POST FEDERAL TELECOMMUNICATIONS SYSTEM (POST-FTS2000) ACQUISITION STRATEGY

HEARINGS

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT HOUSE OF REPRESENTATIVES

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CONTENTS

Page

Hearing held on:
- March 21, 1995 1
- March 28, 1995 209
- July 20, 1995 316

Statement of:
- Brock, Jack L., Jr., Director, Information Resources, Management/National Security and International Affairs, Accounting and Information Management Division, General Accounting Office, accompanied by Frank Deffer and Kevin Conway 10
- Johnson, Roger W. Administrator, General Services Administrator, and Robert J. Woods, Associate Administrator for FTS2000, General Services Administration 337
- Lombardi, Richard, president of AT&T Government Markets, AT&T Communications; Donald Teague, vice president and general manager of Government Systems Division, Sprint; and Jerry Edgerton, vice president of MCI Government Systems, MCI Telecommunications Corporation 38
- Messier, John, vice president and general manager of Information Systems Division, GTE Government Systems Corporation; George Newstrom, corporate vice president and group executive of Government Services Group, EDS Corporation; and Milton Cooper, president of Systems Group, Computer Sciences Corporation 177
- Murray, Anthony, president of Bell Atlantic Federal Systems, Bell Atlantic; Pat Lanthier, director of Public Policy and Technology, Pacific Bell; William Cobb, vice president and general manager for Business and Government Services, US West Communications 118
- Woods, Robert J., Associate Administrator for FTS2000, General Services Administration, accompanied by Sandra Bates, Office of Space Communications, National Aeronautics and Space Administration, and chair, Interagency Management Council; and John Okay, Director, Office of Information Resources Management, Department of Agriculture, and former chair, Interagency Management Council; Emmett Paige, Jr., Assistant Secretary of Defense for Command, Control, Communications, and Intelligence, Department of Defense, accompanied by Albert J. Edmonds, Director, Defense Information Systems Agency, Department of Defense; and D. Diane Fountaine, Principal Deputy, Deputy Assistant Secretary of Defense for Command, Control, and Communications, Department of Defense 223

Letters, statements, etc., submitted for the record by:
- Bates, Sandra, Office of Space Communications, National Aeronautics and Space Administration, and chair, Interagency Management Council, prepared statement of 244
- Brock, Jack L., Jr., Director, Information Resources, Management/National Security and International Affairs, Accounting and Information Management Division, General Accounting Office, prepared statement of 13
- Clinger, Hon. William F., Jr., a Representative in Congress from the State of Pennsylvania:
  - Letter dated July 18, 1995 382
  - Prepared statements of 3, 211, 332
  - Questions and answers for the record 99
- Cobb, William, vice president and general manager for Business and Government Services, US West Communications, prepared statement of 151

Page

Letters, statements, etc., submitted for the record by—Continued
Collins, Hon. Cardiss, a Representative in Congress from the State of Illinois, prepared statements of 27, 215, 328
Cooper, Milton, president of Systems Group, Computer Sciences Corporation, prepared statement of 195
Edgerton, Jerry Edgerton, vice president of MCI Government Systems, MCI Telecommunications Corporation, prepared statement of 79
Horn, Hon. Stephen, a Representative in Congress from the State of California:
Chart of "Possible Post-FTS2000 Bidders By Market Segment" 391
Prepared statements of 7, 221
Johnson, Roger W. Administrator, General Services Administrator, prepared statement of 341
Lanthier, Pat, director of Public Policy and Technology, Pacific Bell, prepared statement of 129
Lombardi, Richard, president of AT&T Government Markets, AT&T Communications, prepared statement of 41
Maloney, Hon. Carolyn B., a Representative in Congress from the State of New York, prepared statements of 37, 214, 320
Messier, John, vice president and general manager of Information Systems Division, GTE Government Systems Corporation, prepared statement of 179
Murray, Anthony, president of Bell Atlantic Federal Systems, Bell Atlantic, prepared statement of 121
Newstrom, George, corporate vice president and group executive of Government Services Group, EDS Corporation, prepared statement of 189
Okay, Dr. John, Director, Office of Information Resources Management, Department of Agriculture, prepared statement of 235
Paige, Emmett, Jr., Assistant Secretary of Defense for Command, Control, Communications, and Intelligence, Department of Defense, prepared statement of 258
Teague, Donald, vice president and general manager of Government Systems Division, Sprint, prepared statement of 63
Woods, Robert J., Associate Administrator for FTS2000, General Services Administration:
Information concerning a letter dated June 19, 1995 272
Information concerning GSA's analysis 270
Prepared statement of 225, 352

POST FEDERAL TELECOMMUNICATIONS SYSTEM (POST-FTS2000) ACQUISITION STRATEGY

TUESDAY, MARCH 21, 1995

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION, AND TECHNOLOGY,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 1:03 p.m., in room 2154, Rayburn House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn, Davis, Fox, Tate, Clinger, Maloney, Wise, and Collins.

Staff present: Ellen B. Brown, committee procurement counsel; J. Russell George, staff director; Susan Marshall, procurement specialist; Andrew G. Richardson, clerk; Bud Myers, minority staff director; Ronald Stroman, minority deputy staff director; Cheryl Phelps, minority professional staff member; and Elisabeth Campbell, minority staff assistant.

Mr. HORN. One o'clock having arrived and a quorum being present, the Subcommittee on Government Management, Information, and Technology is called to order.

Before we call our first witness from the General Accounting Office, would you like to make an opening statement Mr. Chairman?

Mr. CLINGER. Thank you very much, Mr. Chairman, if I may. I'm pleased to be here today to hear testimony from the General Accounting Office and well-respected individuals and officials representing many facets of the telecommunications industry on the Post-Federal Telecommunications System Acquisition Strategy. What a mouthful that is.

As you are aware, Mr. Chairman, these hearings today and next week represent the beginning of the Government Reform and Oversight Committee's commitment—my personal commitment—to ensuring that the Federal Government receives technically effective and cost-efficient telecommunications services in the Post-FTS2000 environment; and I really thank you very much for holding these hearings.

The current FTS2000 program, which expires in December 1998, has proven that a centrally managed program can be highly successful in providing excellent services at below market prices.

The Government and the taxpayer reap the benefits of the best prices and excellent service quality, which helps the executive

agencies to do their jobs of serving the citizens more efficiently and effectively; but this program was structured to meet the Federal Government's needs at the beginning of the program and those needs have changed dramatically, as has technology, as we move into the next century and into the next millennium.

The question for all of us is, how can the Post-FTS2000 program be ever better? How can we build on the model that we've had for the FTS2000 program and make it better and, hopefully, more efficient? The successor program must be capable of accommodating an industry undergoing great change—and I think we'll hear about those changes today—having new players, new technologies, and a potentially new environment.

At the same time, the Post-FTS2000 program must be capable of meeting the agency users' needs, which also are changing, as our views about the role of Government change—a great deal of ferment and upheaval going on in Government generally—and that, I think, is also reflected in how we deal with the Post-FTS2000 environment.

While we in Congress can raise these and other issues, it is really up to you, a number of people in this room, the users and managers of this program, and the vendors supplying the services, to make this program a success, and we have to have this program be a success.

We take our oversight role of Federal procurement very seriously in this committee and we view this program as one of the most important oversight responsibilities that we have. It certainly is, I think, the No. 1 priority of need for care and diligence and caution, as we go about it.

We hope to facilitate, through these hearings, further dialog between the Government and industry on how best to provide telecommunications services to Federal Government users following the expiration of the current FTS2000 contracts.

Mr. Chairman, again I applaud you for holding the hearings and I look forward to hearing from our witnesses today.

[The prepared statement of Hon. William F. Clinger, Jr. follows:]

Opening Statement of the

Honorable William F. Clinger, Jr.

Chairman

Committee on Government Reform and Oversight

March 21, 1995

Mr. Chairman, I am pleased to be here today to hear testimony from the General Accounting Office and well-respected officials representing the telecommunications industry on the Post Federal Telecommunications System (Post-FTS2000) Acquistion Strategy.

As you know, Mr. Chairman, these hearings today and next week represent the beginning of the Government Reform and Oversight Committee's commitment to ensuring that the Federal government receives technically-effective and cost-efficient telecommunications services in a Post-FTS2000 environment. And I thank you for holding these hearings.

The current FTS 2000 program, which expires in

December 1998, has proven that a centrally managed program can be highly successful in providing excellent services at below market prices. The government and the taxpayer reap the benefits of the best prices and excellent service quality which helps the executive agencies to do their jobs of serving the citizens more efficiently and effectively. But this program was structured to meet the Federal government's needs at the beginning of the program, and those needs have changed dramatically, as has technology, as we move into the next century.

The question for all of us is "how can the Post-FTS2000 program be even better?" The successor program must be capable of accommodating an industry undergoing great change – having new players, new technologies – in a potentially new environment. At the same time, the Post-FTS2000 program must be capable of meeting the agency users needs which also are changing, as our views about the role of government change.

While we in Congress can raise these and other issues, it is up to you – the users and managers of this program, and the vendors

supplying the services -- to make this program a success. We take our oversight role of Federal procurement seriously, and we view this program as one of our most important oversight responsibilities. We hope to facilitate, through these hearings, further dialog between the government and industry on how best to provide telecommunications services to Federal government users following the expiration of the current FTS 2000 contracts.

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

Mr. HORN. Thank you very much, Mr. Chairman. You have set out what the purpose is. We are meeting today to hear testimony regarding the Federal Government's Post-Federal Telecommunications System (Post-FTS2000) Acquisition Strategy.

Currently, the multi-billion dollar FTS2000 program provides long distance telecommunications services to approximately 1.7 million users across the Federal Government. However, current FTS2000 contracts will expire in 1998 and the Government, in an effort to provide a smooth and orderly transition to a Post-FTS2000 environment, already has begun its acquisition program development.

As part of this effort, the General Services Administration's Interagency Management Council, a group of executive agency telecommunications and acquisition professionals, attempted to define a cost-efficient and technically effective program concept.

In 1993, the Interagency Management Council began floating their program ideas in draft acquisition strategies and, in December 1994, the Interagency Management Council released its final acquisition strategy. This was done after incorporating input from a broad spectrum of interested parties, including industry, executive agency users, universities and colleges, and others.

Arriving at the final strategy was no easy task. Obviously, when the Government undertakes an acquisition program as large as this one could be, there will be much criticism of the decisions made. I commend the executive branch, especially the General Services Administration, for beginning to make these decisions early enough in the process to allow for sufficient debate and discussion of the issues raised.

Today, we begin our review of the Post-FTS2000 program and, although we know there are many issues surrounding the Federal Government's purchase of telecommunications, today we will focus on those issues raised by the program strategy itself. I do look forward, as Chairman Clinger does, to hearing from all the witnesses.

[The prepared statement of Hon. Stephen Horn follows:]

Opening Statement of the

Honorable Stephen Horn, Chairman

Subcommittee on Government Management,

Information and Technology

March 21, 1995

The Subcommittee on Government Management, Information and Technology will come to order.

The Subcommittee is meeting today to hear testimony regarding the Federal government's Post Federal Telecommunications System (Post-FTS2000) Acquisition Strategy.

Currently, the multi-billion dollar FTS 2000 program provides long distance telecommunications services to approximately 1.7 million users across the Federal government. However, current FTS 2000 contracts will expire in 1998, and the government, in an effort to provide a smooth and orderly transition to a post FTS 2000 environment, already has begun its acquisition program development.

As part of this effort, the General Services Administration's (GSA) Interagency Management Council (IMC) – a group of executive agency telecommunications and acquisition professionals -- attempted to define a cost-efficient and technically-effective program concept.

In 1993, the IMC began floating their program ideas in draft acquisition strategies, and in December 1994, the IMC released its final acquisition strategy. This was done after incorporating input from a broad spectrum of interested parties including industry, executive agency users, academia, and others.

Arriving at a final strategy was no easy task. Obviously, when the government undertakes an acquisition program as large as this one could be, there will be much criticism of the decisions made. I commend the executive branch, especially GSA, for beginning to make these decisions early enough in the process to allow for sufficient debate and discussion of the issues raised.

Today, we begin our review of the Post-FTS2000 program.

Although we know there are many issues surrounding the Federal government's purchase of telecommunications, today we will focus on those issues raised by the program strategy itself. I look forward to hearing from all of our witnesses.

Mr. HORN. Let me give you a few general guidelines that we ask all witnesses and members of the committee to abide by today. The statement you file with us will automatically be put in the record and we would like you to summarize those statements in 5 minutes. We are going to strictly enforce the time rule today, because of the many witnesses, on both witnesses and Members.

You will find that you will have a green light for 4 minutes and, in that last minute, it will turn yellow. Wind it up because, at the fifth, the gavel is coming down on everybody, including the chairman and the other chairman.

Each Member will be limited to 5 minutes for questions, and there won't be a second round, as we've had in our leisurely hearings to date. Get it all in in five.

We would ask you to be so kind as to reply to other questions we have in writing. We will put those all in the record. But we do want to permit oral questions. We will make one round of the whole committee and then go to the next panel.

As I said, we have a lot of witnesses, so the follow-up is really important to us and if you think, on the way home, "Gee, I should have said this," don't be bashful, write us a letter, and we'll put that in the record, also. We want a very thorough record on which to base legislative judgments.

If our first witness will come forward, who is the Director of Information Resources Management, General Accounting Office, Mr. Jack Brock, we will swear you in. I might say that we have a tradition on this committee. All witnesses take the oath or their testimony is not permitted.

So if you will, raise your right hand gentlemen.

[Witnesses sworn.]

Mr. HORN. Thank you. The clerk will note that all three witnesses affirmed the oath.

We will start with Mr. Brock, and if you would identify your colleagues, it would be helpful.

STATEMENT OF JACK L. BROCK, JR., DIRECTOR, INFORMATION RESOURCES, MANAGEMENT/NATIONAL SECURITY AND INTERNATIONAL AFFAIRS, ACCOUNTING AND INFORMATION MANAGEMENT DIVISION, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY FRANK DEFFER AND KEVIN CONWAY

Mr. BROCK. Thank you, Mr. Chairman. On my far right is Mr. Frank Deffer. He's the Assistant Director of my group in charge of telecommunications issues. Mr. Kevin Conway, immediately next to me, is the Project Director on this project.

With your permission, I will forego the usual background stuff. I'm already intimidated, with the green light here. We will just get immediately to the issues we see.

I would like to second, though, your commendation of GSA. This is an extremely open process that GSA has followed. I cannot recall a Government procurement that I've looked at over my career at GAO that has been so open to review by both the users and by the vendor community.

We've identified eight issues that we think should be addressed by GSA and the IMC before the final RFP is released. I'm just going to very briefly go through these.

First, mandatory use. Mandatory use is the most controversial aspect of the current program. Even though the GSA has indicated that it will not have mandatory use in Post-FTS2000, rather, it will establish minimum revenue guarantees, the stated strategy, we believe, is ambiguous and appears to leave room for mandatory use under certain conditions.

There needs to be a balance between meeting minimum guarantees and agencies having maximum opportunities to have flexibility in getting the best price possible. We do not support mandatory use at all in the next contract.

Program management. We identified this in last year's testimony before the Senate, that this was a critical area to resolve—who should manage it, how should they manage it, what are the relationships between the agencies, GSA, the relationships of GSA and the IMC; what should go on? This has clearly not been established yet and is a point that needs to be reconciled again before the final RFP is released.

The third issue that we've identified in the testimony is long distance versus local telecommunications services. For most users, they don't distinguish between local and long distance. They do a video conference, they transmit data, they pick up the phone, they want it to be seamless.

It's not practical, from either the user point of view or the management point of view, to separate these as they are now within GSA. The strategy recognizes the need to integrate but is really silent on how to achieve its integration.

The fourth issue is the packaging of services. GSA, the IMC strategy calls for comprehensive bundles of telecommunications services. These bundles may be easy or convenient for agencies to use, for agencies to manage, but they may well limit opportunities for specialized vendors to bid and it may limit users ultimately from achieving the best mix of overall price and service combinations.

GSA further did not identify the clear benefits for users by following this strategy.

Fifth, interoperability. This issue has been very difficult to resolve during the current contract. Many of the users we interviewed during the course of our review commented on the problems they're having with interoperability. We think interoperability will become more of an issue as users or as agencies develop new roles, as they bring on new services, as collaboration increases.

Again, the importance is recognized in the acquisition strategy but it's poorly defined as to what the Government wants.

Next, requirements. Telecommunications requirements are very difficult to define with any degree of precision or certainty.

As technology changes in the telecommunications world very rapidly, as user needs change, as roles and missions change, it's difficult to be very precise, but the more precise the agencies can be in defining their current requirements, the better job GSA can do in putting together its RFP. We've been told by GSA that the agencies have been very slow in responding to calls for requirements.

Security. Security is something, again, that's very difficult to find but recognized as important and security is very expensive. The se-

curity requirements, again, are described as needed but not specified.

The last issue that we identified, Mr. Chairman, is the support for the national information infrastructure. In fact, one of the first things that you see when you read GSA's acquisition strategy is the importance of the national information infrastructure, the need, that this Post-FTS2000 can be a driver for that strategy.

We've seen very little evidence that it is a driver for the strategy or that the individuals representing the national information infrastructure or the Government information infrastructure played a major role in defining what this procurement shall be.

That is a very, very brief overview of the eight issues we've identified. While, at this point, we don't think it's fatal that these have not been resolved, we would strongly urge that GSA consider and move toward some sort of resolution or more consensus on what these issues should be.

These issues not only represent our analysis of the situation, but they also represent, not entirely, but many of the views of the user community as well as the views of many of the vendor community.

That concludes my statement, Mr. Chairman.

[The prepared statement of Mr. Brock follows:]

Statement of Jack L. Brock, Jr.
Director, Information Resources Management/
National Security and International Affairs
Accounting and Information Management Division

Mr. Chairman and Members of the Subcommittee:

I am pleased to participate in the Subcommittee's hearings on the future of telecommunications for the federal government. Over the past 2 years, the Interagency Management Council (IMC), the General Services Administration (GSA) and other federal agencies, the telecommunications industry, academia, and other interested parties have engaged in vigorous debate over the initiative that will replace the Federal Telecommunications System (FTS) 2000 program currently in place. Today I will discuss the program strategy that the IMC, in conjunction with GSA, has selected for the Post-FTS 2000 initiative.[1]

In our view, GSA and the IMC have done an admirable job of ensuring that all interested parties have opportunities to comment on the Post-FTS 2000 initiative and to help define the strategy selected. However, the proposed strategy still leaves several issues open to further debate by industry and government. We would like to focus specifically on eight critical issues that must be addressed before final Requests for Proposals are released in December.

We identified these issues through our analysis and evaluation of the December 1994 program strategy and supporting documentation. In addition, we interviewed officials at a wide range of federal agencies. We also reviewed comments on the proposed strategy submitted by interested

[1]The IMC, which was established in 1988, consists of senior government information resources management officials from agencies using FTS 2000. This council provides guidance to GSA officials in administering telecommunications contracts.

parties, and interviewed representatives in the telecommunications and systems integration communities.

BACKGROUND

The federal government is preparing to put in place a multibillion dollar telecommunications services acquisition program that will carry it into the new millennium. It does so within an environment of tremendous change--in the telecommunications industry, in underlying services and technologies, and potentially in the regulatory environment. At the same time, virtually every federal department and agency finds itself being challenged as never before to rethink and reengineer how it performs its missions and serves its customers. The Post-FTS 2000 program poses a unique opportunity for the federal government to follow the lead of American businesses by flexibly acquiring and innovatively applying telecommunications services and technologies to improve and transform operations.

The Post-FTS 2000 program, as envisioned, will do more than simply replace the current FTS 2000 program. Rather than taking a one-size-fits-all approach to the increasingly diverse telecommunications marketplace, the Post-FTS 2000 program strategy calls for a more diverse approach, including:

-- two or more comprehensive service providers;

-- one or more switched data and value-added service providers;

-- two or more technical service providers to help user agencies apply telecommunications services and technologies to their missions; and

-- a possible wireless communications service provider.

This approach will allow agencies to select from multiple contracts for different telecommunications services. In this way, the proposed strategy may increase competition, permit federal managers to apply an array of modern telecommunications services to meet their needs, and encourage new service providers to enter the market.

POST-FTS 2000 PROGRAM STRATEGY LEAVES KEY ISSUES UNRESOLVED

The federal government is faced with increasing demands to become leaner, quicker, and smarter about the way it does business. To meet these demands, the government will have to make use of information technologies as never before. Mr. Chairman, I have no doubt that many of the services provided by Post-FTS 2000 will reflect the way agencies currently do business. But I also have no doubt that change is coming. Telecommunications provide many of the tools needed to streamline operations and deliver services to citizens promptly and efficiently. The Post-FTS 2000 program, by providing the government with an array of needed telecommunications services, can be the key to creating a leaner and more responsive government.

However, notwithstanding the progress made by the IMC and GSA in planning the Post-FTS 2000 program so far, we believe that a number of issues still must be resolved before the release

of the final Requests for Proposals. These issues are key to the government's acquisition of its future telecommunications services, the responsiveness of those services to the government's needs, and the management of its acquisition program.

Mandatory Use

Currently, FTS 2000 use is mandatory for all federal agencies, unless GSA or the Congress grants a specific exemption. In our discussions to date, we have found that virtually no federal users and few industry officials favor mandatory use for the Post-FTS 2000 program. These officials are concerned, based on their experiences with the current FTS 2000 program, that mandatory use is inherently anticompetitive and results in higher prices. We agree with these concerns.

Although Post-FTS 2000 is not billed as a mandatory-use program, anxiety about this subject remains high for two reasons. First, there is concern that mandatory use might be explicitly imposed in the future as it has been under FTS 2000. This view occurs in part because the Post-FTS 2000 Program Strategy is ambiguous concerning mandatory use. The strategy states that, "User agencies will generally have the right to choose which contract they use to meet their needs," but it is silent concerning situations where user agencies decide to contract for telecommunications services outside of the Post-FTS 2000 program. According to GSA officials, user agencies will have to seek an exemption--as they do now--from using the Post-FTS 2000 contracts to meet their specific telecommunications needs. A second reason for anxiety is that the government must set some minimum revenue guarantees for successful

offerors. Some federal officials worry that their agency will be restricted to a specified vendor in order to meet these minimum revenue guarantees.

We do not believe that agencies should be required to use the services acquired through the Post-FTS 2000 program; rather, it should be mandatory that agencies consider its use where it meets their telecommunications service and cost objectives. We agree with several officials who observed that if Post-FTS 2000 services and prices are truly competitive, then federal agencies will willingly participate in the program. By relying more directly on market forces, this approach could not only yield better services and more competitive prices, but the administrative costs to users associated with implementing price control mechanisms, such as publicly available price caps, would be eliminated. GSA and the IMC will have to carefully consider and wisely balance the objective of agency choice as they establish minimum revenue guarantees for successful offerors.

Program Management

The IMC's Acquisition Working Group reported last April that development of a comprehensive government telecommunications management strategy was one of several issues with strategic importance to the success of the Post-FTS 2000 acquisition. The working group called for establishing an effective management structure for governmentwide communications. In testimony before the Senate Committee on Governmental Affairs last May, we endorsed this

key issue, stating that the central management functions for the future FTS must be clearly defined.[2]

Almost 1 year later, however, Post-FTS 2000 program management remains an open issue. The program strategy states that the functions required for the government's management and contract oversight may be accomplished by GSA, by lead agencies or an interagency work group, or through contract support. The government must still determine what management functions are required, and who will be performing them. Also, while the proposed multicontract, multivendor strategy could increase the complexity of Post-FTS 2000, several officials have questioned GSA's ability to manage the program given downsizing efforts under way in that agency.

Long-Distance Versus Local Telecommunications Services

At present, the government acquires local telecommunications services separately from long-distance services, and GSA maintains separate offices to manage these efforts. Because of regulatory and technological changes in the telecommunications field, however, maintaining a separate view of local and long-distance services is becoming less practical. The Post-FTS 2000 program strategy states that it is no longer effective, efficient, or reflective of the marketplace to separate long-distance from local telecommunications services. However, the

[2] Governmentwide Initiatives: Critical Issues Facing the Next Federal Telecommunications System (GAO/T-AIMD-94-114, May 3, 1994).

proposed strategy limits itself to long-distance telecommunications, with no indication of how or when the issues of local services and local access will be addressed.

Packaging of Services

In choosing to aggregate requirements and package comprehensive services, the IMC and GSA may be limiting opportunities for more specialized telecommunications vendors. Under the proposed program strategy, offerors cannot compete as comprehensive service providers of switched voice, dedicated transmission, video, or multimedia services unless they can offer all of these services, as well as switched data and value-added services and wireless communications services. The proposed strategy may limit opportunities for more specialized vendors who can provide some individual services, but not the comprehensive package identified in the strategy. In addition, users may be precluded from obtaining the best overall prices possible if they are unable to choose among vendors for each service. While requiring vendors to provide comprehensive services may give agencies an opportunity for one-stop-shopping, this approach may not be essential to that goal. Some vendors likely will offer the full range of services identified anyway, giving users the opportunity to select a single source for all needed services.

Interoperability

The ability of government communications systems to interoperate will become ever more critical as federal departments and agencies increasingly rely upon electronic services to communicate and exchange information within their organizations and with other federal

agencies, private organizations, state and local governments, and private citizens. A lack of interoperability hampers effective government operations by making the communication and exchange of data more difficult and costly for users. Despite the importance of having interoperable telecommunications services, current FTS 2000 users have been frustrated by the lack of interoperability between the video teleconferencing and data communications services furnished by the two service providers.

Last April, the IMC's Acquisition Working Group expressed extreme concern with the government's ability to effectively address this strategic issue. The working group called for developing specific strategies for achieving interoperability. The Post-FTS 2000 program strategy recognizes the importance of interoperability in principle; however, it does not define the government's particular interoperability needs or indicate how those needs will be met.

Requirements

If the Post-FTS 2000 program is to successfully meet the government's requirements, the government must be able to clearly describe what its operational requirements are. With some exceptions, federal agencies generally do not have a good record of defining how modern telecommunications can be used to meet their needs. For example, the Office of Technology Assessment reported in September 1993 that agencies were not taking full advantage of telecommunications services that were available to them.[3]

[3] Making Government Work: Electronic Delivery of Federal Services, Office of Technology Assessment (OTA-TCT-578, September 1993).

It is virtually impossible for the government to identify all of its future telecommunications requirements. Nevertheless, if the federal government is to harness the potential of the telecommunications marketplace, it must provide vendors with a clear understanding of its needs, defined in functional rather than technical terms, so that the vendors can gauge the size of this market. Unfortunately, according to GSA officials, agencies have been slow to respond to efforts thus far by GSA to collect this requirements information. Agencies' complete and timely responses to GSA are vital to gauging the government's service needs for the benefit of prospective offerors, as well as establishing reasonable revenue guarantees.

Security

While establishing a seamless, interconnected infrastructure may improve the government's efficiency and effectiveness, care must be taken to ensure that sensitive personal and corporate information is safeguarded. Although the program strategy briefly mentions that Post-FTS 2000 will have to provide security and privacy for users, it does not describe what levels of security will be made available. GSA and the IMC must develop clear security objectives and requirements for the Post-FTS 2000 environment as their acquisition planning efforts continue.

Support for National Information Infrastructure

One of the stated objectives of the Post-FTS 2000 program is to support the National Information Infrastructure (NII), the Government Services Information Infrastructure (GSII), and the recommendations of the National Performance Review (NPR). As you know, NII refers to the nation's collection of information systems and technologies--computers,

communications networks, software, and storage technologies--as well as the information that is processed, stored, and transferred. Having identified technology as the engine of economic growth, the administration has set the accelerated development of the NII as a top priority. The NPR, recognizing the lead role information technology has in improving the efficiency and effectiveness of government services, has called for a coordinated plan to deploy a coherent government information infrastructure--a subset of NII--that will evolve with technology and reduce duplication and costs.

Our review thus far indicates that both vendors and government officials disagree as to whether Post-FTS 2000 will support these ambitious NPR and NII objectives. For example, although the Post-FTS 2000 initiative represents a concrete step toward establishing a government services information infrastructure for the 21st century, officials have questioned the lack of direct involvement by the President's Information Infrastructure Task Force in this program. Furthermore, despite increasing interest in establishing a seamless electronic infrastructure to deliver government services, the proposed approach does little to define the role of state and local governments in the federal government's telecommunications strategy. By closely tracking initiatives, such as the Iowa Communications Network pilot project sponsored by Congressman Lightfoot, Post-FTS 2000 program planners may gain some early insights into the interrelationships between federal, state, and local government telecommunications initiatives, thereby ensuring that Post-FTS 2000 acts as an enabler, rather than an inhibitor, of more cost-effective government.

Mr. Chairman, in testimony before the Senate Committee on Governmental Affairs last May, I noted that the single most important question that can be asked about the government's future telecommunications infrastructure is: How can federal agencies best use telecommunications to meet the needs of citizens more efficiently, more effectively, and more responsively? Ten months later, this critical question remains unanswered. Business as usual is no longer acceptable; increased emphasis by the new Congress on reengineering and downsizing government further underscores this point. More important than simply buying cheap communications, the critical challenge facing Post-FTS 2000 planners is to provide managers not only with telecommunications services, but with business solutions that enable them to perform their missions cheaper and better.

The Post-FTS 2000 initiative offers us a unique and timely opportunity to help establish a secure, interoperable information infrastructure that can improve the efficiency and effectiveness of services across all levels of government. Several critical issues must be addressed over the next 9 months, however, in order to better define the vision for that infrastructure. The responsibility for resolving these issues does not rest solely with the program planners at the IMC and GSA who will acquire these services; responsibility also extends to the members of the private sector who will help deliver these services, and ultimately to the agency managers who will use these services to improve their mission performance. We hope--as you do--that the information gathered at these hearings will help bring these issues closer to resolution and will more clearly define the vision of a government services information infrastructure. Once these issues are resolved, the Post-FTS 2000 program will be better

positioned to leverage the power and creativity of the telecommunications marketplace, to make this vision a reality, and to carry the federal government forward into the 21st century.

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

(511319)

Mr. HORN. You have a minute to go. Do you want to bank that?

Mr. BROCK. I would like to reserve that.

Mr. HORN. Chairman Clinger.

Mr. CLINGER. Thank you, Mr. Chairman. Thank you, Mr. Brock for your succinct but, I think, very complete statement.

The Post-FTS2000 program strategy, which, as the FTS2000 strategy did, contemplates multiple contracts and appears, at least, to promote more competition than the current program would. It would tend to be a more inclusive or more broad, competitive approach.

We have had some complaints, however, from some vendors who say that the strategy does not go far enough in providing really full and open competition, that there are still too many restrictions and too many things hedging about the process.

I guess what I'm interested in is your view of the competitive aspects of the program. Do you think it is sufficiently competitive? And, if you think that it is somehow insufficient, what could the Government do to make it more competitive?

Mr. BROCK. First of all, Mr. Clinger, I'd like to agree with you that we believe that the current process that's being proposed by GSA does offer opportunities, more opportunities for competition than the present contract did.

As I stated in my statement, however, the way the comprehensive bundles of packages are put together, where vendors have to combine several services, may in fact limit opportunities for specialty vendors to bid on the contract. This, in turn, may well limit agencies' opportunities to select the services they want at prices that they want.

So, to this degree, we think that GSA should be much more explicit than they have been in the acquisition strategy as to the declared benefits, or declare the benefits of their proposed strategy. We have not seen that.

Mr. CLINGER. So that you see the bundling proposal as being an inhibition or taking away some of the competitive benefits?

Mr. BROCK. I want to be very careful in this. We think that it limits the opportunities.

Mr. CLINGER. Right. OK. So that perhaps they might consider lesser emphasis on the bundling strategy?

Mr. BROCK. That is a consideration that GSA should take into account, sir.

Mr. CLINGER. You state, in your written testimony, that you agree with those critics of mandatory use that it is inherently anticompetitive and results in higher prices. I guess the question is, how can the Government expect companies to expend enormous resources in terms of time and money and enter into complex, very complex contractual relationships, without any minimum guarantees and long-term commitments?

Mr. BROCK. We believe that, for any IDIQ contract, there has to be a minimum guarantee. The real challenge for GSA will be to establish that balance between minimum guarantees that are high enough to attract bidders and yet don't present a fence that agencies have trouble meeting these and are, in fact, forced into a mandatory use situation.

Mandatory use, by its very nature, really, I think, inhibits the desire of the vendor to achieve the lowest price. There's no real incentive. It takes away some of the incentive. As a result, artificial incentives have to be built in, such as recompetition, such as having the PAP cap mechanism in place. While these can work and be effective, they are also expensive to put into place and they're controversial, in themselves, in how they're carried out and operated.

Mr. CLINGER. Thank you, Mr. Brock. I have no further questions.

Mr. HORN. Thank you, Mr. Chairman. We're honored today to have the ranking member on the full committee, Mrs. Collins. Five minutes.

Mrs. COLLINS. Thank you very much, Mr. Chairman. Let me say that I'm sorry I was in route. I was not able to give my opening statement. I ask unanimous consent that it be made a part of the record.

Mr. HORN. Without objection, it will be made a part of the record.

[The prepared statement of Hon. Cardiss Collins follows:]

OPENING STATEMENT OF REP. CARDISS COLLINS
BEFORE THE
SUBCOMMITTEE ON
GOVERNMENT MANAGEMENT, INFORMATION,
AND TECHNOLOGY
"Oversight Hearing on Post-FTS 2000
Acquisition Strategy"
March 21, 1995

Mr. Chairman, I am pleased to join you and the ranking Member of this Subcommittee to consider the Administration's recommendation for the acquisition of telecommunications services following the expiration of the current FTS2000 contracts. As you know, this Committee played the major role in the development of the current FTS2000 acquisition strategy.

As former Chair of the Government Activities and Transportation Subcommittee, I helped to shape many aspects of that procurement.

The post-FTS2000 acquisition will have significant effects on the future cost, efficiency and technological expertise of government telecommunications services well into the next century. I recognize the recommended post-FTS2000 acquisition strategy as an effort to position the Federal government on the leading edge of the emerging information-intensive economy. However, as the strategy stands now I do not believe it adequately builds upon the demonstrated successes of the exiting FTS2000.

In order to understand my concerns, it is important to examine the strengths of FTS2000. Under the program one vendor was to receive 60 percent of the program revenue and the higher-cost vendor was to receive 40 percent. This structure was designed to ensure competition and low prices for the Government. Federal agencies were to be required to use the system, to ensure economies of scale, and prices were to be "levelized" so that an agency would pay the same amount no matter which vendor was assigned to it by the General Services Administration.

According to GSA, FTS2000 is currently handling 200% more traffic than originally projected. There are only four troubles per 100,000 calls, with virtually no network busy signals. There is also a 95 percent user satisfaction rate.

With regard to cost savings, GSA has indicated that FTS2000 has resulted in a 35 percent drop in average cost per minute for switched voice in the last three years. The reduction in the cost per minute of switched voice services has dropped from 27 cents to 8 cents to date, bringing FTS2000 prices below the lowest commercial market rate. In addition, GSA projects a 4 billion dollar savings over the 10 year life of the contract.

Anyone who has followed FTS2000 from its inception knows that these successes were achieved only after serious problems of mismanagement, and excessive overhead costs were resolved. But these problems have been resolved, and the proof is in the statistics I have just recited.

Despite its achievements, however, the FTS2000 program can be improved upon. The optimum acquisition strategy would maintain the successful features of current programs and still address the variety of new needs -- international and local requirements, special security requirements, integration support requirements, and innovation in telecommunications technologies. The ideal post-FTS2000 program would coordinate those needs into a single program; allow for more efficient deployment of new technologies; extend to user agencies the opportunity to select services specific to their needs.

Now comes GSA's post-FTS2000 strategy. It contains few of the elements that made FTS2000 successful. Instead of one full and open competition resulting in two major vendors competing against each other to drive down prices, this new strategy envisions a multitude of contracts, smaller in size and scope. For example, at least one contract will offer data communications only. GSA will award an unspecified

number of contracts to vendors who choose to respond only to wireless services. There will be at least two contracts for technical and management support. Additional contracts may be awarded for other future services as yet unidentified.

Awarding multiple short term contracts, without mandatory agency use or guaranteed revenue will most likely result in higher costs to the Federal government. It could also result in greater interoperability problems, and a general decline in the quality of service for users. In addition, since the strategy is unclear on exactly what services will be required, it will be impossible for vendors to know exactly what services they are bidding on. Moreover, if 40% of the cost for FTS2000 are for local access charges, why not seek full and open competition immediately for local access services. Finally, I have real concerns about whether GSA can effectively manage the wide range of contracts envisioned by this strategy in view of its own downsizing estimates. These are questions that must be answered by these hearings.

These two scheduled hearings will provide us our first insight into one of the most pivotal Federal acquisitions leading this nation into the 21st century. Clearly, the Committee must play a significant role in the development of the post-FTS2000 procurement, and I look forward to hearing the views of industry and Administration representatives on critical issues facing the multibillion dollar post-FTS2000 program.

May I add, Mr. Chairman, that I deeply appreciate the efforts of the majority to include the views of small and small disadvantaged businesses in this forum, and regret that we do not have representatives of that sector here with us today. I hope that the Subcommittee will be able to hear their point of view in the near future.

It is no secret that I am committed to ensuring that this procurement is structured in a manner that affords the greatest opportunity for small business. ~~Small business~~ is the bedrock of our national economy as well as our nation's fastest growing employer. For this

reason, I am particularly interested in learning from our witnesses their thoughts on encouraging small, women, and ~~small~~ disadvantaged business participation in this major procurement. I am especially interested in the comments of Mr. Teague of Sprint, and Mr. Lombardi of AT&T as to what level of commitment we should pursue.

I join my colleagues in welcoming our esteemed witnesses. I thank them for their time and enthusiastically await their testimony.

* * *

Mrs. COLLINS. Thank you. Mr. Brock, isn't it true that with mandatory use, FTS2000 has resulted in below market rate prices?

Mr. BROCK. We believe that the current FTS2000 prices are competitive with published or tariff prices. We're not sure if they're comparable with prices that companies may have arranged that aren't covered on the tariff.

We have some evidence from some agencies that have procured services other places that indicated that they've been able to achieve prices that are lower than published FTS2000 prices.

Mrs. COLLINS. It's my understanding that GSA suggested cost savings would be increased because agencies would have greater flexibility in procurement of telecommunications services. Long distance carriers support mandatory use requirements also, I understand. Is that not accurate?

Mr. BROCK. There are two questions in that, am I correct? One, do long distance carriers support mandatory use?

Mrs. COLLINS. Do they?

Mr. BROCK. I'm very hesitant to speak for the long distance carriers. They're going to be following me. [Laughter.]

But, in our interviews with the long distance carriers, one carrier indicated strong support for mandatory use; one carrier was more ambivalent; and one carrier did not support mandatory use. [Laughter.]

Mrs. COLLINS. If mandatory use were eliminated under the new strategy, how exactly would we ensure cost savings to the Government?

Mr. BROCK. Let agencies walk with their pocketbook. One of the things you might have is mandatory consideration. If you can beat the price, beat it.

Mrs. COLLINS. Let me ask you something else. Congress is currently undertaking reform efforts that will streamline not only the procurement process but GSA, as well, so my question is, how do you anticipate these reform efforts will affect your ability, GSA's ability, to manage the Post-FTS2000 program?

Mr. BROCK. First, GAO has been a strong supporter of streamlining the entire procurement process. It's a very expensive process. Vendors spend a great deal of money. GSA spends a great deal of money.

I really don't know what the future is going to bring in procurement reform and how it might ultimately affect this procurement but, speaking for GSA, many of the users that we've talked to had some concerns about GSA's continued ability to manage this procurement and to manage the program, because of the uncertainty of what GSA's role would be in the future, the effects of any potential downsizing on GSA, and whether or not it would maintain the ability and the knowledge and skills to continue to manage the program in the future. So that is an issue.

Mrs. COLLINS. Given that, would you advocate GSA contracting out the management of the Post-FTS2000 program?

Mr. BROCK. That's certainly an option that needs to be considered and I believe that is an option that is on the table.

Mrs. COLLINS. Let me get back to your concerns that you state about GSA's ability to manage the multi-contract, multi-vendor

program. They appear to be echoed by the long distance carriers. What I'd like to know is how does the strategy propose this issue?

Mr. BROCK. How to manage multiple contracts?

Mrs. COLLINS. Multiple contract, multiple vendor Post-FTS2000 program.

Mr. BROCK. We don't believe that the strategy adequately addresses that issue, Mrs. Collins, and that's one of the things that we would encourage GSA to be much more explicit on.

Mrs. COLLINS. Have you given them any kind of suggestions?

Mr. BROCK. Not to date, ma'am.

Mrs. COLLINS. Do you plan to?

Mr. BROCK. Yes, we do. We have an ongoing obligation to Mr. Clinger to comment on the strategy and the development as it progresses. We expect to be commenting on the draft RFP and the final RFP, at his request.

Mrs. COLLINS. I hope, when you're doing that, you will also consider the fact that some of us, including myself, are interested in maintaining some representation in the program—a lot, as a matter of fact—for small, minority businesses, women's business, so forth and so on. I think that's an understood thing, though.

Mr. BROCK. Yes, ma'am. In fact, we had a request from you several years ago to look at the effectiveness of AT&T and Sprint in effectively carrying out the mandates in that area.

Mrs. COLLINS. Thank you very much. I have no further questions at this time, Mr. Chairman.

Mr. HORN. Let me ask, you called for more precision in the agencies spelling out what they want; is that in terms of the goals they hope to achieve or is it primarily in terms of particular technological aspects that they wish to have in relation to what, perhaps, is an unnamed goal? How do you see that?

Mr. BROCK. I guess elements of both of those, Mr. Chairman. I believe that agencies should be better able to define their business objectives and how telecommunications can serve those objectives.

I believe that, in the times that we're in right now, where people are looking to cut back on Government expenditures and, at the same time, they want to maintain a certain service level or even improve that service level that the experience of private companies in doing this is that telecommunications has been absolutely critical to doing that. We believe that's true for the Government, as well.

One concern that we have in looking at some agencies is that they have not been able to manage their telecommunications very well and we're concerned about their ability to really present a reasonable set of requirements.

As I stated in my testimony, the better the agencies can define the requirements—GSA can't do this for them; the agencies must do it—then the better prepared GSA is to develop an RFP that's responsive to their needs and requirements.

Mr. HORN. Do you feel technology and the rapid change that new technology brings has been adequately taken into account by GSA in their design of this acquisition?

Mr. BROCK. I believe that GSA has adequately recognized the need for the ability to insert technology. That's been a problem in the current contract, to some extent, according to some users.

Again, I'm unsure, though, about how GSA would explicitly address that as an issue during the course of the contract.

Mr. HORN. We understand that the executive agencies have argued for a combined local/long distance management structure in GSA. Your testimony raises the issue of "purchasing local telecommunications services separately from long distance services" as one of the key issues to be resolved before the Government issues its requests for proposals.

Would a consolidated management structure in GSA resolve that particular issue and does your work support the need for such a consolidation?

Mr. BROCK. We believe very strongly that GSA needs to consolidate the management of telecommunications services within the agency. Further, we believe that, with the uncertainty of the regulatory environment for local telecommunications, that this is going to be a more complex issue to address in the future and that, if GSA consolidates the talent it has in one place, it will be better equipped to deal with issues such as this.

Mr. HORN. Mrs. Maloney.

