FTS 2001: HOW AND WHY TRANSITION DELAYS HAVE DECREASED COMPETITION AND INCREASED PRICES

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FTS 2001: HOW AND WHY TRANSITION DELAYS HAVE DECREASED COMPETITION AND INCREASED PRICES

THURSDAY, APRIL 26, 2001

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON TECHNOLOGY AND PROCUREMENT POLICY,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:03 p.m., in room 2154, Rayburn House Office Building, Hon. Thomas M. Davis (chairman of the subcommittee) presiding.

Present: Representatives Davis, Turner, Schrock, Cummings, and Burton [ex officio].

Staff present: Melissa Wojciak, staff director; Amy Herink, chief counsel; David Marin, communications director; Victoria Proctor, professional staff member; James DeChene, clerk; Trey Henderson, minority counsel; and Jean Gosa, minority chief clerk.

Mr. DAVIS. We have a formal voting on the House floor in just a few minutes, so if I can get through the opening statements here, we'll try to get that out of the way, go over and vote and come back hear testimony.

I also have a committee markup in Commerce right around the corner. And if I have to leave urgently it will be for final passage of a very controversial bill out of there on telecommunications. I will hand the gavel to someone for that interim period.

But let me just call the meeting to order. I want to welcome everyone to today's oversight hearing on the FTS 2001 program. As many of you know, FTS 2001 is the program through which the Federal Government buys long distance telecommunications services. FTS 2001 is the follow-on contract to the FTS 2000 program and was intended to build on the changes in the telecommunications marketplace. Specifically, this program is supposed to create a Government marketplace that replicates the intentions of the Telecommunications Act of 1996.

Today the subcommittee will analyze whether these goals have been realized. Additionally, the subcommittee will review the need for changes, if any, to the FTS 2001 program to increase competition in the program and ensure delivery of the most up-to-date services to Federal customers.

When the FTS 2001 contracts were originally awarded, the primary objectives of the program were to ensure the best service and price for the Government and to maximize competition for services.

But, according to a report issued by the General Accounting Office today, these two goals may be in jeopardy because of the delays in transition.

Let me be clear at this point. The GAO now considers the FTS 2001 program goals in jeopardy because of transition delays. It's clear to me that the goal of competition in the program has, at least to date, not been realized. The ongoing delays also appear close to ending the Government-wide buying power envisioned in the program, as agencies frustrated by the delays and cost opt out of the program.

FTS 2001 contracts were awarded to Sprint in December 1998 and to WorldCom in January 1999. At that time, GSA had allowed for a 1-year transition period of telecommunications services from the FTS 2000 providers, who were AT&T and Sprint, to 2001. GSA had anticipated some transition delays, and did plan for up to another year of transition.

Unfortunately, it's now April 2001, and transition is not complete for many Federal agencies. In December 2000, GSA announced the extension of the transition contracts for FTS 2000 services for 6 months for Sprint and an additional year for AT&T. This time delay is now causing agencies that have not transitioned to incur significantly higher long distance costs. And of course, those costs go back to the American taxpayer.

The GAO has estimated some agencies will spend at least 10 cents a minute on long distance under the extension contracts, with rates continuing to rise to a potential high of $1 a minute as the last agencies transition to FTS 2001.

I'm greatly concerned that agencies did not receive adequate information on transition in order to prepare for these cost increases. Moreover, these costs will substantially impact on agencies' budgets as Congress and the administration are requesting the agencies update their information security systems and move to e-government solutions.

Will the increased costs hinder these important goals? The FTS 2001 program strategy also included contract awards for local telecommunications services to ultimately allow those contractors to offer both local and FTS 2001 long distance services. Over 20 of those contract awards have been made in localities across the United States under the Metropolitan Area Acquisition program, that's the MAA program.

The MAA program allows contract awardees to apply for crossover to compete in other local markets or the FTS 2001 long distance contracts once a year if service has been successfully completed in the local market. To date, crossover has not been issued to any contract awardees through the ongoing transition delays in the FTS 2001 contract.

The delay in crossover is based largely on the delays in reaching the minimum revenue guarantees in the FTS 2001 program. The long distance contracts run for 4 base years with four 1 year options, and each contractor is guaranteed minimum revenues of $750 million over the life of the contract. The delay in transition has significantly slowed meeting the minimum revenue guarantees of both Sprint and MCI WorldCom. According to the most recent numbers from the GAO, MCI WorldCom is not scheduled to meet the MRG until late 2005. And Sprint won't meet it until some time in 2006.

While these MRGs are now delayed and have hindered the overall program goals, the FTS 2000 transition contractors have not had nearly the same difficulty in earning revenue. The GAO estimates that AT&T has made over $800 million during the transition, and Sprint has earned over $300 million that does not count toward their MRG. Yet Federal agencies are having difficulty in acquiring the most up to date telecommunications services.

A significant ongoing part of the Federal Government's mission is enhanced service delivery to citizens, agencies, State and local governments. Delays in agency acquisitions of end to end network services could impede progress to delivering more information and services electronically. Insufficient contract management appears to have slowed this goal.

As the manager of FTS 2001, GAO is responsible for overall contract management administration, coordination and procurement of services, planning, engineering and performance support to agencies and customer service. Today's hearing is going to examine how GSA can do better in this role, or if they should. If Federal agencies are unable or reluctant to allow GSA to assist with the FTS 2001 program, maybe we should make Federal agencies responsible for purchasing their own telecommunications services. Maybe we should create a telecommunications services schedule. These are options we can explore.

Transition delays have been blamed on a number of different problems: the year 2000 rollover, the Verizon strike in August 2000 and vendor staffing, just to name a few. I'm sure there's plenty of blame to go around for transition delays, but it's critically important we move away from the blame game to solutions that will salvage the future of this program, allow us to build on lessons learned.

FTS 2001 is a Government-wide contract for services. We have increasingly asked the Federal Government to coordinate across agencies and achieve appropriate economies of scale in the acquisition of services. Did the FTS 2001 achieve these goals? We have to also ask the GSA how overall contract management and agency coordination was handled. For instance, why did GSA and the Interagency Management Council, the coordinating body for all the FTS 2001 participating agencies, consistently offer conflicting information on the progress made in transition?

GSA predicted that transition would be completed much earlier on, whereas the IMC predicted transition wouldn't be completed by the December 2000 deadline. And they predicted that as early as last July. Who were the agencies to believe?

I'm also unclear on other aspects of GSA's contract management. GSA awarded FTS 2001 contracts but then waived performance requirements for the vendors during the transition period. What leveraging authority did the individual agencies have when they were disappointed with contract performance during transition? If GSA didn't agree on the format at the delivery of critical transition information, did they remove any incentives for vendors to comply?

The GSA states that the transition data base is still not in place for providing weekly updates on progress to GSA and the agencies.

Since January of this year, WorldCom has been providing GSA with the correct information, Sprint is scheduled to begin providing this information in May 2001. I hate to ask the obvious question, but isn't that a little late?

GSA seemed reluctant to negotiate on the format of the information. At what programmatic cost did this unwillingness to reach agreement impact agencies in their planning efforts?

Another significant delay factor was caused by the agencies themselves. The GAO cites several agencies that had tremendously difficult time inventorying their telecommunications services and infrastructure. While I'm concerned about the delay these factors caused, I hope they provided the agencies and GSA with important information that will be the building blocks for any upgrades or future transitions.

This is a lesson that should not be lost, and I'm anxious to hear from the Department of Defense and Treasury how they collected this information and how they are managing it in the future.

Last, I have a serious concern about the MAA program, the status of that transition, the fees charged by GSA and the impact on crossover. I've deliberately not focused on those issues during this hearing, because I have requested a GAO audit of that program and I'll be holding a followup hearing on the MAA program June 13th. It's my hope that the June hearing will not reveal the same contract management difficulties.

The subcommittee will hear testimony from GAO, GSA, Department of Defense, Department of Treasury. On our second panel we'll hear from Jerry Edgerton from WorldCom, Tony D'Agata from Sprint, John Doherty of AT&T and James Payne of Qwest.

I now yield to Congressman Turner.

Mr. TURNER. Thank you, Mr. Chairman.

I want to commend you for holding this hearing. It's my understanding that we have not had an oversight hearing on this subject for over 4 years. And a program such as this, with the delays that you've mentioned in transition, certainly deserves our attention, our study and our oversight. The difference in doing it right and not doing it right literally can mean hundreds of millions of dollars in costs to the taxpayer. So I'm very pleased that you have chosen this opportunity to have this hearing on this very important subject.

There are two goals that I understand are critical to the FTS program. That is ensuring the very best service and price to the Government while maximizing competition. Those goals are at the heart of what this hearing is all about, and I look forward to hearing from all of our witnesses today.

Thank you, Mr. Chairman.

Mr. BURTON [assuming Chair]. We have a lot of the Members who've gone to vote. They're going to come right back. If you want to stay, you can, or you can go vote. I will stay until the last minute, then I'll run and vote and they can come back and take over the chair once again.

But in the interim, and I don't want to be redundant, I was chairman of this committee when we first held a hearing on the FTS 2001 contract 4 years ago. And the entire program was being redesigned. And I can remember a lot of controversy about that contract.

It finally all worked out. It was supposed to be implemented in a timely fashion. As I understand it, GSA awarded the new contract over 2 years ago to Sprint and MCI WorldCom. It was supposed to be a 1-year transition period. That wasn't enough time. So they extended it 6 months. And that wasn't enough time. So they extended it another 6 months. And that wasn't enough time. And they extended it another 6 months.

You know, we're supposed to run Government efficiently around this place. I cannot for the life of me figure out why all these extensions. We have an Accountability in Government Act which I coauthored and I just don't understand why these things just—anyhow, it's a very complex job and we understand that. And we understand a lot of progress has been made.

But in other areas, according to the GAO, there's still a long way to go before the job's finished. Under this latest extension, some agencies are paying extremely high prices for phone service. I've been told that under the new contract, agencies were supposed to get long distance service for under 4 cents a minute. But according to that GAO report, agencies that haven't been switched over are paying about four to five times that much.

So the taxpayers are getting shortchanged. And the longer they wait for transition, the more it's going to cost. And on top of that, the GSA had to make a one time payment of $8 million for the previous contractor, AT&T, just to keep the phones on. So there are a lot of problems, and that's why you're here to try to explain those to the subcommittee chairman. I'll try to stay here as long as I can, I've got another meeting to go to. But I'm going to monitor this very closely as well as the chairman of the subcommittee.

So I'd like to ask a couple of questions here that can be added to your opening statements or in the question and answer period. First of all, when is the work finally going to be done? When is it going to be done? How long is it going to take?

How much are these delays going to cost the taxpayers? I don't know if anybody can give us that, but we want to know. Because we're supposed to be accountable to them. And we want to find out who's to blame. Is it the GSA? The agencies? The new contractors? The old contractors? We want to know where the responsibility lies, so that we can take a fork and stick them in the right place so they help get this job done. That's an Indiana cliche. Only we're a little more graphic in Indiana. [Laughter.]

I think there's probably enough blame to go around. All the people here today who are going to testify can hopefully give us the answers. And maybe by working together, we can get some of these problems solved a little more efficiently and quickly than we have in the past.

With that, the chairman of the subcommittee will be back in just a minute. And I'll be back just as fast as my fat little legs will get me back. And with that, we stand in recess until the fall of the gavel.

[Recess.]

Mr. DAVIS [resuming Chair]. Ms. Linda Koontz of the GAO, Sandra Bates of the General Services Administration, Kevin Conway, also with GAO, Brigadier General Gregory Premo, Frank Lalley with GSA and Jim Flyzik of the Department of Treasury.

As you know, it's the policy of this subcommittee all witnesses be sworn before they may testify. If you would rise with me and raise your right hands.

[Witnesses sworn.]

Mr. DAVIS. Thank you very much.

To support sufficient time for questioning, I have read everybody's testimony. And my staff certainly has, and I think the other Members' staff. If you could try to limit yourself to about 5 minutes on your opening and then we'll get into the questions. Your full written statement is in the record, so that will be made part of the permanent hearing record.

Why don't we begin with Ms. Koontz, followed by Ms. Bates, Brigadier General Premo and Mr. Flyzik. Let me just ask, Mrs. Davis, did you want to make any opening statement?

Mrs. DAVIS. No.

Mr. DAVIS. Thank you.

Thank you all for being with us today. I hope this will be a productive hearing.

STATEMENT OF LINDA D. KOONTZ, DIRECTOR, INFORMATION MANAGEMENT ISSUES, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY KEVIN CONWAY, ASSISTANT DIRECTOR

Ms. KOONTZ. Mr. Chairman, thank you for inviting us to participate in today's hearing on the FTS 2001 long distance telecommunications program. Kevin Conway is with me today. He's the Assistant Director who's responsible for this study.

My testimony will focus on the findings in our report which is being released today on the Government's transition from FTS 2000 to FTS 2001. Although GSA has clearly made progress in completing this very complex transition, the Government did not meet its deadline of December 6, 2000, and this effort is not yet complete. As of April 11th, the overall transition was 92 percent complete.

According to its schedule, Sprint expects to complete most of its transition by June 30th, although there are nine requirements for which completion dates have yet to be determined. WorldCom expects to substantially complete transition during June, with two additional requirements scheduled for completion in August and October.

The reasons for delay are many and involve all the key players in the program. First, while GSA developed an automated system to track transition progress, the FTS 2001 contractors did not provide GSA with the necessary management data so that the system could be used to accurately measure and effectively manage the transition.

Second, the inability of GSA and the long distance contractors to rapidly add transition critical services to the FTS 2001 contracts impeded agency efforts to order services. Third, customer agencies were slow to make orders for transition services, due in part to year 2000 computing concerns and in part to a lack of staff resources dedicated to managing their transition efforts.

Fourth, problems with staffing shortages and turnover, billing and procedural problems impaired the efforts of FTS 2001 contractors to support agencies' transition activities. Fifth, some local service providers outside the FTS 2001 program did not provide services and facilities as scheduled that were needed to deliver services to discrete locations.

Although GSA has made progress in resolving these issues, these delays have jeopardized the timely achievement of two program goals of FTS 2001, ensuring best service and price to the Government and maximizing competition.

First, the delays have increased the cost of services. Discounts on FTS 2000 services ended; costs rose as the volume of calls decreased, and GSA imposed a surcharge to recover a one time payment to AT&T of $8 million negotiated as part of the most recent extension of FTS 2000. Second, the Government cannot ensure that the service provided by the contractors meets expectations, because performance requirements are waived until the transition is complete.

Last, delays slow the accumulation of revenues needed to meet the minimum revenue guarantees to the current contractors, and as a result, GSA has not added competition to the program.

In our report, we recommended GSA expeditiously resolve billing concerns, process contract modification proposals and obtain the management information that is required under the contract. GSA agrees with these recommendations and is taking action to implement them. For example, GSA has received management information from WorldCom and is working with Sprint to obtain acceptable information.

When GSA and Federal agencies conceived the FTS strategy, they envisioned an environment of robust competition where agencies would have greater choice of contractors and services and have flexibility in how they would acquire those services. Completing the actions we have recommended and bringing the transition to a successful conclusion is crucial if GSA is to realize its vision and to fully achieve FTS 2001 goals.

That concludes my statement, and I'd be happy to answer any questions you may have at the conclusion of the panel.

[NOTE.—The GAO report entitled, "FTS 2001, Transition Challenges Jeopardize Program Goals," GAO–01–289, may be found in subcommittee files, or by calling GAO at (202) 512–6000.]

[The prepared statement of Ms. Koontz follows:]

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Technology and Procurement Policy, Committee on Government Reform, House of Representatives

For Release on Delivery
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2 p.m.
Thursday,
April 26, 2001

FTS2001

Contract Transition Delays and Their Impact on Program Goals

Statement of Linda D. Koontz
Director, Information Management Issues

GAO
Accountability * Integrity * Reliability

GAO-01-544T

Mr. Chairman and Members of the Subcommittee:

Thank you for inviting us to participate in today's hearing on the FTS2001 long distance telecommunications program. As you know, telecommunications services are increasingly critical in transforming the way the federal government conducts business, allowing us to streamline our processes, reduce paperwork and delays, increase efficiency, and improve our interaction with the public. It is therefore important that a far-reaching program like FTS2001 be successfully implemented in order to maximize benefits to the taxpayers.

Although GSA planned to complete the transition from FTS 2000 to the FTS2001 contracts by December 6, 2000, this date was not met. We discuss in our report, released today, several factors that contributed to transition delays.[1] At this point, progress has been made in resolving the problems described, and most remaining transition requirements are scheduled for completion by the end of June 2001. Nevertheless, the collective effect of delays encountered during this complex transition has jeopardized the timely achievement of FTS2001's two program goals: ensuring best service and price to the government and maximizing competition.

My testimony to you this afternoon will address

- the status of the transition from FTS 2000 to FTS2001,
- reasons for delays and the steps taken to eliminate transition impediments,
- the effects of the delays on meeting the FTS2001 program goals, including the effects on maximizing competition, and
- the steps being taken by GSA to address our recommended actions for positioning the FTS2001 program for greater success.

[1] *FTS2001: Transition Challenges Jeopardize Program Goals* (GAO-01-289, March 30, 2001).

Background

Between 1994 and 1997, GSA and the Interagency Management Council (IMC)[2] cooperated to develop a strategy for FTS2001, the successor to FTS 2000. Unlike its predecessor, FTS2001 is not mandatory. The program is expected to attract and retain customers by providing good services at low prices.

GSA awarded an FTS2001 long distance service contract to Sprint in December 1998 and another to MCI WorldCom in January 1999. Under the terms of these contracts, each contractor is guaranteed minimum revenues of $750 million over the life of the contracts, which run for 4 base years and have four 1-year options (8 years in all). The federal government began transitioning from FTS 2000 to FTS2001 in June 1999. This transition has been a sizable and complex undertaking, involving a variety of voice, data, and video communications services provided to more than 1.7 million users across the country.

To avoid any service interruptions during the transition, GSA awarded extension contracts in December 1998 to the two FTS 2000 contractors—AT&T and Sprint. These extension contracts had a 12-month base period with two 6-month options. The second options expired on December 6, 2000—the expected completion date for the FTS2001 transition.

Delays lengthened the FTS2001 transition period beyond that original target, however. As a result, in December 2000 GSA negotiated contract modifications with Sprint and AT&T to further extend FTS 2000 services until the transition to FTS2001 is completed. The Sprint contract modification extends its FTS 2000 services for an additional 6 months through June 6, 2001, while the AT&T modification extends that contractor's FTS 2000 services for an additional 12 months, expiring on December 6, 2001.

FTS2001 Strategy and Goals

In consultation with industry and the Congress, IMC and GSA set two goals for the FTS2001 program: to ensure the best service and price for the government and to maximize competition for services. Part of this program strategy was to move beyond long distance

[2] IMC, established in 1992, is made up of a senior information resources management official from each of the 14 cabinet-level departments, the Environmental Protection Agency, the National Aeronautics and Space Administration, the U.S. Postal Service, the Office of Management and Budget, and the Small Agency Council.

telecommunications services, eventually permitting contractors to offer both local and long distance services. Consistent with this strategy, the FTS2001 program allows further competition in the long distance market beyond the first two FTS2001 contractors. Specifically, Metropolitan Area Acquisition (MAA) contractors, who provide local telecommunications services, may be permitted to compete for FTS2001 long distance business where allowed by law and regulation, after the FTS2001 contracts have been awarded for a year, and if GSA determines that it is in the government's best interests to allow such additional competition.

GSA, however, has been unwilling to allow MAA contractors to offer FTS2001 services until it can be sure that the minimum revenue guarantees to the current FTS2001 contractors are met. The total $1.5 billion minimum revenue guarantees represent a more substantial portion of FTS2001 program revenues than was originally estimated. When the FTS2001 contracts were awarded, GSA believed that they might be worth more than $5 billion over an 8-year period. However, a subsequent GSA analysis of FTS2001 savings completed on January 28, 1999, revealed that the contracts' lowest prices could actually result in total contract revenues of only $2.3 billion over 8 years. Revised program estimates developed in February 2000 affirmed this $2.3 billion revenue estimate.[3]

FTS2001 Transition Responsibilities Are Spread Among Participants

Although administered by GSA, the FTS2001 long distance contracts involve several parties sharing responsibility for their transition and implementation. GSA's role in this process is generally to act as a facilitator and furnish assistance, rather than actively managing and directing it, as it had done with FTS 2000. Although GSA did manage transitions for 20 small agencies, most agencies chose to manage their own transitions, taking principal responsibility in conjunction with their service providers. Nevertheless, GSA does retain important program-level responsibilities including FTS2001 program management, contract administration, centralized customer service, coordination and procurement of services, and billing support. GSA also supports agencies with engineering, planning, and performance by reviewing transition plans and monitoring contractor performance.

The IMC also played an important role in managing and overseeing the FTS2001 transition. Specifically recognizing that neither GSA nor the FTS2001 customer agencies could realize the

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[3] *Telecommunications: GSA's Estimates of FTS2001 Revenues Are Reasonable* (GAO/AIMD-00-123, April 14, 2000).

benefits of these new contracts if the transition was hindered or delayed, in October 1999 the IMC chartered a Transition Task Force to

- share information and "lessons learned" among agencies,
- identify and resolve common transition problems, and
- advise GSA regarding transition management and contractual issues.

In so doing, the IMC Transition Task Force held monthly meetings with FTS2001 contractor and agency personnel, highlighted transition obstacles of importance to the responsible parties, and helped devise actions to mitigate these obstacles. This Transition Task Force held its final meeting in February 2001.

The FTS2001 Transition Is Behind Schedule

Although the original schedule called for completing the transition to FTS2001 by December 6, 2000, that transition continues today. As of April 11, 2001, the overall FTS2001 transition was about 92 percent complete. The transition of voice services from FTS 2000 to FTS2001 is almost entirely complete, and switched data services (SDS) and dedicated transmission services (DTS) are about 82 and 88 percent complete, respectively.[4]

These final services to be transitioned have become increasingly time-consuming to complete. That is, the number of days on average required to complete a service order increased significantly during the later stages of transition for dedicated transmission and switched data services. For example, orders for dedicated transmission services took more than twice as long to complete by January 2001 than they did in August 2000. Although the increase in time to provision switched data services was less substantial, completing these orders also took significantly longer: switched data service orders completed in August 2000 took about 108 days to complete; by January 2001, the time required to provision those services rose to 158 days.

Schedules developed by the contractors earlier this month indicate that Sprint now expects to complete most of its transition requirements by June 30, 2001. Sprint's schedule indicates nine

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[4] Switched data services are primarily large agency data communications networks using frame relay or ATM (asynchronous transfer mode) technologies.

Sprint requirements for which completion dates have not yet been determined, however. WorldCom also expects to substantially complete its FTS2001 transition service orders during June 2001, with a switched data services requirement for the Social Security Administration scheduled for completion in August, and orders for dedicated transmission service placed by FAA scheduled for completion in October 2001.

Several Factors Contributed to Transition Delays

The FTS2001 transition delays occurred for several reasons, which involve all the key players in the program, including GSA, federal agencies, FTS2001 contractors, and local exchange carriers:

- First, while GSA developed an automated system to track transition progress, the FTS2001 contractors did not provide GSA with the necessary management data so that the system could be used to accurately measure and effectively manage this complex transition.
- Second, the inability of GSA and the long distance contractors to rapidly add transition-critical services to the FTS2001 contracts impeded agency efforts to order FTS2001 services.
- Third, FTS2001 customer agencies were slow to place orders for transition services, due in part to Year 2000 computing concerns and in part to a lack of staff resources dedicated to managing their transition efforts. In particular, only about half of the service orders required to transition switched data services were submitted by last June.
- Fourth, problems with staffing shortages and turnover, billing, and procedures impaired the efforts of FTS2001 contractors to support agencies' transition activities.
- Fifth, some local service providers outside the FTS2001 program did not provide services and facilities as scheduled that were needed to deliver FTS2001 services to discrete locations.

Among these factors, three problems require GSA's continued attention: the availability of transition information; the timely completion of transition-related contract modifications; and the resolution of billing problems. I would like to focus on these three problems.

To maintain the information needed to manage this complex transition, GSA acquired an automated transition management system, the Transition Status and Monitoring System, for use by GSA and agency transition managers. This system was intended to automatically generate transition status reports by agency and location that tracked data regarding completed and missed transitions, who was at fault and why, the cost of missed transitions, and other relevant management information and statistics.

This system could not be used as planned, however, because GSA could not obtain usable and complete transition management information from the contractors to populate the system. For example, although Sprint had completed 37 agency transition plans by January 2000, its transition database at that time contained information on only two agencies, making it impossible for GSA to verify transition status information. GSA had similar problems obtaining a transition database containing usable and complete information from WorldCom. These shortcomings reduced the effectiveness of transition management by GSA and affected agencies, and despite workarounds, they added to the cost of transition.

GSA did receive more complete transition databases from WorldCom and Sprint in December 2000. Following its review of those deliverables, GSA formally accepted the WorldCom database in late December 2000, and GSA is currently working to import these data to its transition management system. GSA has not yet accepted Sprint's transition database.

Although most of the transition effort has now been completed, this management information—required by contract—is still important to managers at GSA and at the agencies. Complete, up-to-date information will provide an accurate and reliable baseline inventory for use in on-going telecommunications planning activities and in future acquisition planning and implementation efforts.

The second area that continues to require GSA's attention is the timely completion of contract modifications to add transition-critical services to the FTS2001 contracts. Because the FTS2001 contracts did not initially contain all the services required, GSA has had to process numerous FTS2001 contract modifications to add services required by agencies for completing their transitions.

Beginning last August, at the request of the IMC Transition Task Force, GSA prioritized the processing of transition-related contract modifications and by the middle of this month had completed processing almost all such modifications. GSA and WorldCom have also used workarounds to minimize the effect of delays: for example, by allowing managed network services on a trial basis while the associated contract modifications are developed and processed. GSA has completed all but one transition-related contract modification with Sprint, and all but three additional transition-related modifications with WorldCom. GSA expected to complete all remaining transition-related contract modifications by April 25, 2001.

The third ongoing problem area is billing. A lack of accurate, current billing information and improper billing of services have forced agencies to take resources available for the FTS2001 transition and redirect them toward solving these problems. In some instances, FTS2001 contractors have billed agencies at higher commercial rates; such incorrect bills have sometimes resulted in collection actions against agencies, and in a few cases services were erroneously disconnected for nonpayment.

These billing problems occurred in part because GSA did not ensure that the FTS2001 contractors met all billing requirements at the outset of transition. For example, WorldCom was required to have a contract-compliant service ordering and billing system in place before services were ordered, but that requirement was waived in order to permit WorldCom to accept and process transition orders. Formal acceptance was completed in April 2001.

Transition Delays Jeopardize Timely Achievement of FTS2001 Goals

FTS2001 transition delays have three important effects on the program goals of ensuring the best service and price for the government and maximizing competition.

- Delays increase the costs of services.
- The government cannot ensure that service meets expectations, because performance requirements are waived until the transition is complete.
- Delays slow the accumulation of revenues needed to meet the minimums guaranteed to the current contractors, so GSA has deferred adding more contractors and thus promoting further competition.

Transition Delays Caused Telecommunications Costs to Rise

Those agencies that did not complete their transition from FTS 2000 to FTS2001 by December 2000 saw their telecommunications costs increase for several reasons:

- Sprint temporarily offered discounts under its FTS 2000 extension contract; after those discounts expired on September 30, 2000, the cost to agencies for those services increased by about 20 to 25 percent.
- Similarly, AT&T offered discounts of 20 to 65 percent under its FTS 2000 extension contract; however, these discounts were discontinued in the December 2000 contract modification that further extends those FTS 2000 services.
- Sprint and AT&T have also reinstated volume-sensitive pricing for select services, which reduces per-unit service costs as the volume of services purchased increases. As a result, as the transition approaches completion and the volume of FTS 2000 services declines, the unit price for these services increases.[5]
- The December 2000 extension contract modification also required a one-time payment to AT&T of $8 million. To cover this payment, GSA temporarily assessed a 20 percent surcharge against agencies' monthly FTS 2000 bills. After January 2001, GSA suspended that surcharge, having collected the $8 million.[6]

Performance Requirements Are Deferred Until Transition Is Complete

Because some performance requirements are waived until after the FTS2001 transition, the government cannot hold the FTS2001 contractors fully accountable for performance shortcomings. These performance requirements include such things as the timeliness of service delivery, the availability of services, the quality or grade of service, and the restoration of failed or degraded service. As a result, transition delays not only increase the price the government pays for telecommunications services during the protracted transition period, they also hinder the government's ability to hold the FTS2001 contractors accountable for timely and effective service delivery. Thus, the government will not be able to ensure that it gets the best service until the transition is complete.

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[5] For example, once calling volume declines to less than 50 million minutes, the cost of a telephone call placed with AT&T increases by more than 77 percent, to almost 10 cents per minute. However, this estimate includes only transport cost, not access cost, because access cost is sensitive to a particular location. Access costs may range from a low of 5.7 cents per minute for a volume of 2,000,000 minutes, rising gradually to 17.2 cents per minute for 6,000 minutes of volume, then rising sharply to more than $1 per minute for only 1,000 minutes of volume.

[6] Although it had planned to assess the surcharge on FTS 2000 bills through June 6, 2001, FTS 2000 revenues were sufficiently high in December 2000 and in January 2001 that GSA was able to recoup the $8 million in those 2 months alone.

Transition Delays Hamper Efforts to Add Competition

Before opening the FTS2001 program to further competition (and enabling customer agencies to reap the potential benefits), GSA needs assurance that it can meet the FTS2001 contracts' minimum revenue guarantees. These guarantees, totaling $1.5 billion, represent about 65 percent of an estimated total revenue value of $2.3 billion over 8 years. By slowing the accumulation of FTS2001 revenues, transition delays add to the challenge of promptly meeting these revenue guarantees, because some proportion of the money spent on telecommunications is still going to the old FTS 2000 contracts rather than to the new contracts.

FTS 2000 expenditures are diminishing as the transition continues, but are still a considerable amount. As recently as February 2001, for example, agencies spent almost $32.5 million for one month of FTS 2000 services—in spite of the fact that GSA was reporting the overall FTS2001 transition to be about 90 percent complete by that time. Of that sum, over $7.5 million went to Sprint; because those revenues were for FTS 2000 services, however, they did not count toward Sprint's FTS2001 revenue guarantee. From the start of the FTS2001 transition in June 1999 through February 2001, Sprint has received almost $369 million in revenue from FTS—60 percent of it for services billed under its FTS 2000 extension contract. These FTS 2000 extension revenues (over $221 million) do not reduce the government's minimum revenue commitments to Sprint under the FTS2001 contract.

The information available on FTS2001 revenues to date paints a mixed picture of progress in ensuring timely satisfaction of the contracts' minimum revenue guarantees. GSA's report on FTS2001 revenues through February 2001 indicates that Sprint has accumulated about $147.1 million in revenues, while WorldCom has accumulated about $301.9 million against its guarantee, as shown in table 1.

Table 1: FTS Revenues Through February 2001 Compared to Guaranteed Minimums

	FTS2001 revenues (in millions)			
Contractor	To date	Guaranteed	Difference	Percentage of guarantee met
Sprint	$147.05	$750	$602.95	20%
WorldCom	$301.88	$750	$448.12	40%
Total	$448.93	$1500	$1051.07	30%

Source: GSA.

In managing the minimum revenue guarantees, GSA must cope not only with transition delay, but also with transition deferral and the loss of program customers. The FTS2001 revenue estimates of $2.3 billion were based on projections of the number of federal customers who planned to transfer their FTS 2000 services to the FTS2001 contracts. However, because the FTS2001 contracts are not mandatory and in some cases because of transition difficulties, some agencies changed their transition plans. As of April 2001, some 16 departments or agencies that had been using FTS2000 for their services had decided to use alternative suppliers for all or part of their services rather than transition them to FTS 2001; GSA values these services at about $77 million annually.

Two factors could mitigate the constraining effect posed by the FTS2001 contracts' minimum revenue guarantees. The first of these is unforeseen growth in demand for FTS2001 services. For example, a revised revenue estimate prepared in September 2000 for GSA by Mitretek Systems indicated that the program was experiencing unforeseen growth in demand for switched data communications services and higher speed dedicated transmission services; this demand could potentially add more than $250 million over the life of the contracts.

A second factor is the potential participation of the FTS2001 contractors in the MAA program once GSA permits those contractors to cross over to those contracts. As I indicated earlier, just as MAA contractors might be allowed to offer FTS2001 long distance services, so too will FTS2001 contractors be permitted to cross over into the local MAA markets. For instance, in December 2000, GSA opened the MAA markets in New York, Chicago, and San Francisco to additional MAA and FTS2001 contractors. Should an FTS2001 contractor pursue and receive permission to cross over, any revenues earned would accrue against its FTS2001 revenue commitment. According to GSA FTS officials, WorldCom had expressed interest in pursuing MAA opportunities, although it has not yet submitted proposals to offer services in those initial MAA markets.

If the transition can be rapidly completed, if there is no additional loss of customers from the program, and if there is continued growth in service demand beyond that originally forecast, FTS2001 will be in a better position to meet the minimum revenue guarantees, which will give GSA greater latitude to increase competition by adding contractors.

Next Steps

In our report, we make several recommendations to the Administrator of General Services concerning actions that should be taken to address the outstanding issues impeding transition, and to better position the program to fully achieve its basic goals of ensuring the best service and maximizing competition. GSA managers agreed to implement all these recommendations, and have already begun taking these next steps:

- To enable more accurate tracking of FTS2001 transition progress and improve telecommunications planning, GSA has received transition management information from WorldCom and is also working with Sprint to obtain acceptable information. Further, GSA is determining how to incorporate measures into its FTS2001 transition reports that reflect the final step in the transition process, which is the issuance and completion of disconnect orders required to turn off FTS 2000 services. This is an important factor in ensuring the timely and orderly close-out of FTS2000 services.
- To ensure the prompt availability of all services needed by agencies to complete their transitions to FTS2001, GSA expects to complete the remaining five transition-related contract modifications with Sprint and with WorldCom by the end of this month.
- To promptly identify and resolve remaining billing issues, GSA has completed its testing and formal acceptance of WorldCom's service ordering and billing system, and GSA's billing issues team has cataloged billing problems and developed an action plan for resolving outstanding billing issues.
- Finally, in light of the contractors' failure to meet management information and billing requirements within contractual time frames, GSA has plans underway to obtain consideration as appropriate for failures that have ensued.

Completing these steps will be important to completing the transition and realizing the program's objective of increasing competition. The process of planning and managing future telecommunications service acquisitions—both by GSA and by the agencies themselves—will benefit from an accurate and robust inventory of current telecommunications services. Further, the value of this critical program to customer agencies will be improved through the application of lessons learned in streamlining and prioritizing the contract modification process, in effectively and expeditiously resolving billing problems, and in holding contractors accountable for meeting agency requirements in a timely manner.

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Mr. Chairman, that concludes my statement. At this time I would be happy to respond to any questions that you or other members of the Subcommittee may have.

Mr. DAVIS. Thank you very much.
Ms. Bates.

STATEMENT OF SANDRA N. BATES, COMMISSIONER, FEDERAL TECHNOLOGY SERVICE, U.S. GENERAL SERVICES ADMINISTRATION, ACCOMPANIED BY FRANK LALLEY, ASSISTANT COMMISSIONER FOR SERVICE DELIVERY

Ms. BATES. Thank you. Mr. Chairman, thank you for the opportunity to appear before you today to continue to discuss the challenge of provisioning telecommunications services for the agencies and departments of the Federal Government.

In your invitation to me, you addressed several important questions to GSA regarding the FTS 2001 program strategy and the transition experience. I have provided detailed responses to each of these questions in my written testimony submitted for the record.

You last heard from one of my predecessors in a setting like this in the spring of 1997. At that time, you, many other members and staff, helped us create the strategy under which the FTS 2001 program has been conducted. That strategy gave us a solid framework for bringing Government's use of telecommunications technology forward into this new century.

I have included as part of my testimony the statement of principles drafted in 1997. We recognized then that maximizing competition should be our hallmark principle, and to achieve this, we called for separate local and long distance competitions with mutual crossover options for additional competition.

Your invitation asked whether or not the program has accomplished its primary goals of first ensuring the best service and price to the Government and second, maximizing competition for services. The results of the competition have been astounding. The services offered by the winning contractors are advanced, state-of-the-art, commercial grade services. And these services will continue to be enhanced with the latest commercial offerings.

On the cost side, costs are the lowest in our business. Our agencies and departments will save billions of dollars and are guaranteed declining prices each year. For example, the price of an average domestic long distance call made between Government locations will eventually fall to below 1 penny per minute. When you consider these results, there can be no question we maximized competition during the acquisition.

Having the contracts with state-of-the-art services and unparalleled low prices is only step one. Transitioning services to those contracts, a massive undertaking, is step two. The Federal Technology Service has overall responsibility for the FTS 2001 program. This includes program management, contract administration, performance monitoring, customer support to agencies, billing and the procurement of new service offerings.

With regard to the transition, we have provided a comprehensive array of planning, engineering, pricing and customer support services during that period of time. We've used every available mechanism to inform and support our customers in their decisionmaking processes and then to expedite the transition activities. We've worked closely with our customer agencies through the Interagency Management Council and the transition task force.

Nevertheless, despite these considerable efforts, we have been behind where we want to be with the overall transition. It has taken longer than we expected. And as GAO indicated, we face challenges in all of these areas. We agree with the GAO's recommendations to address our shortcomings and are implementing all of them.

But the good news is that today, we are 95 percent complete with our efforts to transition more than 51,000 customer locations. We expect transition to be complete by this summer.

When transition is complete, we will be assured of meeting the Government's commitment to the minimum revenue guarantees. As you recall, industry informed us during the strategy formation process that substantial minimum revenue guarantees would provide the greatest possible incentives to competition. We agreed with that assertion, based on our analysis of the largest telecommunications contracts being negotiated at that time.

The completion of transition also means that we will be able to add even more competition to FTS 2001. One of the contract mechanisms we established as part of the strategy allows competitors to offer long distance services. When transition is complete this summer, we will move ahead on implementing that portion of the strategy.

Mr. Chairman, in conclusion, I believe the strategy we jointly crafted is as sound today as it was when it was developed 4 years ago. The acquisition was a great success in terms of services and prices. The transition has posed significant challenges for GSA that require us to take steps to improve our ability to manage and coordinate the program.

While there are two capable contractors competing continuously in this program, we are committed to adding additional competitors when transition is complete this summer. Mr. Chairman, we appreciate your leadership and that of the committee. I look forward to your continuing support.

With me today is Mr. Frank Lalley, Assistant Commissioner for Service Delivery. Frank will assist me in answering any questions you or the other members may have.

Thank you.

[The prepared statement of Ms. Bates follows:]

STATEMENT OF SANDRA N. BATES

COMMISSIONER

FEDERAL TECHNOLOGY SERVICE

U.S. GENERAL SERVICES ADMINISTRATION

BEFORE THE

SUBCOMMITTEE ON TECHNOLOGY AND PROCUREMENT POLICY

COMMITTEE ON GOVERNMENT REFORM

U. S. HOUSE OF REPRESENTATIVES

April 26, 2001

Mr. Chairman, thank you for this opportunity to appear before you this afternoon to continue to discuss one of the key infrastructure challenges facing our increasingly electronic Government. That challenge is assuring the most effective and efficient provisioning of telecommunications services for the agencies and departments of the Federal Government. As you know, telecommunications services needed and used by the agencies and departments include traditional voice services, data networking services including, of course, access to the Internet, video services, wireless and mobile computing services, and many others vital to supporting and carrying out the complex missions of a twenty-first century American Government. Mr. Chairman, you and the members of this Subcommittee, as well as those of the full Committee under Chairman Burton's leadership, have contributed significant insights and have made many creative suggestions to address the acquisition issues we have faced. I look forward today to continuing our dialogue and to working with you and the Membership of this Committee on this important endeavor. I have Mr. Frank Lalley, Assistant Commissioner for Service Delivery, with me here today. In that capacity, Frank is the GSA executive responsible for managing all post-award aspects of the FTS2001 program. He will assist me in addressing questions you and the other Members may have, so that we may be thoroughly responsive to you.

We have heard this morning from the General Accounting Office and they have testified to their recently released report on the FTS2001 program transition. First, let me compliment and commend the GAO. We have known Director Koontz, Mr. Conway, and their colleagues for many years and I have great respect for them and for their high standards of professionalism, their integrity, and the high caliber of their work.

As for the substance of the report, I find it to be fair and balanced. But before I comment further on the report itself and GAO's findings, I want to take us through a bit of history and review how we got where we are today, if I may.

You last heard from one of my predecessors in a setting like this in the Spring of 1997, some four years ago, and about a year after passage of the Telecommunications Act of 1996. At that time, you, many other Members, and staff helped us craft the strategy for what was then known as the "post-FTS2000" environment. Under your leadership and the leadership of many members of Congress in both houses, and with the participation of the many stakeholders involved, we ultimately succeeded in defining a strategy that addressed the interests of all concerned. That strategy for federal telecommunications acquisition gave us a solid and flexible framework for bringing Government's use of telecommunications technology forward into this new century. That strategy, recorded in the *Statement of Principles*, a document jointly developed and agreed to by all stakeholders, was and is a model of stakeholder collaboration. We worked very hard over many weeks to craft the so-called "Sixteen Principles" that defined the strategy. I have included two diagrams depicting the strategy and the transition schedule as well as a copy of the *Statement of Principles* as part of my testimony.

The Sixteen Principles specify a two-pronged approach for the Federal telecommunications acquisition strategy – the FTS2001 acquisition for long distance telecommunications services, and the Metropolitan Area Acquisitions (MAAs) for local telecommunications services. The Sixteen Principles state very clearly that maximizing competition is the common thread between FTS2001 and the MAAs and is the hallmark principle of the strategy. To achieve this linkage, the strategy prescribes separate competitions for local and long distance services, with the resulting contracts to contain so-called "crossover" provisions, available at the Government's discretion after a one-year forbearance period.

These crossover provisions mean that, one year following the award of a particular FTS2001 or MAA contract, and at the Government's option, additional competitors could be allowed to offer and, if accepted by the Government, provide services to compete with an awarded contract. Thus, MAA contractors could potentially offer competition to the FTS2001 contractors. Likewise, the FTS2001 contractors could offer competition to MAA contractors. In addition, MAA contractors awarded contracts in the various designated MAA cities across the country might find themselves competing with other MAA contractors as well as with the FTS2001 contractors. Thus, a competitive fabric is envisioned that would evolve over time to afford the Government maximum choice in selecting telecommunications services by allowing industry maximum opportunity to offer their latest technologies and services, and to do so within the bounds of our acquisition laws and regulations.

