, however, the draft RFP requires two fundamental revisions.

- First, the Minimum Revenue Guarantee (MRG) for Enterprise awardees should be increased to ensure vigorous and broad-based participation by existing and new entrants.
- Second, the draft RFP should clearly describe the mechanism that will be used to ensure full and fair competition between and among Enterprise and Universal contract awardees, especially the "fair opportunity" process that will be used to transition from FTS2001 to Networx.

In our judgment, unless these issues are properly resolved, Networx is not likely to achieve best value for the Federal government, and is not likely to attract aggressive competition from new bidders. The balance of my testimony elaborates on these issues, and provides specific recommendations for improving these aspects of the procurement.

I. Minimum Revenue Guarantees for Enterprise

In order for Networx to achieve its stated goals of providing high quality services, competitive prices, and alternate sources of supply, it must be structured to encourage competitive bids from a wide range of potential bidders. Incumbent and non-incumbent bidders are most likely to compete vigorously for a Networx contract if an award carries with it a reasonable expectation of business commensurate with the market opportunity, and appropriate to the unique costs and investments associated with complying with the contract requirements. Based on our understanding of the draft RFP, Networx will require bidders to make a substantial amount of government-specific investment, as well as incur significant up-front bid and proposal costs. As such, Networx will attract bidders, particularly new entrants, only if success in receiving a contract award carries with it an assurance of meaningful business through the contract.

The threshold measure of business expectation is a contract's minimum revenue guarantee. Accordingly, Level 3 recommends a minimum revenue guarantee of at least $25 million for each Enterprise award to be satisfied over the base contract period. An MRG of this magnitude is appropriate to the size of the market for Enterprise services, does not present undue budgetary risk to the government, and is necessary given the unique investments required.

II – Mechanisms Are Required For Post Award Competition Between Universal and Enterprise

Even more important than the Government's minimum expression of business commitment, is the successful bidders' expectation to be given a "fair opportunity" to compete for and win business throughout the life of the program. GSA's acquisition strategy acknowledges this

important aspect of the program in the deliberate and substantial overlap that has been created between the Universal and Enterprise RFPs. Level 3 fully supports this concept, but believes that the expected competitive benefits of the Program will be realized only if Universal and Enterprise are formally linked. The need for a formal, direct linkage is essential, particularly for purposes of transition-related "fair opportunity" bidding. Agency decisions made during the FTS2001 to Networx transition period will significantly impact the ultimate value of each Networx contract. In our judgment, a direct linkage can be achieved either by reforming the procurement at the outset by designing a single contract vehicle with multiple vendor categories, or by keeping separate contracts for Universal and Enterprise, but linking the two sets of contracts through a "cross-over" approach similar to that used to connect the FTS2001 and MAA contracts. As we noted in our formal comments on the draft RFP, ample precedent exists for both approaches.

Finally, the RFP must define a clear process for ensuring that the competition among and between the Universal and Enterprise contracts is robust and fair. The "fair opportunity" process should not only set forth clear guidelines to require agencies to solicit "fair opportunity" proposals from all Universal and Enterprise winners capable of meeting the stated requirements, but it should also set forth objective guidelines for how bids will be evaluated, and how the results will be tracked and communicated. Such a process will allow both Universal and Enterprise winners to compete on a level playing field for agency business post-award, will maximize competition and give agencies expanded choice for network providers, technologies, and agency-specific solutions. An equitable approach also would make it unnecessary for, indeed would not permit, a single company to receive prime contract awards for both Universal and Enterprise.

III. Open Issues Make it Prudent to Issue a Second Draft RFP

Properly resolving these key issues, as well as the many detailed issues raised by the comments GSA received in response to its draft RFP, is at the heart of the Networx program's ability to attract agency participation, motivate vigorous industry competition, and ensure best value for end-user agencies. We are roughly a month away from the release of the final RFP, and the two fundamental elements I've described remain either partially or wholly unresolved. Other essential information, such as the evaluation criteria, the instructions for proposal preparation, a detailed site inventory, and GSA's response to over 2,500 detailed comments has not been released.

As a prospective non-incumbent bidder, it is certainly our preference for this procurement to move forward without substantial delay. However, given the profound nature of the issues I have discussed, I believe it is even more important to take reasonable time for these issues to be properly resolved before a final RFP is issued. The strategic importance of the Networx program in terms of its estimated 10 billion dollar value, its broad-based agency use, its service scope and ten-year duration require elevating substance over strict adherence to a predetermined timeline. Accordingly, I recommend that GSA clarify its final position on these issues in the form of a second draft RFP. Doing so will minimize the number and complexity of amendments that would otherwise be required in the absence of a second draft, and ensure that all potential bidders are presented with a comprehensive and clear statement of the GSA's requirements. This approach should enable each prospective offeror to more precisely assess the potential business opportunity available through Networx, and facilitate the most competitive and compelling proposals from industry.

IV. Conclusion

In summary, Level 3 recognizes that GSA has made significant progress towards defining a procurement that combines the best elements of past program successes with flexibility and choice for the future. GSA has listened to industry, to the Federal agencies, and has made many improvements to the initial procurement strategy. However, a few strategic issues remain to be resolved, issues that are critically important to the success of the program, to attracting new bidders, and ensuring best value for end-user agencies. Left unchanged, these issues are likely to significantly limit the success of Networx, particularly Networx Enterprise, and potentially deter both existing and new bidders from pursuing these contracts. Level 3 is hopeful that the leadership of GSA and this Committee will recognize the importance of these issues, and that they will be favorably resolved before Networx moves forward.

Level 3 looks forward to continuing to work with GSA, and Chairman Davis and the Government Reform Committee, to ensure that Networx is a success.

Thank you, Chairman Davis, and the Committee for your time and consideration, and I am happy to answer any questions you might have.

Chairman TOM DAVIS. Mr. Collet, thank you for being with us.

STATEMENT OF ROBERT COLLET

Mr. COLLET. Well, good morning, Mr. Chairman and members of the Committee on Government Reform. My name is Bob Collet, and I am leading AT&T's FTS Networx proposal team. AT&T has been asked by the committee to provide our views on the Networx procurement.

The strategy and vision contained in the draft RFP are consistent with our view of both the government's needs and the industry's evolution. The message I am here to deliver is that GSA got it right, and it is time to move forward with the procurement; let's not delay.

Today I want to highlight three reasons why the acquisition strategy is the right one. First, it increases competition. Second, it brings to the Federal agencies new and much-needed capabilities. And, third, it is the right procurement for the times. Let me briefly address each of these points.

First, the procurement's three-part structure, Universal, Enterprise and schedules, maximizes competition and choice for the Federal customers, assuring the Federal Government the opportunity to leverage the combined buying power of the agencies.

We believe the number of Universal offerors will be greater than experienced in FTS2001. By cultivating cross-over contractors, GSA has expanded the pool of viable Universal competitors; consequently the Government can expect vigorous competition for Universal awards.

GSA and the Interagency Management Council's Networx acquisition strategy further maximizes competition by means of the procurement's Enterprise component. Enterprise opens up a whole new set of opportunities for competition by giving companies without geographical service scope a way to meet evolving government needs and enhance competition. In addition, we expect spirited competition from system integrators because of declining costs in telecommunications and information technology that have reduced the barriers to Enterprise market entry.

Finally, for those providers that cannot be responsive to Enterprise requirements, GSA's intent to establish a telecommunications multiple awards schedule results in yet another contract vehicle to enable agencies to obtain telecommunications services. Therefore, with the Universal, Enterprise and schedule vehicles, Federal agencies will have a wide variety of acquisition options.

The second reason that the procurement is ready is that it brings significant new capabilities to the agencies. These agencies' capabilities include enhanced security solutions, technologies to meet agency needs, and to advance information-sharing among the agencies. These enhancements will enable mission performance gains to ensure that agencies have the security and survivability tools they need to guard against cyberattacks and to facilitate continuity of government during emergencies.

The third reason is that the procurement is right for the times because it anticipates and accommodates industry evolution. Since the inception of the Networx strategy several years ago, GSA and the agencies anticipated that industry structure could and indeed

would change and evolve. The multivehicle, multiple award structure of Networx reflects this thinking and positions Federal agencies to reap the benefits of industry consolidation and rationalization.

So while GSA and the Interagency Management Council should be commended for developing a responsive and forward-looking acquisition strategy, we do recommend a few adjustments in the procurement. We believe, however, that these adjustments can be made without delaying the release of the RFP. These suggested adjustments are detailed in my written testimony.

Notwithstanding these modest suggestions, we believe the procurement is on target and ready to be released. GSA should move forward now to issue the RFP. A delay would result in loss of cost savings likely to flow from competition of Networx awards. In fact, the delay would necessitate an extension of the incumbent contracts, and recent experiences indicate that incumbents will seek major, major price increases as the agencies will have no practical alternatives.

The benefits of the procurement are clear: improved agency access to integrated security solutions, improved mission performance, improved e-gov capabilities and efficiencies, and improved cost savings. For all of these reasons the procurement is sound.

In addition to the benefits the government will reap by moving forward in an expeditious manner, I want to underscore the investment that we have made to prepare for this procurement. Industry has invested significant financial resources in human capital to get to this point, and we continue to make these investments in anticipation of the April RFP release. Simply put, the acquisition strategy is sound, and GSA and industry are well prepared to get on with the competition.

So, thank you, Mr. Chairman, for the opportunity to participate in today's hearing. I welcome any questions that you or other members of the committee may have.

Chairman TOM DAVIS. Thank you.

[The prepared statement of Mr. Collet follows:]

Statement of Robert D. Collet
Vice President of Engineering and Chief Technology Officer
AT&T Government Solutions
Testimony before the
House Committee on Government Reform
March 3, 2005

Good morning, Mr. Chairman, and members of the Committee on Government Reform. My name is Bob Collet. I am AT&T Government Solutions' Vice President of Engineering, Chief Technology Officer, and the person leading AT&T's FTS Networx proposal team.

AT&T has been asked by the Committee to provide input about the Networx procurement, based on the Draft RFP released last October. The acquisition strategy and vision contained in the RFP are consistent with our view of both the government's needs and the telecommunication industry's evolution. Accordingly, the message I deliver today is that GSA got it right – the procurement should be released on time and without additional delay.

FTS2001 is in the seventh year of its nine-year life and for all practical purposes, agencies are captives to the aging contract vehicle that no longer meets new requirements. The only way to remedy this problem is for the government to go forward with a new, forward-looking procurement that leverages the enormous buying power of the government, allows for continuous competition, and accommodates industry consolidation. Networx meets these challenges through a robust platform of continuously evolving technology services and enhanced security capabilities to empower federal agencies to streamline operations and optimize networks and information systems over the next decade.

Testimony of Robert D. Collet

Today, I want to highlight three reasons why the Networx procurement should be released on schedule. First, to increase competition. Second, to provide agencies with new and much needed capabilities. And third, it is the right procurement for the times. Let me address each of these in more detail.

Networx Increases Competition

Networx three-part structure -- Universal, Enterprise and use of schedules -- maximizes competition and choice for federal customers.

We believe the number of Universal offerors will be greater than that experienced in FTS2001. By cultivating several crossover contractors, GSA strategically expanded the pool of viable Universal contractors, even with the ongoing industry consolidation. In addition, we expect spirited competition from non- traditional sources such as systems integrators, because declining costs in telecommunications and information technology have dramatically reduced the barriers to the Universal market entry. Consequently, the government can expect vigorous product and price competition among the full portfolio of services and throughout the life of the procurement.

The GSA and Interagency Management Council's (IMC) Networx acquisition strategy further maximize competition by means of the procurement's Enterprise component. Enterprise offers a whole new set of opportunities to compete by giving companies without geographical service scope a way to enter the market. Enterprise affords these companies the opportunity to grow throughout the contract period, allowing them to meet evolving government needs and enhance competition over the life of the contract.

Finally, for those providers that cannot be responsive to Enterprise's minimum requirements, GSA's intent to establish a telecommunications Multiple Award Schedule results in yet another contract vehicle to enable agencies to obtain telecommunications services.

Therefore, utilizing the Universal, Enterprise, and Schedule vehicles, federal agencies will have a wide variety of acquisition options.

Networx Provides Agencies With New and Much-Needed Capabilities

The second reason the procurement should stay on schedule is because it brings significant new capabilities to the agencies, including enhanced security solutions and technologies to meet agency needs and to advance information sharing among agencies.

Consistent with direction from this Committee, GSA and the IMC agree that Networx should provide the capabilities for efficient information sharing among agencies, thereby assuring that agencies can meet current mission requirements. The Networx procurement meets your information sharing objectives by providing a very comprehensive portfolio of telecommunications and IT services from which to choose.

The draft RFP's requirements are written to ensure agencies have a choice of connectivity, storage, hosting and application services that enable seamless information sharing and increased operations efficiency. Examples of the most notable and forward-looking solutions include:

1) Next generation Internet Protocol (IP) convergence services to enable intra- and inter-agency information grids and the widest variety of multimedia services.

2) Disaster backup services and systems to meet Continuity of Operations (COOP) needs.

3) Enhanced Security with integrated intrusion detection systems and firewalls to meet Federal Information Security Management Act (FISMA) requirements.

4) Hybrid Voice over Internet Protocol (VoIP) campus systems and network services enabling lower telecommunications costs and productivity improvement.

5) Scalable hosting and applications solutions to facilitate a Federal Enterprise Architecture and network centric government.

6) Integrated wireless and wireline solutions to facilitate mobile government activities and employees.

7) Bundling of service-enabled devices to obtain needed but complex services.

8) Self service portals so agencies can quickly order and receive services.

These forward-looking solution sets offering voice-data-video convergence, open, on-demand network and IT services, and mobility have the potential to enable "break through" mission performance gains. Their embedded security and inherent survivability will protect agencies from cyber-attacks and facilitate continuity of government during emergencies.

Networx provides a path for technology convergence, a mobile government, security and survivability. It empowers the government to become increasingly network-centric, which is consistent with the current Federal Enterprise Architecture initiative.

Networx Is the Right Procurement Vehicle for An Evolving Industry

The third reason the procurement should be released on time is because it is right for the times as it anticipates and accommodates industry evolution.

Since the inception of the Networx acquisition strategy several years ago, GSA and the agencies anticipated that industry's structure could, and indeed would, change and evolve. The multi-vehicle structure of Networx reflects this thinking and positions agencies to reap the benefits of industry consolidation and rationalization.

A Few Minor Adjustments Are Necessary

While GSA and the IMC should be commended for developing a responsive and forward-looking acquisition strategy, we do recommend a few adjustments to the procurement. We believe these adjustments can be made without delaying the April release of the RFP..

The adjustments we have suggested include:

- The use of commercial practices instead of unique Service Level Agreements and Key Performance Indicators allowing the government agencies to meet their ultimate mission objectives -- and at a much lower cost.
- Amending the 90-day delivery requirement (with the penalty being non-payment) of bills for services that are complex and dynamic.
- Amending the 39% target for small business as it will be extremely difficult to meet this target without adding unnecessary performance risk.

Notwithstanding these suggestions, we believe the procurement is on target and should be kept on schedule.

A delay in issuing the RFP could have a very damaging impact on government agencies and taxpayers, primarily due to the result in a loss of cost-savings likely to flow from the competition for Networx awards. In fact, a delay would necessitate an extension of the incumbent contracts,

and recent experiences indicate that incumbents will seek major price increases from agencies with no practical alternatives. Delay also would impact agency acquisition of integrated solutions to improve security, such as COOP and FISMA performance, and the government would forego E-Gov initiative savings. For all these reasons, the procurement should move forward in a timely manner.

Summary

GSA and the IMC should expect vigorous competition in both the Universal and Enterprise procurements and on the telecommunications multiple award schedule. These procurements meet immediate mission requirements, are forward-looking, and provide agencies with diverse and continuous choices.

In addition to the benefits the government will reap by moving forward in an expeditious manner, I want to underscore the time and investment that we have made to prepare for this procurement. Industry has invested significant financial resources and human capital to get to this point, and we continue to make those investments in anticipation of the April 1st release RFP. Simply put, it is time to get on with the competition.

Thank you, Mr. Chairman, for the invitation to appear before the Committee. I appreciate having the opportunity to share AT&T's views on this important matter, and I welcome any questions that you or other members of the Committee might wish to ask.

Chairman TOM DAVIS. Ms. Murphy, thanks for being with us.

STATEMENT OF SHELLEY MURPHY

Ms. MURPHY. Mr. Chairman and members of the committee, my name is Shelley Murphy, and I the president of Verizon Federal Markets. Verizon continues to be pleased with the open communication by Congress and the GSA during the Networx procurement process.

Although we appreciate that the GSA has listened to the concerns expressed by industry, the draft RFP show that issues still remain. A major concern is the tens of millions of dollars that each awardee will have to spend on billing and back-office systems. Verizon's position is that to maximize competition and reduce prices, the GSA must either bring those requirements into line with industry practices or go forward with a separate procurement for a GSA-provided billing system.

The issue surrounding the requirements for back-office systems are especially concerning from a wireless perspective. The GSA is on record stating that the Universal and Enterprise programs are designed to provide multiple options for both technologies and vendors to the government. Based on the draft RFPs, the procurement's current structure does not serve the stated GSA purpose.

By GSA's design, more companies can bid on the Enterprise RFP than on the Universal RFP, but because of this design, the major mission-critical networks will most likely be competed for under the Universal contract. Once an agency decides to use the Universal contract, vendors holding only the Enterprise contract are precluded from bidding on those agency's requirements, even if the Enterprise vendors can meet those requirements. With no direct way to compete for Universal business, the Enterprise contract does not provide the government with sufficient options and makes the contract less attractive to potential bidders.

This issue could be corrected by allowing direct competition by Universal and Enterprise awardees for an agency's requirements, or by the ability to graduate from the Enterprise to the Universal contract. Enterprise awardees would have an incentive to expand their services to match those of the Universal contract offerings. Either approach would benefit the government by providing a large expanding pool of companies that could compete for Universal business over the term of the Networx contracts. These approaches are similar to the current successful GSA practice under FTS2001.

The current structure of the draft RFPs requires vendors to bid to a predefined set of feature service level agreements and prices. This commoditizing of services will result in fewer options for the agencies and potentially increased prices. As a result, agencies may decide not to use Networx and instead issue their own separate procurements.

With more commercial-like offerings, agency choices will increase, and prices will remain low. Individual agencies can then determine which combination of features, service level agreements and prices meets their individual requirements, thereby providing more flexibility and lower costs using the Networx contracts.

Another issue that may limit competition and increase cost to the government is that the mandatory performance requirements of the

Networx draft RFPs are generally more restrictive than in the commercial marketplace. These restrictive requirements are pervasive through the draft RFPs, especially in the required standards, the service level agreements, and the pricing format. The structure of the Networx draft RFP is directly opposite the Federal Government's goals of reducing expense and gaining flexibility by adhering to commercial practices.

Emerging services create an additional issue when the GSA tries to predefine combinations of features and service level agreements and then requires 10-year pricing. Features for these emerging services are still evolving, and, more importantly, the pricing structures are not fully developed. Verizon is concerned that the GSA may move the procurement forward too quickly in order to meet an artificial deadline.

Approximately 2,500 comments were submitted by the industry on the draft RFPs. Due to the importance of Networx over the next decade, after incorporating any changes, the GSA should issue another set of draft RFPs. This will help ensure that the GSA sets forth an RFP which will maximize competition and minimize cost of service to the government.

To summarize Verizon's main points, in order to get sufficient competition and reduce expenses that would be passed on to the government, the billing and operating system requirements should either mirror industry practices, or the billing system should be made separately by GSA.

To maintain competition and flexibility for the largest systems, Verizon believes that the relationship between the Universal and Enterprise contract should be tighter with a way for Enterprise awardees to either directly compete with or graduate to the Universal program.

Letting the commercial marketplace establish feature and service level agreement requirements at market-driven prices will provide the government with significantly more price-competitive options. Such an approach will also encourage agencies to maximize the use of the Networx contracts rather than establish their own procurement vehicles.

And, finally, the GSA needs to issue another set of draft RFPs. This will result in clearer, higher-quality final RFPs, and will expedite the overall procurement process.

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

Chairman TOM DAVIS. Thank you very much.

[The prepared statement of Ms. Murphy follows:]

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

WRITTEN STATEMENT OF SHELLEY MURPHY

VICE-PRESIDENT, VERIZON FEDERAL MARKETS,

GSA NETWORX ACQUISITION PROGRAM

March 3, 2005

Mr. Chairman and members of the Committee, my name is Shelley Murphy, and I am the Vice-President of Verizon Federal Markets

I want to thank you for once again giving me the opportunity to testify on the GSA Networx procurement.

Verizon continues to be pleased with the open communication by Congress and the GSA during the Networx procurement process. Although we appreciate that the GSA has listened to the concerns expressed by industry, the draft RFPs show that issues remain.

The GSA is on record stating that the Universal and Enterprise programs are designed to provide multiple options for both technologies and vendors to the Government. Based on the draft RFPs, the procurement's current structure does not serve the GSA's stated purpose. By GSA design, more companies can bid on the Enterprise RFP than on the Universal RFP. The Enterprise-specified sites comprise only 3% of the Universal locations, and only 9 of 39 Universal services are required under Enterprise. But because of this design, the major, mission-critical networks will most likely be competed for under the Universal contract.

Once an Agency decides to use the Universal contract, vendors holding only the Enterprise contract are precluded from bidding on the Agency's requirements, even if the Enterprise vendors can meet those requirements. With no direct way to compete for Universal business, the Enterprise contract does not provide the Government with sufficient options, and makes the contract less attractive to potential bidders.

This issue could be corrected by allowing direct competition by Universal and Enterprise Awardees for an Agency's requirements or by the ability to "graduate" from the Enterprise to the Universal contract. Enterprise Awardees would have an incentive to expand their services to match those of the Universal contract offerings, either so they could directly compete, or so they could "graduate". Either approach would benefit the Government by providing a large, expanding pool of companies that could compete for Universal business over the term of Networx contracts. These approaches are similar to the current, successful GSA practice under FTS2001 where holders of the Metropolitan Area Acquisition contracts "graduate" to a FTS2001 Cross-over contract so that the FTS2001 and Cross-over contract holders can directly compete for an Agency's requirements.

Another issue which may severely limit competition is the remaining requirements for a Networx-specific billing system, and other back-office systems. To meet these requirements, the bidders' billing and back-office systems will require extensive customization and result in substantial development and maintenance costs. This is true for both the Enterprise and

Universal programs, although it impacts potential Enterprise bidders more due to the significantly lower revenue anticipated for the total Enterprise program.

Verizon's internal estimate is that the cost of upgrading and maintaining our infrastructure to provide the service order, billing, and reporting systems required by the Enterprise program approaches the new proposed total of $50M Minimum Revenue Guarantee which will be equally allocated among the Enterprise Awardees. Verizon's estimate takes into account that the Company already has dedicated Government systems for provisioning and billing for our GSA WITS2001 and other Federal contracts. Considering the still low Minimum Revenue Guarantees and the probable division of revenues between the two contracts, it is difficult to conceive of a business case where bidding only the Enterprise contract is financially feasible. Without a large revenue stream from the current FTS2001 contract that reasonably could transition to Networx, even the Universal contract encompasses sizable financial risk to bidders. This single issue is having the most impact over decisions to bid or not to bid for a Networx contract. To maximize competition, either the requirements must more closely mirror commercial practices, or the Minimum Revenue Guarantees, especially for the Enterprise program, must cover the risk of system development.

One way to address the issue while meeting the billing needs of the Agencies, reducing the requirements to the vendors, and maintaining the current Minimum Revenue Guarantees is one that the GSA is apparently considering, as evidenced by its release of a "Sources Sought" request for a highly customized, Government-specific, billing system. If GSA proceeds with this separate billing

procurement, then it could provide the highly specialized and unique billing requirements requested by the agencies without requiring each bidder to develop their own system. This would substantially reduce up-front and continuing costs associated with the billing system, maximize the number of bidders on Networx and allow lower prices to the Government.

The current structure of the draft RFPs also requires vendors to bid to a limited set of pre-defined features, Service Level Agreements, and prices. This commoditizing of services will result in fewer options for the Agencies and increase prices. As a result, agencies may decide not to use Networx and instead issue their own separate procurements. With commercial-like offerings, choices will increase and prices kept low. Individual agencies can then determine which combination of features, service level agreements, and prices meets their requirements.

Another issue that may limit competition and increase costs to the Government is that the mandatory performance requirements of the Networx draft RFPs are generally more restrictive than in the commercial marketplace. These restrictive requirements are pervasive through the draft RFPs, especially in the required standards, in the Service Level Agreements, and in the pricing format. The structure of the Networx draft RFPs is directly opposite the Federal Government's goals of reducing expense and gaining flexibility by adhering to commercial practices. Among the issues are:

- Many "Routine" Service Level Agreements exceed those available from specific vendors. This will either limit services that bidders offer, or raise the price to the Government.

- Meeting the "Critical" Service Level Agreements will further increase costs to the Government.

- The structure of the pricing tables does not provide the flexibility to meet the individual needs of the Agencies. This is especially true if local services are added to the Networx requirements.

- The pricing philosophy tries to force customized solutions into a "one-size-fits-all" price.

Emerging services create an additional issue as the draft Networx RFPs try to pre-define features, Service Level Agreements, and require 10-year pricing. With new technologies, manufacturers create de facto standards based on their own implementations which, over time, are either accepted as, or replaced by industry-wide standards. Features and services evolve, and, more importantly, prices and pricing structures change. The only way to take advantage of the evolution of the emerging services is to let the marketplace determine the standards, features, and pricing structure as they evolve and then apply this to the Networx contracts, rather than locking into a structure which may become quickly outdated. This could be accomplished by allowing the Awardees to periodically refreshing the entire feature, Service Level Agreement, and price structure of the emerging technologies.