Mrs. MALONEY. No questions.

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

CAROLYN B. MALONEY
14TH DISTRICT, NEW YORK

1504 LONGWORTH BUILDING
WASHINGTON, DC 20515-3214
(202) 225-7944

COMMITTEE ON BANKING AND FINANCIAL SERVICES

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

Carolyn Maloney

DISTRICT OFFICES:
☐ 110 EAST 59TH STREET
2ND FLOOR
NEW YORK, NY 10022
(212) 832-0831
☐ 28-11 ASTORIA BLVD.
ASTORIA, NY 11102
(718) 932-1804
☐ 819 LORIMER STREET
BROOKLYN, NY 11211
(718) 349-1260

Congress of the United States

House of Representatives

Washington, DC 20515-3214

OPENING STATEMENT OF REP. CAROLYN B. MALONEY

HEARING ON POST-FTS 2000 ACQUISITION STRATEGY

March 21, 1995

Thank you Mr. Chairman. I welcome this opportunity to examine the proposals for the acquisition of telecommunications services after the current contract, FTS 2000, expires.

As you know, the Federal Telecommunications System 2000, which expires in 1998, is a government contract that serves the long-distance voice and data communications needs of more than 1.7 million federal employees across the United States. The current contract costs approximately $580 million per year and, with the addition of major segments of the Department of Defense, the costs could reach $900 million next year.

The Administration, working through the Interagency Management Council, is to be commended for its efforts to achieve a coherent post-FTS 2000 strategy. Its report represents months of concentrated effort and includes a wide range of views from industry, users, government and academia. I look forward to the comments of industry and government representatives on that strategic plan.

FTS 2000 has been by many measures a success. The cost-per-minute of voice service has fallen from 27 cents to 8 cents, well below the commercial rate. At 10 to 12 billion dollars over the life of the procurement, FTS 2000 has come in well below its statutory ceiling of $25 billion.

However, we must continue to ensure that the American taxpayer gets all possible value for the dollar. I am a firm believer in using the free market to ensure that the Federal government gets the best bang for its buck in the acquisition process. It may be that expanding the number of firms eligible to bid for the post-FTS 2000 procurement will save the taxpayer even more.

The changes in information technology over the past decade have been truly phenomenal. Developing a strategy for post-FTS 2000 is made all the more difficult because we must not only incorporate those changes but also attempt to anticipate those that may come in the near future.

I look forward to working with you Mr. Chairman, and with Chairman Clinger and Representative Collins, as we move into 21st century information technology. Thank you Mr. Chairman.

Mr. HORN. The gentleman from Washington, Mr. Tate.

Mr. TATE. No questions.

Mr. HORN. I think we have completed this. You had a minute left to go. Are there things that you and your two colleagues would like to say to this committee before you leave? We would welcome it, in the last minute. We're on schedule.

Mr. BROCK. I believe that this procurement represents one of the most vital civilian procurements the Government will face over the next 5, 10, 15 years; and it's absolutely critical that this be done well. I think it's commendable that GSA, as I mentioned, is opening up the process. I think it's commendable that you're having early oversight hearings on this process.

I think the more that we can keep this open, the more that people can better understand the goals and objectives of the program, the better the users become, or the more the users become involved in the process, that we'll be much better equipped to deal with, I think, some very real issues on Government organization and management in the future.

Mr. HORN. We thank you all for coming.

Mr. BROCK. Thank you, Mr. Chairman.

Mr. HORN. The next panel is Mr. Lombardi, Mr. Teague, Mr. Edgerton. If you would, please, come forward. If you would, stand and raise your right hand, and repeat the oath after me.

[Witnesses sworn.]

Mr. HORN. All three witnesses have affirmed. You may be seated and we will begin with Mr. Lombardi, the vice president for American Telephone and Telegraph Government Marketing and AT&T Communications. Mr. Lombardi.

STATEMENTS OF RICHARD LOMBARDI, PRESIDENT OF AT&T GOVERNMENT MARKETS, AT&T COMMUNICATIONS; DONALD TEAGUE, VICE PRESIDENT AND GENERAL MANAGER OF GOVERNMENT SYSTEMS DIVISION, SPRINT; AND JERRY EDGERTON, VICE PRESIDENT OF MCI GOVERNMENT SYSTEMS, MCI TELECOMMUNICATIONS CORPORATION

Mr. LOMBARDI. Thank you, Mr. Chairman. Mr. Chairman and members of the committee, good afternoon and thank you for inviting me and my colleagues to testify on the proposed strategy for the follow-on to the FTS2000 program.

AT&T believes that this effort will constitute a vitally important watershed event for the Government. It will, for the first time, prompt a very broad Government focus on its needs to identify requirements for common acquisition where that's appropriate. That, in turn, should prompt, in the best tradition of the current FTS2000 program, the provisioning of new and cost-efficient telecommunications solutions.

Our views today reflect not only our desire to meet this challenge for our country but they also reflect the assessment of a corporate citizen that seeks to promote rational, efficient acquisition and program administration.

Let me state up front, Mr. Chairman that by all accounts, the Government is blessed with a cost-efficient, state-of-the-art telecommunications system in the existing FTS2000. This program has served as a platform for innovation and competition, as well as a

vehicle for promoting competitive strength in minority and women-owned businesses.

Much has been said, written, and testified about this program. Just last spring, associate administrator for FTS2000, Bob Woods, testified before the Senate Governmental Affairs Committee that, in addition to the service enhancements that have been added to this contract, it has achieved a level of service and quality commitment unparalleled within the Federal arena.

Likewise, GAO, in the person of Mr. Brock, who was just here, testified that despite problems encountered early with this revolutionary approach to providing telecommunications solutions—and it was revolutionary; it was different—the Government now has telecommunications rates that are competitive with or even lower than non-commercial rates. This is a giant step forward.

Most importantly, Mr. Chairman, Mr. Woods elaborated on the GAO finding that FTS2000 is meeting the increased user demand at or below market prices. The year 4 recompetition alone resulted in $450 million of additional savings to the taxpayer. By the end of the contract, Mr. Woods concluded, the Government would save approximately $3 billion, this from a program that was originally projected to save only slightly more than $100 million.

I'd like to also commend GSA on the work that they've done. Unfortunately, we're concerned. It does not appear that the strategy for the follow-on program is being built off this innovative record of success. Our views are discussed fully in our written testimony which, as you said, would be part of the record.

In summary, we feel that the proposed strategy contains the following flaws:

First, it wastefully places emphasis on early replacement of the existing program, potentially scuttling the internal competition that's about to take place on the program this year.

Next, it fails to actually identify long-term requirements which should be the basis for the Post-FTS2000. Not only does that leave all sides with kind of a moving target on which to bid, but it's the heart of the problem here. The needs, or the form of this procurement have not been really identified, and we're rushing forward with the how to do it.

Next, we believe it erroneously fractures future requirements, potentially reducing the Government's ability to leverage its buying power for services, minimizing potential contractor commitment and their infrastructure investment, and destabilizing meaningful customer-supplier relationships.

It also appears to impose market allocation, along with the apparent objective to achieve absolute market flexibility, by exercising little, if any, business commitment by the Government. This approach seriously undermines the benefits of full and open competition and, in doing so, it relegates services to a commodity status at a time when the innovative and changing missions of agencies require close customer support in providing service to the citizen.

Finally, it also fails to adequately address security and interoperability issues, and it fails to seek any competition in the one segment of the communications services cost borne by the public that is currently non-competitive, and that's local services and access.

Mr. Chairman, the proposed strategy needs a lot of work and we stand ready to help. We're fortunate that we have time to correct these flaws under the current, competitively awarded FTS2000 contracts. These contracts have almost 4 years to run. Indeed, in that time, FTS2000 would allow aggressive implementation of Government programs, like electronic commerce and the over-arching national information infrastructure.

One final point, is the conclusion of an earlier Interagency Management Council study prepared by MITRE addressing the dynamics of the telecommunications market. Specifically, the conclusion was, "The best policy under the circumstances is a continuation of the FTS2000 concept of buying services."

The plans for the replacement of FTS2000 should buildupon the record of success of the existing program, refining and improving for future success, of course, but at the same time, following a common sense agenda, ensuring that form follows function, and not the other way around.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Lombardi follows:]

Testimony of Richard J. Lombardi

President - AT&T Government Markets

Before The

House Government Reform and Oversight Committee

Subcommittee On Government Management, Information And Technology

Chairman Stephen Horn

March 21, 1995

Mr. Chairman, members of the Committee, good afternoon. Thank you for inviting me to appear before you this afternoon to discuss AT&T's perspective on the Post-FTS2000 acquisition strategy. We believe that this effort will constitute a watershed event for the government, serving as the platform for providing new technology and cost-efficient telecommunications solutions for the government. Our views reflect not only our desire to meet this challenge for our country, but also the assessment of a corporate citizen that seeks to promote rationale, efficient acquisition and program administration.

In December 1988, AT&T was one of two network service providers to win comprehensive, government-wide prime contracts known as FTS2000. This program, which currently provides intercity telecommunications services for 1.7 million federal government users, was awarded by GSA after a lengthy and vigorous competition. FTS2000 represents a major privatization initiative in which the government turned to the private sector to provide state-of-the-art telecommunications capabilities, and it has succeeded beyond all projections and expectations.

At the outset, it is important to recall the history of this highly successful program. In 1987 the government's original acquisition strategy for FTS2000 was to create one, winner-take-all contract for Brooks Act long distance telecommunications services needs of the U.S. Government. As a result of extensive congressional oversight and related negotiations, however, the government adopted a significantly revised FTS2000 acquisition strategy.

The final FTS2000 strategy created dual-source awards, to be initially set at 60/40 revenue ratios, with price control mechanisms and periodic recompetitions between the prime contractors throughout the ten year life of the program (the 4th & 7th years of the contract). AT&T won Network A, the 60% share, and Sprint won Network B, the 40% share. (Major customers on

Network A are DOT, SSA, Agriculture, Interior, NASA, Energy, HHS, VA, DOC, EPA, TVA, DOE, State and Postal).

Mandatory Use was included in the final acquisition strategy through legislation enacted by Congress, in regulation and policy, in the actual terms and conditions of the competitive RFP and, accordingly, in the resulting FTS2000 contracts themselves.

Congressional, GAO and Administration studies have estimated that total ten year Government/taxpayer savings through FTS2000 will exceed $3 Billion. FTS2000 continues to be enhanced, providing technology refreshment to ensure the latest in technologies for an evolving set of communications service offerings.

Annual renewal of this legislative policy has been included on a bipartisan basis in every Presidential budget message to Congress since the contracts were competed and awarded in 1988. The Mandatory Use provision has been handled in the Appropriations Treasury & Postal Subcommittees in both the Senate and House.

When FTS2000 was still in the acquisition strategy phase, GSA and GAO projected potential taxpayer savings of $100M or more. As stated, the actual results, cited in subsequent findings by both the full Committee and GSA, now project cumulative ten-year program savings for the taxpayer of more than $3 billion. Clearly, this success was due to the acquisition strategy adopted by the government. The dual-sourced comprehensive services contracts keep AT&T and Sprint in continual competition.

Regretably, despite this extraordinary record of success, the proposed acquisition strategy for the Post-FTS2000 Program chooses not to build off this innovative record of success. Instead, it raises serious concerns from the standpoint of technology, budget, and acquisition law and policy. In summary, the flaws in the Interagency Management Council (IMC) Proposed Strategy are as follows:

- it wastefully emphasizes early replacement of the existing program, potentially scuttling the internal FTS2000 contract recompetition scheduled for 1995;
- it fails to actually identify long-term requirements which would be the basis for the Post-FTS2000 program, leaving all sides with a moving target on which to bid;

- it erroneously fractures future requirements, potentially eviscerating the government's ability to leverage its buying power for services, minimizing potential contractor commitment and infrastructure investment, and destabilizing meaningful customer-supplier relationships;
- it appears to seek to impose market allocation, and pairs this with an evident objective of achieving total contractual flexibility over time through little if any business commitment by the government; this twin-emphasis seriously jeopardizes long-term program success and the impact of full and open competition;
- it fails to adequately address critical security and interoperability issues; and it fails to seek any competition in the one segment of the communications service cost borne by the public and paid by the taxpayer that is currently ***non***-competitive: local services and access.

Our views on these issues are set forth in detail in our attached written response to the Government's call for comments on the Proposed Post-FTS2000 Strategy Acquisition. In addition, attached are the written comments AT&T submitted to the Government on their proposed strategy for conducting the second scheduled internal program recompetition in FTS2000, known as the Price Redetermination and Service Reallocation, or the PR/SR, which is to take

place this summer. I ask that both those documents be included in the hearing record, and I would like to take a moment now to summarize what is on that record.

The Government's premature schedule for the Post-FTS2000 program and its proposed early transition from the current FTS2000 Program is confusing to us in light of GSA's explicit testimony not even a year ago before the Senate Governmental Affairs Committee, where FTS2000 Associate Administrator Bob Woods stated, and I am quoting:

> The FTS2000... concept ... continues to reap benefits for Federal users and the American taxpayer. ...
>
> Currently, FTS2000 carries 350 million minutes of voice traffic each month (including fax and modem-based data traffic). This is almost three times the 1987 projections and reflects increased user demand, as well as the use of advanced features provided by FTS2000. ... FTS2000 is currently providing 16 times more dedicated transmission services than projected in 1987. ...
>
> In the first 5 years of the contracts, we have incorporated feature and service enhancements to address specific customer requirements, and have made these enhancements available to all customers. ... Overall, FTS2000 has achieved a level of service and quality commitment unparalleled within the

> Federal arena for an undertaking of this magnitude and far-reaching importance.
>
> FTS2000 is meeting the increased user demand at or below market prices. ... The year 4 price redetermination alone resulted in $450 million of additional savings to the American taxpayer. ... By the end of the FTS2000 contracts, GSA's price management will have resulted in an estimated $3 billion of savings to the Federal user and the American taxpayer.

FTS2000, as recognized in several legal decisions over time, and as reflected in the oversight record of this committee, was intended to be a lasting blueprint for the provision of these services; that is, FTS2000 was never intended to become obsolete, Mr. Chairman. As a landmark effort to privatize government telecommunications services, FTS2000 was a replacement for an outmoded, balkanized, government-managed system. The concept and acquisition strategy for FTS2000 ensured that throughout its ten year program life the government would have the most modern technology and services at cost-efficient, competitive rates, and FTS2000 would then serve as the platform for follow-on replacement acquisition.

Opting for an inappropriate early transition from FTS2000, the government chooses to minimize continuing taxpayer savings and ongoing technological refreshment, and undermines the current program. For instance, consider the

1992 internal program recompetition. Mr. Woods testified it saved $450 million; but, it was supposed to be the first of **two** such events, the second of which is scheduled for this year. By creating significant uncertainty, the government is removing the basis for the vendors bidding lower prices and offering service upgrades in the 1995 program recompetition. In addition to this uncertainty, we could see the premature removal of business volumes from the program itself. This conflict is most vividly illustrated by the government's unexplainable decision to have the RFP for PR/SR and the RFP for Post-FTS2000 on the street simultaneously this coming Summer. We suggest that simple business logic of the forces of the free marketplace would indicate that the premature publication of the Post-FTS2000 RFP directly undercuts the 1995, year 7 PR/SR in the existing program.

Indeed, the government is threatening prices on even the remaining FTS2000 traffic. Current pricing is based on revenue volumes. *Higher volumes move the government to better pricing bands.* In fact, it was for this reason that we have been objecting to the proposed PR/SR's continued exclusion of legitimate current FTS2000 business volumes under Brooks Act contracts and procurements such as TCS at Treasury, GEO Net at Interior, and IDCU at Veteran's Affairs. The same principles holds true, however, for early transition from the program to future systems: *Lower volumes artificially inflate prices.*

This intent to transition early is all the more puzzling given that the government expressly acknowledges that it cannot identify its requirements more than three or four years into the future. Curiously, the current FTS2000 Program has four more years to run. So, instead of fully utilizing the legal, competitive, efficient contracts already existing under FTS2000, the government is seeking to award new, open-ended contracts without firm requirements, in complete contravention of established procurement policy. Unable to define or describe what it needs and is trying to buy, the Government's focus has shifted entirely to strategizing the procurement process, defining the structure and methodology with which it will conduct the acquisition, and establishing a replacement schedule to retire the existing program as rapidly as possible. And, indeed, all of this is moving swiftly forward despite the continued absence of defined needs and requirements, and despite the fact that the existing successful ten-year program still has four years left to run.

This approach just doesn't make sense, and of course, it has historically been the source of procurement horror stories in the past. One need only look to the recently released GAO report on the Continuous Acquisition and Life Cycle Support (CALS) program to see the costs associated with the failure to identify requirements up front. After 10 years and over $5 billion spent on this initiative to digitize technical manuals and other printed information, the program

was found to lack adequate guidelines or an effective management structure. There is little identification of what the initiative should be, what it should encompass, and how it should be implemented. Without adequate requirements and mission identification, the program risks failures.

What is even more troubling, Mr. Chairman, is that at a time when budgets are shrinking, the government is seeking to employ the most cost-intensive acquisition strategy available to secure these undefined requirements. The Proposed Post-FTS2000 Strategy states that the government will fracture its requirements among multiple, short-term, non-mandatory, indefinite quantity, indefinite delivery contracts with little or no minimum business guarantees to acquire services.

Such fracturing takes the government, one of the market's largest customers with enormous leverage, and splinters its buying power into smaller contracting entities, without any regard for what such splintering might do to the quality of the volume buy it can get and ultimately, therefore, to the impact on the taxpayer. Furthermore, as the descriptive language indicates, these contracts inject as much uncertainty into the process as possible. Remarkably, all of this would happen by virtue of almost completely discarding the successful acquisition strategy which has achieved such extraordinary results through the

FTS2000 program. And, indeed, the strategy could minimize the potential value of communications services by relegating them to an apparent commodity provisioning role, when, in fact, the industry is increasingly evolving toward a value-added, solution-oriented role in the life of American business, with advanced network-based capabilities providing innovative applications to help customers solve business problems, utilizing information movement and management solutions to offset major non-telecommunications operational cost streams. These emerging services represent the future, as society seeks to reduce the administrative and operating costs of government by moving toward a "paperless," networked electronic government, adopting the best emerging commercial market solutions to the age old cost-intensive processes and problems of government.

The absence of a vision of the possibilities for the future is not the only practical problem inherent to this proposed plan. There really is also a scale problem. It is simple economics, Mr. Chairman: Generally, smaller purchases don't obtain the pricing of larger ones, and uncertainty breeds increased costs. Also, with uncertainty, lines of supply, much like those you were seeking to establish in the Federal Acquisition Streamlining Act (FASA) last year, are difficult to secure.

Some might argue that because there will be a competition, there will be some kind of pricing pressure under this approach. Although this conclusion may have some truth to it, the fact is that fractured competition will not yield the optimal *solution* and best value for the government. Such results can only be achieved from a qualitative trade-off analysis of needs and requirements, flexibility, quality, technology, life-cycle cost, etc. Again, this fact was recognized by Mr. Woods in his own testimony before Congress just last Spring. Unfortunately, this sort of critical analysis does not appear to have been completed, and the government has instead moved on to focusing all of its energies on federal acquisition strategies and market allocation methodologies.

In this environment, some interest groups are pressing their case to create guaranteed contracts for particular Fortune 500 industry sectors. These blue chip "set-aside" proposals would abuse the public interest in favor of private interests. To date the Post-FTS2000 planners have wisely resisted these relentless pressures.

It is imperative that the government not succumb to these advocates of limited competitions and creation of Industrial Policy through government contracting. Full and open competition, the benchmark of Federal acquisition,

should be the guiding force in the follow-on to FTS2000. By maintaining a level playing field, the government assures access to the latest technology of the market at optimal prices.

Indeed, the alternatives could be staggering for the government. By holding open any possibility that the program could be set aside for management by a systems integrator, for instance, the government would threaten to lock out from the competition for the entire program businesses that inherently perform this function while actually provisioning their products and services. In addition, allocating guaranteed portions of the program for systems integrators would give rise to oversight problems, as the integrators may be viewed as prime contractors whose activities would, in some instances, be outside the purview of procurement law and regulation.

Likewise, market allocation along the regional territory lines of the Bell Operating Companies also threatens to undermine and predispose the outcome of competition. The structure of contract competitions should reflect the needs of *the federal government*, not those of the Bell Company Monopolies or any other private party. This approach assures that optimal efficiencies for the provisioning of government services obtain and to ensure that competition is genuinely full and open.

At bottom, Mr. Chairman, allocation of the market would amount to nothing more than a back door attempt at setting *Industrial Policy*, because it would focus solely on fracturing and directing business to and among selected industries without adhering to a broad, objective view of the overall economy. Full and open competition must prevail. It is, again, the only way the government can be assured of receiving the latest technologies and services available, *and* it is the only assured way of protecting the *public* interest.

Another problem with the Proposed Strategy is that huge holes exist for assurance of security for the government's communications; although it is clear that CPE and interexchange carriers will assure security where contracts exist like the current FTS2000. For example, where contracts are competed for local access on either end of an interexchange carrier, the Proposed Strategy is silent as to what security measures will be in place, who will be responsible for that security at the local level, and who will assure interconnective security provisioning. Given the recent revelations of security breaches in major defense networks of governments around the world, we believe it is critical that this issue be addressed fully before any actual procurement activity take place. Though we have passed through the cold war, I think all would agree that the world is still a dangerous place, and information age terrorism is confronting this Government as a practical problem which must be addressed.

With respect to interoperability, Mr. Chairman, the government does not provide any strategy as to how it will be consistently achieved in this proposed fractured, multi-contractor environment. Indeed, the Proposed Strategy expressly states that "the issue" has not been well defined in the standards community and is still to some extent an informal process."

There is great risk to the future of government telecommunications if these sorts of issues are not worked out in advance of the conduct of future procurements. First, if the government moves forward with its fractured, multi-contractor approach, it runs the risk of vendors, and ultimately users, being unable to communicate with each other. If the government tries to impose standards, new problems arise. For one thing, we need to question whether the government should be in the standards business in such a dynamic market, or whether the market should be allowed to work standards out first.

Another problem arises with the enforcement of standards. The Proposed Strategy anticipates using punitive contractual remedies like liquidated damages and cancellation in the event of an interoperability failure. Aside from being a difficult course of enforcement action from a practical standpoint given the short

term of the contracts apparently desired, and the potential for protracted dispute technical identification of the source of failure may prove exhausting with the multiplicity of players anticipated and potentially involved in the course of technical transactions associated with any given service as a result of the fractured approach being chosen. In addition, vendors providing different aspects of a given service may be powerless to enforce standards among themselves. Thus, the government may spend more time in court and less on the phone, which does none of the parties any good.

Finally, Mr. Chairman, we cannot leave this discussion without directly addressing local access costs. A recent *Washington Post* news story reported that local access payments represent approximately 45 cents of every dollar expended on long distance in this country. The story went on to cite industry leaders and analysts as suggesting that much of that local access income represents enormously profitable revenues to the companies receiving them.

The experience of the FTS2000 program with local access is consistent with the findings of the *Washington Post* story. Utilizing calendar year data for 1993 and 1994 alone, local access providers, who are primarily the Bell Operating Companies, received approximately 40% of the actual dollars spent under FTS2000.

Given the enormous, monopolistic revenues flowing to the Local Exchange Companies, and the fact that they represents approximately 40% of actual long distance cost, we believe that the government should support implementation of regulations and other changes to permit local competition to develop in the local services and access market. Clearly, competition in local markets could yield the greatest opportunity for substantial new taxpayer savings.

Mr. Chairman, I realize the Proposed Strategy needs a lot of work, and we and others in the private sector want to help you and the Executive Branch in the course of that effort. We are fortunate that we have some time under legal contracts to clarify the problems. Indeed, robust utilization of the FTS2000 Program would allow aggressive implementation of the government's reform initiatives, like Electronic Commerce, and further the government's support for technological initiatives such as the overarching National Information Infrastructure. In this regard, I close with the report of the Interagency Management Council. In its November 1993 study prepared by MITRE, entitled "Federal Telecommunications Requirements and Industry Technology Assessment," the IMC makes the following technological conclusion with respect to the dynamics of the telecommunications market :

"The best policy under the circumstances is a continuation of (the) *FTS2000 concept of buying services.*"

Curiously, Mr. Chairman, this is the one conclusion from that IMC/MITRE study that was omitted from the Proposed Post-FTS2000 Strategy. The fact is, given the current state of the Proposed Strategy, the dynamics of the market, the government's buying power, the obligation to safeguard the public interest, and the extraordinary success of the FTS2000 program itself, the recommendation makes good sense. The plans for the replacement of FTS2000 should build upon the record of success of the existing program, refining and improving for future success, but always ensuring that "form follows function." In summary, we offer the following recommendations:

First, the government must determine its future needs and requirements, with a vision of the role communications solutions can play for government in the future;

Second, the government should rigorously continue to upgrade and utilize the existing successful FTS2000 program for its remaining four years, applying these competed, lawful contracts for near-term realization of the government's

objectives for electronic, paperless operations networked "virtual agency" management solutions, and enhanced citizen services; these critical needs should not be postponed when they could be accomplished ***now.***

Third, the government should ensure that it optimizes the benefits it can obtain from the 1995 PR/SR internal program recompetition, and not undercut it by prematurely seeking to replace it with a new program, with the only real competition then taking place between two overlapping and conflicting RFPs;

Fourth, the government should build its future acquisition plans on the bedrock of established success and the lessons learned from that success.

Most of all, the Post-FTS2000 planning process needs to adhere to a common sense agenda, which puts the public interest first, thoughtfully avoiding a rush to judgment, and consistently ensuring that "form *follows* function" and not the other way around.

[Note.—The referred to attachments can be found in subcommittee files.]

Mr. HORN. Thank you very much, Mr. Lombardi. I unfortunately identified you as vice president, AT&T Government Markets. I see in your testimony you are president. Congratulations. That was a very rapid promotion. [Laughter.]

Mr. LOMBARDI. Thank you, Mr. Chairman.

Mr. HORN. You deserve it. Mr. Donald Teague, the vice president and general manager of Government Systems Division, Sprint. Welcome.

Mr. TEAGUE. Thank you, Chairman Horn and members of the subcommittee. I am responsible for delivery of long distance and other services under FTS2000 and other telecommunications contracts Sprint has with the U.S. Government. I sincerely appreciate the opportunity to appear before you today and share Sprint's perspectives on the structure of the Post-FTS2000 program.

Sprint is a leader in global telecommunications and, in 1988, was awarded one of the 10-year contracts under the current FTS2000 program to provide long distance voice data video transmission services to Federal Government agencies. FTS2000 is the largest and, in our opinion, the most successful civilian contract for information technology resources ever awarded by the Federal Government.

The program has enjoyed broad bipartisan support. It was conceived and implemented during the administrations of Presidents Reagan and Bush and the program was cited as a model procurement by President Clinton's National Performance Review. The FTS2000 program should be used as a model for the Post-FTS2000 environment.

This committee played a crucial role in the FTS2000 Post-FTS2000 by insisting that GSA split the award between two vendors with the winning offeror receiving 60 percent of projected revenue and the runner-up 40 percent. This committee also recommended that the contracts have unique features, such as internal recompetitions between the two winners at years 4 and 7 and mandatory use by the FTS2000 network Federal agencies.

The FTS2000 program is cost effective. Per recent statistics released by the Government's Interagency Management Council—recent being last month—the program is now projected to save the U.S. taxpayers $4 billion over the life of the 10-year contracts. The Government is paying only one quarter of the price for long distance switch-voice service, compared to the old FTS and is paying about one third now of the initial FTS2000 award price.

One reason for these cost savings is the requirement that all Federal agencies use the FTS2000 program. Another reason for the savings is the periodic structured recompetitions, referred to as price redeterminations, service reallocations—PRSR.

Under the PRSR, the two contractors are required to compete against each other during years 4 and 7 for 40 percent of each other's business. Ladies and gentlemen, I suggest that is real competition. 1995 is year 7 and we are in the midst of the second PRSR.

In addition to these direct savings, FTS2000 is also saving millions of dollars through the elimination of the extraordinary cost to agencies of the planning, managing, and implementation of their

own telecommunications acquisitions. Agencies now use a single contractual vehicle to acquire a full range of services, from a simple voice service to sophisticated data and video services and related customized, unique to the Government, support.

Technology refreshment provisions in the contracts ensure that the Government receives the latest technology available, such as enhanced 800 service, enhanced video services, and enhanced data communications services. In addition, because both networks have nationwide seamless coverage, ubiquitous interoperability is achievable and has been achieved.

The Government does not need to reinvent the wheel in designing the Post-FTS2000 program. FTS2000 is a true success story which has provided the Government with leading edge telecommunications services at leading edge prices. The taxpayers cannot afford to design and build and Post-FTS2000 program from scratch, especially when there is already a tried and true design.

The Post-FTS2000 model should retain the successful features of FTS2000, such as internal recompetitions and technology refreshment provisions, and it should maintain the cost effectiveness trend of the FTS2000 contracts. To achieve these goals, the Government should award two or three 10-year comprehensive contracts for all switched, dedicated, and wireless voice and data communications services, domestically and internationally, within the Post-FTS2000 program.

The Department of Defense appears to be moving significant amounts of its traffic from defense-unique networks to FTS2000. We applaud this movement and these initiatives. In addition, Sprint supports recommendations to expand the program to include State and local governments and a broader set of international locations where commercial service is available.

The award of comprehensive contracts is in the Government's best interest.

First, the Government will receive the benefit of volume discounts. Only through the award of a limited number of comprehensive contracts can the Government take advantage of the cost savings associated with recent technological trends. Technology has now made it possible to aggregate all of the users' voice, data, and video requirements on a single circuit to maximize the users' available capabilities at the lowest cost. Thus, the customer's buying power is multiplied.

Second, the award of a small number of comprehensive contracts under the Post-FTS2000 program will require less management by the Government than the award of many contracts for many services. A small number of comprehensive contracts under the program also makes global interoperability easier to achieve.

Third, a strong mandatory use policy maximizes the Government's buying power. For even the smallest agency, it streamlines acquisition and implementation across the Government. It allows the Government to avoid costs inherent in duplicative procurement efforts and permits the awardees to recoup their huge initial investment.

Finally, a key requirement of the Post-FTS2000 program should be periodic competitions between and among the awardees in order to assure that the Government obtains the continuation of lowest

possible prices at best possible service. The recompetition process provides incentives for the contractors to maintain a high quality of service at the lowest possible prices and to add new services, as technology evolves, and thereby meet the rapidly changing mission requirements of the agencies we serve.

This concludes my statement. I would be pleased to answer any questions that the subcommittee may have. Thank you, sir.

[The prepared statement of Mr. Teague follows:]

1850 M Street, N.W., 11th Floor
Washington, DC. 20036

STATEMENT OF DONALD TEAGUE
Vice President and General Manager
Sprint Government Systems Division

Thank you Chairman Horn and Members of the Subcommittee. My name is Donald Teague and I am Vice President and General Manager of Sprint's Government Systems Division. I am responsible for delivery of long distance and other services under FTS2000 and other telecommunications contracts Sprint has with the United States Government. I appreciate the opportunity to appear before you today and share Sprint's perspective on the structure of the Post-FTS2000 program.

Sprint is a leader in global telecommunications, with annual revenues exceeding $12 billion and over 50,000 employees. Sprint is also a leading entrepreneur in the field of telecommunications -- it had the first all-fiber network, the first packet data network, and was the first major carrier to offer international frame relay service and public Asynchronous Transfer Mode (ATM) service. In addition, Sprint is the largest public data service provider in the world, the largest provider of Internet service, and a market leader in frame relay and ATM services.

Sprint is proud to be an active participant in the Federal telecommunications market and in 1988 was awarded one of the 10 year contracts under the FTS2000 program to provide long distance, voice, data and video transmission for Federal Government agencies. Therefore, Sprint brings a unique perspective on how the Post-FTS2000 program should be structured and managed.

Our views on this program are guided by the lessons learned from FTS2000. Sprint believes that FTS2000 is the largest, most successful civilian contract for information technology resources ever awarded by the Federal Government. The program has enjoyed broad, bipartisan support. It was conceived and implemented during the administrations of Presidents Reagan and Bush. The program was cited as a model procurement by President Clinton's National Performance Review. FTS2000 should be used as the model for the Post-FTS2000 program as well.

ORIGINS OF THE FTS 2000 PROGRAM

To fully appreciate the successful results of FTS2000, it is necessary to understand the program's origins. FTS2000 is the successor contract to the Federal Telecommunications System (FTS) which became operational in 1963. The network served the Government well for many years; however, by the early 1980's several deficiencies in FTS had become apparent. FTS was a voice system that could not meet agencies' growing needs for high speed data transmission and other services. It represented 1960's analog technology, and fell far short of the 1980's demands for digital technology.

In addition, there were severe service problems. In order to lower costs, the number of circuits was cut in half resulting in high blockage problems, i.e., busy signals became the norm. Some of you might remember that the old FTS was virtually shut down in 1985, when tickets for Bruce Springsteen's, "Born in the USA" concert went on sale. The phone lines at the White House and on Capitol Hill were crippled for up to two hours as ticket seekers "jammed" the nation's phone lines with 1-800 calls. A similar crippling of the phone lines occurred in 1982 when the Air Florida jet crashed into the Potomac.

These problems were exacerbated as the regulatory environment of the late 1970's and early 1980's began taking shape. Agencies began awarding their own, more costly, telecommunications contracts. Separate service contracts were awarded to multiple carriers for various circuits beginning in the mid 1970's. As a result, compatibility problems were rampant, interoperability was a major problem and costs increased. In 1981, the Telpak tariff, under which the FTS was leased from AT&T, was canceled. As a result, by the expiration of the initial FTS contract, the Government was paying 36 cents a minute for its long distance service-- or approximately $100 million more per year than prior to the expiration of Telpak.

In the mid-1980's, GSA realized that FTS could no longer adequately meet the Government's needs. It began soliciting comments on how best to structure a follow-on program to FTS. In January 1987, GSA released the FTS2000 Request for Proposals (RFP). It was GSA's belief that one large contract should be awarded to handle the telecommunications needs of the entire Federal Government. As soon as the RFP hit the street, AT&T filed a lawsuit against GSA. The procurement was delayed repeatedly. The Department of Defense initially indicated that it would not participate in the program.

It was in this environment that the House Government Reform and Oversight Committee (formerly the House Committee on Government Operations) stepped in and played a crucial role in the structuring of the successor to FTS. The Committee recognized that serious problems would arise if the Government awarded a single FTS2000 contract, whose estimated value, at that time, was over $25 billion. There would be no way for the Government to maintain any leverage to ensure that it received low prices and current technology over the life of the contract. The Committee

anticipated that there would be problems managing one large contractor and ensuring that quality service was provided. Also, the Government's need for certain telecommunications services was not defined. To further complicate issues, as a result of the breakup of the Bell monopoly in 1984, the telecommunications industry was entering a dynamic period of technological change and price fluctuations. The industry is experiencing a similar period of dynamic change today.

Under the leadership of then Chairman, Jack Brooks and then Ranking Minority Member, Frank Horton, this Committee insisted that GSA split the award between two vendors with the winning offeror receiving 60% of the projected revenue and the runner-up receiving 40%. The Committee believed that concentrating too much economic power in one company might have a negative effect on competition in the telecommunications industry. It was thought that providing a dual award would promote a strong, diversified industry capable of meeting the Government's needs in the future.

This Committee also had the foresight to recommend that the contracts have unique features, such as: recompetitions between the two contractors at years four and seven of the contracts, to accommodate industry price fluctuations and technological advances; and mandatory use of the FTS 2000 network by Federal agencies.

However, GSA, believing that a two-vendor approach was not feasible, resisted the Committee's approach. Due to the Committee's persistence, through weeks of long drawn-out negotiations, GSA agreed to the Committee's recommendations regarding the structure of the FTS2000 program in a document referred to as the "Twenty-one Points."

RESULTS OF THE FTS 2000 PROGRAM

As a result of the leadership of Congress and the able implementation and administration by the General Services Administration, the Government now has reliable, cost-effective, state-of-the-art telecommunications service. The successes of FTS2000 are directly based on its fundamental contract structure, which provides a strong foundation for the Post-FTS2000 program.

Cost Savings

The FTS2000 program is cost-effective. According to GSA, the program is projected to save the U.S. taxpayers $4 billion over the life of the 10 year contracts. The Government is now paying only one-quarter of the price for long distance switched voice service as compared to the old FTS, and is paying about one third of the initial FTS2000 award price. These savings have been achieved despite the fact that the largest single cost for the FTS2000 contractors has remained relatively constant. Forty-four percent of every dollar Sprint receives is paid to local telephone companies, predominantly the Regional Bell Operating Companies (RBOCs), in the form of access fees to originate and terminate long distance calls. Still, FTS2000 switched voice prices have decreased about 66% since contract award.

One reason for these cost savings is the statutory and contractual requirement that all Federal agencies must use the FTS2000 program. This provision was necessary to assure the competitors for the program that in return for the ten-year fixed (but downwardly adjustable) prices they charged, they would be able to achieve the traffic volumes necessary to take the risk to bid on the contracts. Without mandatory use, the vendors could not have proposed the aggressively competitive pricing or invested the enormous capital and human resources necessary to compete for and implement

FTS2000. Mandatory use was correctly envisioned by this Committee as necessary to maximize the economies of scale so that the Government would achieve the best possible pricing and technical solutions from the competing contractors. However, according to the Committee's own report, approximately 83 percent ($3.1 billion) of the Government's telecommunications requirements is not covered by FTS2000.[1] For example, the GAO has estimated that FTS2000 carries less than 20% of DoD's long distance telecommunications traffic.[2] It has been estimated that full agency participation in the program, as originally intended, would have doubled the cost savings.

Another reason for the savings is the periodic, structured recompetitions, referred to as price redeterminations/service reallocation (PR/SR). Under the PR/SR, the two contractors are required to compete against each other during years 4 and 7 of the contract for 40% of each other's business. The contractors are evaluated on the basis of price and quality of service. It is an essential element of the program because it provides an incentive for the FTS2000 contractors to remain focused on the competitiveness of their prices and the quality of their performance. This ensures that the Government continues to receive the latest technology at great savings.

Finally, another assurance that the Government receives the lowest price possible is achieved through Publicly Available Price Caps (PAPCaps). Under PAPCaps, the contractors must ensure that their FTS2000 prices are lower than commercially available prices.

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1 H. Rep. No. 1056, 102d Cong., 2d Sess. 5 (1992).

2 Government-Wide Initiatives: Critical Issues Facing the Next Federal Telecommunications System (GAO/T-AIMD-94-114) (May 3, 1994), p.2.

In addition to these direct savings, FTS2000 is also saving millions of dollars through the elimination of the extraordinary costs to agencies for the planning and managing of their own telecommunications acquisitions. Agencies now use a single contractual vehicle to acquire a full range of services, from simple voice to sophisticated data services and related support. FTS2000 provides agencies with a solid procurement vehicle for telecommunications services, giving them the ability to focus their energies and resources on other administrative and mission requirements. This would not be possible without the centralized management inherent in the program.

State of the Art Technology

In addition to these cost savings, FTS2000 provides state of the art technology for Government users. Technology refreshment provisions in the contracts ensure that the Government receives the latest technology available, such as: enhanced 800, enhanced video, DS-3, frame relay, ATM and Synchronous Optic Network (SONET). In addition, because both networks have nationwide, seamless coverage, interoperability is achievable.

However, the most important aspect of the FTS2000 program is that it has highly reliable service--the calls go through. Unlike the old FTS when one Bruce Springsteen concert could shut down Federal phones, FTS2000 was fully functional during the 1989 San Francisco earthquake. Routinely, network availability is twice that as required in the contract.

Further, FTS2000 is easy to use. Because the Government is not dealing with a large number of contractors for different services, there is a seamless interface for the user. The user only has to contact one contractor for the telecommunications service that it needs. Moreover, there is only one

bill for the user agency. Sprint has designed special billing software to meet the unique needs of Government customers. These same needs will have to be addressed in the FTS2000 follow-on.

Small Business and Small and Disadvantaged Business Subcontracts

In addition, Sprint Government and commercial customers benefit from the expertise and diversity that many small and small and disadvantaged business bring to the Sprint network. While Federal and State law require certain levels of contracting with diverse suppliers, Sprint's policy is also founded on fundamental fairness and its responsibilities as a corporate citizen. Its efforts extend beyond routine procurement and contracting activities to such non-traditional areas as advertising, banking, employment agencies, insurance, transportation and professional services. In 1992, Sprint received the Small Business Administration's National Award of Distinction. In 1993, Sprint maintained over 5,000 subcontracts (not including those under FTS2000) with small and small and disadvantaged businesses. In 1994, over 30% of all of Sprint's subcontracted dollars under FTS2000 went to small and small and disadvantaged businesses. To date, Sprint has surpassed its FTS2000 small and disadvantaged business contracting goals by over 200%.

FTS 2000 SHOULD BE USED AS THE BASELINE FOR THE POST-FTS2000 PROGRAM

The Government does not need to reinvent the wheel in designing the Post-FTS2000 program. FTS2000 is a true success story that will save the taxpayers $4 billion and which has provided the Government with leading edge telecommunications service. The taxpayers cannot afford to design and

build the Post-FTS2000 program from scratch, especially when there is already a tried and true design.

In addition, the environment today is very similar to the environment in the late 1980's when FTS2000 was conceived. Technology is changing almost on a daily basis. Telecommunications companies are providing new and diverse services. The legal and regulatory structure is changing. The FTS2000 program successfully accommodated the changes that occurred both in the structure of our industry and the needs of the Government.

Indeed, the very size and complexity of this program counsel against radical change. FTS2000 currently serves more than 1.7 million customers at literally thousands of locations throughout the United States. The FY 93 costs of the two FTS2000 contracts was $547,000,000.

By using the FTS2000 as the model for the Post-FTS2000 program, the Government will gain the advantage of building future requirements on an established foundation that provides users with high-quality services at the lowest available prices. The follow-on model should retain the successful features of FTS2000, such as interoperability requirements and technology refreshment provisions, and it should maintain the cost effectiveness trend of the FTS2000 contract.

Comprehensive Contracts

To achieve these goals, the Government should award two or three, ten year comprehensive contracts for all switched, dedicated and wireless voice and data telecommunications services under the follow-on. Sprint believes that the FTS2000 follow-on can accommodate three vendors if, as expected, the program's volume increases significantly. The Department of Defense appears to be moving significant amounts of traffic from Defense-

unique networks to FTS2000, which we applaud. In addition, Sprint supports recommendations to expand the program to include and state and local governments and international locations where commercial service is available. These additions should significantly increase the volume of traffic under the program.

The award of comprehensive contracts is in the Government's best interest for several reasons. First, the Government would receive the benefit of volume discounts. Contractors can achieve significant economies of scale and scope when they deliver large volumes of traffic over long periods of time. The resulting savings can be passed on to the Government in the form of reduced prices.

In addition, by requiring competition between the contractors throughout the contract, GSA will guarantee that the program will remain cost effective for the Government. By ensuring that contractors have the opportunity to provide service over a long period of time, the Government enables contractors to recoup the initial investment needed to meet unique Government requirements over a longer term, thereby resulting in lower costs overall.

Only through the award of a limited number of comprehensive contracts can the Government take advantage of the cost savings associated with recent technological trends. Technology has now made it possible to integrate/aggregate all of the user's voice, data, and video requirements to maximize that customer's volume of usage for the purpose of determining that user's transport and access pricing. Thus, the customer's buying power is maximized.