Well, that was our plan, the plan all of us fashioned together. Let me add, Mr. Chairman, I believe the strategy to be as sound today as it was when we developed it 4 years ago. As we all have witnessed in recent years since the strategy was developed, there has been tremendous upheaval in the technology arena characterized by rapid unprecedented changes, with prospects of more change to come. Yet, by managing ourselves in accord with the principles established in our strategy, we've managed to make substantial progress and to weather that chaos. Have we progressed as quickly and as far as we would have liked? No, we have not. GAO has correctly documented this. Do we want to move faster and get on with implementing the full breadth of the strategy? Of course we do, and GAO has ably pointed the way for us to do so by providing us with sound recommendations.

So, I would like to report to you on what has happened under FTS2001 since we set this overall strategy in motion. Next, I will discuss the FTS2001 acquisition, the transition, the Minimum Revenue Guarantees, the so-called "crossover" or "forbearance" opportunities, and finally I will respond to the questions you sent last week.

FTS2001 Acquisition

Following the collective endorsement of and agreement on the Sixteen Principles, we conducted the FTS2001 competition. The results of that competition were nothing short of breathtaking. The services offered by the winning contractors are advanced, state-of-the-art, commercial-grade services. More importantly, the FTS2001 services will continue to be enhanced so that the latest state-of-the-art commercial grade services will also be made available to the Government users at the same pace as the services are made available to the commercial marketplace. This is a profound change for Government users who, in the past, too often had to be satisfied with older technologies and older services because they were built uniquely for the Government despite their similarities to commercial services. Well, the strategy prescribes and endorses this cultural change to embrace commercial offerings, to stimulate development of newer and more advanced services and capabilities and to share in the benefits derived from their immediate use. The FTS2001 contracts are one of the primary means of implementing this change, and the transition experience reflects all of the challenges associated with such a change. It is certainly much more than merely a change of network providers.

And part of the reward for dealing with the challenges of this change is seen in the reduced prices we'll pay. FTS2001 prices are the lowest in the business. Users of FTS2001 will save billions of dollars, and will see declining prices each year. Over the course of these 8-year contracts, the price of an average basic domestic long distance call made between Government locations will fall to below one penny per minute. Needless to say we are great believers in the forces of competition that yielded these results.

FTS2001 Transition

But, having groundbreaking contracts with state-of-the-art services and unparalleled low prices is one thing. Transitioning FTS2000 services to those contracts, a massive undertaking, is quite another thing. As GAO points out in their report, the FTS2001 transition has two key and distinguishing characteristics. First, GAO describes the transition as "sizeable and complex." Second, GAO recognizes that "several parties share responsibility for transitioning to and implementing these contracts." As one of those parties, GSA has overall responsibility for the FTS2001 program. This includes program management and contract administration, performance monitoring, customer support to agencies, billing and the procurement of new service offerings. And, as GAO indicated, we faced challenges in these areas. We agree with GAO's recommendations to address our shortcomings, and are implementing all of them.

It should also be noted that a significant amount of time and effort expended in the FTS2001 transition was not associated with transition at all. Instead several of our agency customers have been migrating from data services based on older technology under FTS2000 to state-of-the-art services offered under FTS2001. For many agencies, this has been highly complex and has required considerable planning, engineering, budgeting, and collaboration to accomplish.

An excellent example of this is the Social Security Administration's (SSA) data network. In this case, SSA has migrated from their old, less capable, slower, legacy private line network to a modern, high-speed frame relay network using some of the latest technology routers manufactured by Cisco and provided with their service by WorldCom. We assembled a team of GSA, SSA, and WorldCom representatives and developed a modification to incorporate the services of those routers in the WorldCom contract to satisfy SSA's need. No question, if seen as merely a transition, the SSA data network moved from FTS2000 to FTS2001 much more slowly than it would have if the old network were simply moved to a different contractor. And, I believe that any resultant delay was worthwhile because the needs of SSA were appropriately met. We did not just meet an artificial date in some project management schedule. And I'd like SSA and WorldCom to be recognized and to receive credit and congratulations for modernizing SSA's data network in record time. I am very proud of what was accomplished to support the mission of the Social Security Administration.

Nevertheless, we have been behind where we wanted to be with the overall transition. As of today, we are 95 percent complete with our efforts to transition more than 51,000 locations.

Let me break that down for you a bit further. First, for our switched voice users, we have over 26 thousand locations nationwide. Of those 26 thousand locations, 99 percent are now transitioned to FTS2001. Second, we have over 15 thousand locations using our Dedicated Transmission Service. As of today, 93 percent of those locations are transitioned to FTS2001. Third, for switched data services, we have nine thousand locations, of which 85 percent are now transitioned to and using FTS2001.

Minimum Revenue Guarantees

One very important reason for completing transition, is of course, the Government's commitment to the minimum revenue guarantees (MRGs). As you recall, industry informed us during the strategy formation process for FTS2001 that substantial minimum revenue guarantees would provide the greatest possible incentives to competition. We agreed with that assertion based on our analysis of the largest telecommunications contracts being negotiated at the time. As a result, we offered two MRGs of $750 million each to the bidders. Judging from the outcome of the FTS2001 competition, we are even more convinced that we did the right thing. Nevertheless, the extremely low prices offered by the two winning contractors means that more time will be required to fulfill the MRGs than we anticipated prior to award. Transition delays for whatever reason certainly add to the time required to satisfy the MRGs.

Crossover Strategy and Forbearance

Another reason for getting transition behind us is so that we can allow additional competition into the FTS2001 program. In addition to the MRG portion of the strategy, we have provisions in both the long distance (FTS2001) and the local services contracts (the MAAs) that allow for the addition of competitors to those contracts from other contract holders – that is MAA contractors may compete with other MAA contractors and with FTS2001 contractors. Likewise FTS2001 contractors may compete with MAA contractors. Additional competition must wait at least one year from the date of award of a given contract with an incumbent. The one-year period is called the "forbearance" period. Again, this is in keeping with the agreement in 1997.

In the case of the MAA, we are implementing crossover among MAA competitors as those one-year forbearance periods expire. So far, the first three MAAs forbearance periods have expired, and we have been busy reviewing crossover proposals for those cities. In fact, I am pleased to report that the first crossover award was made in New York City on March 30, 2001.

With FTS2001, however, the story is a bit more complex. But, simply stated, completing transition from FTS2000 to FTS2001 and having assurance that we will meet our MRG commitments must have top priority. And, while we had the good fortune to attract extremely favorable prices under FTS2001, those low prices serve to lengthen the time expected to achieve the MRGs.

As I am sure you know, GAO previously validated the reasonableness of our projections for meeting the MRGs. The MRG issue is real. It is born of the tremendous success of the FTS2001 competition and we must be careful to manage it properly to meet our contractual responsibility to the contractors. Unfortunately, this element of our agreed-upon strategy conflicts with another element of the strategy, namely the preference for introducing additional competition to the FTS2001 program. However, I assure you that after transition is complete, this summer, we will move ahead on long distance crossover.

GAO Report

As for the current GAO report and their testimony this morning concerning the FTS2001 transition, let me make a few brief comments that I hope will put things in perspective. The difficulties associated with transition are not unique to the Government. The private sector has many similar problems when they perform transition. What is unique to us is the scope and scale of Government transition, as we have been transitioning the equivalent of over 25 Fortune 500-sized organizations simultaneously.

Conclusion

I have provided a very brief update on the status and outcomes of the major telecommunications acquisitions that comprise our strategy. A new way of doing business with the Federal Government has finally arrived for telecommunications providers. The hallmark of this new paradigm is continuous market-like competition.

But let's be sure we have put this in its proper perspective, especially in the case of the long distance contracts – FTS2001. First, we would never have received the significant price reductions we obtained if we had not offered the right incentives for competition in the acquisition. We would not be able to say that Federal users will pay less than one penny per minute for a telephone call in the not-too-distant future – guaranteed – if we had not offered the tangible reward of the dual $750 million MRGs. That was part of the strategy agreed to in 1997, and represents the Government's part of the bargain. We made this commitment to these firms and we need to carry through on that commitment.

Second, one of the pillars of our strategy has been to buy commercial services and not to have the Government build one-of-a-kind solutions that are far more costly and far less capable using technologies that quickly become obsolete.

This has been and will continue to be the correct course of action for Government. The transition is in large measure behind us and the effects of the delays are significant. No doubt, if we could have done it faster, we would have achieved greater savings and benefits. No doubt we need to do better in the future and look for other strategies for future transitions that address the root causes of the delays in this transition. But, at the end of the day, even with the delays and lost opportunities, we will have arrived at the finish line, strategy intact and ready to guide us into the future.

Responses to Questions

Mr. Chairman, you have addressed several important questions to GSA regarding the program strategy and the transition experience. Let me next address those questions individually.

Question: In your view, have you achieved the primary goals for this program, namely, (1) ensuring the best service and price for the Government and (2) maximizing competition for services?

Answer: The answer to both parts of your question is yes. As for services, FTS2001 has available a complete and comprehensive collection of state-of-the art service offerings covering the globe. This is the most extensive contract of this type in the Government (and probably in the commercial sector as well).

These offerings are being provided by two of the leading carriers in the business. Moreover, if a new service is introduced to the commercial market, or if an existing service becomes available to a new location for commercial users, our providers are free and, in some cases, are even required by the contract to make that service available to the Government. Mr. Chairman, our whole strategy, as you know, has been to make services available to Government users at the same pace as in the commercial markets. If you stop and consider this concept, it is truly revolutionary for Government users and implementers of high technology solutions, but we've done it. It is here today and scores of agencies and millions of users are now taking advantage of FTS2001.

Regarding prices, I have touched on this topic in my statement, but let me again cover the highlights of the value established under FTS2001 for FTS2001 users and for the taxpayers as well. First, we have locked in declining prices until 2006. This is considerably better and longer term than typically found in commercial contracts. Second, we have the lowest prices in the business. The significant competitive incentive of $1.5 billion in minimum revenue guarantees offered during the initial competition worked as we expected to motivate the competitors, and in the end, produced prices even lower than we could have predicted.

Regarding the second part of your question, the FTS2001 competition was a landmark achievement under modern acquisition regulations. There can be no question that it maximized competition during that event. Moreover there has been day-to-day competition since award from the two very capable contractors beginning with the agency selection process. As you know FTS2001 is a non-mandatory program. And agencies are free to select from either contract to satisfy some or all of their needs and to revisit those decisions at any time.

In addition, the contract encourages the contractors to continually update their service offerings and prices to reflect their latest technology platforms and their best prices. This is done through various terms and conditions such as the Price Management Mechanism under which the contractors must maintain FTS2001 prices on par with their best comparable commercial contract prices.

We have developed and deployed web-based tools for agencies to use that help them understand the complex pricing structures of the contracts and to find out the cost of services at their specific locations. We receive tens of thousands of hits at these web pages each month. Thus, the contractors know that their existing and potential customers are examining their prices every day.

Finally, there is crossover. This summer when transition is completed, we will move ahead to open up the program to additional competitors.

We had a sensational initial competition, and we have all of the ingredients needed for continued robust market-like competition throughout the program life.

Notwithstanding the additional benefits expected from crossover, we already have two very capable and very competitive contractors already competing head to head each day. The process under which agencies decided where to transition their services from FST2000 to FTS2001 is a great illustration of this competitive vitality. The web tools I mentioned earlier were used extensively by agencies and were supplemented in many cases with our support so that they could fully analyze and appreciate prices and costs. In addition, there was considerable technical analysis of alternative transition options. The two contractors had many opportunities to explain their alternative solutions and dialogue with the agencies as part of the decision process, promoting competition.

Question: What were the most significant problems agencies encountered in transitioning to FTS2001?

Answer: Mr. Chairman, certainly the agencies should speak to this themselves, but in my view there were five types of problems:

- Problems associated with new characteristics of FTS2001
- Planning problems
- Problems associated with execution of transition
- Problems associated with provisioning access
- Problems associated with establishing billing codes

New characteristics of FTS 2001

FTS2001 is quite different from FTS2000 in several important respects. In particular, customer agencies have greater freedom and flexibility to choose from an expanded menu of suppliers, products and services, and the opportunity to schedule activities so they occur at times that are convenient to them. Under FTS2001 agencies were challenged to select their supplier(s) giving fair consideration to both candidates. The initial transition plan called for the selection to take one month, but the process involved complex analysis, evaluation of several options, and development of consensus within agencies. In fact the process of selection took six months or longer for many agencies and required all parties to change their plans and schedules. In retrospect we should have anticipated a longer selection process and done more to help our customers.

Planning

Inventories of FTS2000 services were the starting point for FTS2001 transition planning. FTS2000 contractors maintained these inventories and agencies expected that they would be readily available when requested and accurate. This was not the case. Customers estimated that contractor maintained inventories were no better than 60 percent accurate. Considerable additional effort was required to determine sites served, and the types and amounts of services provided to furnish the baseline for planning.

Next came the decision of whether to transition like-for-like or to upgrade service to meet future needs. Like-for-like transition was a known and relatively safe choice. A decision to upgrade required more time to analyze and plan, required budget decisions, involved negotiations, was more risky and was less likely to be finished on time. During future transitions GSA will do more extensive contingency planning that anticipates worst case scenarios so that we can improve our support of agency transitions.

Execution

The most significant problem related to execution was difficulty getting information on schedules and status of local cutovers so agencies could be ready in advance. Cutovers at local sites require coordination and cooperation among several groups of people to be successful. These groups include the long distance carrier, the local carrier, the customer, GSA, and often an equipment provider. When schedules are coordinated properly, all parties are available at critical moments to resolve any difficulties that arise. Lack of notification was a recurring problem. Too often, agencies complained that carriers arrived without prior coordination or didn't arrive when scheduled, and cutovers had to be rescheduled.

Access Provisioning

Besides the coordination issues, the most significant physical impediment to transition execution was the provisioning of access. Second to that and the single most significant impediment from a procedural or support perspective would be billing issues. Let me address each of these a bit further.

Access provisioning connects the long distance provider's network to the customer's location. Generally, this is accomplished by subcontracting that portion of the service to the Local Exchange Carrier, or LEC, since they have facilities directly to the customer location, unlike the long distance provider. The delays in provision access came in several forms. First, there were the scheduling delays with the LECs. We know the contractors worked hard to get priority treatment for FTS2001 installations, but ultimately, the LEC scheduling delays caused transition delays. As you know these delays were further exacerbated by the Verizon strike last year. While Verizon does not serve the entire country, any circuit to be transitioned that had one end in Verizon territory was subject to delay. The TTF reported that as of late summer last year they were about six months behind in clearing the backlog created by the strike among business customers.

There were additional delays associated with access provisioning beyond just scheduling. There were delays because of insufficient capacity to a location to satisfy the application needs of the agency. This could occur because the agency was upgrading to a higher capacity service, for example. Another cause of delay was insufficient access needed to perform the actual cutover which is normally done in parallel. In this case, let us say that an agency was transitioning from AT&T to MCI WorldCom. AT&T's service was using the access lines, but MCI Worldcom's service also needed the access lines so that the customer's service would not be disrupted during the cutover acceptance testing period. Another reason, though not entirely due to access provisioning, was equipment provisioning at the customer site or somewhere between the customer site and the network. Various connection points may require new equipment to complete a connection or carry it to the network, and there were delays associated with waiting for the equipment to arrive and then to be installed and tested. Finally, another significant cause of delay was the manner in which certain data network transitions are accomplished. Frame relay data service, in particular, often requires hundreds of locations to be transitioned, but since they all feed central hub locations, the overall transition is not actually effected until the hubs are cutover. Thus, a significant transition effort is required over many weeks before any transition progress can be recorded since the data network is not operational until all locations are able to use it.

Billing

Now let me address the billing issues. The FTS2001 contract requires enormous flexibility of the contractors in allowing agencies to establish billing structures. While this serves the agencies' widely diverse needs for their individual accounting and bill-back procedures, it caused delays at the outset since each individual agency and, in most cases, sub agencies and subcomponents, had to coordinate among themselves to decide what structure they wanted to implement. Once they decided this, they then had to coordinate with one or both contractors to implement their respective billing schemes. Then the contractors had to coordinate and implement the solutions within their ordering and billing systems. This was not trivial, and did not always work as designed or expected. While our requirements never changed, it took longer than we expected for the billing systems requirements to be met. GSA authorized the contractors to use interim procedures to enable transition to proceed and to minimize delays. In addition, GSA facilitated the exchange of information on successful alternative billing solutions.

Question: What has it cost the Government for transition delays? What has it cost agencies that were delayed in transitioning?

Answer: Initially, the Government had the best of both worlds. The FTS2000 incumbents, AT&T and Sprint, lowered their prices to FTS2001 levels early on in transition and continued to track FTS2001 prices until late last year. At that point, AT&T and Sprint bridge contract prices rose significantly. We estimate that those customers that had not transitioned by December 6, 2000 will pay $74M more for service than they would have for the same services on FTS2001.

Question: Have agencies been able to acquire up-to-date goods and services through FTS2001 in order to maximize Government efficiency and benefits to the taxpayer?

Answer: The latest available technology is added to the FTS2001 contracts by negotiating contract modifications and additional offerings. Throughout the transition period, GSA, customer agencies, and contractor negotiating teams gave priority to modifications and offerings that were critical to transition. As customers assessed their future needs, they determined that new circuit speeds, network management, security features and the latest equipment were essential components of their network upgrades. These were added to the contract.

Our contract modification process took too long. The GAO report amply documents the issues and the steps we have taken to improve the process. We've challenged our contractors and staff to reduce the time required to process and negotiate a modification for commercial services to 15 days or less, with positive results in the past two months. We have completed all transition-related modifications.

Question: What further actions do you think are needed to achieve the programmatic goals of FTS2001?

Answer: We need to press ahead by completing transition according to our latest schedule so that we can invoke the performance requirements of the contract, and assure contractor accountability. We need to implement crossover and keep stoking the fires of competition.

Question: What specific steps has GSA taken to identify and eliminate transition challenges?

Answer: GSA and its customer agencies established a $98 million transition fund to help defray transition costs. As I mentioned in my response to your first question, we have made available a comprehensive array of planning, engineering, pricing, and customer support services during the transition. We've used every available mechanism to inform and support our customers and their decision-making processes and to then expedite transition activities once they have decided how they wish to proceed.

Through our Transition Coordination Center, we've worked closely with the Interagency Management Council (IMC) and their Transition Task Force throughout the transition. We've also established working groups to address specific problems. Let me review some of these activities in more detail with you.

First, GSA established the Transition Coordination Center (TCC) to manage the government transition. The TCC serves as a clearinghouse and coordinating component for transition. The TCC provides resources for supporting transition and coordinates assignment of action items within GSA and across agencies and contractors. One of the principal tasks of the TCC has been to identify problems and obstacles to transition and take action or assign responsibility as appropriate that will remove the obstacle if possible or otherwise reduce the severity of the problem. One of the key groups with whom the TCC coordinates is the IMC. The agency representatives to the IMC participate in monthly meetings at which information is shared between GSA and the agencies on progress and issues associated with transition. The work of the TCC is published on the TCC website. The website is used extensively to communicate and coordinate.

Second, and after recognizing that the transition was not moving as swiftly as desired, the IMC established the FTS2001 Transition Task Force (TTF). The purpose of the TTF whose membership included the agencies, service providers, and GSA, was to identify significant issues and problems confronting the transition effort, and to share information amongst all the players. Information was distributed at each monthly meeting and on the TTF Website. GSA met regularly with the chairman of the TTF and the IMC to share and discuss transition related issues, reconcile differences in contractor-provided data, and set priorities for activities related to billing issues.

Another example of a special group is the Billing Issues Team. In April 2000, GSA established a Billing Issues Team composed of members representing the Interagency Management Council (IMC) agencies as well as several smaller agencies. The team, which is sanctioned by the IMC, updates the IMC regularly on the team's progress in resolving FTS2001 billing issues. The team serves as the focal point for all FTS20001 billing issues. Since its inception, the team has resolved 23 of 28 billing issues.

Question: What have you done and what are you doing to ensure up-to-date information is available to agencies regarding the transition? How cooperatively have you worked with the IMC to share problems experienced from agency to agency and maximize the success of the program?

Answer: The history of our relationship with the IMC is a long and successful one. I personally believe that the IMC-GSA model is a pioneering one that is seen today in a number of Government-wide collaboration efforts. For the FTS2001 transition, the relationship has been as strong and successful as ever. The monthly IMC meetings, the meetings of the TTF, in which we participated, and the various web-based forums that were established provided a new and unparalleled communications path to and from GSA, the IMC and the contractors, as well as anyone else that wishes to observe. They are all public forums. Overall, I think the relationship was characterized by freely flowing information under a general spirit of cooperation. We have always provided the latest available information to all who needed it. Naturally, for certain statistics associated with transition progress, the most current information could only come from the contractors, so for example, the TTF worked with the contractors to analyze, assemble and disseminate data developed by the contractors.

Question: What challenges did GSA face in identifying the necessary data agency to agency [sic] to smooth transition and ensure accurate information was provided to the vendors? What Government-wide mechanisms can be implemented to address these challenges?

Answer: FTS2001, like its predecessor, FTS2000, is a program that offers commercial services to its users. As such it replaced the previous Government-owned and operated network. With some exceptions for special dedicated networks built using FTS2001 components, the contractors provide and manage the infrastructure, not the Government. As part of the FTS2001 contracts, the contractors are required to take leadership roles in transition to the maximum practicable extent. As such, specific activities are required to be performed by the contractors including developing transition plans, performing site surveys, and managing cutovers. GSA and the Government's responsibility was to provide such databases as we had that might assist them in their transition efforts. We did that very soon after the contract awards. In addition, the FTS2001 RFP included a substantial and detailed traffic database used to develop price proposals. This database was based on the actual traffic recorded on FTS2000.

Nevertheless we faced two significant unanticipated challenges. First there was a significant lack of available information on agency service locations, equipment configurations, services carried to and from customer locations, and other data critical to analyzing existing services and planning for future needs. Second, while we provided analytical tools for use by the agencies, the lack of data coupled with inadequate training of users and ease-of-use issues hindered the utility of the tools.

We have taken steps to address these challenges by refining the tools, and by establishing a Government-wide database to collect and maintain location information for our customers. This Service Delivery Point database was established and is maintained by a GSA-selected contractor who established a Uniform Agency Location Numbering Plan. This numbering plan includes data such as Location Code, Agency Code, FTS2001 Vendor and FTS2001 Service Type. The SDP data base is accessed and updated daily by FTS2001 contractors and provides Internet access to user agencies for the purpose of establishing new service locations as well as for requesting special reports on existing service inventories. We expect this system to provide significant improvements to our customers in many future activities including future transition efforts.

Question: in your view, what impact has transition delays had on allowing competition into the FTS2001 program? How does GSA intend to foster greater competition in the program?

Answer: I hope I have already addressed this question. First, there is no need to "allow" competition into the FTS2001 program, as there are already two competitors "slugging it out." As for allowing additional competition into the FTS2001 program, I'll repeat that we fully intend to initiate the crossover process this summer. This will result in local service providers offering additional services in competition with the FTS2001 contractors.

Question: Overall, GSA's management role seems to have yielded mixed results. What goals has GSA identified to implement for greater success in managing the program.

Answer: Let me review three goals we have identified.

First, we knew before and appreciate even better now the importance of developing and collecting hard facts and solid information on which we can make the most informed business decisions. I have asked my team to develop a plan for assuring that FTS-wide we are requiring, receiving, and making use of appropriate management reporting metrics. Such metrics include data that is used to evaluate program technical characteristics such as the following:

- Time to install services
- Time to repair or restore service outages
- Causes of service outages
- Level of service availability and reliability
- Pricing levels compared to commercial contracts

Second, we must think ahead to future transitions. There are plenty of lessons to be learned from this one, and of course we would like to avoid all pain associated with transition if possible in the future. So, I have directed my team, once transition is complete, to prepare a comprehensive post-mortem report on transition to develop recommendations for easing the burden on all parties for future transitions.

Third, we need to take a more active role in compiling overall data on our customer's installations. In particular, we appreciate the need for and difficulty of constructing inventories of information about agency sites. As such, we are stepping up our data collection and analysis efforts to assure that future transitions will benefit from more complete and more accurate data collected during this transition.

Closing

Mr. Chairman, I have touched on numerous activities that we have pursued since we were last invited here and I have responded to your specific questions. I trust you will appreciate from my remarks and responses that we have substantial achievements to report along with considerable challenges. We have been challenged before, and, we have managed to meet those challenges so far. We appreciate your leadership and that of the committee in helping us to do that. I look forward to your continued leadership and support and I am happy to address any questions you have at this time.

J.10 DEVELOPMENT OF FTS PROGRAM GUIDING PRINCIPLES

Prior to the release of this RFP, extensive exchanges of information and views took place among Congress, Executive Branch agencies, and industry. These exchanges included formal Congressional hearings, open public meetings, letters and other written materials, and private meetings arranged under the auspices of Congressional oversight committees.

J.10.1 Statements of Principles Released February 18, 1997 and April 4, 1997

A set of general principles intended to broadly guide the development and implementation of the FTS telecommunications program emerged from these exchanges. These principles are intended to convey the consensus that emerged between the Legislative and Executive branches. Attachments J.10.1-1 and J.10.1-2 reproduce the two documents that encapsulate these principles. These attachments are provided for information purposes only.

The principles represented in Attachments J.10-1 and J.10-2 have been incorporated, using contractually-correct terms, in the appropriate sections of this RFP.

The Government expects that agencies acquiring local service for non-MAA locations below the threshold (referred to in Principle 15.8 of Attachment J.10.1-2) will follow established contracting principles and examine all options, including FTS2001 contractors, MAA contractors, and other potential providers, including their LECs.

J.10.2 Forbearance Period

Following the release of the documents represented in the above attachments, further discussions resulted in the emergence of one further point of consensus, as follows. No contract modifications for optional local services in an MAA area will be executed to an FTS2001 contract or an MAA contract before one year after the relevant MAA award. In addition, no contract modifications for optional local services in a non-MAA area will be executed to an FTS2001 contract or an MAA contract before one year after any competitive award of such services. Similarly, the Government will not execute contract modifications to an MAA contract for optional long-distance services before one year after the initial FTS2001 award.

J.11 INFORMATION EXCHANGE GUIDE

The Information Exchange Guide is provided as a part of this contract.

Contract No. GSOOT99NRD2002

Attachment J.10.1-1
Statement of Principles Released February 18, 1997

Federal Telecommunications Service Program
Statement of Principles
Page 1 of 2

FTS Program Goals

1. Ensure the best service and price for the Government
2. Maximize competition

Program Strategy

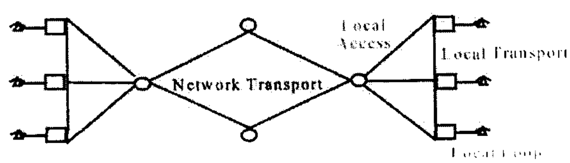
In general, the Government's goals will be met by:

- Multiple, overlapping, staggered contracts
- Comprehensive and niche contracts
- Awarding minimum revenue guarantees (e.g., $1B in FTS2001) to vendors that compete and win
- Leveraging the Government's large traffic volumes
- Aggressively pursuing Metropolitan Area Acquisitions (MAA) and other opportunities to maximize competition

Specifically, the Government will:

- Award multiple contracts for FTS2001
- Award MAA contracts in multiple areas, multiple contracts may be awarded in any particular area at the option of the Government
- Award niche contracts (e.g., wireless) to focus competition where and when needed
- Later, award multiple FTS-TS contracts for required end-to-end services, timing of award is at the discretion of the Government

Required and Optional Services



FTS2001 Contracts
Required services
- Network transport
- Local access

Optional services
- Local transport
- Local loops

MAA Contracts
Required services
- Local loops
- Local transport
- Local access

Optional services
- Network transport

Attachment J.10.1-1
Statement of Principles Released February 18, 1997 (Concluded)

Federal Telecommunications Service Program
Statement of Principles
Page 2 of 2

For FTS2001 and MAA Contracts

1. Vendors must bid required services.
2. Vendors must meet all requirements specified in the appropriate RFP (e.g., technical specifications and price structures).
3. The vendor may choose to offer services from owned facilities or as a reseller. The Government's evaluation of services offered will be facility-neutral.
4. Compliance with the RFP requirements for the required services and evaluation of the unbundled prices for the required services, using the traffic models provided by the Government, will serve as the sole basis of the contract awards.
5. The Government's sole obligation under any contract will be to meet the minimum revenue guarantees' (e.g., the Government does not plan to manage a revenue or traffic distribution among the contracts).
6. Contractors (i.e., vendors who have won either an FTS2001 or an MAA contract) may offer optional services. Contractors determine which specific optional services to offer. Contractors determine when (i.e., at time of submission of proposals or anytime during the contract life) and where to offer optional services.
7. Optional services must meet all requirements as specified in the appropriate RFP (e.g., optional local transport service offered by an FTS2001 contractor must meet the technical specification for local transport in the MAA RFP).
8. Prices, whether offered for required or optional services, must comply with the price structures contained in Section B of the appropriate RFP (e.g., optional local transport service offered by an FTS2001 contractor must comply with the price structure for local transport in the MAA RFP, optional network transport service offered by an MAA contractor must comply with the price structure for network transport in the FTS2001 RFP).
9. Individual price elements (i.e., unbundled prices) are required for all required and optional services.
10. Contractors may also offer bundled prices. The price structure will allow fixed discounts for optional bundles offered by the contractor. (This is structurally similar to the scenario based discounts used in the FTS2000 Year 7 Price Redetermination.) However, the sole basis of contract award is per item 4 above.
11. MAA contractors may elect to offer any MAA-required service, on an optional basis, outside of the awarded MAA area.
12. MAA contractors may offer in-region network transport services (and submit technical and price information) on a contingent basis for ordering immediately upon regulatory approval.

Note: Principle 12 above was deleted and replaced by a new Principle 12 in the document released on April 4, 1997 (Attachment J.10.1-2).

Attachment J.10.1-2
Statement of Principles Released April 4, 1997

The following principles supplement the 12 Principles issued on 18 February 1997.

Original Principle 12 is hereby deleted and replaced with the following new Principle 12:

12. The contract duration of the FTS2001 and MAA will be the same. Specifically, the contract duration for the FTS2001 and MAA contracts will be 4 base years and 4 one year options.

13. No work will be contracted for under any FTS contracts that is prohibited by any federal or state laws.

14. There are no minimum revenue guarantees (MRGs) for optional services.

15. Award process for MAA contracts:

    15.1 The Government will issue a request for qualification statements to which interested vendors may respond. The Government will use the standard RFP structure to enumerate its requirements. Specific price information will not be requested by the Government as part of the qualification process. Vendors may submit qualification statements at any time. However, the Government will specify a due date for qualification statements for each specific MAA. The Government reserves the right to re-examine its requirements or require re-qualification.

    15.2 The qualification statements will be required to address, in appropriate detail, the Government's requirements. The qualification statements must state the specific NPAs and NXXs in which the vendor is seeking to be qualified.

    15.3 The Government will evaluate the qualification statements. Vendors who are qualified will be placed on an MAA Qualified Vendor List.

    15.4 The Government will conduct competitions for each of the designated MAAs. The Government will specify the MAA-specific requirements, as well as the traffic model for that MAA, in an RFP issued for each MAA.

    15.5 Vendors on the MAA Qualified Vendor List may respond to the MAA RFP. Proposals shall include a price proposal based on the traffic model, an MAA-specific transition plan, and a proposal responsive to any other requirements unique to the specific MAA.

    15.6 Based on an evaluation of the MAA-specific proposals, the Government will award a contract(s) and an MRG(s) for that MAA.

    15.7 In areas designated as MAA areas, agencies will typically participate in the MAA-specific competition to be conducted. However, an individual agency may elect to compete its requirements prior to the conduct of the MAA.

Attachment J.10.1-2
Statement of Principles Released April 4, 1997 (Concluded)

15.8 In areas not designated as MAA areas, the Government will conduct a competition for services in that area and will accept proposals from any firm on the MAA Qualified Vendor List. The Government may elect not to conduct such competitions for requirements below a specified dollar threshold. This threshold will be determined at a later date by the GSA with input from the IMC and will be set to ensure that the Government's cost do not exceed the possible savings.

16. Optional services (i.e., for long distance services or for local services in other areas) may be offered under the following conditions:

16.1 Only contractors (i.e., those companies with either an FTS2001 or an MAA contract) may offer optional services.

16.2 Optional services may be added to the contract as modifications within the scope of the FTS2001 and MAA contracts.

16.3 The Government will not require service or geographic ubiquity on any optional services.

16.4 MAA contractors seeking to offer long distance services will submit prices, as well as a technical/management response based on the FTS2001 RFP, which will be evaluated in the contract modification process.

16.5 MAA contractors seeking to offer local services (i.e., in areas other than their awarded MAA area) will submit prices, which will be evaluated in the contract modification process.

16.6 FTS2001 contractors seeking to offer local services will submit prices, as well as a qualification statement based on the MAA request for qualification statements, which will be evaluated in the contract modification process.

16.7 Any contractor may offer optional services in an area after the competition is completed for that area.

Mr. DAVIS. Than you very much, and congratulations, Mr. Lalley. I know you are looking forward to our questions later on. [Laughter.]

So it's bring your daughter to work day, and your daughters are here, too?

Ms. BATES. They are.

Mr. DAVIS. They get to see you in action in a few minutes.

Ms. BATES. They're our good luck charm.

Mr. DAVIS. Excellent. You're going to need them. [Laughter.]

General, you're on.

STATEMENT OF BRIGADIER GENERAL GREGORY PREMO, DEPUTY DIRECTOR FOR OPERATIONS, DEFENSE INFORMATION SYSTEMS AGENCY

General PREMO. Thank you, Mr. Chairman, for this opportunity to testify before your committee on the Department of Defense's [DOD] role in the transition of FTS 2000 to FTS 2001. I'm Brigadier General Greg Premo, Deputy Director for Operations at the Defense Information Systems Agency [DISA].

DISA was designated as the lead for the transition, and the DOD transition team was formed within DISA's operational directorate, of which I am the director. To appropriately frame the discussion, please let me describe first how DOD's telecommunications requirements are satisfied.

DOD's requirements for video, voice, and data services between bases, facilities, locations, and operating elements around the world are satisfied through the Defense Information Systems Network [DISN]. The DISN is a warfighter's global interoperable command and control services backbone. The DISN has military readiness features which are not present in commercial offerings such as FTS 2001.

These special military features include interoperability, assured connectivity, security, multilevel precedence and preemption, surge capacity, and survivability. Through an innovative acquisition strategy that exploits the commodity nature of commercially available telecommunications, DISA has been able to accommodate the substantial growth in demand while at the same time significantly reducing costs for service. For example, the cost for 1 minute of DISN voice in 1997 was 10 cents per minute. Today it's less than 4 cents per minute. That, coupled with unique military features, is better or equal to many commercial offerings.

Although the DISN is the department's primary network for command and control, the DOD has a long history of using FTS services. It should be noted that even though our primary command and control network is the DISN, DOD was still the largest single user of FTS 2000, spending over $100 million per year.

As the FTS 2001 transition process got underway, DOD, as a member of the Interagency Management Council, partnered with other Federal agencies in the recompetition of the contract and worked actively with GSA, the vendors, to make the FTS 2001 transition successful. In November 1998, DISA established a DOD transition management office. The DOD transition management office coordinated the establishment of a DOD-wide transition team, which was made up of representatives from all DOD services and agencies and reported to the transition management office.

For a number of reasons, some smaller DOD agencies, including the Corps of Engineers, Army National Guard and Navy Exchange Services, chose not to transition under the management of the DOD team. However, as of today, I understand the National Guard is transitioned and the Corps of Engineers is about 60 percent complete.

A key factor in our success was the existence of the FTS 2000 data base, which we used as the baseline for everything we did. The other factor in DOD's success was our expertise in two previous major transitions, FTS 2000 and the DISN transition in 1996 and 1998. Using our baseline data base, DOD completed its known FTS 2000 switched voice and data service requirements with the FTS 2001 vendors.

The DOD team conducted a best value assessment and awarded its switched voice services to MCI, and switched data services to Sprint. It became obvious, as we got this effort underway, that a rapid transition would lead to a greater cost avoidance in the Department, potentially $365 million over the life of the contract. Therefore, we augmented the DOD transition team with representatives from GSA, Sprint, MCI WorldCom and established an aggressive target of June 2000 for our completion.

To fund this transition, we made an up-front investment of almost $8 million. And of this figure, almost $3 million was borrowed from GSA and subsequently repaid. The transition from FTS 2000 to 2001 has been extremely complex. Since AT&T is not an FTS 2001 provider, our transition required the physical removal and replacement of every single AT&T-provided service.

Each circuit termination and reconnection had to be coordinated with the incumbent vendor, the new vendor, the local exchange carrier and each end user. The timing and coordination involved in any given transition was extensive. In many cases, successful cutover of service required that transition activities be performed simultaneously; this is also very intense.

The Department's transition team established a centralized transition operations center to track and coordinate on a daily, weekly and monthly basis the transition of every single circuit throughout the 50 United States, Guam, and Puerto Rico. The transition management office held monthly DOD transition meetings to discuss progress, major obstacles and lessons learned.

The team also held weekly meetings with the operations center and vendors to review similar topics. A DOD Web site was established to post information bulletins and the detailed information required to keep customers up to date on the progress of the transition effort. The transition management office and MCI WorldCom developed and delivered a transition training program to over 175 local base personnel at 6 separate sites across the United States. The transition management office's objectives were to keep open communications with the field and support them during transition.

Were there tough issues? You bet. Other than the sheer number of actions that had to be tracked, DOD's major issues were in provisioning, otherwise known as circuit acquisition process. One of the major provisioning issues involved the local exchange carriers.

The local exchange carriers are not part of the contract, but are critical to success of the provisioning process. The FTS 2001 vendors depend on the local exchange carriers to connect the backbone to the customer locations. In many cases, there was a different local exchange carrier at the end of each circuit.

Further complicating the local access issue was the Verizon strike. The strike delayed transition of approximately 40 percent of our services for up to 120 days. Although we have now transitioned the majority of services in Verizon territory, approximately 40 out of more than 1,500 remain.

We continue to work two major outstanding issues, accommodation of our switched video service and some billing process issues. DOD immediately and aggressively attacked this transition strategy. We started as we would any other military operation. This approach and our historical data helped us get a head start on the other departments and agencies in the transition process.

In the light of our initial experiences, we recommended to the Interagency Council the formation of a transition task force. The transition task force, we believe, resulted in a smoother transition.

DOD has finished 95 percent of its transition and as of April, we have issued a total of over 100,000 orders, transitioned more than 50,000 switched voice services, 1,400 dedicated point to point services, 1,400 frame relay services and a host of others. In summary, the DISN continues to provide military-ready, best value global service, video and data and transport services that assure interoperability and security.

However, DOD will continue to use FTS 2001 to satisfy unique, non-command and control requirements when they make operational and economic sense. We feel our aggressive efforts to complete the transition helped realize significant cost avoidance which, regardless of the complexities of the transition process, has made this transition well worth the effort for our services and agencies.

DOD is still policing up the transition's loose ends, but we're proud of the entire team's effort in this transition success.

Mr. Chairman, that concludes my statement. At this time, I'd be happy to respond to any questions.

[The prepared statement of General Premo follows:]

FOR THE RECORD HEARING

TESTIMONY FOR 26 APRIL 2001

HOUSE GOVERNMENT REFORM COMMITTEE

SUBCOMMITTEE ON TECHNOLOGY AND PROCUREMENT POLICY

THANK YOU, MR. CHAIRMAN, FOR THE OPPORTUNITY TO TESTIFY HERE TODAY ON THE DEPARTMENT OF DEFENSE (DOD) TRANSITION OF TELECOMMUNICATION SERVICES FROM FTS2000 TO FTS2001. I AM BRIGADIER GENERAL GREGORY PREMO, DEPUTY DIRECTOR FOR OPERATIONS AT THE DEFENSE INFORMATION SYSTEMS AGENCY (DISA). DESIGNATED TO DO SO BY THE DIRECTOR, DISA, IN RESPONSE TO TASKING FROM THE ASSISTANT SECRETARY OF DEFENSE FOR COMMAND, CONTROL, COMMUNICATIONS AND INTELLIGENCE (ASD[C3I]), MY ORGANIZATION HAS LED THE DOD EFFORT IN TRANSITIONING EXISTING FTS2000 TELECOMMUNICATION REQUIREMENTS TO THE NEW FTS2001 CONTRACT.

I APPRECIATE THE OPPORTUNITY TO SHARE WITH YOU DOD'S ACTIVITIES ASSOCIATED WITH MIGRATING REQUIREMENTS FROM FTS2000 TO FTS2001. IN ORDER TO APPROPRIATELY FRAME THIS DISCUSSION, LET ME FIRST DESCRIBE HOW DOD'S TELECOMMUNICATION REQUIREMENTS ARE SATISFIED AND ADDRESS THE EXTENT TO WHICH DOD HAS USED FTS2000 AND WILL USE FTS2001.

01-C-0285

THE MAJORITY OF DOD'S REQUIREMENTS FOR VOICE, VIDEO AND DATA SERVICES BETWEEN DOD BASES, FACILITIES, LOCATIONS, AND FIELDS OF ENDEAVOR WORLDWIDE ARE SATISFIED THROUGH THE DEFENSE INFORMATION SYSTEMS NETWORK (DISN). THE DISN IS THE WARFIGHTER'S COMMAND AND CONTROL TELECOMMUNICATION SERVICES BACKBONE CAPABILITY THAT SERVES AS THE INTEROPERABLE INFORMATION TRANSPORT PLATFORM OF THE DOD GLOBAL INFORMATION GRID (GIG). DISN HAS MILITARY READINESS FEATURES NOT PRESENT IN GENERAL COMMERCIAL OFFERINGS -- SUCH AS ASSURED CONNECTIVITY, SECURITY, MULTI-LEVEL PRECEDENCE AND PRE-EMPTION (MLPP), SURGE CAPACITY FOR CONTINGENCY SUPPORT, AND SURVIVABILITY. DISN ALSO SERVES AS A COMMON UTILITY SUPPORTING DOD COMPUTING AND APPLICATIONS.