GSA should also consider the rapid pace of change, technology infusions, and the commercial market when acquiring wireless products and services for the next 10 years. High speed wireless voice, data and Internet products and services will increasingly provide the Federal Government with the tools and solutions required to enhance and extend the traditional office environments, especially to remote users. GSA should relax the wireless specifications to allow the competitive market forces to foster the environment necessary for wireless to continue serving government customers compliantly and creatively.

Based on recent comments by the GSA on meeting the April 1 RFP release date, Verizon is concerned that the procurement may move forward too quickly in order to meet an artificial deadline. Approximately 2500 comments were submitted by industry on the draft RFPs. Industry does not know what comments were made, and GSA plans on only responding to industry's suggestions through issuance of a final RFP, at which point it will be too late to effectively react to the changes made to the RFP. Due to the importance of Networx over the next decade, after incorporating any changes, the GSA should issue another set of draft RFPs, including the RFP sections missing from the initial drafts. The GSA should then allow a brief period for Industry to comment and for GSA to incorporate relevant suggestions into the final RFPs. This will help ensure that the GSA issues an RFP which will maximize competition and minimize costs of services to the Government.

To summarize Verizon's main points:

- Verizon believes that the relationship between the Universal and Enterprise contracts should be tighter, with a way for Enterprise Awardees to either directly compete with, or "graduate" to the Universal program. Without such a change, the current approach will result in decreasing choices, higher costs, and limited flexibility to the Government.

- The high entry costs associated with building specialized billing and back-office systems, and low expected revenue under the Enterprise program will limit participation. This will further reduce the competitive choices available to the Government. Outsourcing the billing system or reducing the requirements to mirror commercial offerings will increase vendor participation in the Networx program.

- The draft RFP presents all Networx requirements as specifically-engineered, universally-available, standard-priced commodities. This eliminates commercially available combinations of features, Service Level Agreements, and pricing that may better fit Agency requirements. The trade off between price and performance should be an end-user decision. Such an approach will also encourage agencies to make maximum use of the Networx contracts rather than establish their own procurements.

- Price structures and specifications are still fluid for several emerging services specified in the draft RFPs. Locking in types, specifications, features, service levels and pricing for an extended period could

disadvantage the Government over the long term. This could be solved by periodic refreshment of the requirements.

- And finally, the GSA needs to issue another set of draft RFPs. These drafts should include the RFP sections previously missing and allow industry a brief period to comment on them, as well as to comment on the changes made to the initial draft RFPs. This will result in a well-considered RFP on this important procurement.

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

Chairman TOM DAVIS. Jerry, welcome back.

STATEMENT OF JERRY EDGERTON

Mr. EDGERTON. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, good morning. My name is Jerry Edgerton, and I am the senior vice president of MCI's Government Markets Division. Thank you for the opportunity to provide you MCI's perspective on Networx.

MCI applauds the committee for its continuing leadership in overseeing this important Federal program. In the 6 months since I last testified before this committee on this matter, MCI has continued to aggressively prepare for the Networx procurement. For example, we have analyzed the draft RFP and submitted detailed comments and suggestions for improvement to the GSA.

We have assembled a top-flight Networx team so that we can expertly provide all of the 53 products and services desired by agencies by partnering with highly regarded small and large businesses, emphasizing the use of minority businesses, and we have invested in developing the complex service order billing and operating systems that are required under this procurement.

MCI strongly believes that the Networx structure being proposed by GSA will continue to provide the competitive environment, flexibility, innovation, technology refreshment and, more importantly, value that the agencies need to perform their mission-critical operations.

MCI is currently one of the largest telecommunications providers to the U.S. Government, both as an FTC vendor and as a provider of numerous other Federal contracts. MCI supports more than 75 Federal agencies and has designed and implemented some of the most complex government networks in the world.

Our guiding principle is to make sure that Government users get the full benefits of competition on which MCI thrives: world-class service, quality, the best available technology, and innovative problem-solving all at a competitive price. And MCI has delivered, providing quality innovation and over $1 billion of savings over the life of the FTS2001 contract.

MCI has thoroughly evaluated the Networx draft RFP. The Networx strategy demonstrates a careful, detailed examination of the comments and issues that have been raised by interested parties in order to minimize cost, maximum efficiency and technological advancement. Because it properly focuses on the needs and expectations of the agency customers, we encourage GSA to maintain the base structure of the Networx strategy, specifically compete two separate network contracts, Universal and Enterprise; demand continuity of services on the Universal contract; streamline the requirements for the management and operations support requirements; and mandate a fixed set of service capabilities for both Universal and Enterprise contracts.

There are three major areas of unresolved issues that can adversely impact the effectiveness and the viability of the Networx program, and the ability of government to attain the best possible prices. GSA has not clearly set forth the number of awardees either under the Universal or the Enterprise procurements. GSA has not offered many details on the proposal to add telecommunications

services to the Federal supply program. And GSA must resolve the lack of clarity on how agencies will use the two contracts if the contracts provide duplicative services.

On these outstanding issues, we make the following recommendations. GSA should set clear limits on the number of Networx contracts awarded. Networks like FTS2001 can provide agency users with the lowest possible prices by aggregating the massive volumes of service demand for much of the Federal Government onto a single contract vehicle.

GSA should maximize competition by encouraging as many bids as possible from potential service providers. At the same time, GSA must limit the number of awardees in order to make each contract award financially viable for the successful contractor. Unless they are meaningful limits, the industry will not be able to give GSA its best prices. In order to lock in rock-bottom prices for the contract's 10-year term, providers must be confident in their ability to win a certain level of revenue. The greater the number of awardees, the less each business will be able to capture, and the more the government purchasing power is diluted.

While MCI supports the GSA decision to award large minimum revenue guarantees, the absence of high guarantees necessitates a limited number of awardees in order to assure that each awardee has a significant portion of traffic.

GSA must strike a balance between giving agencies as wide a choice of providers and coaxing the lowest possible prices from industry and set a meaningful limit on the number of awards.

GSA should also place limits on the number and types of services that will be included in the Federal Supply Schedule. GSA has discussed a major change in policy by including telecommunications services on the multiple award program. MCI supports the inclusion of commoditylike services on the FSS, but it is important that clear limits be placed on the numbers and types of services that are included in the FSS.

For example, simple inbound 800 toll-free services have become well established as commodities and could be included in the FSS. However, more complex, enhanced services like those using intelligent routing should not be treated as a commodity. Instead they should be placed into the Networx umbrella to ensure service quality, enable comparisons among vendors, and allow GSA oversight of vendor performance.

Furthermore, in the absence of clear, precise definitions, the FSS program will create uncertainty for Networx bidders by creating an unpredictable and uncontrollable back-door path for entry into the Federal telecommunications space. Again, in order to make the business case of the lowest possible prices, bidders must have a level of certainty as to the number and types of services, and thereby the potential revenue under the contract.

GSA should also ensure that agencies can obtain services from Networx awardees. The current Federal Acquisition Regulations prohibit an agency from using two different contract vehicles to procure the same services. Under the program currently outlined by GSA, an agency will have to select between the Universal and Enterprise contracts during the fair consideration portion of the procurement process. This will effectively prevent the awardees of

the nonselected contract from competing for that agency's business, thereby reducing the competitive options for the agencies. GSA should ensure that an agency has the ability to obtain services from all of the Universal and Enterprise networks.

Some of you have expressed concerns that Networx does not encourage the creative integration of complex services into an Enterprise solution. I believe this is inaccurate and contrary to practice of the government agency. Agencies are now using FTS2001 to procure and implement telecommunications solutions that integrate a full range of services, capabilities and performance measures. For example, the Department of Justice, with the assistance of GSA, used the FTS2001 contract to compete, award and begin the implementation of the JutNet Program, a complex network design requiring a full range of traditional integrator services and capabilities.

MCI has used FTS2001 to deliver a series of integrated solutions for the Department of Interior that include a new private IP Wide Area Network, a dedicated Network and Security Operations Center, and 20 security engineering and program management employees.

Networx, with its greatly expanded number of potential services will allow agencies and providers to meet any need for integrated and complex solutions.

Although this issue is somewhat beyond the scope of the hearing, I would be remiss if I did not address the industry consolidation issue and its effect on Networx and the Federal Government. As you know, 2 weeks ago Verizon and MCI announced an agreement to merge, which followed similar announcements by Sprint and Nextel and SBC and AT&T. And Qwest has resubmitted a competing offer for MCI.

The Networx procurement is presently structured to take full advantage of the competitive forces that exist in the marketplace today, and that will exist in the marketplace following the contract award. MCI plans to build on the Networx procurement and will do so as a completely independent entity.

MCI has teamed with Bell companies on other procurements, and any teaming arrangement on the Networx procurement will be at an arm's-length transaction. In fact, the timing of the MCI-Verizon merger and perhaps other mergers as well as relate to the Networx procurement is such that the contracts for the Networx procurement are likely to be awarded long before these transactions are consummated. Accordingly, GSA need not delay the procurement process as a result of the recent merger announcements.

Networx is structured in a manner that accommodates and takes full advantage of the changes in technology in the marketplace. Like FTS2001, it is designed to be a dynamic program that allows for the inclusion of new offerings as well as new offerors. Government customers will see the benefits of future advancements, both anticipated and unanticipated.

Furthermore, consolidation—

Chairman TOM DAVIS. Jerry, can you sum this up? You are 4 minutes over.

Mr. EDGERTON. OK.

In conclusion, I wanted to show the committee that MCI is fully committed to participating in the Networx program. MCI has maintained steadfast communications with our government customers, and we have delivered superior network performance and customer service and will continue to do so.

I will be glad to answer 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

MARCH 3, 2005

Mr. Chairman and members of the Committee, good morning. My name is Jerry Edgerton. I am the Senior Vice President of MCI's Government Markets division. Thank you for the opportunity to provide you with MCI's perspective on *Networx*, General Services Administration's (GSA) next generation program for providing telecommunications and network services to Federal departments and agencies.

MCI applauds the Committee for its continuing leadership in overseeing this important federal program. In the six months since I last testified before this committee on this matter, MCI has continued to aggressively prepare for the *Networx* procurement. For example, we have:

- Analyzed the Draft Request for Proposals (RFP) and submitted detailed comments and suggestions for improving the requirements to GSA;

- Assembled – substantially - a top-flight Networx team so that we can expertly provide all of the 53 products and services desired by the agencies by partnering with highly regarded large and small businesses, emphasizing the use of minority businesses; and,
- Invested in developing the complex service ordering, billing, and operations systems required under this procurement.

MCI strongly believes that the *Networx* structure being proposed by GSA will continue to provide the competitive environment, flexibility, innovation, technology refreshment and value that agencies need to perform mission-critical operations.

MCI is one of the largest telecommunications providers to the U.S. Government both as an FTS 2001 vendor and as a provider under numerous other federal contracts. MCI supports more than seventy-five federal agencies and has designed and implemented some of the most complex government networks in the world. Our guiding principle is to make sure government users get the full benefits of competition on which MCI thrives – world-class service quality, the best available technology, and innovative problem-solving – all at a competitive price. And MCI has delivered – providing quality innovation and over one billion dollars of savings over the life of the contract under FTS 2001.

The Networx Program is on the Right Track

MCI has thoroughly evaluated the *Networx* Draft RFP. The *Networx* strategy demonstrates a careful, detailed evaluation of the comments and issues that have been raised by interested parties in order to minimize cost, and maximize efficiency and technological advancement. Because it properly focuses on the needs and expectations of their agency customers, we encourage GSA to maintain the basic structure of the *Networx* strategy, specifically:

- Compete two separate *Networx* contracts – *Universal* and *Enterprise*;
- Demand continuity of service on the *Universal* contract;
- Streamline the required Management and Operations Support (MOPS) requirements;
- Mandate a fixed set of service capabilities on both the *Universal* and *Enterprise* contracts.

MCI's Concerns Regarding *Networx* Issues

There are three major unresolved issues that could adversely impact the effectiveness and viability of the *Networx* program, and the ability of the Government to obtain the best possible pricing:

- GSA has not clearly set forth the number of awardees under either the *Universal* or the *Enterprise* procurements;
- GSA has not offered many details on its proposal to add telecommunications services to the Federal Supply Schedule program;

- GSA must resolve the lack of clarity on how agencies will use the two contracts if the contracts provide duplicate services.

On these outstanding issues, MCI makes the following recommendations:

- **GSA should set clear limits on the number of *Networx* contract awards.** *Networx*, like FTS 2001, can provide agency users with the lowest possible prices by aggregating the massive volume of service demand from much of the federal government onto a single contract vehicle. GSA should maximize competition by encouraging as many bids as possible from potential service providers; at the same time, GSA must limit the number of awardees in order to make each contract award financially viable for the successful contractor. Unless there are meaningful limits, the industry will not be able to give GSA its best prices. In order to lock in rock-bottom rates for the contract's 10-year term, providers must be confident in their ability to win a certain level of revenue. The greater the number of awardees, the less business each will be able to capture and the more the Government's purchasing power is diluted. While MCI supports the GSA decision to avoid large Minimum Revenue Guarantees, the absence of high guarantees necessitates a limit on the number of awardees in order to assure each awardee a significant portion of the traffic. GSA must strike a balance between giving agencies

a wide choice of providers and coaxing the lowest possible prices from the industry and set a meaningful limit on the number of awards.

- **GSA should place clear limits on the number and types of services that will be included on the Federal Supply Schedule (FSS).** GSA has discussed a major change in policy by including telecommunications services on their multiple-award FSS program. MCI supports inclusion of commodity-like services on the FSS, but it is important that clear limits be placed on the number and types of services that are included on the FSS. For example, simple inbound 800 (toll free) services have become a well established commodity and could be included on the FSS. However, more complex "enhanced" 800 services, like those using Intelligent Routing, should not be treated as a commodity. Instead, they should be placed under the *Networx* umbrella to ensure service quality, enable comparisons among vendor offerings, and allow GSA oversight of vendor performance. Furthermore, in the absence of clear, precise definitions, the FSS program will create uncertainty for *Networx* bidders by creating an unpredictable and uncontrollable "back door" path for entry into the federal telecommunications space. Again, in order to make the business case for the lowest possible prices, bidders must have a level of certainty as to the number and types of services – and thereby, the potential revenue – under the contract.

- **GSA should ensure that agencies can obtain services from all *Networx* awardees.** The Federal Acquisition Regulations prohibit an agency from using two different contract vehicles to procure the same services. Under the program as currently outlined by GSA, an agency will have to select between the Universal and the Enterprise contracts during the "Fair Consideration" portion of the procurement process. This will effectively prevent the awardees of the non-selected contract from competing for that agency's business, thereby reducing competitive options for the agency. GSA should ensure that an agency has the ability to obtain services from all of the Universal **and** Enterprise awardees.

***Networx* Encourages the Full Integration of Services**

Some have expressed concerns that *Networx* does not encourage the creative integration of complex services into an enterprise solution. I believe this is inaccurate and contrary to the practice of the federal government today. Agencies are now using FTS 2001 to procure and implement telecommunications solutions that integrate a full range of services, capabilities, and performance measures. For example, the Department of Justice, with the assistance of GSA, used the FTS 2001 contract to compete, award and begin the implementation of the JutNet program, a complex network design requiring a full range of traditional integrator services and capabilities. MCI has used FTS 2001 to deliver a series of integrated solutions for the Department of Interior that included a new private IP

Wide Area Network, a dedicated Network and Security Operations Center, and twenty security, engineering and program management employees.

Networx, with its greatly expanded number of potential services, will allow agencies and providers to meet any need for integrated and complex solutions.

The Impact of Industry Consolidation on the Federal Government Customer

Although the issue is somewhat beyond the scope of this hearing, I would be remiss if I did not address the issue of industry consolidation and its effect on *Networx* and the federal government customer. As you know, two weeks ago Verizon and MCI announced an agreement to merge which followed similar announcements by Sprint and Nextel and SBC and AT&T (and, as of submission of this testimony to the Committee, Qwest has re-submitted a competing offer to MCI).

The Networx procurement is presently structured to take full advantage of the competitive forces that exist in the marketplace today, and that will exist in the marketplace following contract award. MCI plans to bid on the *Networx* procurement and will do so as a completely independent entity. MCI has teamed with a Bell Company on other procurements, and any teaming arrangement with Verizon on the Networx procurement would be an arms-length transaction. In fact, the timing of Verizon/MCI merger, and perhaps of the other mergers as well, relative to the *Networx* procurement, is such that the contracts for the

Networx procurement are likely to be awarded before these transactions are consummated. Accordingly, GSA need not delay the procurement process as a result of the recent merger announcements.

Networx is structured in a manner that accommodates and takes full advantage of changes in technology and the marketplace. Like FTS 2001, it is designed to be a dynamic program that allows for inclusion of new offerings as well as new offerors. Government customers will receive the benefits of future advancements, both anticipated and unanticipated.

Furthermore, consolidation will not negatively affect network redundancy or security. If anything, consolidation may result in more robust networks. Networks are becoming increasingly intelligent with built-in redundancy and security capabilities to minimize the impact of potential disruptions customers

Conclusion

In conclusion, I want to assure this Committee that MCI is fully committed to participating in the *Networx* procurement and program. MCI has maintained its steadfast commitment to our Government customers. Under FTS 2001, MCI has delivered superior network performance and customer service while introducing integrated solutions that enhanced government productivity and efficiency. MCI

will continue to provide the latest technologies, excellent service, and great prices to our nation's agencies and military services.

Thank you.

Chairman TOM DAVIS. I just want to remind everybody, your entire statement is the record. So we are ready to go ahead. Jeff, thanks for being here.

STATEMENT OF JEFF STOREY

Mr. STOREY. Good morning. My name is Jeff Storey. I am the president and CEO of WilTel Communications. Thank you for inviting me to speak this morning. We appreciate the committee's dedication to ensuring the Networx program encourages the widest possible participation. By broadening the program's scope to include specialized network providers like WilTel, both government and taxpayers will reap the benefit of an intensely competitive market. We look forward to working with the committee and GSA to provide government greater choice, innovative services and competitive prices.

WilTel is headquartered in Tulsa, OK, and specializes in wide-area networking for carriers, enterprises, media and entertainment companies, and the government. We provide a full suite of data, voice, IT, video, management and professional services across our 30,000-mile next-generation fiberoptic network.

Drawing on 20 years of experience in engineering specialized solutions to solve our customers' complex networking needs, WilTel is an ideal telecommunications supplier for the Federal Government. Nationwide telecom carriers, broadcast television networks, Fortune 100 businesses, and Internet giants, companies whose entire business is their network trust WilTel.

Although not a household name, WilTel provides telecommunications carriers with the capability they need to serve over 40 million voice and data customers and video transport for major events like the SuperBowl and the Academy Awards. Just last month, WilTel outdistanced many of the government's incumbent suppliers to provide DISA critical high-capacity services between mainland military bases and bases in Hawaii and Japan, the program known as TOT-P.

Networx represents a tremendous opportunity for the Federal Government to access the most reliable, innovative and cost-efficient network solutions available. To realize this potential, however, the current process must change. Instead of simply extending the practices followed in prior FTS procurements, Networx must foster the introduction of new technology and promote new methods of procurement by engaging new industry partners with specialized expertise.

Although improvements have been made, the Networx program still creates barriers that preclude nonincumbent suppliers from successfully competing for government contracts, even when they offer the best solution. These deficiencies lie in three key areas. First of all, we need a level playing field that fosters competitive bidding so that specialized providers like WilTel can participate.

Because of the small minimum revenue guarantee for new Enterprise vendors, the detailed mandatory technical service features discourage involvement of new providers. These requirements favor the incumbents and Universal providers with much higher revenue guarantees.

Second, the regimen and pricing table and structures currently embodied in the Networx program strongly favor incumbent solutions. To encourage competitive pricing the government should use the same method employed by commercial enterprises across the country, define the communications problem, allow firms to bid solutions, and evaluate them based on the total cost of ownership.

Also, replacing the burdensome price management mechanism with a streamlined commercial-based price renegotiation arrangement allows providers to craft innovative pricing that will lower the government's cost to purchase Networx services.

Finally, the government can benefit greatly by adopting commercial service standards instead of nonstandard government procurement mandates which impose unnecessary costs and force providers to fundamentally alter their services. These increased costs preclude government agencies from obtaining cost-effective, secure and reliable services commonly available to large enterprises.

By adopting the recommendations detailed in my written testimony, the Networx program can be much more attractive to new providers, enhancing competition and ensuring that the government will realize better prices and more innovative services. By addressing these important issues, the government will achieve its objective of upgrading its communications solutions in a timely manner and at the most competitive prices.

WilTel wants to compete, and we are well positioned to meet the needs of the government if given a fair opportunity to win. Thank you.

Chairman TOM DAVIS. Thank you very much.

[The prepared statement of Mr. Storey follows:]

Statement of Jeff K. Storey
President and Chief Executive
WilTel Communications
Before the
House Committee on Government Reform
March 3, 2005

Thank you Chairman Davis, Ranking Member Waxman, and members of the Committee for holding today's hearing to discuss the General Service Administration's Networx procurement. We appreciate the Committee's dedication to ensuring the Networx program encourages the widest possible participation by industry. Both government and taxpayers will reap the benefits of a robustly competitive market -- greater choices, better service, innovation and lower prices -- by incorporating specialized network providers like WilTel to complement the large, general providers that today provide the majority of services to the federal government. We look forward to working with the Committee and the General Services Administration (GSA) to develop a program that will ensure that the Government will have real choices so that it can receive better service, more innovation and lower prices.

I am pleased to have this opportunity to tell the Committee about WilTel, its state-of-the-art telecommunications network, commitment to outstanding service and strong desire to play a more significant role in meeting the needs of federal government agencies.

WilTel, headquartered in Tulsa, Oklahoma, is the wide-area networking specialist for carriers, enterprises, media and entertainment companies and the government. The company provides a diverse set of data, voice, IP, video, managed and professional services across a next-generation fiber-optic network that reaches border-to-border and coast-to-coast. With approximately 1,900 employees, WilTel Communications is a wholly owned, indirect subsidiary of Leucadia National Corporation.

WilTel history is one of innovation. It entered the telecommunications market in 1985 upon placing fiber in decommissioned petroleum pipelines owned by the Williams Pipe Line Company. In 1988, it developed Vyvx, a leading broadcast-quality video transport provider that today carries the vast majority of broadcast backhaul for live professional sports, live news and special events for TV stations and broadcasters. WilTel's original network was acquired by LDDS WorldCom, Inc. (later known as MCI) in 1995. WilTel retained Vyvx assets and re-entered the telecommunications market three years later.

WilTel's earliest forays into the telecommunications market were as a "carrier's carrier" serving the needs of other telecommunications providers for high capacity reliable telecommunications transport. By leveraging 20 years of engineering solutions to solve demanding needs of carriers, WilTel has earned the trust of a wide range of customers with complex networking needs. WilTel's commitment to excellence is what

has earned it the right to deliver the world's most watched events including the Super Bowl (sixteen consecutive years), Academy Awards (fifteen years) and the Olympics. WilTel's network was purpose-built to share, store and protect customers' mission critical voice and data. Nationwide telecom carriers, broadcast networks and Internet giants, companies whose entire business is their network, trust WilTel.

WilTel is firmly committed to supporting the federal government. WilTel's dedication to customer service, ability to engineer specialized solutions, state-of-the-art network and honest business practices makes it an ideal telecommunications supplier for the government. Over the last two years, the company's Government Solutions unit has devoted significant resources to the federal government market by obtaining a GSA Federal Supply Service (FSS) Schedule and establishing an office in the Washington area to manage government business. Just last month, WilTel was awarded a contract by the Defense Information Systems Agency for the Defense Information Systems Network Transoceanic Optical Transport – Pacific (TOT-P) Region to provide critical high capacity communications services between mainland military bases and bases in Hawaii and Japan. WilTel won this contract in competition with the incumbent suppliers that today provide services to the federal government under the FTS2001 contracts and the crossover contracts.

WilTel recognizes that Networx represents the most significant opportunity for it to expand its relationship with the federal government. The Government needs specialized and nimble providers like WilTel with its innovative and customized solutions to provide competition to incumbent suppliers. WilTel represents the type of "emerging provider" that the Government is encouraging to compete for Networx business. For that reason, we have already devoted extensive efforts and resources to pursuing this opportunity.

Let me state what I believe should be the intent of Networx. Networx should support a government-wide Enterprise Architecture and provide a framework supporting cross-agency collaboration, transformation, and government-wide technology improvement. Networx should minimize the use of and maximize the effectiveness of government resources by providing a common procurement infrastructure and a performance-based approach that embraces commercial technical and interface standards. Networx should require service providers to offer the most current security features and services to ensure a secure operating environment for the government. Networx should foster and incorporate the introduction of new technology, new industry partners, and new ways to achieve a more efficient and effective government. The Government should not dictate specific requirements that interfere with achieving this important goal by discouraging competition from innovative suppliers.

The Interagency Management Council (IMC) and the four primary IMC working groups who are vital members of the Networx program team have agreed on a set of program goals. I believe these goals are both laudable and achievable.

- Service continuity. All services to all locations that are currently provided on the FTS2001 and Crossover contracts must be included in the Networx program.
- Highly competitive prices. Prices on the Networx program must continue to be better than prices available elsewhere in the telecommunications marketplace.
- High quality service. Service on the Networx contracts must be provided by high quality telecommunications providers. The contracts must include enforceable agreements that will ensure high quality service is delivered throughout the term of the contracts.
- Full service providers. Service providers that are awarded contracts Networx contracts must be capable of providing a broad array of services.
- Alternative sources. Networx must provide access to a broad spectrum of industry service providers.
- Operations support. Improve ordering, billing, and inventory management.
- Transition assistance and support. The contracts must include provisions that facilitate transition coordination and support.
- Performance-based contracts. The contracts must be performance based with Service Level Agreements to the extent possible.