Second, the award of a small number of comprehensive contracts under the FTS2000 follow-on aids in achieving Congress' goal of reducing the

Government's size. Award of two or three comprehensive contracts under the FTS2000 program would require less management by the Government than the award of many different contracts for many different services. With many different contracts, the Government would incur additional costs to monitor the contractors' networks and in such activities as: transition management; configuration management; security management; performance management; network planning; and service provisioning.

The benefits of limited awards were clearly demonstrated during the implementation of FTS2000, when the depth and breadth of experience of the two contractors resulted in a nearly flawless network transition that was completed 18 months ahead of the Government's planned schedule and saved Sprint Network B customers $158 million. A small number of comprehensive contracts under the program also makes ubiquitous interoperability easier to achieve. The ability to achieve interoperability across the widest range of service types requires that contractors ensure the seamless interconnection of all services between the networks. The number of service providers and elements of service per connection will affect the degree and cost of interoperability.

In addition, the end user agency has come to expect and desires a consolidated invoice for all telecommunications services. The cost of managing multiple invoices for various services would increase the cost of verification and allocation of agency telecommunications expenses.

Mandatory Use

Another crucial component of the Post-FTS 2000 program is that all Federal agencies should be required to use the program. Without mandatory use by a defined user group, it will be difficult for the bidders to develop firm

projections of the contract revenues necessary to justify the necessary capital investment. Pricing to the Government invariably will be higher due to this uncertainty and technology refreshment will be inhibited if the size of the procurement is not large enough to recoup the initial investment.

A strong mandatory use policy maximizes the Government's buying power for even the smallest agency, streamlines acquisition and implementation for the entire Government, and allows the Government to avoid costs inherent in duplicated procurement efforts. As you are aware, under the current FTS2000 program, some agencies were able to avoid mandatory use provisions. Because the FTS2000 program was not fully utilized by all agencies, the size of the procurement was only half that originally envisioned. The cost of this avoidance is ultimately borne by the taxpayers. The current mandatory use provisions should be continued and strengthened in conjunction with the Post-FTS2000 program.

Structured Recompetitions

A third key requirement of the Post-FTS2000 program should be periodic recompetitions, like the price redetermination/service reallocation under FTS2000, between the awardees in order to ensure that the Government obtains the lowest possible prices. The recompetition process gives the Government the ability to re-baseline contract prices to reflect market price trends. It provides a recurring method to measure the two contractors against each other, and provides incentives for them to maintain quality of service at the highest possible level, while keeping prices as low as possible.

Technology Refreshment Requirements

Although long-term contracts provide a myriad of benefits to the Government, the technology and application changes that can occur in ten years impose a high level of risk. One of the design goals of the FTS2000 contract was to avoid technical obsolescence and this should also be an over-arching goal of the Post-FTS2000 program. Because of this rapidly changing environment broad and flexible terms for technology refreshment must be a critical component of the Post-FTS2000 contracts. The Government should structure the new contracts so that contractors have the flexibility and incentive to add new services as technology evolves and thereby meet changing agency requirements.

As we all know, technology is evolving rapidly. During the life of the FTS2000 follow-on, the dream of the "information superhighway" will be a commonplace reality. GSA should tie the Post-FTS2000 program to the National Information Infrastructure (NII) and its goals of developing advanced technologies and increasing industry's investment in the information infrastructure.

CONCLUSION

The current FTS2000 Program provides the ideal platform from which to base the development of the Post-FTS2000 program. To ensure a successful follow-on, the Post-FTS2000 program should maintain the successful features of FTS2000. This includes the award of two or three, ten-year comprehensive contracts. Agencies must be required to use the program; however, in order to ensure that agency needs are met, the Post-FTS2000 contractors must be required to compete against each other during the life of the contract. In

addition, it is crucial to the timely development of the information infrastructure that the contracts contain technology refreshment provisions. Maintaining the model of the FTS2000 program, coupled with Congress' continued oversight and GSA's administration of the Post-FTS2000 program, will permit the Government to continue its pace-setting tradition of developing an information superhighway.

Mr. HORN. Thank you very much, Mr. Teague. We now have Mr. Jerry Edgerton, vice president of MCI Government Systems.

Mr. EDGERTON. Good afternoon, Mr. Chairman and members of the committee. I am Jerry Edgerton, vice president of Government Systems for MCI Telecommunications. I welcome the opportunity to appear before the committee to present MCI's views on the Government strategy for acquiring telecommunications beyond FTS2000.

At the onset, I want to commend the Government for a commonsense approach to the planning for the Post-FTS2000 program. I applaud, in particular, the unprecedented efforts of the General Services Administration and the Interagency Management Council to involve all the interested parties in the planning process. Having actively participated in that process, and having competed in the Government marketplace for a number of years, I enthusiastically endorse the Acquisition Working Group's strategic direction for Post-FTS2000 telecommunications.

The dominant characteristic of the Post-FTS2000 environment will be change—in public expectations of Government, in the information technology available to address those expectations, and in the telecommunications industry itself.

In recent elections, the American public has sent a clear message that it will no longer tolerate or fund inefficient and inaccessible big Government. Tired of having to interact with confusing, complex, and inconvenient bureaucracies, citizens are demanding more streamlined and less intrusive Government. Moreover, it is apparent that citizens increasingly expect Government to improve efficiency and effectiveness, while operating within the budget constraints brought about by the burden of public debt accumulated in the past.

Intense competition in the telecommunications industry has created a dynamic market environment marked by declining rates, consistent improvement in service quality, and extraordinary technological change. The convergence of computing and communications is increasingly blurring traditional lines of industry demarcation, both geographically and technical, between long distance, local exchange, cable systems, cellular, wireless, systems integration, and information services.

The telecommunications industry will continue to change in the remaining years of the FTS2000 program and beyond. Expanding and intensifying competition in the domestic and foreign telecommunications markets will provide the catalyst to continue the process of change that took off over a decade ago with the breakup of the old Bell System.

Further deregulation, alliances, acquisitions, mergers, and the emergence of the national information infrastructure and the global information infrastructure will shape the industry in the next few years.

Much has changed since the Government planned the original FTS2000 contracts. We now have 10 years of experience with the benefits of competition in a deregulated telecommunications environment.

The Acquisition Working Group built on that experience to develop a strategy that maximizes user choice among a broad spec-

trum of commercial services available from many different providers. This strategy is right on target to address the challenges confronting the Government in the Post-FTS2000 years.

First and foremost, this approach is customer-focused. The strategy will empower the Government to focus on accomplishing agency missions and delivering service to the citizens, with choice and without encumbering mandates.

Second, this approach is flexible. The strategy maximizes flexibility and reliance on marketplace mechanisms to enable the Post-FTS2000 program to accommodate changes in price, service, and technology.

Finally, this approach is competitive. The strategy maximizes industry participation to tap into the competitive vibrancy of the commercial telecommunications marketplace.

We urge the Government to proceed to translate these strategic concepts into action on the schedule that has been set out. The schedule is aggressive, but achievable. Adherence to that schedule will enable Government users to realize the benefits of new services, technologies, and prices at the earliest possible date.

The program leverages our industry's investment in network infrastructure and shifts the management of Federal telecommunications procurements from entitlements to market-based incentives and emphasizes the acquisitions of services that are commercially available or soon will be, and minimizes the unique non-commercial requirements that would require intervention of third parties to repackage or assemble or manage services just for the Government.

Finally, MCI is very encouraged with the direction of the Government's program strategy to acquiring its telecommunications needs and looks forward to continuing to work with you and the responsible agencies in making the Post-FTS2000 program a success.

Thank you.

[The prepared statement of Mr. Edgerton follows:]

WRITTEN STATEMENT OF

JERRY A. EDGERTON
MCI TELECOMMUNICATIONS CORPORATION

REGARDING

POST-FTS2000 ACQUISITION STRATEGY

Before the

SUBCOMMITTEE ON
GOVERNMENT MANAGEMENT, INFORMATION AND TECHNOLOGY

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

UNITED STATES HOUSE OF REPRESENTATIVES

March 21, 1995

MCI Telecommunications Corporation (MCI) submits this statement for the record as the Subcommittee on Management, Information and Technology of the Committee on Government Reform and Oversight considers testimony on the final Post-FTS2000 acquisition strategy that the Acquisition Working Group (AWG) of the Interagency Management Council (IMC) released in December 1994. We welcome the opportunity to provide input to the Committee on the government's strategy for acquiring telecommunications to meet federal requirements after the FTS2000 contracts end in 1998.

SUMMARY

MCI commends the government for its diligent and thoughtful analysis of potential acquisition strategies to address the substantial challenges of the Post-FTS2000 era. We applaud, in particular, the unprecedented efforts of the General Services Administration (GSA) and the IMC to involve all interested parties in the acquisition concept development process. MCI has actively participated in that process, submitting written comments for the record on several occasions and making presentations at both conferences on the subject in

October 1993 and October 1994. Continuing this free and open exchange will serve the government well as it proceeds to translate strategy into action in the next phase of acquisition planning, solicitation drafting and requirements definition. We look forward to continuing to work with the government in making the post-FTS2000 program a success.

The government has adopted a Post-FTS2000 Program Strategy of acquiring commercially available services from multiple providers and empowering user agencies to choose the optimal mix of those offerings and/or providers to meet their specific telecommunications needs. That strategy will enable the government to leverage industry infrastructure investment to meet user needs at low cost with minimal risk while maximizing the ability to respond to rapidly changing technology and market conditions.

The recommended strategic framework, as a general proposition, offers the right combination of competition and flexibility to yield "the most technically-effective and cost-efficient telecommunications" solutions to the government's requirements in the Post-FTS2000 environment. However, as it proceeds in the next phase to translate the Program Strategy into requests for proposals (RFPs) to conduct the initial Post-FTS2000 procurements, the government must take certain affirmative steps to realize the maximum benefits of that strategy.

First, the Post-FTS2000 program should not attempt to be all things to all agencies. The benefits of aggregate purchasing apply only to "common user" services for which a substantial number of users have requirement. The government must take care to define Post-FTS2000 requirements in terms of generic services that have functional or performance characteristics for which government-wide demand exists. Specifications that focus on "what" a service should do and avoid dictating "how" to deliver the service will maximize competition and facilitate technology infusion.

Second, maximizing user choice and procurement options will produce the most leverage for government in negotiating with industry to meet its needs. Accordingly, the

government should clarify that agencies may conduct separate procurements beyond the confines of the Post-FTS2000 program -- where consistent with fundamental government-wide criteria established by the IMC -- to obtain integrated business solutions to specialized networking requirements, to obtain new services or features not available under the Post-FTS2000 Program offerings, or to obtain services comparable or superior to the Program offerings at lower costs.

DISCUSSION

The AWG properly characterized its task as developing a comprehensive strategy to facilitate transition to an environment very different than the government confronted in planning the original FTS2000. Indeed, the dominant characteristic of the Post-FTS2000 environment will be change -- in public expectations of government, in the information technology available to address those expectations, and in the telecommunications industry.

In recent federal elections, the American public has sent a clear and unequivocal message that it will no longer tolerate or fund inefficient and inaccessible "big government." Tired of having to interact with confusing, complex and inconvenient bureaucracies, citizens crave a more streamlined, "user-friendly" government. Moreover, the citizenry increasingly expects government to improve efficiency and effectiveness while reducing the crushing burden of public debt accumulated in the past. Telecommunications will play a critical role in responding to the new challenges which the demand for change and heightened expectations have brought on.

Intense competition in the telecommunications industry has created a dynamic market environment marked by declining rates, consistent improvement in service quality and extraordinary technological advances. Electromechanical switches and copper wires of analog transmission facilities have given way to the computerized electronic switches and fiber optic cables of digital transmission. This evolutionary process has transformed long distance from a garden variety "utility" service into a dynamic information management tool.

The convergence of computing and communications is increasingly blurring traditional lines of industry demarcation -- geographical and technical -- between long distance, local exchange, systems integration, value-added and information services are becoming increasingly blurred. The development of intelligent, software-controlled "virtual" networking services will continue to narrow the differences between public and private networking. Industry will continue to expand these technologies from traditional voice applications to eventually offer "bandwidth on demand" for the multimedia applications that will provide users any mix of voice, high speed data and video communications with greater flexibility, capacity, reliability, functionality, and economy than private networks comprised of dedicated point-to-point circuits. These new service offerings increasingly will enable organizations to shift from managing a telecommunications utility to focusing directly on core missions and objectives.

The evolution of telecommunications will continue in the remaining years of the FTS2000 program and beyond. Expanding and intensifying competition in the local and foreign telecommunications markets will provide the catalyst to continue the process of change that took off a decade ago with the breakup of the old Bell System. Deregulation, alliances, acquisitions, mergers and business failures will reshape the industry in the years after the FTS2000 contracts run their course in 1998. It is in this environment of rapid and profound change that the Post-FTS2000 Program must provide technically effective and cost efficient telecommunications solutions to meet government requirements.

THE AWG HAS PUT FORWARD A SOUND STRATEGY

The concept development phase of the Post-FTS2000 acquisition planning concluded with the AWG recommending a strategy of addressing the government's requirements for telecommunications "through one overall, well-integrated, and coordinated program." In support of a coordinated federal program, the AWG cites the breakdown of traditional boundaries between local, intercity and international services as well as increasing requirements for sharing information and resources across agencies within government. The

AWG recommendations took pains to avoid equating "program" with a single static contract or set of contracts, but rather with a management framework for furnishing access a wide range of commercially available services from multiple service providers.

The AWG recommends that the Post-FTS2000 Program include a minimum of two contracts for Comprehensive Telecommunications Services, at least one contract for Switched Data and Value-Added Services, and a minimum of two contracts for Technical and Management Support while leaving open the possibility of separate contracts for Wireless Services. The scope of the contracts initially would include intercity and international services between service delivery points (SDP), but the AWG also noted that scope of the Program may expand over time to include local area network and local exchange access services.

The Program Strategy contemplates IDIQ contracts for all services with base periods of four (4) years with two option periods of three (3) years each, with the potential for price redetermination prior to the exercise of either option. The AWG recommends retaining the publicly available price (PAP) cap procedure with failure to comply triggering automatic price adjustments in the contracts. In addition, the AWG would apply a similar "publicly available" comparative process to service and technology as well as price. The AWG also would require all offerors to propose fixed prices based on usage with the option of imposing one-time service initiation charges. Unlike the current FTS2000, all contract and price information will be publicly available under the recommended Program Strategy.

The Program Strategy would allow agencies to select, and change as appropriate, which contracts to use and the government would not regulate the distribution of business to the awardees of any Post-FTS2000 contracts. The IMC will play a central role in determining requirements and establishing principles to guide implementation and management of the Program. In addition, the AWG's recommendations contemplate a continuing need for government-wide management and contract oversight in the areas of ongoing coordination and procurement, interagency interoperability, customer service, consolidated billing,

internetworking management, interagency engineering and government-wide business process improvement. The AWG offers several options for accomplishing these functions (e.g., GSA, "lead" agencies or interagency management work group).

The Program Strategy calls for issuance of draft RFPs by June of 1995, the final RFP out by the end of the year, initial proposals due in July of 1996 and awards announced by March 1997. The schedule is aggressive, but doable, with ample time for transition before the FTS2000 contracts expire in December 1998.

Emphasizing the Acquisition of Commercial Services Enables the Government to Leverage Industry Infrastructure Investments.

The AWG advocates procurement of a wide range of commercially available services to meet government communications requirements on an usage basis. Emphasizing the acquisition of services, as opposed to direct capital investment in facilities and network infrastructure, will enable the government to satisfy users' needs with minimal risk while maintaining the flexibility to take advantage of changes in technology and rates decreases.

Procuring telecommunications as a service shifts to industry the responsibility for planning, designing, funding, implementing, operating, managing and maintaining the network infrastructure required to meet user requirements. Leaving the "nuts and bolts" of providing communications solutions to industry experts allocates investment and operational risks to those in the business of handling such responsibilities, and frees government personnel and other resources to concentrate on accomplishing the core agency missions.

Administration initiatives to support expansion and enhancement of the National Information Infrastructure recognize that the private sector must fund, design, deploy, operate and maintain information infrastructure. As the largest purchaser of telecommunications in the world, however, the federal government holds tremendous power to drive industry investment, creativity and development efforts in the future. Implementing

the AWG's recommendations will enable the government to optimize its use of that power to empower individual user agencies and promote the right type of support for the NII. Enabling and encouraging agencies to acquire services delivered over the same public networks that serve industry, academia, and the research community is most likely to leverage the government's Post-FTS2000 spending to result in improvements to the nation's infrastructure that can be shared by other sectors.

Combining Relatively Short Term Commitments With Renewal Options Maximizes Flexibility and Competition.

The AWG recommends awarding a variety of indefinite delivery, indefinite quantity contracts with a base term of four years with two three-year renewal options. This approach provides the government the best of all worlds. The relatively short base period enables the government to revisit procurement decisions periodically while retaining the ability to maintain continuity of service and effect an orderly transition during option periods. This combination offers rate stability to protect against unanticipated price increases without limiting flexibility to change direction if contract rates, service or technology fail to keep pace with market offerings. The threat of non-renewal provides added incentive to ensure value, implement technological advances and furnish premiere service.

The four-year base period is consistent with commercial contracts where terms of similar length produce the most aggressive pricing for the best services available because neither users nor providers can predict the course of technology or market prices with any accuracy further into the future. Given the dynamic and unpredictable nature of the telecommunications marketplace in the foreseeable future, a longer term commitment to any particular technology or network services offerings would involve a needlessly high risk gamble with taxpayer dollars.

Including Multiple Providers Promotes Competition and Flexibility.

The AWG recommends including multiple providers in the Post-FTS2000 Program initially and retaining the flexibility to conduct additional acquisitions to take advantage of changing technology or market conditions. Competitive market forces have made it no longer necessary to procure all telecommunications from a single vendor in order to obtain economies of scale and service compatibility. Commercial customers with a fraction of the government's traffic volume contract for telecommunications services at the same or better rates than FTS2000. Wide-scale deployment of digital networking and growing consensus on standards increasingly provide interoperability between different vendors' network offerings for voice, data and video communications.

The envisioned multiple-vendor environment would free agencies from a "one network fits all" philosophy. Moreover, awarding multiple contracts will increase competition among providers to ensure Post-FTS2000 Program price, service and technology leads the market. No matter how thorough and well-planned the initial post-FTS2000 acquisitions, limiting the Post-FTS2000 Program to a single vendor or set of vendors would deprive the government of opportunities that will become available only with access to the full range market alternatives.

Despite the difficulty in anticipating the future, all indications suggest that competitive forces will continue to accelerate technological innovation to meet market demands for lower rates and enhanced services in the Post-FTS2000 years. In the competitive multi-vendor environment envisioned under the recommended Program Strategy, the Post-FTS2000 contracts will evolve to meet customer requirements for emerging services and respond to market rate reductions.

Cellular carriers, competitive access providers, personal communications service networks, cable companies and others will offer alternatives to the local exchange companies

(LECs) -- bringing significant rate reductions and technology advances to local services much in the same way as happened in long distance. International communications services will undergo a similar transformation as customers compel foreign governments to ease regulatory strictures and open markets to increased competition. Long distance providers will join with other carriers, information service providers, cable operators, equipment suppliers, software companies and systems integrators to increase marketing reach, supplement financial resources, and expand technical capabilities in an ever-escalating battle for market share.

Expanding industry participation will harness this fierce competition to leverage industry expertise and investment in shared network infrastructure to ensure the Post-FTS2000 Program delivers increasingly affordable telecommunications services custom tailored to address user agencies' requirements. Competitive market forces will provide the best assurance that the Post-FTS2000 Program offers the most technically-effective and cost-efficient telecommunications solutions on an ongoing basis.

Dealing with multiple providers does add a measure of complexity. For some agencies, the benefits from reduced rates, improved services and advanced technologies often outweigh the drawbacks of the additional complexity. Others will prefer fewer common user contracts administered by GSA to satisfy telecommunications requirements. The recommended post-FTS2000 program would offer different levels of network management capabilities, including optional multi-vendor management capabilities that would reconcile disparate management systems of many different providers. The Program Strategy would enable agencies to select providers and services that would best support accomplishment of mission requirements within their budgets and management resources.

Many high volume commercial users, like the government, operate in a multiple vendor environment for their telecommunications services. Indeed, splitting communications requirements among two or more network service providers enables many large organizations to reap the benefits of enhanced availability and reliability of services

furnished over a more robust, diverse infrastructure than available from just one provider. Allocation of traffic among multiple providers also maintains continuous competitive pressure on those providers to deliver the optimal mix of performance, service and price.

Service providers have developed and implemented a wide range of capabilities to augment and enhance customers' ability to manage and administer telecommunications resources in a multiple vendor environment. Shifting network operations, administration and management responsibilities to the service provider need not require the government to relinquish control. The deployment of digital technologies on software-driven intelligent network platforms enables network management, billing, and contract administration systems with flexibility to meet a wide range of customer-defined requirements for oversight and control of switched, dedicated and value-added services.

While network service providers can, will and, in most instances should, perform nearly all network management, operations and administration functions, advanced technologies provide customers with visibility into the shared network infrastructure and access to many of the systems used to perform these functions. Effective oversight of large telecommunications programs will no longer require centralized network/service oversight centers. Distributed computing can give user agencies -- either independently and/or with GSA -- the option to use remote work stations to open a window into Post-FTS2000 network operations from the desktop to check the status of a service order, monitor network performance, change service parameters, modify routing configurations, add addresses, assign authorization codes and host of other functions.

This type of flexibility accommodates the government's heterogeneous requirements for network monitoring and control. Larger agencies will be able to set up their own centralized and/or distributed network management and service administration centers. Smaller agencies can either elect to use GSA to perform these functions or arrange with the service providers to provide these services on an outsourced basis. The availability of these systems will facilitate redirection of government resources and management focus from

infrastructure, operational and administrative concerns to a greater emphasis on strategic and tactical use of telecommunications resources to achieving agency missions.

Maximizing User Choice Facilitates Reliance on Competition and Empowers Agency to Focus on Mission Requirements.

The Post-FTS2000 Program Strategy contemplates that user agencies will have the option to select, and to change as appropriate, the optimal combination of services and contracts to meet their specific requirements. Unlike the current FTS2000 program, the government would not regulate distribution of business among individual Post-FTS2000 Program contracts. Maximizing user choice will ensure a continuing customer focus that will empower agencies with the authority and flexibility to concentrate on obtaining solutions to meet mission needs. Choice also will facilitate the use of competitive market forces to ensure that Post-FTS2000 Program evolves to offer the optimal mix of service, technology and price to meet those needs.

In analyzing alternative strategies, the AWG rightly concentrated factors (i.e., interoperability, program attributes, cost, management and administration, transition impacts) that would affect the economic and efficient procurement of telecommunications services on a government-wide basis. However, the Program Strategy also recognized that user agencies will increasingly demand the authority and flexibility to select those services that best support the agency's specific missions. Agencies have the best understanding of user requirements and can better manage billing, order processing, and performance issues than a central procurement authority. Decentralizing the selection of specific services and contract aligns accountability for and control of critical telecommunications resources with the agencies charged with mission responsibility.

The AWG's recommended approach is consistent with the existing policy framework in the Brooks Act which centralizes authority in GSA to ensure the economic and efficient procurement of information technology, but provides for delegating that authority to

agencies with adequate controls to ensure compliance with government-wide requirements. The Brooks Act also expressly provides that GSA's exercise of its authority shall not interfere with or impair individual agencies defining their requirements.

The AWG Has Recommended a Sound Approach to the Scope of the Initial Post-FTS2000 Program Contracts.

The scope of services available under the Post-FTS2000 Program initially would include intercity and international communications requirements, with the potential for including local services in the future. The AWG's has adopted a sound approach to the scope of the initial Post-FTS2000 Program acquisitions.

Viable competition for the local telephone companies does not yet exist for the "last mile" in most markets. Local exchange access charges which still account for about 45% of the cost of long distance. The competitive access industry is growing rapidly, but still in its embryonic stages. Cellular services are not yet cost effective for general access. Affordable PCN wireless technologies are only in the pilot stages with full-scale deployment not reasonably anticipated until some time well into the post-FTS2000 era. As monopolies, local exchange companies have been insulated from the competitive market forces that drive long distance network service providers to advance technology at an accelerated pace.

Given this state of affairs, procuring access services as part of a bundled offering that offers "end-to-end" service will best serve most government agencies in the initial Post-FTS2000 procurements. Local access will continue, at least in the near term, to constrain the full exploitation of emerging technologies that will yield seamless "bandwidth on demand." Nonetheless, competitive forces in the long distance market will continue the trend of developing and enhancing fast, flexible and highly intelligent network platforms that will enable service providers to meet market demands for custom solutions to the distributing and managing information in any form. Moreover, the emerging competition

for the LEC monopoly will accelerate technology advances that will drive the cost of local services down and provide room for additional reductions in the long distance rates.

While determining when the effects of competition will be felt in the local market remains speculative, these changes most likely will occur in the next decade and have a dramatic impact. As local competition matures, the government may benefit from initiating separate Post-FTS2000 acquisitions for local area networking, local access and local exchange services.

THE DEVIL IS IN THE DETAILS

While the AWG has endorsed a set of sound strategic concepts for the Post-FTS2000 Program, the "devil is in the details" as the government moves forward to translate those concepts into actual requests for proposals (RFPs) to conduct the initial Post-FTS2000 Program procurements.

Define Requirements In Terms of Performance or Function.

The Post-FTS2000 Program will meet most of government users' telecommunications needs. However, the government must avoid attempts to make the Program be all things to all agencies. The benefits of aggregate purchasing apply only to "common user" services for which a substantial number of users have requirement. Including only commercially available services and minimizing non-commercial requirements in the Post-FTS2000 acquisitions will yield the best results. Defining those service requirements in terms of performance standards or functions will promote competition in the initial procurements and facilitate technology upgrades as they come on the market after award.

Deployment of network intelligence and increased capacity enables service providers to tailor telecommunications service offerings to meet customer-defined functional requirements. To an increasing degree, customers identify only needed features and

functionality while relying on the creativity, expertise and resources of industry service providers to select the optimal network architecture and technology to tailor a custom solution for those requirements. Issuing detailed design specifications or dictating particular performance methods will needlessly stifle industry creativity and erect artificial barriers to competition in the Post-FTS2000 procurements.

The government will reduce costs and administrative burden by minimizing duplication with contractor-provided systems and capabilities in the post-FTS2000 environment. RFPs that provide a profile of the desired management and administrative capabilities will put the onus on industry to determine how these requirements can be addressed most economically and efficiently. Minimizing non-commercial requirements for network administration, service management and oversight can save direct costs for new system design and reduce unnecessary overhead costs.

For example, in delivering custom networking solutions to meet requirements of large organizations, distinctions between telecommunications carriers, systems integrators, value-added network providers and other information technology firms have become increasingly less meaningful. Many telecommunications carrier offerings include performance -- either at no separate charge or at a nominal charge -- of all of the functions cited as examples of services for procurement under the Technical and Management Support contracts. Barring service providers from providing such technical and management support under the Comprehensive, Switched Data and Value-Added, and Wireless contracts would impose an unjustified limitation on competition with the potentially anomalous result of compelling user agencies to pay duplicate services that they get at no additional charge.

In another example, maximizing continual market competition in the Post-FTS2000 Program will free the government from reliance on formal audits, price cap procedures, technology reviews, price redetermination and other cumbersome bureaucratic processes to manage vendor rates and performance. Continual competition does not mean that the government must constantly run formal procurements. Rather, competitive market forces

offer a "self-regulating" mechanism to ensure premiere service quality, technological currency and price reasonableness.

The potential to acquire new business provides powerful incentives for competitors to make users aware of services that offer technology advancements, service improvements and/or cost savings over offerings of incumbent vendors. Continuing competition thus enhances the government's ability to conduct market research, acquisition planning and procurement as an educated consumer. The mere threat of competition compels incumbents constantly to monitor alternative offerings in the market and adjust rates, service and/or technology to match or better the market in order to retain and grow their business base. Failure to do so will result in loss of business to a provider that offers a better mix of service, technology and price to meet the customer's needs.

Maximizing competition in a multiple-vendor IDIQ environment therefore will enable the government to replace contractual entitlements and cumbersome administrative procedures with market incentives as the means for managing performance. The "carrot" of business retention and growth provides a continuing incentive for incumbents to perform at high levels. The market automatically applies the "stick" of lost business if a vendor fails to offer the optimal combination of technology and service at the lowest rate. While the government would continue to compare and adjust prices, services and technology of Post-FTS2000 against market alternatives, retaining time-consuming and labor-intensive formal contract procedures to accomplish those comparisons and adjustments will only needlessly add overhead costs without any corresponding value to the government.

Specifying particular technologies, equipment configurations or network architectures in the initial Post-FTS2000 procurements will inevitably delay user access to future technology advances in the rapidly changing telecommunications marketplace. In contrast, acquiring common user services to meet functional requirements will minimize the government's infrastructure investment and duplication of procurement resources. Defining requirements in terms of function or performance makes the contractor responsible for

structuring the technical solution to meet those requirements. Therefore, such an approach reduces contractual barriers to subsequently incorporating innovative new technologies that may enhance service or reduce cost on a timely basis without having to reprocure.

Clarify Circumstances Under Which Agencies Can Conduct Separate Procurements Outside Post-FTS2000 Program.

The Post-FTS2000 program should establish no mandatory source for any service offering. User agencies should have maximum freedom to choose (consistent with minimum guarantees, term or other contractual commitments) from among providers and services outside, as well as within, the Post-FTS2000 Program. The absence of mandates or other restrictions on customers' ability to choose from among the full range of market alternatives in the marketplace offers the key to continuing competition in the Post-FTS2000 era.

Government requirements for intercity telecommunications are as varied as the missions of the agencies that comprise the government. Procuring telecommunications exclusively as "utility" services on a "one size fits all" basis inevitably will lead to a mismatch between the services available and user requirements. Some users will have unmet requirements while others will pay for unneeded features and functionality. Moreover, economies of scale are not limitless. Indeed, "diseconomies" of scale can ensue when a program becomes so large that the costs associated with centralized management and inflexibility in responding to changing conditions exceeds the incremental nominal, or non-existent, discounts obtained from additional volume.

The availability of comparable or superior services at lower rates in the market will require incumbent vendors to respond with rate decreases and/or service improvements to retain existing business or acquire new business. In most instances, incumbent contractors will improve their offerings to meet the competition. At the October 1993 Post-FTS2000 Concept Development Conference, Hank Levine, an attorney specializing in negotiating communications contracts for large commercial users, best summed up this principle:

"There is nothing that motivates a provider . . . like the thought that they won't get the business. There is nothing that doesn't motivate a provider like the thought that they have the business." (Transcript, p. 387)

Giving federal agencies the flexibility to consider alternatives to the common user offerings available under the Post-FTS2000 Program will not result in the uncontrolled proliferation of needless separate procurements. Agencies presumably will opt for reduced rates and/or improved service under existing contracts to avoid the delay and administrative burden inherent in planning, conducting and managing a separate procurement. However, in the event the incumbent either is unable or refuses to respond to the competition, user agencies must have the option to "vote with their feet" and go out into the market with new procurements in lieu of continuing existing arrangements.

No doubt telecommunications provides critical tools. However, the ultimate success of the Post-FTS2000 Program will depend on how well it supports accomplishment of substantive agency missions. Mission accomplishment must take precedence over the procurement of tools. To do otherwise would compel agencies to structure mission performance to conform to a particular telecommunications "toolset" available under the Post-FTS2000 procurements, elevating the "means" of governance over the "ends."

In instances where common user offerings do not fit the bill, the Brooks Act vests ample authority in GSA to ensure individual agency procurements adhere to minimum government-wide requirements for economy and efficiency. Under the Program Strategy, GSA presumably would look to the IMC to establish such standards which might include:

Interoperability. All acquisitions will presumptively include a requirement that the acquired services interoperate with other government telecommunications. An agency would have to demonstrate how the proposed acquisition would provide for interoperability or provide a written justification for acquiring telecommunications that do not interoperate.

Security. Acquisition request must include a clear definition of the requisite level of protection from disruption, compromise or abuse to support mission accomplishment.

Privacy. Acquisition request must define the requisite level of protection for the confidentiality and integrity of communications commensurate with the personal sensitivity, national security or proprietary nature of the information transmitted in the system.

Competition. Acquisition request must demonstrate how agency will maximize competitive pressure throughout the life of the contract, or provide justification and approval for less than continuous full and open competition.

Economy. Acquisition request must justify any direct capital investment in hardware, software or other dedicated infrastructure as well as demonstrate that any savings over the common user procurements would exceed the cost to the agency of a separate procurement.

Assuming compliance with such criteria, the Post-FTS2000 program should impose no barriers to individual agency procurements to obtain integrated business solutions to meet special needs, to obtain new services not offered under the Post-FTS2000 contracts or to obtain comparable or superior services at lower cost.

Mr. HORN. Thank you very much. Chairman Clinger, you're recognized for 5 minutes.

Mr. CLINGER. Thank you, Mr. Chairman, and I want to thank the panel for your participation and contribution to our education on the Post-FTS2000 environment and what we ought to be looking at.

The strategy that was proposed sought to adopt commercial best practices and "provide users with easy access to reliable, commercially available telecommunications worldwide." How does the Government's program strategy compare with the acquisition strategy of your commercial customers, and are there things that perhaps we should be adopting from that venue, as well?

In other words, I'm trying to get a sense of how it compares. Are there things that are different and, if so, why?

Mr. LOMBARDI. I'll start. Yes, the commercial best practices vary. They clearly vary, on the basis of needs. Different commercial customers have different sets of needs and they have different objectives.

If I could speak generically, though, it is obvious to us that large business customers, for which we would create a comparison to the Government here, clearly tend to have contractual and customer-supplier relationships with their suppliers that are long-term in nature and vitally important to the company's mission and objectives.

That relationship winds up being established over a period of time, and a service provider, such as ourselves, becomes intimately involved in helping companies move up their value chain with their own customer set and create productivity improvements for their own environment. That can only be done in an environment where there is a long-term contract or relationship in place over multiple years.

That's basically been our experience, and that's proven pretty well in the marketplace that we serve commercially.

Mr. CLINGER. So basically you're saying there would not be that much difference in terms of commercial versus what's being talked about in the Post-FTS2000?

Mr. LOMBARDI. Again, the only difference could possibly be if a different set of requirements or deeds were being pro-offered. But, generally, if you think about the capabilities that information technology brings to companies, it's the same capabilities it can bring to Government and, therefore, that relationship becomes a vitally important relationship.

Mr. CLINGER. Would anybody else like to comment?

Mr. TEAGUE. Yes, sir, I'd like to comment on that. What we find in our major accounts, national accounts that have multi-national relationships—that is, around the world—is that long-term contracts are common, becoming more prevalent.

We are finding that our multi-national customers, our largest multi-national customers are on a trend of out-sourcing many of their information technology and telecommunications services. Similar momentum by the Government—that is, the Government does not do it itself but, rather, contracts out for the service.

The current FTS2000 program is exactly that. The Government did not build FTS2000. The current strategy for Post-FTS2000 fol-

lows the exact same model. That is, the Government will not build the networks or the capabilities but, rather, will contract out. So that parallel is there, and I think that's a trend that should be continued.

In addition to the long-term nature of the relationships with our multi-national customers is the significant relationship associated with minimum revenue commitments. Those minimum revenue commitments tend to be very large. Again, both parties, in an arms-length relationship, sign up to something akin to mandatory use. They sign up to a long-term, all of the services provided by a single vendor.

It is not uncommon, though—as a matter of fact it's becoming more common—to have a backup service. That is, large companies do not put all their eggs in one basket any more. It's a highly uncommon practice. Therefore, backup or some form of redundancy is becoming a very common commercial practice.

Again, I believe the current program and the post program both acknowledge that requirement. So I think there are many commercial comparisons to the Post-FTS2000 strategy.

Mr. EDGERTON. I think the Post-FTS2000 program strategy dovetails with current commercial practices in the sense that there is more competition in the commercial marketplace and many of the large customers are seeking alternative sources and alternative vendors and are not locking into one particular vendor to bring forward all the technology solutions, but are taking advantage of the changes in the marketplace. They generally do it with shorter duration contracts with options.

So there are significant changes taking place in the fundamental structure of the commercial marketplace at this time, and this acquisition strategy tends to ride on that and dovetail with that.

Mr. CLINGER. OK. So you say it rides on it and is keyed off of what is going on in the commercial sector, as well?

Mr. EDGERTON. That is correct.

Mr. CLINGER. I have one other question, Mr. Chairman, but I'd like to ask to submit it for the record and ask them to respond to it in writing, if I may.

Mr. HORN. Very well. The question will be entered and the response will be placed at this point in the record.

[The information referred to follows:]

SPRINT RESPONSES TO MARCH 21ST TESTIMONY QUESTIONS BEFORE THE HOUSE SUBCOMMITTEE OF MANAGEMENT, INFORMATION AND TECHNOLOGY

1. Explain the FT/DT transaction and ownership percentages?

Sprint, Deutsche Telekom and France Telecom will form a global partnership. Under the terms of the agreement, France Telecom and Deutsche Telekom, collectively, will acquire a 20-percent ownership stake in Sprint. As part of the transaction, France Telecom and Deutsche Tellekom will each be entitled to representation on the 15-member Sprint board.

The deal has currently been reviewed, for security issues and been approved by DoD and other related agencies. In addition, Sprint is currently seeking FCC approval. As part of this review, the FCC has looked at the transfer of control and determined that there is no issue.

2. What is the FTS2000 record of sevices interoperability?

Interoperability is not a problem on FTS2000. More than 93%of this network is interoperable. Below are further details of this interoperability.

More than 70% of FTS2000 service is Switched Voice Service (SVS) in which users on either network can reach the users on the other network. Calls between users on different networks are routed in a manner that is transparent to the users.

Further, the FTS2000 contract has special provisions that permits the installation of circuits between agencies on different networks. Dedicated Transmission Service (DTS) (also known as Private Lines) represents approximately 20 percent of the service under the contract. DTS service is invoiced to the user who requested the service (the origination end).

Earlier this year a gateway was established for Compressed Video Transmission Service (CVTS), which represent approximately 3% of the FTS2000 service, between the two networks in FTS2000. With this gateway users on either network can video conference with users on both networks.

Sprint and AT&T submitted joint proposals several years ago for the installation of gateways for Packet Switched Service (PSS) and Switched Data Service (SDS). It was determined by the government that user demand for these gateways was not sufficient to justify the costs involved to support the additional circuits and the cost of system upgrades to support the settlement process between vendors.

This month a contract enhancement has been successfully negotiated that will add SDS off-net to the contract. When this contract modification is awarded shortly, users will have switched data interoperability similar to that of switched voice.

GSA currently provides inter-network connectivity for PSS users on both networks that are operating in the secure environment using government approved encryption equipment.

3. What is Sprint's experience with its large commercial customers?

As stated in Don Teague's original testimony: "We are finding that our multi-national customers, our largest multi-national customers are on a trend of outsourcing many of their information technology and telecommunications services. ..In addition to the long-term nature of the relationships with our multi-national customers, is the significant relationship associated with minumum revenue commitments. Those minimum revenue commitments tend to be very large. Again, both parties, in an arms-length relationship, sign up to something akin to mandatory use."

4. Provide details of the percentage of each revenue dollar that is paid to RBOC's/LEC's.

According to our corporate income statements for 1993 and 1994 Sprint has paid 45% and 43% in 1993 and 1994, respectively, to RBOCs or LECs for access charges.

5. What is the total dollar value of contracts awarded to small and small disadvantaged businesses under FTS2000?

In 1994 and 1993, over 39% of all of Sprint's subcontracted dollars under FTS2000 went to small and small and disadvantaged businesses. To date, Sprint has surpassed its FTS2000 small and disadvantaged business contracting goals of 18%, by more than 100%.

EVERY MINUTE OF DOD TELECOMMUNICATIONS TRAFFIC ON FTS2000 MAXIMIZES THE SAVINGS OF TAXPAYER DOLLARS AND PERMITS DOD TO BETTER UTILIZE ITS SHRINKING BUDGET DOLLARS TO BENEFIT THE WAR FIGHTER.

It is undisputed that FTS2000 is the most cost effective telecommunications platform available to the Government. It has been publicly reported that as of May 1994, the services available to DOD under its AT&T DCTN contract are more expensive than the services available to DOD under AT&T's FTS2000 contract. In fact, DOD could save as much as an additional 300 Million dollars per year through the maximization of the use of FTS2000. It is equally undisputed that, for the last 6 years, AT&T has "slow rolled" the transition of DOD's traffic off of its other higher priced DOD contracts to its own FTS2000 contract. The Committee on Government Operations has, since 1988, been repeatedly critical of DOD's participation in FTS2000, a concern equally shared by the Governmental Affairs Committee and the Office of the Senate Majority Leader. This AT&T corporate strategy has maximized the profitability of AT&T at the expense of the taxpayer and the war fighter. As recently as March 28, 1995, senior Department of Defense officials testified before a subcommittee of the House Committee on Government Reform and Oversight that FTS2000 and its successor are capable of carrying significant additional amounts of DOD traffic not yet carried on FTS2000. Estimates were cited that 70% of the remaining DOD traffic not yet on FTS2000 could be transitioned to that contract. If this remaining 70% of DOD's usage currently resided on FTS2000, DOD could experience significant savings to the budget.

AT&T's RESPONSE TO THE GSA's FTS2000 PRSR 7 DRAFT RFP HAS ATTEMPTED TO RAISE NEW ROADBLOCKS TO DOD MAXIMIZING ITS USE OF FTS2000.

There are no technical or "national security" issues that prevent DOD from transitioning 70% of its traffic to FTS2000 .

AT&T has engaged in an active campaign to convince the Government that unless AT&T's existing older, high-priced private networks are used to exclusively serve the telecommunications needs of the Department of Defense, the national security would be threatened. Technological advances have rendered this claim obsolete. As Mr. Richard Lombardi, President of AT&T Federal Systems, testified before the House Subcommittee on March 21, 1995, "private networks are passé." Recent technological developments in security, encryption, network management and network recovery have made the public networks capable of being more reliable, robust and secure than private networks. Public networks can provide the same level of service at a fraction of the cost of private networks like the private DCTN network sold by AT&T to DOD more than 10 years ago. As early as May of 1994, senior DOD C3I officials have testified before the House Committee on Government Operations that the Department of Defense could and should maximize its use of FTS2000.

AT&T's FTS2000 contract was awarded almost 5 years *after* AT&T's DCTN contract. In addition to being a more current contract, FTS2000 contains price protections such as PAPCAP and set competitions between the two vendors to keep the pricing current and competitive. AT&T's DCTN contract, which currently carries much of this traffic, contains no such protections. It is easy to see why AT&T would want the DCTN traffic that would otherwise flow onto FTS2000 to stay right where it is, on DCTN. AT&T's opposition to DOD's use of FTS2000 is not a national security, Warner Amendment, technical or legal issue.

ALL POTENTIAL DOD NETWORK REVENUE MUST BE INCLUDED IN THE GOVERNMENT'S FTS2000 TRAFFIC FORECAST TO ACCURATELY DETERMINE AT&T's ACTUAL NETWORK A REVENUE SHARE.