DISN IS ECONOMICAL. OVER THE PAST SEVERAL YEARS, THROUGH ITS INNOVATIVE ACQUISITION APPROACHES THAT EXPLOITED THE COMMODITY NATURE OF COMMERCIALLY AVAILABLE NETWORK INFRASTRUCTURE COMPONENTS (BANDWIDTH, SWITCHING, NETWORK MANAGEMENT, AND SUPPORT SERVICES), DISA HAS BEEN ABLE TO ACCOMMODATE A SUBSTANTIAL GROWTH IN REQUIREMENTS WHILE SIGNIFICANTLY REDUCING UNIT COSTS OF SERVICE. FOR EXAMPLE, DISN VOICE COST IN THE CONTINENTAL UNITED STATES (CONUS) --

APPROXIMATELY 10 CENTS PER MINUTE IN FY97 -- IS 3.7 CENTS PER MINUTE TODAY. THIS UNIT COST FOR VOICE SERVICE WITH MILITARY FEATURES IS COMPARABLE TO OR BETTER THAN EITHER GENERAL COMMERCIAL VOICE OFFERINGS OR OTHER GOVERNMENT-CONTRACTED GENERAL VOICE SERVICES AT LOCATIONS THAT HAVE DISN ACCESS ("ON-NETWORK").

SO TO WHAT EXTENT DID THE DOD USE FTS2000? PUBLIC LAW 101-136 SECTION 621 AND THE RESULTANT FEDERAL INFORMATION RESOURCE MANAGEMENT REGULATION 201-41.005 MANDATED THAT FEDERAL AGENCIES USE FTS2000 VOICE, DATA, AND VIDEO SERVICES FOR INTERCITY TELECOMMUNICATION REQUIREMENTS (DEFINED AS OUTSIDE A LOCAL SERVICE AREA). HOWEVER, PER PUBLIC LAW 97-86 SECTION 908, REQUIREMENTS INVOLVING INTELLIGENCE, CRYPTOLOGIC, COMMAND AND CONTROL, OR EMBEDDED-COMPUTER OR CRITICAL-MILITARY FUNCTIONS WERE EXEMPT FROM THAT MANDATE. THEREFORE, DOD USED FTS2000 TO AUGMENT THE DISN IN CONUS TO PROVIDE OFF-NETWORK SWITCHED VOICE SERVICES, "800" SERVICES AND OTHER NON-COMMAND AND CONTROL SERVICES THAT WOULD NOT BE ECONOMICAL TO INCORPORATE INTO THE DISN. THERE HAS BEEN NO NEW LEGISLATION THAT REQUIRES USE OF GSA TELECOMMUNICATION SERVICES. THEREFORE, DOD WILL CONTINUE TO USE GSA'S SERVICE AS

AN AUGMENTATION TO OBTAIN THOSE SERVICES THAT AREN'T PROVIDED BY OR AREN'T ECONOMICAL TO INCORPORATE INTO THE DISN.

DOD HAS USED FTS2000 SERVICES FOR OVER 10 YEARS. THROUGHOUT THAT TIME, DOD HAS WORKED WITH GSA, AT&T, AND OTHER FEDERAL AGENCIES TO RESOLVE ISSUES AND TO MODIFY THE FTS2000 CONTRACT TO MEET ITS NON-COMMAND AND CONTROL NEEDS. DOD WAS THE LARGEST SINGLE USER OF FTS2000, SPENDING OVER $100M PER YEAR FOR SERVICES.

DOD PARTICIPATES ON THE FEDERAL GOVERNMENT INTER-AGENCY MANAGEMENT COUNCIL (IMC) AS AN EQUAL PARTNER WITH ALL OTHER FEDERAL AGENCIES. AS A MEMBER OF THE IMC, DOD SUPPORTED THE GSA RECOMPETITION OF THE FTS2000 CONTRACT. EVEN THOUGH THE FTS2001 CONTRACT IS NON-MANDATORY USE, DOD JOINED THE OTHER IMC MEMBERS IN SIGNING A MEMO TO GSA COMMITTING TO USE FTS2001.

DOD HAS WORKED ACTIVELY WITH GSA, THE FTS2000 AND FTS2001 VENDORS (AT&T, SPRINT, AND MCI WORLDCOM), AND OTHER FEDERAL AGENCIES TO MAKE THE FTS2001 TRANSITION SUCCESSFUL. THE ASD (C3I) DIRECTED DISA TO MANAGE DOD'S TRANSITION FROM FTS2000 TO FTS2001. IN NOVEMBER 1998, DISA ESTABLISHED A DOD FTS2000 TRANSITION MANAGEMENT OFFICE (TMO), APPOINTED A PROGRAM

MANAGER AND A DEPUTY PROGRAM MANAGER, AND STAFFED THE TMO WITH DISA PERSONNEL. THE TMO "TOOK THE BULL BY THE HORNS" AND QUICKLY ESTABLISHED A DOD TRANSITION TEAM MADE UP OF REPRESENTATIVES FROM ALL DOD SERVICES AND AGENCIES. DUE TO VARIED SOURCES OF FUNDING AUTHORITY, SOME SMALLER DOD AGENCIES, INCLUDING THE CORPS OF ENGINEERS, ARMY NATIONAL GUARD, AND NAVY EXCHANGE SERVICE CHOSE NOT TO PARTICIPATE ON THE DOD TEAM AND MANAGED THEIR OWN TRANSITION. THE DOD TEAM OFFERED FOR COMPETITION TO THE FTS2001 VENDORS DOD'S SWITCHED VOICE AND SWITCHED DATA SERVICE REQUIREMENTS. AFTER RECEIVING PROPOSALS FROM BOTH VENDORS, THE DOD TEAM CONDUCTED A BEST VALUE ASSESSMENT AND SELECTED MCI WORLDCOM FOR SWITCHED VOICE SERVICES AND SPRINT FOR SWITCHED DATA SERVICES.

AFTER EVALUATING THE RESULTS OF THE BEST VALUE COMPETITION, THE TMO RECOGNIZED A POTENTIAL LIFE CYCLE COST AVOIDANCE OPPORTUNITY OF OVER $365 MILLION IN MOVING FROM FTS2000 TO FTS2001. THE TMO ALSO REALIZED THAT A PROMPT TRANSITION WOULD LEAD TO GREATER COST AVOIDANCE. THEREFORE, THE TMO AUGMENTED THE DOD TEAM WITH REPRESENTATIVES FROM GSA, SPRINT, AND MCI WORLDCOM, AND ESTABLISHED AN AGGRESSIVE TRANSITION PLAN TARGETING DOD'S COMPLETION OF TRANSITION BY JUNE 1, 2000. DOD "PUT ITS MONEY WHERE ITS MOUTH IS" AND MADE AN UP-FRONT

INVESTMENT OF $7.9 MILLION TO COVER TMO AND SERVICE ORDERING COSTS. SOME TRANSITION MANAGEMENT FUNDING WAS LOANED BY GSA. THAT LOAN, $2.9 MILLION, HAS BEEN REPAID IN FULL.

DOD'S TRANSITION FROM FTS2000 HAS BEEN VERY COMPLEX. PREVIOUSLY, THE DEPARTMENT'S FTS2000 SERVICES HAD BEEN PROVIDED EXCLUSIVELY BY AT&T. BUT SINCE AT&T IS NOT A PROVIDER ON THE FTS2001 CONTRACT, DOD'S TRANSITION REQUIRED PHYSICAL REMOVAL AND REPLACEMENT OF EVERY AT&T-PROVIDED FTS2000 SERVICE. EVERY CIRCUIT TRANSITION HAD TO BE COORDINATED WITH THE INCUMBENT VENDOR, THE NEW VENDOR, THE LOCAL EXCHANGE CARRIER, AND EACH END USER. THE TIMING AND DEGREE OF COORDINATION INVOLVED IN A GIVEN TRANSITION DEPENDED ON SERVICE TYPE, EQUIPMENT REQUIRED, USER EXPERIENCE, AND CUSTOMER AVAILABILITY. IN MANY CASES, SUCCESSFUL CUTOVER OF SERVICE REQUIRED THAT TRANSITION ACTIVITIES BE PERFORMED SIMULTANEOUSLY. MOREOVER, TO MINIMIZE SERVICE DISRUPTION, TRANSITION ACTIVITIES HAD TO INCORPORATE FTS2000 CONTRACTUALLY-STIPULATED DISCONNECTION LEAD TIMES.

THIS TRANSITION CLEARLY REQUIRED INTENSE EFFORTS BY HIGHLY EXPERIENCED DOD AND VENDOR PERSONNEL.

TO MANAGE THIS COMPLEX EFFORT, THE TMO ESTABLISHED A CENTRALIZED DOD FTS2001 TRANSITION OPERATIONS CENTER. THE CENTER'S PURPOSE WAS TO MANAGE, TRACK AND COORDINATE, ON A DAILY, WEEKLY, AND MONTHLY BASIS, THE TRANSITIONS OF EVERY MAJOR DOD BASE WITHIN THE 50 UNITED STATES, GUAM, AND PUERTO RICO.

THE TMO HELD MONTHLY DOD TRANSITION TEAM MEETINGS TO DISCUSS PROGRESS OF THE EFFORT, MAJOR OBSTACLES, AND LESSONS LEARNED. THE TMO ALSO HELD WEEKLY MEETINGS WITH THE OPERATIONS CENTER AND VENDORS TO REVIEW SIMILAR TOPICS. THE TMO ESTABLISHED AND MAINTAINED A DOD FTS2001 TRANSITION WEBSITE AND PUBLISHED INFORMATION BULLETINS TO KEEP FIELD LEVEL PERSONNEL UP TO DATE ON TRANSITION PROGRESS. THE TMO AND MCIWORLDCOM DEVELOPED AND DELIVERED A TRANSITION TRAINING PROGRAM TO OVER 175 LOCAL BASE PERSONNEL AT 6 SEPARATE SITES ACROSS THE UNITED STATES. THE TMO'S OBJECTIVES WERE TO KEEP OPEN COMMUNICATIONS WITH THE FIELD AND SUPPORT THEM DURING TRANSITION.

WERE THERE ANY TRANSITION ISSUES? DOD HAD ITS SHARE. DOD'S MAJOR ISSUES WERE IN THE PROVISIONING AREA. PROVISIONING INCLUDES GATHERING ACCURATE ORDERING INFORMATION, WRITING SERVICE INITIATION AND DISCONNECT ORDERS, VENDOR INSTALLATION

AND DISCONNECTION OF SERVICE, VENDOR ISSUANCE OF SERVICE BILLS, AND CUSTOMER PAYMENT FOR SERVICE PROVIDED. DOD ADDRESSED MANY OF THOSE ISSUES THROUGH DEVELOPMENT AND USE OF DATABASES OF SERVICE INFORMATION. PROVISIONING ALSO INCLUDES VENDOR INSTALLATION OF BACKBONE SERVICE CAPABILITY AND, IN MOST CASES, ARRANGEMENT WITH A LOCAL EXCHANGE CARRIER TO PROVIDE LOCAL ACCESS SERVICE CONNECTING THE VENDOR'S BACKBONE SERVICE POINT OF PRESENCE (POP) TO THE CUSTOMER LOCATION. DOD FACED MANY ISSUES INVOLVING FTS2001 VENDORS' ISSUING OF ORDERS TO LOCAL EXCHANGE CARRIERS (I.E., VERIZON, QWEST, BELL SOUTH) TO INCLUDE THE INTERPRETATION OF LOCAL EXCHANGE CARRIER ADDRESS DATABASES, AND THE COORDINATION OF INDIVIDUAL NETWORK TRANSITIONS.

AT TIMES THE LOCAL EXCHANGE CARRIERS WERE UNABLE TO MEET FIRM ORDER COMMITMENT DATES FOR LOCAL ACCESS, AND IN SOME INSTANCES THEY WERE UNABLE TO PROVIDE LOCAL ACCESS AT ALL. WHENEVER ASKED, AT&T TRIED TO MITIGATE THIS PROBLEM BY TURNING OVER EXISTING FTS2000 SERVICE LOCAL ACCESS ARRANGEMENTS. BUT, IN MANY CASES, THE LOCAL EXCHANGE CARRIER HAD ALREADY ASSIGNED THE LOCAL FACILITY TO ANOTHER SERVICE REQUIREMENT.

ONE PLACE THIS HAPPENED WAS CANNON AFB, NEW MEXICO. WHEN MCI WORLDCOM ASKED USWEST TO PROVIDE A LOCAL FACILITY FOR THE NEW SERVICE, USWEST WAS UNABLE TO PROVIDE THAT LOCAL FACILITY. AT&T HAD AGREED TO GIVE ITS LOCAL FACILITY TO MCI WORLDCOM, BUT USWEST WOULD NOT ALLOW IT. USWEST INDICATED THAT IT HAD ALREADY COMMITTED THE LOCAL ACCESS TO OTHER ORDERS. WHEN ASKED IF IT PLANNED TO CONSTRUCT ADDITIONAL ACCESS FACILITIES, USWEST SAID NO. OTHER COMPANIES DID NOT HAVE FACILITIES AVAILABLE. EVENTUALLY THE FTS2001 SERVICE PROVIDER OBTAINED THE NEEDED FACILITIES, BUT AT A MUCH GREATER EXPENSE THAN INITIALLY ANTICIPATED. MANY TIMES DURING THE COURSE OF THE TRANSITION WE ENCOUNTERED SIMILAR SITUATIONS WHERE NEW FACILITIES HAD TO BE BUILT BEFORE NEEDED LOCAL ACCESS COULD BE PROVIDED.

FURTHER COMPLICATING THE LOCAL ACCESS ISSUE WAS THE VERIZON STRIKE. THE STRIKE DELAYED TRANSITION OF APPROXIMATELY 40% OF DOD SERVICES ANYWHERE FROM 60-120 DAYS. ALTHOUGH WE HAVE NOW TRANSITIONED THE MAJORITY OF DOD SERVICES LOCATED IN VERIZON TERRITORY, APPROXIMATELY 40 (OUT OF MORE THAN 1500) SERVICES HAVE YET TO BE TRANSITIONED. MCI WORLDCOM AND SPRINT ARE STILL WORKING TO TRANSITION THOSE SERVICES. WHEN WE ATTEMPTED TO ACCELERATE THE TRANSITION ACTIVITIES THROUGH

DIRECT DIALOG WITH VERIZON, THEIR REPRESENTATIVE INDICATED THAT A FEDERAL COMMUNICATIONS COMMISSION (FCC) RULE REQUIRED THAT THEY DEAL ONLY WITH MCI WORLDCOM AND SPRINT.

DOD CONTINUES TO WORK ON TWO OTHER MAJOR TRANSITION ISSUES: ACCOMMODATION OF THE DOD UNIQUELY NUMBERED SWITCHED VIDEO NETWORKS AND INCORPORATION OF DOD REQUIRED COST INFORMATION AND COMPATIBLE ELECTRONIC DATA INTERFACE (EDI) FOR BILLING PROCEDURES. DOD EXPECTS TO RESOLVE THESE ISSUES OVER THE NEXT FEW MONTHS.

OVERALL, BECAUSE DOD BEGAN TRANSITION BEFORE MOST OTHER AGENCIES, WE WERE ABLE TO SHARE OUR LESSONS LEARNED AND HELP OTHERS MANAGE THE PITFALLS. TO FURTHER HELP OTHER FEDERAL AGENCIES MANAGE THEIR OWN TRANSITIONS, WE RECOMMENDED THE ESTABLISHMENT OF AN IMC TRANSITION TASK FORCE. GSA ACCEPTED THE RECOMMENDATION AND ESTABLISHED THE TASK FORCE. RECOGNIZING DOD'S SUCCESS IN TRANSITION ACTIVITIES, GSA ASKED DOD TO SERVE AS CHAIR. THIS BODY ENABLED THE IMC MEMBERSHIP AND GSA TO COLLECTIVELY TAKE ADVANTAGE OF INDIVIDUAL EXPERIENCES. OVER TIME, THIS RESULTED IN A SMOOTHER TRANSITION.

DESPITE THE COMPLEXITIES OF THE TRANSITION AND THE MANY ISSUES INVOLVED, DOD HAS NEARLY FINISHED MOVING ITS FTS2000 REQUIREMENTS TO THE FTS2001 CONTRACT. AS OF APRIL 12, 2001, DOD HAS ISSUED A TOTAL OF OVER 100,000 ORDERS. WE HAVE TRANSITIONED MORE THAN 50,000 SWITCHED VOICE SERVICES, 1,435 DEDICATED POINT-TO-POINT SERVICES, 1,450 FRAME RELAY SERVICES, 9 SATELLITE UPLINKS, 402 SATELLITE DOWNLINKS FOR DISTANCE LEARNING, AND OVER 58,000 CALLING CARDS. WE HAVE ALSO EXECUTED MORE THAN 200,000 PRE-SUBSCRIBED INTEREXCHANGE CARRIER (PIC) CHANGES. FOR THOSE DOD SERVICES AND AGENCIES THAT WERE MEMBERS OF THE DOD FTS2001 TRANSITION TEAM, 95% OF ALL FTS2000 SERVICE HAS BEEN TRANSITIONED.

IN SUMMARY, DOD HAS SUCCESSFULLY MET ITS OBJECTIVES IN SATISFYING THE TELECOMMUNICATION SERVICES REQUIREMENTS OF ITS COMPONENTS. THE DISN ECONOMICALLY PROVIDES MILITARY- READY INTER-BASE VOICE, DATA, VIDEO, AND TRANSPORT SERVICES AND ASSURES INTEROPERABILITY AND SECURITY. DOD WILL USE FTS2001 FOR OFF-NETWORK VOICE SERVICES, '800' SERVICE SERVICES, AND OTHER NON-COMMAND AND CONTROL SERVICES THAT ARE NOT ECONOMICAL TO INCORPORATE INTO THE DISN. DUE TO OUR AGGRESSIVE EFFORTS TO COMPLETE FTS2000 REQUIREMENTS TRANSITION TO FTS2001, DOD WILL

REALIZE A SIGNIFICANT COST AVOIDANCE IN SATISFYING REQUIREMENTS FOR NON-DISN SERVICES.

THIS TRANSITION WAS ARDUOUS AND COMPLEX. BUT, FOR THE VALUE DOD WILL GARNER, THE EFFORT HAS BEEN WELL WORTH IT. MOREOVER, DOD'S PARTICIPATION IN THE IMC ALLOWED US TO SHARE OUR TELECOMMUNICATION LESSONS LEARNED WITH OUR FEDERAL COUNTERPARTS. AS A RESULT OF THAT INTERACTION, THE REMAINING FEDERAL AGENCY TRANSITIONS SHOULD BE EASIER AND LESS COMPLEX FOR BOTH GOVERNMENT AND INDUSTRY.

DOD'S WORK IS NOW ALMOST DONE. DOD IS PROUD OF OUR FTS2001 TRANSITION EFFORTS AND PLEASED TO HAVE BEEN ABLE TO HELP OTHER FEDERAL AGENCIES MEET THIS CHALLENGE.

Mr. DAVIS. Thank you.
Mr. Flyzik.

STATEMENT OF JAMES FLYZIK, ACTING ASSISTANT SECRETARY FOR MANAGEMENT, AND CHIEF INFORMATION OFFICER, U.S. DEPARTMENT OF THE TREASURY

Mr. FLYZIK. Mr. Chairman, members of the subcommittee, I appreciate the opportunity to appear today to discuss the FTS 2001 transition. I would like to thank the chairman and other members of the subcommittee for your continued support and interest in the improvement of information technology performance and accountability in the Government.

I serve as the Acting Assistant Secretary for Management and the Chief Information Officer for the Treasury Department. Since February 1998, I have also served as the vice chair of the Federal CIO Council, where I play a key role in the direction of information technology for the Federal Government.

In performing these jobs, I've witnessed the growth of online services changing the way customers expect to interact with their Government. I would like to preface my remarks with an overall statement about transition.

In any business, a large scale investment must make business sense. Information technology is a business investment and should be treated as such. Today we buy solutions and services, not pieces and parts. We need to carefully consider the impact to agencies and services when they have to transition over 100,000 employees in thousands of locations.

Treasury transitioned from a commercial AT&T infrastructure to FTS 2000 network B Sprint in 1989 and 1990 time period, from network B back to Network A in 1996 and 1997 during the price redetermination and service reallocation. In year 2000 and 2001, we again transitioned back to Sprint to meet requirements for FTS 2001.

Each of these transitions was time consuming, complex and costly. Two of the transitions were never completed due to problems. One resulted in significant litigation.

I am a big proponent of Government-wide approaches to IT programs. However, we need to look at details of each program in light of changing market dynamics and business sense. The new regulations for procurement, the ability to negotiate performance based contracts, shared savings contracts and the competitive telecommunications marketplace allow us to build new models for partnerships with the private sector. We need to take advantage of the opportunities at hand and make choices that make business sense for Government.

Knowing that my time is limited, I would like to address the specific questions in Representative Davis' letter. I will submit for the record my comments on the Treasury Department transition during price redetermination and transitions in general.

You asked about specific steps Treasury took. In March 1998, the acting director of my Office of Corporate Systems Management prepared a memorandum to all bureau chief information officers, advising them of the transition. We then created a Treasury working group to lead the transition. We held meetings beginning in April, monthly thereafter, until award. Each bureau had separate bureau specific meetings on an as-needed basis. Most bureaus held weekly or bi-weekly meetings during the transition. I had representation at all the meetings. Milestones were set and monitored.

Did we take a comprehensive inventory? General Services Administration provided us with a baseline inventory for Sprint and AT&T as of October 1998. Each bureau identified those, verified and looked at ways we may consolidate or better engineer the service. This was an ongoing process that became part of our Y2K effort.

Did the Interagency Management Council provide us timely information? The IMC did form a transition subcommittee. A member of my staff was the chairperson. It was the committee's role as stated in their charter to serve as the communication vehicle. They kept us apprised as best as possible.

Did the IMC and GSA operate in concert? As best they could. The challenges with transition are substantial and many are unforeseen. The IMC did its best to manage the complex process.

Did Treasury have concerns regarding transitioning to FTS 2001 during the same time as Y2K? Yes. In a memorandum dated July 2, 1999, I stated that no transition activity should take place that would impact the year 2000 work efforts. I also worked with the Administrator of GSA and the Commissioner of the IRS to put in place a 3-year agreement to preclude IRS from transitioning its customer 800 services. I did not believe then nor do I believe now that it is possible to transition the IRS infrastructure concurrent with modernizing its computer system.

In your view, have delays in allowing competition impacted Treasury? Treasury has many options to acquire telecommunications services. Delays in ordering and transitioning in the first year after award forced us to look and find other alternative solutions.

Are we concerned that the lack of competition adds cost? As I mentioned, Treasury has many options for acquiring services. However, in a highly competitive telecommunications marketplace, we need to encourage as much competition as possible. Advances in the wireless industry, satellite communications, digital cable services and other deregulated markets will continually change the telecommunications landscape. We need to position the Government to quickly seize those opportunities as they arise.

In summary, we have been one of the largest civilian users of GSA FTS services since its inception in 1989, generating over 15 percent of the annual revenue. Our department has always been a supporter of FTS, participating in the executive and managerial aspects of the program. We use the telecommunications of FTS 2000 to support the largest local and nationwide enterprise networks in the civilian government. The Treasury network provides mission critical voice and data communications to both internal and external customers.

Treasury staff also chaired the Interagency Management Council subcommittee, which advised the IMC, Federal agencies and GSA on the intergovernmental aspects of the program. We were the first agency to select an FTS 2001 vendor in January 1999. We did commit to transition all FTS 2000 services to FTS 2001 with the exception of IRS 800 services.

I will submit for the record details of all of our prior Treasury experiences with transitions. At this point, I'll be happy to address any questions the subcommittee wishes to raise. Thank you for inviting me to testify on this important matter.

[The prepared statement of Mr. Flyzik follows:]

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TREASURY ACTING ASSISTANT SECRETARY FOR MANAGEMENT AND CHIEF INFORMATION OFFICIER

Mr. Chairman and members of the Subcommittee, I appreciate the opportunity to appear today to discuss the FTS 2001 Transition. I would like to thank the Chairman and the other members of the Subcommittee for your continued support and interest in the improvement of information technology performance and accountability in the Federal Government.

I serve as the Acting Assistant Secretary for Management and Chief Information Officer for the Treasury Department. Since February of 1998, I have also served as the Vice Chair of the Federal CIO Council where I play a key role in the direction of information technology for the Federal Government. In performing these jobs, I have witnessed the growth of online services changing the way customers expect to interact with their government. Citizens want their government to invest wisely and spend their tax dollars for programs to benefit citizens

I would like to preface my remarks with an overall statement about transitions. In any business, a large-scale investment must make business sense. Information technology is a business investment and should be

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treated as such. Today, we buy solutions and services -- not pieces and parts. Is it a wise investment to buy a service or solution only to replace it and all of its associated components every three to five years? We need to carefully consider the impact to agencies and services when they have to transition over 100,000 employees and thousands of locations. Treasury transitioned from a commercial AT&T infrastructure to FTS Network B (Sprint) in the 1989 and 1990 time period and from Network B back to Network A (AT&T) in 1996 and 1997 during the Price Redetermination and Service Reallocation of the FTS 2000 contract. In Year 2000 and 2001, we again transitioned back to Sprint to meet requirements for FTS 2001. Each of these transitions was time consuming, complex, and costly. Two of the transitions were never completed due to problems. One resulted in significant litigation.

I am a big proponent of government-wide approaches for IT programs. However, we need to look at details of each program in light of changing market dynamics and business sense. The new regulations for procurements, the ability to negotiate performance based contracts, shared savings contracts and the competitive telecommunications marketplace allow us to build new models for partnerships with the private sector. We need to take advantage of the opportunities at hand and make choices that make business sense for government.

Knowing that my time is limited I would like to address the specific questions in Representative Davis's letter. I will submit for the record my comments on the Treasury Department transition during Price

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Redetermination/Service Reallocation 7 (PR/SR7) of the FTS2000 contract as well as transitions in general.

Question 1:

What specific steps did Treasury take to prepare and manage transition from FTS2000 to FTS2001?

Response:

In March of 1998 the acting director of my office of Corporate Systems Management (CSM) prepared and sent a memorandum to all bureau chief information officers advising them of the upcoming transition. We then created a Treasury working group to lead the transition. The first meeting was held on April 15, 1998 with monthly meetings thereafter until award of the contract. Each bureau also held bureau specific meetings on an as-needed basis. Most bureaus held weekly or bi-weekly meetings during transition. My office had representation at bureau meetings. Milestones were set and monitored at the bureau meetings.

Question 2:

Did Treasury take a comprehensive inventory of all services identified for transition?

Response:

General Services Administration (GSA) provided us with a baseline inventory of FTS2000 services for Sprint and AT&T as of October 1998. Each bureau identified the services, verified the services and looked at

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ways to consolidate or better engineer the service. This was an on-going process that eventually became part of the Y2K effort.

Question 3:

Did the Interagency Management Council (IMC) provide Treasury with timely information on challenges identified by other agencies that slowed the transition?

Response:

The IMC formed a transition subcommittee. A member of my staff was the chairperson. It was the committee's role as stated in their charter to serve as a communication vehicle to all agencies. They kept us apprised as best as possible.

Question 4:

In Treasury's view, did the IMC and GSA operate in concert to ease transition challenges for Treasury?

Response:

As best they could. The challenges with transition are substantial and many are unforeseen. The IMC did its best to manage a complex, difficult process.

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Question 5:

Did Treasury have concerns regarding transitioning to FTS2001 during the same time it was preparing to handle the Year 2000 challenge?

Response:

Yes. In a memorandum dated June 2, 1999 I stated that no transition activity should take place that would impact the Year 2000 work efforts. I also worked with the Administrator of GSA and the Commissioner of IRS to put in place a 3-year agreement to preclude IRS from transitioning its customer 800 services. I did not believe then, nor do I believe now, that it is possible to transition the IRS infrastructure concurrent with modernizing its computer systems.

Question 6:

In your view, have delays in allowing competition into the FTS2001 program impacted Treasury decisions to potentially acquire services?

Response:

Treasury has many options to acquire telecommunications services. Delays in ordering and transitioning services in the first year after award forced us to look for a way to provide alternative solutions.

Question 7:

Is Treasury concerned that the lack of competition has resulted in additional costs?

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Response:

As I mentioned, treasury has many options for acquiring telecommunications services. However, in a highly competitive telecommunications marketplace, we need to encourage as much competition as possible. Advances in the wireless industry, satellite communications, digital cable services and other deregulated markets will continually change the telecommunications landscape. We need to position government to quickly seize opportunities as they arise.

In Summary, the Department of Treasury has been one of the largest civilian users of GSA FTS services since its inception in 1989, generating over 15% of the annual revenue. Our department has always been a supporter of FTS, participating in both executive and managerial aspects of the program.

We used the telecommunication services of FTS2000 to support the largest local and nationwide enterprise network in the government. The Treasury network provides mission critical voice and data communications to both internal and external customers.

We provided staff to participate in the FTS2001 Source Selection Advisory Committee (SSAC). The SSAC was instrumental in advising the FTS commissioner on the award.

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Treasury staff also chaired the Interagency Management Council (IMC) Transition Sub Committee (ITS) which advised the IMC, Federal Agencies and GSA on the intergovernmental aspects of the FTS2001 transition.

Treasury was the first agency to select an FTS2001 vendor in January 1999. The department did commit to transition all FTS 2000 services to FTS 2001, with the exception of IRS customer 800 services. However, the problems encountered delayed transition and forced us to work with GSA to determine alternate strategies. I am submitting for the record details of prior Treasury experiences with FTS transitions. I will be happy to address any questions the Subcommittee wishes to raise. Thank you for inviting me to testify on this important matter.

ADDENDUM TO TESTIMONY: PRIOR TREASURY TRANSITION EXPERIENCES

<u>Transition</u>: Sprint to AT&T FTS 2000

Price Redetermination/ Service Reallocation 7 (PR/SR 7)

<u>Prior Treasury Experience</u>

1. The vendor wasn't prepared for transition task.
2. AT&T's inventories weren't adequate.

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3. Both the Internal Revenue Service (IRS) & Treasury Communication Systems (TCS) had unique requirements. IRS could not move their tax toll free services during tax season, 1/1/96-4/15/96 and TCS was in the process of changing over its service integrator from Computer Science Corporation (CSC) to TRW.
4. Pilot tests for TCS failed.
5. IRS being dissatisfied with transition created a Service Level Agreement (SLA) with AT&T.
6. Due to the SLA and pilot test failure Treasury data did not transition and all activities were stopped.
7. Instead of Sprint selling channel banks to the government as they did for PR/SR 4, GSA had to do a sole source contract with another vendor. This included inside wiring.

FTS 2001 Transition: Departmental Perspective

Although Treasury selected an FTS 2001 vendor early, other government agencies were slow in making a vendor selection.

Vendors did not have sufficient staff to perform tasks.

All services and features provided for on FTS2000 were not available on 2001 requiring contract modifications, which took additional time and greatly impacted transition for other agencies. The majority of the modifications impacted Veterans Affairs and the Department of Justice, such as Modification PS04, Low Speed Frame Relay Ports, signed 8/26/99 and

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PS09 Managed Network Services, dated 3/30/00. The IRS transition was delayed because there was not a gateway in place between Sprint & AT&T for voice, video and data traffic. The initial forecast from GSA and Sprint said gateways were not necessary. It took the repeated voices from all agencies to convince both GSA and Sprint that gateways were required. Additionally, modification PS24 Automatic Number Identification Suppression (ANI) availability for Sprint on FTS 2001 phone cards was not signed until 3/14/01.

FTS2001 was awarded based on best commercial practices. In some cases, an agency's unique requirements prevented the use of best practices, particularly in the billing and managed network services areas. In the commercial environment customers do not receive call detail information as dictated by the government for analyzing fraud, waste, and abuse. GSA provided software for analyzing this data on FTS 2000. Agencies wanted the same capabilities with FTS 2001. This created a unique requirement. The same problem occurred with managed network services. What Sprint offered as a commercial service did not satisfy the government's need for billing.

Vendors were not meeting customer want dates (CWD) because Local Exchange Carriers (LEC) were not installing service on firm order commitment dates. There were also incorrect circuit provisioning. This required our organization to apply additional resources (Government & Contractor) in order to mitigate delay impact.

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Until a vendor support agreement was reached with AT&T they would not provide the necessary resources required supporting transition.

Vendors billing systems have numerous problems. Customers are not receiving bills on time (Or not at all) or the information received is incorrect.

The effort required to transition was significant and the delays resulted in budget deficits and service interruptions.

Current Treasury Transition Status

All planned services to transition are on schedule for completion in June of this year (2001).

At this time The Department of Treasury has completed approximately 94% of our transition.

Mr. DAVIS. Thank you, and I want to thank everybody for testifying.

I'm going to start the questioning with Chairman Burton, and we'll do 5 minute increments and go to Mr. Turner and come back.

Mr. BURTON. Thank you, Chairman Davis.

Ms. Bates, I'm glad you've got your kids here. Do you want to bring them up to the table with a bullet proof vest? [Laughter.]

I'm kidding.

You said that you were 95 percent switched on voice service. But you neglected to say that you're only 55 percent switched on data service. Why didn't you mention that?

Ms. BATES. Mr. Chairman, my remarks that we are 95 percent complete of the transition was an overall completion rate number.

Mr. BURTON. So overall everything's 95 percent?

Ms. BATES. Overall. There are varying percentages within the different service elements. But overall, we are 95 percent complete as of today. And we are targeting a summer timeframe for total completion.

Mr. BURTON. What percentage of the voice service is completed right now?

Ms. BATES. 99 percent.

Mr. BURTON. And what percentage of the data service frame relay, what percentage of that is completed?

Ms. BATES. Better than 80, but the exact figures I will be glad to submit to you for the record.

Mr. BURTON. These figures, I believe my staff said, are about a month old, is that right? It's a month old and it says 55 percent. You had that kind of a quantum leap in the last month?

Ms. BATES. We are moving ahead very rapidly on some of the services. The services that are left to transition are very well known and identified and are being worked very, very hard by the agencies, and our FTS 2001 contractors. And I'll be glad to submit to you the specifics on that.

Mr. BURTON. We'd like to have the specifics. I'm sure Chairman Davis would like to have them, I'd like to have them.

Ms. BATES. I will submit those.

Mr. BURTON. Because it seems that's a tremendous amount of progress that's been made since this report was issued. There were three 6 month delays past the 1-year deadline where there wasn't that kind of progress. That just seems interesting.

Ms. BATES. I will do so.

Mr. BURTON. The cost for long distance per minute I understand ranges from 15 cents per minute to $2.10 per minute, depending on the volume of calls made. The average cost, if the transition had been completed, would be 3.8 cents per minute. Can you tell us how much it's cost the Government and the taxpayers of this country because of these delays?

Ms. BATES. Yes, sir. The delay period that I assume you're speaking about is from December 6, 2000 to the targeted completion date.

Mr. BURTON. It's supposed to be 1 year it was supposed to be completed. And you had three 6 month extensions. So from the date of the completion target, yes.

Ms. BATES. As you recall, right after contract award and right before transition actually began, both of the incumbent contractors on FTS 2000 lowered, Sprint and AT&T, lowered their prices to those of the FTS 2001 contract and continued to track those prices through late last year.

Mr. BURTON. You don't need to go into a big long dissertation. How much additional cost did the taxpayers incur because of the delays?

Ms. BATES. The delay, the number that I have, sir, is the delay from December 6, 2000 to the projected completion date, and that number is $74 million.

Mr. BURTON. $74 million?

Ms. BATES. Yes, sir, from December 6, 2000 through the projected completion date of this summer.

Mr. BURTON. How does GSA justify allowing this to happen? How do you justify that? I can understand, you know, a slight delay, 3 months, 6 months. But 6 months and then another 6 months and then another 6 months, why? How do you justify that?

Ms. BATES. The transition planning originally included 2 years. The transition was targeted to be completed on December 6, 2000. Such, as I said in my opening statement, did not occur. A lot of good work went on. There were a lot of mitigating circumstances with the agencies, as well as the industry, as well as GSA and certainly, as Ms. Koontz said in her statement, there's certainly a lot of reasons to go around. Where we found ourselves on December 6th, or the end of last year, was the need to extend the bridge contracts to accommodate the people that had not transitioned. Basically at that time we had two choices, either terminate service or extend the bridge contracts.

We entered into negotiation with the two incumbent contractors, AT&T and Sprint.

Mr. BURTON. If I might ask one additional question, Mr. Chairman.

Did you not see these problems beforehand, when they were coming down the pike, as far as the delays and the costs that were going to be involved, the $78 million? Couldn't you see those well in advance so that you could have taken the fork I talked about earlier and stuck it where it needed to be stuck to get them to get the job done?

Ms. BATES. I think we all had the fork stuck out, plenty of times. I'm not being facetious. I think everybody was moving ahead. We had anticipated that we would be completed. It became to our knowledge and others late last year that the target completion date was not going to be met by some of our agencies. We were about 82 percent complete at that time, and we saw that it was not going to be done, and it was not through lack of effort on the part of anyone.

At that time, we realized that we needed to extend the bridge contracts.

Mr. BURTON. Let me just say one final thing and then I'll yield back to the Chair. That is that, I was in the private sector before, and I know this is a much larger endeavor. But I was in the private sector, and when a contractor or a contract was negotiated, if it was not going to meet the time requirements in the contract, we would police it, and we would jump on it, and we would try to make sure that it got completed. If there was an extension required in a subdivision or something we were working on, we would grant that.

But we pushed and pushed and pushed. And it just seems like to me, especially since $78 million has been lost because of the time delay, that GSA could have been a little bit more diligent in getting this thing done.

Ms. BATES. I believe we did push and push and push, and I think we took many actions to try and complete the transition, as did our customers, as did our industry, through the Interagency Management Council, the transition task force, the tremendous coordination effort, the support of all the industry. It was not through lack of effort on the part of any of the parties.

Unfortunately, it did not occur. The good news is, though, that many people had transitioned by that time and were achieving the savings afforded by FTS 2001.

Mr. BURTON. Thank you, Mr. Chairman.

Mr. DAVIS. Thank you very much. I will recognize my ranking member, but before that, let me just ask a quick question. You've given us incurred costs as of today. But it is possible, looking at the GAO report, that long distance rates are going to rise under this during the transition. Ten cents a minute could be as bad as $1 a minute under the worst scenario, isn't that correct?

Ms. BATES. Yes, sir.

Mr. DAVIS. So the losses could mount even more until we get into the FTS 2001 transition service?

Ms. BATES. The $74 million figure that I've provided you today includes all anticipated costs through the end of transition this summer.

Mr. DAVIS. So that's our goal, to hold the losses there?

Ms. BATES. Pardon me?

Mr. DAVIS. Our goal is to hold the losses to $74 million?

Ms. BATES. Yes, sir.

Mr. DAVIS. OK. Mr. Turner.

Mr. TURNER. Thank you, Mr. Chairman.

One issue, Ms. Bates, I want to ask you about the payment that was made to AT&T under the bridge contract, that initial $8 million payment, could you tell the committee what that payment was for?

Ms. BATES. The $8 million payment is a part of the bridge contract, as a part of the overall negotiation of that contract. AT&T provides FTS 2000 services today via a private network. AT&T in its proposal had stated that to keep the entire network up at that time did cause them to incur additional costs.

In addition, the $8 million payment, and perhaps in the second panel, AT&T would be best to answer this for the specifics, better than I. But it was essentially to keep that private network up and going in some of its business systems.

At the time we were negotiating these contracts, Mr. Turner, you must realize that the Government was in a position where we were negotiating a short term contract with declining revenues, no guarantees, could be terminated at any time. We were not in the best position. GSA, at that time, in reviewing the contract and doing the negotiations, did make the determination that in a case or circumstances such as this, the overall costs were fair and reasonable.

We checked the marketplace for contracts of similar nature as well as the cost for tariff services and satisfied ourselves that such action was appropriate.

Mr. TURNER. When it was apparent that you needed to have a bridge contract, did you make efforts to try to secure competitors at that point for the bridge contract?

Ms. BATES. No, sir, we did not. The reason being is the problem that was at hand was that people were remaining, were still obtaining service off of the FTS 2000 contracts. They had to continue that service until they could transition to the 2001 contract, so they could get there. So not extending those contracts would mean termination of service. Adding additional companies to select from at that time would not have solved the problem. The problem was, they needed to continue their service until they could move to something different.

Mr. TURNER. Was it a viable option for an individual agency, since the FTS is not mandatory, to go to another competitor at that point in time, rather than going with the bridge contract?

Ms. BATES. You are very correct in stating that the FTS 2001 program is not mandatory. Agencies were free to select all along the way and still are. People were faced with the dilemma that they needed to continue the current service until they could transition to something else, whether it be the FTS 2001 contract or other companies selected through their own acquisition vehicles. So they needed to continue the service until they could do something else.

Mr. TURNER. Ms. Koontz, what's the General Accounting Office perspective on the questions that I just asked about the $8 million and the lack of competition on the bridge contract?

Ms. KOONTZ. First of all, on the $8 million one-time payment to AT&T, I think we have to recognize it was a negotiation. There may be legitimate reasons why AT&T has certain fixed costs associated with them continuing to operate their dedicated network for the Government in this extension period. However, our view is that actually none of that would have been necessary had the transition been completed on time. I think that's perhaps the perspective to keep in mind at this point.

Your second question had to do with seeking additional competition at the time.

Mr. TURNER. Yes, whether the agencies themselves could have done better on their own at that point in time.

Ms. KOONTZ. The agencies were certainly permitted to seek other competitive means of getting telecommunications. The problem is, I think, that doing that in a very short-term environment in terms of running a competition and awarding a contract may have not been all that reasonable or realistic, pragmatic, at that point in time.

Mr. TURNER. Is it the burden that the agencies have with regard to seeking such alternatives, what prohibits them? In other words, if it had been a private business, I would think that a private business could have handled it and moved to something else and saved the money.

Ms. KOONTZ. Perhaps.

Mr. TURNER. Perhaps because it's Government, somehow we have constrained the agencies to the degree that they can't move that quickly? Is that the problem?

Ms. KOONTZ. Well, they have to follow the procurement system in order to procure additional telecommunications services. And exactly what the lead time would be in any one situation, I certainly couldn't tell you. But it would be something that they would have to take into consideration in terms of trying to move very quickly to another solution.

Mr. TURNER. Thank you, Mr. Chairman.

Mr. DAVIS. Thank you very much.

I want to go back to the $74 million figure again and ask GAO, do you have any estimate in terms of how much money you lost because of the lateness in transition?

Ms. KOONTZ. I just heard today, as you did, the number of over $70 million associated with the delays in transition. We haven't had a chance yet to independently verify this or to come up with an independent number at this point.