WilTel has been participating in and monitoring the development of the Networx program as it has evolved over the past two years. Although Networx' most recent evolution, the draft RFP that was issued last fall, is a significant improvement over GSA's initial vision of the program, WilTel continues to have misgivings about the likelihood of real opportunities for non-incumbent suppliers to compete for this business. WilTel wants to compete and will compete if the solicitation represents a fair opportunity for it to win business. In addition, we believe we are particularly well positioned to win, if given a fair opportunity.

WilTel embraces the goals established by the IMC for this procurement and stands ready to fulfill those goals with offers that mirror its innovative commercial services. By incorporating the below recommended changes to the procurement, GSA can not only achieve the service continuity it desires, but more importantly, it can ensure highly competitive prices, high quality service and the kind of innovation that is needed to equip federal government agencies with the latest technologies and enhance their ability to serve their needs most efficiently.

WilTel's Concerns and Recommendations Regarding Networx

WilTel submitted about eighty comments and concerns to the GSA in response to its request for comments last fall. The following summarizes eight characteristics of the current draft of the Networx solicitations that are troublesome because they needlessly tilt the solicitation in favor of larger incumbent suppliers. Smaller more nimble newcomers might offer better, more efficient and less costly solutions, particularly if they are free to offer commercial services not saddled with non-commercial, government-dictated terms that depart from the way companies conduct their business.

1. The Minimum Revenue Guarantee (MRG) for Networx Enterprise is too small.

2. There must be a mechanism to level the playing field to overcome the inherent tendency of agencies to continue to purchase services from incumbent suppliers.

3. The Price Management Mechanism (PMM) is burdensome and may undermine commercial operations by unfairly ratcheting down prices.

4. The solicitation imposes the FAR Cost Accounting Standards even though the intent is to procure commercial offerings.

5. The solicitation incorporates too many mandatory technical features for each of the services to be provided and they are out of line with commercial offerings.

6. The format and structure for the pricing of services precludes innovative offers to the Government.

7. The non-standard certification and verification test plan requirements are burdensome for small carriers and are not necessary to achieve the goals established by the IMC.

8. The small business subcontracting goals may be unduly onerous for smaller carriers.

Let me now briefly discuss each of these issues and provide recommendations to remedy them.

1. The Minimum Revenue Guarantee (MRG) for Networx Enterprise is too small.

The costs of pursuing these contracts are not inconsequential, especially in light of the non-commercial requirements being imposed. WilTel expects that it may spend up to $1 million to seek award of one of these contracts. I would note that if the other changes I identify below that now require departures from commercial offers are not made to the solicitation, WilTel would need to incur additional costs to retool its commercial offers to meet dictated terms of the solicitation. In sum, carriers must make a significant financial commitment to pursue award of a Networx contract. There needs to be appropriate reward to expend such resources.

These contracts will be indefinite delivery indefinite quantity (IDIQ) contracts with no guarantee of any specific business. GSA contemplates awarding multiple contracts and then unleashing the winners on task orders issued by the agencies after award. Thus, being awarded a contract is more like being awarded a "license to hunt." The sole "guarantee" offered to winning contractors is a Minimum Revenue Guarantee (MRG)

that it will "win" x dollars of business over the 10 year term of the contract. GSA has chosen to have an aggregate guarantee for each of the solicitations that would be split among the winning vendors. Under the current draft, the MRG for Universal is $575 million and the MRG for Enterprise is $25 million, although GSA has announced its intention to increase this MRG to $50 million.

It is somewhat curious to me that the MRG for Universal is so high, given the likelihood that the carriers winning the Universal solicitation are likely to be incumbent suppliers who provide services to all the government agencies today. If one or more of those carriers are awarded a Universal contract, they can almost certainly count on the continuation of service to their existing customers, a flow of revenues in the millions of dollars. Under these circumstances, I question why there is even a need to "reward" prospective Universal vendors with a guarantee. Conversely, Enterprise vendors are offered assurances of less than $7 million in guaranteed revenues, even with the increased MRG of $50 million assuming there are seven winning vendors. This relatively small reward when compared to the costs of bidding (and other costs needed to conform commercial offers to the mandatory requirements of this solicitation) raises the risks to prospective offerors and may discourage some from competing. That contradicts the intent of GSA and the IMC to engage more competition. To remedy this, WilTel recommends reducing the MRG for Universal and setting the MRG for Enterprise at least at $125 million to provide prospective carriers with minimal existing government business and substantial bidding costs with an incentive to compete. I would note that an increase in the Enterprise MRG, and corresponding decrease in the Universal MRG, would have the salutary benefit of encouraging agencies to use Enterprise vendors rather than incumbent vendors for their needs.

Knowing the Government's concern about paying MRGs to a non-performing contractor, WilTel would also recommend that the contract be structured to include a condition on the payment of MRGs that the contractor has competed on task orders when given the opportunity, and has performed when awarded business.

2. There must be a mechanism to level the playing field to overcome the inherent tendency of agencies to continue to purchase services from incumbent suppliers.

Although the goal of Networx is to enhance the availability of alternative suppliers to those providing service under FTS2001 and the crossover contracts, there is no mechanism in the current draft to level the playing field when agencies consider alternative providers. Both the planned methodology for issuing task orders and the lack of any transition fund to absorb non-recurring charges associated with the installation of services by a new carrier create this slanted playing field.

First, the contemplated methodology for issuing task orders precludes direct competition for an agency's business by all Networx contractors by limiting participants to only those from either the Universal or Enterprise contracts, *not both*. This means that

competition for an agency's particular business will be significantly less than if *all* Networx providers could compete. This could result in agencies opting to issue tasks orders only under the Universal contracts precluding Enterprise vendors from even bidding.

To remedy this, a process should be developed so that when an agency identifies a need, all Networx contractors, whether they are Universal or Enterprise contractors, would have a fair opportunity to compete for that business. For instance, consideration should be given to requesting order of magnitude quotes from vendors from both contracts before a decision is made as to which contract, Universal or Enterprise, will be chosen to issue a task order. Such a process would ensure maximum competition and the corresponding lower prices and better service that competition brings. At a minimum, GSA must have *some* mechanism to ensure an adequate number of task orders will flow to vendors on the Enterprise contract.

I am aware of this Committee's concern that a proliferation of separate agency contracts could diminish the buying power of the government and its leverage to get better prices and terms. I would note that if GSA does not ensure that agencies benefit through a high degree of competition under Networx, agencies may decide to try to realize more competition by issuing their own solicitations, a result that is antithetical to the intent of Networx and the goals of GSA for this program.

Second, when agencies are confronted with a physical change of telecommunications provider, there are both economic and psychological costs. The most significant economic costs are the one-time charges for installing the new facilities. In virtually every scenario, the likely non-incumbent Networx Enterprise vendors will have to make such a physical transition if they win the business. Staying with the incumbent, on the other hand, is virtually transparent. It is likely that transitioning from FTS2001 arrangements to Networx Universal arrangements may only require a "paper transaction" if the incumbent provides the service. This translates into a very real cost advantage for the incumbent and a competitive disadvantage for a new supplier.

Additionally, the terms of the two solicitations currently contemplate that a vendor may waive non-recurring charges. Obviously, if an incumbent can accomplish the transition on paper it will face markedly lower costs and be inclined to waive the non-recurring charges of transition. A competing vendor who actually has to physically provision the services will not have a similar opportunity. It must incur the one-time costs in all events. To waive such charges would require it to recover these very real costs in the prices it charges for service. Thus, if it were to waive the charges, its prices would have to be higher than those of the incumbent and less competitive to absorb these costs over time. For this reason, absent compelling incentives, agencies will most likely transition from incumbents only when there is some other factor like moving to a new location, adding a new location or using a new capability not available from the incumbent supplier.

Although agencies may benefit in the short run from staying with an incumbent, the competitive advantages available will diminish with time because competitive vendors will be driven from the government marketplace leaving the government ostensibly captives of the incumbents. Without vigorous competition in the government marketplace, agencies and the taxpayers will lose through higher prices, less responsive service and less technological innovation.

The FTS2001 procurement included a "transition fund" from which agencies could recover the non-recurring costs of transitioning from one carrier to another. Essentially, by adopting this fund, GSA provided a mechanism is to remove the cost disparity that exists between an incumbent provider effecting a transition via paper and a new supplier who must incur significant costs to provision service. The GSA should institute such a mechanism in Networx to increase competition and remove the artificial advantages associated with incumbency.

3. The Price Management Mechanism (PMM) is burdensome and may undermine commercial operations by unfairly ratcheting down prices.

The solicitation currently includes a Price Management Mechanism (PMM) that requires that all commercial contracts be made available the GSA to evaluate the reasonableness of the prices under the Networx contracts. This requirement alone imposes significant burdens on offerors, particularly smaller offerors. However, it potentially has a more nefarious effect. By not restricting the Government's ability to only compare similarly situated contracts (those with similar terms and conditions), there are likely to be disputes over requests for reducing Networx prices as a result of these reviews. Arguments over comparability of offers will likely ensue. If the PMM were to be enforced by comparing contract prices from a contract with markedly differing terms and conditions, it could trigger a ratcheting down of prices having undermining legitimate commercial pricing relationships.

This is another troubling departure from commercial practices. Competition forces competing telecommunications firms to tailor their offers to meet competitors' offers. If a customer finds a lower price, it does not hesitate to confront its existing supplier and seek more favorable terms. I see no reason for the Government to depart from this practice by imposing its own prescription to discipline prices. I would recommend that the Government use the competitive process used in the commercial marketplace to discipline prices and provide terms in the contracts requiring price renegotiation when a better offer is presented.

If the Government believes some mechanism is perceived to be needed to provide information on competitive prices, a more reasonable way to ensure the appropriateness of prices would be to engage a neutral third party to maintain a database of benchmark prices in the marketplace that could be reviewed against Networx prices. This would

have the added advantage of not compromising confidentiality clauses in many commercial contracts by permitting their disclosure to the third party under confidentiality agreements. This means of gauging the competitiveness of prices has been used in the IT industry successfully.

4. The solicitation imposes the FAR Cost Accounting Standards even though the intent is to procure commercial offerings.

GSA has included the requirement for offerors to adhere to the Federal Acquisition Regulations (FAR) Cost Accounting Standards (CAS) (clauses 52.230-2 and other associated clauses). This is inconsistent with the notion of procuring commercial items. More significantly, carriers like WilTel that have no established CAS-compliant cost accounting system, in order to bid, must commit to creating such a system, if awarded the contract. The costs of creating a CAS-compliant accounting system are not trivial. This is yet another cost piled on those new entrants seeking to win this business.

Such a requirement is unnecessary and detrimental to the spirit of competition. WilTel recommends eliminating the requirement for CAS-compliant accounting systems. Incumbent suppliers all have CAS-compliant cost accounting systems, another inherent cost advantage they possess if this requirement is retained. If the Government truly wants to maximize the use of commercial offerings to meet its telecommunications needs, then it should rely on the competitive marketplace to discipline the prices, not government auditors questioning the allocation of particular costs. In fact, that is what I understand is supposed to apply when the Government procures commercial offerings.

5. The solicitation incorporates too many mandatory technical features for each of the services to be provided and they are out of line with commercial offerings.

Throughout the Networx Enterprise solicitation, there are countless features and capabilities for each of the services that GSA has made mandatory. Although some of these features and capabilities may occasionally be required by a particular agency, it is almost certain that no agency will require all of them and most will require only some of them. There are a number of the mandatory capabilities that today could not be met with standard WilTel commercial offerings. To the extent that particular features or capabilities for a service go beyond existing commercial offerings, a potential offeror has two choices: make the changes to its commercial offer to provide such capabilities or not bid at all. All such changes come at a cost. This will also reduce the number of competing firms.

Additionally, requiring all-encompassing services will increase the prices the Government must pay. A better solution is to rely on the commercial offers available in the marketplace that to my knowledge are more than adequately meeting the needs of customers. Where customer needs are not being met, the market drives new offers to be developed. By using the standard commercial offers, the Government will reap lower

prices and benefit from the customization that competition drives to meet any unique needs. In such a scenario, the vendors, GSA, the agencies, and ultimately the taxpayers benefit.

Inclusion of all of the detailed mandatory technical requirements is also inconsistent with the notion of using commercial offers. It is questionable why all offerors must provide services with identical capabilities. That is clearly contrary to what WilTel finds in the commercial marketplace where vendors pick and choose the parameters of their offers and their prices reflect those choices. I also anticipate that most agencies will only require some of those capabilities. If the agencies' choices are constrained only to these GSA-dictated offers – which they obviously will under the current RFP terms -- they will pay more than they should. If the mandatory requirements are not relaxed, fewer competitors will submit proposals since the need to create conforming offers will increase the costs of bidding. Neither of these scenarios is in the interest of the Government. The solicitation should be restructured to remove the high number of mandatory features on each of the services.

6. The format and structure for the pricing of services precludes innovative offers to the Government.

Like the technical requirements discussed above, the GSA has also chosen to dictate the structure and specific pricing elements for each of the services to be provided. Again, requiring all offerors to adhere to a rigid pricing structure is completely inconsistent with commercial practices and not only defeats competitive innovation, but also increases the costs for such offerors because they have to revise billing systems to accommodate a different pricing structure. It appears that this requirement was driven by an attempt to ease GSA's evaluation of the competing offers rather than to produce lower prices for the Government. I would note that to the extent that this pricing methodology has been carried forth from FTS2000 and FTS2001, while that methodology may have produced lower prices for the Government under those contracts, it also may have deprived the Government from taking advantage of the increasing tendency in the commercial marketplace to price based on fixed prices for service or capacity and not based on usage. There is a substantial cost associated with generating the data needed to price based on usage. Many carriers have chosen to avoid such costs and offer fixed prices instead, passing on a portion of the lower costs through lower prices. The Government should not structure the contract to constrict pricing methodologies; rather, it should encourage the creativity that competition affords.

Evaluating competing offers where the terms and prices are different is admittedly a difficult task, but that is precisely what every commercial customer must do. GSA-constrained pricing may be one more characteristic that may discourage competition. A more logical way to evaluate the competing offers than constraining offerors' prices and pricing structure, and using rather arbitrary quantities applied to those prices would be to, instead, set forth hypothetical service arrangements for which each prospective offeror

would provide an offer. The contracts would then be awarded on the combined basis of capabilities and price for those hypothetical configurations. Indeed, this is precisely what agencies will do when they issue task orders and decide which vendor to use. Using such an approach would not constrain pricing creativity and would offerors to use the prices for existing commercial offerings. This should stimulate both competition and innovation in meeting government needs. I recommend that the GSA pricing tables be scrapped in favor of this more practical, real-world approach.

7. The non-standard certification and verification test plan requirements are burdensome for small carriers and are not necessary to achieve the goals established by the IMC.

There are a number of what I understand to be non-standard certifications and a verification test plan for operating support systems (OSS) that GSA expects offerors to make in this solicitation. They include a certification of compliance with the PMM, a certification as to the competence of replacement key personnel, a certification that all prices, terms and conditions contained in any regulatory or other filings are consistent with the contract and, finally, execution of an OSS verification plan. Requiring such certifications and this verification test plan is yet one more departure from commercial practices.

When we compete in the commercial market, we cannot mistreat our customers by not responding in good faith to concerns about prices and terms when confronted with a more favorable offer from a competitor. When we need to replace account personnel, we cannot afford to provide replacements that are less capable than their predecessors. When we have to make regulatory filings, we cannot afford to alter the terms from those negotiated or else we will risk alienation of that customer. Finally, when we commence rendering service to a customer under a large contract, there is no requirement that we demonstrate that we can receive their orders, process them and render bills. We do all of this without making sworn certifications and the threat of criminal prosecution for violation of any of these commitments. I believe the Government should be similarly satisfied with relying on competition to discipline offerors rather than imposing these requirements. They should be eliminated.

8. The small business subcontracting goals may be unduly onerous for smaller carriers.

The solicitations now contain very aggressive small business subcontracting goals. I understand that there may be an expectation that 39 percent of the monies expended under Networx will go to small businesses. Such a target is not only very ambitious given the nature of this industry, but it may also be unduly burdensome for small carriers. I know that WilTel has limited opportunities to subcontract out work. In most cases, the things we need from outsiders are access and interconnection arrangements to go the "final mile" to a customer. In virtually all instances, these are

only available from monopoly local exchange carriers (who are not small businesses). It is not clear whether such costs will be treated as subcontracting costs under the solicitation. If they are, WilTel will find it impossible to hope to meet the 39 percent objective. If, on the other hand, such access and interconnection expenditures are excluded from computations for determining subcontracting obligations, WilTel is prepared to use its best efforts to meet these requirements. In the interest of encouraging competition, I would simply urge GSA to review and clarify the small business subcontracting obligations and their potential effects on smaller competing vendors.

Recommendations

Several changes could be made to the Networx program that will make the program more attractive to competitors, thereby enhance competition and ensure that the Government and taxpayers will realize the better prices and services that flow from competition. With the adoption of WilTel's recommendations, we will be more confident of the likelihood that we can compete for this business and we can promise that the Government will benefit from our aggressive pursuit of Networx. The GSA should:

1. increase the MRG for Networx Enterprise to at least $125 million and correspondingly decrease the MRG for Networx Universal;
2. create a mechanisms to enhance competition by ensure that vendors from both Enterprise and Universal contracts have an opportunity to compete for *all* task orders and adopting a transition fund to absorb the non-recurring costs of transitioning between carriers;
3. abandon the PMM in favor of either an informal price negotiation process or a third party benchmarking process;
4. eliminate the requirement for CAS compliance;
5. remove the majority of the mandatory technical requirements for services to be offered so that commercial offerings may be used;
6. eliminate the pricing tables and their dictated pricing structure and evaluate competing offers based on specific hypothetical service configurations so that offerors can use their commercial pricing methodologies or create new innovative pricing;
7. eliminate the non-standard certifications and the verification test plan, relying on commercial practices instead; and
8. review and clarify the small business subcontracting requirements with particular consideration of the burden of such requirements on smaller competing vendors.

Conclusion

Working together, Congress, industry and the GSA can implement specific recommendations that will enhance competition. By making the changes WilTel is recommending, the Government ultimately can achieve its objective of providing end

user agencies with a variety of alternatives to meet their telecommunications needs in a timely fashion, at the best price for the agencies, saving significant dollars for taxpayers.

Thank you.

Chairman TOM DAVIS. Mr. D'Agata, thank you. Last but not least.

STATEMENT OF ANTHONY D'AGATA

Mr. D'AGATA. Thank you, Mr. Chairman. Good morning, members of the committee. My name is Tony D'Agata. I am the 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 Sprint's views on Networx, the follow-on program to FTS2001.

Sprint appears before the committee today in a unique position as the only provider to have served both FTS2000 and FTS2001 customers over the last 16 years. Today we probably serve 314 agencies, provide service to well over a million government employees, and deliver over 500,000 circuits to Federal agencies.

Although we support the Networx program structure, today I must report that the draft takes the program further down the road of a government-unique path and makes it even more difficult, if not impossible, for the contract to achieve a positive financial position.

Sprint wants to continue to serve our customers well into the future. However, at this time I cannot recommend that our share owners assume the risk inherent in the current Networx draft.

Our concerns are as follows: The draft management reporting and billing requirements exceed commercial requirements. The FTS2001 requires the delivery of 14 monthly reports to GSA and user agencies; however, the Networx requires up to 240 reports for each agency. This would result in the Government mandating that Sprint provide up to 75,000 reports per month.

The draft also increases the notice reporting that must be provided to the government. Notice reporting informs the government of the status of new service installations. Whereas FTS2001 requires three separate notifications be provided to the government for each service installation, the Networx requires the contractor to provide five separate notifications to the government for each service installation.

In addition, the draft qualitatively increases the reporting obligations. It mandates that the contractor produce reports on the performance elements of services not required by anyone else in the marketplace.

The draft RFP substantially increases the billing requirements beyond FTS2001 and current industry commercial requirements. This will require substantial systems development in the tens of millions of dollars before an award.

The draft service performance requirements exceed commercial requirements. The draft contains 240 requirements for services specified; 87 percent exceed the performance requirements of the equivalent commercial service. Over half of all of the requirements are either unachievable or not measurable given the current state of technology.

The draft contains onerous business terms and conditions. The credit provisions of the draft do not conform to commercial practice. The failure to provide just one of the five installation notices mentioned earlier will result in forfeiture of the entire recurring

charges for the month for that site. This is true even if the site was installed on time, and the government enjoyed all of the beneficial use of the service.

The credit provisions for failure to comply with the service performance requirements are no less punitive. A network outage will result in forfeiture of one-quarter of the entire recurring monthly charges for the affected agency.

Finally, the draft contains a price management mechanism that gives the government the unilateral right to set prices for all services.

The draft simply asks too much. It requires tens of millions of dollars of capital investment to deliver noncommercial products, and provides special billing and management reporting required by no one else in the marketplace. In addition, the government has the discretion to assess punitive credits and unilaterally set Networx prices.

Mr. Chairman, we sincerely hope that the Networx draft is modified in a manner that will enable Sprint to continue its partnership with the GSA, the agencies, and this committee on this vital government program.

I would be happy to answer any questions that you might 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 Sprint's views on "NETWORX," the follow-on program to FTS2001.

Sprint appears before the Committee today in the unique position as the only provider to have served both FTS2000 and FTS2001 customers for the last 16 years. Today, we proudly serve 314 agencies; provide service to well over a million Government employees, and deliver over 500,000 circuits to federal agencies.

The last time I appeared before you, I voiced Sprint's support for the Government's plan to replace FTS2001. At that time, Sprint only asked that the Government address four issues in the next phase of the follow-on plan: First, we requested that GSA examine the reasonableness of requiring the FTS contractor to assume the risk of an unpredictable access market. Second, we asked that the GSA clarify the roles of the Universal contract holders and the Enterprise contract holders to prevent the Enterprise contract holders from being able to "cherry pick" or "cannibalize" the Universal contractor's business base. Third, we commented that as long as the Government did not substantially increase the management reporting and billing requirements, the best interests of all parties would be served by a small minimum revenue guarantee (MRG). Finally, we requested that the Government change its

"mindset" and include in NETWORX terms and conditions consistent with the commercial marketplace.

Today I must reluctantly report that the Draft NETWORX RFP (DRFP) has failed to address these concerns. The DRFP offers a business arrangement that significantly deviates from commercial practices. The FTS2001 contract, another non-commercial, Government-unique contract, will not achieve breakeven cumulative discounted cash flow over its eight-year life. The DRFP takes the Program further down the Government-unique path and makes it even more difficult, if not impossible, for the contract to achieve a positive financial position.

Sprint wants to continue to serve our customers well into the future. However, while Sprint continues to support the general Program strategy, I cannot recommend to senior management of Sprint that our shareholders assume the risks inherent in the current DRFP. Our concerns are focused in the following three areas:

The NETWORX Draft RFP Substantially Increased the Management Reporting and Billing Requirements Well in Excess of Commercial Requirements

FTS2001 requires that the contractor deliver 14 monthly reports to GSA and user agencies. However, NETWORX requires that the contractor deliver up to 240 reports for each agency. This could result in the Government mandating that Sprint provide as many as 75,000 reports per month at no additional cost. In addition to increasing the quantity of a NETWORX contractor's reporting obligations, the DRFP qualitatively increased the reporting obligations. The NETWORX Draft RFP mandates that the contractor produce reports on performance elements of services not required by anyone else in the

marketplace. For example, the DRFP requires that the performance of a frame relay circuit must be measured and reported continuously at each service delivery point served. This requirement does not exist for the commercial frame relay product. Moreover, at least one-quarter of all the performance requirements on which the NETWORX Draft RFP requires reports are not measurable by the current state of technology.

In addition to quantitatively and qualitatively adding service *performance* reporting requirements, the NETWORX Draft RFP increases the "*notice* reporting" that must be provided to the Government. This "notice reporting" informs Government personnel of the status of the installation of new service. The FTS2001 contract requires *three* separate notifications be provided to the Government for each service installation. The NETWORX DRFP requires the contractor to provide *five* separate notifications to the Government for each service installation. Moreover, even if the service is satisfactorily installed on-time or ahead of schedule, and the service is fully utilized by the Government, the failure to provide one of the notices will result in the contractor forfeiting the entire monthly recurring charges for the service affected.

The DRFP also increases the billing requirements beyond FTS2001 and current industry commercial requirements. All Call Detail Records must be available on-line, and all wire line and wireless usage must be consolidated on a single invoice. This billing consolidation and on-line application will require substantial systems development in the tens of millions of dollars in advance of an award. Before requiring an effort of this cost and magnitude, the actual need must first be established to determine if the additional cost is justified. In the past, Sprint has spent millions of dollars and thousands of hours to comply with unnecessary Government FTS requirements. For example,

millions were spent by Sprint to develop an on-line ordering system for FTS2001. However, over the past six years, the system has been used three times – two of which were to conduct tests of the system.

The NETWORX Draft RFP Specifies Service Performance Requirements Well in Excess of Commercial Requirements

The performance requirements specified by the Draft RFP for NETWORX services far exceed Commercial service performance requirements. The Draft RFP contains 240 performance requirements for the services specified – 87% exceed the performance requirements of the equivalent commercial service. As an example, the MTTR (mean time to repair) for all services required by the DRFP exceeds commercial requirements. In addition, the installation and disconnect time intervals required by the DRFP all were cut in half from FTS2001 levels and exceed commercial requirements. Our engineers estimate that over half of the service performance requirements specified by the NETWORX DRFP are not technically achievable as written.

The NETWORX Draft RFP Contains Onerous Business Terms and Conditions

The penalties and credits provisions of the Draft RFP do not conform to commercial practice. As mentioned above, the failure to provide a single installation notice will result in forfeiture of the entire recurring charges for the month for the site. This is true even if the site was installed on-time and the Government enjoyed all beneficial use of the service. The penalties for failure to comply with the service performance requirements are no less draconian. For example, a network outage will

result in forfeiture of one-quarter (25%) of the entire recurring monthly cost for the affected agency.