In April of 1990, over Sprint's objections and arguments that by assigning the DOD to Network A it was assigning 85% of the potential revenue of the program to AT&T, the GSA assigned the Department of Defense in its entirety to AT&T's FTS2000 Network A. Since that assignment, AT&T has delayed the transition of DOD's traffic to its own FTS2000 network. This has resulted in little DOD use of AT&T's FTS2000 network for the first four years of the contract. In conducting the first PRSR for the FTS2000 contract, GSA obtained usage data for the remaining 6 years of the contract from the respective agencies assigned to Networks A and B for the purpose of determining the respective revenue shares of the networks. These "usage projections" were false and represented AT&T's willingness to avoid FTS2000 as much as possible. For example, incredibly, GSA received a traffic projection from *the Department of the Army that indicated that it would use only 5.1 Million dollars of AT&T's FTS2000 network for the remaining 6 years of the contract.* This usage forecast did not even match the traffic forecast generated by one of Sprint's small Network B agencies, the Equal Employment Opportunity Commission! The usage projection for EEOC's use of Sprint's FTS2000 Network B was 5.7 Million dollars and exceeded what GSA projected for the entire Department of the Army assigned to AT&T's Network A. This data was provided to Sprint in a debriefing provided by GSA in December of 1992. Within 6 months of that "debriefing", GSA reported to Federal Computer Week that the Department of the Army would use 16 Million dollars of AT&T's FTS2000 network in 1993 alone! This patently erroneous Department of Defense FTS2000 usage projection was relied on by GSA to justify the downsizing of Sprint's Network B.

AT&T is **again** attempting, through a campaign of distortion, to convince the GSA that Sprint's Network B is too large, that Sprint's revenue exceeds its 40% share and must be downsized. This ruse worked once in 1992 when GSA, based upon incredulously low DOD traffic forecasts, concluded that AT&T's revenue share was less than 60% and moved the Veteran's Administration from Sprint's Network B to AT&T.

It has been more than six years since award of FTS2000. AT&T must be called to task to transition as much DOD traffic to Network A as soon as possible. Senior DOD officials testified that as much as 70% of DOD's remaining traffic can be met by FTS2000, and this additional 70% of DOD usage MUST be included in the traffic forecast which will be used by the GSA to determine the actual revenue allocation of Sprint and AT&T for the remaining term of the FTS2000 contract.

FTS2000 PROGRAM REVENUE REPORTS RELEASED BY GSA INDICATE THAT SPRINT CURRENTLY HAS APPROXIMATELY 30% OF FTS2000 REVENUES, 10% LESS THAN ITS CONTRACTUALLY REQUIRED 40% SHARE. UNLIKE AT&T, SPRINT HAS NOT ENGAGED IN DECEPTIVE PRACTICES TO MINIMIZE ITS FTS2OOO TRAFFIC SHARE.

Unlike AT&T, Sprint has no interest in hiding on other contracts traffic that legitimately should be on FTS2000 Network B . Simply, every dollar on FTS2000 Network B is a new revenue dollar to Sprint. Sprint is not in AT&T's position of being faced with a choice of transitioning traffic from one highly profitable contract to a less profitable one. AT&T cites four alleged examples of Sprint hiding Network B traffic on other contracts; Energy Science Network (ESNET), Geological Network (GEONET), VA Integrated Data Communication Utility (VAIDCU) and a program soon to be awarded by the Department of the Treasury, Treasury Communications System (TCS). Below are the facts.

Sprint's ESNET Award is Evidence of AT&T Attempting to Avoid FTS2000

The ESNET contract is a contract for Asynchronous Transfer Mode (ATM), telecommunications service twice awarded by the Department of Energy to Sprint. The ESNET contract was first awarded to Sprint in August 1992, protested and reawarded to Sprint in August of 1994. ATM service was not available on FTS2000 as of the date of the award in 1992 and is still unavailable as a service under FTS2000 today. *The ESNET contract is actually evidence of AT&T's efforts to carry as much traffic off FTS2000 as possible to make its Network A share appear undersized. Now that they TWICE lost the competition, AT&T complains and demands that ESNET be counted as Sprint FTS2000 revenue. Apparently, only after AT&T loses a competition to provide a service to one of its Network A customers does FTS2000 applicability become an issue.*

The Pending Award of the Treasury Communication Systems (TCS) Cannot be Construed as Sprint's Avoidance of FTS2000

TCS is a private data network solicited by the Department of the Treasury to replace the existing Consolidated Data Network (CDN) currently in place at the Department of the Treasury. Pursuant to the Government's RFP, the long distance TCS circuits are required to be government furnished service (GFS) provided by the FTS2000 provider for the Department of the Treasury (Sprint). TCS does not represent new or incremental FTS2000 usage of the Department of the Treasury. TCS revenue is replacement revenue for the existing CDN contract already served by FTS2000. Therefore, TCS revenue should already be in the Treasury Department's projected usage of FTS2000. Nonetheless, it should and will be included in the Department of the Treasury's projected usage of FTS2000 and should be included in the usage projections utilized by

GSA to determine the revenue share of Network B. **Similarly, all DOD projected usage for Network A must be included in GSA's evaluation of the true size of AT&T's Network A.** TCS cannot be used by AT&T in support of a claim that Sprint is avoiding FTS2000.

The Award of the Department of the Interior's GEONET contract to Sprint Cannot be Construed as Sprint's Avoidance of FTS2000

In 1993, Sprint was competitively awarded the GEONET contract by the Department of the Interior. The contract is for the purchase, integration and provisioning of certain data transmission equipment. It contains no requirement to provide transmission services. GEONET is outside the scope of FTS2000. Moreover, AT&T's, or for that matter Sprint's FTS2000 contract, cannot be modified to include these services as the provision of this equipment was not contemplated by the parties to the original FTS2000 contract. Sprint's GEONET revenue is, therefore, not revenue AT&T would or could otherwise have on FTS2000. The award of GEONET to Sprint as an example of how Sprint is attempting to avoid FTS2000 is completely without merit.

The Award of the Department of Veterans Affairs IDCU Contract in 1989 Cannot be Construed as Sprint's Avoidance of FTS2000

In 1989, the IDCU contract was competitively awarded to Sprint by the Department of Veterans Affairs. IDCU is a contract for a private data network inclusive of equipment, integration, network management and transmission. When IDCU was awarded to Sprint in 1989, the VA was a Sprint Network B customer. In 1992, the GSA was duped into believing that Sprint's Network B exceeded its 40% share and GSA reassigned the Dept. of Veterans Affairs to AT&T. The VA is currently utilizing AT&T's FTS2000 network for the long distance transmission of IDCU data. The remaining IDCU services are currently beyond the scope of both AT&T's and Sprint's FTS2000 contracts and, therefore, Sprint's IDCU revenue is not revenue AT&T would otherwise have on its FTS2000 contract. The award of IDCU to Sprint cannot be used as an example of Sprint's avoidance of FTS2000.

AT&T has not and cannot point to a single case where Sprint is providing those telecommunications services available under FTS2000 to a Sprint FTS2000 Network B customer through a contract other than FTS2000. As "examples" of Sprint's avoidance of FTS2000, AT&T points to some non-FTS2000 Sprint contracts competitively awarded to Sprint by some of AT&T's Network A customers for services *not available* under FTS2000, or contracts for services which could *never* be offered under FTS2000. These "examples" on their face do not and cannot support AT&T's claim that Sprint has avoided FTS2000.

In conclusion, Sprint has not engaged in a practice of avoiding FTS2000. The Government, Sprint and the taxpayer have been victimized by an AT&T strategy to perpetuate its market dominance over the government marketplace and maximize its own profits. This AT&T strategy to keep as much DOD traffic off FTS2000 for as long as possible has had two immediate impacts. First, it keeps DOD paying to AT&T more for the same services available under FTS2000. Second, it artificially depresses the true value of AT&T's share of the agencies assigned to it under FTS2000, enabling it to claim that it does not yet have its 60% share of the FTS2000 program. The FTS2000 program, the taxpayer and the DOD war fighter should not be deceived again. **In order for a fair PRSR 7 to be conducted, ALL DOD TRAFFIC ELIGIBLE TO BE CARRIED BY AT&T's FTS2000 NETWORK MUST BE INCLUDED IN THE TRAFFIC PROJECTIONS USED BY GSA TO ACCURATELY AND FAIRLY EVALUATE THE REAL SIZE OF AT&T's NETWORK A SHARE.**

Mr. HORN. I now yield 5 minutes to the ranking member on the full committee, Mrs. Collins of Illinois.

Mrs. COLLINS. Thank you, Mr. Chairman. Mr. Lombardi, in your comments to the Interagency Management Council, you suggested the contract length in the Post-FTS2000 program should be 5 to 7 years instead of the 10 that it currently is.

Would your logic be because perhaps the Government would be in a better position to take advantage of the new technologies that would be developing and, therefore, would be less costly to the Government?

Mr. LOMBARDI. Mrs. Collins, I want to make it very clear that I believe that long-term contracts are the way to go. Whether they are 10 years or 7 years or 12 years is probably less important than the fact that there is a concept in place that enables the vendor to supply to the Government, in this case, the constant technology refreshment required to keep services current. So that's the most important thing to me.

Ten years seems like a pretty decent period of time because then a vendor like ourselves can make investment decisions in terms of how to upgrade the technology, and hold the Government harmless for that, because that's our investment, and that provides an opportunity for us to recoup that investment over some reasonable period of time while the technology continues to move up the chain.

Mrs. COLLINS. Your testimony suggest further that allowing AT&T to compete in local markets—local markets—will yield a substantial savings to taxpayers under the Post-FTS2000 program. Do you have any estimates of how much the taxpayers would be saved by this procedure?

Mr. LOMBARDI. It would be inappropriate for me to specifically comment. What I do know is that today my single largest costs under the existing FTS2000 program are local access costs. The opportunity for that to be in a much more competitive environment clearly provides a tremendous opportunity for cost savings. Whether that would be at 50 percent of those cost savings level or not, I'm just not entirely sure.

Part of that has to do with the fact that that cost structure is not fully understood by me. I'm kind of held victim to the only basic supplier of those services that I have—the local operating company.

Mrs. COLLINS. Let me ask you, what services and items of work are minority vendors currently performing for AT&T under FTS2000, or Sprint?

Mr. LOMBARDI. I'll speak for AT&T. We're very proud of the record that we've established. In our last year of performance, roughly 40 percent of our contracted work went to small and small, disadvantaged companies and fully 50 percent of all the contracted work went to small businesses.

That's a pattern that we have established early on in the program and intend to maintain, going forward on the program, and it's provided a wonderful opportunity for us to clearly understand that in the diverse markets that we serve, including the Government, we benefit from having diverse suppliers as part of our value chain.

Mrs. COLLINS. Now, is this in contracting as well as in maintenance, the network, up and down the ladder?

Mr. LOMBARDI. The capabilities that we ask our minority vendors, and all our vendors to participate in, are a full spectrum of things. For every provisioning and maintenance opportunity that we have out in the field, we're sending a contracted firm which is a minority firm. So they're part of our provisioning process; they're part of maintaining our network; they're part of our advertising campaigns; they're part of the mainstream of this program.

Mrs. COLLINS. Mr. Teague, what incentives do you think should exist for prime contractors to share resources and technology and other joint ventures with small and disadvantaged businesses?

Mr. TEAGUE. The current provisions of the FTS2000 program identify certain minimum levels of contracting.

Mrs. COLLINS. Would those carry through to the Post-FTS2000?

Mr. TEAGUE. It's not as specific yet. I believe they should be. I believe there should be minimum levels for small and small, disadvantaged business segregated in that fashion. There would be nothing wrong with more specificity. That is, more specificity to the kinds of services that are encouraged that a prime contractor engage in with small businesses.

As you may know, Sprint has been involved in small and small, disadvantaged business programs for quite a number of years and currently, on the existing program, we've exceeded our goals by 200 percent. Those are the goals specified in the contract.

Now, one might say maybe the goals are too low, but we've overachieved. That's through the eye of the beholder. Nonetheless, we do strongly encourage those kinds of provisions be overtly written into the Post-FTS2000 procurement strategy and we would encourage some specificity of the kind of services the Government intends for small and small, disadvantaged businesses to engage in.

Mrs. COLLINS. I have to ask you the same question, Mr. Edgerton. What incentives should exist, do you think, for prime contractors to share resources and technology and otherwise joint ventures with small and disadvantaged businesses?

Mr. EDGERTON. MCI is very proud of the fact that we use a wide variety and a diverse set of suppliers in the creation of our overall telecommunication network and infrastructure. And we would plan to use those same suppliers in fulfillment of any of the existing, or any of the contracts, should we awarded, to do this.

We do that as a normal course of practice, normal business practice, and have found that to be the most appropriate way, rather than working through mandates as a prime contractor. We would accept the mandates. We would encourage those and work within those, but I believe that we are already in compliance with those through the policies that we have in place.

Mrs. COLLINS. Well, I see the orange light is on, so I yield back, Mr. Chairman.

Mr. HORN. I thank the lady. The gentleman from Virginia, Mr. Davis, do you have any questions?

Mr. DAVIS. I apologize for coming in a little late. I see my friend, Don Teague, got here.

I have a question for Mr. Teague and Mr. Lombardi. You both mentioned that 40 to 45 percent of every dollar you receive from

your current Post-FTS2000 contract goes to pay local access fees to the regional Bell operating companies. What proportion of the Government's requirements would you anticipate going to pay local access fees under the Post-FTS2000 program strategy?

Mr. TEAGUE. If the current regulatory environment is unchanged, which I'm not sure that's——

Mr. DAVIS. A given.

Mr. TEAGUE [continuing]. The most intelligent comment to make, but if that becomes the case, it will remain, we think, approximately the same.

There has not been any substantial movement in the last several years in terms of reduction in local exchange, local access costs, even with the introduction of certain of what are called alternate access vendors in certain parts of the country. Those are typically located and concentrated in metropolitan areas.

Of that 40 to 45 percent of every dollar going to a local exchange carrier, only 1 or 2 percent goes to the so-called alternate access vendors, so they are not, they do not promulgate throughout the industry, they are not available very many places in the United States.

We applaud what they're doing and why they're trying to do it but, right now, they have a very minimal impact on my profit and loss statement. Therefore, I don't envision, not for at least the next 5 years, any measurable change, certainly measurable reduction, in that part of my cost structure.

Mr. DAVIS. Thank you.

Mr. LOMBARDI. In 1994, calendar year 1994, our access costs were about 40 percent of the total revenue stream. In 1993, it was 41 percent, in 1992, 42 percent. So it's come down very little, as Don said, not substantially.

That history, coupled with no apparent breakthroughs in either legislation and/or technology in that arena, doesn't give me hope for a substantial reduction in those costs. I think the only way that's going to really happen is through serious competition at that level.

Mr. DAVIS. Thank you. I yield back, Mr. Chairman.

Mr. HORN. Thank you. The ranking member on the subcommittee, Mrs. Maloney of New York.

Mrs. MALONEY. Thank you so much, Mr. Chairman. One of the challenges of the Post-FTS2000 is to ensure that new technologies are incorporated into the network over the life of the contract.

How would the nationwide approach, or centralized approach, which you appear to be advocating, further that goal, as opposed to a decentralized approach? Would not a decentralized approach spur more new technologies or new ideas?

Mr. LOMBARDI. Mrs. Maloney, to the contrary. First of all, we have evidence with the existing FTS2000 program. That's exactly what has happened. There are clauses in the existing contract for technology refreshment, for service enhancements.

As those Government needs and applications are understood, we have been busy working to modify the contract within its scope, to add that technology to that existing contract. I see that as a mechanism for the future, the follow-on business to FTS2000, as well.

So we already have a successful way of doing that, and there's no reason why we couldn't think about going forward.

As far as centralization versus decentralization, just simple economies of scale would dictate, I think, that the investment process for adding new technology to a Governmentwide network would be better managed in a central environment and an opportunity to have it added to the network in a more cost-efficient way so that the recoupment of those costs by the service provider are less onerous to the Government customer. I think if it was decentralized, it would be much more onerous.

Mrs. MALONEY. Would anyone else like to comment?

Mr. TEAGUE. I'd like to comment, Mrs. Maloney. One thing we found on the FTS2000 contract is that technology infusion or technology enhancement is, in fact, a mandate of the agencies. You will no doubt hear next week that some of the agencies were frustrated in the earliest days of the contract that they could not, in fact, move ahead as quickly as they desired for new technology, new services to meet their mission requirements.

There's a very simple reason for that. In the first 4 years of this contract, we, the incumbents and contractors in the GSA spent the first 4 years defending ourselves. We defended—every single service enhancement or technology enhancement to the contract was challenged.

I'm not arguing that was not the right of the challengers that did challenge. What we do find, though, is that the scope of the contract was upheld in every case, either by the board of contract appeals or by the Federal courts. In every case, the scope of the contract was mandated as being broad enough to accommodate changing needs of the agencies.

So the first 4 years, in my judgment, were tied up in the process. Subsequently, the contract has been accelerated in terms of service enhancements, from enhanced 800 services, advanced video, data communications services; and we—and I know I can speak for my colleague at AT&T—are moving as quickly as we know how with the GSA to meet agency requirements.

Mr. EDGERTON. I'd like to comment. We've not had FTS2000 to subsidize our technology enhancements. We've had to do those in response to the needs of the marketplace, and that's why we would propose that the marketplace will demand that technology enhancements be made, and that we would propose that the Government should take advantage of the marketplace and the demands of the marketplace without having to resort to unique Government requirements.

Mrs. MALONEY. A very good point. What would be or what are the benefits to the Government of purchasing Government services on a private network, as opposed to using the public telecommunications network, the same network that we use in our homes and in businesses every day?

Mr. LOMBARDI. Let me take a first shot at that. I'm not too sure there is a substantial benefit, either way. I think that the concept of a private network—private networks as we've known them in the past—may be passe. The fact is that today, given technology, given software, there are ways to carve out from the public net-

work a private network component so that enhanced security can be established and maintained.

And you couple that with your previous question about the infusion of technology. To the extent that the broad marketplace is demanding new and innovative services and that requires technology to be inserted into the network, the Government can benefit from that technology, as well.

Mrs. MALONEY. Just to follow up on a hearing the chairman held earlier on new technologies that we're working on in the "reinventing government," they propose that Government contracts will be put on the internet and will go into every home in America. Then contractors would be able to bid back on Government contracts.

Would that be part of this system, that idea that is coming out of FTS2000 for reinventing government? Would that be part of this system, that whole computer network, or is that a separate computer network?

Mr. TEAGUE. I'll respond to that. From Sprint's perspective, the answer is it could be part of this system. Much of it is in the definition of the user-based desire to be served by the Post-FTS2000 environment.

In our written testimony and orally, I've indicated we strongly support the Government's movement to include State and local governments in the Federal Government's contracting. The buying power of the Federal Government, the standards, the technology, the pricing should be, in our judgment, applied to State and local governments as well, where the services are the same.

Whether that's to be extended to the homes of individual taxpayers, that's a definition matter, but to the homes of small businesses that operate out of their homes, it is possible. It becomes somewhat of a challenge, I believe, in terms of the management aspects of the contract.

Mrs. MALONEY. Sprint has recently announced its plans to form a global partnership with Deutsch Telecom and France Telecom, and I am aware of international partnership in the works for AT&T and MCI.

However, as of this date, no American firm has the slightest chance of acquiring a stake in these foreign entities and I am troubled that foreign enterprises may potentially benefit from the U.S. Government contracts while American firms' access to foreign markets is limited.

Should we be able to leverage this new procurement to get your cooperation in gaining and opening closed foreign telecommunications markets?

Mr. EDGERTON. Let me just speak for MCI, since we are partners with British Telecom. I believe that we have passed all of those hurdles and the British marketplace is now open to full and open competition.

Mr. LOMBARDI. Mrs. Maloney, we share your concern, and it may be a great idea, to leverage this contract.

Mr. TEAGUE. The French and German marketplaces, as we are all well aware, are not as open as the British marketplaces are today, but as recently as the G–7 conference in Brussels, commitments were made, very strong commitments were made by the

Chancellor and by the Prime Minister that their markets would be open by 1998.

That's an extremely important portion of our strategy because, if their markets are not open and if their technology is not broadly available, our global venture will be inhibited.

Sprint will maintain 40 percent of that global venture. We'll have the managing share of that global venture. Should we use this Government contract to leverage that arrangement? I must admit I'm not a world trade expert and I'm not sure I'm prepared to answer that question. It is intriguing, though, and we have been talking to some members of the subcommittee about that and would enjoy continuing those discussions.

Mrs. MALONEY. Thank you very much.

Mr. HORN. Thank you very much. The gentleman from Washington, Mr. Tate.

Mr. TATE. Thank you, Mr. Chairman, and thank you for coming before us. I can appreciate your concern. You mentioned several times about having a national system that will save money, and I can appreciate that.

I have a couple of questions. It's the whole issue that I think was touched on just before me, the whole issue of decentralization. Since the fact, as I understand, is about 80 percent of all network activity is at the local level, how can a national system meet the Federal Government's end user needs?

Mr. LOMBARDI. I'm not too sure that I know where that statistic comes from, that 80 percent of the activity in the network is at the local level. I suspect that there is a——

Mr. TATE. What number is it, then?

Mr. LOMBARDI. I'm not too sure I know, because we think about the network as a network to connect a whole bunch of users. At the end of the day, each one of those users sits in some local environment, including the users here in Washington.

Mr. TATE. I guess my understanding is, instead of going back to a national system, is they're just making a call locally, instead of going back and having it transferred from a national system back right next door, where they could have just called locally, I guess is the way I understand it; and about 80 percent of that is just local calls, not back through a national system.

Mr. LOMBARDI. I don't have the latest statistics in front of me, but my recollection of the traffic patterns on the existing FTS2000 would have no more than 35 to 40 percent of the traffic be of the intra-state nature, and that would indicate to me, therefore, that a substantial amount of that traffic is more typically long distance and therefore—I mean, it's all long distance, but more typically, really long distance, than that 80 percent number.

So, Mr. Tate, I'm sorry, I just—I don't relate to those numbers at all.

Mr. TATE. OK.

Mr. TEAGUE. I'm sorry, I can't add anything to the 80 percent figure. The Washington, DC area, I think, has to be identified and recognized as an anomaly in the context of the concentration of Federal users and Federal applications. So I think, if you took the Washington, DC area out of the equation, my estimation is it would

be considerably lower than 80 percent in terms of your definition, and I would agree with Dick in terms of the approximate range.

Again, the DC area is, in fact, unique and there are other concentrations of Federal users around the country, but our traffic profiles are just much lower numbers than that.

Mr. TATE. One more question, Mr. Chairman. What about value-added services such as video teleconferencing or electronic commerce transfers? Is this all part of FTS2000 or would this be a separate contract, such services such as electronic—excuse me—teleconferencing, electronic commerce.

Mr. LOMBARDI. I think if you build off the success of the existing program and think about what it does, it provides those services today. 800 telephone service is a basic form of electronic commerce.

A lot of the FTS2000 network is used today for other forms of electronic commerce. It has a very robust video teleconferencing capability, as well, and the network itself has had features added to it that enhance the ability of the Government agencies to serve their citizens better, and that's another form of electronic commerce.

So I think the pattern exists today in the existing program. There's no reason to think that it can't exist in the Post-FTS2000 environment in a network like this, as well.

Mr. TATE. Shouldn't it be contracted separately?

Mr. LOMBARDI. I don't see why it needs to be, given the fact that the fundamental underlying capability is network based, and what makes things different, in terms of what we call it, is really the applications that ride on the technology, and that's the only thing that's really different.

Mr. TEAGUE. I see no reason why this should be contracted separately. 800 services are an ideal example of electronic commerce. Most folks probably would not consider an 800 service in that environment. But it is true the Small Business Administration operates 800 services with very elaborate data bases that help small business owners trying to get started—where to get financing, who to make contact with. That's electronic commerce, in my judgment.

The IRS maintains 1–800–TAX–1040. It's a classic "touch the citizen every day." We know we carry the traffic. That's electronic commerce, as well, in our opinion. So we think electronic commerce has had a tremendous reawakening in the current FTS2000 program. We see no reason why it won't, frankly, explode in the post environment.

Mr. HORN. If we could use 900 numbers, we'd solve the annual deficit. [Laughter.]

Mr. TATE. I yield back the balance of my time with that, Mr. Chairman.

Mr. HORN. Thank you. The gentleman from West Virginia, Mr. Wise.

Mr. WISE. Thank you, Mr. Chairman. Under the current contract, are there presently interoperability problems existing, such that it can be tough between the AT&T network and the Sprint network?

Mr. TEAGUE. There have been. In the early days of the contract, there were some interoperability challenges. They were anticipated and they've been worked through.

The most recent and, I think, most dramatic improvement and change was in video teleconferencing—back to Mr. Tate's point on electronic commerce—and the two networks now are fully interoperable, so all agencies—so-called Network A and Network B agencies—who have video teleconferencing capabilities can traverse both networks transparently. They have no idea, really, what network they're on whatsoever.

Mr. WISE. Is it still the case, though, that in some cases the Government has to, in effect, pay to talk to itself between the two networks?

Mr. TEAGUE. I'm sorry, I'm not aware of that.

Mr. WISE. If you could, because the next question follows up on that, then, what is it that—how does GSA's recommended approach solve this or deal with this?

Mr. TEAGUE. It's been highlighted by Mr. Brock and by others. Interoperability is, in fact, a challenge. It's a technical challenge. It also offers a business challenge, such as invoicing. But interoperability has been met head-on in switch voice services, video teleconferencing services, and some switch data services, as well, so it is being dealt with technologically and the business challenges are also being dealt with.

The Post-FTS2000 strategy—and I will agree with Mr. Brock in this context—lacks some of the specificity that most of in the industry, I think, would desire, as it deals with or intends to deal with interoperability and interconnectivity.

Mr. LOMBARDI. I would agree with what Don has said here. I would—I'd point out that interoperability, as a concept, is something that you shouldn't walk away from and say, "Well, that's something we're not going to have." I think the concept is a great concept.

I think it's important to understand the details, though. Interoperability for its own sake may be more costly and not have a benefit to the Government in certain areas, in certain arenas. I think video conferencing, as an example, is one where there has clearly been benefit to the Government.

I think it's important that each one of the opportunities for interoperability be assessed and a business case, if you will, be established in terms of needs. The industry is wrestling with this, as well. This is not something unique to this contract or to the Government's needs.

Mr. WISE. Anybody else want to jump in this, since you're the only one left.

Mr. EDGERTON. Well, I'm not faced with the interoperability problem that they are so—[laughter.]

Mr. WISE. That's right. That was my understanding. I thought you might have a thought on it, though.

Mr. EDGERTON. But I would like to be. [Laughter.]

Mr. WISE. Yes. I would appreciate it if, for the record, you might submit in writing, when you get a chance, or as long as the chair leaves the record open, whether or not there's any kind of charging that's taking place on hooking up between the two networks.

The second question I have is a more general question. When you upgrade a private network to incorporate the new technologies and services, how is this cost being passed on to the customer? And in

particular, of course, this time the customer is the Federal Government.

Mr. TEAGUE. I'll start. Our solution for FTS2000 is what's referred to as a virtual private network. That's not just fancy talk, it literally is a private network that is virtual on behalf of the Federal Government. Every time we make a change to any of our switches in our network, any software upgrades, any added features to our switches, the Federal Government gains the advantages at the same time as all of our corporate clients.

Those costs are not passed on to the Federal Government. They are incorporated. That's our investment. We recoup that investment through usage of our network on FTS2000. So there is not direct cost passed to the Government whatsoever as we make network upgrades. We're in the process right now of spending over half a billion dollars to implement a very sophisticated, survivable network technology called Sonet.

The Government will pay absolutely nothing for that Sonet deployment; neither will many of our major corporate clients. We recover that investment through usage of our contract and usage of our network. So there is no direct pass-through. That is one of the major reasons why mandatory use, in my judgment, has been extremely successful and extremely important, because it allows us to project how those huge investments will, in fact, be recovered through usage.

But there is no direct pass-through. Quite the contrary, because of price indexing, PAPCAP, referred to by Mr. Brock, we see our prices either staying the same or going down every 90 days, through comparison with commercial tariffs.

Mr. WISE. Mr. Lombardi, did you want to add anything to that?

Mr. LOMBARDI. The technology that we're adding to our network at a basic level is done the same way that Don has just described. The Government continues to get the benefits of AT&T upgrading its reliability through Fastar and then moving to Sonet, Sonet ATM capability, at a basic level of infrastructure.

There is a common element here with the commercial market, though, I'd add very quickly, and that is where capabilities can be added to networks such as this that create substantial productivity improvements for the Government, I might add, for our commercial customers also. And an example of that might be providing additional services, something new and different, to an 800 service. There is usually an extra charge for that. But that is not a charge that is cost-based; that's based on the market. That's what happens in the marketplace.

And so this whole process is a very market-driven process. And you would go out and you would find commercial customers being in the same situation. So there is some thinking that goes into the additional investment that is made for some of our customers, because some of those needs are very unique and therefore need to be borne by the unique user.

Mr. EDGERTON. I'd like to comment. We've not had mandatory use as a crutch for our investments in technology, either. The marketplace has demanded that we continue to improve our costs, our overall capability, and, in effect, come up with unique services that differentiate us in the marketplace.

We make those investments; that's part of our normal business decision. The Government naturally benefits from any investments and any improvements that we make in these services.

Mr. WISE. Thank you. Mr. Chairman.

Mr. HORN. Thank you. The gentleman from Pennsylvania, Mr. Fox.

Mr. FOX. Thank you. I'll conclude with just a few questions here. The ranking minority member on the full committee asked about the small and disadvantaged businesses, mostly as a matter of percentage. I'd like you to file, for the record, and staff will ensure that it's a comparable question, comparable data, what is the exact value in terms of total contracts that go to small, disadvantaged businesses? And we might break that down so we separate small from the more obvious affirmative action categories.

Basic question on the FTS2000 program is, one criticism is that it takes too long to introduce new state-of-the-art technologies or services. Now, your testimony, Mr. Teague, stated that one of the design goals of the current contract was to avoid technical obsolescence. And without getting into that debate regarding the current program, do you believe the Post-FTS strategy adequately addressed this issue?

Mr. TEAGUE. There's an outline, sir, in the Post-FTS2000 Strategy document that we subscribe to. And that outline does go in the correct direction, we believe. The specificity, as I say, the devil's in the details. The details are still necessary for all of us, certainly, in industry to understand what incentives may be provided, as an example, to the winning contractors to advance technology in a faster mode. That is not—it's alluded to, but it's not addressed in a fashion that I think any of us would be comfortable at this time.

But the outline is there, we subscribe to the outline. And we believe that absent some very strong and very compelling language—and we support the notion of incentives, by the way—that the Post-FTS2000 program will, in fact, be flawed. There must not be any opportunity left open for technical obsolescence.

Mr. HORN. Well, does any aspect of the strategy, beyond that particular outline, inhibit the introduction of new or enhanced technologies?

Mr. TEAGUE. We believe that comprehensive contracts offer the Federal Government the best opportunity to make that happen. We do not subscribe to the notion that separate contracts—for instance, for wireless services, we see nothing in the direction where technology is moving. Wire and wireless technology are not going to be separate for very long, sir. They're going to be merged very, very rapidly. The FCC is seeing to that with PCS and some other things.

So by the time Post-FTS2000 is a reality, there will be no reason to separate wire and wireless. I cite that as an example. I see no reason why they should be separated. I think comprehensive contracts ensures the best likelihood that the Government will received technical advances faster.

Mr. HORN. Mr. Edgerton, Mr. Lombardi, do you agree with that response?

Mr. LOMBARDI. Basically, I do. I think that the more you create separate contracts, the more you force the end-users to think sepa-

rately about how to take the solutions that they have in their heads and apply them to one contract or another, as opposed to thinking about the solution they want and then going to the vendor and saying, give me the best technology for that solution.

I think what you don't do is restrict the end-user from being very innovated in terms of thinking. So for that reason as well.

Mr. EDGERTON. If we as a company are not at the forefront in terms of innovating and implementing technology, then we've lost. It is our belief that the purchase of commercially available services through a very simple process will avail the Government of all those technologies. We've got to do it to stay alive.

Mr. HORN. How can the Government be assured of maintaining competitive pricing from the long distance carriers if one or two vendors provide comprehensive nationwide services?

Mr. LOMBARDI. First, full and open competition; that's the basic starting point. Long-term contracts also probably ought to have the type of mechanisms that enable both the technological refreshment, which has been the subject of previous questions here, as well as competition to take place over the life of the contract. Those mechanisms can vary. I don't think we ought to even think about denigrating some of the mechanisms that are currently in place, because they work very well on the existing program.

So once again, I'm probably going to sound like a Johnny One-Note here, build off the existing success of this program. This program has had that capability already, and the future program could have it, as well.

Mr. HORN. What do you feel is the major disadvantage of the current program, in terms of if you could wave a wand and go back a few years and we had the vision to knock it out or change it? Where did we go wrong?

Mr. LOMBARDI. I think Don hit it earlier. There was a—first of all, this was a grand experiment, if you will. This was Government privatization moving into a program where there was a two-vendor concept; very unique, very different, and constant recompetition over the life of the contract. Early on in the contract life, there was a lot of misunderstanding, a lot of challenges to its scope and its capability. It took about 4 years for the industry and the Government customer to overcome that uncertainty and those unknowns.

I think the performance over the last 2 years or so, and clearly the capability in terms of performance over the remaining 4 years of life in this contract, are exactly the type of performance that is right about this program. So I think it was a slow start, would be my answer.

Mr. HORN. Mr. Teague.

Mr. TEAGUE. I would comment in a similar fashion. I would advise that at the outset, an office similar to you, the Associate Administrator for FTS2000 be established. Identify right up front the seniority and the importance of this program across the entire Federal Government, the accountability to this committee. It is a management aspect that should not be overlooked.

Second, we believe that one of the basic problems in the early days of FTS2000 is that it was oriented almost entirely to switch voice service. There were no statistics, no available statistics of consequence, for data. There was no adequate projection of the uti-

lization of video teleconferencing. We're now all about 7 years smarter in that regard. It will be awfully important to identify that what users and agencies require for their mission achievement is one of everything available in the marketplace. And they expect the industry to bring it to them in a most cost-effective fashion and as fast as possible.

Mr. HORN. Mr. Edgerton.

Mr. EDGERTON. Yes. These are all of the reasons that have just been stated as to why the contract should not have been let for 10 years, but should have had periodic recompetitions, particularly in view of the tremendous change and the uncertainty on which the basic contract was founded. The industry has changed radically. The competitive nature of all aspects of the industry have changed radically. And I honestly believe that the Government has not taken full advantage of those changes.

We're still locked in now in justifying a 7 or 8-year old procurement method when the rules and the environment are totally different now.

Mr. HORN. Well, we thank all three of you. Your comments have been particularly helpful. As I listened to your formal statements, I thought we ought to hire a social scientist to go through and analyze content to see who is nicest to GSA.

I wish you luck. We're going to take a 5-minute recess, and then we're going to proceed with the next two panels. So if the Regional Bell Operating Companies will come forward, we'll be with you in a few minutes.

[Recess.]

Mr. HORN. The hearing will resume, and we have our third panel: Mr. Anthony Murray, president of Bell Atlantic Federal Systems; Mr. Pat Lanthier, director of Public Policy and Technology at Pacific Bell; and Mr. William Cobb, the vice president, general manager for Business Government Services, US West Communications.

[Witnesses sworn.]

Mr. HORN. We will begin with Mr. Murray, president of Bell Atlantic Federal Systems.

STATEMENTS OF ANTHONY MURRAY, PRESIDENT OF BELL ATLANTIC FEDERAL SYSTEMS, BELL ATLANTIC; PAT LANTHIER, DIRECTOR OF PUBLIC POLICY AND TECHNOLOGY, PACIFIC BELL; WILLIAM COBB, VICE PRESIDENT AND GENERAL MANAGER FOR BUSINESS AND GOVERNMENT SERVICES, US WEST COMMUNICATIONS

Mr. MURRAY. Good afternoon, Mr. Chairman and members of the committee. Thank you for this opportunity to address this Post-FTS2000 strategy. As you might imagine, contrary to the panelists that spoke before me, I do not agree that a nationwide approach to this particular procurement is in the Government's best interest. If I were the incumbent, I may have a slightly different view. Given that we are not, and given that I believe technology has changed so substantially since the mid-1980's, when the last FTS2000 contract was put on the street, there is clearly an opportunity now for the Government to take advantage of a number of the changes that have occurred in technology and to make sure

that they take a look at a number of the recommendations that were contained in Mr. Brock's report.

There is a tremendous opportunity for us to return the focus to the local users, to the individuals that have the requirements, and to make sure that the technological solution is, in fact, geared to those needs from a bottoms-up perspective, rather than starting from a top-down approach. The idea of a local or regional approach that was suggested in a number of the questions that came from the committee, I believe, have an awful lot of value and merit further exploration.

The Government, by the way, has done this in a number of other major procurements, and have seen, I believe, the value of that kind of a strategy. This kind of a strategy will clearly promote competition. It will not only provide opportunities for the Regional Bell Operating Companies to potentially participate as prime contractors, but I would suggest that it would open the business opportunity for the independent telephone companies—some 1,700 of them across this land—cable companies, systems integrators, and small businesses to play a major role.

But as the current strategy is outlined, with a specific emphasis on nationwide capabilities, that kind of an opportunity is blocked. There's another couple of points that I'd like to make with the audience this afternoon, and that is, clearly, that the interoperability question, again, which had been raised in a couple of the questions, is clearly one that we have dealt with in the Regional Bell Operating Co. world for about 100 years right now.

And when calls are made, for example, from the State University of West Virginia to Penn State University in Pennsylvania, it may go across multiple networks provided by multiple players. It goes through seamlessly. And the other analogy that I would care to share with the panel is that while the notion of an information superhighway is appealing from a philosophical standpoint, clearly required for those percentage of calls that need to be carried nationwide, the analogy I would use is that when any one of the Members want to go from here to National Airport, I dare to say, would prefer not to get on the Beltway to have to get there.

Most of the Government users, particularly here in the Washington Metropolitan area, I believe, as they take a look at those requirements, would suggest that very few need that national superhighway, but rather need the capabilities locally to meet the constituents that they need to serve. I am not suggesting that this, by any stretch of the imagination, be an RBOC set-aside.

I am suggesting, however, that a local or more regional approach—and that regional approach, by the way, I would see being defined, obviously, by the Government—is one that would put more of the emphasis on the capabilities and services of the public switch network, something that would help expand the infrastructure of this country, something that would allow the consumers and small businesses to take greater advantages of the capabilities as they are deployed, in there local switches, for their particular uses as well as, obviously, serving the needs of the Federal Government.

I really believe this is a great opportunity for the Government to look ahead. It's clearly not a time to rubber stamp a procurement approach of the past. The information age is clearly here. I believe

Government can enact an acquisition program that embraces not only the technologies that are available today, but provide themselves the flexibility for those technologies that are planned for tomorrow.

Again, I'd like to thank the committee for giving me this opportunity to express my views, and I'd be glad to answer any questions later.

[The prepared statement of Mr. Murray follows:]

GOVERNMENT REFORM AND OVERSIGHT COMMITTEE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY

STATEMENT OF ANTHONY MURRAY, BELL ATLANTIC CORPORATION ON THE POST FTS2000 CONTRACT

March 21, 1995

Good afternoon. Mr. Chairman and members of the Committee, my name is Anthony Murray, and I am President of the Federal Systems Division of the Bell Atlantic Corporation. Bell Atlantic is the parent corporation of companies which provide a full array of telecommunications services in New Jersey, Pennsylvania, Delaware, Maryland, Virginia, West Virginia, and Washington D.C. Federal Systems has numerous contracts with various federal agencies outside of the above mentioned states, as well. Bell Atlantic is at the forefront of developing a variety of new products, including video, entertainment, and information services.

I want to thank you for giving me an opportunity to testify on the federal government's Post Federal Telecommunications System (Post FTS2000) Acquisition Program.

This procurement is the government's chance to align its telecommunications strategy with its vision for government as we move into the 21st century. You have an opportunity today to make a difference in the way government communicates while reducing the cost and increasing the efficiency of that communication. Instead of business as usual, I would encourage you to take a fresh look at this procurement.

Since FTS2000 was awarded in 1988, an explosion of new communications applications, services and technologies has occurred. Computer users have seen these changes, most dramatically. Instead of relying on massive mainframe computers for computing power, users have everything they need on their desktops. Government agencies are beginning to use these new capabilities to improve constituent service, while decreasing the costs to taxpayers. GSA has recognized the changed environment, but has recommended a procurement approach which will not acquire these new capabilities in the most cost effective manner. Specifically, GSA has recycled the old procurement structure with its reliance on a few nationwide long distance carriers to provide the services, instead of looking to the future, where the predominant service requirements, and therefore costs, are at the local and regional levels.

Bell Atlantic advocates a procurement approach which is modeled after the movement toward decentralized management and end user accountability for purchases. Private industry, including Bell Atlantic, has found that the best way to improve service and control expenses is to downsize central bureaucracies and enhance the power and accountability of those persons closest to the business need - the end user, the customer. As the federal government embraces this practice, the Post FTS2000 procurement should be in alignment with this approach.

In a decentralized environment, the end users (customers) will have a better ability to measure and manage their bills than they do today, and thus save taxpayers' money. Furthermore, they will identify and then develop custom business applications needed to better serve their clients. They will not feel empowered or act creatively, if they are forced to order pre-packaged, homogeneous service offerings created to serve a multitude of nationwide customers. These nationwide - one size fits all - services are

often over engineered, difficult to use, and more costly - in the long run - to the government.

My experience indicates that many of the government's most critical telecommunications needs, such as high speed data communications, reside within a limited geographic area - between Baltimore and Washington D.C., for example. Therefore one of the primary goals of Post FTS-2000 should be to ensure that the government's more local telecommunications requirements, which are the most predominant requirements, are met cost effectively, instead of allowing nationwide long distance voice requirements to become the major driver. Our recommended decentralized, geographically-based contracts, will better meet these local community of interest needs.

Law enforcement is one quick example of a community of interest with special networking needs. A first class law enforcement network would fully integrate local, state and federal agencies. The majority of law enforcement's voice, data, and video traffic however, is confined to limited geographic boundaries -- the state police talks to the city police and the FBI talks to the U.S. District Court, etc. Post FTS2000 must be designed to recognize and account for this type of end users' traffic patterns - GSA's recommended architecture does not facilitate this type of community of interest network design. In my experience, the most cost effective networks are designed from the ground up, with the individual end users' needs factored in from the beginning, as opposed to a top down purchase of bulked services, which have to be customized and adapted to local conditions at a later date. Every Total Quality Management expert I've ever heard or read about supports this approach to preventing rework and cost overruns, and I believe the government should proceed likewise.

Bell Atlantic clearly recognizes that all traffic is not "short distance." There is a need for many applications to be transported across the country. The Regional Bell companies and the larger independent telephone companies employ a software technology which gives customers an opportunity to receive the best long distance rates on a time of day basis. To do this, our customers develop traffic routing tables which, when implemented in our local network switches, routes their traffic to the long distance service provider with the best rates. This software feature saves them money on every call they make, instantly and seamlessly. The large long distance carriers have no incentive to share the government's long distance traffic by employing such a technology or by decentralizing the procurement to allow such application development. It is essential in the Post FTS2000 environment that end users have the freedom to develop networks which use these advanced technologies.