Mr. DAVIS. I think rather than beat a dead horse here, what I'd like you to do is to get together with them and do an addendum to the hearing, where we can get some agreement on what the numbers are. Let me just ask you, what do you base it on? If you could tell us how you get to that number.

Ms. BATES. What we did was based on the current schedule for transition of the remaining people that are left. We priced out that schedule transition according to the current bridge extension.

Mr. DAVIS. Under the old versus what they'd be paying under the new, is that the difference?

Ms. BATES. Right. Yes, sir.

Mr. DAVIS. OK. Let me ask, was there any thought given to, for example, to Sprint, that maybe you could have put this against their minimum when you were giving them an extension on the old contract?

Ms. BATES. Certainly——

Mr. DAVIS. See, these minimum guarantees are driving, for better or for worse, great idea when you started. But when you go to a late transition, it just throws sand in the gears. The thing is, as you were looking at this and trying to deal with the delays and stuff, I just wondered, when did you realize that the minimum guarantees were all of a sudden giving you a problem?

Ms. BATES. Well, let me spend a few minutes here, not too long, talking about the MRGs and where we are. We've had GAO with us several times helping us determine, with the use of our tools, when the minimum revenue guarantees will be achieved. And we are fairly consistent in our projections now that once the transition is complete and that traffic is moved over that the minimum revenue guarantees will be achieved in year 5 and 6 of the contracts. I believe Ms. Koontz testified to that or I read it in your report, but that is our projection at this time.

That precipitated and certainly validated our decision to move ahead this summer and open up the contracts to further competition. Relative to your original question, if we considered traffic moving and additional adjustments to the MRG, that has been part of a consideration. It's never been ruled out. It's not something that we are actively pursuing at this time.

Mr. DAVIS. Ms. Koontz, you testified that GSA couldn't obtain usable and complete transition management information from the contractors, so that they could input into their automated status tracking system. For instance, in January 2000, Sprint didn't have complete information in its data base regarding the status of the transition.

How feasible would it be to build into future contracts an accountability mechanism which may include penalties that GSA could apply against the contractor's guaranteed minimum revenue over the life of the contract? What's the feasibility of renegotiating the current contracts? In this case the contractors had some culpability in that snowball end. Does GAO have suggestions for addressing problems created in large part by contractors? Although it wasn't exclusively contractors in this instance, but there's some culpability there.

Ms. KOONTZ. I would agree with that. I think the suggestions that you raised aren't things that we have specifically studied right now. But those are all things that would be worth looking at in the future, not only for this contract, but for future procurements as well.

Mr. DAVIS. Let me go to the report. At one point, they say long distance rates could rise to over $1 a minute. That's more than I pay in a hotel when I call out. How do you get to that point? How did we get there? And is it likely to happen, or is that just a theoretical possibility?

Ms. KOONTZ. My understanding for GSA is that it's not very likely to happen. It has to do with the fact that——

Mr. DAVIS. You'd be crazy as an agency to pay $1 a minute. You'd be better off going down to a phone booth and putting coins in.

Ms. KOONTZ. The pay phone would be better, you're right.

From my understanding, as the revenue comes off the old FTS 2000 contracts and you look at the volume discounts and the volume banding that's offered under those contracts, the cost of an individual cost can rise pretty high. But, the likelihood of that happening is not very high.

Mr. DAVIS. But it will go over 10 cents a minute, certainly?

Ms. KOONTZ. I don't have the exact figure. We can get that for the record, if you like.

Mr. DAVIS. You would concede that it will go to 10 cents a minute under this?

Ms. BATES. Oh, yes. Yes, the current FTS 2001, the average rate is about 3.8 cents. Today on the bridge contracts it's a little over 10, around the 10 to 12 range, depending on the company.

Mr. DAVIS. If you didn't have the delays in transition, this would be a great contract. We wouldn't be here, isn't that fair to say?

Ms. BATES. I agree. I think, as I said in my statement, that the program is sound. I think the contracts are good, and transition, as Mr. Flyzik said in his statement, and General Premo, and all of us agree, is a difficult thing. It's something that none of us have mastered.

Mr. DAVIS. My time is up. I'm going to ask a question later, you might be thinking about it, about what if you just had a schedule where people could buy telecom off the schedule and would that be more efficient and what are the ramifications of that. I'll ask everybody to think about that. I'll ask all of you that, but my time's up right now, and I'm going to yield to my colleague from York County.

Mrs. DAVIS. Thank you, Mr. Chairman.

Ms. Bates, you stated in your testimony that GSA will allow local service providers that currently participate in the Metropolitan Area Acquisition program to compete for long distance under the FTS 2001 program in the near future. What's your understanding on the MAA contract holders' eligibility to provide long distance service in compliance with the 1996 Telecommunications Act?

Ms. BATES. Certainly the ability for companies to come into the FTS 2001 long distance market is predicated on FCC approval. If they have not yet received FCC approval to do so, they must do that. It is predicated upon all of those approvals.

Currently with the MAA program, we have awarded contracts in over 20 cities to date, and they have been for the most part multiple award contracts. Some of the companies that have been awarded contracts in the local services area have expressed interest in coming into the long distance market. So I would assume when we open that up this summer that they will continue with that interest.

Mrs. DAVIS. I have to apologize, I wasn't here before, and I wasn't here for the 1996 Telecommunications Act, either. But my understanding—don't we have to have an act of Congress to allow some of these guys that you're talking about as competition to come in and be the competition? I might have to ask one of my colleagues that.

Mr. DAVIS. I think contracting out, you have discretion, don't you?

Ms. BATES. Some of the contract holders of our MAA contracts are such as the AT&T company and Qwest Communications that would be our long distance providers today, and I'm sure they would be interested in coming into the long distance market.

Where it comes into play relative to the act of 1996 is the regional Bell operating companies do have to receive approval from the Federal Communications Commission and other approvals to enter into long distance markets. Certainly us awarding a contract to them would be predicated on receiving the appropriate approvals.

Mrs. DAVIS. I'd like to go back to the minimum revenue guarantees, just to get a clarification myself. As I understood someone to say, it was not mandatory to do the transitioning and go into the FTS 2001. But yet we had a very high minimum revenue guarantee.

What would happen with that contract if most of the people opted out of FTS 2001? Then what kind of cost would it be to the taxpayer?

Ms. BATES. I referenced in my testimony the Interagency Management Council, as did Mr. Flyzik and General Premo. The Interagency Management Council consists of senior representatives from the 14 Cabinet agencies, 4 large independent agencies, as well as a representative from the small agency council. The IMC has served as the FTS program board of directors over the last 10 or so years. They also participated actively in the development of this strategy.

At that time, the IMC believed that the Government, by combining its requirements and maximizing its buying power could get the best deal for the Government, both in technical services and price. In so doing, the IMC committed in a letter to the Administrator of the General Services Administration, to transition their current traffic and to stay with the FTS 2001 program. They did not waive their choice to do other things, but they committed to the program.

Therefore, and as it has played out, the major agencies have stayed with the program. So I have every reason to believe, based on the facts and the figures, and the projections, that those minimum revenue guarantees will be achieved in year 5 and 6 of the contract.

Mrs. DAVIS. Would it be safe to say if a lot of the agencies opted out, we'd be in trouble?

Ms. BATES. If a lot of agencies opted out, we would be in trouble. But I'm confident that the current service providers will rise to the occasion and provide the service in accordance with the terms and conditions of the contract, not only to keep the service that has transitioned to them, but also to compete actively for gaining the new requirements and the requirements of the telecommunications industry are ever-increasing.

Mrs. DAVIS. Thank you, Mr. Chairman.

Mr. DAVIS. Thank you very much. Chairman Burton.

Mr. BURTON. Yes, I have to leave, but I did have one more question. I was interested in the Treasury Department's comments. You froze its transition to the FTS 2001 program and set up your own contract. And can you elaborate a little bit more and just tell us why you felt that was absolutely necessary?

Mr. FLYZIK. Yes, sir. What I froze in transition was during the price redetermination of the FTS 2000. Treasury was selected in year 7, the transition at that time from Sprint to AT&T. Following transitioning of our IRS and our voice services, we had a lot of delays and a lot of problems. The delays were substantial.

At that point in time, I chose to stop transition and not transition any data. In retrospect, it turned out to be to Treasury's advantage, because we were within a year of awarding FTS 2001, and AT&T did not win. Had I transitioned during that year, I would have transitioned again the following year.

So we chose at that point in time to stop that particular transition. We also negotiated in the late 1980's a separate contract with an integrator, which provides telecommunications services to the Treasury Department.

I also chose during the FTS 2001 transition to not transition AT&T 800 services. I did not believe it was possible to transition IRS 800 services again while at the same time trying to modernize the IRS where some of their very first applications to the modernization dealt with automatic call routing and better customer service to paying taxpayers.

So consequently, Treasury winds up in a situation where we have IRS 800 services via AT&T, we have access to Sprint and MCI WorldCom under FTS 2001, and I have access to Qwest and Sprint under my own Treasury communications system contract. In all cases, we negotiated these agreements to be prices equal to or better than the FTS 2001 prices.

This has allowed me to position Treasury to be in a very favorable position to constantly have forces. I believe our program and GSA's complement each other quite well, because we've added a pool of competitiveness in the Government market. Even though we put all this in place, I still contribute, or we, Treasury, contribute over 15 percent of the revenue to the FTS 2000 program. I am one of the largest programs there. Yet we do have a mix of services that allows me to pretty much get to whichever provider that I need do.

Mr. BURTON. Do you think the competitiveness that you've been able to utilize has been to the benefit of your department?

Mr. FLYZIK. Absolutely.

Mr. BURTON. And do you think that should be the case with every other department in Government?

Mr. FLYZIK. I can't speak to the other departments.

Mr. BURTON. Let me phrase that question a little differently. Do you think if every other Government agency adopted the policy that you did, it would save money and be more efficient?

Mr. FLYZIK. Yes.

Mr. BURTON. Mr. Chairman, I think that answers any questions I have. Thank you very much.

Mr. DAVIS. Thank you. Let me just continue on that for a minute, and then I'll recognize Mr. Turner.

Mr. Flyzik, go ahead on that. With all the economies of scale that GSA gets in trying to put together a very complex telecommunications contract for the Government, and here you have one agency undercutting you, it just goes back to the question I was going to pose earlier, and that is something you noted in your testimony, Mr. Flyzik, that we need to look at the details of each program in light of changing market dynamics and business sense.

The new regulations for procurement, the ability to negotiate performance based contracts, shared savings contracts, the competitive telecommunications marketplace, all allow us to build new models for partnerships with the private sector. We need to take advantage of the opportunities at hand, make choices that make business sense for Government. That's what you said, and I think you've got a great reputation across the Government for what you do.

In your view, what changes could be made to the FTS 2001 contract vehicle to reflect the changing marketplace now? And do you believe the FTS contract vehicles are too lengthy in time?

Mr. FLYZIK. As I mentioned, I think that the FTS program 2001 has benefited Treasury greatly, and Government in general. It has been a great tool to leverage, and the prices are, you can't argue that the prices, taking out transition, the prices have been absolutely phenomenal in terms of savings to the Government.

Mr. DAVIS. But that sets a ceiling for you when you go and negotiate with somebody else, right?

Mr. FLYZIK. That's right. And I think, though, if you look at it, it's complementary. GSA and Treasury are complementary in bringing forces to nature. The only thing that I'm concerned about in a new model is we need to think down the road where the industry's going. Clearly, wireless Internet and advances in digital cable and everything else are going to offer tremendous opportunities to the Government and to the country in general in terms of productivity improvements. We just need to be positioned in the mainstream to move quickly to take advantage of those.

I think it's very possible that the FTS 2001 can position itself to offer these services. And I think by keeping some other competitive forces in the community, like people like Treasury are doing, it's going to encourage creativity and innovation in the FTS 2001 contracts to be flexible, to make sure that we can capture these services when they become available.

Mr. DAVIS. Thank you.

Mr. Turner.

Mr. TURNER. Thank you, Mr. Chairman.

Ms. Bates, now you've heard Mr. Flyzik, how he is able to leverage against your FTS 2001 contractors to get a better deal. Why did you decide to select only two vendors for the FTS 2000 contract, rather than three or four or whatever?

Ms. BATES. I did hear Mr. Flyzik, and I want to say that I do agree with Jim's position. I think we have complementary services, and I appreciate the fact that because of FTS 2001, he was able to achieve the prices he has. I think that's an example of good Government.

Why we selected two contractors on the initial round, I'm going to make the point that we selected two at the initial. The strategy does call, as I stated earlier, for opening of competition and addition of new entrants, which we will be doing this summer.

At the time we were doing this acquisition, there were three companies in the industry that were vying for this business. In order to maximize our principles of robust competition, in achieving a competition to the level that we wanted to see in technical services and price, we felt it was in the Government's best interest to have some winners and perhaps some losers. The strategy called for one contractor and perhaps two.

And through the acquisition process, which by some acquisition officials would be considered sporting, we conducted the first round of competition. We awarded one contract which turned out to be Sprint. Then we gave all additional offerors, including Sprint, a chance to bid again and better those prices to see if we would make a second award.

Indeed, as we know now, MCI WorldCom did do that and they were granted the second award. If that had not been the case, there would have only been one award.

So our goal is to achieve maximum competition while also getting the very excellent prices for the Government. And also offering our customers choice. We really wanted to, because we do have robust competition within the contract today. These two contractors are constantly fighting it out for each agency's business and their new business. We're gone from the days of where an agency was assigned to a contractor or that our contracts were mandatory.

So we're seeing competition, I think pretty strong competition today. And certainly after this summer we'll see even more.

Mr. TURNER. How many additional vendors do you expect to be competitive for the contract?

Ms. Bates. Well, you know, in this marketplace, sometimes I'm reluctant to say, because the companies change. But certainly we have the two incumbents, Sprint and MCI WorldCom. I have heard from other companies such as AT&T and Qwest that they are certainly interested in learning more about the program. Perhaps some of the regional Bell operating companies, as they receive approval from the FCC in accordance with the Telecom Reform Act, may be interested. It's an evolving process, as people are in different stages of their business.

Mr. TURNER. Ms. Koontz, from your perspective, would you say, be able to say or have an opinion as to whether or not as a result of FTS 2001 competition that the Government's receiving the best service and the best price that's possible?

Ms. KOONTZ. We haven't really examined the prices or compared them to the market at this point in time. I think the thing that's critical to remember about FTS 2001, and it's something that was alluded to earlier, is the fact that it's not mandatory. It's a very powerful incentive for the current contractors to provide competitive prices. Because agencies can go elsewhere if they find the services are non-appealing or if they find out that the prices are too high. When more competition is added, I think that will put the pressures on even more.

So I think that it will be agencies that ultimately tell us whether the services are good or whether the prices are good and whether they stay with the program.

Mr. TURNER. Do you make any evaluation of the choices available to the individual agencies to determine how aggressive agencies are in selecting the best provider?

Ms. KOONTZ. We haven't done that kind of evaluation. I will say, though, that with the FTS 2001 awards, the agencies had to select their vendor this time. Under the prior program, they were just assigned to a vendor by GSA. But during this time period, they had to make an analysis and had to determine which vendor they thought they wanted maybe for all of their services or part of their services. Some agencies decided to take both vendors for different kinds of services.

This was a new experience in many agencies, to say the least. And obviously, those agencies who had a lot of capacity, who are very sophisticated buyers like DOD and Treasury, had a lot easier time of it perhaps than some smaller agencies who don't have those kinds of telecommunications resources available. Although GSA certainly did help them with making those decisions.

Mr. TURNER. Thank you, Mr. Chairman.

Mr. DAVIS. I just have a few more questions. General, let me ask you a few questions. Agencies, including DOD, have raised a number of problems during transitions, including inaccurate, inconsistent late notification of service order acceptance and completion from the contractors, a variety of billing issues that impair DOD's efforts to properly charge back users for services, as well as problems with pre-transition and post-transition customer support, including the timely resolution of the preceding problems as they've come up.

Defense personnel had a particular problem trying to verify and accurately bill out millions of dollars worth of invoices. What do you view as the most difficult transition support issues that the Department faced, and how were you able to resolve those issues?

General PREMO. I think the most difficult issue of the transition at the beginning was the fact that the 2000 contract and the 2001 contract caused us to change every service and unplug and then replug operations. That presented a challenge, because there was no rollover of service through the old contract. But we got that under control through our operations center and our aggressive approach to that.

The outstanding problem right now is the resolution of these billing issues that are based on our data base and the issues with the vendor's data bases. I think we're going to get these under control. They were painful. We're still working our way through that, but I believe that ultimately this last problem will be resolved. I think the fact that it was an unplug and then a replug and then every single service had to be reattached was the biggest issue.

Mr. DAVIS. Were there problems that seemed to be unique to FTS 2001 transition, or do you think they were problems that might have been encountered in any project of that magnitude?

General PREMO. Well, they're similar to problems we had in our own recompete of our DISN contract where we had a new contractor and had to unplug and replug. So we'd been through that before.

Mr. DAVIS. As you look ahead to the future, what lessons, if you're doing this again, what perspectives could you offer GSA, and even yourself, as you're looking ahead to this next time?

General PREMO. I guess the data base. An accurate data base of your current holdings and how that would be used to transition your future holdings. We're fortunate in DISA, and we were the agent for DOD in this process, that this is what we do. So we have our own data base based on FTS 2000. That helped us immeasurably in getting the process underway.

So if I had one recommendation, it's that all agencies have access to an accurate, current data base that you can use to spring to the next transition should that occur.

Mr. DAVIS. That would be the next question which I'll ask Ms. Bates. Ms. Bates, in your testimony, you state that customers estimated that the contractor maintained inventories were no better than 60 percent accurate. If inventories were inaccurate in vendor data bases, why did GSA, or what did GSA do to ensure that the contracts were properly modified to reflect that lack of service?

Ms. BATES. As I stated in my opening remarks, I think the entire Government as well as the industry, finds maintaining inventories is difficult. It's not something that people like to do. And configuration control and configuration management was a problem, even in Y2K. I think that we now know, both GSA, our customer agencies and the industry, that we need to do a better job in the future of maintaining these inventories so we are more flexible.

We in FTS have put in place and have decided, at the recommendation of GAO, will maintain an inventory that will be accurate and up to date, of these assets as they move forward, we will pay stronger attention, both our customers as well as ourselves.

Mr. DAVIS. GAO notes that the $8 million fee paid to AT&T was passed on to agencies as a 20 percent service fee over a 2-month period. Now, I want to understand why the fee was passed on to the agencies that were already handling sharp price increases. I guess maybe you had nowhere else to get it. Some agencies could face increases up to, as we said before, $1 a minute on the long distance.

Have agencies complained to you regarding the overall budgetary impact?

Ms. BATES. Certainly agencies complained. The worst thing, having been a customer and been in NASA for many years, the Government for many years, for that matter, the worst thing that can happen to a program manager in an agency is to have a budget increase, or a cost increase in the current budget year. No one greets that with a smile. It's very, very difficult.

So when the agencies did realize that there was going to be an increase, they really had a difficult time. I credit very much the strength of the Interagency Management Council in this case. The IMC came together, addressed the issue, decided how they wanted us to bill it to them and in what fashion. And it was clearly, I think, representative of teamwork and collegial effort, of recognizing there's a problem and dealing with it.

Mr. DAVIS. Has GSA considered renegotiating this contract now?

Ms. BATES. Renegotiating the current FTS 2001 contract?

Mr. DAVIS. And the MRGs or anything else.

Ms. BATES. We have not closed out any options at this time.

Mr. DAVIS. I think that's really all I wanted to get on the record. I think I'll ask one other.

You note in your testimony that agencies are free to leave the FTS 2001 program. The subcommittee has gotten some information that may not be the case always. We've been told that IMC has been used to keep agencies in the contract, and also Qwest testified that Energy had a punitive clause in their contract that states fees would go up at any part of the department unless the FTS 2000 transitioned, which would be a barrier to competition. Are you aware of any of this?

Ms. BATES. I certainly can't speak to the Department of Energy. But as I stated earlier, the IMC is the governing body and the board of directors for FTS. On behalf of their departments, as well as thinking Government-wide, this was their decision that we bring together the buying power of the Government and pool our requirements to achieve the highest technical solutions at the lowest costs.

In order to do that, you have to stay with the program. And the IMC, in a commitment to the then-administrator, Dave Barram, of GSA, made that commitment. Certainly that does not in any way affect the fact that they do have a choice. I think the challenge is FTS and our FTS 2001 contractors now to keep those agencies on the contract by providing them with the highest level of service, new technology and low costs. The challenge is ours.

Mr. DAVIS. If you could go back a couple years, what would you do different? If you could wave a wand, I know putting a contract together like this is very complex, what would you do differently to avert transition problems?

Ms. BATES. Well, you know, and I have to tell you, I'm always one that's quoted as saying it's OK to look back, as long as you don't stare. I'm really not one——

Mr. DAVIS. You can just blink here. [Laughter.]

Ms. BATES. I quite frankly, as being one that participated, I think our strategy is sound. I think the strategy is as sound today as it was when we were here discussing it in 1997. I think at the time, where the industry was, where the Government was, we broke new ground.

So I really feel that all the actions to date and where we're going in the future are the right things to do. We've learned some lessons with the transition. As General Premo and Mr. Flyzik have stated, transitions of this magnitude are very, very difficult. Any transition is difficult. And this is difficult. We've learned lessons.

I think what we need to do is to make sure to capitalize on those lessons learned, we document them and as we move ahead and define the strategy for the future and what comes next, that those lessons aren't lost.

Mr. DAVIS. I don't think they are lost, but could you go back 2 years, and you saw you were having this transition, you would have made some changes in the contract, right?

Ms. BATES. You said I wouldn't change the acquisition at all, and I wouldn't change anything having to do with the strategy. On the transition, I think that I would have tried to encourage and facilitated to a greater degree more up front planning. Planning, which includes getting your inventories up to date, planning, deciding whether or not you want to do a like for like transition, or do you want to do a major upgrade and reconfiguration. That type of planning is something I think that would have facilitated the process, and something I probably would have done differently.

Mr. DAVIS. But if you'd known the transition was going to be delayed like this and you were going to be paying all this money to existing contractors, wouldn't you have constructed it differently?

Ms. BATES. Yes.

Mr. DAVIS. That's all I'm trying to get. I thought I heard you saying no.

Any other questions any panelists have? Anyone here want to add anything? I understand, Ms. Bates, you'll be here for the second panel, if you want to say anything at that point.

Ms. BATES. I'll save my closing remarks for then.

Mr. DAVIS. That will be fine. I'm going to give you ample opportunity.

Let me thank all of you for coming. If you think of anything when you get back that you want to rebut or add, the record will be kept open for a couple of weeks. We'd appreciate hearing from you and building as complete a record as we can.

So thank you very much, and we'll move on to the next panel.

We're going to now welcome our second panel, Mr. Jerry Edgerton of WorldCom, Mr. Anthony D'Agata of Sprint, Mr. John Doherty of AT&T and Mr. James Payne of Qwest.

Ms. Bates, you can sit at the table or you can sit back there and take a break. Whatever you'd like. You did fine.

Gentlemen, it's the policy of this committee that we swear all witnesses. If you would rise with me and raise your right hands.

[Witnesses sworn.]

Mr. DAVIS. Thank you.

To afford sufficient time for questions, if you would just limit yourself to 5 minutes in the opening remarks. All written statements from witnesses will be made part of the permanent record. Why don't we start with Mr. Edgerton and go down. Thank you for being here.

STATEMENT OF JERRY A. EDGERTON, SENIOR VICE PRESIDENT, WORLDCOM GOVERNMENT MARKETS

Mr. EDGERTON. Thank you. My name is Jerry Edgerton. I'm a senior vice president for WorldCom Government Markets. WorldCom is the second largest provider of long distance services in the United States, and a leader in all distance communications services with operations in more than 65 countries.

WorldCom now proudly serves more than 75 Federal agencies and organizations through the FTS 2001 program, the largest, most diverse telecommunications program ever attempted. I'm proud that WorldCom has taken such a key role in bringing advanced technologies and competitive pricing to the Federal Government at such significant savings over the previous contract.

Members of the subcommittee may remember a time when there was little or no competition in the telecommunications industry. Thankfully, those days are behind us. I commend the General Services Administration and Congress for creating a framework that has harvested the benefits of competition for the Government and ultimately for the taxpayer.

GSA estimates that last year alone the FTS 2001 contract saved the Federal Government $150 million. It will save another $250 million this year over the previous contract. As a result of FTS 2001 competition, savings to the Government will continue to grow, even as new and enhanced services are added.

Despite this success, I recognize the subcommittee members have concerns regarding the pace of transition. We share those concerns for one simple reason: delayed transition means delayed revenue for us. We estimate the transition delay has cost us more than $100 million in lost revenue.

In anticipation of the FTS 2001 contract, we began putting tools into place and resources to make our transition to the service a success. For example, we established a program management and business office. We initiated the systems development for the FTS unique requirements before being awarded the contract. We implemented switch augmentation and a build-out program to ensure our success.

When we were awarded the contract, we immediately began the following actions. We increased our staff to assure we had adequate resources. We implemented intensive training for our staffs as well as the Government agencies. We put processes in place for pricing an order and implementation. We established a dedicated order entry and provisioning hub for FTS 2001.

We worked with the local exchange carriers to establish focused FTS 2001 teams. We expanded our use of small business subcontractors to help with implementation. We also conducted high level reviews of the program within our own WorldCom organization, and we conducted extensive executive agency visits to assure and encourage rapid transition.

Unfortunately, the factors affecting the majority of transition delays were beyond our control. They've been referenced here, I'll repeat them again: the agency selection process in choosing its vendor, Y2K concerns, incomplete or inaccurate records or agency records, delayed orders, certainly local phone company delays in implementation, and occasionally upgrades and redesigns that went beyond a like for like transition.

Let me address some of these issues specifically. The first agency to choose WorldCom was the Department of Interior in March 1999, 2 months after we were awarded the contract. The last major agency to select WorldCom did so in April 2000, 16 months after contract was awarded, and only 8 months prior to the end of the FTS 2000 bridge contract.

Understandably, some agencies were distracted by potential Y2K concerns and delayed their FTS 2001 decisionmaking process. Once agencies made their choices, some were delayed from placing orders for services to WorldCom. This was often caused by out-of-date agency or incumbent vendor records.

By April 30, 2000, which was the date we told agencies we needed their orders to be able to complete transition on time, we had received only 35 percent of expected orders. Many agencies did not place their orders until last summer. That said, I must commend agencies like the Department of Agriculture, the Department of Defense, which has already testified here, and the Social Security Administration, for putting the processes in place to assure a timely transition.

The local phone companies contributed significantly to these delays. As already has been mentioned, the largest company, Verizon, faced a strike last year that produced delays that we're still contending with. Currently we have 78 outstanding FTS orders with Verizon that are more than 100 days old.

Verizon is not the only culprit, as the volume of FTS 2001 transition orders has overwhelmed many of the local phone companies. Qwest, for example, has 32 outstanding FTS orders that are now over 100 days old.

We've heard a lot of debate about the minimum revenue guarantee. Let me put the MRG in perspective from a WorldCom point of view. FTS 2001 presents a tremendous opportunity. It also presents a tremendous risk. To ensure that WorldCom and our competitors would respond to the unique requirements of the solicitation and propose the best possible prices and services, GSA provided a minimum revenue guarantee to the eventual winners, again with congressional review.

The amount of the MRG was a fundamental issue in our business case. That is exactly why the prices continue to decline and as a consequence of the MRG, will allow us to continue to make the necessary investments to ensure that the Government stays in front from a competitive price and a technology perspective. As has already been mentioned, we anticipate reaching the minimum revenue level in year 6 despite decreasing prices and competition on many fronts.

WorldCom is pleased with the progress of transition. We and our customers consider FTS 2001 to be a success. As of today, more than 95 percent of the transition has been completed, and we will be at 100 percent by summer. We have modified the contract with more than 50 enhancements such as advanced Internet services and managed data network services. We've also looked at adding electronic Government services that will further improve services to the citizen and reduce cost.

We believe that the FTS 2001 contract has lived up to its promises and delivered to the Federal Government great innovations in telecommunications technology, exceptional services, all at truly competitive prices. The contract marks a new era in Government telecommunications, an era of which we all should be proud. We will continue to work closely with this subcommittee, GSA, the Interagency Management Council and our customers to ensure continued success of this contract throughout its life.

Thank you. I will answer any questions you have.

[The prepared statement of Mr. Edgerton follows:]

U.S. House of Representatives
Committee on Government Reform
Subcommittee on Technology and Procurement Policy

Testimony of Jerry A. Edgerton
Senior Vice President
WorldCom Government Markets
April 26, 2001

Introduction

Thank you, Mr. Chairman, for inviting us here today to discuss the General Services Administration's (GSA) and WorldCom's FTS2001 successes for the federal government. WorldCom was awarded its portion of the FTS2001 contract by GSA on January 11, 1999. Since award, we have pursued the largest telecommunications transition ever attempted and we have moved aggressively to implement all services.

We look forward to outlining for the subcommittee the benefits that have accrued to the federal government from this program – new services, expanded global reach and low prices. By GSA's estimate, the government has saved $150 million in FY2000 under FTS2001 when compared to expenditures for comparable services in FY1999. GSA projects further savings of $250 million for FY2001 when compared to that same baseline. As these numbers indicate, the savings to the government will soon exceed over half a billion dollars. While these savings and improvements to services are impressive, we also wish to address any concerns the subcommittee may have about the program.

Benefits to the Government

As you may know, WorldCom is a premier provider of advanced telecom solutions to federal, state and local governments. We serve more than 75 federal agencies and organizations through the FTS2001 contract. Beyond FTS2001, civilian and defense agencies worldwide rely on WorldCom's advanced voice and data networks to meet their critical communications needs.

For example, WorldCom provides managed network services to large agencies such as the Federal Aviation Administration (FAA) and the U.S. Postal Service (USPS). Our FAA LINCS network is the most reliable network ever designed and built, while our USPS network connects more than 34,000 postal locations nationwide. From Hawaii to Virginia, from California to Alaska, our networks help improve the accessibility of government to citizens, businesses and educational facilities. WorldCom is especially proud to be the provider of advanced voice and data telecommunications solutions to Congress.

WorldCom is also helping turn the promise of "e-government" into reality. Our leading edge solutions provide efficient and cost-effective licensing and data management tools to government agencies, and provide citizens online, real-time access to government applications using Internet-based technologies. These tools are used primarily at the state level in important areas such as firearms registration, vehicle emissions inspection and automated licensing applications.

New Services

The FTS 2001 program is the largest, most diverse, global telecommunications program ever attempted. There are nine core services available under the contract, most worldwide. Recent highlights of the program include:

- Social Security Administration (SSA): SSA made enhancements to its toll-free network that supports 7.5 million callers per month. With the FTS2001 transition, WorldCom provided SSA with the ability to route calls to available call agents at any of its 37 call centers nationwide. As a result, calls are answered more quickly, improving service and saving money. SSA also took the opportunity to migrate its point-to-point data network to a fully routed advanced data network that provides for improved performance and reliability. Most importantly, this network now provides Internet service to all SSA employees, and is the first step in preparing SSA to deal with citizens electronically.
- vBNS+: We recently modified the FTS2001 contract to provide vBNS+, the premier high performance private Internet data service platform. The U.S. Geological Survey (USGS) has been using vBNS+ under an FTS2001 service trial. During the recent

Seattle earthquake, USGS experienced a quantum increase in demand for information and WorldCom's vBNS+ service met that expanded need with no degradation of quality or service to the response team.

- Europe Dial Service. New dial services in Europe have enabled even the smallest government locations to achieve low FTS2001 international rates and expand their global reach.

As you are aware, these services go well beyond what was previously available to the government under the FTS2000 program. We've further enhanced these nine services with more than 50 contract modifications to FTS2001 implemented in the first two years of this contract. This compares very favorably to the 120 modifications by AT&T to the FTS2000 contract during its 12 years and the 35 Sprint modifications.

Low Prices

In addition to leading edge service, the cost savings to the government under FTS2001 are impressive as well. The prices that the government paid for voice service went from an average of 27 cents per minute in 1988 to 5.5 cents per minute under FTS2000. Under the FTS2001 program, WorldCom began providing voice service at about 5 cents per minute and, through annual rate reductions set forth in the FTS2001 contract, WorldCom's prices have dropped to less than 3 cents per minute and will continue to drop throughout the life of the contract.

In order to ensure that the prices for all services remain competitive with the marketplace, ongoing competition and a contractually required price management mechanism (an annual price review) have kept and will continue to keep prices competitively low throughout the life of the program. The projected savings under the FTS2001 program are expected to include price reductions of more than 65 percent and a total savings to the government of over $4 billion by the end of the FTS2001 program.

FTS2001 Encourages Small Business Participation

Most support services for implementation, ordering, billing and customer support are provided by small, disadvantaged businesses that specialize in the implementation and management of large networks. WorldCom has contracted with eight firms and committed more than $25 million to complete transition and implementation of FTS2001 networks.

Perpetual Competition

Some of the members of the subcommittee may remember a time when there was little or no competition in the telecommunications industry. Thankfully, those days are gone and consumers are the beneficiaries.

In structuring the FTS2001 program, GSA created a competitive framework to harvest the benefits of competition for the government, and ultimately the taxpayer. That framework featured a full and open competition that took place over the course of three and a half years. This resulted in the award of two FTS2001 contracts – one to Sprint and one to WorldCom. Of course, the competition didn't stop there: Sprint and WorldCom compete with each other for FTS2001 business and will continue to do so throughout the life of the program. In addition, any agency is free to run its own competitive procurement outside of FTS2001 or purchase service from another provider under another existing contract. Unlike FTS2000, there is no mandatory use. GSA has created an environment of perpetual competition, ensuring the best service and lowest price for the government over the life of the program.

Resolution of Billing Issues

One concern expressed by some agencies is the quality of FTS billing. Many of the government's requirements are non-commercial and require additional resources and time to provide billing. Additionally, many agencies have imposed new requirements that were not part of the billing specifications that GSA included in the FTS2001 solicitation and ultimately the contract. WorldCom is and has been providing fully compliant billing to the government. GSA has accepted WorldCom's billing and service ordering systems as meeting all requirements.

In the startup environment of FTS2001 transition, there were billing challenges related to on time delivery. WorldCom focused additional resources on monthly processing with a successful result – in the last six months we have a cumulative total of only three days of late delivery on invoices.

Additionally, some agencies have raised concerns about the functionality of the bill – despite its contractual compliance. GSA requested our participation on a billing issues task force chartered by the Interagency Management Council (IMC) and made up of representatives from the agencies, GSA and WorldCom. Since the inception of this group in late 2000, 26 separate issues have been identified. Of that total, 21 have been satisfactorily resolved, two new billing services will be provided through a contract modification, and the remaining issues are planned to be resolved by July. We understand that billing is a significant requirement under the contract and we are focusing on all remaining agency needs and are working to satisfy them.

Unforeseen Delays in Transiton

Some have indicated a dissatisfaction regarding the pace of transition. We, too, would have preferred transition to have gone more expeditiously for several compelling reasons, one of which is revenue. Expedited transition means expedited revenue; delayed transition means delayed revenue.

There were, however, unforeseen factors that caused the delays in transition:

- Agency selection process.
- Y2K concerns.
- Incumbent records/late orders.
- Agency upgrades and redesign.
- Incumbent and local exchange carrier (LEC) delays.

After contract award, we took several steps to facilitate transition. For example, we staffed up as agencies selected WorldCom in anticipation of order volume. Next, we began intensive awareness and training programs to gain internal buy-in. Third, agency personnel and contracts staff were trained on pricing, ordering and implementation process. WorldCom solicited several organizations to provide manpower and expertise for the transition effort. All of this occurred in 1999.

Agency Selection. In GSA's original program strategy, agencies were to be allocated by the GSA and the IMC. Sometime in the final months of the procurement, however, the IMC requested that agencies instead be permitted to choose their providers. As mentioned earlier, WorldCom was awarded its contract in January 1999. Our first agency award was the Department of Interior in March 1999. The last agency selected WorldCom in April 2000, fully 16 months after award, only eight months prior to the end of the FTS2000 bridge contract.

Year 2000 (Y2K) Issues. By the time some agencies placed their orders or were ready to place their orders, their IT resources were consumed in preparation for potential Y2K issues. Some agencies did nothing for transition until after they were assured that Y2K would not impact their IT infrastructure.

Incumbent Records/Late Orders. The third cause of delay was agencies' inadequate records and resulting late placement of orders. Even the early-selecting agencies were burdened by out-of-date records and uncooperative incumbents in getting transition orders to WorldCom. The U.S. Department of Agriculture and Department of Defense put processes in place to resolve these problems and made great progress in completing transition. Others did not. Recognizing the slow pace of selection and ordering, we requested that agencies place all transition orders by January 2000 in order for transition to complete by September 2000.

Unfortunately, by April 2000, we had received only 35 percent of expected orders. Most agencies did not place the majority of their orders until Summer 2000. During this period, WorldCom executives, in close cooperation with GSA, visited the chief information officers at all major agencies to urge expedition of the order process.

Upgrade and Redesign Issues. Fourth, many agencies decided to redesign and/or upgrade their data networks during transition. Redesign is necessarily an iterative process and is time consuming. Nonetheless, there was no better opportunity to take advantage of changes in technology and contracts to be able to upgrade rather than transitioning like-for-like services, which were more expensive and/or less effective technology.

Incumbent Contractors and LEC Delays. Fifth, sole source extensions of the existing FTS2000 contracts – the "bridge contracts" – created a disincentive for incumbents to cooperate with respect to transition. These extensions also created a disincentive within agencies: some agencies simply did not "feel the pain" of not transitioning rapidly as incumbent providers lowered their rates to meet first year FTS2001 rates.

The local exchange carriers contributed to delayed transition. For example, the largest local exchange carrier, Verizon, which accounted for almost a third of our orders, faced a strike during 2000 that produced delays from which we are still recovering. Labor issues, facilities shortages and merger-driven management changes all contributed to extraordinarily slow installations in Verizon's territory for all customers, not just the government.

Not to lay blame solely on Verizon, most LECs were overextended by the volume of FTS2001 transition orders and faced capital, facility and labor shortages. For instance, Qwest has 32 FTS orders over 100 days old, which the company has indicated are late due to capital and facilities shortages.

These cumulative delays cost the program 18 months of valuable transition time and we currently estimate cost WorldCom in excess of $100 million in lost revenue.

<u>Transition on Track</u>

Notwithstanding these challenges, WorldCom has significant progress to report. Fully 90 percent of the transition has been completed and we expect to have 100 percent completion by this summer. This 90 percent figure represents four major agencies being totally completed, five agencies being over 95 percent completed, and three agencies over 80 percent completed. As we all continue to learn through experience, we're seeing a higher level of cooperation with the remaining agencies to complete transition. In a sense, concerns about transition have been largely overtaken by events.

Modifications Enhance Benefits to the Government

WorldCom has been a full participant in the contract modification process since the early months of the contract. All of the modifications that were transition-affecting are completed. In fact, as of April 24, 2001, WorldCom and GSA have completed over 50 contract modifications for adding services such as enhanced Internet, new speeds for advanced data networks, new global services reducing the cost of long distance to the military in Germany, prepaid cards, and enhanced toll-free calling features. Several more modifications are "in the pipeline:" pending approval are new services being launched commercially by WorldCom that will enhance "e-government" and improve the functionality and reduced cost of contact with the citizen.

Minimum Revenue Guarantee

Another concern expressed is the attainment of the minimum revenue guarantee (MRG) of $750 million over the life of the FTS2001 contract.

Any discussion of the MRG must be placed in the context of the overall procurement. For WorldCom, the FTS2001 RFP presented tremendous opportunity and tremendous risk. As noted above, the RFP contemplated the award of multiple contracts with perpetual competition over the life of the program, both within and outside the program. The RFP also required the delivery a broad range of services to geographically remote areas. Finally, the RFP contained many unique specifications that required significant investment in development and special engineering. To ensure that industry would respond, GSA, with the concurrence of Congress, provided MRGs to the eventual winners. These MRGs provided the basis for the internal business justification to bid on this opportunity. They were part of the business case that enabled us to offer the dramatically lower prices that the government now enjoys.

The amount of the MRG was determined before final prices were known. With the contract's extraordinary low prices, however, it appears that WorldCom will achieve the minimum revenue level in year six of the contract. This is despite a slow start by the government in commencing the transition, as discussed earlier, and significant rate reductions provided by WorldCom on each anniversary of the contract.

Of course, there are risks to the attainment of the MRG. The primary risk is if one of the major agencies withdraws from the program. Currently, the top 10 customers bring in nearly 80 percent of the revenue. The second risk is "cherry picking," – an MAA provider being permitted to offer a limited network service in a restricted geographic area. Currently, FTS2001 providers must offer all services throughout the continental United States. At all relevant times, GSA has indicated, with Congress' approval, that the same geographic ubiquity requirement would apply to any MAA contractor someday seeking to provide long distance service. Any exceptions granted to this portion of the FTS2001 strategy could mean "death by 1,000 cuts" to the program and to the contractors through cherry picking.

Ironically, some might characterize GSA as a victim of its own success. To the extent there are risks to the MRG, they result in large part from the competitive framework that GSA created, one that has both delivered low prices to the government and that also ensured that prices will remain low throughout the contract. First, WorldCom reduces most of its prices every year to reflect commercial competition that is driving the industry. Second, the FTS2001 contract contains a price management mechanism under which the government can review prices annually. The government can request (and has) that we engage in a price comparison between FTS2001 and WorldCom's lowest available prices for comparable contracts, and reduce FTS2001 prices accordingly. Third, there remains active competition between WorldCom and Sprint for business not related to transition under the contract. Finally, agencies such as the FAA and the U.S. Navy have competed other contract vehicles that provide competition to FTS2001 providers. GSA has created an enduring, vibrant and competitive marketplace.

Conclusion

In closing, I'd like to again thank you, Mr. Chairman, for inviting WorldCom here today to discuss the FTS2001 program. Despite some early problems in the transition of services, the FTS2001 program has been a tremendous success for the government and ultimately the taxpayer. WorldCom will continue to work closely with this subcommittee, GSA, the IMC, and its agency customers to ensure that that success continues throughout the life of the program.

Mr. DAVIS. Thank you very much.
Mr. D'Agata.

STATEMENT OF ANTHONY D'AGATA, VICE PRESIDENT AND GENERAL MANAGER, SPRINT'S GOVERNMENT SERVICES DIVISION

Mr. D'AGATA. Good afternoon, Mr. Chairman, members of the committee. My name is Tony D'Agata, vice president and general manager of Sprint's government systems division.