Finally, the Draft RFP contains a Price Management Mechanism (PMM) that gives the Government the unilateral right to prospectively set prices for all services. The existing language of the clause is not clear. It is not known whether Sprint's NETWORX prices will be compared only to its own offerings or to those of other providers. Moreover, unlike the existing PMM clause of FTS2001, it does not contain language that prevents the Government from comparing NETWORX prices with those prices contained in contracts with re-sellers, wholesalers, RBOCS, promotional offerings, those offered for a short period of time, or those multi-service contracts that contain prices heavily subsidized by the prices of other services in that offering.

The NETWORX Draft RFP in its current form simply asks too much of the contractor. It requires tens of millions of dollars of capital investment prior to award to deliver non-commercial products and provide billing and management reporting required by no one else in the marketplace. In addition, we must agree to terms that grant the Government the discretion to assess draconian credits and unilaterally set NETWORX prices. The Government asks that we assume these risks with little minimum revenue commitment.

Mr. Chairman, we sincerely hope that the NETWORX DRFP is modified in a manner that will enable Sprint to continue its partnership with GSA and this Committee on this vital Government Program.

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

Mr. BURTON [presiding]. Is there anything about this thing you like?

Mr. D'AGATA. Well, we do like the fact that we are able to serve a lot of government agencies today. And we are, you know, hopeful that we can continue to provide services to them in the future.

Mr. BURTON. You said that—how many reports per month?

Mr. D'AGATA. 75,000.

Mr. BURTON. I had 7,500. I thought that was high; 75,000. I hope GSA is listening; 75,000 reports a month. My gosh, the paper alone would negate making a profit.

Mr. D'AGATA. Mr. Chairman, 240 to each billing entity.

Mr. BURTON. Do all of you agree with that? Is that what you figure, 75,000 reports a month or a large amount?

Mr. D'AGATA. It depends, Congressman, on the volume of business that you have today.

Mr. BURTON. Well, everybody is going to be bidding and so we don't know who is going to get what.

Mr. D'AGATA. Potentially, if they have as much as Sprint, they would have to provide as many reports.

Mr. BURTON. Does everybody agree with that?

Mr. COLLET. I know the number is a very large one, but I think most of that would be delivered electronically from automated systems. So it is true that investment is necessary in the operational support systems, but we have not concluded that it was overly excessive. We are making investments in the systems right now, in anticipation of having to pass an operational capabilities demonstration 2 months after award.

Mr. BURTON. So AT&T does not think the reporting mechanism is excessive?

Mr. COLLET. Oh, it is, it is excessive, and there will be some costs associated with it, and that cost will be recovered in the prices.

Mr. BURTON. So the costs will be borne by the taxpayers, ultimately.

Mr. COLLET. Ultimately, yes.

Mr. BURTON. And it is not necessary. Do any of you agree that it is not necessary to have that many reports?

Mr. COLLET. Agreed. There are too many reports. We have been in some dialog with GSA, and the response we received is that this is going to change. Everybody is trying to be reasonable and meet agency requirements.

Mr. BURTON. Is anybody still here from the GSA? I hope you are making notes, because it seems like, to me, that is excessive. You may need more than one sheet of paper.

You said something, Mr. D'Agata, about reports that others don't have to report. I guess you are talking about commercial entities?

Mr. D'AGATA. Yes, sir.

Mr. BURTON. I wish GSA was up here. I would like to ask them why they are requiring reports that the private sector does not report, and if you are making notes back there, I would like to have personally, as former chairman and one who has been interested in this for a long time, I would like to know why they are asking to report and issue reports that are not required in the private sector, because we are trying to make government more business-friendly instead of more bureaucratic.

You said that the cost is high before an award. What kind of cost are you talking about in the bid process?

Mr. D'AGATA. I am talking about investing millions of dollars, sir, on operation support systems that one really has to develop now, before award, so you really have to spend the money in advance of an award to be able to demonstrate at award or right after award that you have the capabilities.

Mr. BURTON. Mr. Storey, you have a smaller company than AT&T, Sprint and MCI. How does a smaller company afford the costs that are incurred before they make the bid?

Mr. STOREY. Well, it is very difficult, and that is why, in my comments, I said that the onerous provisions that are on small companies make it difficult for us to win business, especially with relatively small minimum revenue commitments.

So we will have to make these decisions on a speculative basis. We will have to decide that this is something that is worthy of the investment of our dollars and with a hope of a return.

Mr. BURTON. It is like shooting craps in Vegas, only higher stakes.

Mr. STOREY. Yes, it is.

Mr. BURTON. You are talking about millions of dollars to prepare for the bid, and you have all of these reports, and then you don't get it, so you are out of luck.

Mr. STOREY. Right.

Mr. BURTON. We use stronger language than that back in Indiana, but I will not go into that right now.

It seems like, to me, that GSA ought to try to make this as user-friendly as possible while trying to make sure that they are trying to get the best price for the taxpayer. And to literally force smaller companies that might be able to provide very, very good services to the government and agencies are priced out of the market because they can't come up with the money to make the initial bid. So I would like for GSA, if you would make a note of this, to respond to that as well. I mean, why is it that the cost of proposing a bid is going to be so high that some companies that could provide good services will not be able to be involved in the bid process?

Let's see. Mr. Storey, you had some other questions here or comments. The minimum revenue guarantee for the network enterprise is too small. Can you go into that in a little more detail?

Mr. STOREY. Well, it is related to the same issue. We have huge investments to win this business, to make a proposal.

Mr. BURTON. How do you think they should come up with a minimum revenue guarantee, or should they even have one?

Mr. STOREY. You know, I think that they should have one, because it gives us encouragement to bid and to prepare proposals knowing that we will have something. I think that they should look at the percentage of the traffic that they have that will go to non-universal providers, and I think they should increase that level of percentage.

Mr. BURTON. Could you give the committee some kind of a formula that we can look at and see what would be good in coming up with a minimum revenue bid? I don't know if you can do that or not, but if you are talking about raising the minimum revenue bid or guarantee, rather, minimum revenue guarantee, we have to

have something as laymen up here to take a look at so we can say to GSA, you know, maybe they are right. Do you see what I am talking about?

Mr. STOREY. Yes. I don't have a formula for you today, but I would suggest that more of the business be committed to Enterprise as opposed to Universal, and that will increase the pool of Enterprise businesses that are out there.

Mr. BURTON. One of you, I can't remember which one it was, said that you ought to be able to bid on both Universal and Enterprise. Can you explain to me why? I would like to know why you can't.

Ms. MURPHY. Mr. Burton, I think the issue is during the period of fair consideration, an agency has to decide whether they are going to recompete their business under Universal or Enterprise, and once they have chosen one, then only awardees under that particular contract are in a position to compete for the business.

Mr. BURTON. I see.

Ms. MURPHY. So even if there are subsequent requirements that an awardee, for instance, on Enterprise might be able to meet, if the agency has selected Universal as their contract vehicle, then that Enterprise awardee is prohibited from competing. So our position is that lessens overall competition for the government.

Mr. BURTON. I see. And you think that is good?

Ms. MURPHY. No, I think that is bad.

Mr. BURTON. I thought that was what you were going to say.

So I would like to say to GSA, can you explain to me why that is the case, and if you could, let us know. I mean, remember that I am a neophyte in this, even though I have been working on this for about 7 or 8 years as chairman and now on the committee, but I would like to know why, since they brought this up, industry has brought that up, why that is a problem?

Let's see what else we have here. You guys came up with so many problems here.

I think, Mr. Storey, you said there is a bias, or you indicated that there was a bias toward larger companies who have more resources so that they can be more competitive and biased toward companies that might already have part of the market share with government already. Can you go into that in a little more detail?

Mr. STOREY. Sure. The bias is incumbent in the technical requirements that are in the proposal. When you specify that every company has to be able to do every product in a certain way with the operational support system requirements along with it, it creates a set of products that not every company has. We do not provide every product. WilTel does not provide every product out there that the government might want to use. We provide some products extremely well, and it may be the best solution for the government for those products, but when you tack on a whole series of other products, other requirements, it just makes it too onerous to compete.

Mr. BURTON. Well, once again, if GSA could give the committee or me in particular, if you want to, the reasons why smaller companies that don't provide all of these services can't be competitive, I would like to see that. There might be a reason for that. You might say that the overall pricing structure is going to be lower if one company can provide all of the services; I don't know what the an-

swer is, but I would like to have an answer to that if we could get that as well.

I see my time has expired. Mr. Marchant, do you have any questions at the moment?

Mr. MARCHANT. I would like to address the issue of the amount of money that it takes to prepare the bid. I think the gentleman from Sprint was—you are saying basically that, in order to even approach the bid, you have to in essence make sure that you can have the support systems, if you do get the bid in place, virtually before you get the bid.

Mr. D'AGATA. Yes. There are two forms of expenses, Congressman. One is the actual labor costs that you have internally to prepare the bid itself that, I think, all of us are, you know, more than willing to spend to prepare the bid. The other is the operation support systems requirements. One needs to be able to demonstrate soon after award that you have the capabilities that were specified in the contract. To do that requires a lot of time and software changes and development activities that, to make the deadline or the schedule that is laid out by the government, you really have to spend that money in advance of an award to be able to meet those requirements when you are asked to demo.

Mr. MARCHANT. Well, do you foresee a situation where a company would come in and scrape up enough money to put together the bid, get the business and then really not have the capital or the internal capital in the company to put those systems in place and virtually have to drop out, back out or prove that they couldn't meet that standard after they had already won the bid?

Mr. D'AGATA. I would hope that they would, you know, solicit from their leadership that they have the money before they submit the bid, because you become committed to the extent of your proposal, and so you better have that authority before you submit your bid.

Mr. MARCHANT. And then the other question I had goes back to Ms. Murphy's comment about the billing system and your suggestion that maybe the billing function could be taken over by GSA.

Ms. MURPHY. GSA has recently released a sole-source request for billing systems and there has been a lot of conversation here about minimum revenue guarantees versus the operation support systems and billing systems requirements. So there is a couple of different ways to solve that. Yes, you can raise the minimum revenue guarantee; you can also alleviate the billing requirements and the operation support system requirements such that minimum revenue guarantees are not such an issue.

So if the GSA were willing to look at handling going in a different way, then that would be a solution that we would very much be in favor of.

Mr. MARCHANT. Is that a solution that you specifically would be in favor of, or is there some consensus on that among the other panel members?

Mr. COLLET. I don't see how a system like that would be practical, because billing is intimate to how a network is constructed and operates. If GSA had to operate as a Universal biller, then they would have to get really close to all of the internal systems

of all of the operating carriers, and I think it would be an absolute disaster, a nightmare for them to do.

Mr. MARCHANT. They would have to have a lot of proprietary information about your company and your systems to even get to that point, wouldn't they?

Mr. COLLET. Agreed. Agreed. I mean it is difficult enough to meet government requirements with commercial systems, even within a vertically integrated company. It would be extremely difficult, and I have spent most of my life as an engineer, so maybe I am a little more terrified of it than others would be, but it would be very, very difficult and, operationally, I think very impractical.

Mr. MARCHANT. If I could just raise one more question, Mr. Chairman.

The whole issue in this bid process, RFP process, do you feel like that the process begins to intrude on your proprietary information to the point where you would not bid on this because there is too much information that has to be divulged about your systems before you can even win the bid?

OK. Thank you.

Chairman TOM DAVIS [presiding]. Thank you very much. I am trying to think of where to start.

We have heard varying positions on the network's draft RFP from all of you. Your concerns with the draft RFP, I will just go down and ask each of you, do you think they can be resolved before releasing the final FRP on April 1?

Mr. HOGGE. Well, our recommendation is that if there is a document that is ready, that it be released as a second draft. I mean, there were 2,500 or so detailed comments, some fundamental issues that have been raised in this forum that if the document is ready to be released, one more go-around through a second draft I think would overall abbreviate or make sure that the overall procurement process occurs in accordance with an endpoint that is useful to GSA and to industry.

Chairman TOM DAVIS. Thank you.

Mr. COLLET. We believe it should be released on time. Over the last several months, GSA has evaluated approximately 2,500 comments, as disclosed earlier, and has expressed an inclination that I think up to 40 percent of those comments were being accepted. I think most of those would be in the operational support system area. So we are hopeful that these comments will reflect well in the operational support system requirements, and if they do not, then the cost of those additional requirements simply get reflected in the price of the service that is presented to the government.

Ms. MURPHY. Mr. Chairman, we favor an additional draft RFP, and we think it could actually lead to a more concise final RFP process. In any major procurement, you always end up with a lot of questions once the final RFP comes out, and there are usually amendments that lead to delays. We feel that with one more round of draft RFP, many of those issues could be put to rest before the final RFP, and we could stay on schedule even with an additional round.

Mr. EDGERTON. We are committed to the process. If April 1 is the date, we are going to meet it. However, I think, as a result of the

hearings and other comments, that there will probably be some delays, which will actually reflect a more improved RFP.

Mr. STOREY. In general, I think that we would like to see the RFP come out on time. However, we would like to see it right, so if we can delay a little bit and get a much better competitive environment where all competitors can compete and bid on business, that would be a better outcome for us.

Chairman TOM DAVIS. You don't care if it comes out on April 1, as long as it is right.

Mr. STOREY. Exactly.

Mr. D'AGATA. We think it is absolutely possible for GSA to incorporate our comments into the final RFP and deliver it on schedule. I think one of the difficulties that industry has right now is that we provided to the GSA numerous comments. We don't know how many of those have been incorporated into the final version, so we are—you know, right now, we don't know what will be acceptable.

Chairman TOM DAVIS. We heard today that location-specific traffic volumes won't be made available until mid to late May. How does that impact your ability to develop your proposals? I will start with you, Mr. D'Agata, and move on down the line.

Mr. D'AGATA. Mr. Chairman, it is less of a factor for us in that we enjoy an incumbent status, so we pretty much know the volumes at each agency.

Chairman TOM DAVIS. So mid-June is fine with you.

Mr. STOREY. The more information we have, the better able we are to make a competitive bid that makes sense. Being a non-ubiquitous provider like some of the others, the geographic information is important to us. So the sooner that is available, the better off we will be in making sure that not only will we make competitive offers, but once we win an award, we will be able to really satisfy that demand.

Mr. EDGERTON. I just need to know Tony's volumes.

Chairman TOM DAVIS. Do you want to ask him right now?

Ms. MURPHY. As a relatively new crossover entrant and really playing a new entrant role on the network's procurement, that traffic information is really critical to us to finalize our strategy.

Chairman TOM DAVIS. Does this give you enough time?

Ms. MURPHY. It makes it more difficult. If you have an RFP that comes out in April and your traffic information isn't available until mid-May at the earliest, that means you—we really aren't in a position to finalize business decisions about even whether we can or can't bid until we really get our hands on that data.

Chairman TOM DAVIS. OK.

Mr. COLLET. We have been doing our homework, so we have a pretty good idea of what the traffic is from our competitors but, in general, there is a lot of work that is necessary to complete the technical volume, the management volume, the business volume responses. So if we can get that earlier rather than later, that will certainly help in the development of the proposal. If we obtain volume information let's say mid-May, we would certainly have to confirm or review it vis-a-vis what we already know, and then we are looking at perhaps a month and a half to produce a final pricing proposal. It will be tight, but I think it will be manageable.

Chairman TOM DAVIS. OK.

Mr. BURTON. Mr. Chairman.

Chairman TOM DAVIS. Let me yield to Mr. Burton.

Mr. BURTON. I just wanted to followup on that. It seems to me, and any of you can answer this question, that the amount of traffic is important if you are going to be able to bid on this. And for one company, even though they are great people, to have that information gives them the real inside track.

So, Mr. Chairman, it seems like to me that GSA or whoever it might be ought to make the information available to all of the bidders so that they can be—so that there is fairness in the bid process. If one of them has it and the others don't, they know what the problems are, they know what the costs involved are, and they have a real leg up in the bid process. So it just seems like, to me, that the ones who are going to be legitimate bidders ought to have access to the same information. That should not be something that is held secret.

Chairman TOM DAVIS. OK. Thank you. Mr. Hogge.

Mr. HOGGE. Yes. As another potential nonincumbent bidder, knowing the traffic and where it originates and terminates is absolutely fundamental to developing our business case which is fundamental to committing the corporation and the capital required to do this. If memory serves, last time around, it took many weeks, if not many months, to get the traffic models to work right. So getting that information, having an accurate forecast of what the requirements are and where they come from is absolutely essential. So it is impossible to sit here today not knowing any of that to tell you whether or not we have enough time to meet the deadline if it comes out in mid to late May.

Chairman TOM DAVIS. Mr. Hogge, you stated that for Networx to be successful, there should be clear guidelines that would require that agency customers consider proposals from both Universal and Enterprise awardees. Would such a "crossover" process allow Enterprise awardees who can enter Networx with a much smaller commitment of resources than Universal participants cherry pick the most desirable requirements to the detriment of the Universal awardees?

Mr. HOGGE. Well, what we are advocating is a full and open task order process. As I said in my prepared remarks, there is a deliberate overlap in the service content from Universal to Enterprise. The Enterprise is a smaller set designed to entice smaller or next generation competitors into the mix. Post-award, when vendors go through their vendor process through fair opportunity, that is the point at which competition really—the rubber hits the road; it is the point at which it is not just a transition of like for like, potentially like for a new product converging or converting a circuit switch service to an IP-based service, an MPLS service. That is the point at which technology infusion, innovation, and new competition from new entrants comes into play. We are simply advocating that we get a shot to participate in that process post-award.

Chairman TOM DAVIS. Mr. Burton.

Mr. BURTON. If I might make a formal request—and I don't know to whom I direct this, Mr. Chairman, but you are the boss, so maybe you can help us out with this—I would urge that the information that will create a level playing field regarding the traffic in-

volved, that be given to all of the legitimate bidders, and if GSA is the one that has that information, I would make a formal request that they do that. And if they can't, I would like for them to contact me as former chairman and as a member of the committee and let me know why they can't do that. If there is a reason you can't, I would like to know the reason why.

Chairman TOM DAVIS. I will ask the staff to followup on that. That is appropriate.

Do you want to add anything else?

Mr. HOGGE. No.

Chairman TOM DAVIS. Mr. Collet, let me ask you, in your statement, you recommend that GSA award only the number of contracts that it can manage well, which I think is appropriate. They have asked two Universal, maybe five on the Enterprise. Do you think that is reasonable?

Mr. COLLET. I think it is very reasonable at this point.

Chairman TOM DAVIS. Would AT&T consider submitting offers on both Universal and Enterprise?

Mr. COLLET. Absolutely.

Chairman TOM DAVIS. OK.

Mr. COLLET. I think it is a prudent option on our part.

Chairman TOM DAVIS. Ms. Murphy, you suggest that GSA needs to make some major alterations to the service order, billing and reporting system requirements before you could reasonably compete on this. Is that correct?

Ms. MURPHY. Yes.

Chairman TOM DAVIS. And that these requirements should more closely mirror commercial practices. Any particular requirements that you want to focus in on that you find problematic?

Ms. MURPHY. Well, we really focused on the billing requirements as one area of particular concern. Certainly, we addressed detailed comments to GSA in these areas when we submitted our response to the draft RFP. So, you know, I think the problem that Mr. Storey mentioned earlier, we have certainly been open with our comments. We are just not quite sure how much of our comments, how many of our comments will be accepted and what the magnitude of the changes will be.

Chairman TOM DAVIS. You also suggested that Networx should allow Enterprise contractors to be able to graduate into Universal.

Ms. MURPHY. It is a process that seems to have worked well, if you look at the FTS 2001 crossover. The contract has been in place for a number of years now. The number of services provided under the contract have expanded. I think it has more than doubled, and it has managed to keep competition robust and prices very competitive over that time.

Chairman TOM DAVIS. OK. Mr. Edgerton, do you think—I gather from your comments that you think GSA should set a clear limit on the number of contracts to be awarded under Universal and Enterprise. You heard Commissioner Perry earlier talk about maybe two Universal, five Enterprise. Do you have a number in mind, or do you just think they——

Mr. EDGERTON. That is the first time we have heard a definitive number.

Chairman TOM DAVIS. Do you think that is a reasonable number from your perspective?

Mr. EDGERTON. Yes.

Chairman TOM DAVIS. You note that, as Networx is currently configured, Universal awardees can't participate in Enterprise requirements and vice versa. You state that GSA should ensure that a customer agency has the ability to obtain services from all of the Universal and Enterprise awardees. Do you have any suggestions on how to accomplish this?

Mr. EDGERTON. I think there is a prohibition that needs to be looked at as to how the process takes place.

Chairman TOM DAVIS. OK. Mr. Storey, how can the GSA justify reducing the Universal MRGs in favor of Enterprise when the Universal program, with its far more extensive list of mandatory requirements and geographic coverage, will likely generate more revenue? That is your question, isn't it?

Mr. STOREY. Yes. And I think that the Enterprise sector is the place where innovation is going to come into the government. If you look at the Universal, that is going to be the incumbents and the large companies, and if there is going to be innovation and new technology introduced to the government, it will come through the Enterprise part of this contract.

Chairman TOM DAVIS. You mentioned that GSA's small business subcontracting goal of 39 percent would be unduly burdensome for a smaller company like yours. What would be a reasonable goal for small business subcontracting?

Mr. STOREY. The 20, 25 percent range.

Chairman TOM DAVIS. All right. Thank you. And Mr. D'Agata, in your statement, you indicated that Sprint may not participate in Networx as presently configured since the program requires too much capital investment for noncommercial products and special billing and management reporting. In your new company, that concerns us, in that an incumbent such as Sprint would not submit an offer.

Have you shared these concerns with GSA prior to today.

Mr. D'AGATA. Yes I have, sir.

Chairman TOM DAVIS. And what was their response?

Mr. D'AGATA. That they would look into those issues in the final RFP.

Chairman TOM DAVIS. And is this both Universal and Enterprise?

Mr. D'AGATA. Yes, it is, although we are primarily focused on Universal, but it would apply to Enterprise as well.

The other thing, sir, that is of concern are the service level provisions where a number of them just are not achievable. They defy the laws of physics and are not achievable.

Chairman TOM DAVIS. OK. I think those are the questions I wanted to ask. Do you have any more, Dan?

Mr. BURTON. No, Mr. Chairman.

Chairman TOM DAVIS. Does anybody want to add anything before we go on to the next panel? This has been very helpful to us. I hope it has been helpful to GSA as well, and I appreciate everybody's taking the time to come here. As I added before, your entire statements will be in the record and made part of the record, and we

will continue to work with you. And we would like to have you all in here at the end. Thank you.

We will take a 2-minute recess as we move to the next panel.

[Recess.]

Chairman TOM DAVIS. The hearing will come to order.

This is our final panel. We have Mr. Donald Scott, the senior vice president of EDS for government solutions; Mr. David Bittenbender, vice president, Network Services, for Computer Sciences Corp., Federal Sector; Mr. James Courter, a former member of this body and CEO and vice president of IDT Corp.; Mr. Michael Cook, senior vice president and general manager of Hughes Network Systems; Ms. Diana Gowen, president, Broadwing Government Solutions, Broadwing Communications, LLC; and Mr. Greg Baroni, president of the Global Public Sector, Unisys Corp.

It is our policy we swear you in. If you would rise with me and raise your right hands.

[Witnesses sworn.]

Chairman TOM DAVIS. Again, your entire testimony is in the record and questions are based on that and that will all get put into the permanent record. So if we can just take 5 minutes, I am going to try to beat our votes on the House floor so we can dismiss you and not have to keep you. Thank you for your patience, and thank you so much for being here.

STATEMENTS OF DONALD SCOTT, SENIOR VICE PRESIDENT, EDS, U.S. GOVERNMENT SOLUTIONS; DAVID BITTENBENDER, VICE PRESIDENT, NETWORK SERVICES, COMPUTER SCIENCES CORP., FEDERAL SECTOR; JAMES COURTER, CEO & VICE PRESIDENT, IDT CORP.; MICHAEL COOK, SENIOR VICE PRESIDENT & GENERAL MANAGER, HUGHES NETWORK SYSTEMS; DIANA GOWEN, PRESIDENT, BROADWING GOVERNMENT SOLUTIONS, BROADWING COMMUNICATIONS, LLC; AND GREG BARONI, PRESIDENT, GLOBAL PUBLIC SECTOR, UNISYS CORP.

STATEMENT OF DONALD SCOTT

Mr. SCOTT. Thank you, Mr. Chairman. I have a good bit to say, but I will try to be as brief as possible. I am offering EDS's recommendations in the interest of making Networx more effective now and in the future. I have submitted a more complete copy of course for the record.

First, I want to commend the committee for the continued high level of interest that you have in this program. We know you have a broad scope of responsibilities, but you have seen fit to give Networx a good bit of attention, and we appreciate it. And we also commend Administrator Perry and the FTS program for their diligence in getting to the optimum contract.

Chairman TOM DAVIS. I take it everybody commends the GSA for this. I mean, we all have to bid on this, so I am just going to assume everybody does that.

Mr. SCOTT. However, the two contracts are not where we think they should be at this point in time. For example, in the focus on wireless communications, we find that they have kind of stuck to

primarily voice services rather than look forward to broadband wireless, PDAs, etc., that is now becoming widely available.

Also, on the security requirements, we felt like they were offered in a very narrow manner in the draft and that they should, in addition to having preventive methods like firewalls, they ought to have also more aggressive efforts to prevent them happening and detecting intrusion and that sort of thing.

However, adding these new features such as I just mentioned to Networx will not be enough to make it effective for the future. The program also must support the new next generation era, and the Networx that we have today are not built for that purpose. Technology change has taken us from legacy telecom, which existed to provide transport and connectivity, to the world of next generations, which exist to provide effective information handling and sharing. This is a world in which Networx procurement will function in the next decade.

These new Networx are distance-insensitive, wired and wireless, packet driven, IP-based with converged services, and are solutions-oriented. The key concepts driving next generations within this information-sharing business model are end-to-end solutions, convergence, collaboration and ease of information sharing.