The approach I'm recommending puts the procurement tools in the hands of local users - and it also promotes investment in the National Information Infrastructure. When the procurement process and the technological solutions are built from the bottom up rather than the top down, the tremendous investment in the Public Switched Network becomes a major part of the planning and acquisition process. Thus, when the government enhances its communications services through the Public Switched Network, everyone benefits - small and large businesses, residential users, universities, hospitals, and federal, state, and local governments. If the government invests heavily in a private network, development and upgrade costs are not shared amongst all users, but are instead borne solely by the federal government. Investment in the national infrastructure is especially important as the country's labor force, including the government's, is encouraged to work from home. The Public Switched Network provides affordable, vibrant, and publicly accessible technology, with inherent disaster recovery, to everyone's homes, both rural and urban.

Therefore, I suggest that the government pursue logical, geographically based contracts, as opposed to GSA's recommended "comprehensive" contracts, where, again, only a few viable bidders could participate. This approach allows local and regional vendors to bid effectively, substantially adding to competition and in turn driving costs to the government down. In an environment with only a few potential bidders vendors have a tendency to match each others' prices and those prices tend to increase over time.

Moreover, my suggested approach would encompass many more companies than just the Regional Bell Operating Companies. It would allow independent Local Exchange Companies, cable companies, wireless companies, Competitive Access Providers, Systems Integrators and Small Disadvantaged businesses to play a role in meeting agency needs. These companies are often at the forefront of communications technology and are crucial to satisfying government's need to stay current. Bell Atlantic works closely with many small and small disadvantaged businesses on a daily basis to meet the needs of our federal customers. For example, in deploying video networks for our federal customers, Bell Atlantic typically provides the low cost, multi-media network line which provides the connectivity between two or more locations. We often rely on the hardware integration expertise of a small business to install and maintain the camera, video screen, and audio bridge and ensure that they are compatible.

Bell Atlantic and the other service providers I mentioned have a lot to offer government users. We have proven that we can be cost competitive and effective in the performance of our contracts with the government, such as the Washington Interagency Telecommunications System (WITS); Telecommunications Modernization Program (TEMPO), which serves Department of Defense, and the Washington Area Switch

Program (WASP), which serves the Department of Justice. Through these contracts, government users procure dial tone inexpensively and develop high speed, multi-media network testbeds.

It is for these reasons, as well as GSA's statements that it intends to bring purely local services under the scope of the Post FTS-2000, that Bell Atlantic and the regional Bell companies (RBOCs) have filed for a waiver of the AT&T Consent Decree and why we are proposing changes to pending telecom legislation. Through this waiver, or our legislative proposal, the RBOCs would be allowed to become full service providers to the government; specifically, allowing us to offer long distance calling outside of our local calling areas. However, neither the waiver, nor the passing of legislation, negates the need for a decentralized approach to this procurement. Enhanced competition and building the network's solutions with a bottoms up approach will improve customer service and lower costs to the government.

I ask that this matter be given careful scrutiny. I believe that when the research and analysis is completed, you will agree that a decentralized procurement approach is clearly best for the federal government, for competition, and for the rapid deployment of solutions to agency specific needs. The government should look ahead, rather than rubber stamp a past approach. The information age is here and government should enact an acquisition program that embraces the technologies that are available today and those planned for tomorrow. I thank the Committee for the opportunity to express my views and I will be glad to answer any questions you may have.

Mr. HORN. Thank you very much, Mr. Murray. Mr. Pat Lanthier, director of Public Policy Technology, Pacific Bell.

Mr. LANTHIER. Mr. Chairman and members of the subcommittee, good afternoon, and thank you for the invitation to discuss a topic of great importance to the Government and to communities across America—the rapidly evolving information age. I am Pat Lanthier, director of Public Policy and Technology for Pacific Bell in San Francisco, CA. I'm also a teacher.

I am the national chairman of the New Service and Technology Issues Subcommittee of the U.S. Telephone Association. And I work with dozens of information, education and infrastructure groups throughout the world. Enclosed in my testimony is a USTA policy paper entitled, "Group 2000, Information Superhighway Public Policy Roadmap." This paper helps provide a context for my testimony.

I share with many of my colleagues the opinion that global network information technology is rapidly transforming and liberating societies throughout the world, and that a community's, State's or country's competitiveness is increasingly dependent upon its public network information infrastructure. This radical transformation and its importance is perhaps best captured by Alvin Toffler in his book, *The Third Wave.* Mr. Toffler writes, "A new civilization is emerging in our lives, and blind men everywhere are trying to suppress it. The dawn of this new civilization is the single most explosive fact of our lifetime."

Mr. Chairman, the GSA Post-FTS2000 proposal is an example of this kind of blind thinking. And this subcommittee has a historic opportunity to lead them toward a new forward-looking vision. While others talk about the communication superhighway, you have the opportunity to act now and help deploy it. In one giant step, the Post-FTS2000 procurement could help move Washington from information age rhetoric to information age action.

This point, I think, was underscored earlier in the GAO testimony. I respectfully suggest that you lead by seizing the unique and history-making opportunity before you, by aggressively encouraging GSA to pursue an "anchor tenant" approach to Post-FTS2000. The anchor tenant approach encourages local, public network providers to fully participate in the Federal telecommunications system.

This increased participation could, in turn, drive increased infrastructure investment and technology dispersion. Technology dispersion simply means that new technology, deployed by a local network provider to meet Government needs, is also immediately available to the local community. Government, through Post-FTS2000, can serve as an anchor tenant, much like a large department store in a new mall.

However, with Post-FTS2000, the commodity is information, and the mall is a local community within a global information-based economy. For example, using advanced network capabilities, a Government worker could work from home; a scientist could work at a Government laboratory while teaching an entire community via interactive video; or a small business entrepreneur could interactively design parts for a new aircraft from his home office.

To maximize the benefits of this approach, both private sector and public sector leadership is required. As a private sector rep-

resentative, Pacific Bell remains fully committed to continuing our role. For example, we are developing the following right now in California: the ubiquitous digital intelligence network, including ISDN services; "California First," our broad ban deployment—$16 billion worth of investment—enabling interactive video; "Education First," $100 million commitment to provide free Internet access for all schools in California; CALRAN, California Research and Education Network is a consortium with universities like Stanford University to provide the latest in applications development. We're also looking at an all-optical network to provide very, very high speed networking in the San Francisco Bay Area; and finally, PCS, approximately a $1 billion commitment to provide wireless services throughout our territory. So we're doing a great deal. We can do more if public policy changes move beyond rhetoric and finally allow us to meet current and future customer needs as fully as possible.

Getting from today's rhetoric to tomorrow's infrastructure requires thoughtful, supportive and goal-directed public policy decisions. The members of the subcommittee can be visionary champions in the public sector by one, opening up the Post-FTS2000 acquisition program to full participation by companies like Pacific Bell and other local companies; and two, by supporting public policy changes that will allow Pacific Bell and other local companies to fully participate.

The most significant change required is the removal of inter-LATA line of business restrictions. I thank you for your interest, and the promise of a world-class information infrastructure, and for your kind attention. I'd be pleased to try to answer any questions you may have.

[The prepared statement of Mr. Lanthier follows:]

Testimony of Pat Lanthier
Director, Public Policy and Technology
PACIFIC BELL

Mr. Chairman and Members of the Subcommittee

Good afternoon and thank you for the invitation to discuss a topic of great importance to the government and to communities across America in this rapidly evolving Information Age.

I am Pat Lanthier, Director of Public Policy and Technology for Pacific Bell, in San Francisco, California. I am responsible for integrating public policy planning and technology deployment. I have worked in telecommunications for more than 26 years including field operations, network planning, strategic planning and public policy. I am also a teacher.

I am the National Chairman of the New Services and Technologies Issues Subcommittee of the United States Telephone Association (USTA), and I work with dozens of local, state, national and international information and education infrastructure groups. Enclosed with my testimony is a USTA policy paper entitled "Route 2000: Information Superhighway Public Policy Road Map". This paper provides a context for my remarks.

As a result of these interactions, I share (with many of my colleagues) the opinion that global networked information technology is radically transforming and liberating societies throughout the world, and that a community's, state's or country's competitiveness is increasingly dependent upon the performance of its public networked information infrastructure. This radical transformation, and its importance is perhaps best captured by Alvin Toffler in his book "The Third Wave". Mr. Toffler writes: "A new civilization is emerging in our lives, and blind men everywhere are trying to suppress it. The dawn of this new civilization is the single most explosive fact of our lifetimes." Mr. Chairman, the GSA Post FTS2000 proposal is an example of this kind of blind thinking, and this subcommittee has a historic opportunity to lead the agency toward a new forward looking vision.

Opportunity to Lead

I am not here today to dissect GSA's Post-FTS2000 Program Strategy; I am here to offer some observations regarding the unique and history-making opportunity now before this subcommittee, as it exercises its leadership role regarding Government Management, Information & Technology. You have the opportunity to lead with vision and help all Americans to reap the benefits of the much-heralded Information Age. While others talk about the communications superhighway, you have the opportunity to act now to help deploy it.

In one giant step, the Post FTS2000 procurement could help move Washington from Information Age rhetoric to Information Age action. If you make the right step, both the government and communities across America will become more efficient, more competitive, and better educated.

The opportunity before you transcends "normal" government procurements or acquisitions. In a narrow sense, the Post FTS2000 procurement could provide a solution for certain parts of the government. However, I would call this an "insular" approach; utilizing private networks, proprietary protocols, and "islands" of technologies which exemplify an old, insulated, centralized, and closed approach to telecommunications services procurement. This is the old way of doing business.

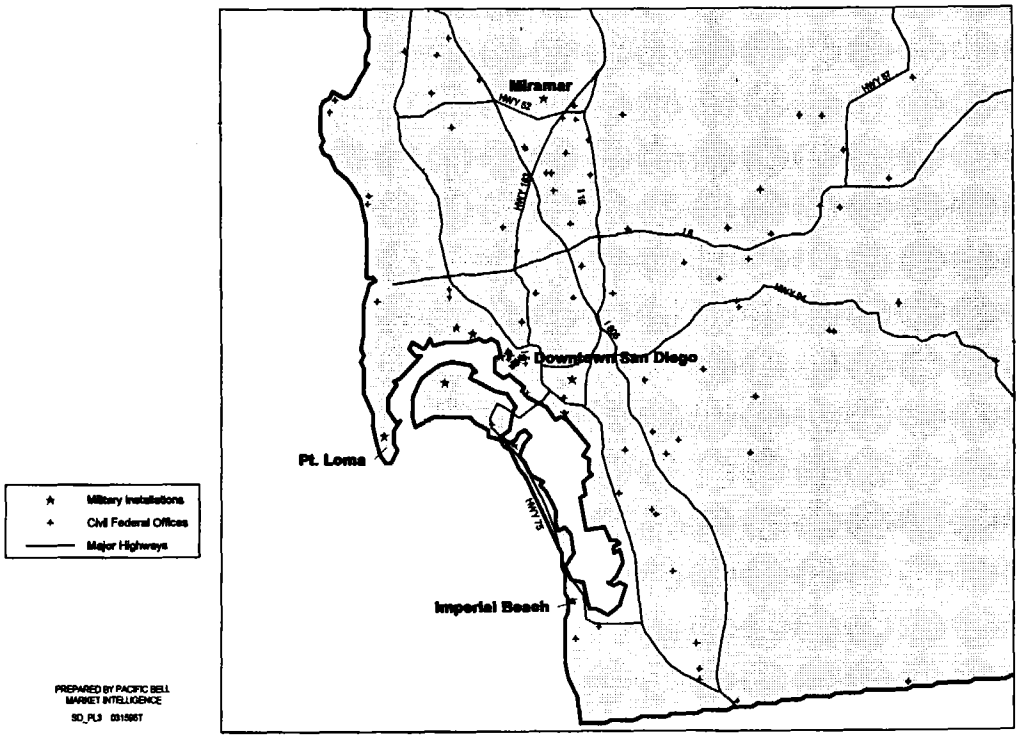
Open Approach / Anchor Tenant

This subcommittee should reexamine this old "insular" approach. I respectfully suggest that you lead by seizing the unique and history-making opportunity, before you --- by aggressively encouraging GSA to pursue an "open" approach to Post FTS2000. The "open" approach encourages local public network providers to fully participate in the Federal Telecommunications System. The increased local participation could, in turn, drive increased infrastructure investment and technology dispersion. Technology dispersion simply means that new technology deployed by local public network provider meet government needs is also immediately available to the local community.

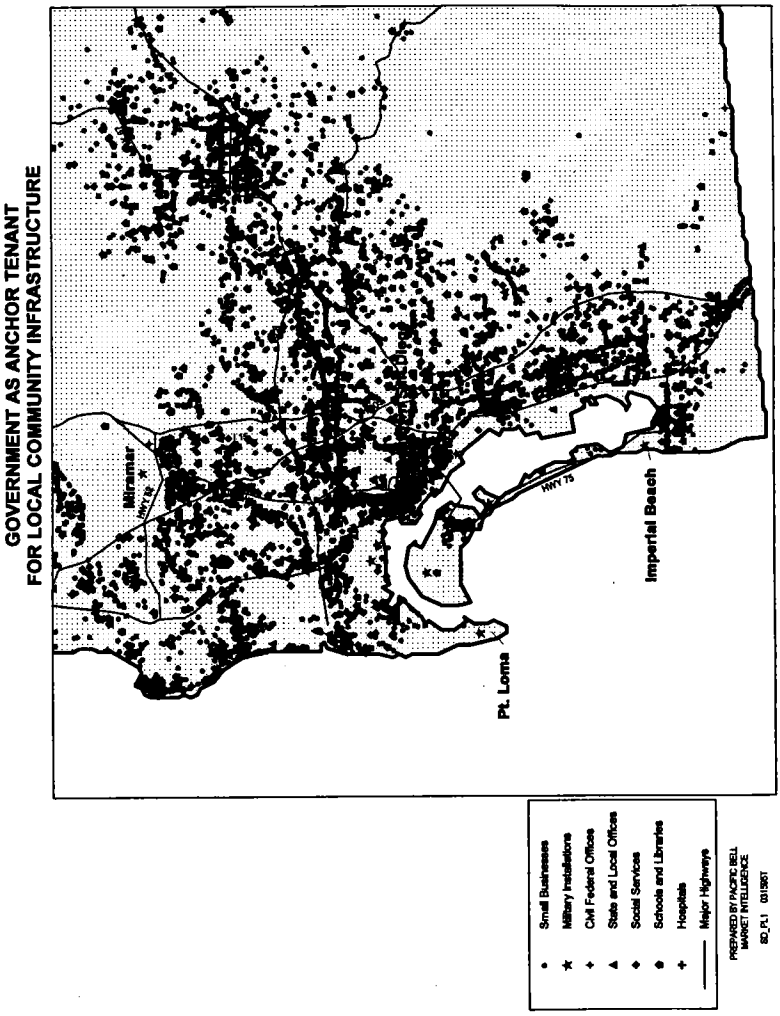
This government and community connection raises the question: "What is the role government in an important economic area such as information infrastructure?

MIT Professor Lester Thurow, in his book about global competition entitled "Head to Head" offers this view: "Above all, government has an important role to play in accelerating economic growth. Government essentially represents the interest of the future in the present. It works to speed up markets..." Another way to say it is: Government, through Post FTS2000, can serve as an "anchor tenant," much like a large department store in a new mall. However, with Post FTS2000, the commodity is information and the mall is a local community within a global information-based on economy. To see an example of potential "anchor tenant" impacts of Post FTS2000, simply compare the two maps which follow.

FEDERAL OFFICES IN THE SAN DIEGO AREA



PREPARED BY PACIFIC BELL
MARKET INTELLIGENCE
SD_PL3 031596T


GOVERNMENT AS ANCHOR TENANT
FOR LOCAL COMMUNITY INFRASTRUCTURE
Miramar
HWY 15
Pt. Loma
HWY 75
Imperial Beach
Small Businesses
Military Installations
Civil Federal Offices
State and Local Offices
Social Services
Schools and Libraries
Hospitals
Major Highways
PREPARED BY PACIFIC BELL
MARKET INTELLIGENCE
SD_PL1 031397

The "open" approach meets both the narrow needs of "official Government services" and, synergistically, meets the broader needs of various communities. The approach helps to transform government operations and management by enabling more flexible, effective, and efficient work management. For example, using advanced public network capabilities a government worker could work from home, a scientist could work at a Government laboratory while teaching an entire community via interactive video, or a small business entrepreneur could interactively design parts of a new aircraft from his home office. The "open" approach provides virtually unlimited possibilities, real synergy, and widespread benefits which can exceed those provided by any previous FTS procurements.

Private / Public Collaboration

To maximize the benefits of an "open" approach, both private sector and public sector leadership and commitment is required. As a private sector representative, Pacific Bell remains fully committed to continuing our role in providing world-class telecommunications services for all of our customers in California-now, and in the future. We believe the continued deployment of an efficient, state-of-the-art, public telecommunications network is critical to both the economic success of Californians and the quality of life we, our children, and our parents enjoy. We will continue to collaborate to meet these critical needs.

Our commitment to innovation and collaboration is unparalleled, and, it is right now - today. Pacific Bell is deploying the following:

1. Ubiquitous Digital Intelligent Network - enabling powerful interactive work-at-home, educational, and small business applications via ISDN (integrated Services Digital Network).

2. Our "California First" deployment of Ubiquitous Broadband Infrastructure providing high quality interactive video - a $16 billion investment over the next 6 years..

3. Education First - free high speed Internet connections for all K-12 schools, public libraries, and community colleges in our serving area in California plus computer donations and training - a $100 million commitment.

4. CalREN - the California Research and Education Network - a partnership with several researchers (including Stanford - for medical research, Caltech - for earthquake research and Lockheed - for interactive computer simulations). They are exploring new applications for the Communications Superhighway at speeds of hundreds of millions of bits per second. Pacific's

CalREN commitment exceeds $25 million.

5. All-Optical Network - an ultra-high-speed (10 billion to a trillion bits per second) light wave network testbed involving various universities and laboratories (pending regulatory approval).

6. PCS - Personal Communications Service - a new digital wireless service promising improved wireless service, reliability, security, privacy, and pricing. Pacific's PCS commitment will exceed $1 billion.

Pacific Bell is doing a great deal to bring the most modern telecommunications infrastructure in the world to California. We can do more if public policy changes move beyond rhetoric and actually allow us to meet current and future customer needs as fully as possible. Getting from today's rhetoric to tomorrow's infrastructure requires thoughtful, supportive, goal-directed public policy decisions.

Perhaps this problem is best characterized by Professors Stan Davis of Harvard and Bill Davidson of the University of Southern California in their book "2020 Vision". I quote..."The telecommunications industry in particular is overrun with archaic, stifling regulations and procedures. Leadership in the information economy demands positive, progressive policies from both the public and private sectors. It demands the commitment of vast resources. It requires an enlightened vision of the future, and it requires masterful execution of sound, if not brilliant, strategies." (It requires) "visionary champions in both public and private sectors who can see over the horizon beyond the 1990s..."

Conclusion

Pacific Bell is doing what it can to be a visionary champion from the private sector. The members of this subcommittee can be visionary champions from the public sector by, (1) opening up the Post FTS2000 Acquisition Program to full participation by companies like Pacific Bell and, (2) by supporting public policy changes that will allow Pacific Bell to fully participate. The most significant change required is the removal of the inter-LATA line of business restriction.

I thank you for your interest in the promise of a world class information infrastructure and for your kind attention. I would be pleased to answer any questions you may have.

NATIONAL INFORMATION INFRASTRUCTURE (NII) PUBLIC POLICY WHITE PAPER:

ROUTE 2000: INFORMATION SUPERHIGHWAY PUBLIC POLICY ROAD MAP

UNITED STATES TELEPHONE ASSOCIATION (USTA)
NEW SERVICES AND TECHNOLOGIES ISSUES SUBCOMMITTEE (NSTI)
PAT LANTHIER, CHAIR;
DIRECTOR, PUBLIC POLICY & TECHNOLOGY,
PACIFIC BELL (415) 542-5155
INTERNET: PATRICK734@AOL.COM
JIM MERCER, EXECUTIVE DIRECTOR, USTA (202) 326-7264
INTERNET: JMERCER@USTA.ORG

REVISED DECEMBER 30, 1994

National Information Infrastructure (NII)
Public Policy White Paper:
Route 2000: *Information Superhighway Public Policy Road Map*

Preface

This paper represents both the evolution of visionary public policy development within USTA and an urgent call to action, now – both of which can help jump-start a National Information Infrastructure for all Americans.

USTA's evolution is evident both in its 1990 publication *Vision 2000* and in its 1993 video presentation *From POTS to Video*. Both of these visionary pieces predate the administration's NII vision; both of the pieces are in sync with the NII vision. Clearly, the LEC industry continues looking ahead toward a public policy environment that will enable the benefits of "Public Broadband Intelligent Networks" to flow to customers throughout America.

An urgent call to action – public policy action – is needed now in order to benefit customers as quickly, robustly, and broadly as possible. Hence, the subtitle of this paper (and the title of the accompanying slide and video presentations), "Route 2000 - Information Superhighway Public Policy Road Map". 1994 through 1999 are pivotal years for American telecommunications policy in a globally competitive environment. Some sixty years after the Communications Act of 1934 and ten years after the Bell System divestiture, policy makers enjoy the opportunity to create policy enabling all Americans to participate fully in the Global Information Age. USTA, and its member companies, support actions to bring our vision, as presented in the following paper, to fruition .

National Information Infrastructure (NII)
Public Policy White Paper:
Route 2000: Information Superhighway Public Policy Road Map

Introduction

The development of an information superhighway through the National Information Infrastructure (NII) holds the promise of improving the quality of life for all Americans. However, in order for the NII to be effective, it must economically and efficiently satisfy the diverse needs of all telecommunications users regardless of size or location. Since Local Exchange Carriers (LECs) currently provide telecommunications services to a significant portion of end users and information services providers, LECs can and *must* play an integral role in fulfilling the Administration's vision of the information superhighway. Essentially, the services LECs provide today, and want to provide tomorrow, are included in this vision. Over the last few years the LECs have been exploring the challenges created by converging technologies and competing industries generating the information age of the 21st century. The United States Telephone Association's (USTA) views have been articulated in its *Vision 2000* statement which is strikingly similar to the Administration's vision of the NII.

USTA, as the principal trade association of the exchange carrier industry, would like to share its *Vision 2000* and the public policy actions that it believes are needed.[1] USTA has identified five elements of the telecommunications public policy foundation that it believes are essential to the continued viability of the public network and for the vitality of the American economy: Universal Service; Advanced Network Capabilities; A Seamless Nationwide Network; Quality Service; and Public Health, Safety, Defense and Security. Public policy makers should recognize this foundation and ensure that NII planning and implementation builds upon it.

Based on the Public Switched Network's (PSN) capabilities, USTA's member companies have been building many components of the information superhighway to meet the diverse market needs of their customers, which include end users, information services providers, and applications developers. It is USTA's view that the PSN is now and can, in the future, easily and efficiently serve as the network

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[1] USTA's membership consists of approximately 1,300 telephone exchange carriers which provide local and exchange services, utilizing both wireline and wireless technologies, throughout the country. These member companies provide over 98 percent of the telephone-company provided access lines in the United States.

foundation of the NII. This PSN evolution has been articulated in USTA's *From POTS to Video* presentation, which helps in describing the NII as a multi-lane information highway -- providing multiple services and technologies to meet diverse needs. As it has been for the last hundred years, this evolution of the network is a continuous process. When each of the new services and technologies identified in the *POTS to Video* presentation is implemented, a new need will be identified and existing technologies will have to be modified or new technologies will have to be developed to support those needs. As the nation's core distribution backbone tying other public and private networks and systems together as an interoperable whole, the PSN has the flexibility to address the varying needs of all constituencies of American society. Experience has demonstrated that in order to provide a wide array of quality services at affordable prices, any telecommunications model must incorporate the following essential characteristics: Ease-of-Use; Security/Privacy; Interoperability; Service/Support, Reliability/Survivability; and Ubiquity. The Public Switched Network encompasses these characteristics. The NII, if it is to succeed, must incorporate these public network characteristics.

USTA concurs with the widely held belief that the NII is capable of meeting societal needs in the areas of education, health care, and commerce as well as improving the quality of American life. However, without a fundamental change in national telecommunications policies, many of which are more suited for 1934 than 1994, and an understanding that all telecommunications providers have a stake in working cooperatively as the catalyst of that change, the turn of the century may find us looking back on the NII as an unfulfilled promise. The telecommunications environment which shaped how these policies were crafted was characterized by a monopoly market structure and monolithic technology. Competitive market forces were almost non-existent and had to be artificially simulated by regulatory bodies. Technology, for the most part, was advancing at a slow and predictable pace and heavily weighted toward voice communications. Data and video were a small part of telecommunications and their underlying technologies were usually separately identifiable. In those instances where voice could share technology platforms with either data or video there was a logical way to differentiate facilities use between services. Now, in contrast, new telecommunications technologies burst on the scene in rapid fire succession from all quarters. Older technologies are displaced long before capital recovery occurs. What we call new technology today will be old technology tomorrow. The phenomenon called digitalization is making services transparent to technology. As a result, once separate and distinct industries like telephone, entertainment, banking and newspapers are converging into a competitive telecommunications marketplace.

NII Vision /USTA *Vision 2000*

USTA's *Vision 2000* describes how LECs can help the NII become a reality and support the advancement of a public telecommunications network operated by thousands of companies. Our *Vision* includes the efficient deployment of new telecommunications technologies and the creation of a wide array of services designed to meet the diverse needs of the American public and the business community in a competitive market environment.

The *Vision 2000* elements are:

- √ ***Universal Service***
- √ ***Advanced Network Capabilities***
- √ ***A Seamless Nationwide Network***
- √ ***Quality Service***
- √ ***Public Health, Safety, Defense and Security***

The LECs have been implementing a range of telecommunications services that will support the achievement of the NII. Based on a variety of proven technologies, these services will enable consumers and businesses to participate in the NII at various levels depending on their individual needs. Connectivity with the core network promotes the rapid and effective deployment of advanced, competitive telecommunications capabilities and services. Thus, all Americans will be able to participate in a seamless, advanced, core network infrastructure provided by LECs, and used by LECs and other high quality telecommunications service providers to provide a myriad of national advanced telecommunications and information services. The adoption of five public policy principles is needed to let LECs make this vision real for all customers. These concepts, which will be explained in greater detail, are:

1. Local telephone companies are no longer "natural monopolies."
2. Local telephone companies must have equal business opportunities.
3. There must be regulatory parity for competition to flourish.
4. There should be universal support for universal service.
5. Smaller and rural telephone companies' unique responsibilities must be recognized.

USTA's Network Evolution Vision: From POTS to Video & Multi-Lane NII

The POTS to Video Cone, as shown in figure 1, depicts the evolution from POTS (Plain Old Telephone Service) to the broadband services provided by a public intelligent network and its relationship to the NII. The technologies and services which have developed over the years are listed in the cone and

legend. For each category of service, there must be an enabling technology. The delivery of these services is supported by an advancing market depicted on the right side of the cone. The meandering line through the center of the cone represents the impact of public policy -- sometimes positive, sometimes neutral, and often negative. The NII should recognize the important role public policy plays in new technology development and deployment and thus the availability of new services to meet evolving market needs. USTA believes that a more direct, market-based public policy framework is needed now.

The lines intersecting the cone represent the lanes of the information superhighway: Fast and Smart, Faster and Smarter, and Fastest and Smartest. Each lane may utilize a different level of technology to provide appropriate degrees of services, based on customer needs.

The services and technologies mix of the evolvong PSN can be viewed in the POTS to Video Cone in Figure 1.

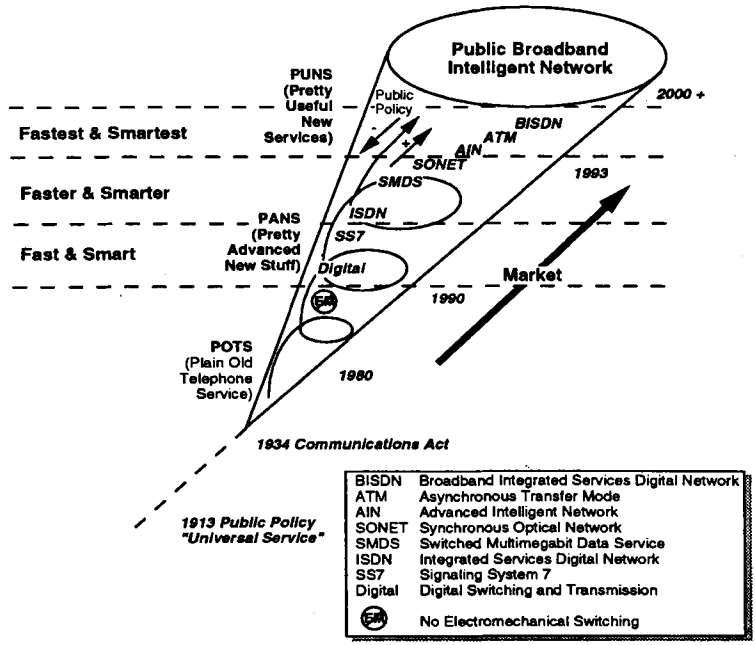

Figure 1
POTS to Video Cone

Many examples of the information superhighway lanes, already in use, exist today in LECs across the country. Here are but a few examples. Telecommuting, a key application of the fast and smart lane of the NII, is flourishing in the post-earthquake Los Angeles area. Both Pacific Bell and GTE have instituted special programs to support this improved work style. Community leaders and educators are praising the efforts in virtually every major newspaper in the nation.[2] As Mike Antonovich, a Los Angeles County Supervisor, has said "We recognize that technology is the wave of the future, but in light of the damage [from] the earthquake, the future is now."[3]

The Faster and Smarter lane of the information highway is exemplified by the Texas Telemedicine Project (TTP). Southwestern Bell, GTE, and Advanced Telecommunications Corporation (ATC), an interexchange carrier, enable health professionals to provide a high level of patient care, at a reduced cost at a dialysis clinic, in Giddings, Texas. The TTP uses interactive audio, video and data links between rural Giddings and Austin, Texas, sixty-five miles away. Austin-based nephrologists and other medical specialists can conduct regular "video rounds" of their patients, in addition to the over 2,500 consultations already conducted over the network from 1991 to 1993. By reducing travel, medical specialists are more productive and patient care costs are lower.

Education is also enhanced by the Faster and Smarter lane with the use of Integrated Services Digital Network (ISDN) and interactive learning. In San Marcos, Texas, Century Telephone has provided full motion video, voice and data links between schools in the San Marcos Consolidated Independent School District and between the district itself and Southwest Texas State University. These links enable the resources at one education site to be utilized by another. For example, Southwest Texas State University offers special programs in mathematics, social work, advanced mathematics and literacy courses for both the community and the school system.

On a larger educational scale, the Fastest and Smartest lane of the information highway is exemplified by the North Carolina Information Highway. BellSouth, GTE, Sprint/Carolina Telephone, and

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2 A Los Angeles County Assessor, quoted in the *Wall Street Journal* (1/27/94), mentions that he finds that city employees are 34% more productive and are processing their work 64% faster. Jack Nilles, the Los Angeles-based consultant, who coined the term "telecommuting" says that companies can save $8,000 a year, per employee, if one-half of all the mid-level managers of an organization telecommutes at least two days a week. Susan Herman, who is head of the Los Angeles County Telecommunications Department, and an Advisory Committee member of the National Information Infrastructure has found that, in a survey of 500 Los Angeles city workers (architects, lawyers, and detectives), that they were at least 12.5% more productive while telecommuting.

3 *Chicago Tribune*, 1/30/94

INFINET Multimedia Services (a consortium of independent and cooperative telcos) have developed an Asynchronous Transfer Mode (ATM) statewide, switched, broadband network that will interconnect more than 3000 sites with interactive distance learning programs, like those described in San Marcos, Texas. Additionally, the network will provide library database access, teacher training and other community services in areas like medicine (telemedicine), law enforcement (database access, inmate education, video arraignment), and government applications (electronic town meetings, video conferencing). This ATM application, like the other lanes of the information highway is expected to be widely used by the public, allow for expansion, and encourage economic growth.

These are only a few examples of the multitude of services that Americans are now using and will be able to use in their daily lives at work, home, school, and play -- made possible with the array of enabling technologies listed on the multiple lanes of the information superhighway . By using the LEC public switched network, the National Information Infrastructure will be flexible enough to offer broadband services to one set of customers and narrowband services to another set of customers, all the while maintaining the rigorous standards of reliability, quality and ubiquity of service that have historically made the American public switched network the best in the world.

Public Network Characteristics

To ensure a viable and robust NII, key characteristics must be established and understood. The perception of the public switched network as the standard for public telephony is based on six key characteristics which are essential to any public telecommunications network. The pyramid in Figure 2, located on the following page is a pictorial representation of these characteristics.

The NII should support public network characteristics. Public Telephony is the Standard.

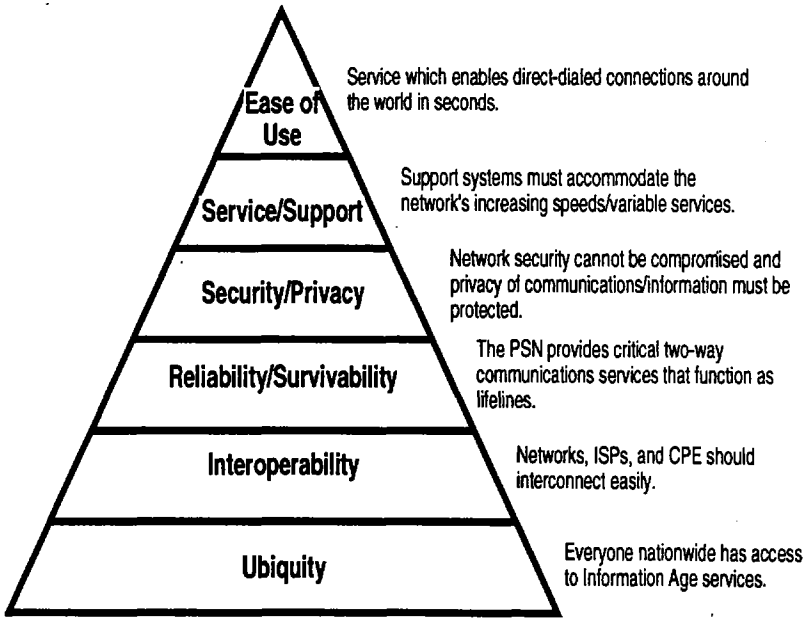


Figure 2
Key Characteristics of a Telecommunications Network

Interexchange carriers, enhanced services providers, among others, use the PSN either to reach their customers or to permit their customers to communicate with the public at large. Generally, any network or system that is compatible with the PSN automatically is compatible with all other networks and systems interconnected with it. Interoperability provides a foundation for standards and compatibility that permits rapid and effective deployment of competitive services. A public policy framework that promotes the continuing evolution of the public switched network will advance both infrastructure development and competition. The LEC community will continue its work in industry forums,[4] with all participants, to help ensure that public network characteristics are supported as the NII evolves so that customers can enjoy the same level of robust, secure, ubiquitous service tomorrow that they know today.

Benefits

USTA believes there are significant benefits associated with the development of the NII. Such an infrastructure will be an important contributing factor to economic development and productivity within the United States and will enhance its ability to compete in global markets. Furthermore, all Americans will benefit in terms of enjoyment and quality of life. The potential advances in education and health care afforded by this advanced infrastructure are well documented. New interactive applications will play an important role in promoting improvements in the quality and delivery of education. A network which provides interactive communications between classrooms, centralized learning centers, libraries, and the home will enhance and stimulate the American learning process. The NII can provide all Americans, regardless of their location, with the benefits of sophisticated health care. It will allow remote diagnostics, data transfer and imaging of medical procedures, along with in-home care.

In the areas of welfare and social reform, high performance networks providing advanced telecommunications services will promote the development of work skills and increase productivity through advanced telecommuting capabilities, as well as contribute to environmental improvements. The resulting increase in productivity will enhance the nation's economy and global competitiveness. How effectively the NII is used will determine, to a large extent, how much America's productivity and global competitiveness are enhanced.

USTA views the PSN's developing broadband functionality as playing a vital part in providing the backbone communications link for these advanced services. But, meeting customer needs requires more

[4] A very short list, by way of example, of forums helping to shape the future of the NII would include: **COS**, Corporation for Open Systems; **ICCF**, Industry Carriers Compatibility Forum; **NOF**, Network Operations Forum; **ATIS**, Alliance for Telecommunications Industry Solutions; **NIIAC**, NII Advisory Council; **XIWT**, Cross-Industry Working Team; **CLC**, Carrier Liaison Committee; **IILC**, Information Industry Liaison Committee; **NIUF**, National ISDN User's Forum; **IITF**, Information Infrastructure Task Force; and the InterNet Society.

than just a network. To fully benefit from the NII, customers and applications providers must know how to use it effectively. Customer provided equipment and applications must be user-friendly and the networks comprising the NII must be fully interconnected, interoperable networks.

Public Policy Principles

The importance of appropriate national policy enabling the necessary partnerships to develop infrastructure development is critical. It is a widely held belief that telecommunications public policy must be overhauled. USTA has developed five principles that must be incorporated into any public policies created for the information superhighway:

1. *Local telephone companies are no longer "natural monopolies."*
   Competition is here for LECs, rendering obsolete the economic and regulatory model upon which local service has been based.

2. *Local telephone companies must have equal business opportunities.*
   LECs should be allowed to enter new lines of business as easily as their competitors enter the telephone business. For example, USTA supports eliminating outdated MFJ and Cable Act restrictions which foreclose LECs from business opportunities in the provision of cable television, video programming, and long distance services and in the manufacturing of telecommunications equipment.

3. *There must be regulatory parity for competition to flourish.*
   If LECs are allowed to enter new markets but are burdened with regulations that their competitors do not have, a competitive disadvantage will result. For competition to flourish and for the infrastructure development and job growth that accompanies a competitive market to be realized, LECs must be able to compete equally with others in markets they enter.

4. *There should be universal support for universal service.*
   Under the current regulatory model, LECs charge above cost rates for some services (*e.g.*, access services) to support lower rates for other services (*e.g.*, residential services). Competitors, unlike LECs, do not have universal service responsibilities, so they can selectively serve lower-cost customers and offer lower rates. USTA believes that all telecommunications providers must contribute to universal service as it should be a shared responsibility associated with participating in the telecommunications business.

5. *Smaller and rural telephone companies' unique responsibilities must be recognized.*
   Many rural LECs do not have the same economies of scale and scope as larger LECs, yet they too have universal service responsibilities. In order to ensure that advancements in the telecommunications infrastructure are made available to rural customers, USTA supports the concept of infrastructure sharing as expressed in its *Infrastructure Sharing* white paper.

Specific Public Policy Goals

As mentioned before, USTA has established five public policy goals that must be recognized to promote the continuing advancement of the LEC public network:

- √ ***Universal Service***
- √ ***Advanced Network Capabilities***
- √ ***A Seamless Nationwide Network***
- √ ***Quality Service***
- √ ***Public Health, Safety, Defense and Security***

These requirements must be addressed at both the federal and state levels in the legislative and regulatory arenas as well as by the courts and telecommunications forums. Without the continuing advancement of the LEC public network, the nation cannot be assured of an adequate connectivity backbone to promote the deployment of advanced, competitive services.

From a federal legislative, and judicial perspective, the telco/cable TV cross-ownership ban and the RBOC MFJ restrictions must be lifted;[5] LECs should be provided with incentives to modernize their networks in order to better serve customers; and LECs must be given the opportunity to both share infrastructure with other LECs and compete equally with all other competitive telecommunications providers in the provision of advanced services. At the state level, legislative action in the form of infrastructure development plans, incentive tax credits, and support from state agencies (*e.g.*, Governor's Economic Councils, Education Councils) can assist widespread deployment of the NII.

In the regulatory arena at both the federal and state levels minimal and symmetrical regulation is required. For example, movement toward pure price cap regulation can be viewed as positive, minimal regulation. Regulators must take action not only to simplify and streamline regulation but also to provide the option of incentive regulation, promote inter-LEC cooperation, establish broad-based universal service support rules, and establish realistic depreciation rates in step with the evolution of technology.

If public policy impacting LEC involvement in the NII is not reformed, this country may become a nation of information "haves" and "have nots" ill-served by a confusing mix of disjointed "Balkanized" networks. Without enlightened public policy, existing LEC services may require price changes with significant increases in less metropolitan areas; network functionality may decrease as one goes from urban to rural areas; advanced services may be unavailable to residential, small business, and

5 USTA supports the lifting of the MFJ restrictions with specific safeguards on interLATA and manufacturing relief.

rural telecommunications users. It is time to recognize the valuable contribution the LECs have made and can continue to make in the provision of universal telecommunications services. As Governor Michael Leavitt of Utah stated at the USTA New Services and Technology Issues Subcommittee meeting, in Salt Lake City, Utah:

> *As we move into a competitive environment it is important that we not practice reverse discrimination against those who have been heavily regulated in the past. We must make certain that the playing field is level and that those who have provided service in a highly regulated environment in the past are provided with adequate incentives to be there to play and play fair.*
>
> (January 24, 1994)

It is imperative that public policy makers recognize the importance of allowing the LECs an *equal* opportunity to compete in the provision of new, advanced telecommunications services that will benefit the American economy. It is inappropriate to handicap the LECs because customers throughout America are thus handicapped in an increasingly competitive, global, information-based economy.

Conclusion

The LECs now play an important infrastructure role in meeting the diverse customer needs of the widest possible range of customers throughout our country. More customers can be served in the future, with more services, more quickly, but only if those with the ability and know-how are given the freedom to do so. Simply put, this requires a new, forward-looking regulatory framework that sees the local exchange carrier as a dynamic, competitive player rather than a natural monopoly. If local exchange carriers are given equal business opportunities, with regulatory parity (with special consideration for unique rural responsibilities), LECs can continue the ongoing evolution of the ubiquitous, universally-accessible, and dependable service which are the characteristics at the very heart of the National Information Infrastructure. A public policy framework that promotes the continuing evolution of the PSN is both pro-infrastructure and pro-competitive. Action at the federal and state levels in both legislation and regulation must occur if the NII is to become a reality, for all Americans.

Local exchange carriers have been an essential part of the economic success of this country for decades. Now, more than ever, the ability to manage information routinely and effectively, in every form and for every purpose, will promote the productivity of American industry, maintain American leadership in world markets, and enhance the quality of life for all of the nation's citizens. Proactive, effective regulatory policy will let the local exchange carriers provide an essential core component of the future economic success of America, while enriching the quality of life of its citizens.

Glossary

AIN	advanced intelligent network; a grouping of network elements which begins to separate call switching functions from the definition and implementation of services; allows a common database to be shared among switches and facilitates provision of new services.
ATM	asynchronous transfer mode; a multiplexed information transfer method in which the information is organized into fixed length (53 octet) cells and transmitted according to each user's instantaneous need (bandwidth on demand).
BISDN	broadband integrated services digital network
CLASS	customized local area signaling services; a grouping of enhancements to basic local exchange service that utilize electronic switching and out-of-band digital network control signaling to give subscribers the ability to screen, reject, forward, trace and redial incoming calls.
CPE	customer premises equipment; telephone, computer, etc.
DIGITAL	digital switching and transport facilities.
EM	electro-mechanical switching (eliminate it).
FR	frame relay; a high-speed wideband data service used to interconnect local area networks and host computers; based on ANSI and CCITT standards using statistically shared facilities.
ISDN	integrated services digital network; switched network providing end-to-end digital connectivity for simultaneous transmission of voice and/or data.
ISP	information services provider
POTS	plain old telephone service; basic telephone service for voice transmission.
SMDS	switched multi-megabit data service; a high-speed packet-switched data service used to connect local area networks into metropolitan area networks and wide are networks and characterized by variable-length packet cells; based on IEEE 802.6 standards.
SONET	synchronized optical network; an international standard family of optical transmission channels for speeds from approximately DS-3 (45 Mbps) to 2.4 Gbps (2400 Mbps) and higher.
SS7	signaling system 7; a common channeling signaling system used between public network switches designed for the packet transmission of signals, not voice, associated with the set-up of a call; features "out-of-band" signaling for faster call processing; facilitates advanced services such as CLASS, AIN-based services, etc.