I would like to thank the committee for inviting me to speak today. Sprint's position as an FTS 2000 and 2001 program provider is a matter of great pride to the entire corporation. The award of FTS 2000 in December 1988 brought Sprint the recognition and credibility it needed to become a leader in the industry.

My testimony makes three points. First, Sprint's FTS 2001 transition is substantially completed. Second, Sprint ensured that all of its customers were eligible for FTS 2001 prices independent of their actual stage of transition. And three, Sprint urges the committee to stay the course and continue to support FTS 2001.

First, the FTS 2001 transition was by all measures a massive and complex undertaking. To put it in perspective, the voice traffic that Sprint had to transition to FTS 2001 was about three times that transitioned to FTS 2000 in 1990. And more importantly, the FTS 2001 traffic now represents less than half the network that we had to transition. The remainder was made up of complex data transmission services, most of which did not even exist in 1990.

In spite of the fact that one, the transition did not really begin until Y2K, two, that there were shortages of agency resources necessary to assess the needs of the agency and make vendor selections, three, that the parties had to add modifications to the contract to complete transition, and four, that there were shortages of local access services due to unprecedented demand for bandwidth, and a labor stoppage, this monumental task was substantially finished in less than 18 months after Y2K.

Did the transition of every circuit at each of the 26,000 locations go perfectly? No. However, this task was accomplished in about the same time required for the much smaller FTS 2000 voice transition 10 years ago.

As shown in exhibit 1, 92 percent of the transition is complete. The balance of all Sprint's FTS 2000 bridge contract customers will be transitioned to FTS 2001 contract rates by May 1. Second, Sprint has always been a responsible partner to the Government. In September 1999, Sprint reduced its prices for all of its existing bridge contract customers to FTS 2001 levels. It was the right thing to do. That price promotion saved the Government more than $62 million.

However, the unintended impact of that price promotion was that it removed the financial incentive to participate vigorously in the transition process. As shown in exhibit 2, Sprint did not begin to receive a significant amount of transition orders until the end of the first quarter of 2000.

Exhibit 3 shows that in October 2000, Sprint still had not received approximately 3,000 transition orders. The expiration of the promotion on October 1, 2000 encouraged participation in the transition. Outstanding transition orders fell from about 3,000 on October 1, 2000 to 345 by the end of the first quarter of 2001.

Notably, the extension of the transition period beyond 2000 did not increase the cost of the FTS 2001 transition. Our price promotion meant that Sprint's customers paid bridge contract prices for only 10 months. That is shorter than any period contemplated by any customer at contract award.

Finally, Sprint urges that you stay the course. No one can dispute that the FTS 2001 competition was fair and vigorous. The FTS 2001 award prices reset the price of telecommunications services in the marketplace. By contract, those prices decrease about 20 percent each year. Competition exists on a day to day basis. Agencies continue to have competitive choices.

When the arduous and complex FTS 2001 transition is completed, Sprint will have invested approximately $100 million in preparing to deliver FTS 2001 services to the Government. This investment was predicated upon representations by the Government that we would have the time and the opportunity to recover this expense within a program valued at $5 billion.

We are almost through that challenging transition period, and with your support, we can make this program even more successful than FTS 2000. Though the program is in its infancy, it has saved the Government $150 million in fiscal year 2000 and will save the Government an additional $250 million in fiscal year 2001. To weaken the program now would be at a significant cost to the taxpayers, the agencies and the vendors.

I'd be happy to answer any questions that you may have.

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

TESTIMONY

OF

TONY D'AGATA

VICE PRESIDENT AND GENERAL MANAGER

SPRINT'S GOVERNMENT SYSTEMS DIVISION

FTS2001

HOUSE GOVERNMENT REFORM

SUBCOMMITTEE ON TECHNOLOGY AND

PROCUREMENT POLICY

APRIL 26, 2001

Good afternoon, Mr. Chairman, members of the Committee. My name is Tony D'Agata. Since November 1999, I have held the position of Vice President and General Manager of Sprint's Government Systems Division. I would like to thank the Committee for the invitation to speak this afternoon. Sprint's position as an FTS Program service provider holds a special place in the history of Sprint. The award of FTS2000 in December of 1988 was a turning point that brought Sprint the recognition and credibility it needed to compete and eventually become a leader in the industry. That leadership led to deployment of many industry firsts, among them the first and still only nationwide all digital fiberoptic network, the first commercial ATM service, and the first bi-directional SONET ring network configuration that has led the industry for the past 5 years in service reliability.

Sprint welcomes the opportunity to address the FTS2001 transition and its role in that monumental effort. My testimony makes three points, which we, at Sprint, believe are vitally important to understanding the transition: (1) Sprint's FTS2001 transition is substantially completed, and was accomplished effectively and in a manner consistent with the best interests of the Government; (2) Sprint implemented measures to make sure that all of its customers were eligible for FTS2001 prices independent of their actual stage of transition, and therefore none of our customers suffered any financial consequences from the extension of transition activities beyond December 2000; and (3) all of the parties to FTS2001 have been through a challenging time. Sprint urges the Committee to "stay the course" and continue to support FTS2001. It will yield great benefits in terms of service and value to the Government. I will address each in turn.

First, the FTS2001 transition was, by all measures, a massive and complex undertaking. To put it in perspective, the voice traffic that Sprint had to transition to FTS2001 was about three times that transitioned to FTS2000 in 1990. And, importantly, the FTS2001 voice traffic now represents less than half the network that we had to transition. The remainder was made up of complex data transmission services, most of which did not even exist in 1990.

Sprint had to transition traffic to FTS2001 from several different sources. It had to transition traffic from (a) AT&T's FTS2000 "Network A" agencies, (b) those customers that selected Sprint's FTS2001 network that were part of Sprint's existing FTS2000 "Network B," and (c) it had to transition new customers ("Network C" customers) that were not FTS2000 customers at all.

In order to complete a transition, all FTS2000 ANIs (Automatic Number Identification) or numbers had to be deleted from Sprint's FTS2000 billing and management systems and associated DMS250 switches (if that transition involved an existing "Network B" customer). In any transition, whether an "A", "B" or "C", those numbers then had to be verified and entered into the FTS2001 systems database. These data entries were based on the information provided on transition orders that were provided by the customer. If the order was for "new" service (that is, service from a "Network A" or "Network C" customer) or an existing "Network B" customer that was upgrading its existing service, the order into the new system (a) added the new ANI or number in the FTS2001 systems data base and into Sprint's network switches, (b) automatically disconnected the existing originating and terminating access for that service, and (c) required that new access service be ordered and coordinated with the local service provider in order to implement service at that location.

Notably, the most challenging of the three types of transition was the transition of Sprint's existing FTS2000 "Network B" customers. This transition involved the conversion of all Sprint's existing traffic off of one billing and order entry platform onto a new, separate system. This "conversion" was not a mere "software change," it could not be automated, and required that each service order be manually shepherded through the systems. This was necessary to ensure that the automated provisioning systems used to provision new service did not automatically disconnect the existing local access that would be re-used in the conversion.

All of these processes are highly dependent on the accuracy of information on service orders that are provided by the customer through the transition order entry process. Much of the time required to transition service involved validation and verification of information. Validation and verification of information was critical even for "Network B" agencies that were Sprint's existing customers. This was true especially for Sprint's existing "Network B" customers who elected to upgrade service and include equipment and service in FTS2001 that were not part of the original Sprint service provided under FTS2000. Problems with the accuracy of the information were shared by all parties in the Interagency Management Council through frequent meetings of the "Agency Working Group" (AWG), "Executive Management Team" (EMT), and "Transition Task Force" (TTF). However, in Sprint's experience, the existence of accurate, reliable agency-wide information on the inventory and configuration of

Government networks would have greatly contributed to the ability to transition customers more quickly.

In addition, early in the transition process agencies lacked the resources to assess their inventories, determine whether to upgrade service, and make vendor selections in a timely fashion. As validated by the GAO, agencies that took advantage of the funding made available by GSA to assist in the transition process were able to transition their services faster and more effectively. But, early in the process, Sprint also faced challenges. The beginning of the transition period coincided with a super-heated economy. The "dot-coms" proliferated in 1999 creating the tightest, most competitive job market for technical and sales support personnel. Although our turnover rate was below the industry average for the period, Sprint's Government Systems Division experienced the highest employee turnover or "churn" rate in its history. To address this, Sprint increased its expense budget by about one-third and doubled its budget to hire contract labor. All in all, about 400 persons were dedicated to the transition of FTS2001.

FTS2001 was not awarded with all the services necessary to transition all FTS2000 customers, let alone all the services necessary to transition "Network C" customers. Before the transition of some customers to FTS2001 could begin, services had to be added to the contract through the contract modification process. This posed an additional challenge to completion before the close of the year 2000. In fact, for some agencies the parties did not realize that a modification was necessary to transition their services until well into the transition planning process. Once a complete inventory of equipment and services was accomplished, it became apparent that to accommodate all those requirements, a modification to the FTS2001 contract was necessary. Although the modification process has been improved, the parties must seek ways to continually improve the process.

As detailed below, the timing of the award of FTS2001 and the transition period were unfortunate. The concern and preparation for Y2K had a marked effect on the pace of transition and pushed out the commencement of a significant amount of transition activity until the end of the first quarter of the year 2000. As a result, the ever-growing amount of transition activity had to be accelerated into an ever-decreasing period of time. The timing was also unfortunate because the transition was compressed into a time of exploding demand for local access service. Average bandwidth per circuit demanded in the marketplace doubled during this period and the FTS2001 providers had to compete in this environment for access facilities. Moreover, one of the major providers of local access suffered a work stoppage during CY 2000. It took the remaining part of the year for the local access provider to recover from the implementation backlog caused by that work stoppage.

Nonetheless, Sprint has substantially completed the "Network A" and "Network C" transitions and the "Network B" conversions at all 26,000 locations involving over 300,000 ANIs or numbers in record time. In 1990, Sprint was lauded and received numerous accolades for having transitioned that now comparatively small FTS2000 voice network in 18 months. I am happy to report to you today that 23 months after the transition of the first FTS2001 voice circuit, and less than 18 months after the widely feared date of January 1, 2000, this monumental task is substantially finished.

Did the transition of every circuit at each and every one of the 26,000 Sprint locations go perfectly? Of course not. But despite all the events that transpired during this period, this task was accomplished in not much more time than required for the much smaller FTS2000 voice transition ten years ago.

As shown in Exhibit 1, of the 24,970 transition orders required to complete the transition, 23,028 (or over 92%) are complete. On a service-by-service basis, 99% of Switched Voice Service transition orders, 95% of Dedicated Transmission Service transition orders, 75% of Switched Data Service transition orders, and 77% of Video Service transition orders have been completed. Sprint has also completed transition of 96% of the 87,314 FONcards required for FTS2001. And the balance of all Sprint's FTS2000 Bridge Contract customers will be transitioned to FTS2001 contract rates by May 1, 2001.

The second major point of our testimony is that Sprint has always prided itself as being a responsible partner to the Government. Sprint has been a proud participant in the FTS program since 1988 when it broke into this market as the first major service alternative to AT&T. The FTS2000 program saved the Government over $1B during the ten-year life of the program. Throughout the life of that contract, Sprint made the sacrifices necessary to distinguish itself to all of its customers and to the GSA as the provider to count on for reliable quality service at unparalleled value to the Government. Whether that included an agreement to ensure that FTS2000 prices Sprint offered were comparable to the best prices available in the market or provisioning service to GSA and DOJ virtually overnight to support the Government through the crisis surrounding the

Oklahoma City bombing, Sprint did what needed to be done. We are prepared to close out that contract after a successful decade-long relationship with GSA and our customers, unmarred by the divisiveness and contract litigation common to programs of this duration and size.

Sprint entered the FTS2001 competition with that goodwill and won the first of the two rounds of the FTS2001 competition in December 1998. We won that competition and re-set the market price for the provision of telecommunication services to the Government at price levels approximately 30% below FTS2000 levels. In the second round of the competition, Sprint's price was the price to beat.

In September 1999, Sprint continued that tradition of partnership and reduced its prices for all of its existing FTS2000 customers to FTS2001 levels. Simply put, Sprint faced the prospect of charging its long-standing customers of ten years higher prices than its new customers, which simply was not fair to them. Also, we realized that we had overestimated the extent that we could use existing systems for FTS2000 and underestimated the development effort necessary to develop FTS2001 functionality for those systems. As a result, delays in the deployment of those systems were inevitable, and we offered the price promotion as consideration to the Government. It was simply the right thing to do. That price promotion saved the Government more than $62M over the short life of the FTS2000 Bridge Contract.

The price promotion had two significant impacts, one intentional and one unintentional. The price promotion was intended to render the customer's actual stage of transition irrelevant as to its ability to enjoy immediately the price benefits associated with FTS2001. The unintended impact of the price promotion was that it removed the financial incentive to participate vigorously in the transition process. This unintended consequence of the price promotion, when combined with a certain unwillingness on behalf of customers to undergo transition with Y2K approaching, kept 1999 from being fully utilized for transition.

The price promotion continued to impact the pace of transition well into the year 2000. As shown in Exhibit 2, Sprint began the year 2000 with only about 20% of the necessary transition orders in hand, or only 4,955 orders. Indeed, Sprint did not begin to receive a significant amount of transition orders until the end of the first quarter of calendar year 2000. As of April 1, 2000, the percentage of orders submitted increased to about 56%, or 13,933 orders. By that time, nine months had passed since the beginning of transition in mid-1999, and 15 months had passed since award of the contract. Nonetheless, all Sprint customers, whether they were participating in the transition process or not, continued to enjoy the benefits of FTS2001 prices.

The price promotion that permitted all customers, transitioned or not, to pay FTS2001 prices lasted 13 months, through October 1, 2000. As shown in Exhibit 3, when the promotion expired in October of 2000, Sprint still had not received approximately 3,000 transition orders. Sprint chose not to extend the FTS2000 price promotion beyond October 1, 2000 for a number of reasons. The reinstatement of the agencies' financial incentive to undergo the transition process was a primary consideration. Also, Sprint had been operating two separate platforms for some time –

beyond the expectations of Sprint and GSA – and it was necessary to begin to defray the increased costs associated with operating multiple parallel systems. Exhibit 3 shows that the expiration of the promotion on October 1, 2000 had the desired effect. The number of outstanding transition orders fell from about 3,000 on October 1, 2000 to 345 as of the end of the first quarter of 2001.

In addition, it became vital to the progress of the FTS2001 transition to provide motivation for agencies to participate in the transition process. Unlike the transition to FTS2000 ten years earlier, GSA could not compel agency participation in the transition process. In the transition to FTS2000, through mandatory use and GSA's ability to control all agencies' purchases of information technology through the Delegation of Procurement Authority process, GSA could compel agency action. Ten years later, after the passage of Procurement Reform, GSA could only attempt to persuade and facilitate.

When GSA approached Sprint to extend the Bridge Contract, the parties agreed that a short extension was necessary to allow a small remaining population of users to complete transition. Sprint made no onerous demands on the Government. We simply agreed to extend the Bridge Contract one final time at its existing terms to complete the last 14% of the transition orders.

The extension of the transition period beyond December 2000, and the expiration of the price promotion on October 1, 2000, simply did not increase the cost of the FTS2001 transition to Sprint's customers. Of the 23 months that will encompass the transition period (June 1999-May 2001), Sprint's customers paid FTS2000 Bridge

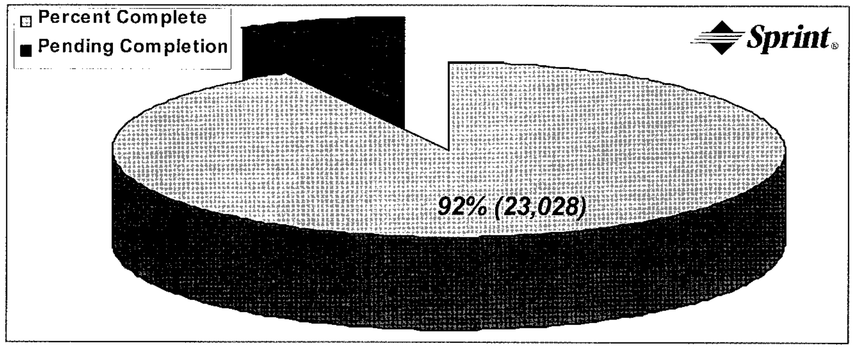
Contract prices only during the periods from June 1, 1999 to September 1, 1999, and from October 1, 2000 to May 1, 2001, a total of ten months. This period is shorter than any period contemplated by any FTS2000 customer when the FTS2001 contract was awarded. Moreover, for eight months of that period (October 1, 2000, through May 1, 2001), those prices applied only to a steadily decreasing portion of the total of FTS2001 transition orders to be completed.

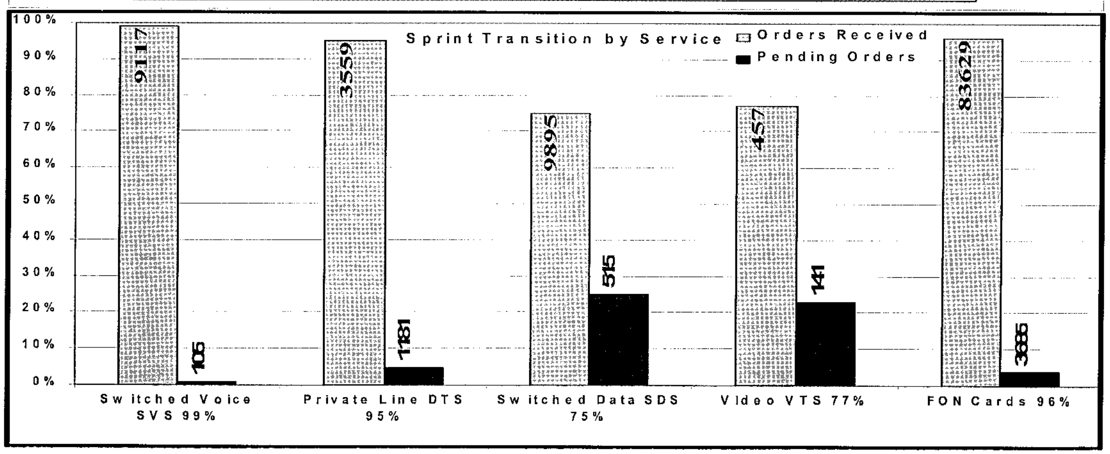
Third and finally, Sprint urges that you stay the course. Ten years ago, the FTS program was attacked by those with easy-to-understand agendas. Companies that competed in and lost the initial competition in 1988, and companies that did not even compete at all, wanted to diminish or destroy the program. But those with oversight responsibility ten years ago did not let that happen. History has validated the wisdom of that decision: FTS2000 succeeded in delivering to the Government unparalleled service and value, saving the Government over $1 billion. FTS2000 became the IT program against which all others would be measured. A decade later, the attacks on FTS2001 are coming from different quarters, but their objective is the same – to weaken or diminish the program. Yet no one can seriously deny or dispute that the FTS2001 competition was fair and vigorous and that the FTS2001 price levels reset the price of telecommunications services in the marketplace. By contract schedule, those prices decrease about 20% each year. Competition exists on a day-to-day basis – agencies continue to have competitive choices.

However, the extended transition period has decreased the term remaining in the contract under which the vendors are able to offer the Government new and innovative services through the FTS2001 modification process. To date, the modification activity has been absorbed in adding those services necessary to complete transition. As a result, precious time has been lost. Given that the period of time has been reduced, it has become more important to the vendors to be able to offer new services to the Government during the remaining contract term. The vendors must have the opportunity to provide the volume of new services to the Government necessary to justify the high costs associated with participation in a program like FTS2001.

The FTS2001 contract has required significant financial capital to develop the unique government systems and human capital to complete an arduous and complex transition. When the books are finally closed on the FTS2001 transition, Sprint will have invested approximately $100M in preparing to deliver FTS2001 services to the Government. We are almost through that period, and with your support, we can make this program even more successful than FTS2000. The program is in its infancy, and yet it saved the Government $150M in FY 2000 and will save the Government an additional $250M in FY 2001. To weaken the program now would be at a significant cost to the taxpayers, the agencies, and the vendors.

FTS2001 Transition Orders **Exhibit #1**





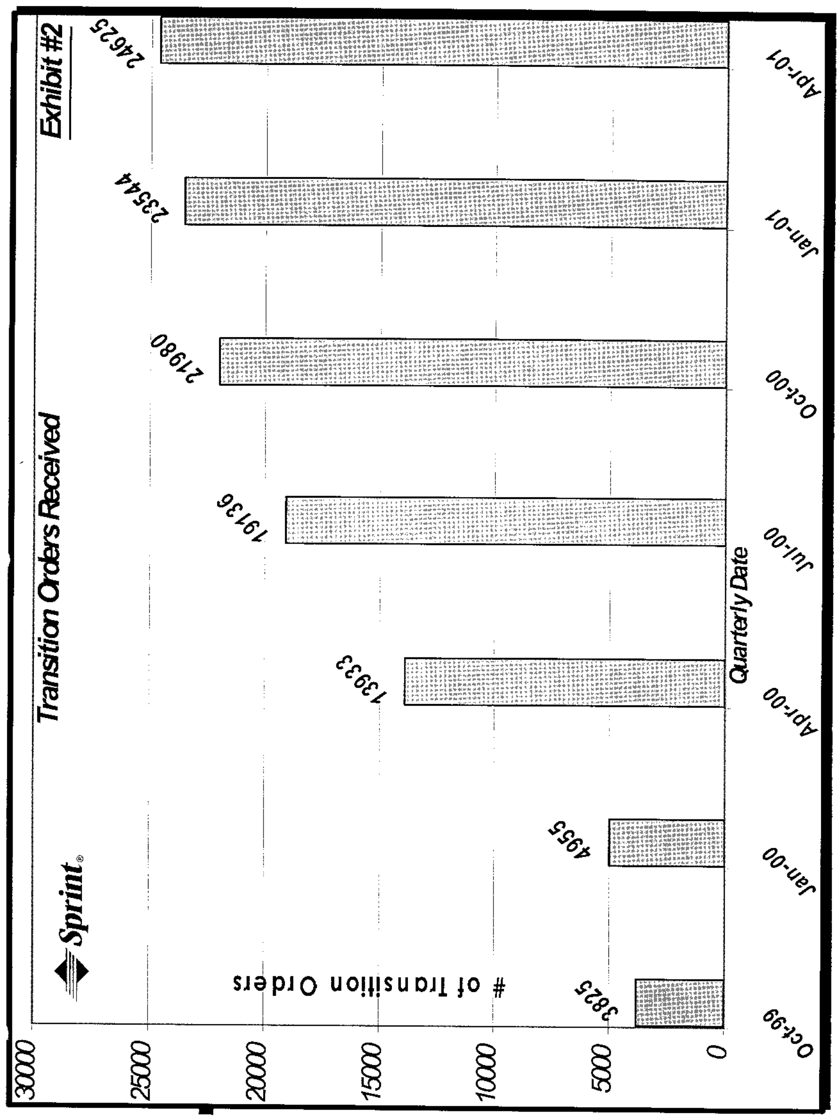


Exhibit #2
Sprint
Transition Orders Received
# of Transition Orders
30000
25000
20000
15000
10000
5000
0
3825
4955
13933
19136
21980
23544
24625
Oct-99
Jan-00
Apr-00
Jul-00
Oct-00
Jan-01
Apr-01
Quarterly Date

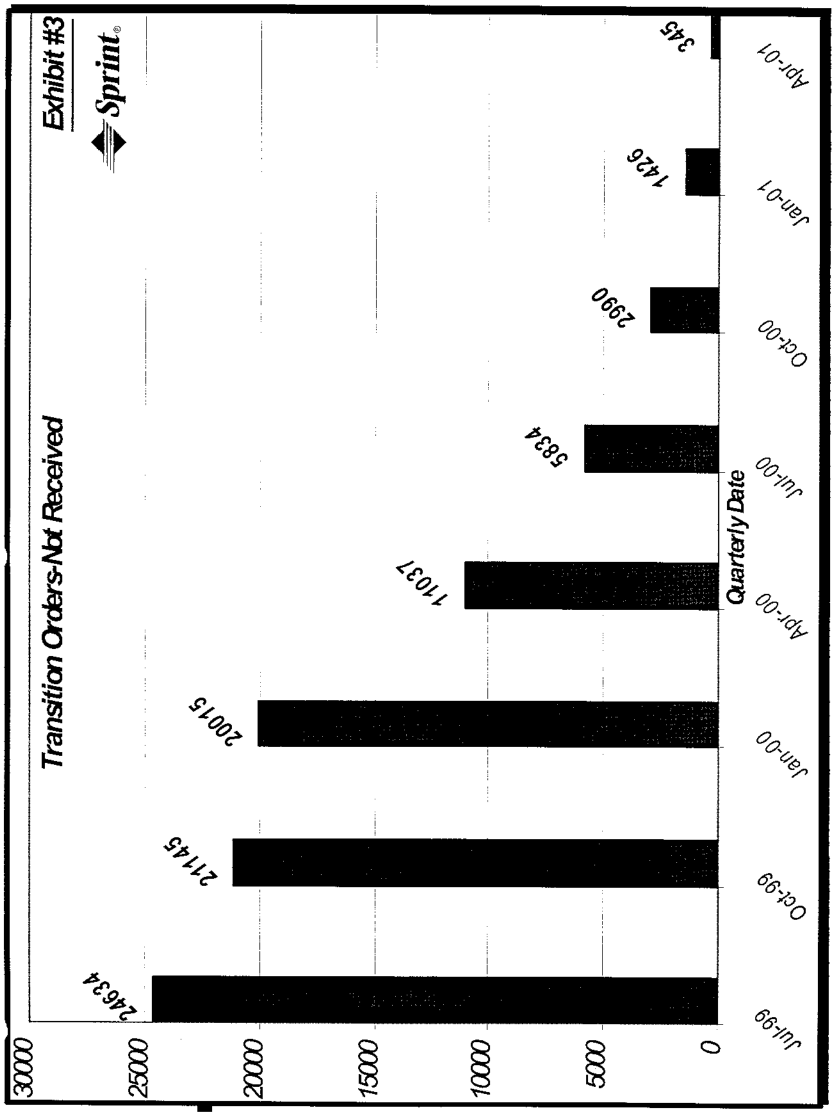


Exhibit #3
Sprint
Transition Orders-Not Received
30000
25000
20000
15000
10000
5000
0
24634
21145
20015
11037
5834
2990
1426
345
Jul-99
Oct-99
Jan-00
Apr-00
Jul-00
Oct-00
Jan-01
Apr-01
Quarterly Date

Mr. DAVIS. Thank you very much.
Mr. Doherty.

STATEMENT OF JOHN J. DOHERTY, VICE PRESIDENT, AT&T GOVERNMENT MARKETS

Mr. DOHERTY. Chairman Davis, ranking Member Turner, and members of the subcommittee, I'm John Doherty, vice president of AT&T government markets. AT&T appreciates the opportunity to appear here before you today to discuss the FTS 2000 program.

You have asked questions regarding the impact of the lack of competition in the Federal telecommunications market. What I plan to do this afternoon is address that issue. I have a more complete discussion of AT&T's position in our written testimony.

AT&T appears before you today as a major provider of telecommunications services to the Federal Government. We have provided a vast array of voice and data services to numerous agencies under the predecessor contract to FTS 2001, FTS 2000. FTS 2000 was a highly successful program and we are proud to have had a hand in saving taxpayers billions of dollars over its 10 year life and providing the Government state-of-the-art telecommunications services.

FTS 2001 replaces the FTS 2001 contract in December 1998. We supported the concept of open, end to end competition for telecommunications services. And thus, AT&T was a willing competitor for this procurement.

The program envisioned utilizing multiple contracts of overlapping scope and duration. Indeed, for this reason, under the terms of the FTS 2001 contract, and MAA contracts, contractors are permitted by modification to provide services under the other contract after a 1-year forbearance period. That 1 year forbearance period ended for FTS 2001 services in December 1999.

Although the program awardees were WorldCom and Sprint, because the program envisioned utilizing multiple contracts, AT&T remained enthusiastic to provide competitive services to the Government. We competed for and won the first three and seven other MAAs. Despite the presence of several MAA competitors, however, GSA had not modified the MAAs to provide FTS 2001 services, citing the need to fulfil the FTS 2001 minimum revenue guarantees.

Mr. Chairman, the delay of increased competition has deprived agencies of access to multiple vendors, new service offerings and innovation directed toward each agency's mission. Moreover, under the current model, agencies have been effectively discouraged from entertaining offers from the marketplace. Throughout the process, Mr. Chairman, AT&T has supported the agencies. Specifically, we have submitted a modification proposal in December 1999 to the GSA to permit us to bring competitive telecommunications services to agencies under our MAA contracts.

We've executed extensions to the FTS 2000 contract, first in December 1998, with a base period of 1 year and two 6 month options, saving the Government a total of $130 million. At a request of GSA and because the transition was delayed, we executed another extension contract that terminates in December of this year. Because of the greatly reduced volumes on our current FTS 2000 network, we were unable to continue the discounts offered in the previous extension contracts.

Mr. Chairman, we have heard today about the challenges associated with the FTS 2001 program. The question is, where do we go from here. The dynamics of this marketplace are such that familiar solutions are no longer sufficient to address the needs of agencies today.

For this reason, AT&T is not here to say simply, give us an MAA modification to allow us to offer FTS 2001 services, and the program will be competitive. No, instead, we believe the Government should take a broad view of the agencies' telecommunications needs. The market is offering new commercial technologies and services that offer the agencies the benefit of savings and the timely delivery of services.

In light of the availability of alternatives to the FTS 2001 contracts, and the changes in the telecommunications marketplace, GSA should open the programs to competition. Indeed, GSA should maximize commercial offerings from the market and open its supply schedules to include telecommunications services. In this way, agencies will receive the benefits of competition, and being able to select the services they need and customize those services to fill their respective missions.

Mr. Chairman, AT&T also believes that GSA should eliminate the minimum revenue guarantees, or at the very least, offset those minimum revenue guarantees by the revenue that was available to those contractors during the period of transition but delayed, and they did not receive because the consequence of their own failure to perform under the 2001 contract. Moreover, agencies should have the freedom to execute a range of market focused options to permit competitive forces to bring savings and state-of-the-art technology to the agencies.

Mr. Chairman, AT&T stands ready to assist the agencies, the GSA and this committee in these efforts. We appreciate the opportunity to testify today, and look forward to answering any questions the committee may have.

[The prepared statement of Mr. Doherty follows:]

Statement of John J. Doherty
Vice President
AT&T Government Markets
Before the Technology and Procurement Policy Subcommittee
House Government Reform and Oversight Committee
April 26, 2001

Introduction

Chairman Davis, Ranking Member Turner, and members of the Subcommittee, AT&T appreciates the opportunity to appear before you today to discuss the FTS 2001 Program. AT&T appears before you today as a major provider of telecommunications service to the Federal Government. Along with Sprint, we provided service to agencies under the predecessor contract to FTS2001, FTS2000. FTS2000 was a highly successful program for the Federal Government, saving taxpayers billions of dollars over its ten-year life and providing the Government state-of-the-art telecommunications services. That contract was awarded in 1988 and replaced a 25-year-old system of leased equipment with a contract where services were provided by two contractors. The contractors "re-competed" for service during the life of the program, and that re-competition, along with a contract-specified price management mechanisms, kept prices competitive.

In 1994, former FTS Commissioner, Bob Woods, testified before the Senate that the FTS2000 program served over 1.7 million users at thousands of locations across the nation, its territories, and possessions. The network carried over 350 million minutes of voice traffic alone each month, almost three times the 1987 projections, and provided agencies high-quality services at or below the best market prices.[1]

FTS2001 replaced the FTS2000 contract in December of 1998. The program awardees were MCIWorldcom and Sprint. In order to transition the FTS2000 to FTS2001, at GSA's request AT&T executed a bridge contract to facilitate transition. Since that time, AT&T has assisted GSA with extensions to the bridge contract as transition has been delayed.

As the holder of 10Metropolitan Area Contract (MAA's) under the FTS2001 program, an extension contract for FTS2000 services pending agency transition to FTS 2001, and as a current and future provider of a vast array of services to Government, we are extremely interested in the technical and economic progress of the FTS2001 Program. We understand from last year's GAO report to Government Reform and Oversight Chairman Burton that the Government lost $450M in potential revenue accumulation under the FTS2001 Program due to the failure of the FTS2001 contractors to transition service. We now find that the transition may still be bogged down even after relaxation of the requirements. This relaxation was never offered to prospective offerors by GSA during the solicitation process.

The delays in transition have undermined the robust competition that served as the foundation for Congressional and industry support of the FTS2001 program. Moreover,

[1] S. Hrg. No. 757, U.S. Senate Comm. on Gov. Affairs, 103d Cong., 2d Sess. May 3, 1994 at 33-34 *cont.* (Federal Telecommunications Policy).

because the revenue accumulated has not been used to offset the contractors' Minimum Revenue Guarantees (MRGs), these delays have had a negative impact on GSA's willingness to modify MAA contracts to include long distance service.

Background

What I would like to do today, Mr. Chairman, is provide you with AT&T's reaction to this situation and some thoughts on how the Government might begin to reap the benefits of the competitive telecommunications marketplace. But, before doing so, I want to comment on a couple of points regarding AT&T's performance under its FTS2000 extension contract as it relates to the FTS2001 transition effort.

AT&T entered into a 1-year extension of the FTS2000 contract on December 6, 2000. AT&T received an up-front payment of $8M upon execution of this agreement. As agreed upon with GSA, that payment was designed to partially compensate AT&T for its costs associated with maintaining a separate infrastructure dedicated to the dwindling FTS2000 business for more than a year past the ***contract-specified April 2000 date*** for transition completion.

It should be remembered that after contract award, ironically, AT&T was the first of three FTS2001 offerors, by months, to lower it prices. Thus, agencies were able to transition business without incurring extra costs from AT&T.

When it became apparent last year that GSA was abandoning the competition promised for the FTS2001 and MAA Programs, AT&T concluded that it was not in its interests, or in the interests of its shareholders, to continue to subsidize the delayed transition efforts of its competitors. For these reasons, AT&T returned prices to previous levels and sought to recover its infrastructure costs.

In essence, Mr. Chairman, under the FTS2000 extension contract, AT&T has merely charged the Government rates, including the $8M up-front payment, based on its costs. The original FTS 2000 contract established bundled prices, and prices decreased as volumes increased on the FTS2000 contract. Like the original FTS2000 contract, prices may go up on a per minute basis as agencies transition from the contract, but that is because as the volume declines, prices must ensure that costs for the ***entire infrastructure, which the Government compels us to maintain,*** are covered.
With respect to AT&T's actions during transition, AT&T has always been ready and willing to assist GSA in its efforts. Once the ground rules for transition were established, AT&T attended ***every*** transition meeting held by GSA. Without any contractual obligation to do so, AT&T willingly participated in an inter-agency task force to address transition and dedicated a high-level manager to the effort.

Mr. Chairman, historically, AT&T been a reliable provider of products and services. Indeed, as borne out in testimony before the Government Reform and Oversight Committee, AT&T's efforts have contributed to savings of $4B for the Government over the 10-year life of the FTS2000 Program.

What's Wrong with the FTS2001 Program?

Mr. Chairman, AT&T believes that there are two significant issues associated with the FTS2001 Program that should be addressed:

- Whether GSA's administration of the FTS2001 Program to date ensures that performance requirements and specifications are met; and

- Whether agencies are achieving the benefits of competition in the telecommunications marketplace.

The Administration of the FTS2001 Program Does Not Ensure Performance Requirements and Specifications are Met

We are now aware, Mr. Chairman, that the FTS2001 contractors have not met material contract requirements. Instead, GSA has relaxed those requirements, to the detriment of the user agencies.

The FTS2001 solicitation identified technical, management, past performance, and cost/price factors to be evaluated by GSA. It described the relative weights of these areas, and its general evaluation approach recognized the importance of meeting mandatory requirements with "consideration of the assessment of potential risks." More specifically, the solicitation stated that the cost/price rating was to include a risk assessment described in the solicitation, and that "[i]n deciding which acceptable offer(s) to select, ***the Government will be averse to risk***."

GSA left no question that time was of the essence in this procurement. The solicitation ***expressly required*** each contractor to "complete the transition of FTS2000 services for which it is responsible ***within 12 months after the agreed start of transition*** as specified in the final Comprehensive Transition Plan." That plan had to be submitted to the government within 75 days of notice to proceed and approved before the start of transition.

In addition, Mr. Chairman, the evaluation of vendor capabilities in the FTS2001 procurement may have set the stages for the problems agencies have experienced today. Under the FTS2000 Procurement, vendors were required to engage in performance capability demonstrations to prove that they could satisfy the needs of the agencies. GSA, however, conducted no such performance capability demonstrations in the FTS2001 procurement. Instead, GSA met with the participating vendors over a period of days and secured verbal assurances from them as to their capacity to perform.

Though this procurement is commonly referred to as a commercial solicitation, the fact is that many of the requirements to which vendors responded were somewhat unique. I cannot speak for the other vendors' assurances to the Government, Mr. Chairman. But, we took great pains to point out honest timeframes for meeting GSA's unique requirements, and we suffered criticism for our technical implementation schedule. To address the non-commercial market aspects of the requirements required certain development and lead-time, and we did not want to put ourselves in the position of promising the Government something we did not have.

We also are aware of articles such as the February 7, 2000 *Government Computer News* report noting that "Sprint Corp. has gotten off to a slow start on its FTS2001" contract. The article carried Tony D'Agata's conclusion that "I don't think Sprint committed itself to spending the resources prior to winning."

Along these lines, we heard a great deal of talk about how Sprint proposed its Integrated On-Demand Network (ION) product as a solution for the FTS2001 procurement. Yet, on April 9, 2001, more than two years after the award of Sprint's FTS2001 contract, *Federal Computer Week* carried a report that Sprint's ION solution is still being tested. The article notes that, according to Tony D'Agata, ION has been in development for about ***three years*** and is being introduced to the consumer and small-business markets before it is offered to the Government. The article further states that, "Sprint hopes to pilot ION with specific [G]overnment customers this year to make sure it is suited for broad distribution in the Government." In light of these facts, we are left to wonder to what solution Sprint specifically certified in its proposal, whether that certification is accurate and complete.

The point here, Mr. Chairman, is that performance capability demonstrations would have exposed the vendors' capacity to meet GSA's requirements with their offerings. They would have separated vendor aspirations from fact, and they would have provided GSA a realistic assessment of cost/technical tradeoffs. At a minimum, performance capability demonstrations would have prepared GSA for what lay in store for it should it have to transition service, and ultimately such demonstrations would have impacted the evaluation of offers.

Needless to say, Mr. Chairman, critical requirements went by the wayside. Specifically, AT&T has become aware that there are significant problems in the areas of Customer Support and Billing, Trouble Handling and with Disconnect Orders, which are normally regarded as a key measure of transition progress.

Whatever the reason, GSA's apparent relaxation of requirements materially changed the FTS2001 procurement. Had we been aware that GSA was going to make these changes, we would have fashioned our proposal differently.

Agencies Have Not Achieved the Benefits of Competition in the Telecommunications Marketplace

The FTS2001 Program was supposed to implement the policies and provisions of the Telecommunications Act of 1996. It was intended to foster competition for services to permit the agencies to obtain cutting-edge technology at competitive prices. GSA announced that it was going to achieve this competition through multiple contracts of overlapping scope and duration. It would seek comprehensive and niche services contracts and seek to capitalize on the Government's large traffic volumes in securing competitive terms and conditions for local, long-distance, international and data services. GSA explicitly stated that its goals would be met by "[a]ggressively pursuing [MAA] and other opportunities to maximize competition."[2] As you may recall, under the terms of the FTS2001 and MAA contracts, contractors under one contract are permitted, by contract modification, to provide services under the other after a one-year forbearance period.

With the problems highlighted today, Mr. Chairman, it is important to ask, "What happened to the original policy goal of maximizing competition for telecommunications services?" We submit that the goal envisioned for the FTS2001 Program, the goal that served as the basis for Congressional and industry support of the program, has not been reached.

What we have today, Mr. Chairman, is anything but a competitive market for FTS2001 services. Despite the fact that these contracts are non-mandatory by definition, the program effectively is a closed shop. The FTS2001 contractors have a captive audience of agency customers because GSA refuses to entertain competition from outside the FTS2001 contracts.

The one-year forbearance period passed for those MAA contractors seeking to provide FTS2001 service, like AT&T, in December 2000. Despite assurances from former FTS Commissioner, Dennis Fischer, in January of 2000 that if we competed and won an MAA, that MAA would be a competitive vehicle through which we could offer FTS2001

[2] FTS2001 RFP, attachment J.10.1-1.

services, GSA has steadfastly refused to permit modification of the MAAs to provide FTS2001 services, citing the need to pay FTS2001 contractors their Minimum Revenue Guarantees (MRGs) first.

Putting aside the question of why these vendors should have their revenue guaranteed in the face of their performance failure, Mr. Chairman, the absence of competition has harmed the agencies in two fundamental ways: It has delayed the services promised to those agencies, and it has reduced downward pressure on prices paid by the agencies for service.

We have already heard about the delay in bringing services to the agencies. As for the reduction in pricing pressure, there is no reason for the FTS2001 contractors to lower their prices in response to market changes. Though the FTS2001 contracts contain a price management mechanism, the metric used to manage prices for each FTS2001 contractor under that mechanism is ***that contractor's*** prices, not market prices.

Committee Questions

Mr. Chairman, when you invited AT&T to testify before this subcommittee, you asked questions regarding the impact of the lack of competition in the Program on our ability to provide services to agencies and the agencies' ability to obtain services from the commercial marketplace; the status of AT&T's efforts under the FTS2000 extension contract; AT&T's ability to compete and offer additional services to agencies transitioning; and how GSA can foster greater competition in the program. Set forth below is our response to those questions.

A. Lack of Competition

There is no question that the absence of competition in the FTS2001 Program has impacted the ability of non-FTS2001 vendors to provide agencies with the latest services and prices available. As discussed above, the FTS2001 and MAA contracts themselves have posed a barrier for outsiders because GSA has refused to permit modification of the MAAs to provide FTS2001 services, citing the need to pay FTS2001 contractors their Minimum Revenue Guarantees (MRGs). This bar to competition has harmed the agencies by delaying the availability of services to agencies and reducing downward pressure on prices paid by the agencies for service.

Indeed, Mr. Chairman, it is interesting to note that the FTS2001 vendors have a somewhat perverse incentive ***not*** to reach their MRGs. As holders of other Government contracts whose revenues do not aggregate toward the MRG commitments, they can maximize the collection of revenues under those contracts until those contracts expire, knowing that, at the end of the day, their services eventually will transition to FTS2001.