We are becoming customer and information focused in an information society. We demand that information be easily obtained and shared, and we expect effective information convergence, storing and processing, messaging and collaboration. The challenge GSA faces is how to offer the services needed in this future, facing procurement, but also how to offer the legacy services that are still required by many of the government agencies.

EDS recommends a strategy which should have little impact on the timely release of the final RFPs. GSA should structure Enterprise to enable the procurement of information solutions. Legacy services along with other services traditionally offered by carriers would be offered on Universal.

EDS recommends that Enterprise become a performance-based contract using solutions-focused models which can be premised-based or network-based. Task order requirements would be provided in the form of statements of objectives. This can provide GSA's customers the benefit of a full complement of innovative solutions found in the commercial next generation marketplace. The components, transport, last-mile access, wireless and security, for example, would be incorporated in these solutions. The agencies will obtain total solutions needed to satisfy their objectives and their mission requirements rather than obtain the individual components of the solution. Taken together, these recommendations define a program that will enable Networx to offer next-generation at the same time it provides components for the legacy generation. EDS's approach would lead to more satisfied government agencies, greater contract volume, and become the foundation of the administration's goal of a common government IT architecture.

To summarize, Enterprise and Universal should provide two tracts: the Universal to take care of the legacy stuff, and the Enterprise to take care of the forward-looking.

So, Mr. Chairman, EDS looks forward to participating in this competition as soon as possible. However, we recommend that GSA

concentrate on getting it right. EDS believes that restructuring the network procurements according to our recommendations will increase competition by enabling more carriers, integrators and small businesses to compete.

Mr. Chairman, thank you for the opportunity, and I look forward to your questions.

[The prepared statement of Mr. Scott follows:]

TESTIMONY BEFORE

THE U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON GOVERNMENT REFORM

MARCH 3, 2005

Presented by

DONALD E. SCOTT, SENIOR VICE PRESIDENT,
EDS U.S. GOVERNMENT SOLUTIONS

Mr. Chairman and Members of the Committee,

I am Don Scott, Senior Vice President of U.S. Government Solutions, EDS Corporation. Thank you for inviting me here again to testify, on behalf of EDS, regarding the General Services Administration's (GSA's) strategy for the "Networx" program. I offer EDS' recommendations in the interest of making Networx more effective in the current and future environment through 2017. I have submitted a copy of these remarks for the record.

First, I want to again commend this committee for its continued high level of interest in Networx and the importance placed upon it, as shown by the hearings you have already conducted. We realize the Committee has broad jurisdiction, and we agree with the prominence that has been given to Networx. We also commend GSA

Administrator Perry and the FTS program team for their diligence in pursuing an optimum Networx contract.

Since my last testimony on September 15, 2004, EDS has received and carefully analyzed the Draft RFPs for Networx Universal and Networx Enterprise, released on October 29, 2004. We believe these RFPs can be further improved. At this point, Networx still does not address the rapid pace of change in the network marketplace, nor does it adequately provide the capability for government agencies to buy the wide array of network solutions they will need in the future.

The Rapid Pace of Change in Technology

Wireless video conferencing and wireless access to core applications are current examples of the rapid pace of technological progress. Their availability in the market has expanded even since the last hearing, indicating greater change than we expected in September. Neither Networx Universal nor Networx Enterprise effectively address wireless and security requirements.

The focus on wireless requirements in Networx today is primarily on voice, leaving out PDAs, other data devices, video, and other wireless services. We believe that by the time the Networx contracts are awarded, agencies will seek a wide variety of wireless solutions to benefit mobile and remote workers. In the security area, the draft RFPs require only reactionary capabilities such as firewalls, rather than the capabilities that anticipate and mitigate network security problems. As we know, the government agencies and departments generally have received low scorecard marks in security due to deficiencies in security governance. Mr. Chairman, you and your Committee have been a leader in ensuring that government address these important security needs. EDS has provided GSA with a complete list of proposed additions to Networx, along with descriptions and suggested pricing structures to enable their timely addition to the program. Requiring a complete suite of currently available security and wireless services, and enabling future services to be added to these contracts to maintain market currency not only remains sound guidance, but serves as a guiding principal for the U.S. Congress and your Committee in ensuring governmentwide network security.

The Shift to Next Generation Networks (NGNs)

Adding new features to Networx will not be enough to make it effective for the future. The program must support the new era of Next Generation Network (NGN) solutions that are built for a different purpose than yesterday's networks. Technology change has taken us from the long-standing world of legacy telecom, which existed to provide transport and connectivity, to the world of NGNs, which exist to provide effective information handling and sharing. This is the world in which the Networx procurement will function during the next decade.

NGNs are distance insensitive, wired and wireless, packet driven, IP/Web based, with converged services (voice, video, and data). They are customer-specific and solution oriented. The key concepts driving NGNs within this information sharing business model are: end-to-end solutions, convergence, collaboration, and ease of information sharing. The legacy telecom services of the past are not oriented toward providing these services and solutions.

We are now customer and information focused in an information society. We demand that information be easily obtained and shared, and we expect effective information convergence, storing and processing, messaging, and collaboration—all in

a fully secure environment. Transport of information is now but one function surrounded by multiple user applications. The current corporate merger activity is one result of this new information solutions model.

NGNs will bear little resemblance to the legacy networks they will replace. Likewise, the program vehicles that will enable agencies to purchase NGNs need to be different from the legacy program vehicles as represented by the current FTS programs.

NGN services will be procured as information sharing solutions that provide results in line with an agency's mission, objectives, and business-case requirements. The transport components that may support these solutions are of diminished importance, as satisfaction is based on the performance of the solution. For the Networx program to have relevance in the world of the NGN, it must adopt an information sharing, solution-based program model. The current Networx program structure that reflects a veritable catalog of individual circuits or minutes is not the best way to enable the purchase of NGN solutions. It will quickly become antiquated and ineffective.

Improving the Networx RFPs

The challenge GSA faces is how to offer a future-facing procurement while accommodating the agencies that depend on legacy networks. EDS recommends a two-fold strategy which should have no impact on the timely release of the final Networx RFPs.

Recommendation: GSA should structure Networx Enterprise to enable the procurement of information solutions rather than only services.

In this scenario, legacy network services, along with other services traditionally offered by carriers, would continue to be offered within Networx Universal. Relaxing the current location requirements to only require services where commercially available will ensure that sufficient competition remains in light of the carrier mergers announced in the past few weeks.

Recommendation: EDS suggests removing the direct transport requirements from the required sections in the Networx Enterprise program.

As it stands, such requirements significantly limit the solutions that could be brought to the program. As an example, inclusion of a requirement such as VoIP

transport does not provide what the agencies will require, which is a "VoIP solution." These sections should be replaced with solutions-based models capable of being supported in a number of different ways such as premise-based, network-based, or solutions provided by different suppliers. This will provide GSA's customers the benefits of a full complement of innovative solutions found in the commercial NGN marketplace. The requisite technical components—transport, last mile access, wireless, and security—would be incorporated within these NGN solutions. The agencies would be required only to determine how well solutions meet their missions and requirements rather than obtain the individual components of the solutions.

Taken together, these recommendations define a program that will enable Networx to become more future-facing and able to support the program requirements of the NGNs, while at the same time providing for a program of legacy network components in much the same way as is currently provided in FTS. EDS believes this approach will lead to more satisfied customer agencies, greater contract volume for GSA, and progress toward the Administration's goal of a common government information technology architecture.

To summarize, the Universal and Enterprise contracts should provide two tracks.

The Universal contract in its current form should serve as the legacy procurement model and be associated with services such as toll free by the minute, voice by the minute, point to point and frame relay. These will be required for some time. The Enterprise contract should be tailored to support the NGN information-sharing, solution-based model. Agencies would be provided clear direction as to which Networx program supports their requirements at the time of each task order release.

Conclusion

GSA has embarked on the Networx contracts at a time of rapid paradigm shift to Next Generation Networks, which has changed the purpose of networks and the way networks are procured. It is critical that the Networx procurement model support this new technology environment. By enacting these recommendations, Networx will provide a comprehensive set of offerings and open up the contracts to a broader set of vendors. The results will be best value solutions, greater working productivity, savings to the taxpayer, and faster progress toward a common government architecture. Networx will become an integral component of the government enterprise architecture and reinforce GSA's technology leadership.

Mr. Chairman, EDS looks forward to participating in this competition as soon as possible; however, we recommend that GSA concentrate on getting Networx right rather than rushing to meet a target date. The government and industry are making significant investments in this effort. Protecting these investments into the future requires a program with a future-facing structure that also supports legacy networks while they continue to exist. EDS believes that restructuring Networx programs according to our recommendations will increase competition, enabling more carriers, integrators, and small businesses to compete for Networx contracts.

Mr. Chairman, thank you for the opportunity to comment; I will be pleased to answer any questions.

Chairman TOM DAVIS. Thank you very much. Mr. Bittenbender.

STATEMENT OF DAVID A. BITTENBENDER

Mr. BITTENBENDER. Mr. Chairman, members of the committee, we appreciate the opportunity to appear here today. I am here on behalf of Computer Sciences Corp. where I work as vice president of Federal Network Services, but I am also here as former chairman of the FTS 2001 Interagency Management Council and as a former government telecommunications executive. I personally feel very strongly about the effective use of communications and information technologies in contributing to a more responsible and responsive government.

Mr. Chairman, you set the vision for such a government at a breakfast we attended just a few months ago. There, you spoke of the need for a communications infrastructure, one that meets new and demanding national security and economic competitiveness demands imposed on an effective, 21st century government. Yours is a strong and important vision and message, and I applaud you for it.

For a myriad of reasons, your vision will not be easy to achieve. Important and substantial initiatives rarely are. GSA, though, is to be commended for its attempt to structure so major a procurement in such turbulent times internal to its own organization and across government as well.

Networx can and should be the flagship initiative for government to dramatically improve its ability to share information. It has that potential. To achieve that potential, the procurement should move from its current position as essentially an enhanced schedule of stove-pipe commodity services, to a horizontally defined standards-based initiative that can evolve with a rapidly and dramatically changing communications industry.

Leaders in the communications industry today may not be the leaders of tomorrow. Twenty-five years ago, when the GSA first considered replacing the original FTS contract, there was only one service provider. At the time of the FTS 2000 procurement in 1988, there were three providers. Today, there are dozens, many offering services that did not exist in 1988. And the original service provider of 25 years ago will likely not exist when Networx is awarded. This trend continues apace, and the government must develop procurement structures that adapt to this environment.

We do not believe that the Networx procurement in its present form encourages the objective of a government-wide, or even system-wide integration of communication services. This is not so much the fault of GSA as it is the reality that GSA faces in its customer market. Like it or not, stove-pipe culture in government and the telecommunications industry is strong. Yet, this culture must be addressed in terms of communications infrastructure if we as a government are to truly be able to share information across boundaries and jurisdictions.

We believe Networx suffers from some of the same weaknesses as its predecessors. Although the procurement mandates a standards-based service solution and specifies interoperability, many aspects of service provisioning, operation and management make seamless interoperability among the Networx service vendors im-

practicable and, actually, not readily supported even by the vendors themselves.

In addition, the requirements of the Enterprise component, which is essentially a subset of the Universal requirements, present significant barriers to innovation and to the entrance of small and other businesses who could offer niche service with significant potential value to the government.

The Universal component, which is largely commodity services, can and probably should move forward, given the impending expiration of the existing contracts.

However, we believe that government would be better served through restructuring the Enterprise component as a statement of objectives rather than a statement of requirements. It is the Enterprise procurement we believe that offers the greatest potential to the government for innovation, contract flexibility, and sound infrastructure management over the duration of Networx.

CSC supports a delay in the issuance of the Networx RFP or certainly the Enterprise component, so as to allow its careful and adequate consideration by the GSA, Congress, this committee in particular, and by the broader government and industry. Networx is moving forward with a rapidly evolving realization at senior levels of the executive branch and Congress, a realization fueled by this committee, that our infrastructure today is not adequate. A brief time-out might be in order.

Mr. Chairman, once again, I thank you for the opportunity. I look forward to any questions you may have and working with you in any manner that is appropriate.

[The prepared statement of Mr. Bittenbender follows:]

Testimony of Mr. David A. Bittenbender of Computer Sciences Corporation before the House Government Reform Committee

03 March 2005

Mr. Chairman, Members of the Committee, we appreciate the opportunity to appear here today. I am here on behalf of Computer Sciences Corporation where I work as vice president of Federal Network Services. I also am here as a former Chairman of the FTS 2001 Interagency Management Council and as a former government telecommunications executive.

I personally feel very strongly about the effective use of communications and information technologies in contributing to a more responsible and responsive government.

Mr. Chairman, you set the vision for such a government at a breakfast we attended just a few months ago. There, you spoke of the need for a communications infrastructure, one that meets new and demanding national security, and economic competitiveness demands imposed on an effective 21st century government. Yours is a strong and important vision and message, and I applaud you for it.

For a myriad of reasons your vision will not be easy to achieve. Important and substantial initiatives rarely are. GSA though, is to be commended for its attempt to structure so major a procurement in such turbulent times, internal to its organization and across government as well.

Networx can and should be the flagship initiative for government to dramatically improve its ability to share information. It has that potential.

To achieve that potential, the procurement should move from its current position as essentially an enhanced schedule of stovepipe commodity services, to a horizontally defined standards-based initiative that can evolve with the rapid and dramatically changing communications industry.

CSC
EXPERIENCE. RESULTS

Leaders in the communications industry today may not be the leaders of tomorrow. Twenty-five years ago when the GSA first considered replacing the original FTS contract there was only one service provider. At the time of the FTS2000 procurement in 1988 there were three providers. Today, there are dozens, many offering services that didn't exist in 1988, and the original service provider of twenty-five years ago will likely not exist when Networx is awarded. This trend will continue apace, and the government must develop procurement structures that adapt to this environment.

We do not believe that the Networx procurement in its present form encourages the objective of a government-wide, or even system-wide, integration of communications services. This is not so much the fault of GSA, as it is the reality the GSA faces in its customer market. Like it or not, stovepipe culture in government and the telecommunications industry is strong, yet this culture must be addressed in terms of communications infrastructure, if we as a government are to truly be able to share information across boundaries and jurisdictions.

We believe Networx suffers from some of the same weaknesses as its predecessors. Although the procurement mandates a standards-based service solution, and specifies interoperability, many aspects of service provisioning, operation and management make seamless interoperability among the Networx service vendors impracticable, and not readily supported by the vendors themselves.

In addition, the requirements of the Enterprise component of the procurement, which is essentially a subset of the Universal requirements, presents a significant barrier to innovation, and to the entrance of small and other businesses who could offer niche services with significant potential value to the government.

The Universal component, which is largely commodity services, can, and probably should, move forward given the impending expiration of existing contracts.

However, we believe the government would be better served through restructuring the Enterprise component as a statement of objectives, rather than a statement of requirements. It is the Enterprise procurement that offers the greatest potential to the government for innovation, contract flexibility and sound infrastructure management over the duration of Networx.

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Mr. Chairman, once again I thank you for this opportunity. I look forward to any questions you might have and to working with you and your staff in any appropriate manner.

Chairman TOM DAVIS. Thank you much. Mr. Courter.

Mr. BURTON. Mr. Chairman, I would like to welcome our friend, Jim Courter. He was a former colleague of ours and he has not aged a bit since he left.

Chairman TOM DAVIS. He hasn't, has he? That is because he is not here. He is in the private sector.

Whatever your secret, Jim, you look great, and good to have you here.

STATEMENT OF JAMES COURTER

Mr. COURTER. Mr. Chairman, it is good to be here on a different venue.

Obviously, I was on the Committee on Armed Services and did not often testify. I will not read my statement. Obviously, it is there for the record. There are a few things that I would like to point out that I think are very important in the next 2 or 3 minutes.

First of all, although our company has been successful, and both of you know something about our company; we started about 10 years ago. We are a very small company. Six and a half years ago when I went there, revenue was $52 million; now it is $2.2 billion. There was less than 100 people 6 years ago, we have 4,500 now in 18 countries around the world, and we have a very strong balance sheet.

We are a diversified company. It is a good thing we are. Otherwise, I would not be here today. If we just stayed in telecommunications, traditional, plain old telephone, not going into voice, VOIP, without a transaction that we had with our good friends at AT&T a few years ago in selling a controlling interest of net-to-phone, which was one of the premier voice-over IP telephone companies in the United States, we would have gone bankrupt with so many others, because of the MAA contract. And so I am speaking to you from—I am the poster child. You know, it wasn't individuals' fault. Everybody at GSA was well-intentioned, but it was a catastrophe for our company.

One, we bought Windstar out of bankruptcy 3 years ago and 3 months ago. I remember very specifically. We were overjoyed by our success in buying it out of bankruptcy. We thought it would be the perfect fit for our network. We are basically an international telecommunications provider. We route telephone traffic, voice traffic for all of the major PTTs, including the ones in the United States, and all of the RBOCs around the world. What we did not have was that last mile of connectivity that would make us a real national and global player.

So we bought Windstar out of bankruptcy for $52½ million, and the good part of it was that day, after that, we realized we were in a heck of a situation because the expectation of the amount of revenue and the expectation of the amount of traffic that we were going to route for the Federal Government under the NAA contract was woefully less than anybody anticipated, thus making it inevitable that we would burn significant sums of money each and every month. To this very day, and it is almost 3½ years later, IDT is losing in the government sector with the GSA contracts $2½ million a month.

We had 4-year contracts with four 1-year options to renew. We went to GSA and said, we can't renew this; we can't continue to burn hundreds and hundreds of millions of dollars, because we are not getting the revenue, we are not getting the traffic under this program. GSA some time ago told us they, in fact, were going to extend and exercise their option year after year after year for 4 more years, so we could sit here and burn an additional $2½ million a month for 4 additional years.

Now, I have sat down with Mr. Perry. He understands that we have a terrible situation. He understands the fact that IDT and other companies like it were terribly misled by the Federal Government as to the quantity of business we would get, and he assures us that we will work something out with the Federal Government.

So my basic message is, there has been a lot of testimony, a lot of comments about the amount of business and the amount of traffic. No. 1, bidders have to know the amount of traffic that they are going to get. It cannot be a secret, because you don't want to turn innovative communications companies, like IDT and some at this table and some on the prior panel, and put them in a situation where they are forced to go bankrupt again.

It happened because of the fact that—I will give you one example. In Atlanta, in the city of Atlanta where we still are, the maximum GSA estimated was $520 million of business for IDT; now, of course, Windstar. The estimated value, and that is the one that contractors look at, was $170 million of revenue in Atlanta for Windstar, old Windstar. Our gross revenue is $1½ million. Now, how can you make money under those types of circumstances?

So my point here is, you have an opportunity to get it right this time, and indeed, I hope that you do.

There is another comment I would like to make, and that is, there has been great talk about Universal and Enterprise, and we look at Enterprise. of course, we will be very cautious this time and very circumspect, and we will be looking very carefully as to what the real traffic numbers are going to be; we will not be deluded a second time. It seems to me, under Enterprise, it is more the equivalent, as far as I am concerned, if the government is going to get the best product at the best price, it is not the decathlon. You do not need a company to be expert in nine different areas. I understand there are nine categories, nine requirements when it comes to Enterprise. If you want to win the 100-yard dash, you don't put a shot putter in the Olympics. You got someone who is the very best at that particular event. So I would suggest that GSA review the nine requirements when it comes to the Enterprise program.

So one is lessons learned, and the other is, you have a chance to do it right this time. If you need additional input from myself, I am obviously at your disposal. Thank you very much.

[The prepared statement of Mr. Courter follows:]

TESTIMONY OF JAMES COURTER, CEO AND VICE CHAIRMAN

IDT CORPORATION

BEFORE THE HOUSE COMMITTEE ON GOVERNMENT REFORM

MARCH 3, 2005

Chairman Davis and members of the committee, thank you for inviting me here today. I am Jim Courter, CEO and Vice Chairman of IDT Corporation. As a former 12-year congressman from New Jersey, and the former Chairman of the President's Base Closure and Realignment Commission, I greatly respect the hearing process and truly appreciate the opportunity to testify today about the proposed government-wide telecommunications program, Networx.

First, by way of background, I wanted to provide you with an understanding of the IDT network and offerings.

An expanding, facilities-based global network.

IDT [NYSE: IDT and IDT.C] is a leading provider of wholesale and retail telecommunications services, using our own network infrastructure to route calls worldwide.

With our global switching facilities and fiber optic network, IDT is international in scope, with annual revenues over $2.2 billion, and providing more than 20.4 billion annual telecom minutes of use. We're also continually expanding our worldwide presence, employing over 4,400 people, with offices in more than 18 countries on five continents.

Today, we're an industry leader in calling card distribution.

IDT is comprised of seven distinct corporations: IDT, IDT Telecom, IDT Media, IDT Entertainment, Net2Phone, Winstar Communications LLC (doing business with the Government as Winstar Government Solutions), and IDT Spectrum, Inc. IDT is a non-operating holding company and publicly held corporation. IDT Telecom, our telecom subsidiary, oversees our carrier business, our calling card business and our consumer phone service. IDT Media includes our radio, brochure distribution and corporate video services businesses. IDT Entertainment contains our innovative computer generated animation business. IDT Corporation financially consolidates and exercises voting control over Net2Phone, a leading provider of Voice over IP phone services, which trades on the NASDAQ under the symbol NTOP. Winstar is an alternative local exchange carrier for Government in select buildings, providing local, long distance and high-speed Internet through the Metropolitan Area Acquisition (MAA) contracts. IDT Spectrum is the nation's largest holder of commercial, exclusively licensed fixed wireless spectrum. IDT Spectrum leases spectrum and also provides fixed wireless services. We expect utilization of fixed wireless spectrum as

a secure and reliable alternative to fiber and wireline networks to grow due to two major factors: (i) demand for redundant and independent communications systems for government agencies and commercial enterprises concerned with the threat of catastrophic network outages and (ii) the growth in higher bandwidth mobile wireless backhaul as a result of the rapid increase in minutes carried on mobile wireless networks plus the deployment of third generation ("3G") technologies by those carriers.

Listed 746th among the Fortune 1000, IDT has almost no debt and cash reserves of over $1 billion.

COMMENTS ON NETWORX

We previously filed comments in the Networx proceeding. We also studied the RFP closely. We were pleased to see that the RFP took into account the need for federal sites to acquire telecommunications from physically separate facilities.

I. Physically Diverse Telecommunications Systems

When September 11, 2001 unfolded and telecommunications services predominately shut down below Canal Street, our system designs comprised the only services that continued to function. The reason for this was basic - - the design offered truly physical diverse telecommunications. In particular the design offered: (i) physically diverse telecommunications ingress and egress to buildings through exclusively licensed and secure fixed wireless networks, (ii) utilized physically separate telecom rights-of-way and (iii) routed to physically separate local network facilities. We agree with the recent decision by Congress to pass legislation requiring physically diverse telecommunications in federally owned buildings.

Accordingly, it makes good sense for the Networx program to provide federal agencies with the ability to order physically diverse telecommunications services. IDT Spectrum, Inc. with its ubiquitous exclusively licensed fixed wireless spectrum holdings - - the largest in the nation-- offers those exact services.

II. An Effective Networx Procurement Requires Reasonable Estimates

We agree that it is time for the nation to re-examine telecommunications network procurement on a nationwide scale and we congratulate the General Services Administration (GSA) on the hard work already accomplished to date.
We filed comments in the Networx proceeding and believe a critical component of an effective Networx procurement will be the accurate and realistic estimation of the Government's requirements for diverse facilities to be purchased from telecommunications contractors like IDT Spectrum. In this regard, the Government should take special care to avoid the mistakes experienced under the Metropolitan Area Acquisition (MAA) program.

The GSA touted the MAA program as a multi-billion dollar business opportunity for telecommunications companies. The GSA set forth substantial dollar ceiling prices in the various MAA solicitations, which induced Winstar to invest hundreds of millions of dollars in a new national network to service Government customers, and to bid severely discounted prices for the MAA services. During the course of the MAA contracts, however, Winstar has received only a small fraction of the business

volume touted by GSA, despite the company's low prices. As a result, there is no realistic prospect for Winstar to recover its enormous financial investment in the nationwide network made for the MAA program, and the company continues to lose millions of dollars every month on these Government contracts. All told, the MAA contracts have been devastating to Winstar's financial health, while providing Government customers with discounted prices based on the inflated requirements set forth in the MAA solicitations.

We are now in discussions with the GSA to resolve and or correct this imbalance.

For the Networx program, the MAA contracts provide an important lesson. For an effective Networx procurement, as well as the long-term success of the program, the Government must compile accurate and realistic estimates regarding agency requirements for diverse telecommunications facilities. In turn, Networx solicitations must be based on these reasonable estimates of the Government's actual needs, resulting in appropriate and fair prices from telecommunications vendors like IDT Spectrum. Ultimately, the Government will better ensure the success of Networx by obtaining these critical services at competitive prices without sacrificing the financial health of our country's alternative telecommunications carriers.

3. Make the "Enterprise" Option Real

The GSA proposes to offer potential Networx service providers a choice. Providers can choose to seek business through:

(i) "Universal" (i.e. require the bidders to offer a comprehensive solution to provide ***all*** services the GSA seeks to make available) or
(ii) "Enterprise" (i.e., allow bidders to seek certain lines of business).

We encourage the GSA to make certain that the contract minimums and contract estimates, as well as the categories for each line of business, allow Enterprise providers to actually access significant amounts of business. If the system is effectively designed so that only the putative Universal providers - - most likely the RBOCs - - obtain access to the lion's share of the Networx business, then it harms innovation, competition and the public interest. We encourage GSA to make the Enterprise option real.

CONCLUSION

We look forward to the finalization of the format for the Networx deployment and the ability of customers to access better, competitive services. I wish to thank the Committee for holding this very important hearing.