Mr. HORN. Well, thank you, Mr. Lanthier, and I'll note for the record—not all the audience can see—but you're reading off your laptop computer, is that correct? Which gives you a much better eye on the crazy podia we have around here. All you need now is the see-through glass that the President of the United States uses. Is that also available in laptop?

Mr. LANTHIER. Actually, Congressman, there are now glasses that you can wear that will project computer images on the glasses. So hopefully, next time I'm here, I can just look at you directly. [Laughter.]

Mr. HORN. That's what I need, and I'd like to go retake a few exams that I took years ago. [Laughter.]

All right, Mr. Cobb. Mr. William Cobb is vice president general manager for Business and Government Services, US West Communications. Welcome.

Mr. COBB. Thank you, Mr. Chairman, and good afternoon to you and the subcommittee. I also appreciate the opportunity to be here today to share US West perspective on the GSA Post-FTS2000 Acquisition Strategy. Let me start by echoing the words of Mr. Murray and Mr. Lanthier, that with this procurement, the Federal Government does have a unique opportunity to invest in this country's infrastructure and reduce Government telecommunications spending.

Unfortunately, the GSA proposal, as it is currently constructed, does not take full advantage of this opportunity. The proposal includes a prerequisite that all bidders must provide services that are national in scope. In effect, the GSA has narrowed the bidding field to just three or four national long distance companies. This proposed strategy parallels the existing FTS2000 contract, and does not account for the tremendous changes and innovation experienced within the telecommunications industry.

Legislation is now being developed in the House and Senate to open up the telecommunication markets to competition. Members of the 104th Congress recognize that opportunities will come with greater competitive environments, and so should GSA. The GSA should adopt the policy and the strategy of inclusion, rather than exclusion. It has been our experience that when networks are configured to meet end-user requirements, unnecessary costs are eliminated.

To illustrate my point, I would like to share two examples with the committee of where US West is working with Federal agencies at the local level to streamline communication services and reduce costs. I have brought a couple of visuals to help with my explanation. In 1991, US West developed a dedicated network to serve the communication needs of the U.S. Forest Service in Colorado.

When we looked at the Forest Service communication traffic within the State, we found the most calls were placed between ranger districts and supervisor offices, and between supervisor offices and regional offices. The existing FTS2000 network did not effectively serve this communication flow, as it carried all the traffic to a central point before routing it to the desired location, as you can see from the chart on the left.

This model works very well for overnight delivery service of packages and letters. But in the communications world, this model

results in a wasted use of facilities and excessive transport costs. In Colorado, we worked with the Forest Service to design a network that matched its communications patterns. And you will see in the chart to the right that the local communications paths were established between only the offices that communicated most frequently.

Only the telecommunication traffic that travels on long distance is now routed over the FTS2000 network. Based on Forest Service estimates, this local network configuration saved them more than $250,000 in 1992 in data transmission costs. They expect to save several million dollars a year going forward. My second example is from the Pacific Northwest, where we are deploying a new local data network that will interconnect computer users within the Department of Interior.

The cloud shape represents areas in which our new frame relay network is being built. The network offers high-speed data transmission and, because it is part of the public switch network, it can be accessed by anyone living and working in those areas. By using the local switch traffic network to carry local data traffic, the FTS2000 network to transmit data over long distances, DOI is saving approximately $300,000 a year.

With the addition of other DOI offices in US West territory, savings are expected to triple. A proliferation of these kinds of local network solutions could emerge with a more competitive and decentralized approach to the Post-FTS2000 procurement. I believe I speak for all regional and local providers when I ask members of this committee to encourage the GSA to create a more competitive bidding field.

If a decentralized model is pursued, the telecommunications investment will be realized not only by the Federal Government and its agencies, but by State and local governments as well, and other American citizens who might otherwise have to wait for access to information age services. US West asks for no special rules or privileges. We only want an opportunity to compete. Thank you, Mr. Chairman, and I would also be happy to answer any questions the committee may have.

[The prepared statement of Mr. Cobb follows:]

Testimony of William R. Cobb, U S WEST

Mr. Chairman, members of the House Subcommittee on Government Management, Information and Technology, my name is Bill Cobb and I am vice president and general manager of U S WEST Communications' Business and Government Services division. I appreciate the opportunity to be here today to share U S WEST's perspective regarding the General Services Administration's (GSA's) announced Post-FTS2000 acquisition strategy.

In my role at U S WEST, I oversee the delivery of local area communications services to the federal, state and local governments across our 14-state territory. I also am responsible for serving large, complex business accounts. Within our region, the federal government represents our largest commercial customer for local phone service.

The Post-FTS2000 procurement comes at a precipitous time in the telecommunications industry. The convergence of communications, information and entertainment through telephones, computers and cable TV is changing the way Americans work and play. Any new telecommunications contract must take into account this convergence and the dramatic changes yet to come in the next decade.

The procurement strategy also must accommodate the ongoing change in the federal government. A key component of the National Performance Review is to drive decision-making closer to the customer by empowering federal employees at the local level, holding them accountable for results, and giving them the tools they need to do their jobs. One of the most important tools government employees can have is ready access to local telecommunications networks and the professionals who can help them solve problems using advanced, information age technology.

Over the last two years, the GSA has solicited information from the telecommunications industry regarding the Post-FTS2000 procurement strategy. U S WEST has actively participated in this process through written responses to government requests for information and oral presentations. Despite the amount of paper and information that has exchanged hands, there has been no forum for substantive problem-solving and objective discussion of the issues. The result of this incomplete process is a proposed strategy that reflects the status quo and limits new ideas.

Page 2

In all of our written and oral communications to the GSA, U S WEST and many others have promoted broadbased competition and a decentralized approach to service provisioning. Unfortunately, the GSA's December 1994 Post-FTS2000 acquisition strategy proposes neither.

The current GSA strategy parallels the existing FTS2000 contract and does not account for the tremendous change and innovation experienced in the telecommunications industry since 1988 when the first FTS2000 contract was awarded. It also does not provide adequate competition to ensure that the government realizes, to the maximum extent possible, the cost savings that should come with such a large procurement.

The proposal states that all prospective Post-FTS2000 bidders must provide services that are national in scope, including interstate long distance service. By virtue of current telecommunications law (as stated in the consent decree that broke up the Bell System in 1984), this prerequisite eliminates U S WEST and the other Bell Companies from the bidding process.

In essence, this one qualification narrows the bidding field to just three or four national companies. Minimizing competition in this way lessens price pressure on national long distance companies and hinders the number of innovative solutions proposed to the federal government. The GSA's current proposal structures the FTS network around the capabilities of national long distance carriers and ignores the skills, expertise and services of other competitive providers at the local level.

Competition is a driving force throughout the telecommunications industry. Although local phone competition is developing at different rates in different areas of the country, alternative access providers are entering local markets, and through interconnection agreements with incumbent phone companies, are providing local phone service to customers. The entry of cable companies into telephony promises even more competitive choices for American consumers.

Legislation now under consideration in the 104th Congress includes provisions to open the local, long distance and cable markets to new entrants in an effort to enhance competition across all communications segments.

Members of Congress recognize the opportunities that will come with greater competition, and so should the GSA through the adoption of a strategy of inclusion rather than exclusion.

Increased competition across the industry will spur innovation, job creation and lower prices. Though it is in a position to be at the forefront of this telecommunications revolution, the GSA's Post-FTS2000 acquisition strategy fails to promote a truly competitive bidding field. The GSA should revise its strategy and embrace the full scope of potential competitors who can effectively serve the federal government's telecommunications needs at the local and regional level.

We believe that local networks can be effective in reducing government telecommunications costs and enhancing the efficiency of the FTS network. U S WEST advocates a separation of the national long distance network from local networks in the GSA's procurement strategy. With a two-tiered approach, the government can focus on end-user needs and not be bound by the limitations of any one market segment.

We recommend that one set of contracts concentrate on the services that can be provided most effectively and efficiently by long distance carriers, such as nationwide transmission of high-speed, high-capacity bandwidth. Technologies like Asynchronous Transfer Mode (ATM) could be introduced quickly into this long distance network, giving the federal government access to the latest technology at an affordable price.

We further recommend that a second set of contracts focus on services best provided by local networks. Most of today's FTS network activity occurs at a local or regional level. Providers of local networks can focus on the needs of the end user and deliver services that allow common access by all government employees. It has been our experience that when networks are configured to meet end-user requirements, unnecessary costs are eliminated.

Local exchange companies have the human and technical resources in place to provide consultation, design network solutions, and deliver high quality service. We believe that tailored local networks will better serve government employees, improve productivity and minimize costs to the federal treasury.

Page 4

A tiered approach to Post-FTS2000 procurement brings the best of both worlds to the federal government. It allows all vendors to provide services in which they excel. It also allows for the integration of diverse needs across multiple federal agencies. In the strategy we suggest, all local and regional networks would connect and be fully interoperable with the national FTS long distance backbone network.

Concerns with network interoperability in a multi-vendor environment have been raised by GSA and others. We believe these concerns are unfounded. For most of the government's traffic, network interoperability would be as simple for the user as placing a long distance call. There are more than 1,700 telephone companies across the United States providing their local customers with connections to the long distance network today. For specialized applications, the telecommunications industry has developed standards-setting bodies to develop common protocols that allow multiple services from multiple companies to talk to one another. We suggest that the GSA proposal include a systems integrator to ensure that local and regional service providers adopt those standards.

Many of the costs incurred by the government today could be reduced if agencies took advantage of local networks and shared common telecommunications facilities. To illustrate my point, I'd like to share two examples of how U S WEST is working with federal agencies on a local level to streamline communications services and reduce costs.

In 1991, U S WEST developed a dedicated network to serve the communications needs of the U.S. Forest Service in Colorado. In looking at the Forest Service communications flow within the state, we found that most calls were placed between Ranger Districts and Supervisors Offices, and between Supervisors Offices and the Regional Office. The FTS2000 network did not efficiently serve this communications flow as it carried all traffic to a central point before routing it to the desired destination.

Today's FTS2000 network is similar to the Federal Express model of sending all overnight packages to a single location, sorting them out, and placing them on the appropriate airplane for next-day delivery. It works well for the overnight delivery of packages and letters, but in the communications world, this model results in wasted use of facilities and excessive costs.

In Colorado, we worked with the Forest Service to design a network that matched its communications patterns. Local communications paths were established between the offices that communicated most frequently. Only telecommunications traffic that travels long distances now is routed over the FTS2000 network.

The new, redesigned local network is more cost effective than the previous FTS2000-only solution. Based on Forest Service estimates, the local network configuration saved more than $250,000 in 1992 in data transmission costs compared to the total FTS2000 solution. This model now is being applied to other Forest Service locations within U S WEST's service area. Once completed, these local networks are expected to save the government several million dollars every year.

Another example involves the Department of Interior (DOI), for whom we are deploying a new local network that will interconnect DOI computer users in the Pacific Northwest. By using the local switched network to carry local data traffic and the FTS2000 network to transmit data over long distances, the DOI is saving approximately $300,000 per year. With the addition of other DOI offices in U S WEST territory, savings are expected to triple.

In the DOI example, the federal government is not only reducing costs, it is helping enhance the national communications infrastructure through private investment. With federal government agencies as "anchor" customers in smaller, rural areas, local providers have the incentive to increase their infrastructure investment. Thanks to the DOI's need for a regional computer network, advanced data transmission services are now available to educational institutions, commercial users and other government agencies in areas of eastern Washington and Oregon where their deployment would otherwise have been years in coming.

U S WEST, the other Bell Companies, and many other innovative, entrepreneurial telecommunications firms want the opportunity to participate in the Post-FTS2000 procurement process. We urge members of this committee to encourage the GSA to create a more competitive bidding field through the inclusion of local service providers -- whether they be local telephone companies, cable companies, alternative access providers or interexchange long distance carriers.

Page 6

With greater competition among multiple vendors, the federal government can be assured of the most affordable prices and the most innovative services available. Our pro-competitive, decentralized approach clearly supports congressional efforts to reinvent government through increased efficiency and cost reduction.

With the Post-FTS2000 contract, the federal government has a unique opportunity to exercise its telecommunications buying power and make a significant investment in the nation's communications infrastructure.

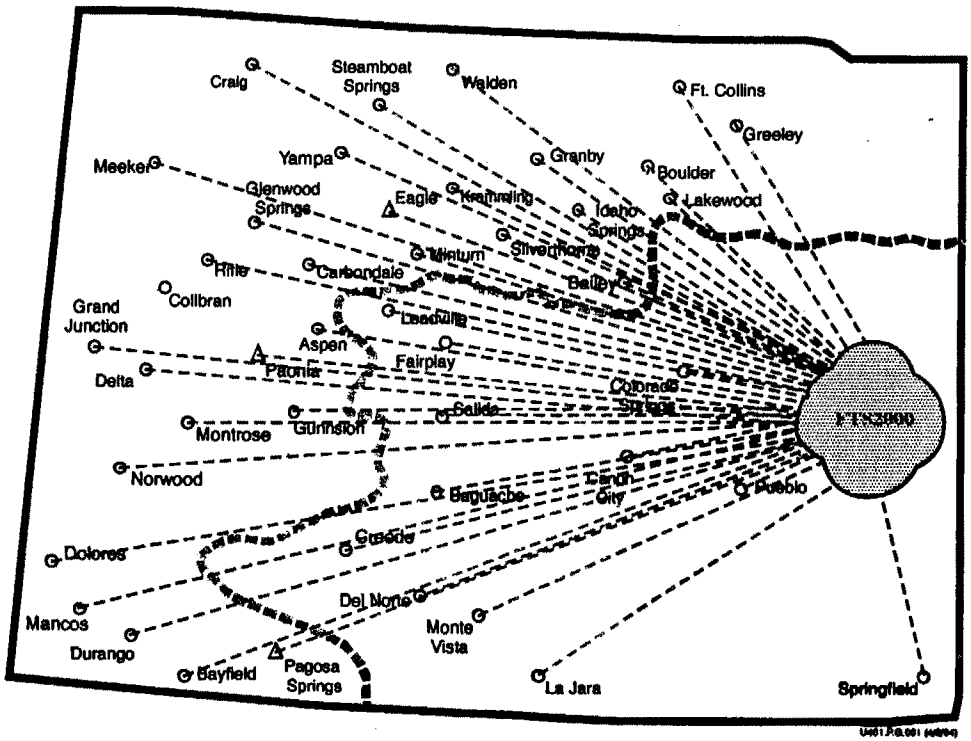
If a decentralized model is pursued, the benefits of this investment will be realized not only by the federal government, but by state and local governments and American citizens who might otherwise have to wait for access to Information Age services.

U S WEST asks for no special rules or privileges. We ask only for the opportunity to compete and demonstrate our ability to provide the federal government with innovative, affordable telecommunications products and services.

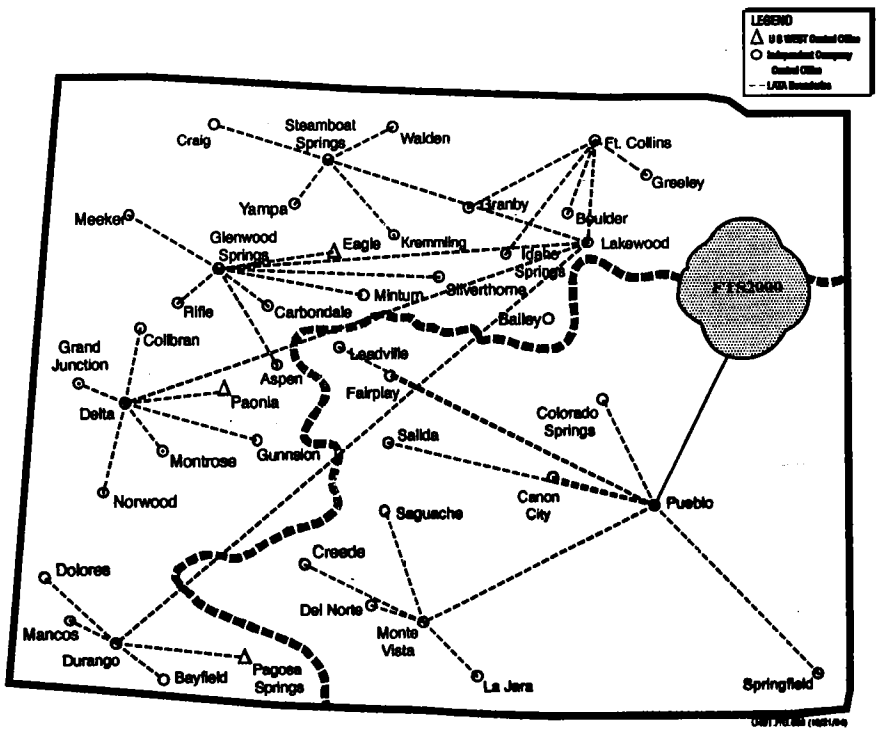
Thank you, Mr. Chairman, for this opportunity to share U S WEST's views on the Post-FTS2000 acquisition strategy. I would be happy to answer any questions the committee may have.

Attached for the committee's further consideration is U S WEST's February 1995 response to the Government's Post-FTS2000 Acquisition Strategy and a general overview of Post-FTS2000.

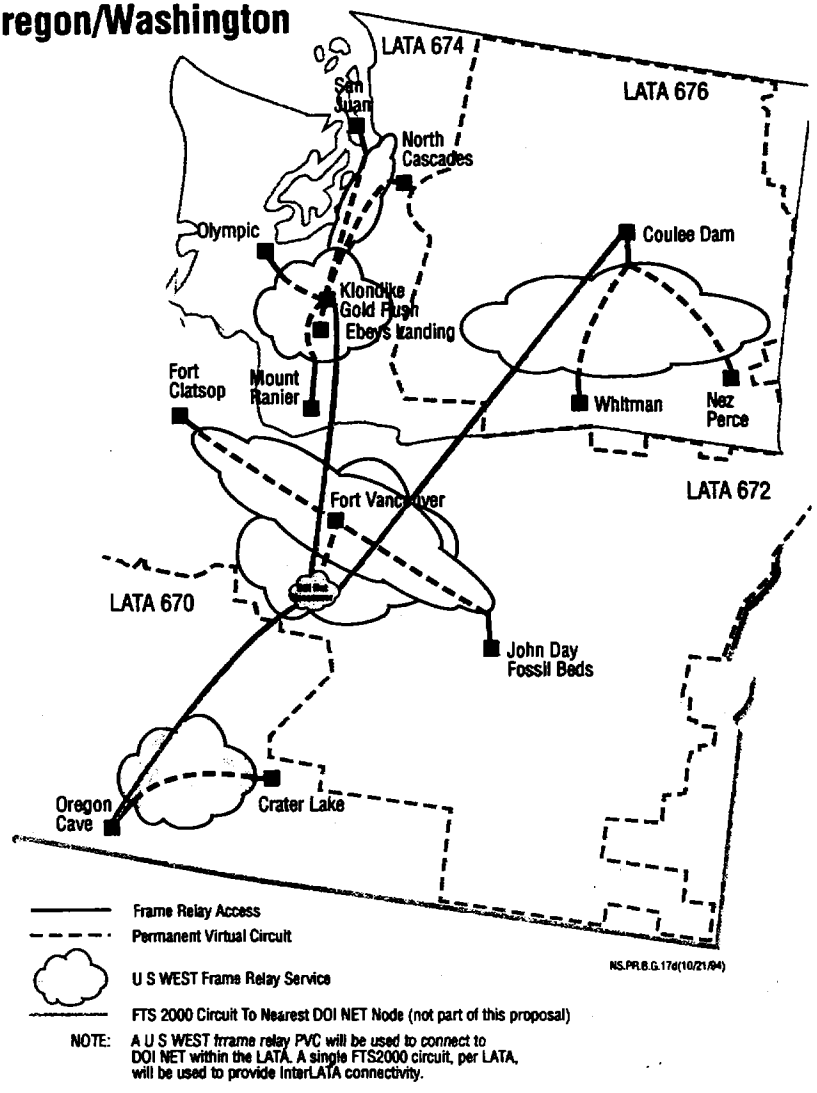
FTS2000 Solution–Colorado



U S WEST Solution – Colorado



National Park Service
Oregon/Washington



A QUICK LOOK AT POST-FTS2000

Background

Federal Telecommunications System (FTS) 2000 is a government contract that serves the communications needs of more than 1.7 million government employees across the United States, including a growing number of military personnel. The 10-year contract, which was awarded in 1988 to AT&T and Sprint, provides the federal government with long distance voice and data communications services.

The current contract represents telecommunications costs of approximately $580 million per year. With the addition of Department of Defense telecommunications traffic, which now is being transitioned onto the FTS2000 network, the yearly government expenditure for telecommunications under the current contract could reach $900 million by 1996.

The General Services Administration (GSA) has oversight responsibility for the FTS2000 contract as well as future procurement.

Current Situation

In December 1994, the GSA issued its proposed strategy for the next government telecommunications procurement, known as Post-FTS2000.

In that proposal, GSA stated that all prospective bidders must provide services that are national in scope, including long distance service. By virtue of current telecommunications law, this prerequisite eliminates the Regional Bell Operating Companies (RBOCs) from the Post-FTS2000 bidding process. (The consent decree that broke up the Bell System prohibits the Bell Companies from offering interLATA long distance service.)

In essence, this one qualification narrows the bidding field to just three or four companies in the country, severely restricting the competitive pricing opportunities and technical innovation that come with a broad field of bidders.

Recommendations

U S WEST, the other RBOCs, and many other innovative, entrepreneurial telecommunications firms want the opportunity to participate in the Post-FTS2000 procurement process.

We urge the GSA to revise its proposal and open the field to more competitive bidders. We also advocate a more decentralized approach to service provisioning. Instead of focusing exclusively on nationwide services, the GSA should explore the benefits of efficient, cost-effective local and regional networks that connect with the national FTS long distance backbone network.

With greater competition among multiple providers, the federal government can be assured of the most affordable prices and the most innovative services available. This approach clearly supports congressional efforts to streamline government through cost reduction and increased efficiency.

With the Post-FTS2000 contract -- which is expected to be awarded in 1997 and worth $1 billion per year -- the federal government has a unique opportunity to exercise its telecommunications buying power and make a significant investment in the nation's communications infrastructure.

If a decentralized model is pursued, the benefits of this investment will be realized not only by the federal government, but by state and local governments and American citizens who might otherwise have to wait for access to Information Age services.

With federal government installations as "anchor" customers in smaller areas, companies like U S WEST would have the incentive to make near-term infrastructure investments. A strong national infrastructure will attract new business and spur economic development in communities across the country.

U S WEST asks for no special rules or privileges. We ask only for the opportunity to compete and demonstrate our ability to provide the federal government with innovative, affordable telecommunications products and services.

February 15, 1995

Response
to the
Interagency Management Council's
Post-FTS2000 Procurement Strategy

submitted by U S WEST Communications, Inc.,

Federal Services

Please direct all correspondence regarding this document to

Ron Montague
U S WEST Communications, Inc.
Federal Services
4523 146th Place SE #130
Bellevue, WA 98008
206-603-1226

U S WEST's Response to the December Post-FTS2000 Strategy Paper

U S WEST Communications, Inc., Federal Services, (U S WEST) has been an enthusiastic and willing participant in Post-FTS2000 procurement strategy discussions from the summer of 1993 to the present.

> U S WEST participated in discussions with MITRE and the Future Communications Services Working Group during the "Assessment of Federal Telecommunications Requirements".
>
> U S WEST attended the Post-FTS2000 Concept Development Conference and participated through a Regional Bell Operating Company (RBOC) spokesman during the panel discussions.
>
> U S WEST invested considerable time and resources reviewing and responding to the Post-FTS2000 White Paper and to the Government Security Market Survey Request for Information.
>
> U S WEST participated in verbal presentations to the Interagency Management Council (IMC) during October of 1994 and responded to Government's Analysis of the Post -FTS2000 Acquisition Alternatives.
>
> U S WEST participated in many informal discussions with various industry and federal government telecommunications professionals regarding the government's desire to form a comprehensive acquisition strategy.

U S WEST appreciates the General Services Administration's efforts to solicit industry feedback during the Post-FTS2000 strategy formation. Including industry participates early and often in the process will benefit the government during the procurement and implementation cycles.

There are several key areas in which the government and U S WEST views differ sharply over the procurement strategy as presented in the December Post-FTS2000 Strategy paper.

These differences can best be understood in the context of the principles set forth in the strategy document which support the National Information Infrastructure (NII). Specifically, page 7 of the report specifies the following relationship of the NII initiatives to the acquisition strategy. The excerpt reads as follows:

> *"The federal government has set the development of the NII as a national priority. Fundamental principles of the government's NII initiative include:*
>
> - *Support for innovative applications that will use the NII*
> - *Improving access to government information*
> - *Protecting individual privacy and intellectual property rights*
> - *Telecommunications regulatory reform, including:*

- *Encourage private investment in the NII* (1)
- *Provide and protect competition* (2)
- *Provide open access to NII by consumers and service providers* (3)
- *Preserve and advance universal service to avoid creating a society of information "haves" and "have nots"* (4)
- *Encourage flexible and responsive government action* (5)

Today's public switched networks provide a mature set of commercially-available circuit switched voice services. Fundamental to the success of the NII is the commercial availability of robust, reliable, and cost-effective service for the switching and transport of data. The government is seeking to take advantage of technological advances and market conditions to provide such robust, reliable, and cost-effective data services. Taking advantage of their considerable buying power, the government agencies will work together to use the Post-FTS2000 Program as a catalyst for the development of a data services marketplace. "

U S WEST supports the government's belief in the benefits of the NII. Unfortunately, after reviewing the procurement strategy, U S WEST finds little support for the NII and, in particular for the five principles highlighted above. They are:

(1) Encourage private investment in the NII

In order for the government to support the development of the NII through private investment, the government must make use of its buying power in the marketplace to encourage the development of our nation's underlying communications infrastructure. The current strategy does not encourage industry to invest in the NII.

The procurement strategy appropriately requires industry to respond to government needs through the competitive process. After a long and costly procurement cycle, the successful bidders will find themselves identified only as qualified vendors. The strategy requires the qualified vendors to compete again for individual agency business. This second competition is not well defined and appears to leave the successful bidders with an yet another expensive second round of competition. Although formal bids may or may not be required by agencies, considerable time and effort will have to be put forth by successful bidders to market services directly to agencies.

After the selection by the agency and implementation of service, the successful bidders must then face a another round of competition through the issuance of subsequent procurements. This strategy will not and does not encourage the investment sought by the government to ensure the *"commercial availability of robust, reliable, and cost-effective service for the switching and transport of data."*

In previous comments to the government, U S WEST has stressed the need for risk sharing between the government and industry in order to obtain the lowest price with the greatest array of services available to the government. The current strategy places a greater risk on vendors than on the government. In order to deliver the required services at low prices, vendors must have a reasonable chance of regaining the investment they

have made in support of contract requirements. Only with a sense of and commitment to a level of service, will investment in the infrastructure occur.

The government has also publicly stated that it is expecting this contract to deliver "marginal pricing". Marginal pricing is a short-term strategy used by companies to attract business that would normally be lost in a time when excess capacity is available. Marginal pricing, in the context of national communications networks, can only occur if adequate infrastructure exists. This in-place infrastructure has been funded by the federal government, commercial business, and residential service. Continual reinvestment in the network must be based on full funding of the infrastructure. In order to fulfill its commitment to the NII, the government must recognize that it shares in the responsibility to participate in the investment in our national infrastructure. The procurement strategy should reflect this responsibility.

(2) Provide and protect competition

U S WEST has advocated competition for all aspects of the Post-FTS2000. The proposed strategy does not allow the full scope of competition from companies who can offer services to the government. The strategy calls for two or more comprehensive contracts and one or more switched data and enhanced service contracts. The number of competitors who have the capability to respond to the strategy is limited to four or five companies at best. Ignored in the strategy are the companies whose scope of business is concentrated in markets which are not national in scope. The Regional Bell Operating Companies,(RBOCs) alternative access carriers, cable companies, and enhanced service providers all offer services, that would enhance competition and increase innovation in the national infrastructure. Several recommendations have been made to the government on how best to structure the strategy to include these vital market segments. To date the government seems to be satisfied with offering its network to the interexchange carriers and ignoring the skills, expertise, and services which could be obtained in a truly competitive market. The procurement strategy must be modified to allow these providers listed above to directly participate.

(3) Provide open access to the NII by consumers and service providers

With the strategy as developed, it is difficult to see how access to the NII by consumers and service providers will be enhanced. The strategy, as indicated previously, does not encourage investment in networks to support the Post-FTS2000. A strategy that seeks industry commitment to provide a wide range of service to the government at marginal prices, without a commitment to use these services by the government does not reflect effective use of buying power.

(4) Preserve and advance universal service to avoid creating a society of information "haves" and "have nots"

U S WEST believes the government's current procurement strategy will effectively enhancement the nation's infrastructure only in large metropolitan areas. With national contracts awarded to the interexchange carriers, it is difficult to see how the government will enhance service delivered to states with mainly rural populations. Wolf Creek, Montana, Nespelem, Washington and Provo, Utah, for example, will not benefit from increased telecommunications capability.

In order to provide network capacity to less populated areas, U S WEST has recommended a "bottoms-up" design of the network which looks across geographic and logical communities of interest. Regional companies are continually evaluating communities of interest that will justify the investment in local networks. Investments in the rural areas become problematic without the presence of a major user. The procurement strategy should be modified to encourage industry to build community of interest networks. The federal government would become the anchor tenant in such areas. By identifying and aggregating demand, investment in the network will expand service to the information "have nots" through private initiatives.

(5) Encourage flexible and responsive government action

The government has advocated moving responsibility as far down the organization as possible. Local government officials must be given the responsibility to define their needs and the services required to meet their agencies' needs and to fulfill the requirements of our citizens. This responsibly should apply to the selection of the communications services required by the agency. Too often an agency is forced to make decisions which are not in the best interest of the taxpayer based on policies made "inside the beltway" or because of centralized budgets. Local decision making is not specifically addressed in the strategy paper. U S WEST encourages the federal government to explore all options which would place responsibility with the local agency.

The government should also evaluate the use of existing state and local government networks. These networks may offer an economic method of delivering service to the federal user. Many states have invested significant resources to improve their information infrastructure.

U S WEST Strategy

The following is a summary of the points that U S WEST made in its various submissions to the Federal Government. These recommendations were not intended to be the final solution to the Post-FTS2000 procurement strategy, but were offered as themes with examples for discussion. U S WEST believes our themes are valid and should be strongly considered in the preparation of the final Post FTS2000 procurement strategy.

Acquisition Strategy

The basis of the U S WEST approach to the Post-FTS2000 procurement is the separation of the backbone network from the regional and local networks. The ability to separate the backbone networks from the local network allows the government to focus on end user needs and not on the limitations of any one market segment.

The Defense Information Systems Agency described a three-tier acquisition model for network development which has proven effective in network design. U S WEST modified the original model to include a fourth tier between the original tiers two and three. U S WEST named this new tier the SMART tier, the "System Model for Agency Regional Traffic".

The first tier of the model describes national backbone networks. The second tier of the model describes regional networks. The third tier, the SMART tier, looks to aggregate traffic across both logical and geographic communities of interest. The fourth tier of the model describes local area and campus networks.

Based on this model and our previous recommendation, U S WEST proposes the following contracts be developed:

One family of contracts should be let exclusively for the backbone network, tier one of the four tier model. The procurement would specify at least one Service Delivery Point (SDP) in each Local Access and Transport Area (LATA) for interconnection to regional and local networks. Actual placement and the determination of the number of required SDPs would be determined by user requirements at the lower tiers of the model. The placement and usage of this backbone network becomes dependent upon the requirements of the user, not on the capabilities of the network.

A second family of contracts would be regional contracts that aggregate user traffic over logical and geographical communities of interest with interconnection to the tier one service provider(s). A LATA-wide model can be used for evaluation purposes, with actual configurations dependent on user requirements. This second family of contracts will address tiers two and three of the four-tier model. The fourth tier of the model addresses the needs of users in buildings or on campuses. Sufficient contracting vehicles exist today to address this requirement. The fourth tier should not be included in the Post-FTS2000 procurement strategy.

A third family of contracts should be let for integration support. The integration contractor would be responsible for standards assurance and agency application support across the network and across multiple support platforms. Integration support contracts on an agency basis would allow for continuity of program development and settlement of interoperability conflicts.

Concerns over billing and interoperability in multi-vender networks have been raised by the government. The four-tier model dictates that interoperability occur between the tiers two and three and between tiers three and four. Specifying standards at these two points for all network providers reduces interoperability issues to a manageable task. Billing issues can also be managed effectively by considering the requirements of services transitioning the meet points between the tiers. The billing issue was addressed in greater detail by Pacific Bell and U S WEST in an earlier white paper submission to the Federal Government.

Working Examples of the SMART Model

The following applications of the SMART model illustrate the benefits of the U S WEST network design approach. The examples range from fully implemented projects, (U. S. Forest Service), projects in the proposal stages, (Indian Health Service), and projects which have been modified and where implementation is on going (LION).

U. S. Forest Service

U S WEST and the U. S. Forest Service applied the SMART model to the Colorado Forest Service network in 1991. Communication flow between Ranger Districts and Supervisors offices and between Supervisors offices and the Regional office were studied. A network was designed in a hierarchical structure, allowing the distribution of traffic in accordance with the logical communication flow. The result was a network design which optimized facility selection whenever practical. Aggregation of traffic also allowed the Forest Service to maximize FTS2000 network volume discounts.

The network offers maximum throughput, multiple services over common access channels, and a robust topology that follows the logical communications flow of the Forest Service. It provides affordable and planned access for new services. Based on Forest Service estimates, approximately $21,000 per month was saved for data transmission costs in 1992.

IHS

The SMART model was applied to the Food and Drug Administration division of Indian Health Service (IHS) in New Mexico. The IHS has 12 offices with a broad spectrum of traffic requirements. Applications range from file transfer and E-Mail to imaging. A comparison was done on IHS utilizing X.25 FTS2000 packet networks versus implementing a SMART network design. The SMART approach indicated that IHS offices should be connected via 9.6 kbps digital data service to a local X.25 packet switched network . Connection to interLATA sites was proven to be most effective through a FTS2000 56 kbps or T1 circuit. A savings of 30 to 60 percent over a network based solely on FTS2000 prices appeared feasible. The SMART approach also provided for migration to frame relay and emerging broadband services on the Public Switched Network. SMART-designed networks will also provide billing detail to the individual location level not currently supplied by FTS2000.

LATA Integrated Optical Network

On July 31, 1991, the LATA Integrated Optical Network (LION) project team submitted an unsolicited proposal to the Defense Information Systems Agency for the deployment of an advanced communications network. Three local exchange carriers,: United Telephone Company of the Northwest, GTE Northwest, Inc., and U S WEST Communications were participating team members.

The LION project proposed a LATA distribution network. The project would provide the DOD the capability to dynamically allocate bandwidth in a secure, counter-rotating, self-healing optical fiber network. All the elements necessary for the initial phase of the LION project were commercial-off-the-shelf (COTS) technology. A wide variety of applications and services could be implemented within the LION architecture. For example, the latter phases of the project proposed Synchronous Optical Network (SONET) components for all existing and planned digital services such as broadband ISDN at 644 Mbps. LION also allowed users to dynamically allocate increments of bandwidth to any given application.

The SONET capability would allow cost-effective bandwidth for applications such as computer-aided acquisition and logistics support (CALS) file transfer or remote, high resolution medical diagnostics. These applications utilize large amounts of bandwidth only intermittently and are difficult to cost justify by themselves. However, these applications can contribute enough traffic to justify broadband networking when combined with other voice and data traffic in logical and/or geographical communities of interest.

The LION approach would save the government as much as $330,000 per year, or $1.6 million during the five-year proposed term. The project team believed that by aggressively implementing the SMART concept to other DOD services, additional cost savings would be realized.

Recommendation

U S WEST believes that the model outlined above can be integrated into the existing procurement strategy. The existing strategy calls for the comprehensive vendors to provide services which are priced so that transport and access can be separated. By extending the procurement strategy to allow for submission of regional networks to interface with the interexchange carriers, the government will be able to reap the benefits of both national and regional networks. Competition will be enhanced and our nation well served.

U S WEST also recommends that the government pursue ways in which the procurement will produce a true partnership between government and the vendors selected in the procurement process. The idea of continual competition as described in the procurement strategy does not and will not enhance our nation's communications industry or its capabilities.

Mr. HORN. Thank you very much, Mr. Cobb. Chairman Clinger.

Mr. CLINGER. Thank you, Mr. Chairman, and I thank the panel for your contribution to our educational process here this afternoon. The current FTS2000 contractors testified here and provided testimony in their testimony that access fees paid by them to local telephone companies, principally to the facilities the two gentlemen represent, the RBOCs, to originate and terminate long distance calls account for, their figure was 40 to 45 percent of every dollar paid to the Government under the FTS2000 program.

In other words, your companies are presently, according to them, indirectly participating in the current program to the tune of somewhere around 40 to 45 percent of the revenues for local access charges. I guess the two questions, first of all, is that an accurate—are those figures accurate? And second, what proportion of the Government's requirements for local access would you anticipate providing under the Post-FTS2000? Would it be greater than that, lesser, what? How about the accuracy, first of all?

Mr. MURRAY. Mr. Chairman, if I could take a first shot at that, I would tell you that based on the statistics that I have heard quoted by the long distance companies, that somewhere in the neighborhood of $550 million, in round numbers, was spent on FTS2000 in 1994. If that is, in fact, correct, and the 40 percent number were accurate, that would suggest that roughly $220 million or $225 million would have flowed to the RBOCs.

I can tell you, speaking for Bell Atlantic, we are receiving far less than one-seventh of $220 million. So I don't know that I can speak for the other regional operating companies, but I can tell you that, that statistic, does not appear to apply in this area.

Mr. COBB. Mr. Chairman, I can respond for US West. We, too, are having difficulty validating that hypothesis that we account for 40 percent of the cost. Based on our estimates in the US West serving area, we would anticipate that that number may be closer to 11 to 14 percent.

Mr. CLINGER. Rather than the 40 to 45 percent. What about the question of proportion of the Government's requirements for local access that you would anticipate accruing to the RBOCs in the Post-FTS2000 regime?

Mr. COBB. Well, Mr. Chairman, if we could restructure the procurement to allow local exchange providers, whether they be RBOCs, cable companies or whomever, to work with the local government agencies to design networks around their needs, then I think that that percentage could actually be reduced further.

Mr. CLINGER. The percentage of return to the RBOC, or to——

Mr. COBB. The percentage of access charges that might be charged back to an interexchange or a long distance carrier.

Mr. CLINGER. OK. Do you share that view?

Mr. LANTHIER. I don't know anything about the number that was quoted, so I can't say anything about that. But I did recall, I think it was Mr. Lombardi, said something about regulation being part of that. I would suggest that's a key part of any access charge methodology. And to the extent that this committee or anyone else has input to resolving those kind of regulatory issues so the price is going to be lowered and be more cost-related, I think that kind

of discussion should occur within the context of this overall discussion at some point.

Mr. CLINGER. OK, what I was trying to get at is, do you anticipate—if 40 to 45 percent is inaccurate for the present FTS2000, what is your anticipation that you, as RBOCs, would get in the new regime? More than 45 percent?

Mr. MURRAY. It certainly, I wouldn't think, be more, Mr. Chairman. In fact, again, if we followed the decentralized or more localized approach to the solution and to the analogy of going from here to National Airport, if the Department of Energy up on I–270 was communicating down here, it may never get onto the national superhighway and, therefore, that portion of the access charge would be saved entirely. Some of that cost, however, would be picked up in their local rates.

Mr. CLINGER. Right. Does anything in the program strategy preclude your companies from offering any of your services on a regional basis as a subcontractor and a team, competing to provide services to the Government on a global basis? So, is there anything that you—in the present proposal that would preclude you from operating as a subcontractor in offering your services——

Mr. MURRAY. I don't believe so, not as a subcontractor, but as I'm sure the committee would understand, given the current structure, however, the ability or capabilities of us bringing some of the latest technologies to the prime contractor, if you will, may be restricted a bit. We would not have, clearly, the abilities under today's current legislation, with the inter-LATA restriction having been imposed, to put some of the software into the local switches that would enable us, for example, to provide least cost-routing or more automatic route selection to the Federal Government for the provisioning of their long distance traffic.

So that would be restricted or restrained to a——

Mr. CLINGER. Under the present code.

Mr. MURRAY. Under the present, current MFJ restrictions.

Mr. CLINGER. All right. Any——

Mr. LANTHIER. I just have one comment on that. Again, I think the approach needs to be much broader than the current GSA proposal. And perhaps the impacts of that kind of a broader approach are indicated in Mr. Cobb's charts, in which you can see improvements in local areas. And the only part that you would take out of that local area is if, in fact, the call went out there.

So if you improve the capabilities in that local area, then you improve the capabilities for everyone in that local area.

Mr. CLINGER. Mr. Cobb, do you have anything further.

Mr. COBB. Mr. Chairman, the only thing I could add is simply that there are no provisions that would prevent us from teaming with any interexchange carrier, to answer your question. However, I'm not sure I would understand the incentive that might be available in that teaming arrangement to provision the kinds of networks that I just shared with this committee.

I think there may be more economic incentive to provide the kind of network that would take traffic back and switch it sometimes, when maybe it may or not be required.

Mr. CLINGER. Thank you, gentlemen.

Mr. HORN. The ranking member, the gentlewoman from New York, Mrs. Maloney.

Mrs. MALONEY. Thank you, Mr. Chairman. You're talking about basically the two-tier approach that US West was outlining for us, separating the long distance network from the local networks. We are looking very hard for money in this Congress. And how are you so confident that this decentralized approach will be more cost-effective than a nationwide approach? And do you have any sense of how much you could save through a decentralized approach?

Mr. MURRAY. I would suggest, Mrs. Maloney, that inviting or having a more open and more competitive environment, first and foremost, is going to bring price pressure to bear, if you will, bringing the cost to the Government down; complemented by the fact that more services would then be brought to the Government's attention sooner so that dollars that today may be spent on human resources, could be redeployed on applications and new tools of technology, that would allow them to accomplish their mission at a net lower cost to the Government.

Mr. LANTHIER. I think the key term here is reinventing government. And what can occur by having capabilities in a local network, as I think I alluded to in my testimony, is that you could have new ways of Government workers to work. So it would be the overall cost for the Government in general should keep going down, down, down, because you, in fact, use the capabilities that people are using throughout the world, using network and information technology. It's a new way to work.

Mr. COBB. Excuse me, Representative Maloney, the only comment I would make is that we have some real examples of how engaging a local provider can find creative network designs that produce real hard dollars for the agencies. I think if we limit the procurement practice to a few long distance providers and we put with that a mandate for usage, we discourage the practice of looking for these opportunities within the local agency environment.