B. Agencies' Ability to Acquire Services/Vendors' Ability to Offer Services

The agencies' ability to acquire goods and services in the market, like the vendors' ability to compete and offer those services, from a practical standpoint, is highly limited. As you know, under the Competition in Contracting Act (CICA), generally agencies must acquire goods and services under a contract executed pursuant to a full and open competition among responsible vendors. Such competitions are time consuming, and resource intensive, and thus, agencies have a great incentive to gravitate toward existing, Government-wide contract vehicles. It is understandable, then, that agencies are reluctant to run their own procurements and have remained on the FTS2000 extension contracts, where again, Government telecommunications revenues do not aggregate to satisfy the FTS2001 contractors' MRGs. Agencies were assured of imminent transition under the FTS2001 Program.

As you know, Mr. Chairman, FTS2001 transition has been taking place for the better part of two years, though under the contract, transition was scheduled for completion in April of 2000. To support agencies during the transition, we have executed extensions to the FTS2000 contract. The first contract, executed in December of 1998, had a base period of one year with two six-month option periods. With the vendors having failed to transition by the end of the second option period last December, ***ten months after the scheduled date for transition completion,*** GSA was compelled to execute another extension contract that terminates in December of this year.

Mr. Chairman, AT&T has always been ready and willing to assist GSA in its efforts. As I said, once the ground rules for transition were established, AT&T attended ***every*** transition meeting held by GSA. AT&T not only consented to participate, ***without any contract requirement to do so***, in an inter-agency task force to address transition, but also dedicated a high-level manager to that effort.

C. How GSA Can Foster Greater Competition

Mr. Chairman, I have outlined concerns regarding the FTS2001 Program from the perspective of an incumbent. But the question is, where do we go from here? There are no simple solutions. For one thing, the telecommunications market of today is very different from the market that existed on the day of contract award. For instance, MCIWorldcom and AT&T will execute restructuring plans to bring their respective business organizations in line with the market, and in the case of AT&T, this change will result in the formation of four new companies.

My point is, Mr. Chairman, the dynamics of this marketplace are such that familiar solutions, even those anticipated by the FTS2001/MAA designers, may not be sufficient to address the needs of agencies today. For this reason, AT&T is ***not*** here to say simply, "Give us an MAA modification for FTS2001 services, and that will fix the program."

Instead, we believe that the Government should take a broad view of the agencies' telecommunications needs and assess whether the rigid program currently in place is really the appropriate construct to meet those needs. As I said, this marketplace is dynamic, offering new technologies and services that may not be suitable for a one-size-fits-all contract vehicle. At the same time, the market offers agencies the benefit of savings and timely delivery of services.

In light of the availability of alternatives to the FTS2001 contractors and the changes in the telecommunications marketplace, GSA should open the program to all elements of competition and not try to ensure that competitors fit GSA's existing contractual mold. Specifically, GSA should not be forcing vendors to meet administratively burdensome FTS 2001 terms and conditions. GSA should be maximizing commercial offerings from the market and opening up its supply schedules to include telecommunications services as needed by the agencies. In this way, agencies will be able to select the services they need, customize those services to fulfill their respective missions and hold their chosen provider accountable.

Mr. Chairman, AT&T believes that GSA should eliminate the MRGs, or at the very least offset those MRGs by the revenue that was available to the FTS2001 contractors during the period of transition delay but not received as a consequence of their own failure to perform. In this way, GSA also can reduce appropriately the Government's MRG liability exposure to the FTS 2001 contractors. In addition, GSA needs to take a hard look at what the vendors promised to provide in their proposals and what, two years into the contract, they actually have delivered, and hold them accountable for the shortfall.

Once the MRG issue is clarified, GSA will have the freedom to execute a range of market-focused options to permit competitive forces to bring savings and state-of-the-art technology to the agencies. Moreover, in order to preserve the integrity of the procurement process, GSA should take appropriate action where the vendors have failed to deliver on their promises. In any case, Mr. Chairman, AT&T stands ready to assist GSA, the agencies, and this Committee in these efforts, and we appreciate the opportunity to testify today. I look forward to answering any questions that the Committee may have.

Mr. DAVIS. Thank you very much.
Mr. Payne.

STATEMENT OF JAMES F.X. PAYNE, SENIOR VICE PRESIDENT, QWEST COMMUNICATIONS INTERNATIONAL INC.

Mr. PAYNE. Good afternoon, Mr. Chairman, members of the subcommittee. My name is Jim Payne.

Thank you for the opportunity to testify today. I'm proud of my long history with the FTS, starting with the original FTS in the mid-1980's, and also as a key player in Sprint's FTS 2000 and 2001 contracts. Over the last 18 months, I've been senior vice president for the government division of Qwest. In fact, from 1995 to the award of the contracts, I was intimately involved in the negotiation of guiding principles as you can see on chart one that is supposed to govern the FTS program. These principles were carefully negotiated with this committee and most of the vendors present in this room today.

Qwest is the Nation's fourth largest long distance provider and a recognized leader in new and emerging IT based complex data and broad band technologies. Qwest is also a facility based provider with networks in the Untied States, Europe and the Pacific Rim.

Qwest is also a stakeholder in the FTS program. We have four MAA contracts, which were awarded to us last year, for local services.

If you take a look at graph No. 2, we have taken the principles and we have put them in a depiction. As indicated in the graphic, you will see before you the MAA contracts were central to the group of multiple, overlapping and staggered contracts. This is language pulled from the principles. They were established to inject intense competition into the FTS marketplace.

The competition created by the MAAs was to be augmented also by niche contracts, a tool for the GSA to focus competition where and when needed. In fact, the GSA characterized its environment as ruthless in many public declarations.

Under the FTS program strategy, GSA was to aggressively pursue MAAs, niche contracts and other opportunities to maximize competition. It was intended that this new world order would replace the old world order, with mandatory use with only two FTS providers. The new FTS program was to mirror the Telecom Act of 1996.

Mr. Chairman, I'm here to report that simply hasn't happened. Qwest absolutely endorses the FTS goals of maximizing competition and to achieve the best service and prices for the Government as expressed in the FTS guiding principles.

As depicted on graph No. 3, however, there's a different reality model we believe that's happening. We like to explain that the GSA has been able to essentially execute the plan. After almost 3 years from the expiration of FTS 2000, there simply is not enough competition. Agencies still have choices that are limited to Sprint, MCI and AT&T. The sole source, FTS 2000 bridge contracts, prove this point. The Federal agencies will be paying as much as $1.10 per minute.

I believe everyone in this room has aunts and grandmothers living in single room apartments that pay 5 cents per minute. Plus the GSA paid AT&T $8 million for what we feel is a signing bonus. So I ask the panel, where is the buyer's market and where is the ruthless competition we looked for starting back in 1995 when the principles were established?

Some may expect Qwest to challenge the FTS 2001 program. In fact, as you can see from my statement, we fully support the principles as established in 1995. The problem has been execution. GSA's transition and the MRG issues have precluded an openly competitive marketplace. As a result, the GSA has delayed the opening of the MAA contracts for long distance marketplace providers.

At the GSA FTS conference in Las Vegas last month, we also learned that the GSA additionally has hired a Government sales force and sent it to sell Sprint and MCI services. Presumably this is related to the MRG. Under FTS 2000, vendors, not the GSA, sold these services. Given the exploding demand for bandwidth that Qwest sees every day, why can't the current vendors achieve these goals by themselves?

Federal agencies are feeling the effects of GSA's deliberate MRG driven policy every day. The FTS 2000 services are taking up to 6 months as indicated in today's GAO report released this morning, for simple private line services, and the lack of many technical innovations which could make them more efficient and responsive to the Government. The taxpayer is losing. For the record, Qwest is provisioning the same bandwidth of services under Treasury and related contracts in approximately 36 days.

The solution is simple. Let's get back to the plan. It should not take a vendor to protest to get there. Competition must rule.

Qwest recommends that the GSA open the MAA contracts to FTS 2001 immediately. Don't let an obsession with retiring the FTS 2001 minimum revenue guarantees distort the overriding goals of the program. Qwest has another recommendation. Since this MRG issue is central to FTS 2001, the GSA should report publicly and monthly on all bridge contracts, revenue and FTS 2000 revenue by vendor and by month. This issue needs more sunshine.

Mr. Chairman and members of the subcommittee, the marketplace can work wonders. I invite you to give us a chance. Let's get back to the plan and let's give competition an opportunity to work.

Thank you for this opportunity to share Qwest's views. I am prepared to answer your questions.

[The prepared statement of Mr. Payne follows:]

TESTIMONY OF

JAMES F. X. PAYNE

SENIOR VICE PRESIDENT

QWEST COMMUNICATIONS INTERNATIONAL INC.

BEFORE THE

SUBCOMMITTEE ON

TECHNOLOGY AND PROCUREMENT POLICY

U. S. HOUSE OF REPRESENTATIVES

April 26, 2001

TESTIMONY OF JAMES F.X. PAYNE

Before the House Government Reform Committee

Subcommittee on Technology and Procurement Policy

April 26, 2001

I. INTRODUCTION

Good afternoon Mr. Chairman and Members of the Subcommittee. My name is Jim Payne and I am Senior Vice President of the Government Systems Division of Qwest Communications International Inc. I am pleased to be here to discuss the FTS program. A Congressional hearing that examines such issues is long overdue. I applaud the Subcommittee for its interest in constructively and cooperatively engaging our organizations to examine how to improve the appetite for competition in the government sector.

Qwest is the youngest organization represented here today, yet we are the fourth largest long-distance provider behind AT&T, MCI Worldcom and Sprint. Qwest, headquartered in Denver, Colorado, began in 1997, and is led by Chairman and CEO, Joseph P. Nacchio. We were the first company to build a reliable, scalable and secure broadband communications network around the needs and possibilities of the Internet. Today, we are a global, customer-focused market leader helping our business, government and residential customers succeed. Qwest has revenues of $19 billion a year and serves more than 30 million customers in the U.S. and abroad. Revenue in 2000 grew over 14% from 1999 to $19 billion, and we currently employ approximately 65,000 employees worldwide.

Qwest is an advocate of GSA's competitive FTS programs and we look forward to active participation in those programs to provide agency customers our highest technology and service levels at the lowest possible prices.

I have proudly held the position of Senior Vice President of the Qwest Government Systems Division since August, 1999. The Division was formed in 1998, and under my leadership, has expanded to become an increasingly significant player in the market. For almost 15 years, I have been a government marketing executive and have achieved major contract expansions and wins for not only Qwest but also my previous employers -- Sprint and GTE. I have worked closely with the GSA for most of that time.

Mr. Chairman, I will not take more time now to review my long history in this industry and the experience base from which I address the successes and shortcomings of the

FTS Program. (For further details, see Exhibit 1). Nor will I further describe my company, Qwest, its qualifications to provide services under the program (see Exhibit 2), and some of its already notable successes in the government marketplace (see Exhibit 3).

Rather, I would like to spend my time to provide you with Qwest's perspective on the three critical questions facing this Committee.

First, what are the FTS program goals - its Guiding Principles - against which GSA's progress can be measured?

Second, what are the current roadblocks that are slowing - even stopping - progress toward these goals and how is that lack of progress harming customer agencies?

Third, what can GSA do - working with federal agencies - to remove these roadblocks?

In short, the purpose of my appearance today is to discuss FTS Program Goals, the government's progress toward achieving these goals, and what can be done to accelerate that progress.

II. GOALS OF THE FTS PROGRAM - THE GUIDING PRINCIPLES

Beginning in 1995, GSA embarked upon a process of soliciting industry White Papers to begin framing the concepts for the post-FTS2000 government telecommunications marketplace. I was among the industry participants. During this process, the passage of the landmark Telecommunications Act of 1996 afforded GSA an opportunity to craft for the government a comparable aggressive approach to acquisition based on competition.

For the first time, acquisition of local and long-distance services - both domestic and international - was to be part of a common strategy. As a result of work by GSA, industry, a special Inter-Agency Management Council task force, and the Congress, a set of Guiding Principles emerged. (See Exhibit 4) These principles addressed the new world as we then envisioned it.

Our objectives were straightforward: "Maximize competition in order to ensure the best service and prices for the Government." These objectives were to be achieved through the use of multiple, overlapping, staggered contracts. These contracts would be both comprehensive and niche. Together, the FTS2001 contracts, the aggressive Metropolitan Area Acquisitions (MAA), and the niche contracts would maximize competition and thus assure the best services and prices for the government.

The FTS2001 contracts are the two contracts for long distance to which the FTS 2000 customer agencies would initially transition. The MAA contracts are the many contracts that will be initially awarded for local services in designated cities, but which are designed to be expanded after one year to provide long distance services as well. The niche contracts are contracts which will be awarded, according to the Guiding Principles, "to focus competition where and when needed."

This strategy was a dramatic departure from the "mandatory use" environment that had existed for FTS2000. In stark contrast to that approach, the new FTS program would rely upon the competitive marketplace to drive program providers to deliver ever-increasing levels of service, the newest technology, increased flexibility for customers – all at competitive prices. Customers would be free to buy services from any, all, or none of these program providers thereby making the government's acquisition of telecommunications services a true "buyers' market."

The providers in this new environment would necessarily include a much broader array of telecommunications companies. The concurrent use of niche contracts and the migration of MAA local service providers into out-of-region long-distance services and FTS2001 long-distance providers into local service will enable the government to utilize established industry players as well as new entrants. The FTS program will not just emulate the commercial marketplace; the commercial and government marketplaces should become indistinguishable.

The Guiding Principles of the FTS program and their vision of robust competition in the federal marketplace are sound. GSA deserves considerable credit for its contribution to the development of this new paradigm. The problem is not in GSA's plan; the problem lies in its execution.

III. OBSTACLES THAT ARE SLOWING - EVEN STOPPING - PROGRESS TOWARD THE FTS GOALS

Let me briefly review the current state of the government market. Qwest is one of the many new competitors in the government marketplace envisioned by the Guiding Principles. We are an innovative, global company that provides both local and long-distance services. Our participation in GSA's MAA program was predicated, in significant part, upon the expectation that the full array of our service offerings would become, in a timely manner, part of the inter-active competitive mix contemplated by the framers of the Guiding Principles.

Our experience as a program participant has, however, been frustrating and disappointing. Three years after the first FTS2001 award, the barriers to entry into the long distance marketplace by other providers remain. The FTS2000 transition has stalled, the bridge contracts have been extended yet again, and the Minimum Revenue Guarantees (MRG) which were inserted into the FTS2001 RFP to motivate bidders are now being misused to create artificial barriers against competition. These barriers have impeded agency access to new technology, better service and lower prices.

While the commercial marketplace has seen an increase in the number of providers, constant technological innovation and the continued reduction of prices, FTS2001 has yet to produce these same benefits for government agencies. Moreover, the current FTS2001 contracts are even unable to provide some of the most basic components of existing FTS2000 service offerings.

This raises a number of questions. Where are the contract modifications that would bring FTS2001 up to the levels of the predecessor contract? If the FTS2001 service providers are unable, or unwilling, to deliver those services, why have the competitive niche and MAA providers, who are ready, willing and able to provide those most basic services, still excluded from this market? Are only those that now deliver FTS2000 bridge services and the FTS2001 providers going to be permitted to participate? Is competition to remain limited to only the big three?

No new niche contracts have been awarded. No MAA participant is yet providing out-of-region long-distance services. Indeed, the policy document promised by GSA last Fall that would articulate the method for MAA long distance market entry has yet to be released for industry comment. This is a very unfortunate state of affairs.

Let me now review specific roadblocks that have created this bottleneck in four areas: (1) the FTS transition; (2) FTS2001 contracts; (3) the MAAs and (4) the niche contracts.

A. Transition From FTS2000 to FTS2001

Over the course of the last two years the industry and Congress have been led to believe that the transition from FTS2000 to FTS2001 was nearing completion. As you know, Qwest was stunned to learn in December of 2000 that the transition that had as recently as September been deemed to be on schedule, was now dramatically delayed. Moreover, GSA unilaterally determined that this delay could be remedied only by the award of new sole-source bridge contracts to the FTS2000 vendors at dramatically higher prices. Qwest's protest of these sole source contracts at the GAO is still pending.

The GAO study of the transition released today also raises many questions. Why is the transition so far behind? How are we defining the completion of transition: Orders in hand, pre-provisioning? Planning begun? Billing on the new contract begun? Billing on old contract ended? Old service disconnected? Without definitive checkpoints there is no way to assure that the goal has been legitimately approached or achieved. Until these checkpoints are uniformly applied, we may find that these new bridge contracts will remain in place indefinitely.

How can the current FTS2000 bridge contractors or the FTS2001 service providers be deemed to be compliant with their contracts when transition is so far behind schedule? Even if one were to concede that the agencies and GSA bear some responsibility, what measures have been taken to extract consideration from the vendors for their part? AT&T, who held the lion's share of FTS2000 traffic, was not penalized for any role it may have played in the transition delays. Quite the contrary, it received an $8 million bonus payment upon the award of its new bridge contract for services yet to be defined.

When I managed Sprint's FTS2000 contract I was held accountable for the delivery of systems, reports, services, and for the swift addition of new features to meet agency needs. This exacting level of contract management appears to have vanished in the new program environment.

B. **FTS2001 vs. FTS Program**

The world that Qwest and other telecommunication providers are in is now dominated by FTS2001. Qwest supports FTS2001. There are many aspects of the program that are very successful. However, there are also some harsh realities that deeply concern us as a company and a competitor. Let me briefly highlight five problem areas that Qwest has experienced and the harm that they cause government agencies.

First, the FTS2001 program has negative effects on Agencies. The Inter-Agency Management Council had a tradition of representing the interests of FTS2000 users. During the development of the post-FTS2000 strategy, it led the way in the definition of requirements for the new acquisition. Now, however, its role seems frequently to be that of an enforcer of FTS2001 as a pseudo-mandatory contract rather than a customer representative to GSA. It is difficult to envision that transition delays and less-than-adequate service offerings on the new contract are in any agency's best interest. Moreover, lack of a full suite of competitive options is clearly inconsistent with agency needs. The harm is serious. Agencies have experienced:

- Stagnation of technology-reliant reform initiatives
- Loss of efficiency gains
- Increased total cost of service delivery
- Lack of integrated solutions
- Increased complexity in delivering total mission-critical solutions

Second, the FTS2001 contracts have adverse effects on taxpaying citizens. The effect on the taxpayer has been no less severe. Stalled agency effectiveness directly affects the quality of service delivered to the citizens. Stalled service enhancements diminish the rate at which new and emerging technologies replace antiquated, more labor-intensive projects. The net effect is to reduce the speed at which taxpayers are able to see a return on their precious investment.

Third, the FTS2001 contracts appear to contribute to a seemingly reduced zeal for competition. It is clear that while GSA says publicly that FTS2001 is not mandatory, the agencies behave as if it is. Agencies continue to behave as if the era of the Brooks Act were alive and well. That age is supposed to be behind us, replaced by an ongoing full and open market competition.

What Qwest finds instead is that every major potential sale or ongoing procurement is affected by FTS2001. For example, a single location for the Department of Energy (DOE) at Oak Ridge wanted to select Qwest for its voice services. DOE vetoed that selection on the basis that loss of that location's volume of traffic under FTS2001 would mean substantially higher FTS2001 rates across the agency. In other words, although volume discounts were prohibited in the FTS2001 contracts, they are still being used to lock agencies into a particular arrangement.

Fourth, the FTS2001 contracts tilt the playing field in favor of the incumbents. The Department of Justice ruled last year that the FTS2001 prices should be released and made public. For reasons that are unclear to Qwest, these prices are rumored to have been available for a few brief minutes on GSA's website only to have been withdrawn.

Many ongoing procurements for telecommunications services either assume the use of some FTS2001 services as part of the solution or are being competed on by the incumbent FTS2001 providers. The FTS2001 prices are only available for the current billing year. Future year's pricing remains secret. The playing field that would otherwise be level is now tilted in favor of the incumbent FTS2001 service providers who alone know what their out-year pricing is and what affect it will have on the competition in question. Consequently, Qwest and, I'm sure, other non-FTS2001 providers, have not had an equal opportunity to excel in every agency. In our case, many agencies have openly rejected our proposals while acknowledging that our prices are lower and our service levels exceed FTS2001. In fact, we are regularly told that the pressure to use FTS2001, even though it is not legally mandatory, is tangible and real.

Finally, let me review one story that graphically illustrates the negative impact that FTS2001 can have.

A recent GAO protest decision regarding a full and open competitive Social Security Administration (SSA) acquisition revealed that the SSA had stated that it would evaluate all offerors for data services supporting their 800 lines at the actual cost of the network provided. When the SSA evaluated MCI's proposal for the same service, however, it allowed MCI to insert "N.A." (for "not applicable") and assumed the network cost would be zero. In fact, the network cost was not zero. As a result, the GAO sustained the protest and remanded the competition back to SSA recommending that it follow its announced evaluation rules and apply them to all offerors. In my view, this is a prime example of how some agencies attempt to use FTS2001 in an unfair and illegal manner.

Another problem that surfaced during the SSA competition is that the agency insisted that every competitor either use FTS2001 or use network prices that were better than FTS2001 in order to improve its chances of winning. This presented a particularly thorny dilemma since no one is permitted to know the FTS2001 prices except the FTS2001 vendors. In the case of the SSA proposal, MCI was both a prime contractor and a subcontractor on several competing teams. This put MCI in the unique position of essentially knowing all of the necessary price points before its submission of final pricing. Even without SSA evaluating its network costs as "zero," MCI had the inside advantage of knowing all the necessary price points.

Although this issue was repeatedly identified to SSA during the competition process, all vendors were instructed essentially to guess at FTS2001 prices and decide how to discount the rates based on their respective strategies.

Qwest did exactly that. We guessed at the FTS2001 rates and then discounted our rates in an effort to win. It is now clear from the GAO decision that no matter how deeply Qwest or other competitors discounted off the presumed FTS2001 price, it was impossible to beat a "zero" cost. The irony is that the publicly available GAO decision indicates that MCI did not intend to use FTS2001 at all and further planned to add network costs into the contract after the award. Qwest's frustration is increased by the impression that our creative solution and very aggressive pricing were blocked by SSA maneuvering. This appears to be related to FTS2001 and the purported need to retire the Minimum Revenue Guarantees. Qwest's solution, if implemented, would probably have reduced cost for the SSA well beyond what was estimated in our proposal. Something went seriously wrong here.

C. **MAA Contracts**

GSA's failure to extract consideration - in the form of reduced MRGs - from FTS2001 vendors for their contribution to transition delays and other contract noncompliance has held competition, GSA and the agencies hostage. GSA has boxed itself in to a dangerous position. It now apparently believes it must automatically exercise FTS2001 option years and artificially delay agency purchases off competing contract vehicles, in particular the MAAs, in order to avoid huge payouts of "guaranteed," but unearned revenue to the FTS2001 providers. The contracts are being transformed from the Guiding Principles' defined 4-year base period, with 4 one-year options, into a *de facto* 8-year deal with the hope that the vendors will refrain from billing for the balance of the MRGs at the end of the base period. That hope is, we believe, misguided.

The FTS2001 vendors must bear some responsibility for generating business under their contracts. To believe that they have exhausted their ability to find new sources of revenue, one has to ignore the facts of the current telecommunications market. According to Reed Hundt, former FCC Chairman, and James Crowe, President and CEO of Level 3 Communications, the internet is doubling in size every 90 days. Its growth is evident in the expanded use of service to the citizen applications as well as intranet usage for government-only official business applications. FTS2001 also expanded the scope over the previous FTS2000 contracts to include the provision of international services. Yet, astonishingly, we are asked to accept that taxpayer dollars should pay to have government employees assisting in the sales process as a supplement to the MCI and Sprint sales forces. Are MCI and Sprints MRGs being reduced to cover the cost of this activity on the part of the government? This apparent misdirection of government resources comes at a cost to appropriate oversight, to innovation and to customer service.

What is equally distressing is the perverse effect that the MRGs have on GSA's administration of the contracts. They clearly reduce, if not eliminate, any incentive to have the service providers reduce costs. FTS2000 had a complex process for assuring the lowest possible publicly available prices were being charged for its services. The FTS2001 contracts likewise have a price management mechanism. There is no evidence, however, that this mechanism has yet been enforced on this program. The perceived need to retire MRGs works against GSA using this mechanism. Higher costs to the agencies actually benefit those who believe in the primacy of MRG retirement.

But that's not all. GSA itself benefits from the high prices charged on the FTS2000 bridge contracts and the FTS2001 contracts. Its 8 percent management fee is greater on a larger base. As a consequence, there is actually a perverse incentive to sub-optimize performance. The fact that the GSA's management fee is camouflaged and not appropriated directly by Congress does not mitigate the negative effect on the taxpayer. Rather, it only shields from view the true cost of doing business in the appropriations of every agency.

D. <u>Niche Contracts</u>

While niche contracts were to be an important part of the FTS programs, the lack of activity in this area has been striking. Agency customers with whom Qwest interacts every day are looking for total care/managed network services not present on FTS2001. Bandwidth availability at speeds up to OC-192 is sought. But GSA employees who could be negotiating alternative, niche contract vehicles for the addition of these services are out selling services on behalf of the FTS2001 vendors.

IV. WHAT GSA CAN DO - WORKING WITH FEDERAL AGENCIES - TO REMOVE THESE OBSTACLES?

As I said at the outset, the FTS2001 goals and Guiding Principles are valid. This program has an elegant design. That design was meant to mirror the effect of the Telecommunications Act of 1996 in the commercial market place and infuse competition throughout the government marketplace.

Qwest believes that the existing obstacles to realization of the benefits of that design can be removed by taking action in four areas: transition, FTS2001 contracts, niche contracts, and MAA contracts.

First, in the transition area, Qwest and any other interested providers should be permitted to propose niche contracts to help agencies finally conclude this seemingly never-ending transition in a prompt and cost-effective manner.

Second, GSA should fairly administer the FTS2001 contracts to take full advantage of its legal rights, particularly with regard to negotiating appropriate reductions to the MRGs. GSA's singular principle of program oversight should be "first do no harm." Instead, GSA is tinkering with the industry and, as a consequence, subverting full and open competition.

Third, Qwest is the provider of local services under four MAA contracts. GSA has recently published its intention to exercise its authority under the forbearance policy and add competitors to New York City, Chicago, and San Francisco. We applaud this effort - we need many more such efforts promptly. They will provide an opportunity for any MAA holder or FTS2001 contract holder to offer competitive local services in other areas, broadening the choice for agencies. The forbearance period should be lifted now to allow participation of MAA holders in the broad base of long-distance services, thereby dramatically increasing competition and its attendant benefits to agency customers.

Finally, GSA should aggressively add to its stable of niche contracts to provide agencies alternative vehicles for meeting their needs. Qwest and other providers should be able to bid on any niche contracts that GSA solicits.

V. CONCLUSION

I thank you for the opportunity to share Qwest's views and am willing to answer any questions you might have.

Mr. DAVIS. Well, thank you all very much. That was very interesting.

Let me start with WorldCom. Jerry, two of the five reasons you cite for unexpected transition delays is the time taken by agencies to select their FTS 2001 service providers and the slow pace of agency ordering. You mentioned the examples of Interior as having selected you just 2 months after you were awarded an FTS 2001 contract. Although according to GSA's current transition status report, Interior now is about 82 percent complete in its transition.

If the timing of agency selection was a critical factor in delay, why hasn't the Interior Department's transition been completed? Any idea?

Mr. EDGERTON. Mr. Chairman, the Department of Interior has eight bureaus, all of which have different telecommunications needs. We worked with each of those individual bureaus, and in effect have achieved the level of implementation that we have now. So just the mere selection by the agency did not create an order flow. We had to go out and again deal with the problem of inadequate records. In the situation with Interior and some of the bureaus, we actually participated in the order entry process, created orders on behalf of the individual bureaus, and subsequently have achieved the level of implementation success that we have.

Mr. DAVIS. One of the risks you cite in satisfying the FTS 2001 contracts MRG's concerns the MAA contractors cherry picking customers by failing to offer the complete range of FTS 2001 services. What's your suggestion for mitigating that risk? Will you mandate a range of services that need to be offered? Aren't these mandatory services stipulated to some degree in the contract? What's your feel for that?

Mr. EDGERTON. I'm not familiar with the details of the MAA contracts. I certainly would not be opposed to it if they meet the same terms and conditions of the contract obligations that we have. We have extensive obligations from the point of view of pricing, in terms of billing, in terms of ubiquity. If anybody can meet those same things, then they certainly should be allowed to participate in accordance with the program that's been laid out.

Mr. DAVIS. The GSA does allow the FTS 2001 contractors like yourself to submit proposals to offer local services in select MAA markets. Should a similar stipulation be established to guard against cherry picking on your behalf as well?

Mr. EDGERTON. Oh, absolutely.

Mr. DAVIS. So do you think——

Mr. EDGERTON. If we chose to participate in the MAAs, we would expect to offer the same services that the current MAA providers offer.

Mr. DAVIS. This contract, the FTS 2001, requires the contractors to review at least semiannually all network and access service arrangements and identify opportunities to reduce the Government's costs through optimization of these services. Presumably, that optimization and analysis would have been done as part of the transition planning. How much of that access optimization was completed during transition and how did the compression of transition timeframes affect your ability to complete that?

Mr. EDGERTON. Because of the issue with the records and the knowledge of the service that's available, we basically have not done any of the access consolidation at this time. We intend to do that. In many situations, the Government facilities are shared tenant facilities, with agencies using different providers and so forth. We've begun that process to make sure that the appropriate and the most cost efficient access is utilized. That process is underway now.

Mr. DAVIS. Let me move to Sprint, Mr. D'Agata. In your testimony, you indicated that none of your customers suffered any financial consequences from the extension of transition activities beyond December 2000, is that right? Now, Sprint's own bridge contract prices increased as of October rather than December, so there was no additional increase in December for those customers, but those AT&T network A customers transitioning to Sprint were not transitioned by December 6th, and they would have received a substantial increase, wouldn't they, in the cost of the bridge services?

Mr. D'AGATA. Yes, the point of my testimony, Mr. Chairman, is that the normal transition period for an undertaking of this nature would require perhaps 24 months to complete. So one could argue that from, say, June 1999 to June 2001, that would be the normal transition period. Our customers, so our customers would be paying premium prices from anywhere from zero to 24 months under the old bridge contracts.

Sprint chose to pass on a promotion to our existing customer base to the tune of about $62 million. That equated to them only having to pay these premium prices for about 10 months. So significantly less than they would have normally under normal circumstances.

Mr. DAVIS. You also indicate that transitioning Sprint to existing FTS 2000 customers to FTS 2001 was challenging because it required orders be manually shepherded through your billing and ordering system to ensure that the provisioning systems didn't automatically discount existing local access. Despite these measures, there were instances in which those automatic disconnects did occur, correct?

Mr. D'AGATA. That is true, sir. However, I will point out that our record of performance is very good, if not excellent. In fact, we've had fewer FCC troubles of any carrier for the last 5 years.

Mr. DAVIS. When can GSA count on having an accurate and complete transition management information data base from Sprint?

Mr. D'AGATA. We've delivered the data base already. We are enhancing that and the enhanced version of that data base is expected to be delivered in the May timeframe.

Mr. DAVIS. OK. Although you've indicated Sprint's transition network is substantially complete, we understand that there are about 2,000 more orders still to be completed, most of which are now expected to be completed by the end of May, is that true?

Mr. D'AGATA. Yes, sir. In fact, what we have decided to do is to provide FTS 2001 rates to our bridge contract customers by May 1st. So in effect, our bridge contract will go away on May 1st.

Mr. DAVIS. Thank you very much. I've got more questions for this side, but let me turn it over to Mr. Turner.

Mr. TURNER. Thank you, Mr. Chairman.

I'm a little bit curious, Mr. Doherty, you seem to place a lot of the blame on the additional costs the Government has experienced on the failure of the two contractees to implement FTS 2000 properly. Specifically, I noticed in your written testimony you were critical of Sprint for delaying implementation. Would you tell us why you feel that is the case, and how do you evaluate that cost and separate it from all of the other multiple reasons that apparently there were additional costs experienced by the Government?

Mr. DOHERTY. Certainly, that's an excellent question, Mr. Turner. As AT&T participated in the actual procurement, the FTS 2001 procurement, all of the vendors were evaluated against the same set of requirements, which as testified earlier, Ms. Bates indicated the transition schedule and data bases and billing capabilities, provisioning capabilities, etc.

And two points I'd like to make. First is, throughout that process, we made it very clear to the Government that we didn't think the transition schedule that they had in the procurement was realistic. We had been through, Mr. Flyzik testified earlier this afternoon, with the difficulty of transitions. We pointed that out numerous times to the GSA, that we thought the schedule wasn't realistic, based on our experience, not only in the Federal marketplace, but quite frankly, in the commercial marketplace.

Second, when we were debriefed after being told we did not receive a contract, we were told that our scores for some of our capabilities as far as systems had been downgraded compared to our competitors. When we sought to understand why, they indicated that our competitors had actually said they could meet those timetables that were in the RFP. We actually said we'd need additional time to actually have all those capabilities.

So it's our opinion that they were awarded these contracts indicating to the Government they had these capabilities, and in fact, when the Government went to transition, those capabilities did not exist. And therefore, the savings that the agencies would have received if in fact they would have transitioned on time were not received.

The only savings that the Government got actually in most of 1999 were the discounts that AT&T announced in the spring of 1999 to bring our prices in line with the two contracts that were awarded.

Mr. TURNER. Mr. D'Agata, I guess I have to ask you to respond to that.

Mr. D'AGATA. Well, Sprint also provided a promotion to our existing customers, sir, in September 1999, which carried forth for 13 months. So our customers enjoyed the benefits of FTS 2001 rates in 1999 and through 2000.

Mr. TURNER. But I think Mr. Doherty is saying that Sprint made misrepresentations regarding its ability to meet the transition dates that the GSA was expecting.

Mr. D'AGATA. We delivered the system capabilities that were required to complete transition. Any limitations that we had in system capabilities did not affect transition at all. GSA alluded to some management documentation that was not provided adequately or in the format that they were seeking. However, that had nothing to do with transition. That data was provided, but in a manual format, and had no effect on transition at all.

Mr. TURNER. Mr. Doherty, your comments, were they also directed toward WorldCom, or were your comments primarily directed toward the delay experienced by Sprint?

Mr. DOHERTY. Well, Mr. Turner, actually, I'm a little surprised by my colleague here to my right's response. Most obviously, we are not privileged to see how the contracts are being administered. But I do recall in the press there was an announcement by Sprint that they had not staffed up appropriately for the procurement and that they would need to invest an additional, I believe, up to $100 million to bring their systems in line with what the RFP called for.

So my source of understanding is public knowledge. I am not aware of issues with WorldCom as it pertains to systems, although there's been quite a bit of debate recently about the last mile in getting access. Quite frankly, we all were aware when we did the RFP that getting access was a significant issue, and you were to be prepared, in the several years that we spent responding to the RFP with GSA, to be prepared to have those negotiations with the RBOCs and the CLECTs and everybody else that would provide the last mile, so you could transition customers.

Mr. TURNER. I might ask you, Mr. Doherty and Mr. Payne, whether AT&T and Qwest have been able to secure any of the agencies' contracts through trying to compete with the two providers, WorldCom and Sprint. Have you all been successful in achieving any of those contracts, even though you were not awarded the contract by GSA?

Mr. DOHERTY. Certainly there are competitions that we're participating in on a regular basis that are for services where the bandwidth and the technology is not included in FTS 2001. To my understanding, the bandwidth in FTS 2001 only goes up to OC3. Qwest is regularly provisioning networks at capacities well beyond that.

What I'd like to focus on, however, is agencies that have come to us with requirements, asking to get off the bridge contract. Perhaps one of the agencies being charged $1.10, and being told they've waited 2 years for a transition plan. This is actually a live example, in Oak Ridge, TN, I happened to manage that PBX. I was in the building with the contracting officer, and I literally had the ability to go down to that basement area and make the transition on the spot. That agency sought permission through their IMC member and received a very prompt letter that said no.

So part of our frustration is when agencies see the lower prices and see the better bandwidth and technology, they do go back to their IMC members, and that's where the enforcement process becomes problematic. Frankly, many agencies believe that this is a mandatory use contract. Many agencies believe that this commitment that was signed by IFC members is contractually binding or legally binding. Of course, we don't accept the position at all. In fact, I think the GSA openly has said it's not mandatory. Many agencies still believe this is mandatory.

Mr. DOHERTY. Mr. Turner, if I may. To Mr. Payne's comments, it's been mentioned quite a bit about this being a non-mandatory contract. And I can tell you personally that Ms. Bates' predecessor, Mr. Fisher, called me and shared the news that AT&T was not awarded the contract in January 1999, but indicated that AT&T would go ahead and win an MAA contract and "you're right back in it." We then went out and won the first three MAA contracts and submitted a proposal to the GSA, the 1-year forbearance period, in the fall of 1999. That proposal has never been acted upon.

In addition to the point of non-mandatory, the letter signed by agencies indicating they would help to fulfill the minimum revenue guarantee, there were many senior people within Government at the time that felt that they were signing up to fulfill those requirements over the 8 year period of the contract. It's my understanding to Mr. Payne's point, some of the agencies have been told that if they did not transition, they would not have access to funds in the revolving IT fund to help with transition if they did not choose a vendor who they were going to transition to.

Mr. PAYNE. Mr. Turner, if I could add another example. It was recently discovered through a GAO protest that the Social Security Administration data network had been evaluated and all of us that were bidding, you have to understand, don't know the FTS prices. The Department of Justice has asked that the GSA release them, but it's apparently a legal dispute. At BAFO, all the bidders submitted network costs. We attempted to first guess what FTS rates were, then we had them decide what to discount off.

It was apparently discovered in the evaluation that the Social Security Administration evaluated for the MCI offering at zero. So I discovered that I'm actually expected to beat zero. All of us that were expected to compete had to come up with a price and then discount. That's pretty alarming.

This was ostensibly an open competition which had really nothing to do with FTS 2000. And we believe it was probably an agency misfocusing. Perhaps this will help retire the minimum revenue guarantee. The Government thought they were saving $13 million, and upon a hearing at the GAO, it was discovered they probably picked the highest priced solution.

Now, that's still in play, and we're anxious to get more clarification, but those are the facts that have been discussed at the GAO.

Mr. TURNER. Thank you, Mr. Chairman. I've been told if you can stir up a good argument, there is certainly the potential for competition. [Laughter.]

Mr. DAVIS. We certainly seem to have two sides to this one. Let me go on to AT&T now. Mr. Doherty, over the last 5 months, I've noticed an increased in your revenues provided under the bridge contract for the FTS 2000 program. Will you explain the basis for the dramatic rate increase?

Mr. DOHERTY. Yes, Mr. Chairman. Let me start with, at the time of the award, AT&T never envisioned actually entering into a 3rd year bridge contract. If you look at the requirements, of the 2001 contract, the transition was to be completed much earlier than that. In addition, we offered discounts on our previous extension contracts. But as we came down to the end of the second contract, roughly 75 percent of the volume had been transitioned to other contracts.

And as Ms. Bates testified earlier, AT&T has a dedicated network supporting FTS 2000 with dedicated systems to do that. And at the Government's request, to enter in another extension period, we were simply not able to offer those discounts any longer.

Mr. DAVIS. You didn't have any incentive to, did you? You were out on FTS 2001, you were sitting there, they needed you, why would you?

Mr. DOHERTY. Well, incentive obviously is a piece of that. But as anyone in industry will tell you, without a volume commitment, without a time commitment, as I think Ms. Bates testified, there was no reason to continue those discounts. The future was, quite frankly, very uncertain.

Mr. DAVIS. OK. That's an honest answer.

Given the sharp increases in prices per minute charged to agencies under the latest extension of the FTS 2000 bridge contracts, as the GAO states, our rate could go up to more than $1 a minute. Does AT&T have concerns this could hurt their competitive future in the Federal marketplace, or you would look at each new, you would price differently just on future vehicles?

Mr. DOHERTY. Yes. Mr. Chairman, we have attempted to enter into other contracts, to the question asked earlier, with other agencies. In my testimony, my oral testimony, I mentioned how the agencies have been discouraged to do that. That has been quite frustrating, not only to us but to agencies. Because we have offered them other contract vehicles where they could move some of their services and we would actually extend those discounts. At every opportunity, again, they have been discouraged from doing that.

Let me turn to the $8 million payment. The reason that number wasn't much higher is we are concerned about, we have a long term commitment to this marketplace. Actually our costs to maintain these systems was much higher. We looked at the balance of upsetting the agencies and their budgets, etc. So the number was much lower than it would have been. And we continue to want to work with the GSA to figure out ways to enter into a long term contract so we can have rates that are just that, long term and lower than a short term bridge contract, which was discussed earlier this afternoon.

Mr. DAVIS. I had mentioned earlier, to the earlier panel, and I'll ask you, you had discussed in your testimony moving to a telecommunications services schedule, kind of like a GSA schedule and then you could shop from there. Do you want to give me a further comment on that concept? By the way, I've heard that going out in the industry, into some agencies and contractors, those same kinds of comments. I just want to flesh it out a little.

Mr. DOHERTY. OK, well, I'd like to expand it somewhat, just a little, going back to the question you asked Mr. Edgerton earlier. It's our position that any modification to the MAA contract should be for whatever service any industry player can bring, whether it's one particular service, data service, a voice service. These are nonmandatory, these are optional services. We believe that GSA should allow all industry players to bring to bear whatever those capabilities are.

I also believe that the GSA and other agencies ought to think very broadly about how they allow industry to bring new emerging services to bear. For example, the schedules. There's no reason why some of the services that are currently offered by industry in fact could be put on a schedule. And agencies could go out with task orders and look at the different offerings from different vendors, and make decisions independent of the FTS 2001 program.

Quite frankly, and it's my understanding that the overhead that's on the schedules is much different from what is the overhead that's currently being applied to FTS 2000. Again, competition within the GSA would be good for the agencies, forcing not only industry but Government to look at how they recoup their costs.

Mr. DAVIS. To what extent has AT&T had to work with the RBOCs during the transition and did you have any delays in transition working with that, the same delays working with the RBOCs?

Mr. DOHERTY. Our experience in the transition, you're referring to, Mr. Chairman? Our experience has been actually on the other side, where we were scheduled to disconnect services, but for whatever reason the new service provider was not prepared, we got to come back in and work with the RBOC because they don't turn off that circuit, because the income vendor was not prepared to transition the service.

But on the other side, we clearly have many years of working with the RBOCs and CLECs to make sure that access is provided in a timely manner.