Chairman TOM DAVIS. Jim, thank you very much. Mr. Cook.

STATEMENT OF MICHAEL L. COOK

Mr. COOK. Mr. Chairman, thank you very much.

My name is Michael Cook, and I am senior vice president of Hughes Network Systems and general manager of the Government Markets Group for Hughes. So, Mr. Chairman and members of the committee, I appreciate and value the opportunity to appear here today and talk on behalf of Hughes Network Systems about broadband satellite services.

You have made it clear, Mr. Chairman, in recent months how important it is to improve communication amongst government agencies and departments, and you have been equally clear in setting your belief that Networx must be the gold standard on which government communication requirements are based.

My purpose here today is to urge that satellite broadband technologies and that satellite services be equally treated with the other prominent broadband technologies; that is DSL and cable. The inclusion of satellite services is where the Networx procurement needs to be modified and improved, and this is the purpose of my testimony today.

Broadband is today's powerhouse communications technology. It is driving the economy and will continue to do so for the foreseeable future. Networx recognizes this. In both the Universal and the Enterprise Networx component procurements, bidders are required to provide DSL and cable services. However, in both procurement processes, satellite broadband stands as an optional offering. This does not make sense for the government as a customer, either today or over the projected duration of Networx. Nor does it reflect the reality of today's and tomorrow's communications environment. Regardless of claims, hopes or even spin, terrestrial broadband technology such as DSL is simply not available to every consumer, business or government location throughout the United States.

Satellite broadband is not a niche technology nor an emerging one. It is here. It is real. It is reliable. It is everywhere. It is in wide-use in commercial, consumer and government markets, and its use will grow significantly over the coming years. Over 20 million consumers appreciate satellite-delivered TV, and these numbers are growing rapidly as people are embracing new high-definition technologies. Already today more than a quarter of a million Americans rely on satellite broadband communications at home, and these customers primarily reside in rural and suburban areas where DSL and cable are not available.

A further 200,000 business locations rely on satellite broadband for mission-critical communications. Hughes alone transports over 6½ million credit card transactions each day across its satellite Networx. If you are a business or a government agency, large or small, satellite gives you the communications capabilities that the 21st century, commerce, and egovernment demand: high speed, high quality service and availability everywhere.

Critical large-scale business operations depend on satellite communications. Chances are that you as individuals benefit from satellite communications every time you fill your car with gas. Over 90 percent of all gas stations in all 50 States of virtually every

major oil company employs satellite communications at the pump for the electronic transaction purposes and in the back office for stock control and monitoring. The retail industry, the hospitality industry, the automotive industry, the financial services industry, the broadcast industry all rely on satellite broadband. Why should government be any different? Well, it isn't. Government departments and agencies, including, among many others, Agriculture, Interior, Homeland Security, the Department of Defense, the National Weather Service, and the Postal Service, are all using satellite technologies and services for day-to-day Enterprise applications.

Also remember that, as a back-up network, satellite communications is essential in a world where heightened national and homeland security risks are ever present, as well as natural disasters. As an example, in Hendry County in Florida last year, hard hit by four hurricanes, the county director of operations coordinated all county activities for 4 days from his home using HNS's DIRECWAY broadband satellite communications services. The landbased communications network was completely incapacitated by the weather for those 4 days.

Satellite broadband is also the most portable of technology choices, and we have supported many emergency situations, such as the search for parts of the space shuttle Columbia with small, portable, fly away units.

My point with these examples is this: Satellite communications is a viable technology. It is widely deployed. It is deployed in consumer, commercial and government sectors, improves communication for primary communications, for backup and continuity of operations function as well as for audio and video applications and others.

If Networx requires broadband technology, it should require all technologies now in wide commercial and government deployment. Satellite broadband offerings should stand side by side with DSL and cable in this procurement, and satellite broadband is not, nor should it be, optional.

Now, I know that Networx or rather the GSA procures satellite through other contract vehicles, but our point is this is the most important telecommunications procurement for government as we go forward, and it is essential that satellite broadband is there alongside all of the other technologies.

Mr. Chairman, thank you very much.

[The prepared statement of Mr. Cook follows:]

Testimony of Michael L. Cook
before the
House Government Reform Committee
March 3, 2005

"Satellite Broadband is Critical to Networx"

Mr. Chairman, members of the committee, I appreciate and value the opportunity to appear here today on behalf of Hughes Network Systems (HNS), the world's leading provider of broadband satellite network solutions.

Mr. Chairman, you have made it very clear in recent months, how important it is to improve communication amongst government agencies and departments. Your focused vision of a well-coordinated, fully inter-operable, government-wide communications infrastructure is an imperative in today's world, and it is clear to everyone that this makes the utmost sense.

You have been equally clear in stating your belief that Networx must be the gold standard on which government communications requirements are based. We fully agree with you and the industry salutes your leadership. My purpose today is to urge that satellite broadband communications technologies be included in the core Networx portfolio of technologies, and that satellite services be treated equally with the other prominent broadband technologies – DSL and cable.

Page 2

The inclusion of satellite services is where the Networx procurement needs to be modified and improved. This is the purpose of my testimony today.

Broadband is today's powerhouse communications technology; it is driving the economy, and will do so for the foreseeable future. Networx recognizes this. In both the Universal and Enterprise Networx component procurements, bidders are required to provide DSL and cable services. However, in both procurement processes, satellite broadband stands as an optional offering. This does not make sense for the government as a customer, either today or over the projected duration of Networx. Nor does it reflect the reality of today's and tomorrow's communications environment. Regardless of claims, hopes or just spin, terrestrial broadband technologies such as DSL are simply not available to every consumer, business or government location throughout the United States.

Satellite broadband is not a niche technology, nor an emerging one. It is here, it is real, it is reliable, it is everywhere, it is in wide use in commercial, consumer and government markets, and its use will grow significantly over the next several years.

Page 3

Over 20 million consumers appreciate satellite-delivered digital multi-channel television every day and those numbers are growing rapidly as people are embracing new high-definition technologies.

Already today, more than 250,000 Americans rely on satellite broadband communications at home. These customers primarily reside in rural and suburban areas where DSL and cable are not available. A further 200,000 business locations rely on satellite broadband for mission critical communications; Hughes alone transports over 6.5 million credit card transactions each day across its satellite networks. If you are a business or government agency, large or small, satellite gives you the communications capabilities that 21st century commerce and e-government demand—high-speed, high-quality service and availability everywhere.

Critical large-scale business operations depend on satellite communications. Chances are that you benefit from satellite communications every time you fill your car with gas. Over 90% of all gas stations in all 50 states, of virtually every major oil company, employ satellite communications at the pump for the electronic transaction processes and in the back office for stock control and monitoring applications. The retail industry, the hospitality industry, the automotive industry, the financial services industry and the

broadcast industry all rely on satellite broadband. Why should government be any different? Well, it isn't! Government departments and agencies including (among many others) Agriculture, Interior, Homeland Security, the Department of Defense, National Weather Service, and the Postal Service are using satellite technologies and services for day-to-day enterprise applications.

Let us also remember that as a backup network, satellite communications is essential in a world of heightened national and homeland security risks, as well as natural disasters. For example, in Hendry County, Florida, hard hit by four hurricanes last year, the county director of operations coordinated all county activities for four days from his home using HNS' DIRECWAY broadband satellite communications services. The land-based communications network was completely incapacitated by the weather for those four days.

Satellite broadband also is the most portable of technology choices. From a platform roughly the size of a large carry-on suitcase, satellite broadband was deployed over a sparsely populated and large geographic area in the search for parts of the space shuttle Columbia after that tragic event. It is similarly and routinely deployed in natural disasters when land-

based networks are damaged and inoperable, or where terrestrial broadband does not exist, but is required.

My point with these examples is this—satellite communications is a viable technology and widely deployed. It is employed in consumer, commercial and government sectors, in critical enterprise operations, for primary communications, backup and continuity of operations functions, audio/video applications and others.

If Networx requires broadband technology, it should require all technologies now in wide commercial and government deployment. Satellite broadband offerings should stand side-by-side with DSL and cable in this procurement. Satellite broadband is not, nor should it be, optional. Networx would be much improved and strengthened, if modified accordingly.

In making this suggestion, I know that GSA does procure satellite services under a separate contract vehicle. My point, however, is that no such separate contract exists for either DSL or cable broadband. If Networx truly is to embody the government's communications requirements and hence infrastructure, then inclusion of satellite broadband on an equal footing with DSL and cable will provide an

improved and more comprehensive initiative. I hope the final Networx RFP reflects this.

Mr. Chairman and members of the committee, I thank you once again for the opportunity to speak here this morning on this most important subject. At the appropriate time, I look forward to answering any questions you might have.

# # #

Chairman TOM DAVIS. Thank you very much.

Ms. Gowen, you may be our last speaker.

And, Mr. Baroni, we may need to go vote.

If it is agreeable, we will recess for an hour, because we have a series of votes and everybody can get some lunch, and we can wind it up, and we can do questions.

Can everybody do that on their schedule?

You will be our final speaker, and then, Mr. Baroni, you will have an hour to prepare your testimony.

STATEMENT OF DIANA GOWEN

Ms. GOWEN. Good afternoon, Chairman Davis, and members of the committee. Thank you for the opportunity to be here. I am Diana Gowen, president of Broadwing Government Solutions, Broadwing Communications.

Broadwing, while small relative to legacy carriers here today, is a robust, wholly owned, all-optical, nationwide network. Because of our advanced technology and size, we are nimble and innovative in ways some of the legacy carriers cannot be. So we applaud GSA for showing clear vision in creating an Enterprise version of Networx to improve the government's access to new technologies. While a new entrant in the Federal space, it provides advanced networking solutions to very sophisticated customers such as General Electric, AT&T Wireless and Bank of America. They entrust their mission-critical Networks to us.

However, in spite of the trust those large commercial customers place in us, we approach Networx with some trepidation. The risks are large, and the market uncertain but, more critically, we see an uneven playing field. The GSA has been working for 2-plus years on this acquisition and has very consistently sought council from all quarters, and there are marked changes that have resulted. Yet, some fundamental issues remain: The competitive playing field is not level. Universal, while it is the continuity of service contract, is unduly favored in many ways. The MRGs, fair consideration, the ability to modify the contract early on, fair opportunity or consideration across two separate and unequal contracts is our greatest concern.

The major objective for Universal is continuity of service, and a major objective for Enterprise is new and innovative technological solutions. Because of the agency's well-founded concerns with continuity of service, the dominant contract vehicle in all probability will be Universal, and agencies could miss opportunities to avail themselves of creative technological solutions when upgrading their networks.

Consider the case of a new innovative network service, QPLS, offered only by Enterprise providers, and one of the Universal providers, in this case the agency's incumbent carrier. The agency could either provide the incumbent a sole-source award or abandon its incumbent and issue a task order under Enterprise. A sole-source award certainly would not promote the benefits of competition. But, at the same time, the incumbent, if able to provide, should be able to compete with the Enterprise bidders.

Networx should be changed from two separate and unequal contracts to one, either conceptually or in reality, by adopting some of

the following approaches: Structure the contract along the lines of the Millennia Light and Connections, or GSA could administratively direct an agency to consider all network awardees, regardless of whether they are Universal or Enterprise. The current FTS 2001 and MAA contracts offer a good example. JUTNET, AT&T, and Qwest, MCI and Sprint all competed. AT&T and Qwest were MAA awardees, and Sprint and MCI were FTS 2001 awardees. Networx could adopt a version of this strategy to broaden the competitive playing field during the fair opportunity competitions, or GSA could approach the Office of Federal Procurement Policy and request a modification or exception to the Federal acquisition regulations.

We have all recommended that the government accept commercial capabilities and eliminate many of the noncommercial requirements, yet many agencies remain firm in their noncommercial desires, so that GSA should pay for the unique, government-only development through special cleanse or increased revenue guarantees. If GSA chooses the MRG path, then the MRGs are too low for Enterprise. The operational support requirements are exactly the same for both Enterprise and Universal, and there is room to expand the MRGs, since the combination of the proposed MRGs today is less than 1 year's revenue under the current FTS 2001 contract and well below the government's estimates of how much will be spent under this program.

Our last concern is forbearance from modifications to the Enterprise contracts for the first 24 months. These are the innovation contracts, yet Universal awardees will be allowed to modify their contracts.

The contract modification process under FTS was successfully streamlined; the number of mods negotiated doubled on an annual basis, so I think GSA knows how to modify contracts. Tech change is not going to slow down for 2 years, and therefore, both Universal and Enterprise should be able to modify their contracts as necessary.

So Broadwing is eager to work with you, Mr. Chairman, and the members of the committee and with the GSA to help bring about a fair and balanced competitive environment for Networx. Thank you.

[The prepared statement of Ms. Gowen follows:]

WRITTEN TESTIMONY OF

DIANA GOWEN,

PRESIDENT, GOVERNMENT SOLUTIONS

BROADWING COMMUNICATIONS

BEFORE THE

COMMITTEE ON GOVERNMENT REFORM

U.S HOUSE OF REPRESENTATIVES

MARCH 3, 2005

Good morning Chairman Davis, members of the Committee and colleagues. Thank you for the opportunity to appear before you today to give testimony about the General Services Administration's Networx Procurement and for providing a forum to recommend changes to the procurement, that if implemented, would encourage a wider array of proposals from a broader group of communications companies. My name is Diana Gowen and I am the President, Government Solutions for Broadwing Communications.

Broadwing is a small but growing nationwide carrier, providing voice and data services primarily to enterprise customers, over a wholly owned infrastructure employing the most advanced optical technology in the US. Through our equipment manufacturer owner we have become, in a very short time, one of the world's most technologically advanced telecommunications carriers of any size and because of our small size, we are nimble and innovative in ways that some legacy carriers cannot be. While the Universal procurement, as structured, may be beyond our reach, we applaud GSA for showing real vision in creating an Enterprise version of Networx to improve the government's access to new networking technologies, cost effectively and quickly.

While a relatively small player compared to others that have or will testify before you today, and a new entrant in the Federal space, Broadwing provides advanced networking services to a very sophisticated customer base: General Electric, Bank of America, DHL, AirTran--to name a few. They entrust their mission critical and customer facing networks to Broadwing. In fact, when you get your cancelled check back from paying the IRS on April 15th, the image of that check likely traveled over Bank of America's network that is provided and managed by Broadwing.

However, in spite of the trust those large commercial customers place in us, we approach Networx with some trepidation because of the risks the program poses to an emerging player in a very uncertain telecommunications market. It is not the network services or provisioning challenges that give us pause or take us out of our comfort zone and to the limit of our risk tolerance. It is the investment in non-commercial back office services coupled with an uneven competitive playing field that presents the biggest financial risk to companies like Broadwing.

Please don't interpret my introduction as sour grapes or apples, as I am willing to compete against any of my fellow testifiers on a level playing field in the provisioning of the most advanced networking concepts available today. We are a technological leader and the government, if we are successful in bidding, will find out just how strong a player we are.

The GSA embarked on developing its acquisition strategy for Networx two years ago and has very consistently sought counsel from many quarters: its customers, the GAO, legacy carriers, ILEC's, Systems Integrators, and emerging carriers. We enthusiastically endorse GSA's inclusiveness and willingness to dialogue with all interested parties. Marked changes have resulted from the varied and many conversations, yet some troubling fundamental issues remain.

Broadwing responded to the initial Networx Draft RFP last December. My testimony today is informed by our experience in developing that response. In a number of material ways, the construct of the Draft RFP unnecessarily acts to discourage smaller non-legacy carriers from submitting responsive bids while favoring incumbents who have more traditional networks and offerings. This can only serve to limit the pool of candidates available to submit compliant responses despite the stated goal of the process to encourage a broad spectrum of proposals. I'm afraid that without changes in the process, the innovation that is being sought may never materialize. I want to bring seven of the most glaring bidding deficiencies to your attention now with recommendations on how to fix them:

- Non-commercial requirements, yet prices below best commercial rates;
- Performance-based contracting that penalizes poor performance, but does not reward outstanding performance;
- Minimum Revenue Guarantees (MRG's) too low for both Universal and Enterprise;
- Fair Opportunity Across Two Separate and Unequal Contracts;
- Universal bidders with higher MRG's and legacy contracts able to bid Enterprise;
- Enterprise awardees precluded from modifying their contracts during the first twenty-four months of the Networx contracts, yet Universal awardees allowed to modify their contracts; and,
- Consolidation of the industry through the probable acquisition of ATT by SBC and the possible acquisition of MCI by Verizon or Qwest.

1. Issue: Non-commercial requirements, yet prices below best commercial rates.

Discussion: The Federal Agencies which the General Services Administration represents continue to demand non-commercial billing functionality, reports, and processes, yet expect prices far below best commercial levels. This practice of asking for non-commercial items and expecting best commercial prices applies to both the Universal RFP and the Enterprise RFP. These requirements drive a great deal of special investment that seems inappropriate for a multiple award, Indefinite Delivery Indefinite Quantity (IDIQ) contract with very low minimum revenue guarantees, especially with respect to the Enterprise RFP. Every "MOPs" requirement of Universal is found in Enterprise, yet there is a $475M difference in the two contract's MRG's. While some of the "MOPs" requirements are on many of our roadmaps for future enhancements for all of our customers, there are many unique changes that will have little commercial applicability and the taxpayer will end up paying for those unique requirements. Wouldn't this development capital be better spent on new services and innovative implementation techniques?

Recommendation: Eliminate many of the non-commercial requirements or increase the minimum revenue guarantees or allow recovery of non-commercial development in special CLINs similar to the practice for FTS2001. It also should be noted that the Industry Advisory Council's (IAC) Telecommunications Shared Interest Group was asked by GSA to investigate the OSS requirements of Networx. An independent group studied the issues and recommended a greater than 50% reduction in the government's OSS requirements placing them more in line with commercial practices. While some of the recommendations were accepted, the agencies and GSA continue to hold on to outdated "double entry" billing and voluminous reporting systems.

2. Issue: Performance-based contracting that penalizes poor performance, but does not reward outstanding performance.

Discussion: The General Services Administration is attempting, in their Networx draft, to establish a performance driven contract by employing service level agreements (SLA's) coupled with economic incentives. We applaud this effort, in principle. However, in GSA's Draft RFP, GSA has focused only on poor performance by penalizing the awardees for substandard performance. GSA has not provided any incentives for exceeding the government's requirements in the areas of service delivery, the quality of network services, or above average mean time to repair, for example. Each of these areas could positively affect the government's total cost of operations. If a contractor's outstanding performance positively impacts the Government's costs, then there should be a shared savings incentive, just as there is a penalty for performance negatively affecting the Government's costs.

Recommendation: The GSA should solicit the bidders' recommendations for performance-based incentives and evaluate them as part of the overall cost evaluation. The Department of Transportation's award of FTI, as well as the Navy's Award of NMCI, both provide good examples of incentives for superior performance and provide a roadmap for how these incentives can be evaluated in the cost proposals.

3. Issue: Minimum Revenue Guarantees (MRG's) are too low for both Universal and Enterprise.

Discussion: The stated Minimum Revenue Guarantees (MRG's) are too low, considering the organizational costs of preparing for staffing the contract support organization and the amount of development required to be compliant with the non-commercial "back-office" requirements—which are exactly the same for both Enterprise and Universal projects. Non-incumbents of FTS2001, especially, must incur a large capital investment, just to "get to the table," while the FTS2001 incumbents have already had much of the non-commercial "back-office" systems on-line and working for FTS2001 and paid for by the government either through their rate structure or special developmental CLIN's.

Recommendation: Since the non-commercial requirements and investments are the same for both Universal and Enterprise, the MRG's for Enterprise should be raised to the same level as Universal and the Enterprise and Universal contracts (where the incumbents are most likely to bid) should be put on equal footing when competing for agency business. While GSA recently announced an increase in the MRG's for Enterprise, it was by a token amount, raising the bar to $50 million—still a small fraction of the guarantee to the Universal players. The proposed MRG's combined are below the current annual revenue generated under the existing FTS2001 contracts.

4. Issue: Fair Opportunity Across Two Separate and Unequal Contracts

Discussion: One of the major stated objectives for Universal is continuity of operations. A major objective for Enterprise is new and innovative technological solutions. Because of the agencies' concerns with continuity of operations, the dominant contract vehicle will be Universal and agencies will likely miss opportunities to avail themselves of creative technological solutions, when upgrading their networks.

For example, consider the case of a new, innovative network service, offered only by enterprise providers and one of the universal providers, the agency's incumbent universal carrier. The agency could either provide the incumbent a sole source award at a price that was not competed or abandon its incumbent in its Enterprise task order competition for the new network service. A sole source award certainly would not promote the benefits of more competition--innovation in services and/or lower prices, but at the same time the incumbent, if able to provide, should be allowed to compete with the Enterprise providers.

Oftentimes the innovation in networking technology takes place in the "emerging carrier" and systems integrator space. The legacy carriers, likely to bid the Universal contract, can be innovative, but oftentimes they are slow to adopt and introduce new services and technology, because they have a large investment to protect in their legacy networks. Conversely, there are features within a service category that the new carriers do not provide, such as analog and DS0 services under Private Line, because the newer network providers designed and implemented their networks much more recently and most commercial customers were no longer requiring low speed and analog private line services. For this reason, GSA should change the structure of the contract to enable agencies to consider equally all **viable** solutions across both the Universal and Enterprise contracts and allow optional services to be bid even if all features are not available.

Recommendation: Networx should change from two separate and unequal contracts to one of three potential arrangements:

First, the Millennia Light and Connections contracts provide one approach—they both offer different services under one contract number. Contracting officers are able to bid service requirements against a variety of solution sets, giving choices to the mission customer.

A second option could be to approach the Office of Federal Procurement Policy (OFPP) and request a modification or exception to the Federal Acquisition Regulations. In this situation the case would need to be made that in many agency requirements, the services, coverage, and performance specifications could be met by a Universal or an Enterprise provider. Expanding fair opportunity under Networx to include both the Enterprise and Universal programs would generate a broader field of choice, increase price competition, and would reduce the long-term costs and increase the benefits to the government.

Lastly, an administrative agreement could be drawn up by GSA, which would direct an agency to consider all compliant Networx awardees, regardless of whether they are a Universal awardee or an Enterprise awardee. The current FTS2001 and MAA contracts offer a good example of this approach. For example, on JUTNET, AT&T and Qwest, MCI and Sprint all competed under fair opportunity. AT&T and Qwest won awards under MAA's and Sprint and MCI won awards under FTS2001, yet all competed equally by GSA mandate or fiat. Networx could adopt a version of this strategy to broaden the competitive playing field during fair opportunity competitions.

5. Issue: Vendors should not be able to bid both Universal and Enterprise.

Discussion: Since a paramount driver of this procurement is choice for the agencies and price performance generated from competition, the ability of incumbents to bid both contracts could virtually eliminate the participation of the emerging service providers and the systems integrators, because the risk/reward potential is out of balance. The results could be limited choice, poor price performance, and higher prices.

Recommendation: Make Universal and Enterprise components of one contract or mandate that a vendor can bid one or the other, but not both.

6. Issue: Enterprise awardees will not be able to modify their contracts during the first twenty-four months of their contracts, yet Universal awardees will be allowed to modify their contracts.

Discussion: This recent announcement by GSA is discriminatory and, once again, works against the stated model for Enterprise as the vehicle for technological innovation. While transition is the stated reason for this period of forbearance, it seems incongruous, at best, to ask carriers to bid on Enterprise and comply with all of the same requirements of Universal, and then prohibit them, for two years, from offering new optional services.

The contract modification process was tremendously streamlined under FTS 2001. The number of modifications successfully negotiated on an annual basis more than doubled over the course of the contract. We all sit in awe at the speed of technological change today, yet it is being contemplated that the "innovation" contract cannot change for two year. If allowed to stand, GSA would be altering a fundamental premise for Enterprise before the final RFP is even released.

Recommendation: Allow both Universal awardees and Enterprise Awardees to modify their contracts to introduce new optional services and features, as necessary, without delay.

7. Issue: Consolidation of the industry through the acquisition of ATT by SBC and the probable acquisition of MCI by Verizon or Qwest.

Discussion: Our last point is actually a caution. With the consolidation beginning to take place in the telecommunications industry today, the government needs to consider the ramifications of the change and how it may affect the choice agencies will have in the future. The industry consolidation that is taking place, will, in all probability, remove two incumbent providers under the FTS2001 contract. Prior to the announcement of the intended mergers, one or both acquirers were anticipated to be Universal bidders. This consolidation in the Telecom industry, in the long term, will reduce the competitors in the federal marketplace and could render the industry into an oligopoly that will be characterized by less pricing flexibility and other unattractive attributes. This is an especially important consideration if the Networx procurement continues to favor the Universal awardees.

The benefits that could accrue to the government from Universal and Enterprise contract holders equally competing include both technological innovation and price/performance. The government should consider these developments carefully before committing Networx to a strategy of separate and unequal contracts, as they stand today.

Recommendation: The GSA award as many contracts as is possible and compete Universal and Enterprise fair opportunities equally.

In summary, competition and choice drive both innovation and price. If the aforementioned issues are not addressed, there will be less choice for government agencies in the Networx contracts. While no potential Networx player has exactly the same issues with the RFP as drafted, all have the common goal of investing in an opportunity that gives them a fair chance to compete, post award. With the current structure of the Networx procurement, the price of entry is high for both Universal and Enterprise, and the playing field, post award, is not level from a risk and reward perspective.

All of this said, we are confident that the GSA, the Committee, and yourself will continue to listen to the stakeholders and craft a Networx Program, which will ensure a fair competitive environment, and the benefits competition drives.

Thank you Chairman Davis and the Committee for your continued interest and time. I am pleased to answer questions.

Chairman TOM DAVIS. Thank you very much.

We are going to recess now. It is 1 p.m., we will come back here at 2 p.m., give everybody a chance to eat lunch except for you, Mr. Baroni. I know you will be preparing your testimony. Thanks.