Mrs. MALONEY. Was this approach suggested to GSA and they apparently rejected it and stated that interoperability is the important objective of the Post-FTS2000? And how do the RBOCs address GSA's concerns?

Mr. MURRAY. On the interoperability matter, as mentioned earlier, we have been provisioning networks for 100 years, and interoperability has not been a problem. I heard your question addressed to the long distance companies previously, and——

Mrs. MALONEY. If it hasn't been a problem, why is GSA saying it is a problem?

Mr. MURRAY. Well, it appears to me it may have been a red herring that may have been planted by some that like the current architecture of the FTS2000 contract today, and would like to see it continued for tomorrow. I think if you talk to the end-users agencies, as I suspect will occur, you will find that some of those interoperability issues, particularly on the data networks, still exist.

There are still some charges when people go off network that are a problem. And they need to be fixed. And when you deal with private networks, that's a potential that will be there. The notion of going to a public switch network should eliminate that.

Mrs. MALONEY. One of the challenges that I mentioned earlier is that we want to ensure that new technologies are incorporated into the network over the life of this contract. And how would a decentralized approach that you're advocating further that goal? We heard earlier that a centralized approach, many believed, would propel new technologies and updating better. How would a decentralized approach advance that concern?

Mr. COBB. Mrs. Maloney, I believe we gave an example of how a frame relay deployment in the State of Washington was enhanced because Government users selected that local network as the way of communicating. That data network now serves not only the Federal Government community, but also State government and other businesses and public agencies. I think it's a question of economics.

The cost of deploying new technology in local regional areas may be more attractive than trying to deploy it on a national basis. And therefore, its time to market may be faster.

Mr. LANTHIER. Regarding the issue of decentralization or centralization, I think the Soviet Union thought the centralized was the right one and most efficient one. Obviously, they were wrong. I think the same thing is true in information technology, particularly with the kind of changes we see throughout the world. There are literally thousands of innovators out there.

Mrs. MALONEY. What would be the benefits to our Government of using the public telecommunications network, the same networks used in homes and businesses, as opposed to purchasing services on a private network? Again, this is similar to a question I asked to the previous panel.

Mr. MURRAY. The major benefit that I see is by putting the capabilities into the local switch networks, the consumers, the small businesses, the hospitals, the libraries can then take advantage of that hardware and software that we have deployed in those local switches; as compared to when it's on a private network, again, those capabilities are restricted pretty much to the Federal Government, and we're not leveraging that capability as well as we might.

Mrs. MALONEY. Would anyone else like to comment?

Mr. COBB. I would just support Mr. Murray's view.

Mrs. MALONEY. OK. Looking beyond those instances in which Federal Government employees are talking to each other, how can the Post-FTS2000 networks be structured to allow for easy sharing of information between Federal and local governments and between Government and its citizens?

Mr. COBB. I would suggest that we continue the work that we're doing with Government oversight in the development of standards. Great attention has been paid to the issue of interoperability. And the point made by my colleague from Bell Atlantic is very valid. We currently interact with 1,700 independent telephone companies, all the wireless and cellular providers, as well as downlinks with satellite communication companies.

Probably the local switched environment is one of the true interoperable environments that exists within the communications industry. I think as long as the standards are known and are clear, and those standards are part of the open network architecture mandates that are being administered through the Federal Com-

munications Commission, we can find a way for everyone to take advantage of that infrastructure.

Mr. LANTHIER. If I could add something to that, I would just say that you ain't seen nothing yet. I mean, the capabilities out there are absolutely amazing. And to the extent that we can decentralize and let that innovation flourish, we can achieve the kind of results you're trying to achieve.

Mrs. MALONEY. My time is up, and I would like to ask unanimous consent to have my opening statement put in the record. And I would also like to have put into the record, and have responses from any panelist, examples of where the proposal or the contract that is being proposed by GSA has been inoperable. Where has it been inoperable? They are saying that it would be inoperable to have other approaches to contracting, and I'd like to see concrete examples of why they think it's inoperable. Thank you.

Mr. HORN. Without objection, the ranking member's opening statement, as well as the ranking member of the full committee's statement will be put at the beginning of the hearing record, where there were other opening statements. The gentleman from Virginia, Mr. Davis.

Mr. DAVIS. Thank you, Mr. Chairman. I just have one question, and if you answered it in your testimony, you can repeat it. I wondered if any of your companies bid on the current FTS2000 program? And if you didn't, why didn't you? And what do you think has changed which encourages to pay this time around?

Mr. MURRAY. Again, Mr. Davis, speaking for Bell Atlantic, we in fact were a participant on all three of the teams that bid. We were subcontractors on all of the three. We had a slightly larger role on the MCI–Martin Marietta team, and a much smaller, more reduced role on the AT&T as well as on the Sprint team, to provide the local access pieces. The recommendation that we are making today is that as this opportunity to compete is opened up, we believe there would be more of a chance for us to participate, either, as a prime, or as a much larger subcontractor to a prime, than we were able to do in the late 1980s.

Mr. DAVIS. OK.

Mr. COBB. US West was also a participant in the first FTS2000 procurement. And like our counterparts at Bell Atlantic, we participated as a subcontractor for all three teams as well.

Mr. DAVIS. OK.

Mr. COBB. Which I might point out to this committee, creates great costs on our part to serve all of them.

Mr. DAVIS. Just to play, yes. Thanks.

Mr. HORN. The gentleman from West Virginia, Mr. Wise, 5 minutes.

Mr. WISE. Thank you. It's always interesting watching this sumo wrestling match in some ways. It takes place across the whole telecommunications industry and different involvements. I was struck, Mr. Lanthier, with your analogy on centralization and the decline of communism. I can see the ad 1 day in the future, AT&T, Sprint, the commissars of communications. [Laughter.]

Mr. LANTHIER. I wouldn't suggest that.

Mr. WISE. The question I have, and this follows up on one that Chairman Clinger was asking earlier. If the RBOCs were to win a

portion of the Post-FTS2000 contract, what happens with local access charges? Are you to provide them at tariff rates? Do you go to cost-based? What happens there?

Mr. COBB. I'd be happy to attempt to answer that first, Mr. Wise. I would like to suggest that local access rates and local access charges could be relegated in the same way that they currently provide for normal telecommunications subscribers. What happens now for the average citizen is that they select a long distance carrier; we route the traffic to a point of presence where we hand the traffic off; and those charges are assessed based upon the volumes of the interexchange.

I think that such an arrangement could work for large business and Government customers as well as it does for you and I.

Mr. LANTHIER. If I could add to that. There is an example in California right now, a service called ISDN—or a technology called ISDN, in which we have tariffed for the home, at a very, very low rate, including a flat rate at night so people on computers can access networks. We also are advocating an education access rate to lower rates for schools. It seems to me, if you take a decentralized approach to Post-FTS2000, then you help reengineer, reinvent government to allow Government workers to work wherever they are—at home, using and ISDN rate from Pacific Bell that's very cheap, or Post-FTS2000 at a cheaper rate.

So overall, if you can get more innovation going, more participants, rates overall will come down and you can reinvent and reengineer whatever kind of processes you want.

Mr. MURRAY. The only additional comment, Mr. Wise, I would make, is that if the current approach of using private networks is continued—and as was stated by Mr. Lombardi, I believe it was, that he would like to be able to take his network all the way to the desktop, and you begin to bypass the local network, then those costs that are currently there in the infrastructure could have a tendency to rise.

But I believe if we take those costs and spread them over the broader audience by driving more of the traffic through those local switches, we should see, as my colleagues have suggested, that costs may come down.

Mr. WISE. OK, Mr. Murray, help me out. I was with you up until the cost to the infrastructure. Whose infrastructure?

Mr. MURRAY. If, in the local public switch network, the calls were to be routed to higher volumes through it, I would expect the costs of those access charges to then begin to stay where they are or get even lower. As you start to build bypass networks or private networks, then you still have that same infrastructure cost sitting there. And for those calls that do go through, the rate may rise.

Mr. WISE. OK, I see. Thank you. Now, since I asked the previous panel about interoperability, I'd like to ask the same one here. To the extent that there are problems with interoperability, are they not simply magnified if you have a decentralized system?

Mr. LANTHIER. I think that there was some discussion earlier about the fact of our experience in interoperability. I would go further and say that when you look around the world, probably the local exchange companies in the United States are the experts on interoperability. We've done it for a number of years, particularly

in a post-divestiture environment. We have a lot of good experience dealing with a lot of different vendors of services.

So I don't personally see—and I worked, actually worked, wired things, in a network for interoperability. I don't think that there is a problem. I think it's—I wouldn't use the term red herring, but it's sort of a non-issue if, in fact, we work together to overcome any kind of interconnection issues.

Mr. WISE. Because for purposes of discussion, right now you have essentially two systems. And there were some initial problems, they say. And we're looking to see whether or not there are any left. Does that not only compound it if you have multiple regional networks?

Mr. COBB. Mr. Wise, I would like to suggest today we have a requirement to interoperate with MCI, AT&T, Sprint, LDDI, British Telecom, ELI, MFS. I can give you a list of competitive access providers, and now new local exchange providers, that are entering into our local markets. I don't know why those interoperability issues are distinctly different in the FTS environment. I believe there is technology to deal with that.

Mr. WISE. Thank you, panel.

Mr. HORN. Thank you, Mr. Wise. Let me ask you, following up on Mr. Wise's very excellent line of questioning, to your knowledge, have large commercial companies with national or multinational operations adopted the regional approach that each of your companies advocates? If not, why should the Government deviate from what appears to be commercial practice?

Mr. MURRAY. In fact, the large commercial customers in the Bell Atlantic region, Mr. Chairman, have in fact moved to this decentralized or regional approach to identifying their requirements. And no longer are they having, at corporate headquarters for example, a staff group trying to identify what every district office, local office or regional office may require from a communications standpoint.

Rather, they will delegate that authority to the local management team; suggest that they go out and procure the information technologies that they require; and then hold them accountable for their results. And I believe that that's the direction that this Congress, and others, are moving the Federal Government toward. And frankly, what we're trying to suggest is, this procurement ought to be aligned with that direction.

Mr. HORN. Mr. Lanthier, any comment?

Mr. LANTHIER. I'm not aware of the exact numbers of large customers that are using our network exclusively, or exclusively a large interexchange carrier. But I can certainly research that and get you that information. What I have understood though, by people who are in the marketing organization is that one of the concerns by large customers is the inter-LATA restriction. So to the extent that we're not able to provide them a full network of services throughout the country, it is a problem in terms of marketing some of those services.

Mr. HORN. Mr. Cobb.

Mr. COBB. Mr. Chairman, candidly, we are seeing both. We have some large business customers who centralized and some who decentralized. But there is a pattern developing of shared responsibility where local operating environments are required to build their

own communications environment, but it must be compatible with and operate with an overall corporate architecture that is sometimes designed somewhere else. So we see a little of both.

Mr. HORN. I'd like the representatives from AT&T, Sprint and MCI to also have a chance to answer that question. Well, this has been a very interesting dialog, and I think some very fine suggestions have been made. Is there anything else that these questions have elicited that you'd like to get on the record before we close out this panel?

Mr. COBB. I'd just like to say thank you for the opportunity to be here.

Mr. MURRAY. Yes, I second that.

Mr. LANTHIER. Thank you.

Mr. HORN. It sounds like you're saying what the old-timer did when he had the votes in a meeting of the legislature. He said, if you've got the votes, you don't have to talk; just say thanks. [Laughter.]

Panel four will please come forward. Mr. Messier, Mr. Newstrom, and Mr. Cooper.

[Witnesses sworn.]

Mr. HORN. We will begin with John Messier, vice president general manager, Information Systems Division, GTE Government Systems Corporation. Welcome.

STATEMENTS OF JOHN MESSIER, VICE PRESIDENT AND GENERAL MANAGER OF INFORMATION SYSTEMS DIVISION, GTE GOVERNMENT SYSTEMS CORPORATION; GEORGE NEWSTROM, CORPORATE VICE PRESIDENT AND GROUP EXECUTIVE OF GOVERNMENT SERVICES GROUP, EDS CORPORATION; AND MILTON COOPER, PRESIDENT OF SYSTEMS GROUP, COMPUTER SCIENCES CORPORATION

Mr. MESSIER. Thank you, Mr. Chairman. We at GTE Government Systems Corporation are pleased to have the opportunity to present our views and our experience as an integrator and contribute to the development of the Post-FTS2000 acquisition. We commend you for conducting this hearing to obtain the views of the industry on this very important subject.

We congratulate the General Services Administration, the Interagency Management Council, and the Acquisition Working Group for their aggressive initiatives to replace the present FTS2000 contracts when they expire in December 1998.

We believe there are three issues the Government must address in ensuring the success of the Post-FTS2000 program. First, how to effectively manage competition to achieve the maximum benefit to the Government. Second, how to properly exploit emerging technologies and services as they become available. And third, how to effectively utilize shrinking Government resources while enhancing service to the citizen.

The Post-FTS2000 program should become the centerpiece of the Government's implementation of the NII, the GSII, and the NPR. These initiatives will result in increasing requirements for sophisticated, value-added services which can interoperate effectively throughout the Government, with the private sector and the citizen users to improve Government effectiveness.

The program must evolve quickly from an environment dominated by switched, voice and dedicated transmission to that of high-bandwidth switched data services and value-added services. We believe the Post-FTS2000 program acquisition strategy should satisfy two primary objectives. First, flexibility to adapt to dynamic regulatory and technological changes, and second, fully utilize the outsourcing capabilities within industry.

The existing FTS2000 program, while successful in reducing the cost of commodity voice and dedicated transmission services to the customer, failed to successfully support the provision of interoperable switched data services, and emerging technologies, in a cost and schedule efficient manner. Where data services had been expected to produce 50 percent of the FTS2000 revenue by this date, these services presently provide less than 10 percent of total revenue.

The Post-FTS2000 program strategy published in December 1994 has not resolved these problems. While competition is proposed for present commodity services, the same flaws exist in the ability of the strategy to adapt to the future. In the future Post-FTS2000 environment, the rapidly changing technology and emerging services environment, coupled with regulatory changes and new market entrants, will increase the service demands of both the Government and its citizen customer. In attempting to respond to these demands, a significant level of in-house Government resources will be required to administer the contractual process for the proposed strategy. In a public environment that is demanding Government downsizing and efficient services, these limited Government resources are better used on providing services to the citizen, not administering infrastructure contracts.

We believe the current strategy should be augmented to make use of systems integrators, both large and small, to provide the infrastructure and off-load Government staff. Specifically, outsource the provisioning of commodity services such as voice and dedicated transmission services to an honest broker, who will sustain competition among multiple interexchange and local exchange carriers. In addition, outsource the provisioning of emerging technology services such as video, data and security services, to an honest broker who will sustain competition, ensure interoperability and exploit emerging technologies. Systems integrators, such as those represented here today, can effectively support these strategies. We urge the Congress to continue to provide oversight, support and focus to this vital Government communications program. We believe that an augmentation of the strategy to exploit outsourcing will provide a communications infrastructure that is viable into the future. At the same time, it will free limited Government staff to focus on the true customer—the citizen.

Mr. Chairman, this concludes my presentation. Thank you.

[The prepared statement of Mr. Messier follows:]

Mr. Chairman, I am John Messier, Vice President and General Manager of the Information Systems Division of GTE Government Systems Corporation. I am pleased to have been invited to present our views at this hearing. GTE Government Systems Corporation, is a premier supplier of information technology services to the Federal Government. GTE Telephone Operations, our sister company, is the nation's largest local telecommunications provider. We at Government Systems are pleased to share our experience as an integrator and contribute to the development of the Post FTS2000 acquisition and management strategy. We commend you for conducting this hearing to obtain the views of the industry on this very important subject.

We congratulate the General Services Administration, the Interagency Management Council, and the Acquisition Working Group for their aggressive initiatives to replace the present FTS2000 contracts when they expire in December 1998. We encourage the government to maintain a schedule which will result in the timely availability of critical new telecommunications services.

In meeting this schedule, we believe there are three issues the government must address in assuring the success of the Post FTS2000 Program. First, how to effectively manage competition to achieve the maximum benefit to the government. Second, how to properly exploit emerging technologies and services as they become available. And third, how to effectively utilize shrinking government resources while enhancing service to the citizen.

Performance of the FTS2000 Program

The successes of the present FTS2000 program are well documented and have resulted in substantial savings since the program was implemented over six years ago. In 1987, Congress was very wise in insisting that the FTS2000 program be split into two contracts as a means of encouraging competition. A single, long-term contract would have trapped the government in a disastrous situation with insufficient leverage on pricing and introduction of new services over the life of the program in a changing marketplace. However, in hindsight, the government could have achieved greater savings and more responsive services by providing greater contract flexibility to sustain competition and exploit emerging technologies and services.

The program did not adequately serve the emerging data, videoconferencing or advanced service needs. This fact is evidenced by the low utilization of FTS2000 data services, while agencies have continued to implement their own customer premise equipment based data networks. The following disadvantages resulted from the two long-term vendor contracts:

1) Labor intensive competitive assessments: The government achieved prices approximating those available in the marketplace only through the use of very laborious Price Redetermination and Publicly Available Price Cap processes. These processes cost the government in personnel resources and did not achieve the prices possible with frequent full and open market competition.

2) Limited exploitation of emerging technologies and services: The introduction of enhanced services such as electronic mail and videoconferencing was consistently late and expensive. Not only was each enhancement protested, but the two vendors offered the enhanced services only when it was in their economic interest to do so.
In many cases the government's service interests and the vendor's business interests did not coincide. This situation was largely caused by the long-term contracts, mandatory use rules and the failure to introduce frequent full and open market competition.

Objectives of the Post FTS2000 Program

The Post FTS2000 program should become the centerpiece of the government's implementation of the National Information Infrastructure (NII), the Government Services Information Infrastructure (GSII) and the National Performance Review (NPR). These initiatives will result in increasing requirements for sophisticated, value-added services which can interoperate effectively throughout the government, with the private sector and the citizen users to improve government effectiveness.

The Program must evolve quickly from an environment dominated by switched-voice and dedicated transmission to that of high-bandwidth switched data services and value-added services. Therefore, we believe the Post FTS2000 Program Acquisition Strategy should satisfy the following two primary objectives:

1) Flexibility to adapt to dynamic regulatory and technological changes: The Post FTS2000 program must have the necessary flexibility to permit rapid response to the changing telecommunications market, permitting timely insertion of new and enhanced services over the life of the program. In today's environment, technology and service cycles are of two years duration or less. Many new innovative new services originate from small and disadvantaged businesses. The legislative and regulatory aspects will almost certainly change dramatically and numerous new players are expected to enter the market during the next five years. Actual future market conditions and services

offerings cannot be accurately predicted. In this environment, the government needs the means to harness market forces, exploit competition and ensure interoperability as technologies emerge.

2) Fully utilize the outsourcing capabilities within industry: The communications industry has dealt with the effects of competition and deregulation since 1984. Over this past decade, the communications industry has downsized and realigned resources in all market segments, while continuing to provide enhancements to basic services, and develop emerging technologies into commercial offerings. Time and again industry has turned to outsourcing of tasks and responsibilities that historically had been fulfilled internally as a cost effective means of achieving business performance objectives. The private sector routinely contracts for functions such as billing, technical support, and system integration.

The government has the opportunity to deal with the problems of the Post FTS2000 Program in an similiar manner. The government should contract for those services that can best be rendered by industry. An extension of this strategy would be the use of a provisioning contractor approach, managing the solicitation and award of multiple short-term services contracts. This approach could permit the awarding of service contracts in a time frame commensurate with the complexity of the services or technologies, avoid cumbersome government procurement processes and permit responsive contracting as requirements in the marketplace change. The Post FTS2000 acquisition should incorporate contractual streamlining techniques which will permit flexibility in awarding contracts while maintaining overall management control and visibility, but with significantly reduced government manpower.

In the present environment, the government should apply its resources to the priorities established under the National Performance Review, and focus its resources on providing service to the citizen. The management of a complex acquisition strategy, contractual process and Post FTS2000 service infrastructure will tax the government's resources beyond all reasonable expectations. We believe this burden can be shouldered by government and industry, where the government focus is on service to the citizen and industry's focus is on the service infrastructure.

Summary

The existing FTS2000 program, while successful in reducing the cost of commodity voice and dedicated transmission services to the customer, failed to successfully support the provision of interoperable switched data services and emerging technologies in a cost and schedule efficient manner. Where

data services had been expected to produce fifty percent of the FTS2000 revenue by this date, these services presently provide less than ten percent of the total revenue.

The Post FTS2000 Program Strategy published in December, 1994 will not resolve these problems. While competition is proposed for present commodity services, the same flaws exist in the ability of the strategy to adapt to the future. In the future Post FTS2000 environment, the rapidly changing technology and emerging services environment, coupled with regulatory changes and new market entrants, will increase the service demands of both the government and citizen customer. In attempting to respond to these demands, a significant level of in-house government resources will be required to administer the contractual process for the proposed strategy. In a public environment that is demanding government downsizing and efficient services, these limited government resources are better used on providing services to the citizen, not administering infrastructure contracts.

We believe the current strategy should be augmented to make use of systems integrators, both large and small, to provide the infrastructure and off-load the government staff. Specifically, outsource the provisioning of commodity services, such as voice and dedicated transmission services, to an honest broker, who will sustain competition among multiple interexchange and local exchange carriers. In addition, outsource the provisioning of emerging technology services, such as video, data and security services, to an honest broker who will sustain competition, ensure interoperability and exploit emerging technologies. Systems integrators, such as those represented here today, can efficiently support these strategies.

In closing, we commend the government's efforts to date in developing an acquisition strategy for the Post FTS2000 Program. We urge the Congress to continue to provide oversight, support and focus to this vital government communications program. We believe that an augmentation of the strategy to exploit outsourcing will provide a communications infrastructure that is viable into the future. At the same time it will free limited government staff to focus on the true customer - the citizen.

Mr. Chairman, this concludes my presentation. Thank you very much.

GTE Government Systems Corporation

Additional Input to the
Post-FTS2000 Program Strategy Hearings
before the
Subcommittee on Government Management, Information and Technology

April 03, 1995

Issue: Contract Duration and its Effect on the Marketplace

The Post-FTS2000 Program Strategy has, as two of it's basic requirements, the need to 1) obtain competitive pricing, and 2) respond to and exploit the dynamic nature of the telecommunications marketplace (technology and regulatory). The subcommittee recognized the importance of this issue in questions directed at written and oral testimony provided during the hearing of 21 March 1995.

Congressman Clinger, in his questioning of the IEC Panel, requested a comparison of commercial account practices with the proposed Post-FTS2000 Program Strategy. IEC Panel response to this question was inconsistent, with some panel members supporting the use of long-term business relationships and others advising the use of short-term contracts to exploit competition.

Congresswoman Maloney, in her questioning also addressed the question of technology refreshment; with IEC Panel members mixed as to whether long-term contracts or market forces are the most effective mechanisms for introduction of technology.

This questioning was continued by Congressman Horn, with some panel members confirming the use of competition as an effective refreshment mechanism. Congressman Horn also addressed this question to members of the Systems Integrator Panel, who unanimously supported the use of market forces as the key element in introducing new technology. (Although not stated at the hearing, some recent examples could include packet data services over cellular, and direct satellite broadcast TV.)

Shorter contract periods efficiently exploit normal market mechanisms to provide the best prices to the government, and if efficiently implemented, require less administration than the highly complex price cap and price redetermination efforts presently underway. The duration of the contract must be tied to the technology investment required to provide the service. Contract period and technology refreshment are tied, with the application of market forces as the primary implementing mechanism.

For commodity telecommunications services, such as voice, dedicated transmission and switched data, technology refreshment is inherent as the telecommunications provider continually attempts to increase available margins by decreasing the underlying cost. For the government to exploit these cost-reduction opportunities, frequent price re-competition with multiple contract awards and the shortest possible contract periods is needed. The use of short contract periods for commodity services also provides the mechanism to exploit the potential economic benefits of local service deregulation, when this occurs.

New technology provides the basis for creating value-added and emerging telecommunications services. Creation of these services is vital to support the range of electronic commerce/business practices envisaged in the NII and GSII. Industry makes business decisions and invests in the implementation of technology with no assurance as to how quickly these costs will be recovered. For these services, demand is not mature and technology change is rapid. The telecommunications provider must market these services to develop user demand. For these types of services, contract durations need to be longer or government minimums adequate to promote the introduction of new technology/services and support the development of the business case. Price redetermination could be based upon growth in user volumes, until re-competition is economically justified.

Issue: Outsourcing and Management of the Post-FTS2000 Program

Oversight and management is required for the proposed Post-FTS2000 program. The Post-FTS2000 Program Strategy addressed the need for the management of multiple telecommunications suppliers and recognized that a range of government and industry resources were available, but failed to propose a solution. Mr. Brock of General Accounting Office (GAO), in his testimony, took specific note of this omission. Congresswoman Collins, in her questioning of Mr. Brock, noted concerns that GSA could not effectively manage the Post-FTS2000 multiple contract environment. Congresswoman Maloney, in her questioning of GSA officials during the hearings of March 28 1995, also expressed concern relative to the large number of GSA officials taking buyout packages, and its effect on GSA's ability to manage the program.

The Systems Integrator Panel, in its testimony, unanimously supported the use of outsourcing as a cost and performance efficient means of the government fulfilling it's responsibilities; while successfully responding to public pressures for the downsizing of the federal workforce.

The award of multiple telecommunications service contracts benefits the taxpayer through the ability to sustain competition and obtain the lowest prices and the most advanced services. Regardless of the duration of these contracts, multiple contracts require greater oversight, while available government staff is decreasing and experience levels are diminishing. Implicit in the overall Program Strategy is the assumption, which we believe to be valid, that potential cost savings to the taxpayer through sustained competition far exceeds the cost of management and oversight needed for the additional contracts. (The existing FTS2000 program might serve as a valid example, where present cost savings far exceed the cost of oversight.)

The government must bear the costs of this contract oversight, whether provided by in-house staff, FFRDCs or through a provisioning contract. GTE, supported by comments of other members of the Systems Integrator Panel, strongly believe that this oversight can be most effectively provided by industry at lower cost to the taxpayer. GTE, as well as other members of the panel, have extensive experience in the full range of expertise needed to manage the Post-FTS2000 program, ranging from managing IEC competition, to running national oversight centers, to service ordering, provisioning and billing. Additionally, companies such as GTE have both the experience and technical expertise to manage and resolve the related problems of technology refreshment, introduction of emerging services, and interoperability.

Issue: FTS2000 and Post FTS2000 Interoperability

In the course of the testimony, several statements were made concerning interoperability between the present FTS2000 networks (A & B), and interoperability concerns for the Post FTS2000 Program. In response to Congressman Wise, the interexchange carrier panel stated that interoperability between the two FTS2000 networks had been fully achieved and implied interoperability was obtained at no additional costs.

In reference to the Post-FTS2000 Program Strategy, the GAO expressed their concerns as to interoperability requirements not being fully defined.

The local exchange carrier panel stated that local carriers deal with interoperability issues on a regular basis and have done so for many years.

Interoperability issues arise from multiple service vendors providing like commodity services offerings, and from the requirement to combine multiple services together into single applications. As the GSA strives for maximum flexibility and lowest possible price through multiple service vendors, interoperability issues will necessarily increase. It is GTE's belief that any additional Post-FTS2000 interoperability costs and complexities will be offset several fold by the benefits of competition.

From the onset of the contract, the FTS2000 network has struggled with interoperability issues across all six of the service categories. To date, the GSA has only been moderately successful in achieving true interoperability between the two service providers (as delineated below), and has done so in a costly manner.

The interexchange carrier panel stated that interoperability has been fully achieved and stated that they were unaware of any cost incurred by the users as a result of this interoperability. The fact of the matter is there has been little incentive for the two service providers to facilitate interoperability in the FTS2000 network. This lack of incentive has created situations where interoperability has been slow to market and at the expense of the user.

In most cases, the existing FTS2000 network places an operational and/or financial burden on the agencies that use the service between the FTS2000 A and B networks. Switched voice service operates transparently to the user. However, the calls between networks, where both the origination and termination points are on-network FTS2000 locations, are routed through the local exchange carriers and incur the higher on-net to off-net pricing. The greater impact, however, is in the more sophisticated network services.

Interoperability of electronic mail between FTS2000 networks A and B is accomplished by operationally burdening the users. Intra-FTS2000 network use of electronic mail requires the user to only provide the destination user identification, where inter-FTS2000 use requires the users to provide the full X.25 gateway addressing information and destination user identification.

FTS2000 video teleconferencing service is the only interoperability issue the GSA has officially addressed through the FTS2000 contract modification procedure, and this process took four years. In this case, the GSA was forced to pay for the video teleconferencing gateway between the two service providers, and support a video teleconferencing interoperability method that requires both ends of the same video conference to pay for a video conference call to the single FTS2000 video gateway in Atlanta, Georgia, where they are manually bridged together. This interoperability technique effectively doubles the video teleconferencing cost to the users who must interoperate with agencies on the other FTS2000 network.

GAO suggested in their testimony that the GSA should better define their interoperability requirements. Although this process will be relatively straightforward for commodity services, specifying requirements for emerging services with any accuracy will be nearly impossible. The Program Strategy should be flexible enough to allow the government to determine to what extent interoperability is required and at what cost, on an on-going basis. The Post-FTS2000 contracts should be structured to provide incentives to the service providers to facilitate interoperability. The process of assuring the appropriate levels of interoperability for Post-FTS2000 services must be managed through the life of the contract.

Issue: Systems Integrators Barred from Post-FTS2000 Participation

At the conclusion of the testimony from the Systems Integrator Panel, Congressman Horn ask if the systems integrators felt the Program Strategy barred systems integrators from participation in the Post-FTS2000.

Although systems integrators are not specifically barred from participation in the Post-FTS2000, the Program Strategy heavily favors the major interexchange carriers, and does not fully exploit the wide range of communications services available from the entire industry to meet government requirements. This is a result of the Program Strategy bundling services into larger comprehensive service packages, and the government's desire for relatively few nationwide service contracts. While it could be argued that there are inherent cost advantages in favoring the interexchange carriers providing systems integration within their own networks, this approach precludes participation by smaller carriers, local service providers and specialty service providers, who could potentially provide more cost efficient services to the government. The Local Exchange Carrier Panel provided examples of a "more competitive bidding field" where FTS2000 costs have been significantly reduced in Colorado, Oregon and Washington through the use of such regional network service offerings. The present Post-FTS2000 Program Strategy does not exploit the full range of competition available, and in the words of one of the Local Exchange Carrier Panel speakers, could be described as a "policy of exclusion rather than inclusion". A strategy that would fully utilize the capabilities of multiple IEC's and LEC's would be to outsource the "provisioning" of end-to-end commodity and value-added services to the system integration industry.

Mr. HORN. Thank you very much. Mr. Newstrom.

Mr. NEWSTROM. Thank you, Mr. Chairman. EDS has operations in 36 countries and employs more than 80,000 people. It is considered one of the world's most experienced systems integrators, both for Government and for business. We have more than 30 years of experience in owning and operating EDS* NET, one of the largest private communications networks in the world. And I might disagree with one of the previous testimonies that said that commercial networks are passé. At least General Motors would not think that they're passé.

We commend the Inter-Agency Management Council and the General Services Administration for the headway they have made in defining a Post-FTS2000 program strategy. We feel that this direction is an improvement over the present FTS2000 approach. It serves as a starting point for ultimately achieving full and open competition for commodity telecommunications services, similar to the way commercial business has been requiring these services over the last decade.

The Post-FTS2000 period will be marked by an enormous telecommunications technology advances. The ability for rapid information exchange will open up a whole new range of operating efficiencies. The industry will continue to explode in a multitude of global technologies, new demands and new services. Regulatory and technical barriers will continue to disappear, giving rise to endless creative options for meeting user telecommunications needs.

To some extent, this view of the Post-FTS2000 period exists today. Yet the current Post-FTS2000 program strategy only partially responds to these market forces. From a global systems integrator's perspective, the program strategy does not go far enough in achieving key program objectives. The strategy seems inordinately attached to the status quo, with its large comprehensive contracts that limit competition. The strategy continues to focus on providing separate voice, data and video medias, rather than on efficiencies and flexibilities of providing agency users with consolidated digital telecommunications services.

Therefore, we recommend that the IMC and the GSA make the following five adjustments to the program to maximize competition, to take advantage of the rapidly changing market and to ensure the lowest possible cost to Government:

First, reduce the scope of "comprehensive telecommunications service contracts" to include only switch telecommunications and dedicated circuits—known simply as telecommunications services.

Second, create an acquisition structure that allows the Government to enjoy market-driven competition. That is, to shop around for telecommunications services. The market is becoming a highly competitive commodity market. It simply does not make good business sense anymore to acquire all telecommunications services from one or two large vendors.

Third, establish discrete program elements, such as telecommunications services, value-added and wireless services which do not compete against each other. We recommend that each of these program areas contain multiple contract awards and for shorter periods of time than is described in the program strategy.

Fourth, address local access services at the start of the Post-FTS2000 program, instead, as a future initiative. By procuring for local access services early in the program, the Government will reduce its access costs and simplify user interface with network service delivery points.

Finally, we recommend the IMC and the GSA agree to outsource program management support and consolidate it with similar agency functions such as billing, customer service, engineering and network management. By consolidating and contracting for similar functions, the Government will gain greater interoperability, flexibility and cost savings.

Global systems integrations firms are especially well-suited to provide operational support with a massive telecommunications network envisioned by Post-FTS2000. A systems integrator is typically vendor-independent and is in a better position to serve as an "honest broker" in evaluating and selecting a wide variety of telecommunications services. Unfortunately, as presently framed, the program's strategy leaves little room for the Government to reap the benefits of the independent telecommunications analysis and planning.

We are pleased to note that the Government is achieving program milestones in a way that should provide an on-time transition from the present FTS2000 contracts. However, we are hopeful that the IMC and the GSA will consider our recommendations. These changes in strategy will significantly expand the cost-effectiveness, flexibility, and interoperability of the Post-FTS2000 program. But more importantly, these recommended changes will better position the Government to take advantage of the dramatic and exciting future advancements in the telecommunications industry.

Thank you for inviting me here today. I will be pleased to answer any questions that you might have.

[The prepared statement of Mr. Newstrom follows:]

George Newstrom
EDS Corporation
Corporate Vice President
and
Group Executive, Government Services Group

INTRODUCTION

Good afternoon. I am George Newstrom, EDS Group Executive, Government Services Group and Corporate Vice President. I want to thank you and your staff for the opportunity to be here today and for soliciting EDS' views on the Post-FTS2000 program strategy.

EDS has operations in 36 countries, employs more than 80,000 people and is considered one of the most experienced systems integrators, for both government and business. We have more than 30 years of experience in owning and operating EDS*NET, one of the world's largest private commercial telecommunications networks.

PROGRAM STRATEGY

We commend the Interagency Management Council (IMC) and the General Services Administration (GSA) for the headway they have made in defining a Post-FTS2000 program strategy. We feel that this direction is an improvement over the present FTS2000 approach. It serves as a starting point for ultimately achieving full and open competition for commodity telecommunication services, similar to the way commercial businesses have been acquiring these services over the last decade.

The Post-FTS2000 period will be one marked by enormous telecommunications technology advances. The ability for rapid information exchange will open up a whole new range of operating efficiencies. The industry will continue to explode into a multitude of global technologies, new demands and new services.

Regulatory and technical barriers will continue to disappear, giving rise to endless creative options for meeting users' telecommunications needs.

To some extent, this view of the Post-FTS2000 period exists today. Yet, the current Post-FTS2000 program strategy only partially responds to these market forces.

From a global systems integrator's perspective, the program strategy does not go far enough in achieving key program objectives. The strategy seems inordinately attached to the status quo – with its large comprehensive contracts that limit competition. The strategy continues to focus on providing separate voice, data, and video medias, rather than on the efficiencies and flexibility of providing agency users with consolidated digital telecommunications services.

Therefore, we recommend that the IMC and GSA make the following adjustments to the program to maximize competition, to take advantage of a rapidly changing market, and to ensure the lowest possible cost to the government.

- First, reduce the scope of "comprehensive telecommunications service contracts" to include only switched telecommunications and dedicated circuits (to be known simply as "telecommunications services").

- Second, create acquisition structures that allow the government to enjoy market-driven competition.....to shop around for telecommunication services. The market is becoming a highly competitive commodity

market. It simply does not make good business sense anymore to acquire all telecommunication services from one or two large vendors.

- Third, establish discrete program elements such as telecommunications services, value added, and wireless services, which do not compete against each other. We recommend that each of these program areas contain multiple contract awards, and be for shorter time periods than described in the program strategy.

- Fourth, address local access service at the start of the Post-FTS2000 program, instead of as a future initiative. By procuring for local access service early in the program, the government will reduce its access costs and simplify user interface with network service delivery points.

- Finally, we recommend that the IMC and GSA agree to outsource program management support, and consolidate it with similar agency functions, such as billing, customer service, engineering, and network management. By consolidating and contracting for similar functions, the government will gain greater interoperability, flexibility and savings.

Global systems integration firms are especially well suited to provide operational support for the massive telecommunications network envisioned by Post-FTS2000. A systems integrator is typically vendor independent, and is in a better position to serve as an "honest broker" in evaluating and selecting a wide array of telecommunications services. Unfortunately, as presently framed, the program strategy leaves little room for the government to reap the benefits of independent telecommunications analysis and planning.

We are pleased to note that the government is achieving its program milestones in a way that should provide an on-time transition from the present FTS2000 contracts. However, we are hopeful that the IMC and GSA will consider our recommendations. These changes in strategy will significantly expand the cost-effectiveness, the flexibility, and the interoperability of the Post-FTS2000 program. But more importantly, these recommendations will better position the government to take advantage of the dramatic and exciting advancements in the telecommunications industry.

Thank you for inviting me to testify during today's hearing. I would be pleased to take any questions that you might have.

Mr. HORN. Thank you, Mr. Newstrom.

Mr. Cooper, president of the Systems Group, Computer Sciences Corporation.

Mr. COOPER. Thank you, Mr. Chairman, members of the committee, good afternoon. CSC appreciates this opportunity to come and share our views with the committee today. As a large independent worldwide systems integrator, CSC has worked closely with Department of Defense, civilian agencies and commercial companies worldwide to design and implement leading edge technology solutions to some of the most challenging problems facing Government and industry today.

For the past 7 years, CSC has served as a subcontractor to one of the two FTS2000 providers, and has been an FTS2000 user via our mini Federal contracts. We've been proud of our participation in FTS2000, and we've seen firsthand many of the advantages and challenges of this critical program. Despite the chairman's cautions, I would like also to applaud GSA's effort to seek broad input to the Post-FTS2000 planning process, and to consider the implications of the various acquisition strategies.

Just as the acquisition strategy 8 years ago had an enormous impact on the effectiveness of that program, today's discussions and decisions will shape substantially the outcome of the Post-FTS2000 program. I'd like to discuss now several of the changes that CSC would suggest would add value and add benefit to the Post-FTS2000 procurement. These include, one, eliminating the mandatory use provisions of the contract and simultaneously expand the number and the scope of the service contracts described.

Second, provide for comprehensive network management and high-level integration services to Post-FTS2000 users. Third, to take advantages of opportunities to outsource defined nonessential Government functions, perhaps such as management of data centers and networks. And fourth, to integrate redundant DOD and civilian agency requirements to achieve true economies of scale and the establishment of a Governmentwide telecommunications infrastructure.

There is consensus, in fact, I think there's proof, that the FTS2000 has saved the U.S. Government significant sums of money, had they not done that procurement. These savings can largely be contributed to Congress' requiring GSA to change its acquisition strategy to ensure that there were two FTS2000 providers. That trend has accelerated, we believe, both in private and public sector markets toward the acquisition of multiple, shorter-term contracts rather than single, winner-take-all contracts.

In today's climate of rapidly changing global dynamics, short product lifecycles, and increasingly sophisticated technology, the Government cannot afford to enter an inflexible contract or program which will inhibit their ability to take advantage of these worldwide changes. Accordingly, CSC supports GSA's recommendations to eliminate the mandatory use provision and to increase the number and scope of the service contracts.

These would include the expansion of the comprehensive service contract and the introduction of switch data value-added service, wireless service and technical and management support contracts. By providing a variety of service contracts to support the program's

diverse needs, GSA will benefit from continual price competition, and will avoid technology lag that has, in many cases, plagued the current program.

While we strongly support the multiple contract strategy, we're concerned that it must be paired with a comprehensive network management and high-level integration responsibility. It is often seen that organizations will put in place a complex web of technologies and services with no macrolevel responsibility for ensuring that, as whole, the system will respond to the strategic objectives as well as user needs, operate efficiently and benefit from U.S. technological advances.

These services should be provided by an objective third party with no vested interest in selling additional circuits, products or services, and who can ensure interoperability and adherence to standards of testing and performance throughout the system. Rigorous network management can also be used to enhance security and avoid cost accounting problems. The technical and management support service contractors envisioned by GSA could be repositioned to perform these functions.

We hope that the committee will urge GSA to expand the scope of these proposed contracts to reflect these enhanced needs and incorporate additional areas of responsibility beyond those currently described. These may include enterprise-wide management, network management, systems integration across all service providers, management of the technology insertion process and end-user application support and interoperability.

Like my colleagues, the CSC commends the committee for its leadership in reducing the size and scope of our Government through outsourcing. Following the lead of private companies such as General Dynamics, Xerox, Polaroid, Hughes, a growing number of Federal agencies and departments are considering the outsourcing of noncritical, noncore information technology functions to independent third parties, such as those represented today.

If Post-FTS2000 is to achieve its promise to become the NII architecture, it must be used to meet both current and future agency needs throughout the Government. We believe that this should consider the use by DOD and others in Government, which would expand the scope and the reach of this new network procurement. We appreciate the opportunity to share our views today, and, with my colleagues, I'll be pleased to respond to questions. Thank you.

[The prepared statement of Mr. Cooper follows:]

MR. MILTON E. COOPER, PRESIDENT

SYSTEMS GROUP

COMPUTER SCIENCES CORPORATION

Mr. Chairman, Members of the Committee. Good Afternoon.

I am Milt Cooper, President of Computer Sciences Corporation's Systems Group. On behalf of CSC, I am pleased to be here, and appreciate this opportunity to share our views and expertise.

As the largest independent world-wide systems integrator, CSC works closely with DOD, civilian agencies, and commercial companies designing and implementing leading edge technology solutions to some of the most challenging problems facing government and industry today.

For the past seven years, CSC has served as a subcontractor to one of the two FTS2000 providers, and has been an FTS2000 user via our many federal contracts. We are proud to be participating in FTS2000, and have seen first-hand many of the advantages and challenges of this critical program.

We applaud GSA's effort to seek broad input to the Post-FTS2000 planning process and to consider the implications of various acquisitions strategies. Just as the acquisition strategy eight years ago had an enormous impact on the effectiveness of the program, today's discussions and decisions will shape substantially the outcome of the Post-FTS2000 program.

While there are many benefits to the current program, there are also many opportunities for improvement, which I would like to focus on this afternoon, and discuss in the context of the changes in acquisition policy and overall telecommunications policy that have occurred since FTS2000 was launched eight years ago.

These include:

- eliminating mandatory use and expanding the number and scope of service contracts.

- providing for comprehensive network management and high level integration.

- taking advantage of opportunities to outsource non-essential government functions such as data centers and networks

- integrating redundant DOD and civilian agency requirements to achieve economies of scale and the establishment of a true government-wide telecommunications infrastructure.