Mr. DAVIS. I want to followup. Mr. Turner asked earlier of GSA, but AT&T did receive that one time payment of $8 million. What was the reason for that? Isn't this an outmoded infrastructure that the Federal Government already paid for?

Mr. DOHERTY. Mr. Chairman, actually no. Over the life of the contract, we have added, as I think you've heard today, a number of new services throughout the life of FTS 2000. And as we added new services, we needed to add new capabilities to all of our systems, and quite frankly, invest dramatically in the infrastructure that supports this private network.

So at the time, when the Government said they'd like to go into a third extension contract, we simply, with the volumes that had left the network and the expenses associated with those private, dedicated systems, we had to somehow have some type of up front payment to cover that.

Mr. DAVIS. OK. Let me move to Qwest. In your written testimony, you comment on Qwest's protest of a Social Security Administration decision in which MCI had an advantage because of pricing information it obtained through its involvement with FTS 2001. As a result of this experience, do you think that limits should be placed on a company's contracting and subcontracting activities to avoid the appearance of impropriety, and what if any suggestions does Qwest have for preventing future incidents like this?

Mr. PAYNE. The SSA bid was very important, this was last summer, this was the first large complex procurement that was conducted after the award of FTS 2001. There was a lot of confusion about the ability to use FTS 2001. Because you did have a choice to use it as a vendor. The team that I was subcontracted to decided to beat the FTS 2001 prices, and we were prepared to beat them dramatically.

We did, as I was saying earlier, we were not able to know what the FTS rates were, but I think there was enough market force competition that we made a reasonable guess, then we took a dramatic discount lower. Frankly, we were all stunned to see that the team that we were on didn't win.

Now, my team did not raise the protest. It was the Rockwell team. And Rockwell carried forward the protest, and it was just recently disclosed that there was an evaluation mistake made. Someone thought that it was FTS 2001, it should be three, evaluated at zero. It ties my arms behind my back. Not only did I not know the price points, but the evaluation model was given virtually free.

If this is the carry forward of FAA, FTI contract, and other contracts, how is competition to reign here? Exactly where does a competitor go?

Mr. DAVIS. I'm going to give everybody a chance to respond. I just have a couple more questions for you, then I'll give you all a chance, if there's anything you want to add, and then allow Ms. Bates to sum up.

Again, Mr. Payne, in your testimony you suggest that niche contracts be used for very specific services as part of the FTS program as originally planned. What kind of service needs would they address? How would they be best used? Only during a transition period?

Mr. PAYNE. Certainly. The technology is moving, I mean, this is a bit of a cliche, but technology is moving very rapidly. New technology is being brought forward at all times. And you can't expect the complex modification process on FTS 2001 to keep up with it. You could have simple niche contracts where cybercenters, Web hosting, total care where you can, there's actually technology now that you can leave networks in place and change out the management of those networks. Qwest is capable of managing AT&T, Sprint or MCI's network any time through products that have come forward in technology.

So transitions are not the same as they used to be. These are the types of technology that should be coming forward forcefully, either in niche contracts——

Mr. DAVIS. Could MCI manage a Qwest network?

Mr. PAYNE. If the technology that we have exists on theirs, sure. But the question is, this should come forward.

Mr. DAVIS. Just trying to be fair. [Laughter.]

Mr. PAYNE. Mr. Doherty mentioned a beneficiary. He used to regularly preach to us that the technology would come into the FTS 2001, or the MAAs would go into a niche contract, and then once stabilized and more generally available, it would move into the FSS side. So there would be this wonderful cycle of competition. It just simply hasn't happened.

Mr. DAVIS. In your testimony, you state, moreover, the current FTS 2001 contracts are even unable to provide some of the most basic components of existing FTS 2000 service offerings. Do you want to elaborate on that?

Mr. PAYNE. Yes. I think a good example is the Department of Justice. There's new information I heard this morning, so I don't presume to be an expert here. But right after the contract was awarded, up to the last year, Justice was put in the position, and they were not the only agency, that the contract, as it expired on FTS 2000, comparable to 1995 technology, was not available in

2001. So there was a long period of time before these contract mods were completed so they'd have parity, at 1995 technology.

Many of those agencies had to wait for features such as this before they could complete the transition. That process is not available to us outside vendors. We don't know the status of contract mods. We only can presume when we talk to the agencies. But it has prevented, I think largely, the Justice Consolidated Network, from moving very quickly forward into the new FTS 2001 environment.

Mr. DAVIS. Let me ask if anybody wants to add anything.

Mr. EDGERTON. Mr. Chairman, I'd like to comment on the suggestions that there was something improper about the Social Security Administration procurement. That procurement was for equipment, lots of equipment and software. And I have no idea how the communications or 800 service was evaluated.

Mr. DAVIS. You don't do that? That's not your job, right?

Mr. EDGERTON. Absolutely not. But we offered superior technology and a superior solution to the request for proposal.

Mr. DAVIS. And that was in a bid protest?

Mr. PAYNE. Yes, the redacted version was released about 3 weeks ago, as an appropriate forum where all that will be resolved.

Mr. DAVIS. Anything else anybody wants to add? Ms. Bates, do you want to add anything?

Ms. BATES. I certainly feel I'm in good company sitting at this table, having worked——

Mr. DAVIS. You can referee here in between them. [Laughter.]

Ms. BATES. Well, you know, that thought did come to mind, I did stay back there until the appropriate time. I have worked with all of these gentlemen over the past many years and many positions. I'm encouraged from what I've seen here today. I think competition is flourishing, as we imagined it would. There's more competition between the incumbents in our program than there has been in the past. And the potential new entrants are already beginning to emerge.

I think our customers are already benefiting from lower prices, more influence on program matters, more choices of technology and suppliers and a wider range of commercial services. Transition to FTS 2001 is essentially complete, and we will have it complete this summer. I would like at this time, and at that time, too, to close the book on transition and really focus all of our efforts, at this table, the customers, and with the help of your committee, to look forward as to how we can bring new and enhanced services to the Government and how we can always do our business better.

For me personally, within the Federal Technology Service, as the Commissioner, I intend to push ahead and not look back but continue to push ahead in implementing the recommendations of the General Accounting Office and any other thing that I can do to make this program more robust. And I thank you for your time.

Mr. DAVIS. Thank you. I want to thank everybody for your time. Mr. Turner, did you have any more questions?

Mr. TURNER. Yes, a couple of questions and one comment, which we might want to ask Ms. Bates to announce very loudly that FTS 2001 is not mandatory. That seems to be the question.

Ms. BATES. FTS 2001 is not mandatory. [Laughter.]

Mr. TURNER. We've got her under oath here.

And one of the things that I was kind of curious about in terms of the comments I believe Mr. Payne made about that, is it not true that those who win that competition do in effect receive the stamp of approval of the GSA and, from an agency perspective, it's just easier to go that way? I mean, isn't it really the advantage that it represents to those who win that competition?

Ms. BATES. Well, I think you're correct. It's not only just easier to go that way, but we have the integrity of the acquisition process in play, the competitive forces, the way the Government does its business. We've had streamlined acquisition over the last several years. But I think getting back to our strategy and our principles as well, of the IMC coming together, bringing together the buying power of the Government and as such, in exchange for getting high technology and low prices, the commitment to stay with the program, although it is not mandatory.

However, we are going to, in keeping with the principle of maximizing competition, as I've stated before, we have it today, we're going to continue by this summer opening up to additional new entrants. And I'm pleased to see that there's already interest in that.

Mr. TURNER. After listening to the testimony today, I was going to suggest to you that you might remind our friends at AT&T that they spend millions of dollars on public relations when they could have taken a little bit of that budget and eliminated that $1.10 per minute phone charge. [Laughter.]

Ms. BATES. I thank you for doing that for me.

Mr. DAVIS. Thank you very much.

Mr. TURNER. I have just one other question. I wanted to inquire, and this may require a bit more lengthy discussion and time than we have now, but I'd really like each of your responses to my thought on whether or minimum revenue guarantees really promote competition. Or are they even necessary in today's competitive environment? Ms. Bates, you can respond to that if you'd like and any others on the panel.

Ms. BATES. Thank you, I will. Because it is a fairly complex subject, I will also submit written comments for the record. I think the MRGs, at the time we were doing this back in the 1997 timeframe, were absolutely appropriate. We were advised by the industry, which many of the familiar faces in this room were in this room then, advised us that the non-mandatory program, the industry, with the sizable commitment that we were asking them to make and the high expectation of extremely low prices and high technology, that a high minimum revenue guarantee was what it would take to bring them to the table to meet the Government's expectations. We validated this through other contracts of this nature that were being let in the industry. So I think it was appropriate at the time.

In today's environment, I think we need to take another look. Things have changed, competition is robust, clearly, as can be seen here today. Perhaps we don't need the enticement of such a large minimum revenue guarantee, nor do we want one. So this is something that we in FTS are looking at already. Within the metropolitan area access, the MAA program, we have reduced to a very minimum level the minimum revenue guarantees. For that program, anyway, we are still seeing robust competition, high technology and low prices. So certainly, we're trying to test and look and see.

But I think it's a valid question and one we should take seriously and study as we move ahead.

Mr. PAYNE. Mr. Turner, I'd like to offer a comment. I think it's still being said, in light of all the changes economically, the Internet is still doubling every 90 days. The IDG group estimates that the Federal Government spends $40 billion every year. My question is, why can't the vendors get these minimums?

My other question is, the scope of the FTS 2001 contract has been enormously broadened. It includes international services, unlimited bandwidth, any technology, any hardware can be brought to that contract. What is wrong with the economic model that this much effort has to be devoted to fill up their buckets?

I say go back and look at the incentives in these bridge contracts. I want to ask a question. I thought I heard that the transition with Sprint won't be finished until June 30th. Their bridge contract expires on June 6th. Where does this end?

I think the economic model, someone said this to me years ago, the best contracts manage themselves. You don't need Government to get involved in pushing things around the table. I'd like to see an environment where we have that.

Mr. DOHERTY. Yes, Mr. Turner, I'd like to respond as well. First of all, I assure you, I'll spend the next several days looking for the $1.10 minute. I was briefed earlier this week, and I understand our average cost right now is just under 10 cents, which I think is consistent with Ms. Bates' testimony earlier.

As far as the minimum revenue guarantees, I think to a certain degree it doesn't entice industry to offer potentially a lower price, knowing there is some guarantee of business. However, when it gets to the point where it's an impediment and you're now running a program based on these commitments and you no longer can do things you normally would have liked to have done, add new competitors, because you now are so concerned about meeting this, I think it's a problem.

I also believe that once, when the Government puts that out, it's also tied to industry performing like they said they would do when they responded to the RFP. The fact that there's been delays has impacted the Government's ability to meet that minimum revenue guarantee, and in fact is the reason why there's not new competitors coming in under this program today.

Mr. TURNER. I probably ought to let our other two panelists take the fifth amendment on that one right now. If you'd like to comment, I know you probably have a little different view on it.

Mr. D'AGATA. Just to make a couple of comments, one in particular on your suggestion of a schedule situation. The minimum revenue guarantee does help contractors to propose better prices. It helps them to assure themselves that they're going to retire their system investment that's required on a contract such as FTS 2001. We had to expend significant moneys, I think we pointed that out in our testimony. So it does provide some assurance that we would be able to retire that investment.

The schedule in itself may not provide the best prices to all the agencies. A contract such as FTS 2001 assures that every agency, whether it's a small agency like a PBGC or an American Indian tribe to enjoy the benefits of a large buy like FTS 2001.

So individual agencies certainly can take advantage of having their own programs or their own contracts. But it's for the smaller agencies that we would have a challenge in assuring that they would receive the best price as possible.

Mr. EDGERTON. Mr. Chairman, I'd like to make a comment. I brought a prop here so that you could get some feeling for what the commitments are and the requirements are for this contract. I'd like to share with you, this bill for 1 month that amounts to $5,000 that we make specifically because of the billing requirements for the Government. So that's a fairly unique requirement that we had to plan for that was not a commercial requirement and so forth. So that is——

Mr. DAVIS. A $5,000 bill?

Mr. EDGERTON. This is a $5,000 bill. So it almost weighs that much. [Laughter.]

I'd also like to make one comment. I spent 10 years at the left end of the table down here—[laughter]—and I'm beginning to smell the fragrance of sour apples. Thank you.

Mr. PAYNE. I think the difference is that MCI was not in the FTS 2000 contract, but Qwest is. We are an FTS 2001 provider, as an MAA. We're in that overlapping contract.

Mr. DAVIS. Anybody else want the last word? [Laughter.]

We appreciate everybody getting everything on the record. It's been very, very helpful to us, very articulate spokespeople all the way around. We appreciate your being here.

Before we close, I want to take a moment to thank everybody for attending the subcommittee's hearing today. I want to thank the witnesses, Chairman Burton, Congressman Turner and other Members for participating. I want to thank my staff for organizing it, I think it's been a very productive hearing.

I'm now entering into the record the briefing memo distributed to subcommittee members.

We will hold the record open for 2 weeks from this date for those who may want to forward submissions for possible inclusions. And these proceedings are closed. Thank you.

[Whereupon, at 5 p.m., the subcommittee was adjourned, to reconvene at the call of the Chair.]

[Additional information submitted for the hearing record follows:]

GSA

GSA Office of Congressional and Intergovernmental Affairs

June 22, 2001

Honorable Tom Davis
Chairman
Subcommittee on Technology
And Procurement Policy
Committee on Government Reform
B349A Rayburn House Office Building
Washington, DC 20515

Dear Mr. Chairman:

Please find enclosed the responses to questions submitted to Sandra Bates, Commissioner, Federal Technology Service of the General Services Administration from the hearing held on April 26, 2001, before the Subcommittee on Technology and Procurement Policy regarding the FTS2001 contract.

If I can be of further assistance, please do not hesitate to contact me on (202) 501-0563.

Sincerely,

Wanda Simms

for Glynis L. Bell
(Acting) Associate Administrator

Enclosure

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Follow-up Questions from Hearing on Technology and Procurement Policy

Q1. FTS2001 has a number of competitive mechanisms including the price management mechanism and the option to do a price redetermination much as was done in FTS2000. Jim Flyzik of the Department of Treasury noted in his testimony at the April 26 hearing that he is able to achieve pricing below that of the FTS2001 providers. Would you be specific in addressing what additional price reductions the GSA has been able to negotiate on behalf of the agencies?

GSA has negotiated 6 price reduction contract modifications (5 for MCI and 1 for Sprint) since the beginning of the contract for both contractors. The price reductions range from 8.5% to 87.5% from the awarded contract price. These reductions apply to various services (e.g. ATM transport (very high-speed transmission technology) 8.5%, Packet Transfer (bundling of data transfer) 87.5% and T1 and T3 (high-speed circuits) 22-26.7%).

In addition, GSA negotiated approximately $100 million in price reductions to the FTS2000 bridge contracts that reduced prices for our customers to levels comparable to the FTS2001 prices from May, 1999 through November, 2000.

Q2. What other considerations has GSA sought for the lack of compliance from Sprint and MCI on FTS2001 requirements?

At this time, no contract administration issues have risen to the status of disputes that would be resolved under the Contract Disputes Act. Should GSA determine that a contractor's efforts have not fully met contract requirements, GSA will undertake appropriate contract administration efforts to remedy those situations.

GSA has sought both monetary and non-monetary considerations from the FTS2001 contractors, including the possibility of a reduction to the Minimum Revenue Guarantee (MRG).
To date our efforts have not achieved any reductions to the MRGs. Future contract administrative efforts will press for MRG relief.

Q3. AT&T reportedly filed a claim against the GSA related to the allocation of the Department of Treasury's services on FTS2000. The claim reportedly surfaced out of the price predetermination/service reallocation in Year 7 of FTS2000. What is the current status of that claim?

On May 18, 2001, the General Services Board of Contract Appeals (GSBCA) issued its decision concerning AT&T's appeal. There were a number of claims at issue in the case, with the largest one consisting of AT&T's demand for the return of what it claimed were "unearned discounts" of nearly $122 million; however, AT&T's claim was for approximately $380 million. Since the decision was issued under a protective order, a redacted version of the decision will be provided when it is available from the GSBCA However, in light of recent, speculative commentary and press reports regarding the opinion, the GSBCA issued a summary of the opinion on June 5, 2001. A copy of that summary is provided as Attachment A. Of course, AT&T has the right to appeal the GSBCA's decision.

Q4. Please clarify what percentage of service Sprint has been transitioned to the Department of Justice up to the current time, given that Sprint's most recent bridge contract will expire on June 6.

As of April 30, 2001, 94% of Department of Justice's service has been transitioned. Sprint has notified Department of Justice that beginning May 1, 2001, any services still remaining on FTS2000 will be billed at FTS2001 rates.

Q5. Will GSA actively renegotiate for Minimum Revenue Guarantees? Please indicate what your specific timetable will be.

GSA is gathering facts and documentation. When completed, an appropriate plan of action, including a schedule will be developed for renegotiating MRGs.

As recommended by the GAO, GSA will continue efforts to obtain consideration from the FTS2001 contractors, including the possibility of a reduction to the Minimum Revenue Guarantee for failure to meet delivery dates.

Q6. One of the programs stated goals is to ensure best service and prices. The prices do appear to be among the best. However, one of the reasons for transition delays is that services and customer support have not been among the best. What specific steps is GSA taking to ensure theat [sic] customer agencies are receiving best service commensurate with their best prices? What specific measures have you established to evaluate whether you are meeting that best service goal?

GSA is committed to service excellence. Based on telecommunications industry standards, the FTS2001 contracts require the contractors to deliver several types of performance-related statistical reports relating to the performance requirements of the contract.

(1) General performance data reporting requirements are those that are common to all telecommunications:

- Network Fraud and Security Breach Detections
- Service Order Completions
- Trouble Report Status
- Monthly Disputes
- Monthly Adjustments
- Service Outage Credits
- User Forum Issues
- Contract Modification Status
- Service Trial Status
- Network Cost Minimization Opportunities
- Percentage Service Restoral Time

(2) Specific periodic performance data reporting requirements are those requirements unique to each type of service:

- Circuit Switched Services Percent Availability including Access and Transport segments.
- Circuit Switched Service Busy Hour Grade of Service for Blockage including Access and Transport segments.
- Audio Teleconference summary
- Fraud Prevention Performance Measurements
- Operator Services Availability
- Circuit Switched Service Trouble Reports
- Switched Data Services Percentage Availability including Access and Transport segments
- Switched Data Services Transmission Performance including Access and Transport segments.
- Dedicated Transmission Service Availability for Access and Transport segments

- Video Teleconferencing Service availability

(3) There are also Daily Performance Data Requirements that monitor all major service affecting events, major worldwide events impacting the contractor's telecommunications services and service status of selected user locations determined to be critical locations.

We conduct periodic management reviews with the contractors regarding these metrics to insure we receive the level of service required by the contract. We have found through these reviews that the FTS2001 contractors are meeting the performance measures reflected above.

To ensure GSA is meeting our customer needs, GSA conducts a quarterly web-based Network Services Survey with agencies to measure the following items:

- Reliability of services/products
- Quality of services/products
- Timeliness of services/products
- Price competitiveness
- Technical knowledge/competency of FTS representatives
- Dependability of FTS representatives
- Courtesy of FTS representatives

The results of the survey are shown below:

Qtr	Reliability	Quality	Timeliness	Price	Technical Knowledge	Dependability	Courtesy	Overall
4Q2000	3.8	3.8	3.1	4.0	4.0	4.0	4.3	3.8
1Q2001	3.7	3.5	2.9	3.8	4.1	4.2	4.6	3.8
2Q2001	3.6	3.5	3.0	3.7	4.0	3.9	4.2	3.7

Note: Average Score on a Scale of 1-5 – highest rating = 5

In addition, GSA holds regular meetings with agency customers to get feedback on problems and has instituted quality teams to improve our service ordering, billing and online management systems.

Q7. You have indicated to GAO that there were a number of factors beyond those identified in their report that contributed to transition delay. Among them was the time required to reach agreements among the various contractors on transition coordination and the establishment of gateway bridges. Why did it take so long to reach those agreements?

The general structure of the FTS2001 program and contracts is based on using standard commercial practices and services. Inter-competitor mechanisms and linkages are not part of typical standard commercial support for maintaining continuity of service during the transition of certain complex and specialized switched voice applications used by some government agencies. In particular, to support these complex transitions, management agreements to establish and manage gateways between carriers were necessary. The agreements were negotiated as rapidly as possible under the circumstances. However, establishment of the physical gateway facilities was delayed because they required special treatment by the carriers since they could not be ordered and provisioned in the same manner as standard commercial offerings. Compounding the problem, the gateway implementations were delayed by coordination problems with the LECs.

Establishment of gateways was necessary for two technical reasons:

- Avoid the overloading of the trunks between agency locations and local exchange carrier (LEC) offices that could occur if all normal 10-digit numbers were routed through the public telephone network.
- The large number of private and contractor network specific numbers ("700") that are used by agencies for certain applications (e.g., video and safety and security networks).

Extraordinary coordination arrangements were necessary for two reasons:

- Establishment and operation of the gateways.
- The high percentage of transition events that required real-time coordination between gaining and losing contractors when either LEC or government agency facilities did not permit parallel operation during cutover.

The delays in reaching the necessary agreements were largely due to four factors:

- The several contractors involved all had different ideas as to how transition of SVS should be managed.
- The need for agreements before definitive workload data was available.
- The complex technical issues.
- Extensive negotiations were required to set reasonable terms and conditions for efforts over and above normal industry practice.

Once contractual agreements were reached, the activation of the gateways was delayed by:

- Need for extensive and unusual coordination between contractors.
- The same LEC access limitations that affected other transition activities.
- Confusion on the part of LEC personnel because the interconnections required were between the "Carrier Facilities Arrangements" (CFA) of two different long-distance carriers rather than to a cable serving a customer address.

Q8. In your testimony, you state that "FTS2001 services will continue to be enhanced so that the latest state-of-the-art commercial grade services will also be made available to the Government users at the same pace as the services are made available to the commercial marketplace." AT&T's testimony states that Sprint in delayed in offering the latest commercial services to government. How does GSA ensure that the latest services are available to agencies?

Both FTS2001 contractors have been submitting proposals to enhance their service offerings. FTS2001 has available a complete and comprehensive portfolio of state-of-the art service offerings. The FTS2001 contracts anticipate ongoing enhancements to the initial contract service by providing for new or improved services. The contractors continually update their service offerings and prices to reflect their latest technology platforms and their best prices.

Modifications to the contracts accommodate the constant expansion of telecommunications technology. These enhancements may be solicited by the government or proposed by the contractors. If a new service is introduced to the commercial market, or if an existing service becomes available to a new location for commercial users, our contractors are required to make that service available to the Government.

Since contract award, seventy-nine modifications have been made to the contracts to lower prices and add services, including a full suite of Internet services, paging services and managed network services.

Q9. By all accounts the Department of Defense had a successful transition to the FTS2001 program. How many people did the DOD have to assign to the transition process to ensure that this was an orderly transition?

A. What were these individuals' jobs prior to working on the transition?

B. How did this affect other operations that they were working on?

GSA is not in a position to respond to these questions about DOD transition activity with firsthand information. The questions have been discussed with DOD and they have indicated that they are responding to the Committee under separate cover.

Q10. What percent of agencies have been fully transitioned to the FTS2001 Program?

As of April 30, 2001, 117 out of 145 total agencies had been fully transitioned to the FTS2001 Program, for a total of 81%. However, it is important to note that a more accurate reflection of the progress of the transition is the percentage of services that had been fully transitioned, which was 95%. These figures include the 117 agencies that had been fully transitioned and 23 agencies that had been partially transitioned as of that date.

The table below shows the status of the transition as of April 30, 2001, compared to the status in February 2001, as reported by GAO.

Transition Progress - Percent Complete

Type of Service	Status on April 30, 2001	Status in February 2001, per GAO Report
All Services	95	88
Switched voice service	99	91
Switched data service	87	55
Dedicated transmission service	93	86

A. When is this transition going to finally be completed?

Transition to FTS2001 will be completed during the summer 2001.

B. When should it have been completed?

Planning, including budgetary planning, was based on the expectation that transition would be completed by December 2000.

Q11. The new extension contract is much more expensive for government agencies. How much are the agencies that haven't completed transition paying for their services.

Customers using the Sprint and AT&T FTS2000 extension contracts are paying 10 to 12 cents per minute for long distance voice service.

A. How much would they be paying if they had been transitioned on time?

The average cost of a long distance call on the FTS2001 contracts is 3.5 cents per minute. Customers are experiencing similar savings for other services.

B. What are the actual direct and indirect costs of transition?

The direct costs for transition that GSA tracks are expected to total approximately $116M. These costs include GSA salaries and expenses, agency Service Initiation Charges (SIC), parallel operating costs for agency and common-use circuits, and contractor support. GSA has no estimates of the indirect costs of transition.

C. Were the actual direct and indirect costs of transition accounted for in the evaluation of FTS2001 proposals?

Since it was impossible to know beforehand what the actual transition costs would be, estimates were developed and incorporated in the cost evaluation. The terms, "direct and indirect" were not used in estimating those costs. Rather, costs were estimated based on whether they were explicitly charged by the offerors (e.g., Service Initiation Charges) or whether they were incurred "internally: by an agency as part of performing the transition activities (e.g., salaries of transition participants, travel related to transition activities, etc.)

Indirect costs were not defined during evaluation of FTS2001 proposals. They would have been difficult to quantify, were considered normal costs of operations, and were relatively small compared to the life cycle savings that resulted from the price competition.

D. How much have the agencies themselves expended on transition?

Individual agencies are responsible for making decisions about applying resources to transition. GSA was not involved in these decisions and has no information on internal customer agency expenditures for transition beyond those discussed in response to (B).

Q12. How much money has been expended from the Information Technology Revolving Fund in connection with FTS2001 program activities including, but not limited to, solicitation planning, drafting, award administration and any payments to subcontractors for such activities; transition; and program administration?

Program development, FTS2001 acquisition and transition expenses from 1993 to present are estimated to be approximately $150M equivalent to program savings during the first year of the FTS2001 contracts.

A. Are those expenditures greater or less than the difference in offer prices from the vendors in the FTS2001 procurement?

Over the life of the contracts, the savings realized from the lower prices achieved by the FTS2001 acquisition are projected to far exceed FTS2001 program development and transition costs.

Q13. Do the deviations from the FTS2001 requirements identified in the GAO Report represent the only deviations from contract requirements permitted by GSA? If not, what others are the others?

GSA has not permitted any deviations from contract requirements. The FTS2001 contractors are required to meet all the performance requirements of the contract. However, according to the terms of the contract, GSA could not require that customers be compensated for contractor noncompliance or failure to meet service requirements until the transition period was declared completed governmentwide by GSA (June 7, 2001).

In addition, certain other contract provisions also did not take effect until the governmentwide transition period was complete, i.e. until June 7, 2001. These provisions affect all government users of the FTS2001 program. Currently, with the transition period being complete, FTS2001 contractors are now required to provide their customer agencies with specific credit allowances (periods of free service) whenever a performance or service failure, such as a service outage, late services delivery, a reduction in service availability, or an unsatisfactory quality of service, occurs.

Q14. What is the impact on the FTS2001 procurement, and competition in general, of GSA's relaxation of FTS2001 contract requirements?

No FTS2001 contract requirements have been relaxed. See question 13.

Q15. During this period of transition, how much revenue that would have been included under the FTS2001 Program was not as a result of transition delays?

The transition beyond December 2000 is projected to result in $46M of revenue that will not be included under FTS2001.

Q16. GSA has said it is planning to modify the MAAs to permit MAA vendors to provide FTS2001 services. Will the contracts be subject to the FTS2001 contract terms and conditions?

Yes, an MAA contractor seeking to provide long distance services is required to comply with the FTS2001 requirements except for service and geographic ubiquity in accordance with the Statement of Principles released February 18, 1997 and amended April 4, 1997. The Statement of Principles was the result of extensive exchanges of information and views that took place between Congress, Executive Branch agencies, and industry. These exchanges included formal Congressional hearings, open public meetings, letters and other written materials, and private meetings arranged under the auspices of Congressional oversight committees. The FTS2001 RFP will serve as the basis, but will be updated to reflect current requirements.

Q17. What steps should GSA take to bring state-of-the-art telecommunications services to the agencies at competitive prices?

FTS does bring state-of-the-art telecommunications services to the agencies at competitive prices. FTS2001 has available a complete and comprehensive portfolio of state-of-the art service offerings. Joint meetings are held monthly with the agencies and the contractors to discuss requirements, new technologies and to establish priorities for adding new services. Individual meetings are also held with the agencies and the contractors to discuss agency specific requirements. A priority matrix of offerings is provided to the agencies each month that includes a schedule of new offerings to be submitted to GSA by the contractors.

GSA encourages the contractors to continually update their service offerings and prices to reflect their latest technology platforms and their best prices. If a new service is introduced to the commercial market, or if an existing service becomes available to a new location for commercial users, our contractors are required to make that service available to the Government.

In addition, the contracts include Price Management Mechanisms under which the contractors must maintain FTS2001 prices that are competitive with prices paid by other large users of telecommunications services.

Q18. What is the status of competition in the federal local services market?

The pace of local services deregulation and the associated development of competitive local markets have been much slower than expected. The long distance program has operated in a relatively robust and mature competitive marketplace for well over a dozen years. The Metropolitan Area Acquisitions (MAA), in contrast, began to roll out less than 18 months after the Telecommunications Act of 1996 was passed. Since then, the rules of competition in local markets have continued to evolve and the local competitive environment today is far from mature

Challenges affecting implementation include building access rights, reselling arrangements, number portability:

- Building Access Rights – Permission from the building owner must be negotiated in order for the telecommunications contractor to enter the building, use existing or install new cable, use existing or install new conduit, use of electrical and supplemental air conditioning systems, use of building telephone closets, and, in some cases, permission to mount an antenna on the roof. Extensive coordination is necessary between the building owner, the telecommunication contractor and FTS.

- Reselling Arrangements – A Competitive Local Exchange Carrier (CLEC) might opt to lease telephone lines and cables from the Incumbent Local Exchange Carrier (ILEC) at a discount and then "resell" that service to the government. Significant good-faith cooperation is required between the two competing contractors.

- Number Portability – The FCC approved process whereby a customer is allowed to move their phone numbers when changing telecommunication contractors. Extensive coordination is required between the two telecommunication contractors as well as the customer in order to minimize downtime and to ensure proper interface with the nationwide telephone number database.

A. Has the MAA contracts that have been awarded by the GSA generate or stimulate, genuine local service competition? Why or Why not?

Yes. The MAA contracts have provided considerable savings to our customers, ranging from 30-70%. These savings are based on a comparison of pre-MAA contract prices vs. awarded MAA contract prices. In the twenty cities where MAA contracts have been awarded, 12 cities have had multiple awards. Among the winning companies: four Incumbent Local Exchange Carriers (ILECs) have awards in multiple cities, two Competitive Local Exchange Carriers (CLECs) have won awards in more than ten locations each. At least one ILEC has competed outside their traditional service territories. Crossover allows for ongoing competition in each city. In addition, the fair consideration process provides for continued competition after contract award and is generating further price reductions.

B. By MAA region awarded, what portion of the federal local service market is being served by the MAA awardees under the MAA contract awarded?

There are currently 21 MAA cities including Washington Interagency Telecommunications Services (WITS). At present, 18% of the federal local service market is being served by the MAA awardees under the MAA contract awards. This number is changing daily. When all existing GSA customers in these 21 cities are transitioned to these contracts, 29% of the federal local service market will be served by the MAA awardees under the MAA contract awards.

Seven more cities will have MAA contract awards this year. When all 28 MAA cities are awarded, 66% of GSA's customer base will have access to MAA contracts (WITS included). Furthermore, that 66% represents 56% of the total national federal civilian population (including non-MAA locations).

The spreadsheet (Attachment B) shows, for each MAA city, the existing GSA market as a percentage of the federal local service market in that city. Regional percentages are shown at the end and are based on the current customer base. The spreadsheet does not reflect potential new customers.

Q19. What is GSA's understanding of an MAA contractor's eligibility for a long distance modification?

Yes. In accordance with Section J.3.2 Forbearance Period, the MAA contracts state "No contract modifications for optional local services in an MAA area will be executed to an FTS2001 contract or an MAA contract before one year after the relevant MAA award...Similarly, the Government will not execute contract modifications to an MAA contract for optional long-distance services before one year after the initial FTS2001 award."

When transition to FTS2001 is complete this summer, we will move ahead on implementing that portion of the strategy that allows competitors to offer long distance services.

A. As a prerequisite to the issuance of a modification, must the MAA incumbent have all the required regulatory approvals to provide ubiquitous long distance service.

In accordance with the Telecommunications Act of 1996, Incumbent Local Exchange Carriers (ILEC) must meet the "Section 261 Process" which requires the ILECs to complete the 14-point checklist to open up their local market to competition before obtaining regulatory authority to enter the long-distance market.

Without first obtaining this regulatory approval, for the areas in which the ILEC intends to provide service, GSA will not execute a modification for long-distance service against an MAA contract.

GSA is not requiring that MAA contractors achieve authority to provide ubiquitous nationwide long-distance service. However, before a contractor can offer long-distance service under an MAA contract, the contractor must have authority to provide such service at least in the areas in which it proposes to provide such service.

B. Must the MAA awarded be in good faith providing to their local government customers all the MAA services that were the subject of the initial award before being considered as a long distance provider?

Past performance of an MAA contractor is used as a factor in considering any proposals to offer Optional, Enhanced, or Emerging services. If an MAA contractor is believed not to be acting "in good faith" (i.e., intentionally not performing on a contract) such negative past performance would weigh heavily in the decision to execute a long-distance modification.

C. Should the MAA contractors be required to provide the long distance services in accordance with all the term of the original RFP for the provision of long distance services?

An MAA contractor seeking to provide long distance services is required to comply with the FTS2001 requirements except for service and geographic ubiquity in accordance with the Statement of Principles. The FTS2001 RFP will serve as the basis, but will be updated to reflect current requirements. See question 16.

James F.X. Payne
Senior Vice President
Government Systems Division

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ride the light

Qwest

June 6, 2001
*Via Courier

The Honorable Tom Davis
U.S. House of Representatives
Chairman, Subcommittee on Technology and Procurement Policy
B349A Rayburn Building
Washington, DC 20515
Attention of: Ms. Melissa Wojciak, Staff Director

Dear Congressman Davis:

Pursuant to your letter of May 3, 2001, I am pleased to provide answers (below) to your follow-up questions relative to your Subcommittee's April 26, 2001 hearing on FTS issues.

- ***Question: In your testimony you stated,"...the current FTS2001 contracts are even unable to provide some of the most basic components of existing FTS2000 service offering." Can you elaborate further on the services that are lacking in the FTS2001 contract?***

  Answer: When the FTS GSA programs were established in the late 1980's, the comprehensive interagency Government Contract covered the broadest range of voice, data, and video services. Vendors awarded these worldwide contracts have been expected to showcase the highest technology and service levels available to the industry at the lowest possible prices. The telecommunications industry is highly dynamic and fiercely competitive, and competition will continue to increase dramatically mostly as a result of the Telecom Act. Yet the government agencies are negatively affected by these trends because of artificial barriers to competition placed on the federal marketplace via stalled transitions, the misuse of the Minimum Revenue Guarantee concept and the GSA's lack of execution of the FTS Program's Guiding Principles. Sophisticated consumer demands for state-of-the-art products and services are driving rapid technological innovation in the commercial marketplace, yet FTS2001 service providers are unable or unwilling to deliver even the most basic services promised to the GSA for federal agencies who, as a result, are at the losing end of technology innovation at the expense of taxpayers.

  The GSA broadly ignored the issue of reconciling FTS 2000 and FTS2001 services. FTS 2001, at award, contained large technology gaps that prevented agencies from moving forward.

  The FTS2000 contracts provided a number of advanced features for toll-free 800 services that are not available on today's FTS2001 contracts. These features that supported the Social Security Administration and the Internal Revenue Service provided custom reports that facilitated management of the toll-free networks by the agencies themselves. Likewise, some basic data services including X.400, telex and Electronic Data Interface (EDI) services were no longer offered or supported.

Since contract award, a number of features and services have been added, most aggressively by MCI. A much smaller subset has been added by Sprint. The consequence of the delays in adding services and features are the fault of both the vendors and GSA. It also is reflective of a co-mingling of three discrete contract activities spelled out in the FTS2001 RFP.

Transition was defined as "the process of planning for and transferring services from existing FTS2000 networks to the contractor's network." **Migration** "is the process of planning for and transferring services from existing agency networks (i.e., those networks not currently associated with FTS2000 networks) to the contractor's networks. Migration also includes planning for and transferring services from one FTS2001 contractor's network to another FTS2001 contractor's network after transition." **Implementation** "is the process of planning for and adding new services to user locations provisioned under this contract. Implementation may involve the addition at specific user locations of a service that is comparable to a current FTS2000 service offering but which has not before been provisioned at that particular location. Implementation may involve the addition of a completely new service offering at a user location, (i.e., services that have never before been offered by FTS2000 nor by legacy systems at a particular location). Implementation also may involve enhancements, changes, and additions to existing service offerings."

It remains unclear the degree to which those things that could have been clearly transitioned were impacted by what were migration and implementation activities. Clearly the priority should be and should have been on straight transition activities and the addition of services and features to the FTS2001 contracts that would facilitate transition. Once completed, the addition of other services and features that would support migration or implementation are in order.

- ***Question: Coordination issues between the local and long distance carriers have been identified as an impediment to the timely completion of the FTS2001 transition. What steps could have, or should have, been taken to minimize those problems?***

Answer: Planning is the key to successful coordination between the local and long distance carriers. The provision of useful database information from the incumbent FTS2000 providers from their respective Customer Profile databases would have provided a view of the existing customer configurations currently being billed by each FTS2000 provider. This analysis would have also supported the physical site surveys that were performed to validate the configurations that would necessarily include access provided by the incumbent FTS2000 provider. Close coordination between the existing FTS2000 contractor and the successor contractor should have enabled the "re-assignment" of many existing local access arrangements to FTS2001 vendors from their FTS2000 provider.

In those cases where a new access arrangement is required, advance planning would have enabled timely ordering of new access arrangements as well as the disconnecting of previous access arrangements. Even impending strikes by providers can be mitigated through planning and the use of alternate access providers.

Qwest manages precisely the same local issues as the FTS2001 vendors, yet delivers comparable services in less than 30 days. The same FTS2001 services take MCI and Sprint over 200 days. The issues are far beyond local carriers; they include poor program management, negative economic incentives for existing FTS2001 vendors, and lack of executive attention.

The Honorable Tom Davis
Page 3 of 3
June 6, 2001

Please feel free to contact me at 202-429-3116 or Jane Kunka at 202-429-3107 if you have any questions on these responses or any other matter as it pertains to the Government Systems Division.

Sincerely,

James F. X. Payne

James F. X. Payne
Senior Vice President
Government Systems Division

ride the light SM

WORLDCOM

Jerry A. Edgerton
Sr. Vice President
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June 5, 2001

The Honorable Tom Davis
Chairman
Subcommittee on Technology
And Procurement Policy
Congress of the United States
2157 Rayburn House Office Building
Washington, DC 20515-6143

Dear Chairman Davis:

I thank you for the opportunity to testify before your House Subcommittee on Technology and Procurement Reform on behalf of WorldCom Government Markets. As I reported to you at that time, WorldCom is very pleased to be able to have helped the Government and the American taxpayer save $150 Million in 2000 and a forecasted $250 Million in 2001.

In response to your letter, dated May 4, 2001, I would like to address your question regarding the delays experienced by the Department of Interior ("DOI") and discuss the current transition status.

As stated in my testimony, a combination of incomplete order information, ever changing requirements and a lack of adequate government resources contributed to DOI's transition delays.

Working together as partners with the government, WorldCom volunteered, and took the lead to write the orders before they were submitted for processing, and managed the carrier selection process for voice long distance services. In addition, WorldCom tripled it's support staff and added four account managers improving service to DOI. As of June 5, 2001, 98% of DOI's transition is complete.

As a result of the improvements made to DOI's process and procedures, the transition process was streamlined and improved, which benefited the entire FTS2001 program. I have attached for your review detailed responses to your questions, which support the overall FTS2001 improvement to service delivery.

I am very proud of the fact that the FTS2001 contract has lived up to its promise WorldCom has delivered to the federal government great innovations in telecommunications technology and exceptional services, at competitive prices. I strongly believe that this contract marks a new era in government telecommunications.

Sincerely,

Jerry A. Edgerton

Mr. Jerry A. Edgerton
Senior Vice President
WorldCom Government Markets

WORLDCOM

RESPONSE TO QUESTIONS

Question:
If the timing of agency selection was a critical factor in delay, why hasn't transition been completed?

Response;
While early selection is important, preparation for the placement of orders on the part of individual agencies is perhaps more important. The act of selecting WorldCom as its FTS2001 carrier did not, in and of itself, create a single order. DOI selected early as it knew that an agency of its size and diverse missions would take a substantial period of time to research its current network configurations and translate that into orders. Many things compounded the amount of time it took to create orders: lack of records with the incumbent FTS2000 provider, agency staff shortages, address reconciliation issues, and, in some cases, a desire to take advantage of transition to upgrade network and capabilities. WorldCom and DOI management recognized that the amount of time, given the pace of orders in 1999, would not be adequate. WorldCom added significant account team and program management personnel to facilitate the issuance of orders, clarify and correct address records, and speed along implementation. This research has helped create a data base/inventory that will serve DOI and WorldCom well in managing these networks on an ongoing basis.

Question:
Explain the persistent problems with timely receipt of service order notifications?

Response;
In order to address this issue, WorldCom has implemented system enhancements that create greater dependencies between ordering activities and, notifications; these enhancements have further automated the issuance of service order notifications. WorldCom has reviewed and updated order processes to address common ordering issues. WorldCom has re-trained its personnel and monitored their performance to ensure process adherence.

Question:
Explain the government's inability to access transition management information to support transition planning and status reporting?

Response;
FTSNET is the umbrella system providing access into Transition, Migration, and Implementation information (TMI), for all FTS2001 customers. The population of the TMI Database was complete in June 1999. This allowed all agencies to see their Site Survey and Plan data on –line. In addition, all agencies were able to view the 60-day schedule in the TMI Database. The final section of TMI, the as-built section, was populated and delivered into production on January 2001. This database is a living repository of data and is updated regularly as sites are surveyed, plans are produced, and as-built services are completed. WorldCom is currently working on adding on-line reporting functionality to the TMI database system to increase its capabilities beyond the contract's requirements, an enhancement requested by the GSA PMO.