[Recess.]

Chairman Tom DAVIS. Well, Mr. Baroni, have you had enough time to prepare your remarks?

Mr. BARONI. I think so.

Chairman Tom DAVIS. Well, we're ready—at least I'm ready.

STATEMENT OF GREG BARONI

Mr. BARONI. Well, Mr. Chairman, many thanks for the opportunity to appear before you today to share Unisys' views on GSA's proposed government-wide telecommunications program, Networx.

My written testimony, which you've already included in the formal record, highlights Unisys' best practices in the telecommunications and networks services, the challenges facing the current legacy procurement vehicles, such as FTS2001, our analysis of the Networx draft RFP and recommendations to improve Networx services.

Unisys is uniquely qualified to be a key partner in this acquisition, and I believe, given the fact that we are a major global solutions provider to 9 of the top 10 telecommunications organizations—and I say that recognizing that it's rapidly dwindling—we are, in our view, very expertise in this area.

In addition, we've been a global leader in delivering highly complex managed services and network services, both to the private and the private sector, under performance-based contracting arrangements, the most notable of which is the Transportation Security Agency, where we established an innovative approach to link our performance directly to mission outcomes.

Let me briefly outline the challenges associated with the current network or the legacy network contracts and the need for transformation.

Current procurement vehicles typically provide legacy voice and data services that traditionally have been offered by the commodity vendors who supply hard-wired physical networks and are not well-suited to deliver converged communications.

Unisys believes that the GSA Networx contracts should be a key enabler of this transformation that balances world-class services with innovation in a cost-effective manner. Networx must address these challenges faced today with the FTS2001 contract, such as access to a limited number of direct commodity telecom providers unable to exploit full convergence, the inability to access value-added services, and, of course, the billing issues and the lack of flexibility in reducing pricing over time.

As you requested, and I'm sure you've surmised by now, we have a few comments on the draft Networx RFP. First, for the Universal contract, as proposed, a robust network footprint in competitive pricing will be the minimum required for a winning proposal. Because systems integrators and outsources typically do not own the underlying assets, and because margins are typically razor thin on these kinds of awards, we believe it's unlikely that modern transformational service providers are in a position to make a competi-

tive bid relative to traditional—to large traditional telecommunications service providers.

Second, for the Enterprise contract, significant impediments still exist because of the complex billing and back-office system requirements for Networx. Billing and back-office systems requirements appear to be similar for both Universal and the Enterprise procurements. In both cases vendors are being asked to conduct an operational capability demonstration of their operation support systems that will require very robust and government-specific requirements, thereby adding significant upfront investment for an opportunity that in the case of the Enterprise solicitation appears to have limited initial opportunity for significant revenue.

Third, the minimum revenue guarantee which, admittedly, was increased from $25 to $50 million still offers little motivation to move customers from the Universal to the Enterprise contract. Given bid proposal and investment requirements, the business case for a systems integration to prime the contract is, at best, very challenging.

Fourth, an effective transition to the Networx contracts will be vital. As pointed out by GAO, the transition elements will need to be specifically taken into account to include the transition from the FTS contract to the new Networx contract, from circuit centric solutions to IP and value-added solutions, and from circuit billing and support systems to a more managed services billing and support system.

Finally, it appears GSA is looking for more next-generation and modern solutions. It seems, though, that the Enterprise contract favors legacy firms—i.e., the carriers—that can provide robust and cost-efficient network connectivity solutions because the majority of the core services are, in fact, connectivity centric rather than complex value-add services.

In summary, Mr. Chairman, Unisys is very supportive of the government's approach and strategy for telecommunication and network services. We acknowledge the significant progress GSA has made, and emphasize the following recommendations.

The Networx contract should be designed with a transformational approach, balancing the value of added services to the clients with optimal price points, as opposed to being merely a commodity-priced vehicle favoring the carriers.

Second, increase the minimum revenue guarantees for the Enterprise contract to significantly higher than $50 million so that the incentives to use the contract are in place. Further, specific minimum revenue guarantee goals in the first 2 years of the contract will greatly increase the incentive for innovation and cost-effective long-term solutions.

Third, reduce the burden on contractors by simplifying the overall billing requirements, limiting the requirements during the operational capability demonstration to required core services, and only those services that the vendor plans to implement in the initial 2 years of the procurement.

And finally, the government should consider options such as performance-based managed services contracting and critical security services by not limiting the Networx contracts to vendors with legacy and commodity telecommunications services. Also, we rec-

ommend that greater weight be given to the evaluation process to critical value-added services such as security.

Thank you for the opportunity and inviting us to share observations and recommendations. I look forward to any questions you might have.

[The prepared statement of Mr. Baroni follows:]

Written Statement of

Greg Baroni
President, Global Public Sector
Unisys Corporation

Before the
Committee on Government Reform
U.S. House of Representatives

March 3, 2005

INTRODUCTION

Mr. Chairman and members of the committee, thank you for the opportunity to submit for the record Unisys views on GSA's proposed government-wide telecommunications program, Networx. My name is Greg Baroni and I am the president of Unisys Corporation's Global Public Sector.

Unisys is a worldwide information technology services and solutions company. Our people combine expertise in consulting, systems integration, outsourcing, infrastructure and server technology with precision thinking and relentless execution to help clients, in more than 100 countries, quickly and efficiently achieve competitive advantage.

My testimony will include Unisys best practices in the telecommunications and networks services, challenges facing the current FTS 2001 contracts, our view of the Networx draft RFP and recommendations to improve future services.

UNISYS OVERVIEW

We believe Unisys is uniquely qualified to be a key partner on the Networx contract and to expand our overall relationship with GSA to include network services. We have managed several highly complex managed services contracts that include telecommunication services, management from desktop to desktop, and from the infrastructure layer down through the application level. As part of these managed service contracts, we have provided comprehensive solutions, working with a broad range of partners, in an environment that provides incentives for innovation and cost reductions over time. Specific service support has included the definition, development, transition/deployment/implementation and institutionalization of a sound IT infrastructure of both the LAN and WAN elements. Additional service support has included large deployments of converged services including desktop, LAN, backbone communications and data center services. Examples of the Unisys managed network service customers include:

- Seven-year/$1billion Information Technology Managed Services (ITMS) contract with the Transportation Security Administration to provide and manage the information technology infrastructure at the nation's 445 commercial airports;
- Seven-year/~$400 million intelligent workstation and network contract for the Social Security Administration;
- Multi-million dollar IDIQ contract for the Defense Enterprise Integration Services (DEIS) II - Distribution Standard System (DSS) for Defense Information Systems Agency (DISA);
- Support of 16,000 seats for the city of Chicago for systems, service and network management; and
- First-of-its-kind managed services contract for the Bureau of Alcohol, Tobacco and Firearms

Today, Unisys serves:

- 41 of the top 50 banks and processes 50 percent of the world's checks
- 50 percent of the world's insurers
- The IRS, with more than 130 million individual and five million corporate tax returns filed. The IRS, using Unisys equipment, also processes more than 1 billion information documents annually
- 1,500 government agencies
- 100+ telecommunication companies in 40 countries
- 18percemt of the world's voice messaging—30 billion voice/data messages per year
- 200+ newspapers
- 200 airlines—21 of the top 25 and 100+ airports

The Unisys Global Communications Services Practice

Unisys is a major global solutions provider for commercial communications and media organizations. We support nine of the top 10 telecommunications companies. A sampling of clients includes Verizon, SBC, Nextel, BT, Vodafone, Orange, Telstra, SingTel and Telephonica. A significant portion of our $6 billion revenue stream is dependent on providing value-added solutions for these clients. These telecom companies worldwide collect billions of dollars of revenue yearly using Unisys solutions.

Since 1989, Unisys clients worldwide have won 23 Computerworld Smithsonian/Search for Heroes Technology awards for Unisys-supplied technology and solutions. Winners have included Federal Reserve Bank of Minneapolis, Maimonides Medical Center, U.S. Social Security Administration, Scandinavian Airlines System (SAS) and Royal Dutch PTT Telecom B.V. In fact, *Business Week* in February named Unisys in the Top 60 of the best performing IT services companies in the world. Other corporate highlights include the following:

- 37,000 Unisys employees worldwide serve customers in more than 100 countries;
- Conducting business for more than 115 years;
- Providing advanced systems and services for four decades; and
- Earning more than 30 International Standards Organization (ISO) certifications.

The Unisys Global Communications industry practice offers support to numerous telecommunication suppliers. Our vision is to be the leader in providing solutions to the communications industry worldwide.. In exploring our vision of the industry, our key strengths of flexible integration, combined with years of proven solution expertise, is making a positive impact on those telecommunication suppliers who we support.

- **Vendor Negotiation Post Contract Signing**. While core products and services negotiated with the our customers may already have been identified, Unisys provides global reach through

its Communications practice with network product and services providers and identifies regional providers in a position to provide similar or new services at more competitive rates. Unisys qualifies these vendors as well as their products and services to ensure that service level agreements (SLAs) are met and to manage the procurement process and the integration of these services into the contract. This provides our customers with the ability to apply competitive pressure on selected vendors to ensure that they remain cost-competitive through the life of the contract.

- **On-Going Global Identification, Negotiation And Procurement Support.** Unisys has the global presence and reach to effectively identify, negotiate, and procure products and services from regional providers wherever there is a need for services outside of the vendor-negotiated contract line item number (CLIN) pricing structure. Through the establishment of a structured program management organization (PMO), Unisys facilitates, negotiates, and procures third-party products and services.
- **Integration of Third-Party Services Into Vendor OSS/BSS Infrastructures.** Unisys facilitates the integration of 3rd party products/services in the selected vendor's order management, provisioning, billing and contract/SLA management systems and processes. Unisys has a great deal of experience working with telecommunications providers of all sizes globally and has developed and integrated OSS/BSS components for them. Our experience greatly facilitates the identification and definition of all required integration points and the management of the delivery of those services as well as the contract management aspects surrounding them. Our experience in working with telecom providers at both the OSS and BSS levels allows us to quickly architect the most cost-effective and timely mechanisms to make these services available in a seamless manner.

CHALLENGES WITH THE NETWORK SERVICES CONTRACTS: NEED FOR TRANSFORMATION

Current procurement vehicles such as FTS2001 provide legacy voice and data services traditionally have been offered by commodity vendors who supply hard-wired physical networks. Today, however, transformation of this legacy voice and data services is occurring at a rapid pace in both the commercial and public sector markets. This transformation, also referred to as "converged communications," will be provided by layers of physical and logical networks and multi-vendor equipment assembled by large service providers, systems integrators, and outsourcers to deliver the right components to offer a robust managed network service. For the public sector, Unisys believes that the GSA Networx contract should be a key enabler of this transformation.

To be a cost effective, modern, telecommunications contract for the federal government, Networx must offer technically sophisticated and leading edge converged communications. To do so, the government needs an industry partner with stability and critical mass - with the skills to execute flawlessly; with a track record of using technology as the enabler and a philosophy of finding the best and most economical source of components that will comprise the Networx program.

I have been asked by the subcommittee to comment on the current FTS contract and its current limitations. With that in mind, I offer the following observations:

The current GSA contract limits participation and hence options for the government.

The current FTS contract is limited to two direct suppliers and a few additional telecommunication service providers through the Crossover Contract vehicle. Today, however, more telecommunication service provider choices are available than existed just a few years ago. The regional Bell operating companies and other competitive local exchange providers are now more fully engaged in competition as regulation relief has been granted in their traditional home regions. In addition, the telecommunications market over the past several years has consolidated and a handful of strong, second-tier providers have emerged financially healthy and with new, more robust products and services. Further, with the traditional voice and data services reaching full commodity status, it is now entirely feasible for systems integrators to embed these services in a more modern and holistic managed services offering that more closely meets today's needs of the federal government.

Convergence is not being fully exploited under the current contract.

When the current FTS contract was awarded, convergence was more of a concept than a real offering. Today, convergence options are real and are increasing exponentially. Convergence extends beyond simply using a circuit or bandwidth for the combination of voice and data. The current FTS contract was not structured around today's needs that include the convergence of:

- LAN to WAN; or IT and telecom;
- Edge and core; such as when a customer edge meets the network backbone;
- Voice-over data and IP infrastructures;
- Content and distribution;
- Wireless and wire-line; and
- Appliances such as PDAs and traditional handsets and computers.

FTS 2001 focuses more on traditional connectivity than value added services.

New service requirements are driving the need for value-added service. Traditional telephony has been focused on delivering highly reliable voice and data services over large physical networks. The current FTS contract is dominated by these traditional services. As the Internet and Web-based services proliferate, the new services offered generally are constructed across logical networks with routers and IP addresses replacing dedicated private lines and voice switches programmed with rigid numbering plans and hierarchical rules. These new services, built on next generation networks, are driving the need for a set of value added services with new management challenges.

Specifically:

- IP centric services expose the customer to security issues
- Health of the network requires constant monitoring
- Storage requirements are being driven by new applications

Billing issues arise with almost all current telecommunication service providers.

Billing errors and adjustments are an accepted norm in the current service provider business model. None of the legacy service providers historically eligible to compete for the FTS contract has built their back office systems – which provide billing, service delivery, and other functions - with an orientation toward letting their clients have direct visibility into what was happening behind the curtain. The root causes generally are found in the usual three areas of people, process, and technology. The technology cause is the most problematic for legacy service provider because of the substantial investment in their existing legacy systems – complete with their inherent back office limitations.

Initial prices over time are static with no incentive, unless actively renegotiated, to drive price and service improvement.

One of the great challenges in pricing competitive services over lengthy contractual periods is the difficulty in predicting the impact of competition and technological innovation on the committed service offerings. In situations where a service provider is pricing and delivering the services, there is little incentive to aggressively reduce prices or manage a complex indexing scheme that may be hard to agree upon in the first place. The FTS contract of the future needs to provide a more flexible pricing system that both acknowledges the marketplace forces and gives incentive to the contractor to pass along cost savings.

COMMENTS ON THE NETWORX DRAFT RFP

As we understand the Networx draft procurement document today, it is my opinion it does not lend itself to a prime contractor who is fully capable of offering the transformational services and modern network approach needed by the federal government. I make this observation from a solutions services provider point of view, for the following reasons:

1. For the Universal Contract as it is proposed today, a robust network footprint and very competitive pricing will be the very minimum required for a winning proposal. The cost position of a prime's underlining network assets will thus be key to determine who will offer the most competitive bids. Given that systems integrators and outsourcers do not own these underlining network assets, and that margins on this commodity have been razor thin on recent contract awards, we believe it unlikely that modern, transformational service providers are in a position to make a competitive bid relative to large traditional telecommunication service providers.

2. For the Enterprise Contract, significant impediments still exist because of the complex billing and back-office system requirements for Networx. In the current draft RFP, billing systems must be operational and "certified" shortly after award, thus requiring significant financial investment with minimal commitment of future revenues. In fact, the billing and back-office system requirements appear to be similar for both the Universal and the Enterprise procurements. In both cases, the vendors are being asked to conduct an operational capability demonstration of their operations support systems, thereby adding significant upfront investment for an opportunity –that, in the case of the Enterprise solicitation, appears to have limited initial opportunity for significant revenue

3. Minimum revenue guarantees currently are $25 million under the Enterprise for each awardee over the life of the contract. While this was recently increased to $50 million, it still offers little motivation to move customers from the Universal to the Enterprise contract. Furthermore, given the bid and proposal investment requirements, as well as significant costs of the back-office investments, the business case for an innovative and transformational system integrator wishing to prime just the Enterprise procurement would be nearly impossible.

4. GSA appears to be looking for more next generation and modern solutions. However, as currently structured, the Enterprise contract appears to favor those legacy firms that can provide robust and cost-effective network connectivity solutions because the majority of the core services are connectivity-centric rather than more complex value-added services.

MANAGED SERVICES AND OUTSOURCING OPTIONS

We believe GSA should consider managed services option for the Networx contract. The following is a summary of this concept and some of the options it provides the government to leverage.

There is no official industry or academic definition of managed services. To some it's a generic term like outsourcing. However, outsourcing can be as simple as hiring a vendor to provide time and material support rather than to hire direct employees. A managed service describes the other end of the outsourcing spectrum with substantial solution development and performance responsibility turned over to the vendor, but the vendor is held accountable through contractual performance metrics that are mutually agreed upon. Managed services typically constitutes the delivery of services and solutions that can vary in scope from simple website hosting to complete network, desktop, process, and even personnel outsourcing. However, the managed service approach has some universal characteristics, including:

- Vendors design, develop, and deploy service-based solutions to meet the customer requirements and performance objectives. If the solution is not deployed immediately upon contract award, then a transition period is defined during the initial part of the contract;
- Vendors can leverage pre-existing relationships as well as existing solution assets and implementations to deliver efficiencies;
- Vendors can leverage industry certified delivery organizations (e.g., ISO and SEI CMM) to deliver proven solutions and economies of scale;

- Vendors can develop, analyze, and provide expert opinions on solutions that the customer can purchase as a service. In addition, with government customers, vendors can be more flexible in developing new solutions because they're not as limited by government procurement rules. Because the vendor will have to take on the risk of the performance of the solution, vendors typically call in experts from other parts of the company to contribute to the solution;
- Measurement systems are required to demonstrate the ongoing operational and business impact of the vendor solution;
- Developing comprehensive operational and strategic measurement systems includes developing interfaces with external organizations that perform product procurement, parts logistics, hardware maintenance and asset management; and
- CLINs are tied to the managed service components and are sometimes linked to performance on the contract with penalties and/or incentives.

Pricing Options for Managed Service

There are three methodologies for pricing services under a managed service contract:

Option I. *Customer purchases networking components*

Implications: Supplier provides managed services of government/customer-furnished equipment

Supplier responsible for asset tracking, management and refresh with lease termination

Larger capital budget impact for the customer

More difficult to align continuous improvement goals to customer goals

Option II: *Customer leases networking components*

Implications: Supplier provides managed services of government-furnished equipment/vendor-furnished equipment

Supplier responsible for asset tracking, management, and refresh with lease termination requirements included

More predictable operational budget for the customer

Difficult to align client and supplier to continuous improvement and cost efficiency goals

Option III: *Customer buys utility service or on-demand*

Implications: Supplier provides utility service that delivers products as component of service

Client specifies business requirements and service levels

Supplier responsible for product and release management, engineering, asset tracking and management and technology refresh

Supplier provides all hardware and software required to deliver the service

More predictable operational budgets for the customer

Supplier motivated to provide optimal total cost of ownership for technologies that meet business and performance requirements

Under either Option II or Option III, where the government does not own the equipment, the managed service customer could develop in the managed service contract the ability to own the equipment after a specified period. In order to maintain the managed services, the customer may continue with the ongoing monthly support for maintenance and operations for this newly converted government furnished equipment.

Managed Services includes managed transitions

To ensure a smooth transition and minimal impact to business productivity, we believe the GSA customers will best be served by a single vendor in control and fully responsible for the current network, before migrating to a new network. We believe in the concept of "a single hand to hold, a single point of accountability." We recommend that GSA consider the following strategy:

Develop a two-phase transition plan:

- **Phase-1** – Transition plan for awardee to assume current network environment and control from exiting incumbent contractor.
- **Phase-2** – Migration plan for awardee to design, implement, and migrate to the new network environment.

GSA's approach for the transition of customers should include:

- **Performance and accountability via performance-based contracting.** The success of this project lies in a smooth transition and minimal business impact. To ensure success, the awardee must be held fully accountable for its performance and handling of the transition
- **Audit and assessment.** In addition to the awardee assuming control of the current network, we recommend that the awardee perform a detailed physical and logical audit and assessment of the current network and environment (Phase 1).
- **Project plan.** A detailed project plan should be developed and approved by the customer to implement the new network in parallel, and to perform a strategic migration to the new facilities while always maintaining fall-back measures to ensure minimal business impact and loss of end-user productivity.
- **Create a baseline.** A detailed audit and assessment is crucial to perform a complete inventory of all hardware, software, communication links, and documentation of all technology elements, configurations and network traffic analysis.

- **Pre-transition inventory validation, physical and logical.** An accurate physical and logical audit and assessment of hardware, software, communication links, and services are required to understand the network topology, where applications reside, and how users access them.
- **Pre-transition inventory validation of network services.** Outside of network and systems operability, a key ingredient to successful transitions is an accurate inventory of network services.
- **Enterprise network management.** Enterprise network management systems will provide crucial information to manage network and application performance and service levels. Detailed statistics and historical data can be analyzed to troubleshoot problems, tune and optimize performance, and provide traffic analysis for network planning and modeling.
- **Network infrastructure.** Under a managed services agreement, certain network architectures better accommodate business continuity and fail-over. Network and systems designed using business-continuity architecture can be more easily migrated with minimal or no business impact. Technologies such as self-healing SONET rings, resilient fiber networks, automated route switching, the border gateway protocol (BGP), local and global load balancing, server clustering, storage area networks (SAN), and planned data replication and automated fail-over allow migration and fail-over to alternate network routes, sites, servers and storage
- **Transition activities and schedule.** We recommend that transition activities be planned using the best practices for scheduling and training.
- **Performance management plan.** We recommend that GSA align its contract performance objectives with its customers' strategic business objectives and track, measure and manage the transition process and the progress toward key milestones.

Change Management as part of Implementations

Although an implementation of a single circuit does not necessarily require change management efforts, we envision the more comprehensive managed services requested in Networx requiring an integrated change management approach. Organizations that have achieved success in network systems implementations attribute their results to a single best practice – embedding a change management philosophy into their overall project management approach. Change management addresses the human transition – developing commitment to the effort, minimizing resistance and enabling all impacted audiences to build the necessary competencies to use the new system effectively.

The most successful approaches to systems implementation are to integrate project management and change management into one overall approach. When project managers review implementation progress in technology development, they must also review the readiness of the organization to use the intended technology. For example, when the program manager validates equipment purchases, he/she also must ensure that the users of the equipment are prepared in terms of awareness of the equipment and how it will be used, as well as possessing the competencies required to integrate and use the new equipment.

RECOMMENDATIONS FOR NETWORX

I offer the following recommendations for the future Networx contract:

Limit the operational capability demonstration requirements to the required core services and only those services that the vendor plans to implement in the initial two years of the procurement. Further, carefully consider and limit the number of government-specific billing and back-office requirements for this procurement.

Significantly increase the minimum revenue guarantee for the Enterprise contract. The current minimum is $25 million over the life of the contract, but I understand it is expected to be raised to $50 million. This should be significantly higher in recognition of the large initial investment required to win and perform the contract. Further, making the minimum revenue guarantee applicable to the first two years of the contract will greatly increase the incentive for innovation and cost-effective long-term solutions.

Focus on security services: Give greater weight in the evaluation process to critical value-added services such as security. This will ensure that teams are motivated to bring the best of breed technologies to FTS. Given the complexity and unique nature of these value added services, vendors should be rewarded for offering the best solutions available, not simply the lowest cost of a basket of services.

SUMMARY AND CONCLUSIONS

Mr. Chairman, Unisys is very supportive of the government's approach and strategy for telecommunications and network services. We acknowledge the significant progress made by GSA and emphasize the following suggestions:

- Networx contract should be designed with a transformational approach balancing the value of added services to the clients with optimal price points as opposed to just a commodity priced vehicle;
- Government should consider options such as managed services contracting and critical security services there by not limiting the Networx contracts to vendors with legacy and commodity telecommunication services;
- Reduce the burden on contractors by limiting the billing/OSS requirements during the operational capability demonstration; and
- Increase the minimum revenue guarantees for the Enterprise Contract to significantly higher than $50 million so that there incentives to use the contract.

Thank you for the opportunity to appear before you here today. I am happy to answer your questions.

Chairman Tom DAVIS. Well, thanks for bearing with us.

Let me start the questioning.

Mr. Scott, you state that Networx should be reconfigured so that Universal and Enterprise provide different tracks. Under your plan, as I understand it, Universal would maintain its current form, but Enterprise would be transferred to a next-generation network, information-sharing, solutions-based model, which I think that's an interesting concept. How long do you think it would take GSA to transform the Enterprise strategy into a viable next-generation network acquisition vehicle?

Mr. SCOTT. Are you saying to change the contract requirements?

Chairman Tom DAVIS. Right.

Mr. SCOTT. I would think they should be able to do that in 3 or 4 months, at the max.

Chairman Tom DAVIS. OK. Could they do that while the Universal acquisition goes forward?

Mr. SCOTT. Well, I think that could happen, and perhaps even Universal could go forward as scheduled; but I have some concern about getting Universal in place and then the other one drags on, I have some great concern about that.

Chairman Tom DAVIS. I do, too.

How do you think that the next-generation network could be different from what FTS provides today?

Mr. SCOTT. As I said in the testimony, it's focused more on solutions, which you've heard from some of the other speakers here today. And it will supply solutions, total solutions, and not just a telecommunications component. The telecommunications component would be a part of it, along with the other elements of the total solution; the total solution being to provide some sort of capability from user to user, a total capability which provides information sharing among them.

Chairman Tom DAVIS. OK.

Now Mr. Bittenbender, do you think your company is likely to participate in Networx if Enterprise were not restructured as you suggest?

Mr. BITTENBENDER. Do I think we would? We would not be able to be prime in the contract. We would, you know, we would have to presume that we would take a subcontractor role with one of the components.

Chairman Tom DAVIS. What are the special technologies that you all would bring to a procurement like this?

Mr. BITTENBENDER. Well, on top of bringing innovation, we bring the ability to manage large numbers of disparate services and bring them together into a coherent service delivery mechanism.

Chairman Tom DAVIS. So it's more of an integration role?

Mr. BITTENBENDER. Yes.

Chairman Tom DAVIS. OK.

Mr. Courter, based on your firm's unfortunate experience under the GSA's MAA program, you expressed concern about whether GSA has realistically estimated the agency requirements in Networx, so that was an eye opener, I think, to some of our members.

Do you think that the $50 million MRG in Enterprise is realistic?

Mr. COURTER. I think it's too small. You're talking terms, it's my reading of what I have read is $50 million, it could be, as the testimony was set up——

Chairman Tom DAVIS. Cut up five ways. Five contractors.

Mr. COURTER. Over 5 years? It's minimal, I mean, it's not—and if you add the cost of preparation and that which you need as far as back office to support this, it's probably not something anybody could make money on. And my greatest fear right now is that I know there's going to be crossovers, so the large enterprises, you know, the large incumbent carriers who are going to probably take the whole thing and nothing will have changed.

Chairman Tom DAVIS. Mr. Cook, you make a good case for the treatment of satellite broadband equal to DSL and cable in the Networx procurement. I know it's hard to forecast, but do you see satellite broadband 3 years from now in consumer, commercial, and government markets?

Mr. COOK. Very definitely, yes. We in the industry are spending a lot of efforts, a lot of R&D money, continuing to develop the technology. We're continuing to see the performance of the services increase in terms of speed and capabilities. The costs are coming down. We're making more efficient use of the spectrum that we're using.

And certainly in about 2 years' time we will have a brand-new type of satellite to use as well. We're building something called Spaceway, which, again, in terms of spectrum efficiency, is about 10 times more efficient than the sort of satellites we're using today; and that in itself will help us to drive down costs and so on. So we definitely see that the market for satellite broadband is going to be significantly bigger in 2 or 3 years' time than it is today.

Chairman Tom DAVIS. If you look at the draft RFP as it is today, would you consider participating as a prime under Enterprise the way it is today, or would there have to be provisions probably——

Mr. COOK. I think the answer is we would like to, but it's very difficult today for us to participate as a prime for many of the reasons we've heard, all the way through from billing systems through to coverage of the services and so on.

Chairman Tom DAVIS. Now, Ms. Gowen, let me just ask you for your company. You talked about a number of changes that GSA could make in Networx, Enterprise, raising the minimum returns, allowing Enterprise and Universal awardees to compete for agency customer requirements, permitting firms to offer only on Universal and Enterprise, but not both. Which is most important for your firm to keep you in the bidding?

Ms. GOWEN. The most important thing for us is to get a level playing field post-award; and to me that means that the fair consideration process has to be different than the way it's outlined in the draft. An Enterprise awardee who is qualified for the offer, as well as the Universal, should both be able to compete, just as I cited in the example of JutNet with the MAA providers, as well as the FTS providers. And our position is if the GSA can figure out administratively how to adjudicate fair consideration across both contracts, then we are a happy bidder of Enterprise.

I would add that it would be nice to see higher MRGs if we're going to have all these noncommercial requirements remain in the contract.

Chairman Tom DAVIS. Right. I think a couple of previous panels ago that Commissioner Perry talked about knocking those requirements down, and that obviously—I don't know what the correct mix is, but that would make it a little more palatable, I gather?

Ms. GOWEN. Well, right now in just billing alone there are 194 requirements; 54 of them are noncommercial requirements, just to give you an example. So if we get rid of the 54, then I think we could all be happy.

Chairman Tom DAVIS. Now Mr. Baroni, both of the Networx RFPs include managed network services among the list of mandatory services. Could you provide the same types of managed services you offer to private customers using these provisions?

Mr. BARONI. At this point, no; because again, the requirements, as was just pointed out by Diana, that even if you looked at things as simple as the billing system, the complexity added to that almost becomes prohibitively expensive to get in that game.

You know, the thing that I'm concerned about is that when you look at the way the RFP is currently drafted, it is requirement-centric, not outcome-centric. And when you think about managed services, you're really oriented much more toward a performance-based contracting model; and that's really not embedded in this current RFP.

Chairman Tom DAVIS. I asked this of the previous panel—we heard today that location-specific traffic volumes won't be made available until mid-to-late May; how does this impact your ability to develop your proposals?

Mr. BARONI. Can you repeat that again?

Chairman Tom DAVIS. Sure. We heard the location-specific traffic volumes are not going to be available until mid-to-late May; how does this impact your ability to develop your proposals?

Mr. BARONI. Rather significantly, because you really need to—in order to properly price any solution, you really have to understand scope. And so that becomes a necessary ingredient.

Chairman Tom DAVIS. OK. I assume everybody is on the same wavelength——

Ms. GOWEN. I have a slightly different position there.

You know, Enterprise is principally a data-centered requirement set, it's Universal that has the voice requirements in them. And it is absolutely required, in order to do a voice bid, that you have all the traffic data, the to's and the froms. In a data-centric environment I think they probably have the right data for us today. If they don't, then we all really need the data before you can price your proposal and develop your solutions.

Chairman Tom DAVIS. OK. Mr. Cook.

Mr. COOK. Again, I think I would agree. The only, again, addition maybe I would make to it is this is a long-term contract, and traffic patterns change and data changes. So to some extent the proposals that we all make are going to have to take into account those changing patterns over time. What we need to do is have a real good understanding of where we start from.

Chairman Tom DAVIS. Mr. Courter.

Mr. COURTER. Yes, I 100 percent agree, you need that data in order to price your bid properly.

Chairman Tom DAVIS. Or you end up with the Atlanta situation.

Mr. COURTER. Exactly.

Mr. BITTENBENDER. As an integrator it's critical to us, because we don't deliver telecommunications services, we choose the appropriate company that delivers them and then put all those appropriate companies together. Not knowing what the geographic footprint is does not give us the ability to choose what we believe to be the best supplier.

Chairman Tom DAVIS. So basically the government is not going to get their best offers——

Mr. BITTENBENDER. The longer they wait, I believe that's true.

Chairman Tom DAVIS. OK. Mr. Scott.

Mr. SCOTT. Mr. Chairman, as he says, going beyond just the capability of bidding, it is seriously impacting the teaming process because people can't decide whether they want to bid or whether they want to prime or whether they want to sell. That is, along with the evaluation stuff, affecting that decision process.

Chairman Tom DAVIS. Anyone else want to add anything? Basically my questions as we walk through this thing.

Mr. BARONI. I guess I would say under the current construct, I can't imagine any integrator prime in this bid. And maybe, Don, you may say otherwise, or Dave——

Chairman Tom DAVIS. That's what I read from hearing the way it's currently structured. And we want to have integrators, obviously, looking at this thing. OK.

Mr. COURTER. Congressman, Mr. Chairman, if I could just add one further thing. I think it was Congresswoman Maloney was talking about on September 11th, communication redundancy. And as you know, and I have spoken to you about it, Congress did pass legislation to start the process of requiring redundant connections, physically diverse redundant connections for safety reasons in certain Federal buildings. And I would hope that the specifications would give GSA the ability in certain circumstances that require a redundant connection for safety purposes.

Chairman Tom DAVIS. That's a good point. And I will make sure that we emphasize that with GSA.

OK. Anything else?

I want to thank you all for being patient and sitting through this. And the meeting is adjourned.

[Whereupon, at 2:42 p.m., the committee was adjourned.]

[The prepared statements of Hon. Dan Burton, Hon. Jon C. Porter, Hon. Elijah E. Cummings and additional information submitted for the hearing record follows:]

Opening Statement
The Honorable Dan Burton
Committee on Government Reform
Title: "Making Networx Work: Countdown to the RFP for the Federal Government's Telecommunications Program."
Date: March 3, 2005

Mr. Chairman, thank you for convening this morning's hearing. As you know, the Networx contract – which replaces the existing FTS 2001 contract – represents the largest telecommunications contract in the history of the United States Government, and it will govern Federal telecommunications procurement well into the next decade. Conservative estimates have placed the value of the contract at around $10 to $20 Billion, which is a significant investment of taxpayer dollars. As the President reminded us in his State of the Union address and subsequent Budget submission, we are facing some

difficult fiscal decisions and we must spend the taxpayer's money wisely.

Today's hearing is the third in a series of hearings conducted by the Committee in order to gather the thoughts of the General Services Administration's (GSA) Federal Technology Service (FTS), the telecommunications industry, and the other stakeholders. Furthermore, it is the first hearing since the GSA released its draft Request for Proposal (RFP) last October.

As I have said in the past, I firmly believe that communications and information sharing is in many ways the lifeblood of our government. If we cannot successfully

communicate with our constituents, Federal agencies, and each other, the business of government will come to a screeching halt. It is extremely important that we get this right.

Over the past two years, Networx has been a constant topic of conversation for industry officials. Through meetings with FTS officials, written comments periods, and Congressional testimony offered in this Committee, the industry has had ample opportunity to let GSA and FTS officials know what the industry is looking for in this contract. Yet it is my understanding that GSA received over 2,500 comments in response to the draft RFP that they are still sorting through and analyzing. Obviously

GSA cannot please everyone when the final RFP is issued. Ultimately, some companies may find themselves at a disadvantage and even be so unhappy that they simply do not bid on the contract.

Regardless, I am concerned that the sheer volume of comments received by GSA may indicate a problem with GSA's design of the contract. For example, just last month, GSA officials announced a doubling of the minimum revenue guarantees for contractors on the Networx Enterprise contract; one of the two contracts that make up the overall Networx proposal. Why? Because GSA was clearly getting strong signals from the industry that a $25 Million guarantee simply

wasn't enough to entice a sufficient number of companies to bid on this part of the Networx contract.

Despite the sheer volume of public comments, GSA and FTS remain confident that they can release the final RFP on April 1, 2005, and award the Networx contracts by April 2006. Again, let me stress that it's extremely important that we do this right, not that we necessarily do it within an arbitrary time frame.

After overseeing the process the last time this contract was up for consideration, I learned a few valuable lessons, and at the end of the

day I hope that GSA and FTS officials will develop a policy proposal that:

- **Ensures robust and fair competition;**
- **Contains enough flexibility to provide new technology and innovative solutions to government's ever-evolving information technology needs in the areas of network, internet and cyber security, emergency preparedness and response, disaster recovery, and continuity of services in a crisis; and,**
- **Is affordable, efficient, well-managed, and a good value for the American taxpayers.**

In closing Mr. Chairman, I want to thank you once again for convening this hearing and for your continuous efforts to move this discussion forward in a constructive manner. I look forward to hearing from our witnesses.

STATEMENT FOR THE RECORD
CONGRESSMAN JON C. PORTER (R-NV-3)
"MAKING NETWORX WORK: COUNTDOWN TO THE RFP FOR THE FEDERAL GOVERNMENT TELECOMMUNICATION'S PROGRAM"
MARCH 3, 2005

Mr. Chairman, I would like to thank you for holding this hearing today. I would also like to thank the witnesses for taking the time to educate us on the Federal government's telecommunication's program, and I look forward to hearing their testimony.

I am a firm believe that Federal agencies should have access to affordable and reliable telecommunications systems. According to the General Services Administration (GSA), Networx is where our government-wide telecommunications program should head for the next generation, citing the ability of Networx to provide a full range of domestic and international network services.

During this hearing, I am curious to hear more about the Networx program as proposed by GSA and set forth in the draft request for proposals, to determine if this program will be the best for all stakeholders in meeting our government's needs. As a member of this Committee, I would like to work with my colleagues to make sure that GSA is taking advantage of all of the information available to them in response to their request for information. I would also like to make sure that the Network program will indeed bring our government's telecommunications program into the next generation.

Again, Mr. Chairman, thank you for holding this hearing. I also have a couple of questions that I would like to submit for the record.

* * *

Statement of Congressman Elijah E. Cummings
Government Reform Full Committee Hearing
"Making Networx Work: Countdown to the RFP for the Federal Government's Telecommunications Program"
March 3, 2005 at 10:00 a.m. in Rayburn 2154

Thank you, Mr. Chairman for holding this hearing to once more revisit our discussion of Networx which will replace the current federal telecommunications contracts for long distance and data services, FTS 2001, when they expire in 2006.

Previous hearings within this committee on Networx afforded us the opportunity to explore whether the General Services Administration's (GSA) proposed acquisition strategy would serve as the best solution to meet the modern telecommunication needs of the federal government.

The broad range of services Networx is intended to cover will provide the federal government with essential tools it needs to carry out critical functions and operate more effectively and efficiently in the 21st Century.

With the expiration of the current telecommunications program approaching, it is important that we are able to implement Networx in a timely manner and mitigate any potential complications before they arise.

In the RFI issued by the GSA in October 2003, it stated the 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 services than currently available, and provide expanded opportunities for small businesses."

This hearing gives us an opportunity to determine whether the latest rendition of the Networx acquisition strategy does in fact accomplish these goals, and whether it must be adapted to further meet the concerns of all stakeholders involved.

I understand that several of my initial concerns have been effectively addressed during the refinement of the new strategy. These include: elimination of the nine-month phase-in period between the Universal and Enterprise procurement; the program's ability to offer cutting edge technologies by companies that do not necessarily have the geographic coverage required for the

Universal program; as well as the elimination of unnecessary and burdensome government-unique billing requirements.

I am pleased that the GSA has revised these features in the new acquisition strategy.

With that, I am encouraged that the GSA will continue to incorporate feedback from industry, agency customers, and this committee.

In doing so, we move within reach of a final acquisition strategy that supports an effective, affordable, up-to-date, and competitive government telecommunications program.

I look forward to the testimony from our witnesses of what additional changes may need to be considered to ensure the effectiveness of Networx.

Mr. Chairman, I yield back the balance of my time.

Testimony of
Douglas Dangremond
Vice President, SBC
Before the
Committee on Government Reform
United States House of Representatives

March 3, 2005

Dear Mr. Chairman and members,

Thank you for the opportunity to discuss GSA's Networx acquisition. SBC is very pleased to address this very important government program.

Our current position on this program is that we have reviewed GSA's draft RFP and submitted clarification requests on some of the more complex aspects of the two procurements – Universal and Enterprise. Specifically, I want to comment today on three major topics. Procurement structure, transition plans and administrative requirements. It is SBC's opinion that these three areas are critical factors for the government to achieve the lowest possible rates and transition success.

On the first topic of procurement structure, SBC believes that there should be a way for the government to formalize the Networx procurement process. The overlapping scope of the Enterprise and Universal procurements, coupled with the uncapped number of possible vendors, gives these two contracts a schedule-like appearance, except they carry with them the administrative cost of traditional IDIQ. The combination of minimum revenue and the uncapped number of contractor awards, makes it almost impossible to define the value of the award in terms of actual revenue generating business. Our business model requires us to evaluate a Federal business opportunity from a return on investment perspective. It is also unclear if other contracts existing in tandem with Networx will siphon business away or whether Networx will truly become the program of preference for networking and telecommunications. An example of this would be the GSA Alliant program which appears to contain many of the products and services identified in both Networx Universal and Enterprise contracts. Consequently the current structure of low Minimum Revenue Guarantee's, the uncapped number of possible awards and the possibility of other similar contracts existing in tandem with Networx may deliver less than satisfactory results in terms of the goals of the GSA Networx program.

On transitioning agencies to the next generation of networking, next generation technologies are and will continue to become more available but the complexity of

migrating agencies from legacy environments to these new solutions will require extensive up front planning and expense. SBC is investing billions of dollars to bring new MPLS and other IP based solutions to agencies but without a comprehensive migration planning, cost savings and productivity may never be realized. We also conclude that it will be challenging for agencies to define cost savings and operational efficiencies in their business case approval process. It is unclear how agencies will acquire or build these plans and without some element of contractual privity between the incumbents and the newly awarded contractors, it will be virtually impossible for new entrants to present new technology solutions married to cost saving opportunities. It is our opinion that agencies must take charge in identifying their asset inventories to insure competition and cost savings obtainment.

On administrative processes and clarification of billing requirements, the draft RFP contains a significant level of billing hierarchies. It is our opinion that the government should derive one standard set of billing information to which vendors would respond. The absence of standards drives increased administration and cost into the program, and serves as a barrier to competition. Further, the Networx contracts would exist in tandem with other contract vehicles, leaving industry with several different billing requirements thus reducing the likelihood of ever achieving a common billing standard for network and telecommunications services.

As mentioned in prior testimony, 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.

In closing, it is our opinion that it is imperative to the success of the program that Networx not be viewed as just another contract option but as the preferred vehicle for customers to acquire their telecommunications services. The industry is changing rapidly and SBC is committed to competing for this business and supporting Federal government customers. We believe that the program is moving in the right direction and the GSA is working well with industry to incorporate changes as they are identified. There are still improvements that can be made within the Networx program and SBC stands ready to assist anyway we can. 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 and supporting the Federal government's telecommunications requirements.

Testimony of Sanchaita Datta, CTO, FatPipe Networks, Inc.
For the
House Government Reform Committee

Mr. Chairman, members of the committee, I appreciate the opportunity to present these opinions on behalf of FatPipe Networks, the inventor and patent holder of router clustering technology for the deployment of mission critical Internet/WAN access.

Mr. Chairman, yours and the committee's focus on a well coordinated, secure and reliable government wide communications infrastructure is highly commendable. Mr. Chairman, you have said that communications infrastructure is the most critical component of government's enterprise architecture. In light of this comment, we urge that more emphasis be placed on reliability, redundancy and security of the network infrastructure. The Networx draft RFP needs to include strong emphasis on redundancy in the network for major important offices. The emphasis needs to be on providing reliable and redundant connectivity for all government offices. Last mile redundancy is no longer an issue of cost. It is a necessity for maintaining continuity of operations and efficiency. For critical locations, satellite broadband can be used as a back-up alternative. In case of an actual or potential emergency, the need for reliability and redundancy in the communication infrastructure is critical to ensure uninterrupted continuity for important government functions.

The need for reliability and redundancy in the last mile is applicable both for connecting to the Internet and for connecting to Government-wide Intranets. If inter-agency or intra-agency communication based on single line connectivity fails – it can take hours to restore the communication. Government agencies can ill afford such outages and loss of connectivity and communications.

Multi-line connectivity for offices to ensure continuity of operations is a widely used practice. By adding a second line from a different provider or same provider to a different POP, the uptime as well as continuity of operations is vastly improved. The SLA can be improved from 99.95% to 99.999888%. The RFP does mention redundancy for data centers with dual homing, however agency offices interconnected over private lines, MPLS, Frame Relay, VPN

and connected to the Internet should also have such practices in place. I strongly urge the Networx RFP to include provisions for a plan for continuity of operations and redundancy, which leads to a robust communication system.

The second issue to consider is enhanced security of data transmission with BGP and MPLS. President Bush in the "National Strategy to Secure Cyberspace", February 2003, highlighted the security drawbacks of Border Gateway Protocol (BGP) stating that "BGP is at greatest risk of being the target of attacks designed disrupt or degrade service on a large scale. BGP is used to interconnect the thousand of networks that make up the Internet... Propagation of false routing information can deny service to small or large portions on the Internet." MIT Laboratory in their assessment of BGP states that the BGP protocol is complex because of its dynamic behavior during operation. BGP's unexpected or undesirable properties are listed as

- Poor integrity: BGP is vulnerable masquerading, denial of service, data integrity and mis-configuration.
- Slow convergence: Path instability commonly resulting in delayed convergence, route flapping.
- Unpredictability: Because of distributed, asynchronous nature of BGP, precisely predicting effects of a configuration change is extremely challenging.
- Security: BGP implementations may expose information that is not intended to be public knowledge.

The current trend in the market place is to opt for managed MPLS based services. MPLS-based VPNs are currently available from a number of service providers. In an MPLS-VPN, a service provider isolates your traffic across its network by appending labels to the packets as they arrive. The traffic is only forwarded to your devices, providing a certain level of privacy.

Mission critical, highly secure networks for organizations have several requirements that have to be addressed before a MPLS based network becomes a viable option. The inherent risks of MPLS technology have to be addressed before the adoption of the technology.

1. **Issues with reliability of MPLS-based VPNs**. In case of failure, the traffic can be rerouted over an alternate path with changes to the routing tables. However, if the path fails over to a link that doesn't have the right capacity, the SLA is broken. Also, the fail over is not dynamic – if a link fails, manual intervention is required from the provider for the fail-over process.

2. **Issues with MPLS-VPN services based fully meshed networks.** MPLS allows for the inter-connections of paths in a single service provider network. However, dependence on a single service provider also means that the entire network is dependent on the health of that providers' network. In case of a major outage at the network level, all connectivity will be lost. Again, for mission critical networks, this is a major issue.

3. **Issues with MPLS based implementation of QoS as the IP traffic is not encrypted**. From security perspective, putting non-encrypted traffic on a public network is a major risk. The LSPs are virtual private paths, physically on a network that is accessible to many different organizations. Once the traffic is encrypted for security purposes, all advantages for QoS are lost.

4. **Complexity of MPLS networks.** MPLS networks are very complex, especially for a protocol that inherently lives at the core of the Internet. Another big issue is that MPLS does not really scale well, especially when it comes to offering VPN services. ISPs must manage a special BGP (Border Gateway Protocol) routing table for each MPLS VPN and store sections of it at every location where the VPN is accessed. This could mean that ISPs will have to manage hundreds or thousands of these routing tables instead of the single one that they are managing now.

The wide area network architecture should also take into account following two vulnerabilities:

1. **Security Risks:** In the MPLS network packets travel over a common backbone through several routers that are vulnerable

to packet sniffing. Also, there is little security to verify WHO marked a particular packet with a particular class for QoS. Since MPLS tags are only checked once, the inherent security risk of spoofing a packet through one router compromises the entire system. Furthermore, the contents of the packet below the MPLS tag are never analyzed. If a potential connection is disrupted, unauthorized MPLS traffic can be leaked into the entire system that believes it to be authenticated.

2. **Last Mile Vulnerability**. The MPLS network implementation still has the last mile vulnerability with one line from a central office terminating at the customer site. The traffic on this link is non-encrypted. Also, in case of a failure of the link, connectivity is completely lost. For example, during 9/11 events, one of our customers had a link to the downtown Verizon switch and a second connection to an uptown switch from a different provider. When the Verizon switch went down due to loss of power, the customer continued to maintain WAN connectivity over the uptown link. Mission critical organizations should have multiple links over multiple providers to maintain connectivity in case of outages at the central office. Using a satellite wireless link to back-up a landline is another option for sensitive and mission critical WANs.

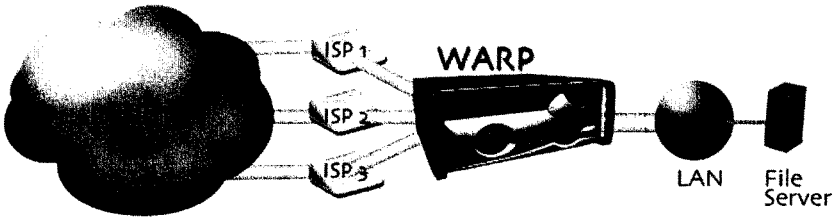
Reliability, Redundancy and Security

FatPipe Networks™ developed router-clustering technology for the deployment of mission critical Internet/WAN access. FatPipe products aggregate data lines to provide high speed, highly redundant and reliable connections, and additional security of data transmission, and are compatible with any ISP, application, hardware, and technology.

FatPipe WARP is our most dynamic and flexible router-clustering/load balancing device for high reliability, high redundancy, and high-speed delivery of incoming and outgoing Internet traffic. Aggregating two or more lines, WARP enables the hosting of large sets of internal servers including web, e-mail, firewall, and load balancing devices. By providing reliability and redundancy for WANs, WARP complements other redundancy devices such as servers

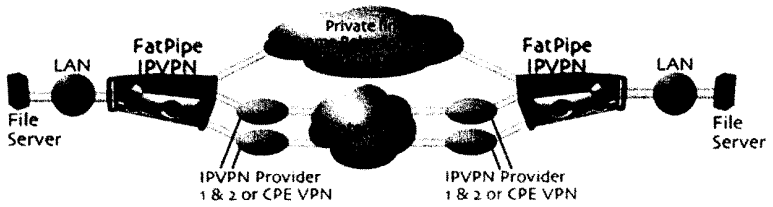
located internally, to provide complete redundancy and reliability for internal/external information systems. WARP works with existing hardware, operating systems, and applications.

Organizations hosting Intranets, Extranets, or Thin Client servers such as Citrix, or any other mission critical web-based applications, benefit from the dependability of WARP for a reliable and fast WAN. WARP dynamically load balances over multiple ISPs without the need for BGP programming.



FatPipe IPVPN is the only product of its kind that works with multiple managed VPN service providers and other networks to achieve the world's highest level of reliability, redundancy, speed and security for IP transmissions. By using IPVPN, organizations can deploy VPNs anywhere in the world and still get the highest quality of service using local providers. The VPN can be located at the customer or the provider end. IPVPN also increases the security of data transmission – transmitting data over multiple data paths – using FatPipe's patented MPSec technology. FatPipe IPVPN transmits data over multiple data paths thus making it virtually hacker proof.

In effect, FatPipe MPSec technology provides world's highest data transmission security possible by essentially preventing all data from traveling on any one path. If hackers compromise one ISP, still nearly 2/3 of the data packets will travel over the lines from other providers.



FatPipe Quality of Service (QoS) is a networking device that can help you optimize the efficiency of your network by providing total control of congestion and prioritize data flow up to ten levels. FatPipe QoS allows important traffic and applications to be delivered in a usable manner by allowing a user-friendly mechanism for prioritizing, bandwidth, packet loss and packet delay.

In conclusion, I again urge you and the committee to emphasize the need for enhanced reliability and security in Networx RFP, specifically on following points:

1. For continuity of operations and disaster avoidance, plan for a backup connectivity to MPLS networks with alternate links.
2. Enhance SLAs further to 99.99988% using low cost multiple lines from multiple providers.
3. Enhance the intra-agency WAN connectivity with use of multiple links between offices.
4. Enhance security of network by relying on technologies that are an alternative to BGP. In the majority of cases, security is breached by insiders. Since government agencies have offices across the country/world, multiple lines terminating in different network clouds from same/different providers reduce the risk of dependence on a single provider network and its vulnerabilities.
5. Enhance transmission security by transmitting data over multiple network clouds. Even if a provider network is compromised, data integrity is preserved.

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