Question:
Explain DOI's inability to obtain service for its Alaska facilities?

WORLDCOM

Response;
WorldCom provided services in Alaska as required by the FTS2001 contract. However, DOI and its Alaska users were interested in advanced services, such as ATM, high-speed frame relay and Internet that were not available via WorldCom's commercial products or services. WorldCom worked with DOI and GSA to add increased Alaska capabilities such as a high-speed frame relay offering through the contract modification process. Additionally, we provided dial –up data application support for tribal schools. Although WorldCom's service met the capabilities required by the FTS contract, we worked with our partner GCI to re-groom and improve the network to support the application previously provided under FTS2000. While this was in progress, the customer received several months of free service, totaling over $100,00.00.

Question:
Explain Department of Interiors persistent billing problem?

Response;
Several factors caused DOI to experience billing problems. For example, upon award of the FTS2001 contract to WorldCom, several Bureau of Land Management ("BLM") field offices tried to order FTS2001 service. Mistakenly they ordered commercial WorldCom service through their local exchange carriers, and not FTS2001 service through WorldCom Government Markets, resulting in WorldCom generating commercial, and not FTS2001 invoices. If the invoices were not paid in a timely manner consistent with standard commercial practices, the groups within WorldCom responsible for commercial, and not FTS2001, billing would sell the past due invoices to collection agencies and service would be discontinued if payment was not ultimately made. Once advised of the situation. WorldCom Government Markets took corrective action through education of the field offices, additional system development, and a "clean-up" of billing address information in WorldCom systems. In addition, WorldCom and DOI have jointly developed a process to address and manage this problem, eliminating further similar incidents.

Question:
Explain how the nature of these problems prompted DOI staff to suspend transition ordering?

Response;
The U.S.Geological Survey ("USGS") suspended transition due to billing questions. The account team addressed customer questions, and took corrective action. Once the USGS understood the issues, saw that our action would resolve its concerns with the end-user customer, USGS lifted the suspension.

BLM suspended transition for one day because it wanted to ensure that service would be available during the upcoming fire season. WorldCom worked with BLM to address its concerns and establish a cut over process that would provide the level of support and daily communication required to transition before this critical season.

Question:
Where does inadequate customer support factor into transition delays and delayed service ordering?

Response;
Inadequate government support was a significant factor in the delay of transition. Realizing this, WorldCom increased its customer support organization and took on additional responsibilities in order to facilitate a faster transition. These responsibilities specifically included writing the transition orders and managing the PIC process on behalf of the agencies.

WORLDCOM

Question:
Which of the billing problems experienced by DOI represent new requirements beyond the scope of the contract, as you suggest?

Response;
The main billing requirement imposed by DOI that was outside of the contract's requirements was the management or correction of commercial invoices. As noted above, these invoices resulted from several field offices ordering commercial WorldCom service through their local exchange carriers, instead of FTS2001 service. If the customer had worked directly with WorldCom, and provided WorldCom with correct information for FTS2001, many of these issues could have been avoided.

Question:
DOI was raising billing specifically as a big problem in January 2000, and continued to suffer the consequences at least through July. Why couldn't this problem be resolved when it was first identified? What should have been done, by WorldCom or by GSA, that was not done to immediately solve this problem?

Response;
WorldCom's and GSA's main focus has been on the transition of services from FTS2000 to FTS2001. We have been working to ensure all orders have been placed and all orders have been completed. A complete resolution of all of the billing problems would require a detailed analysis of all billing information. As transition activities have been winding down, WorldCom and the various bureaus have been working closely to audit the current billing information and make the necessary changes to ensure that users receive the information necessary to support their telecommunication needs.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

JUN 6 2001

The Honorable Tom Davis
Chairman
Subcommittee on Technology
and Procurement Policy
Committee on Government Reform
U.S. House of Representatives
Washington, DC 20515-6143

Dear Mr. Chairman:

I am responding to your letter of May 3, 2001. You presented three follow-up questions based on my testimony before the House Subcommittee on April 26, 2001.

Your first question, "Have you been consulted by GSA or AT&T with respect to this claim related to the Department of Treasury?"

Yes, GSA's law firm, in this case, Patton & Boggs required two days of deposition from me as well as other Treasury CIO staff members. I also testified on this case at the General Services Administration Board of Contract Appeals Trial. A key element of the case dealt with my decision to stop the transition of Treasury telecommunications services due to performance problems and delays. Due to the case still being in litigation, I am not at liberty to discuss any details at this time. I would be happy to discuss this matter in greater detail after the trial results are made public.

The second question, "Can you compare and contrast your experiences in acquiring and implementing telecommunications from that non-FTS contract to your experience with FTS2000 or FTS2001?"

The FTS2001 contracts offer the government the ability to obtain telecommunication services at a reasonable price. There appears to be more flexibility with the FTS2001 contract as opposed to the previous FTS2000 program. We use the FTS 2001 contracts whenever possible to meet mission requirements. However, the process to obtain new FTS2001 services and features still requires lengthy contract modifications, which delay service availability.

The Department's Treasury Communications System (TCS) integrator, TRW, Inc, awarded a contract to Qwest and Sprint in February 1999, to provide Treasury with alternative vehicles to acquire critical telecommunications services in situations where our mission requirements needed to be met in timeframes FTS 2001 could not meet. We designed our TRW contract competition on Treasury-wide requirements. For example, our service order intervals are significantly shorter than the FTS2001 contract. Penalty and incentive clauses were introduced almost immediately whereas, these clauses have yet to be implemented on the FTS2001 contract. Also, our present experience with our TCS Program has shown that telecommunication service provisioning has been significantly better when compared to similar service provisioning under the FTS2001 program. As I said in testimony, the FTS 2001 contract complements our program nicely and we are able to gain benefits of both the GSA program and our own. We also are able to request pricing "equal to or better than" FTS 2001 pricing to obtain attractive rates. We also use performance-based contracting with our integrator, TRW, to keep incentives for constant improvement in our program.

I should point out that this approach works for Treasury because we have the largest private data network in the civilian government and large volumes of toll-free "800" services. Smaller agencies, which do not have volumes of traffic like Treasury, may not be able to attract as much competition in the marketplace.

The second part to your question "Are there any particular aspects of one approach that may be beneficial if applied to the other?"

As presented in my testimony before the House, unlike the past, I believe that a single large procurement to provide telecommunications services and features to the entire federal government may no longer be the optimal approach. The size and complexity of these large procurements makes it impractical to react in so-called "internet-time". Contract provisions that require agencies to transition from one network to another are clearly not in the best interests of the government.

The competitive environment calls for new models for telecommunications servicing in the future. Wireless, satellite, cable, and more traditional communications services are all heavily competing for market share. We need to position government to take advantage of marketplace changes very quickly. I believe the Treasury approach, treating TRW as our business partner with responsibility to constantly look for best practice strategies, gives us much more flexibility to adapt quickly to a dynamic marketplace. Performance-based contracting approaches create the incentives for constant improvement.

We need ways to get access to all telecommunications services and technologies. A "schedule" type catalog of services may be an interesting model to be studied.

Your last question asks, "Are there specific lessons or risk management strategies you would bear in mind as you consider competitive sources for your communications service requirements in the future?"

First and foremost the service provider needs to be held accountable. Service Level Agreements (SLA's) need to be specific on penalties and rewards. Second, our organization cannot be locked into a single service provider. Competition and technology are moving too quickly. We need to be able to take advantage of the best services and technologies from whatever sources as they become available. We need the ability to go to any provider who can provide the service in the timeframe that our requirements dictate. Finally, telecommunications contracts need to be kept simple and practical to be able to be modified quickly to react to dynamics in the marketplace.

I appreciate the opportunity to respond to your questions. I look forward to working with the Subcommittee in the future.

Sincerely,

J. Flyzik

James J. Flyzik
Acting Assistant Secretary (Management)
and Chief Information Officer

Sprint.
Government Systems Division

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May 31, 2001

Honorable Tom Davis
Chairman
Subcommittee on Technology and
Procurement Policy
B349A Rayburn House Office Building
Washington, D.C. 20515

Re: Hearing entitled "FTS2001: How and why transition delays have decreased competition and increased prices," April 26, 2001

Dear Chairman Davis:

Thank you for the opportunity to voice our views at the April 26, 2001 oversight hearing regarding the FTS2001 contract. In response to the follow up questions you referred to us in your letter of May 3, 2001, I have attached complete responses.

Please do not hesitate to contact me for any additional information you may require.

Respectfully submitted,

Enclosure

RESPONSES TO QUESTIONS POSED IN GOVERNMENT REFORM AND OVERSIGHT COMMITTEE LETTER DATED MAY 7, 2001

1. *You indicate that transitioning Sprint's existing FTS2000 customers to FTS2001 was challenging because it required that orders be manually shepherded through your billing and ordering systems to ensure that the provisioning systems did not automatically disconnect existing local access. Despite these measures, there were instances in which those automatic disconnects did occur, correct? How many such instances were there?*

ANS:

There were approximately 10 instances of disconnects in error during the transition of over 30,000 circuits to FTS2001. Sprint had very few instances of erroneous disconnects. We believe that the very small number of inadvertent FTS2001 disconnects was the result of the procedures we put in place to minimize the possibility that this would happen. Nonetheless, we are aware that these disconnects caused disruption to our customers. We both share and regret their frustration.

2*(a) You mention the criticality of having accurate information for service ordering, which was especially true for existing Sprint customers. If they were existing customers, why was there a challenge in obtaining accurate information? Didn't you have accurate information on those customers in your systems already?*
(b) When will GSA have an accurate and complete transition management information database from Sprint?

ANS:

There are many circumstances when the information in Sprint's systems regarding the services of its existing FTS2000 customers was inadequate to transition those customers' services to FTS2001.

First, FTS2001 was intentionally a broader contract than FTS2000. It purposely included a variety of services not on FTS2000. For example, FTS2001 offered an agency the management of networks and network equipment not available on FTS2000. Under the old contract, those services were provided by the Agency itself or other vendors. When that existing customer desired to transition all of its services to FTS2001, that required a complete inventory of equipment and services. These configurations were not within Sprint's purview or systems under the old FTS2000 contract. Those inventories had to be provided, verified, and validated before transition activity could begin. In the situation described above, Sprint transitioned an Agency's existing service that was beyond the scope of the old FTS2000 contract.

Similar verification and validation of information had to be performed for existing FTS2000 customers when those customers upgraded their service. For example, if an existing FTS2000 customer elected to take advantage of the opportunity to upgrade its service from X.25 to frame relay, Sprint's existing information regarding that customer's old X.25 service was only marginally helpful, at best, in transitioning that customer to frame relay service. The service order information regarding the new service had to be provided, verified, and validated before transition activity could begin.

Finally, in many circumstances, our existing FTS2000 customers submitted transition orders that expanded or changed the physical footprint of their existing services. For example, an Agency with 20 sites submitted transition orders that added another 6 sites to its service, or added those new 6 sites and deleted others. In that case, Sprint's technical configuration had to be re-engineered and the existing information regarding that customer's network had to be updated, verified, and validated for the new sites to be added and the sites to be deleted from its existing network service.

b. *When will GSA have an accurate and complete transition management information database from Sprint?*

The Transition Management Information Database was first submitted to GSA in December of 1999. Sprint completed loading the latest transition data into the system on May 7. As the contents of the database are constantly changing, Sprint and GSA have been working with the database to verify completeness and accuracy.

United States General Accounting Office
Washington, DC 20548

July 2, 2001

The Honorable Tom Davis
Chairman
Subcommittee on Technology and Procurement Policy
Committee on Government Reform
House of Representatives

Subject: *FTS2001 Implementation Issues*

Dear Mr. Chairman:

As you know, GSA awarded FTS2001 contracts to Sprint and MCI WorldCom to provide long distance telecommunications services to federal agencies. The federal government began the sizable and complex effort of transitioning from the existing FTS 2000 contracts to FTS2001 in June 1999. This transition is presently nearing completion. In your letter of May 3, 2001, you asked that we respond to several follow-up questions pertaining to your Subcommittee's April 26, 2001, oversight hearing regarding the FTS2001 contracts. My responses to your questions follow below.

> Question 1: How feasible would it be to build into future contracts an accountability mechanism that may include penalties that the General Services Administration (GSA) could apply against the contractors' guaranteed minimum revenue over the life of the contract? What is the feasibility of renegotiating the current contracts?

Answer: It is feasible to include an accountability mechanism in future contracts that include such civil penalties as provisions for credits or liquidated damages. It is also feasible to modify the current FTS2001 contracts to include such an accountability mechanism, because federal acquisition law does permit such modification of contracts (although such action would require negotiations with, and the agreement of, the contractors). We should make it clear, however, that the existing FTS2001 contracts already include accountability mechanisms, in both specific and general terms.

As we stated in our report of last March,[1] the existing FTS2001 contracts establish specific performance requirements,[2] including timeliness of service delivery,

[1] *FTS2001: Transition Challenges Jeopardize Program Goals* (GAO-01-289, March 30, 2001).
[2] These terms are stated at paragraph H.13 of the FTS2001 contracts.

availability of services, quality or grade of service, and restoration of failed or degraded service. However, the contracts provide that these basic performance requirements not take effect until the FTS2001 transition is complete, thereby restricting the government's ability to hold the contractors accountable for performance shortcomings during the transition period.[3] Thus, the FTS2001 transition delays that have occurred to date not only had a financial effect but have also delayed the effective date of these specific contract terms and conditions.

Beyond these specific requirements, the FTS2001 contracts contain additional terms and conditions establishing accountability for failure to provide service or meet contract requirements. For example, the contracts include a default termination clause that permits termination of the contracts in whole or in part. Rather than terminating the contracts, the government can instead ask for consideration from the contractor. This consideration could take any mutually agreed upon form, including price reductions or a reduction in a contractor's minimum revenue guarantee (MRG). We recommended in our report that GSA take action to obtain consideration for failure to meet management information and billing requirements within the time frames established in the FTS2001 contracts. GSA concurred with this recommendation. According to GSA, it is still examining the record of FTS2001 contractors' performance to date to determine what specific action may be appropriate.

> Question 2: How can GSA prevent future billing problems? Is this a problem caused by lack of database software used to collect and organize the information or a personnel management issue?

Answer: As we reported to you in March, one factor inhibiting transition progress was the lack of accurate, up-to-date billing information and the improper billing of services. This problem is not unique to FTS2001—it is common among users of telecommunications services. This problem is not attributable to personnel management or to a lack of database software. Rather, billing problems often arise from changes in contracts and services such as those that took place during the FTS2001 transition. According to GSA, these issues also arise because of differences between the contractors' commercial billing practices and the practices that government agencies are accustomed to, which are reflected in contract requirements. In that regard, there has been a "learning curve" for both the contractors and the government on billing matters during transition. In the case of FTS2001, GSA also waived the test and acceptance of one contractor's billing system for an indefinite period because of the desire to move forward with contract implementation, and did not promptly resolve billing problems that arose with both contractors.

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[3] Specifically, the contract states that these requirements "...will not apply to services being transitioned from the FTS2000 network to the FTS2001 network; services being migrated to FTS2001 from networks other than FTS2000 during the FTS2001 initial transition; or new service starts on the FTS2001 that may take place during the initial transition and startup of FTS2001."

The best way to reduce the effect of billing problems is for GSA to hold the contractor responsible for resolving such problems promptly when they arise. The billing problems we identified adversely affected FTS2001 transition progress because their resolution was not prompt.

GSA is taking steps to resolve current billing problems. It is tracking issues as they arise, and it is currently trying to resolve 12 issues still outstanding with Sprint and MCI WorldCom, including the problem of commercial billing that we reported. In addition, GSA's Office of Inspector General has recently begun a review of the FTS2001 billing area, which might also identify ways to prevent future billing problems.

> Question 3: Was the legitimacy of the databases that supported the transition process from FTS2000 to FTS2001 inaccurate? Do you think this is the sole reason for transition delays?

Answer: The lack of information needed to accurately and appropriately manage and measure transition progress was one of the factors that contributed to FTS2001 transition delays. This issue was one of lack of access to information, however, rather than of its accuracy. Specifically, while GSA developed an automated system to help track transition data and develop reports, the FTS2001 contractors did not furnish GSA with the data it needed to populate that management system's database. According to GSA, it also had difficulty obtaining information from one of the FTS2000 contractors during the initial transition planning. As a result, GSA and agency transition managers did not receive the timely and up-to-date information they needed to effectively plan and manage transition activities.

This was not the sole reason for transition delays. Additional factors contributing to transition delays included the inability to rapidly add transition-critical services to contracts, the slow pace at which agencies ordered services, contractor customer support problems, and the inability of local telecommunications providers to deliver services and facilities as scheduled.

> Question 4: The MRGs have been slowed significantly due to delays in the transition to FTS2001. Is it true that MCI and Sprint will not meet their MRGs until 2004 and 2006 respectively? Further, doesn't this point to limited competitive opportunities for another three to five years for other companies that are ready and able to offer the government low prices and advanced technological services/products?

Answer: We estimate that MCI WorldCom and Sprint may meet their MRGs in fiscal years 2003 and 2004, respectively (contract years five and six). Our estimate is based on FTS2001 revenues accumulated through April 2001, and assume no significant change in the demand for services from either contractor. An analysis recently prepared by GSA staff reached a similar result.

Even if MCI and Sprint do not meet their MRGs in fiscal years 2003 and 2004, however, that result may not point to continued limited competitive opportunities for the FTS2001 program. GSA's position has been that it would not wait until the MRGs were completely satisfied before allowing additional competitors to cross over into FTS2001; rather, it would make that determination when it was reasonably assured that the MRGs would be satisfied within the potential 8-year contract period. At the April 26, 2001, hearing on FTS2001 implementation, the FTS Commissioner, Ms. Sandra Bates, testified that GSA would begin accepting proposals this summer from qualified contractors who wish to offer FTS2001 long distance services, that is, those providing local telecommunications services under the GSA's Metropolitan Area Acquisition program. Therefore, if GSA follows through on those statements, competitive opportunities under the FTS2001 program would no longer be limited.

> Question 5: Do the deviations from the FTS2001 requirements identified by GAO represent the only deviations from contract requirements permitted by GSA? If not, what others are there?

Answer: The only permitted deviation from the FTS2001 requirements that we identified in our report was GSA's decision to waive ordering and billing system test and acceptance requirements for MCI WorldCom in order to allow it to more quickly receive and process service orders. To the extent that other contract requirements were not met when required—such as other billing problems encountered with both contractors, and the failure to provide management information when required—we recommended in our report that GSA obtain consideration from the contractors in accordance with the FTS2001 contracts' terms and conditions.

> Question 6: What is the impact on the FTS2001 procurement, and competition in general, of GSA's relaxation of FTS2001 contract requirements?

Answer: As we mention in our response to question 5, we identified in our report only one deviation from contract requirements that GSA permitted. Specifically, that one deviation was GSA's decision to waive the requirement that MCI WorldCom's billing and ordering system be tested and accepted before order processing could begin. As we reported to you in March, several factors contributed to FTS2001 implementation delays. We reported that GSA's decision to waive the acceptance testing of MCI WorldCom's billing system contributed to billing problems and thus was one of the factors contributing to FTS2001 implementation delays.

In addition, those instances where other contract requirements were not met do not represent out of scope contract modifications on GSA's part, and therefore do not cast doubt on the original contract competition. This issue was addressed in a protest filed with GAO by AT&T on May 25, 2001, alleging that GSA had relaxed or waived FTS2001 requirements and specifications in a manner that materially altered the fundamental nature and purpose of the FTS2001 contracts.

The decision of GAO on June 14, 2001, dismissed the protest as a "contract administration" matter beyond our protest jurisdiction, and untimely in any event.[4] We concluded that AT&T had not shown that the modifications to the FTS2001 contracts were beyond the scope of the original contracts: "The objectives and scope of the FTS2001 contracts remain unchanged despite the alleged poor performance of the contractors: the same services are being provided notwithstanding the alleged relaxation or waiver of those requirements."

> Question 7: During this period of transition, how much revenue that would have been included under the FTS2001 Program was not as a result of transition delays?

Answer: According to GSA revenue reports, approximately $159.8 million was billed to the government under the FTS2000 contracts from December 2000 through April 2001. In comparison, about $236.4 million was billed under the FTS2001 contracts during the same period. Not all of that FTS2000 revenue would have been included under the FTS2001 program had transition not been delayed, because the lower prices offered under the FTS2001 contracts would reduce that amount. According to GSA, about $46 million in revenue will not be included under the FTS2001 program because the transition extended beyond December 2000.

In addition to the questions set forth in your May 3, 2001, letter, you also asked during the hearing that we examine GSA's estimate of savings lost to the government due to transition delays. GSA FTS Commissioner Bates testified at the hearing that about $74 million in savings was lost due to delays in completing the FTS2001 transition. As I indicated to you at the hearing, we have reviewed and evaluated GSA's derivation of that estimate and the supporting documentation. On the basis of this analysis, we found the $74 million estimate to be reasonable.

In providing oral comments on a draft of this letter, the GSA FTS Assistant Commissioners for Acquisition and for Service Delivery generally agreed with the information presented. We have incorporated GSA's comments where appropriate.

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During the course of our work to address the questions posed in your May 3 letter, we reviewed the documentation we prepared in support of our earlier report to you. We also met with the GSA FTS Assistant Commissioner for Acquisition and with other FTS2001 program management staff to obtain documentation of revenues accrued to date, estimated time lines for satisfying contract minimum revenue guarantees, and actions being taken to resolve billing issues. We also obtained documentation from GSA supporting its estimate of lost FTS2001 savings and discussed the logic used and steps followed to derive that estimate with the staff from Mitretek Systems, who prepared that estimate for GSA. We independently estimated time lines for satisfying contract minimum revenue guarantees based on FTS2001 revenue documentation

[4] *AT&T Corporation*, B-287931, June 14, 2001.

obtained from GSA. We conducted this work from May 2001 through June 2001 in Washington, D.C., and Fairfax, Virginia, in accordance with generally accepted government auditing standards.

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We are sending copies of this correspondence to the Ranking Minority Member, Subcommittee on Technology and Procurement Policy, and interested congressional committees. We are also sending copies to the Administrator of General Services, and to the Director, Office of Management and Budget. Copies will be made available to others upon request. The correspondence will also be available on GAO's Web site at *http://www.gao.gov.*

If you have any questions regarding this correspondence, please contact me or Kevin Conway, Assistant Director, at (202) 512-6240 or by e-mail at *koontzl@gao.gov* or *conwayk@gao.gov*, respectively.

Sincerely yours,

Linda D Koontz

Linda D. Koontz
Director, Information Management Issues

(310322)

DEFENSE INFORMATION SYSTEMS AGENCY
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701 S. COURTHOUSE ROAD
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IN REPLY
REFER TO:

May 18, 2001

The Honorable Tom Davis
United States House of Representatives
Chairman, Subcommittee on Technology and Procurement Policy
Committee On Government Reform
Washington, D.C. 20515-6143

Dear Congressman Davis:

We appreciated the opportunity to testify before your Subcommittee on Technology and Procurement Policy oversight hearing regarding the FTS2001 contract. As requested in your May 3, 2001 letter, DOD has prepared answers to your specific follow-up questions (see enclosure). We would be pleased to address any further questions you may have regarding this issue.

Sincerely,

Gregory J. Premo

GREGORY J. PREMO
Brigadier General, USA
Deputy Director

Quality Information for a Strong Defense

DOD uses contracts other than FTS2001 for its communications services, and has been working with multiple carriers recently to implement its Defense Information Systems Network (DISN). What specific lessons learned from your DISN experiences were helpful in your FTS2001 transition efforts?

Transitioning telecommunications networks is a complex, daunting task in which prior experience is highly valuable. The opportunity for error is great, and errors have large financial consequences. Many details must be planned for and managed--most of which would be overlooked by the inexperienced. DOD's recent replacement of the Defense Commercial Telecommunications Network (DCTN) contract with the DISN CONUS contracts has been considered one of the largest telecommunications transitions in history. Lessons learned in that transition were very helpful in preparing DOD for the FTS2001 transition. The following are some lessons learned:

1) ***Successful transition requires very detailed, accurate baseline requirements information.*** For the DISN transition, we invested much up-front time in establishing an accurate baseline requirements database that incorporated all information relevant to the transition of existing telecommunications services. We incorporated specific information including type of service, service provider, location of service delivery (to and from, including building and room number), location points of contact (POCs) and their telephone numbers, and site condition information (wiring/cabling requirements).

2) ***Transition can best be accomplished when it is conducted by a coordinated, focused and centralized transition team.*** DISA emphasized its commitment to the DISN CONUS transition through the establishment of the DISN Transition Team (DTT), a fully staffed line organization under the Chief of Network Operations. The head of the DTT was chosen for his proven leadership ability and his prior experience with transition activities. The DTT was given full authority for the Agency in all matters concerning the transition, along with the resources (personnel, facilities, contract dollars) necessary to accomplish its mission.

3) ***Effective transition leadership requires a focused objective and sound strategy.*** The first mission of the DTT was to develop a transition concept of operations and strategic plan. These documents, developed in coordination with both internal DISA and external DOD players, established the working relationships necessary to efficiently conduct the transition. The DTT worked closely with the new service vendors to establish a consolidated implementation plan (CIP)--the "campaign plan" for transition. The CIP gave details, by date, of every required circuit action. It also contained the programmatic and financial information associated with those actions. The DTT used this information to develop a set of metrics by which to measure the incremental success of the transition.

4) ***All affected entities must have a stake in the transition.*** The DISN CONUS transition impacted all DOD Military Departments, Defense Agencies, and some other government organizations. Some 10,000 plus discrete circuit actions at some 600 plus locations were required. The active participation of representatives of affected communities and timely dissemination of information from the DTT was key to achieving a transition of this magnitude. Service and Agency POCs played a major role in scheduling cut-over activities, and they routinely received updated transition information via e-mail, phone calls, and the DTT transition website.

5) ***Partnership between government and industry is essential.*** DISN CONUS infrastructure component contracts were awarded to three major vendors, two of which had a number of support vendors. DISA established a DISN board composed of representatives from the DTT, the new DISN CONUS vendors, the incumbent vendor, and other DISA organizations. The board served as a forum to coordinate and discuss transition progress (including a weekly review of transition metrics), and as a medium to resolve transition problems. The board was an effective means for DISA and the vendors to mitigate the programmatic and financial risks associated with DISN transition.

What lessons should federal agency telecommunications mangers take from both these efforts to improve their own planning efforts in the future?

Because DISA is an experienced telecommunications services provider, we had an advantage in conducting a services transition of this magnitude. We had experienced and knowledgeable in-house personnel and direct access/ownership of necessary baseline requirements information. Although the lessons learned described above are directly applicable to other federal organizations, agencies whose primary mission is not telecommunications must rely more on service providers (in this case both GSA and the FTS2001 vendors) to assist in services transition. Significant investment, both in manpower and money, is necessary to accomplish such a complex activity. Garnering appropriate contractor support for the transition becomes more of a priority if the agency lacks in-house expertise or if the primary contractor can not provide adequate support.

Are there specific lessons or risk management strategies you would bear in mind as you considered competitive sources for your communications services requirements in the future?

As the telecommunications provider for the DOD enterprise, DISA has much experience in developing, soliciting, and competitively acquiring communications services. In anticipating future competitive acquisitions, DOD is assessing the following strategies:

1) ***Minimum Revenue Guarantees (MRGs):*** Due to the nature of the telecommunications marketplace, and the availability of inexpensive commercial commodity services, government organizations must exercise caution in setting minimum revenue guarantees in non-specialized situations or in situations where there is no mandatory use provision. Though a high MRG might result in a lower enterprise service offering rate, individual customers will inevitably find a better rate either via spot market pricing or other contractual arrangements. If enough customers decline to participate on an enterprise contract, there is great risk that an unduly high MRG will not be met without severely burdening remaining customers.

2) ***Cost As An Award Criteria:*** Lowest cost to the government does not always provide the best value to the government. In many cases, awarding to the lowest bidder means accepting an "off-the-shelf" capability that minimally meets requirements and could cause the government to incur unanticipated costs to achieve the original objective of the acquisition. In acquisition planning, development and execution, satisfaction of program requirements should take precedence over lowest cost. Therefore, care must be taken in determining award criteria and in weighting evaluation factors.

3) ***Incentives for Transition Management:*** Because effective transition management is crucial to the success of the acquisition, the provider's capabilities in this area should be a major factor in proposal evaluation. To emphasize this point, contracts should include strong financial incentives (and penalties) that are directly tied to vendor transition performance.

4) ***Complexities of Multiple Vendor Contracts:*** Multiple vendor contracts are more complex to manage than are single vendor contracts. Before making an award, agencies should bear in mind that obtaining services from a multiple vendor contract may lead to increased management burden. Areas impacted may include ordering, billing, and requirements transition. This burden may require assignment of additional and/or more experienced contractual and technical personnel. These management costs increases may offset any cost savings garnered through the multiple vendor contract award itself.

By all accounts the Department of Defense had a successful transition to the FTS2001 program.

A. How many people did the DOD have to assign to the transition process to ensure that this was an orderly transition?

DOD assigned seventeen personnel to work on the transition full time for twenty-four months: nine from Defense Information Systems Agency (DISA) headquarters and eight from DISA organizations at Scott AFB. In addition, sixteen DOD services and agencies assigned one individual to represent them on the DISA managed FTS2001 Transition Team. These personnel coordinated transition of their organizations to FTS2001 and served as POCs to the DOD Transition Management Office (TMO). Each major DOD post, camp, and station throughout the United States, Guam, and Puerto Rico had personnel assigned to the physical transition of FTS2000 to FTS2001. Furthermore, DOD utilized the General Services Administration's transition management contract to obtain eight TRW personnel to operate the DOD Transition Operations Center. DOD also contracted with Boeing for twenty-one contractor personnel to write transition orders at Scott AFB.

B. What were these individuals' jobs prior to working on the transition?

To meet the needs of the TMO, DISA assigned existing personnel from the Operations, Engineering, Comptroller, Acquisition, and Program Management organizations. DOD also hired additional technical personnel. The TMO was responsible for the DOD Operations Center and for managing the DOD transition effort. DISA assigned personnel from the Defense Information Technology Contracting Office (DITCO) and from the DISA Service Center (DSC) to manage the order writing, contracting, and billing required by the FTS2001 transition.

C. How did this affect other operations that they were on?

Recognizing that prompt transition from FTS2000 to FTS2001 would potentially yield at least $365 million in cost avoidance to DOD, DISA reprioritized agency activities, ensuring mission critical priorities were covered, in order to allow the temporary reassignment of agency individuals to the transition effort.

Electra

International
Telecommunications

May 14, 2001

The Honorable Tom Davis
House Committee on Government Reform
Subcommittee on Technology and Procurement Policy
2157 Rayburn House Office Building
Washington, DC 20515-6143

Re: Request that this Statement be added to the Record of the April 26 Hearing on FTS 2001.

Dear Chairman Davis:

Summary and Recommendations

There appears to be general agreement that FTS 2001 and the MAA's should be open to competition. I believe that it will be to the benefit of the Government, taxpayers and industry if "competition" means opening the Federal telecommunications marketplace to the maximum number of viable suppliers. We recommend the following:

1. Implement a GSA Federal Telecommunications Supply Schedule.

2. In compliance with Congress's wish that the Federal Government promote competition, encourage Federal agencies to explore methods of procuring services other than omnibus, bundled contracts such as FTS 2001 and the MAA's.

3. Require all agencies that consider bundling their telecommunication services to obey the law by adequately justifying their actions.

*****

I am the president of Electra, a small business that has been selling telecommunications services to the Federal Government for almost twelve years. I attended the Committee hearing of April 26 on "FTS 2001: How and Why Transition Delays Have Decreased Competition and Increased Costs?" Electra is one of hundreds of companies, large and small, whose voice was absent from the panel -- companies that are slowly being forced out of the Federal telecommunications marketplace. The reason: omnibus, multi-billion dollar, bundled contracts, such as FTS 2001 and the MAA's have redefined the competitive market as one in which only the largest telecommunications companies can participate.

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When the conversation between the Congress and industry focuses on which mega-business can participate in FTS 2001, MAA's and cross-over contracts, how can that possibly lead to the fulfillment of a principle goal of the Telecommunications Act of 1996?

> ...to promote the policies and purposes of this Act favoring diversity of media voices, vigorous economic competition, technological advancement, and promotion of the public interest, convenience, and necessity.

How does this serve the goal of the FTS 2001 program?

> ...to maximize competition in order to ensure the best service and price for the government.

Electra urges the Committee and the Congress to recognize that there is a viable alternative to the Federal Government's affinity for large contracts, which require "competitors" to possess enormous financial resources, extensive telecommunications infrastructures, and the widest possible range of service offerings. The alternative is a real competitive, dynamic market in which the Government seeks to maximize the number of participants. There are hundreds of such local and regional service providers, such as Bell companies (RBOC's), cable operators, wireless vendors, Competitive Local Exchange Carriers (CLEC's), electric utilities, alternative inter-exchange carriers, and resellers. The majority of these companies cannot do everything everywhere, but each can do a few things very well in particular locations.

I have no desire to join in the debate among the "big four" that I observed at the meeting, nor does Electra seek any special preferences or set-asides from the Federal Government in order to gain business. Rather, I, as do many of the vendors sited above, want the opportunity to engage them in full and open competition for Federal telecommunications services. Whether the mechanism is a GSA supply schedule, as you suggested in your opening statement, or electronic bulletin board bidding, which has had great success in the past, real competition will give Government users the services and cost savings they desire, while maintaining the Federal Government's position as a responsible fiscal steward.

The argument that the Federal Government can only realize significant cost savings in telecommunication services through economies of scale is misleading. As switched voice rates decrease from three cents per minute to less than one cent per minute, the savings in terms of percentages and actual revenues will decline and being to approach zero. At eight-tenths of a cent per minute, the $1.5 billion Minimum Revenue Guaranty (MRG), FTS 2001's veiled "mandatory-use" provision, may never be realized from voice traffic. While the Committee and panel members appeared to focus principally on savings in switched voice services, Tony D'Agata, Vice President and General Manager of Sprint's Government Systems Division, reported perhaps the most important trend in the FTS environment: non-voice services now account for more than half of Sprint's FTS network. It is in those service areas, which encompass data transmission and advanced technologies, that omnibus contracts such as FTS 2001 and the MAA's fail to provide the Government with the best possible combination of price, service and innovation.

We know this is true from speaking with many Government users who tell us that they are not getting the best deals because they lack procurement choices. In fact, when Representative Burton asked James Flyzik, Chief Information Officer for the Department of Treasury, if he believes that leveraging FTS 2001 and other contracts against each other would be a good model for the Government to use overall, his response was succinct and clear: "yes." Unlike myopic GSA, which has a vested interest in the revenue goals of the FTS 2001 vendors, Mr. Flyzik recognizes a fundamental concept of competitive market systems: consumers enjoy market power when their choices are maximized.

The purported economies of bundled contracts also cannot withstand empirical analysis. Mandatory use, cloaked in whatever verbiage that is fashionable, is the antithesis of competition. In the case of FTS 2001's predecessor, FTS 2000, the mandatory use provision often forced Government users to pay a premium over market-based pricing. In 1995, when the Army Corps of Engineers decided to procure frame relay services from Electra, thereby realizing contract savings of 25% or $150,000 versus identical services through FTS 2000. GSA abruptly ended the Corp's cost saving efforts by invoking FTS 2000 mandatory use. I am sure that this experience was only the "tip of the iceberg."

Now we have FTS 2001, with its goal to "maximize competition in order to ensure the best service and price for the government." This is an impossible task when all but two vendors are locked out of the market and MRG's have replaced mandatory use. Meanwhile, GSA helps defray the costs of its FTS contractors by marketing the program to Government users while receiving a management fee. GSA's disincentive for promoting competition is obvious. Bundled, omnibus contracts with MRG's have rendered competition in the Federal telecommunications marketplace *de minimus*.

Congress has enacted major legislation that was suppose to prevent this type of highly restricted market environment. Among the goals of the Telecommunications Act of 1996 was:

> To promote competition and reduce regulation in order to secure lower prices and higher quality services for American telecommunications consumers and encourage the rapid deployment of new telecommunications technologies.

Yet, Federal telecommunications procurement practices are driving all but the largest businesses from the market.

With regard to small business in particular, the Federal Acquisition Streamlining Act (FASA) of 1994 requires Government agencies to develop:

> policies, in consultation with the Administrator of the Small Business Administration, that ensure that small businesses....are provided with the

> maximum practicable opportunities to participate in [Federal] procurements that are conducted for amounts below the simplified acquisition threshold [$100,000]

In 1994, Electra, and other small and large businesses, competed vigorously for such acquisitions. Today, as a result of large contracts that bundle services without justification, the market has largely disappeared. The Small Business Reauthorization Act of 1997 (SBRA) describes contract bundling as:

> consolidating two or more procurement requirements into a single contract solicitation unlikely for award to a small business due to the diversity, size or specialized nature of performance elements, the aggregate dollar value of the anticipated award, geographical dispersion of contract performance sites, or a combination of such factors.

This is exactly what FTS 2001 and numerous other omnibus contracts do. Bundling *per se* is not illegal; however, SBRA sought to increase opportunities by imposing strict limitations on bundling. Specifically, the SBRA requires each Federal agency to:

> ... structure its contracting requirements to facilitate competition by and among small businesses; and (3) avoid the unnecessary and unjustified bundling of contracts that precludes small business participation as prime contractors.

In a clear effort by the Congress to limit bundling, the SBRA requires:

> the head of an agency to conduct market research to determine whether consolidation of contract requirements is necessary and justified, taking into account specified factors. Requires a strategy calling for contract bundling to identify benefits of such bundling as well as impediments caused to small businesses by such bundling.

However, despite these statutes and the best intentions of Congress, telecommunication procurements are routinely bundled without adequate justifications. Thus, unjustified bundling stifles competition, is contrary to the goals of the Telecommunications Act, FASA, and the SBRA, and is against the law.

In summary, Electra is only seeking the opportunity to compete, on an equal basis with all other suppliers, in the Federal Telecommunications marketplace. I believe that this will occur when the Government pursues a procurement policy that embodies the goals of the Telecommunications Act of 1996 and complies with the law.

Sincerely,

Craig Brooks
President

cc: Honorable Jim Turner

11/28/00 12:10 FAX 423 576 7298 IRMD
11/22/00 WED 11:42 FAX 301 903 9500 HR-441
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Department of Energy
Germantown, MD 20874-1290

November 22, 2000

MEMORANDUM FOR: ERSKINE J. HICKS
INFORMATION RESOURCES
MANAGEMENT DIVISION
OAK RIDGE OPERATIONS OFFICE

FROM: RICHARD M. OTIS
OFFICE OF THE CIO FOR OPERATIONS
OFFICE OF THE CHIEF INFORMATION OFFICER

SUBJECT: Cancellation of the FTS2001 Voice Trunks

In response to your memorandum of November 15, 2000, advising this office of your cancellation of the transition from FTS2000 to FTS2001, currently scheduled for November 29, 2000, and your plan to transition your toll usage to a commercial vendor, this decision is in conflict with the Department of Energy (DOE) stated policy to transition all DOE sites to MCIWORLDCOM (MCIW) FTS2001. In addition, it will have financial consequences for all other DOE sites for the following reasons:

1. DOE sites calling Oak Ridge from FTS2001 will be priced as an "Off Network Call" and will increase the cost per minute of those calls by approximately 3 cents per minute.
2. Calls incoming to DOE sites from Oak Ridge will complete on the public network and be directed to their "Direct-in-Dial" (DID) trunks. The added traffic on these trunks will in some case require an increase in the number of DID trunks at an additional cost to those sites.
3. The FTS2001 contract provides for a volume discount based on total agency usage and FTS2001 billing. The loss of Oak Ridge traffic will affect the amount of discount received.
4. Cancellation of the FTS2001 cut over/transition to FTS2001at this late date will incur charges for local access already installed by MCIW.

We are well aware of the transition concerns with MCIW and have been working with GSA and MCIW to resolve these issues. We have a firm commitment from MCIW to transition the Oak Ridge site on November 29, 2000. To date we have successfully transitioned nine DOE sites to MCIW, including the Headquarters Forrestal and Germantown sites.

We note with interest your reference to the Headquarters decision to cancel the FTS2001 transition orders with Sprint. Please understand that this was a decision covering all FTS2000 dedicated data services serving all DOE sites. It does not have any negative financial or operational impact and offers reduced costs for all DOE data users. In fact the cost saving is significant and will total more than $400,000 for the Department in the next two years.

The Department of Energy Chief Information Officer has committed the DOE to transition to FTS2001 for switched voice services (toll long distance calling) and the Department is responsible for supporting vendor revenue guarantees made under the GSA FTS2001 contract. In view of the Department's commitment to the GSA FTS2001 contract, we cannot support your decision to cancel transition. Please advise this office of the names of senior management at Oak Ridge that have approved this decision and the cost evaluation and justification for not transitioning to FTS2001. We request that you reconsider your decision not to transition.

If you have any questions, please call me on 301-903-5310 .

GSA Federal Technology Service

May 16, 2001

The Honorable Tom Davis
Chairman, Subcommittee on Technology
and Procurement Policy
Committee on Government Reform
U.S. House of Representatives
Washington, DC 20515

Dear Representative Davis:

It was a pleasure to speak with you on April 26, 2001, at the Subcommittee on Technology and Procurement Policy hearing on FTS2001 transition. At that time, you requested additional information on the completion rates for services transitioned from FTS2000 to FTS2001. You also asked for an explanation of the differences between the figures I used and those published in the March 2001 GAO report on FTS2001.

As of April 26, 2001, transition was 95 percent complete for all services. Switched voice service was 99 percent complete, switched data service was 87 percent complete, and dedicated transmission service was 93 percent complete. The information available at the time the GAO report was finalized was dated February 2001 (see table below). The difference between the two sets of statistics reflects the amount of progress made since that time.

Transition Progress - Percent Complete

Type of Service	Status on April 26, 2001	GAO Report, February, 2001
All Services	95	88
Switched voice service	99	91
Switched data service	87	55
Dedicated transmission service	93	86

The dramatic gains in switched data service completions reflect the nature of complex data networks and how they are deployed. Typically, new network nodes are installed individually, the new network is activated all at one time, tested, and then the old network is deactivated. Individual nodes are not reported as complete (even though they are installed and tested) until the entire network is activated and accepted.

U.S. General Services Administration
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I appreciate the opportunity to furnish this information. If I can be of any further assistance in this matter, please call me on (703) 306-6020.

Sincerely,

for Sandra N. Bates
Commissioner