MULTIPLE CONTRACTS

There is consensus that FTS2000 has saved the U.S. government significant sums. These savings can largely be attributed to Congress requiring GSA to change the acquisition strategy to ensure that there be two FTS2000 providers. The trend toward multiple, shorter term contracts rather than single, winner-take-all deals is increasingly spurred in part by a desire among agencies to increase competition, achieve better pricing and optimize the use of specialized technology and technical expertise to meet strategic objectives. In today's climate of rapidly changing global dynamics, short product life-cycles and increasingly sophisticated technology, the government cannot afford an inflexible contract or program which inhibits or unnecessarily limits the government's access to the best available technology or technical services.

Accordingly, CSC supports GSA's recommendations to eliminate the mandatory use provision and to increase the number and scope of the service contracts. These include the expansion of the Comprehensive Service Contract, and the introduction of Switched Data and Value Added Service and Wireless Service, and Technical and Management Support Contracts.

By providing a variety of service contracts to support the program's diverse needs, GSA will benefit from continual competitive price pressures and will avoid the technology lag that has plagued the current program.

NETWORK MANAGEMENT AND INTEGRATION

While we strongly support the multiple-contract strategy, we are concerned that it must be paired with a comprehensive network management and high-level integration responsibility. It is too often the case that organizations put in place a complex web of technologies and services, with no macro-level responsibility for ensuring that as a whole, the system responds to strategic objectives as well as user needs, operates efficiently, and is benefiting from new technological advances.

These services should be provided by an objective third party, with no vested interest in selling additional circuits, products or services, but who can ensure interoperability and adherence to standards of testing and performance throughout the system. Rigorous network management also can be used to enhance security and avoid cost accounting problems.

The Technical and Management Support Service Contractors (TMSSC) envisioned by GSA would be ideally positioned and knowledgeable to perform these functions. We hope that the Committee will urge GSA to expand the scope of the proposed TMSSC contracts to reflect these needs and would be pleased to provide a list of additional areas of responsibility beyond those identified in GSA's acquisition strategy.

OUTSOURCING

CSC commends the Committee for its leadership in reducing the size and scope of our government. Given the increasing level of budget pressures, it is increasingly critical that government resources are used as efficiently as possible. Following the lead of private companies such as General Dynamics, Xerox, Polaroid and Hughes, a growing number of federal agencies are considering the outsourcing of information technology functions such as network and data center management to industry partners. CSC urges the Committee to ensure that outsourcing options for the Post-FTS2000 program are utilized to the fullest extent possible.

INTEGRATION OF AGENCY REQUIREMENTS

If Post-FTS2000 is to achieve its promise to become the NII architecture, it must be used to meet both current and future agency needs throughout the government. CSC believes DOD's bold initiative to include DISN requirements in the Post-FTS2000 system is an excellent first step. We hope the Committee will continue to encourage GSA to take advantage of this historic opportunity to redesign a government-wide telecommunications infrastructure, and ensure that requirements such as DOD's are considered as acquisition strategies are developed.

In summary, Mr. Chairman, CSC appreciates this opportunity to share our views. I would be pleased to respond to questions.

Mr. HORN. Thank you very much, Mr. Cooper. Let me ask each of you to respond to this question. Your testimony underscores the importance of flexibility in the Post-FTS2000 program so we will have timely access to new and enhanced services throughout the life of that program. What, in the current strategy, under the existing ground rules of GSA, precludes this flexibility? And how would you propose that the Government, structure the new program in order to ensure the timely introduction of new state-of-the-art technologies?

Mr. MESSIER. Yes. The current strategy, really, in our opinion, doesn't define totally the technological implementation of the changes that will be forthcoming in the future. We see it extremely restricted at this time, in essence, with the emphasis on long-term carriers and not really addressing the issue of technology in terms of the implementation. We—I lost track, I lost my train of thought, I'm sorry.

Mr. HORN. Well, we'll let you finish that after Mr. Newstrom and Mr. Cooper.

Mr. NEWSTROM. Mr. Chairman, it would be easy for me to look at the procurement and look back at FTS2000, be a Monday morning, or whatever morning quarterback, and say, for some reason it was flawed. The basic premise of what was put in place was very good. The architecture that was put in place certainly served the Government well. I think you've heard in the testimony today, from almost all parties, that while it has served the Government well, there's a need for change.

And the change is to address technology that is coming at such a rapid pace today that wasn't true 4 or 5 years ago. It is on a continued high level of change. It's done on an incremental basis, it is not just done on a marginal basis. Those are the things that we're going to have to address. The second one, that every person, I believe, with the exception of the first panel, discussed is, the need for competition—open competition.

I have heard the term centralized and decentralized used. And I guess I don't relate to that term as much as I do to this open competition. If you have a Safeway store in your corner shopping center, and that is the only store you allow there, I suspect that market conditions—which is no competition—would drive prices somewhere. I suspect if you allow two stores in that same shopping center, it will drive the prices somewhere else.

I suspect if you allow as many stores as you want, including 7–11s and all the gas stations in the world that sell food and groceries, that will add a new dimension. That is what we're proposing in this strategy, and that's what I would recommend that we do.

Mr. COOPER. Mr. Chairman, I think there is nothing inherently in the span of approaches that the GSA has considered. And I think they considered an enormous span of approaches that would prohibit the type of competition that we're talking about. But the committee has heard today, I think, a very wide spectrum of recommendations as to where the final decision settles in terms of that span of procurement approaches.

I think what I am proposing here, and I believe my colleagues, is that the procurement strategy that is finally approached must consider and must provide for frequent open competition for the

principal elements of the network services that are to be used by the Government.

It's in that context that the systems integration community believes that it has a very enormous role to play, because with that selection of products and services, we believe that the best use by the Government can be facilitated through access to systems integrators without product biases, without preconditioned notions on what is best for that user, to work with the users to select from that range.

Mr. HORN. The strategy that they have now, that you've seen for this Post-FTS world—does that have any constraints that you regard on the service system integrators segment? Do you see any difficulty dealing with that particular strategy as it is now, in terms of your group?

Mr. COOPER. I'll start, if I may. No, we don't see any, again, inherent exclusion—or preclusion, if you will—of our service. We believe that there is significant additional detail, in terms of the types of services that I think we're talking about here at the table, that we would like very much for the GSA to consider.

Mr. HORN. Any other comments on that?

Mr. NEWSTROM. Mr. Chairman, I would agree with Mr. Cooper, but I would also caution the committee that it appears that the trend that we're on is to stay either close to or at the status quo and not make dramatic changes. At least that's the testimony that I heard earlier today.

While I agree with Mr. Cooper that we have every opportunity to help in this way, we do have to be allowed the opportunity to bid in open and fair competition. And a concern or a caution that I would offer is that such a course may not be the way it moves forward.

Mr. HORN. Well, plurality and diversity sometimes annoy people who want to put everybody in little cages or niches. Certainly, as one member of this subcommittee, I feel very strongly everybody should be able to get into this particular role, and the more competition the better, and dealing with one great oligopoly or another, or regional oligopolies or another, I don't think is necessarily the solution.

Mr. MESSIER. We feel that, to some extent, we are excluded from, really, generally participating in a large way, mainly because of the dominance of the pricing strategies that will, in essence, be one of the major criteria for the awards of these contracts. The infrastructure basically supports the incumbents and the long-distance providers.

Although the exact tenet of the RFP has not necessarily come out, we just feel very strongly that the Government would not take full benefit of the integrating function within this area, and would not be as fully participant as we would be in a different kind of a procurement.

Mr. HORN. Thank you.

The ranking member, Mrs. Maloney, of New York.

Mrs. MALONEY. Thank you very much. Each of you advocated outsourcing Government management support. If this approach was adopted, what would the cost implications be to Government? How would we save money by outsourcing?

Mr. MESSIER. Mrs. Maloney, I think, from an integrator perspective, ultimately the cost savings would be significantly more, for a couple of reasons. One, the continuous competition, in terms of the long-distance carriers, and even the access—some of the things that you heard today—but also from the technological standpoint.

I think some of the technology is indeed changing, as we heard today, and the successful implementation from an end-to-end user standpoint is going to be very complex. What you need, we believe, is someone who is unbiased, in terms of product, to, in essence, ensure the end-to-end user for this technological improvement.

And third, really, we see the outsourcing technique as one that would significantly reduce Government staff.

Mr. NEWSTROM. Mrs. Maloney, let me try to approach it from two different angles. The first one is, I sat here and listened to three carriers, three RBOCs, and now three systems integrators. EDS is the general contractor, the systems integrator, if you will, for General Motors, in all of its information technology and communications.

When they bought EDS, in 1984, their costs were rising at about 13—actually, about 13.7—percent increase annually. Since that time, they have been literally flat, in terms of expenses on all information technology, including communications, telecommunications, while their needs have grown substantially.

The beauty of what we are proposing—this systems integration approach—is that we have the ability to buy services and to go out and to procure services from anyone that has the best available price and service. As a matter of fact, every carrier that was here—every one—every RBOC that was at this table, we have purchased services from, in addition to literally hundreds of others. That is one way we keep our prices down.

Second, what we're advocating is, again, open competition. We are concerned that limiting it to one or two potentially creates some issues for the Government. I believe—and I applaud both Sprint and AT&T. I believe they have served you well. However, I believe, if you open up the competition to substantially more players, whether they be carriers, whether they be RBOCs, or whether they be systems integrators, you're going to achieve the best possible solution, the best possible price, for the users.

Mr. COOPER. Mrs. Maloney, the exact savings, of course, would depend on the final analysis of what the Government decided to outsource and the type of outsourcing arrangement that it entered with its vendor, but the models in the private sector—and there are many now, as you know—are that savings of 15 percent per year below those costs that the user had previously projected for a given level of services are not uncommon—in some cases, even greater.

I think Mr. Newstrom spoke—and this sounds like a bit of motherhood, apple pie, but the fact is that the concept around outsourcing is that you allow the people who do information systems and communications systems for a living to do what they do best, and you do what you do best, which has been defined as service to the citizen. The Government will have to decide what it is prepared to outsource—effectively, to turn over control to its industry partner—but every case study would indicate that substantial savings can accrue with this type of arrangement.

Mrs. MALONEY. If the Post-FTS2000 market is allocated for systems integrators, some argue that conflicts of interest may arise. For example, the award of subcontracts by the integrator may be made not on the basis of Government need alone, but on the potential business interests between the integrator and the subcontractor. This result might cause the use of inferior products or result in a higher cost.

Under such a scenario, how would you propose protecting the Government from such possible conflicts of interest?

Mr. NEWSTROM. Please let me start. I think both Mr. Messier and Mr. Cooper—I certainly am—are involved in Government contracts literally on a daily basis. The way the question is stated—"some would argue"—I would like to know who those "some" are. We do enough Government subcontracting, we have enough auditors in our buildings at any time, to certainly keep all of us busy.

The issue, from my perspective, is not how we do that. In fact, I would argue the exact opposite. Allowing subcontractors, allowing a larger variety of people to bid on this type of work, will produce better service at a lower cost to the Government and not create the problems that some would argue that are there.

Mr. MESSIER. We continually, as Mr. Newstrom said, deal daily on subcontracts, and our assessment and our evaluation is done on no product bias; it's focused on the quality and the price advantages that we would gain. We do this—of course, we have all the auditing and all of the protection that is there. Certainly Government oversight would ensure that we maintain that discipline and that integrity.

Mr. COOPER. I don't know that I would add a lot, Mrs. Maloney, to that, other than, all of us are striving to be in business for a very long time, and companies that violate their client trust typically don't stay in business for a long time. Beyond that, there are many audits, there are many rules, regulations, et cetera, in the client-contractor relationship that would certainly ameliorate any danger in there, I believe.

Mrs. MALONEY. Thank you very much.

Mr. HORN. Thank you, Mrs. Maloney.

Let me conclude with one question. As a university president, I had a number of occasions where we got into computer procurement, either university-wide or system-wide; or telephone procurement, university-wide or system-wide. I came to the conclusion, after a lot of those experiences, that I never want to be first again; I want to be the second one.

Let me ask you this. Should we let the French Government first experiment with the ATS, Post-FTS2000, or is the current era we're in sufficient to learn our mistakes, so we'll be a little wiser the next time around?

Mr. MESSIER. I will always contend that being wiser is the best policy, and I would think that, from our standpoint, we should learn, of course, from our international brethren but smartly move out on this.

Mr. HORN. Any other comments of wisdom? You've seen a lot of these go out. You've seen a lot of people say, "We're going to do this," and then they can't do it and were left holding the bag as the user and consumer.

Mr. COOPER. I think, Mr. Chairman, that the resources available to the Government, from a product point of view, a carrier point of view, a systems integration services point of view, are enormous in scope and, I think, give us an enormous opportunity to have a dramatic success. And I don't believe I would be terribly concerned about the type of catastrophic failure that, perhaps, you had with your telephone system.

Mr. HORN. Well, we thank you all. I'd like to thank the majority staff for its role in preparing this hearing: Ellen Brown is our full committee procurement counsel; Keith Brown is a committee LEGIS fellow; and Andrew Richardson is of the subcommittee staff, and Beth Shields, our reporter of debates.

This hearing will be in recess until the last hearing in the series, which will begin at 2 o'clock on March 28, a Tuesday, here in this room, and we will continue with some more witnesses on the environment of the Post-FTS2000.

The meeting is adjourned.

[Whereupon, at 3:50 p.m., the subcommittee was adjourned subject to the call of the Chair.]

POST FEDERAL TELECOMMUNICATIONS SYSTEM (POST-FTS2000) ACQUISITION STRATEGY

TUESDAY, MARCH 28, 1995

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION, AND TECHNOLOGY,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:05 p.m., in room 2154, Rayburn House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn, Davis, Fox, Clinger, Maloney, and Wise.

Staff present: Ellen B. Brown, committee procurement counsel; J. Russell George, staff director; Susan Marshall, procurement specialist; Andrew G. Richardson, clerk; Ron Stroman, minority deputy staff director; and Cheryl Phelps, minority professional staff member.

Mr. HORN. The subcommittee will be in order, a quorum being present.

If the witnesses would stand and raise your right hand. We have a tradition in the committee of swearing in all witnesses.

[Witnesses sworn.]

Mr. HORN. Let the clerk note that all members affirmed.

I have a brief opening statement, and I suspect the chairman does, too. I'll ask him to go first.

Mr. CLINGER. Thank you very much, Mr. Chairman. I'm pleased to join you again today to continue your very excellent hearings on the Post-FTS2000 Acquisition Strategy. As I said last week—and I think it's important to stress it again and again—the Government Reform and Oversight Committee does take, and will continue to take, its oversight role of Federal procurement very seriously, and we view this program as one of our most important, if not the most important, oversight responsibility.

So today we continue that commitment—my really personal commitment—to ensure that the Federal Government receives technically effective and cost-efficient telecommunications services in the Post-FTS2000 environment.

Last week, a number of issues were raised by a number of well-respected and very knowledgeable people in the telecommunications area. It is important that, as the Government proceeds with its development of this program, it addresses and resolves the is-

sues, several issues, that were raised by the hearing last week and, I'm sure, having looked at some of the testimony, will be raised here today.

We are pleased, very pleased, the Government is represented today by such a distinguished and very knowledgeable panel. We certainly do not intend to micromanage this program or tell you how to do your jobs. That's not our function. We can raise issues, set overall policy guidance, and expect that these issues will be addressed, and our policy guidance followed, before the Government proceeds to the next phase of the program.

So we ask your cooperation in that, but, as I also said last week, it is clearly up to you, who are the users and managers of this program, and the vendors supplying the services to make the Post-FTS2000 program a success. We all, I think, in this room share that goal, of bringing this to a successful conclusion.

So I personally want to thank each and every one of you for your commitment and dedication and hard work with regard to this very complex, very difficult program, with a lot of issues to be resolved. You have done, I think, much of the heavy lifting already, but there does appear to be more ahead, as we go down the road. So I'm looking forward to hearing from you today and to working with you as you fine-tune and finalize your concepts for the draft RFPs, the RFPs, and, finally, the awarding of the contracts.

Thank you very much, Mr. Chairman.

[The prepared statement of Hon. William F. Clinger, Jr. follows:]

Opening Statement of the

Honorable William F. Clinger, Jr.

Chairman

Committee on Government Reform and Oversight

March 28, 1995

I am pleased to be here today to continue our hearings on the Post-FTS2000 Acquisition Strategy.

As I said last week, and it is important to reiterate, the Government Reform and Oversight Committee takes its oversight role of Federal procurement seriously, and we view this program as one of our most important oversight responsibilities. Today, we continue our commitment – my personal commitment – to ensure that the Federal government receives technically-effective and cost-efficient telecommunications services in a Post-FTS2000 environment.

Last week, a number of issues were raised by many well-respected and knowledgeable people in the telecommunications

area. It is important that, as the government proceeds with its development of this program, it addresses and resolves the issues raised by these hearings.

We are pleased that the government is represented today by such a distinguished and knowledgeable panel. We certainly do not intend to micromanage this program or tell you how to do your jobs. We can raise issues, set overall policy guidance, and expect that these issues will be addressed and our policy guidance followed before the government proceeds to the next phase of the program. But as I also said last week, it is up to you -- the users and managers of this program -- and the vendors supplying the services to make the Post-FTS2000 program a success.

I personally want to thank you all of you for your commitment and dedication to this program. You have done much of the "heavy lifting" already, but there appears to be more ahead. I look forward to hearing from you today and to working with you as you fine tune your concepts for the draft RFPs, the RFPs and finally, the awarding of the contracts.

Mr. HORN. Thank you, Mr. Chairman.

I now recognize the ranking minority member on the subcommittee, Mrs. Maloney of New York.

Mrs. MALONEY. Thank you very much, Mr. Chairman.

The current contract represents costs of approximately $580 million per year, and with the addition of major segments of the Department of Defense it could reach $900 million next year.

I commend the administration for its efforts to achieve a coherent Post-FTS2000 strategy. Its report represents months of concentrated effort and includes a wide range of views from industry, users, Government, and academia.

FTS2000 has been, by many measures, a success. However, we must continue to ensure that the American taxpayer gets all possible value for the tax dollar.

In light of the importance of the Post-FTS2000 procurement, the recent reports of key staff losses at GSA are very troubling. It is difficult for me to understand how the agency plans to complete this contract, given the imminent departure of crucial employees.

I will also be interested to hear from the Department of Defense about its plans for integration into a comprehensive Federal telecommunications system. We all understand that a certain amount of sensitive command and control telecommunications traffic should remain separate and secure. On the other hand, the more of its non-secured, day-to-day, and administrative traffic which DOD incorporates into the overall system, the greater our savings could be. We need reliable estimates for the Department of Defense, and I look forward to the testimony of today's witnesses.

The changes in information technology over the past decade have been truly phenomenal. Developing a strategy for Post-FTS2000 is made all the more difficult because we must not only incorporate these changes, but also attempt to anticipate those that may come in the near future. I look forward to working with you, Mr. Chairman, and with Chairman Clinger and Representative Collins, as we move with the Federal Government toward 21st-century information technology.

Thank you, Mr. Chairman, and I ask unanimous consent that the ranking minority member of the committee, Mrs. Collins, have her opening statement be placed in the record.

Mr. HORN. Without objection, it is so ordered.

[The prepared statements of Hon. Carolyn B. Maloney and Hon. Cardiss Collins follow:]

CAROLYN B. MALONEY
14TH DISTRICT, NEW YORK

1504 LONGWORTH BUILDING
WASHINGTON, DC 20515-3214
(202) 225-7944

COMMITTEE ON BANKING AND FINANCIAL SERVICES

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

Congress of the United States

House of Representatives

Washington, DC 20515–3214

DISTRICT OFFICES:

☐ 110 EAST 59TH STREET
2ND FLOOR
NEW YORK, NY 10022
(212) 832-6531

☐ 28-11 ASTORIA BLVD.
ASTORIA, NY 11102
(718) 932-1804

☐ 619 LORIMER STREET
BROOKLYN, NY 11211
(718) 349-1260

STATEMENT OF HON. CAROLYN MALONEY

AT THE HEARING ON POST-FTS 2000 ACQUISITION STRATEGY

March 28, 1995

Thank you Mr. Chairman. Today we continue our examination of the proposals for the acquisition of telecommunications services after the current contract expires. I look forward to hearing the testimony of the General Services Administration and the Department of Defense.

As you know, FTS 2000 is the largest civilian procurement ever undertaken by the Federal government, serving the long-distance voice and data communications needs of more than 1.7 million federal employees across the United States. The current contract represents costs of approximately $580 million per year and, with the addition of major segments of the Department of Defense, could reach $900 million next year.

I commend the Administration for its efforts to achieve a coherent post-FTS 2000 strategy. Its report represents months of concentrated effort and includes a wide range of views from industry, users, government and academia.

FTS 2000 has been by many measures a success. However, we must continue to ensure that the American taxpayer gets all possible value for the dollar. In light of the importance of the Post-FTS 2000 procurement, the recent reports of key staff losses at GSA are very troubling. It is difficult for me to understand how the Agency plans to complete this contract, given the imminent departure of crucial employees.

I will also be interested to hear from the Department of Defense about its plans for integration into a comprehensive Federal telecommunications system. We all understand that a certain amount of seasitive command and control telecommunications traffic should remain separate and secure. On the other hand, the more of its non-secure, day-to-day and administrative traffic which DOD incorporates into the overall system, the greater our savings could be. We need reliable estimates from the Department of Defense and I look forward to the testimony of today's witnesses.

The changes in information technology over the past decade have been truly phenomenal. Developing a strategy for post-FTS 2000 is made all the more difficult because we must not only incorporate those changes but also attempt to anticipate those that may come in the near future. I look forward to working with you Mr. Chairman, and with Chairman Clinger and Representative Collins, as we move the Federal government toward 21st century information technology.

Thank you Mr. Chairman.

OPENING STATEMENT OF REP. CARDISS COLLINS SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY

"Oversight Hearing on Post-FTS 2000 Acquisition Strategy"

March 28, 1995

Mr. Chairman, the post-FTS 2000 acquisition strategy appears to be in serious trouble. Last April the Interagency Management Council's Acquisition Working Group called for the establishment of an effective management structure for post-FTS 2000. Yet, according to the General Accounting Office, one year later, GSA has still failed to "determine what management functions are required, and who will be performing them." With GSA's draft Request for Proposal due in two months, when are these management issues going to be resolved?

GAO also pointed out that current FTS 2000 users "have been frustrated by the lack of interoperability between the video teleconferencing and data

communications services furnished by the two service providers." If the Federal government is having interoperability problems with two vendors, the problems of interoperability could increase dramatically with the proposed multi-contract, multi-vendor strategy. Yet, as GAO has pointed out, the post-FTS 2000 strategy "does not define the government's particular interoperability needs or indicate how those needs will be met." Again I ask the question, with a draft Request for Proposal due in two months, when will these issues be resolved?

GAO has also stated that the post-FTS 2000 strategy has failed to clearly describe what its operational requirements are. Vague requirements are a recipe for failure. Unless we know precisely what the requirements of this procurement will be, we could find ourselves with an RFP that doesn't adequately meet the needs of the Federal government. In addition, clear operational requirements are needed to assure interoperability, network management, security, and ease of billing.

Currently, DOD's non-command and control traffic is on FTS 2000. GSA should ensure that this traffic continues on the post-FTS 2000. In the past, DOD was resistant to moving their traffic to FTS2000. Without the full participation of the Department of Defense, the post-FTS 2000 program will not achieve the best telecommunications possible for the Federal government.

Mr. Chairman I do not believe that the recommended strategy adequately builds upon the demonstrated successes of the current program. According to GSA's 1994 Report to the Congress on the Cost Effectiveness of the FTS 2000 Program, the FTS 2000 program is 17.9 percent less expensive than commercially equivalent prices. In other words, the Government's telecommunications needs as met by FTS 2000 could not be met at lower prices by commercial equivalent services. According to GSA, this means projected cost savings of approximately 4 billion dollars over the life of FTS 2000.

The ideal acquisition strategy should maintain the successful features of current program, while addressing a variety of new needs -- international and local requirements, special security requirements, integration support requirements, and innovation in telecommunications technologies. As far as I am concerned, the burden of proof remains with GSA to demonstrate that this new strategy will be able to attain the same or better cost savings than FTS 2000.

Finally, it has come to my attention that the Office of FTS 2000 will lose its two key staff responsible for the administration of the current FTS 2000 program, the recompetition, and the post-FTS2000 procurement: the Deputy Associate Administrator and the Assistant Deputy Associate Administrator. The pending departure of these two employees will create a procurement talent vacuum within the Office of FTS 2000. In view of GSA's current downsizing plans it is difficult to imagine how GSA will be able to replace these two key employees with staff of comparable experience. This will make it very difficult for GSA to manage the proposed multi-contract, multi-vendor post-FTS 2000 strategy.

Mr. Chairman, GSA should immediately resolve these and other issues before the draft RFP comes out in two months. This will require the GSA Administrator to become directly involved in these discussions. Without his immediate attention to these issues, I fear the post-FTS 2000 strategy is doomed for failure.

I am disappointed that we do not have Roger Johnson, the GSA Administrator, here today to discuss these issues. This Committee was able to develop an effective FTS2000 strategy only after a former GSA Administrator, Terry Goldin, became personally involved. I strongly believe that the same level of involvement is now required by Mr. Johnson.

I join my colleagues in welcoming today's witnesses. I thank them for their time and, in light of the seriousness of the issues facing the multi-billion dollar post-FTS2000 program, I await their remarks with interest.

Mr. HORN. The subcommittee is meeting today to complete the testimony on the Federal Government's Post-FTS2000 Acquisition Strategy. Last week, we heard from the General Accounting Office, various well-respected representatives from the telecommunications industry. Many important and thought-provoking issues were raised by those witnesses, and today we're asking you, as Government officials who are responsible for developing the program strategy, to discuss these issues with us.

We recognize arriving at a final strategy is no easy task and that, when the Government undertakes an acquisition program as large as this, there will be much criticism, but, as I said last week, we commend the executive branch for beginning to make these decisions early enough in the process to allow for sufficient debate and discussion of the issues raised.

I thank you in advance for your testimony. I think you know the practice: that your full statement will be put in the record at each point after we introduce you. Then we would like you to summarize that statement in 5 minutes, and then we will proceed, alternating between the majority and the minority, with a round of questions.

We might not be able to ask all the questions we would like today, since Mr. Clinger and I are due in a markup at about 3 o'clock, in the Transportation and Infrastructure Committee, but we'll do the best we can; and if not, we might send you some questions. You would still be under oath, and we'd appreciate your answers.

[The prepared statement of Hon. Stephen Horn follows:]

Opening Statement of the

Honorable Stephen Horn, Chairman

Subcommittee on Government Management,

Information and Technology

March 28, 1995

The Subcommittee on Government Management, Information and Technology will come to order.

The Subcommittee is meeting today to continue hearing testimony on the Federal government's Post-FTS2000 Acquisition Strategy.

Last week, we heard from the General Accounting Office and well-respected representatives from the telecommunications industry. Many important and thought-provoking issues were raised by our witnesses. Today, we have asked the government officials responsible for developing the program strategy to discuss these issues with us.

We recognize that arriving at a final strategy was no easy task and that, when the government undertakes an acquisition program as large as this, there will be much criticism. But as I said last week, we commend the executive branch for beginning to make these decisions early enough in the process to allow for sufficient debate and discussion of the issues raised.

I thank the witnesses in advance for their testimony and for taking the time to be here today to share with us your vision of the Post-FTS2000 program.

Mr. HORN. With that, let us proceed with Mr. Robert J. Woods, the Associate Administrator for FTS2000 in the General Services Administration. As I understand it, you are accompanied by Ms. Sandra Bates, of the Office of Space Communications, National Aeronautics and Space Administration, who chairs the Interagency Management Council, IMC, about which we have heard much, and I commend you on trying to pull that group together; also, Dr. John Okay, Director of the Office of Information Resources Management, Department of Agriculture, and the former chair of the Interagency Management Council.

Mr. Woods.

STATEMENTS OF ROBERT J. WOODS, ASSOCIATE ADMINISTRATOR FOR FTS2000, GENERAL SERVICES ADMINISTRATION, ACCOMPANIED BY SANDRA BATES, OFFICE OF SPACE COMMUNICATIONS, NATIONAL AERONAUTICS AND SPACE ADMINISTRATION, AND CHAIR, INTERAGENCY MANAGEMENT COUNCIL; AND JOHN OKAY, DIRECTOR, OFFICE OF INFORMATION RESOURCES MANAGEMENT, DEPARTMENT OF AGRICULTURE, AND FORMER CHAIR, INTERAGENCY MANAGEMENT COUNCIL; EMMETT PAIGE, JR., ASSISTANT SECRETARY OF DEFENSE FOR COMMAND, CONTROL, COMMUNICATIONS, AND INTELLIGENCE, DEPARTMENT OF DEFENSE, ACCOMPANIED BY ALBERT J. EDMONDS, DIRECTOR, DEFENSE INFORMATION SYSTEMS AGENCY, DEPARTMENT OF DEFENSE; AND D. DIANE FOUNTAINE, PRINCIPAL DEPUTY, DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR COMMAND, CONTROL, AND COMMUNICATIONS, DEPARTMENT OF DEFENSE

Mr. WOODS. Thank you, Mr. Chairman. Mr. Chairman and members of the subcommittee, I would like to thank you for the opportunity to participate in this hearing, which addresses a topic of considerable and continuing interest to my customers, the Federal Government agency users of telecommunications.

Through the FTS2000 services-based contracts, GSA provides to Federal Government users high-quality, modern telecommunications services at or below the best market prices.

The FTS2000 services-based acquisition concept, considered by some to be revolutionary at its inception, because of the reliance placed on the private sector for the provision of services, continues to reap benefits for Federal users and the American taxpayer.

A principal reason for the success of this program has been, and continues to be, the active participation and support from our users. During the past 6 years, GSA and Federal agency users have built the IMC, the Interagency Management Council, into a truly effective, proactive advisory group to the administrator of GSA. The FTS2000 program is stronger and more effective because of the user participation provided through this body.

The Post-FTS2000 program will continue the success of the current program by providing quality, up-to-date, cost-efficient services to Government users into the third millennium. In the Post-FTS2000 program, we must strive to take the next step, to leverage information and telecommunications technologies to further improve the overall functions and services of Government.

We need to design a new structure for measuring the success of our program and our initiatives. In the Post-FTS2000 program, we need to measure the telecommunications services that we provide not just in terms of price, ease of use, and quality of services, but also in terms of Government services of tomorrow: how we will be improving the delivery of Government services to the citizen, how we are facilitating cross-agency programs and services, how we are enabling the delivery of services to State, local, and tribal governments, how we are helping to reduce bureaucracy, and how we are reducing the overall cost of operating Government and delivering programs and services to our ultimate customers, the citizens of this country.

With our strategy defined for taking this next step, we must leverage the total set of Government requirements and can do so to provide telecommunications services through a mechanism flexible enough to exploit the changing technological, marketplace, and regulatory forces.

We also want to make use of the vast private-sector-owned and -operated information and telecommunications infrastructure already built through private-sector investments. We are convinced that, by leveraging the total Government requirements, we can provide incentives for further development of that private-sector infrastructure in ways that will benefit the Federal Government, citizens, users, and the national economy in general.

The IMC's Post-FTS2000 program strategy evolves from the current program strategy, to adopt a flexible approach, with more competition and user choices. Through the recommended strategy, the IMC seeks to maximize competition for commercial services, while at the same time maximizing flexibility and choice available to users.

Acquisitions will be initiated, and contracts awarded, as appropriate throughout the duration of the FTS2000 program. In this sense, the post program is an umbrella program of multiple contracts initiated and terminated based on continuing strategic decisions, rather than on a set of fixed contracts. All contracts will generally be available to all agencies, and user agencies will generally have the right to choose which contracts they use to meet their needs, to buy from multiple contracts, and to change contractors and services when appropriate.

The Government teams continue to meet the schedule set some time ago by the IMC. As we continue to prepare the RFPs, we will continue to strive to leverage the complete set of Federal Government requirements in a manner that will provide price and quality-of-service benefits to all our users.

This concludes my prepared remarks for today, and I look forward to providing any information I can to aid the subcommittee as it addresses the implications of our undertakings.

[The prepared statements of Mr. Woods, Dr. Okay, and Sandra Bates follow:]

STATEMENT OF ROBERT J. WOODS

ASSOCIATE ADMINISTRATOR,

OFFICE OF FTS2000

GENERAL SERVICES ADMINISTRATION

Mr. Chairman and Members of the Subcommittee, I would like to thank you for the opportunity to participate in this hearing which addresses a topic of considerable and continuing interest to my customers, the Federal Government agency users of telecommunications. The Office of FTS2000 would like to thank this subcommittee for your long and continuing interest in the FTS2000 program. We owe thanks to you and your staff for the program's success, and its ongoing support and policy direction. We look forward to continuing this productive exchange of ideas today and in the future.

In my comments this afternoon, I will address two topics:

1. I will summarize the current status of the FTS2000 program, specifically how FTS2000 is meeting increased user demand for quality telecommunications services, at prices that safeguard scarce taxpayer dollars.

2. I will discuss the Post-FTS2000 program strategy released last December by our customer advisory group the Interagency Management Council, including the unprecedented input received from industry as we defined the strategy.

1. The FTS2000 Program

Through the FTS2000 services-based contracts, General Services Administration (GSA) provides to Federal Government users high-quality, modern telecommunications services at or below the best market prices. The FTS2000 services-based acquisition concept, considered revolutionary at its inception by some because of the reliance placed on the private sector for the provision of telecommunications services, continues to reap benefits for Federal users and the American taxpayer.

Today, FTS2000 serves more than 1.7 million users at thousands of locations across the nation, its territories and possessions. Currently, FTS2000 carries about 375 million minutes of voice traffic each month (including fax and modem-based data traffic) and is providing over 12 thousand dedicated transmission circuits to our users. The FTS2000 services are providing user agencies with capabilities to do their jobs efficiently and economically.

FTS2000 continues to strive to keep pace with users' requirements. In the first six years of the contracts, we have incorporated feature and service enhancements to address specific customer requirements, and have made these enhancements available to all customers. Within the scope of the contracts, we have worked hard to evolve the service offerings to meet current user needs and to anticipate future needs and technology advances.

These enhancements include advanced 800 voice service, high-speed data transmission services at 45 megabits per second, and secure packet service for data applications, as well as anticipated enhancements such as the leading edge ATM and SONET data services. Overall, FTS2000 has achieved a level of service and quality unparalleled within the Federal arena for an undertaking of this magnitude and far-reaching importance.

This tremendous explosion of growth has occurred within an evolving framework of clear, consistent, and aggressive approaches to price management. The initial competition for awards established a ten year baseline of fixed prices for advanced telecommunications services. In addition to the initial competition, FTS2000 has built-in price redeterminations at contract years four and seven that require the two FTS2000 contractors to compete head-to-head again. Over the last three years, FTS2000 users have seen a 35% reduction in the price of switched voice service. Using publicly available price comparisons, FTS2000 prices are managed to ensure that prices stay at or below market prices. The FTS2000 program has realized significant savings for the Government and the American taxpayer through the end of fiscal year 1994 and will continue to provide savings through the end of the FTS2000 contracts.

A principle reason for the success of the FTS2000 program has been and continues to be the active participation and support from our users. During the last six years, GSA and the Federal

agency users have built the Congressionally-mandated Interagency Management Council (IMC) into a truly effective, pro-active advisory group to the Administrator of General Services. The IMC has played major roles in the current FTS2000. For example, the IMC helped to shape and solve such issues as price management, staffing levels and overhead charges of the GSA program office, new features, year four price redetermination, billing management, and network management. Today, the IMC continues its active participation in issues such as the year seven price redetermination, the continued inclusion of new features reflecting advancements in technology, and the definition of the Post-FTS2000 program. The FTS2000 program is stronger and more effective because of the user participation provided through the IMC. We believe that IMC/FTS2000 is a model for the way agencies can involve customers in how they do business.

2. Post-FTS2000 Program Strategy

The current FTS2000 program has made great strides in improving the technical-currency and cost-effectiveness of providing telecommunications services. The Post-FTS2000 program will provide quality, up-to-date, cost efficient telecommunications services to Government users into the third millennium. However, in the Post-FTS2000 program we must strive to take the next step. We need to leverage information and telecommunications technologies to further improve the overall functions and services of Government. We need to design a new

structure for measuring the success of our programs and initiatives. In the Post-FTS2000 program, we need to measure the telecommunications services that we provide not just in terms of price, ease of use, and quality of services, but also in terms of the Government services of tomorrow: how are we improving the delivery of Government services to the citizen, how are we facilitating cross agency programs and services, how are we enabling the delivery of services to state, local, and tribal governments, how are we helping to reduce bureaucracy, and how are we reducing the overall cost of operating Government and delivering programs and services to our customers - the citizens of this country.

With our strategy defined for taking this next step, we believe that we are not limited to just leveraging available information technology. We also have an opportunity to leverage the total set of Government requirements and can do so to provide telecommunications services through a mechanism flexible enough to exploit the changing technological, marketplace, and regulatory forces. We also want to make use of the vast private sector owned and operated information and telecommunications infrastructure already built through private sector investments. We are convinced that by leveraging the total Government requirements we can provide incentives for further development of that private sector information in ways that will benefit the Federal Government, citizens, users, and the national economy in general.

The current Office of FTS2000, and its predecessor organizations, have provided intercity telecommunications services since 1963. The first graphic shows the increasing use of private sector resources in the provision of telecommunications services. Since 1988, the FTS2000 program has realized large cost savings and enhanced service delivery through re-engineering efforts that have allowed for major functions previously provided by GSA to be competitively turned over to private sector contractors. The Post-FTS2000 program strategy expands private sector involvement through the number and scope of contracts to be awarded and also broadens the scope of the functions that become the responsibility of the private sector.

The Office of FTS2000, with its user advisory group, the Interagency Management Council, recently released the *Post-FTS2000 Program Strategy*. This program strategy was developed in an environment unprecedented in its openness and extent of dialogue with industry and our users. The IMC formed two working groups to aid in the definition of the Post-FTS2000 program. The Future Communications Services Working Group led by Dr. John Okay, the Director of Information Resources Management at the Department of Agriculture, examined the Government's requirements for the Post-FTS2000 time frame. During 5 months of active study, the Future Communications Services Working Group interviewed 520 individuals at over 40 industry firms and 25 Government agencies. The Acquisition Working Group, with Dr.

Bill Chou the Deputy Assistant Secretary for Information Resources Management at the Department of the Treasury as its chair, was established to develop an overall program strategy for the Post-FTS2000 environment. During 15 months of work, the Acquisition Working Group shared three concept papers with industry, held two, multi-day concept development conferences, and made five calls for industry comments. The resultant Post-FTS2000 program strategy is stronger because of the ideas presented and suggested by industry.

The Post-FTS2000 program strategy is built on the concepts that have made FTS2000 successful, as well as reflecting the continuing changes in telecommunications technologies, marketplaces, and user requirements. In 1993, the IMC members reviewed the fundamental and successful FTS2000 principles on which the post-FTS2000 environment would need to be built. These fundamental principles are:

- Use competitive market pressures with more than one contractor

- Use the commercial telecommunications marketplace to procure services that satisfy user requirements

- Deliver high quality services, at or below market prices

- Allow for the improvement of services over the life of the service contracts to meet evolving user needs and to reflect additions to the commercial marketplace of advancing technologies

- Ensure the active involvement and participation of agency users through the IMC

The IMC's Post-FTS2000 program strategy evolves from the current FTS2000 program strategy to adopt a flexible approach with more competition and user choices. Through the recommended strategy, the IMC seeks to maximize competition for commercial services, while at the same time maximizing flexibility and choice available to the agency users. The Post-FTS2000 program strategy employs a market-oriented program, comprising multiple, overlapping contracts, multiple sources of supply, mechanisms to provide new and improved services on a timely basis, and an ability to initiate acquisition or contract actions as needed to meet user needs in a responsive manner. This paradigm shift--from the current model of two centrally managed ten year mandatory contracts--will put the Government in a position to take maximum advantage of the dynamic industry structure and technological environment that will characterize the early 21st century. The program's scope will include current and future services needed by agencies to meet their telecommunications requirements, including intercity, wireless, and international

voice and data. The IMC recommended that this scope grow in time to include end-to-end services.

In today's dynamic marketplace, multiple contracts will be needed to meet Government requirements most effectively. The contracts will vary in scope of services, and may offer overlapping and/or staggered terms. The Government will encourage competition through multiple contracts of the same, and overlapping, scope. In order to implement Federal initiatives related to the National Information Infrastructure and the National Performance Review, the Government will require interoperability between different contractors' telecommunications services.

Acquisitions will be initiated and contracts awarded as appropriate throughout the duration of the Post-FTS2000 program. In this sense, Post-FTS2000 is an umbrella program of multiple contracts, initiated and terminated based on continuing strategic decisions, rather than a set of fixed contracts. All contracts will generally be available to all agencies, and user agencies will generally have the right to choose which contracts they use to meet their needs, to buy from multiple contracts, and to change contractors and services when appropriate. The exact number of contracts will be determined based on the economies of scale and in a manner that ensures that the government's requirements are leveraged to the maximum extent possible.

The various working groups and Government teams continue to meet the schedule set some time ago by the IMC. We are currently working to prepare the draft Requests for Proposals (RFPs), one for Telecommunications Services and one for Technical and Management Support Services. As we continue to prepare the RFPs, we will continue to accept industry comments. We still look to maintain a dialogue with industry in our defining of the specific technical services, as well as answering implementation concerns related to interoperability, security, network management, and billing. As we continue to prepare the RFPs, we will continue to strive to leverage the complete set of Federal Government requirements in a manner that will provide price and quality of service benefits to all users.

Again, I thank you for the opportunity to provide comment here this afternoon and welcome the Subcommittee's interest in the continuing procurement of technically-effective, high-quality, and cost-efficient telecommunications services. We look to continuing our work together to meet future challenges.

This concludes my prepared remarks for today and I look forward to providing any information I can to aid the Subcommittee as it addresses the implications of our undertakings.

OFFICIAL

STATEMENT OF DR. JOHN OKAY
IMMEDIATE PAST CHAIRMAN OF THE
INTERAGENCY MANAGEMENT COUNCIL
BEFORE THE SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION AND TECHNOLOGY, COMMITTEE ON
GOVERNMENT REFORM AND OVERSIGHT
UNITED STATES HOUSE OF REPRESENTATIVES

March 28, 1995

Mr. Chairman and Members of the Committee. I would like to thank you for this opportunity to address the Committee on a subject that is extremely important to the agency members of the Interagency Management Council (IMC), that is, the provision of telecommunications services in the Federal Government. Over the last several years, I have participated in the FTS2000 Program and the IMC in a variety of roles, including the Chairman of the Future Communications Services Working Group in 1993 and the Chairman of the IMC in 1994. During this time, I have seen first-hand how the federal agency personnel can improve the FTS2000 and Post-FTS2000 Programs through their direct participation in the strategic decisions affecting the programs. Through the IMC, a true partnership between the program office and the user community has been built. In my comments this afternoon, I will review the IMC's

participation in the Post-FTS2000 Program Strategy that the IMC recommended to the Administrator of General Services.

The IMC and Office of FTS2000 worked as partners to develop the Post-FTS2000 Program Strategy. In March, 1993, the General Services Administration (GSA) Office of FTS2000 discussed with the IMC the need to begin examining how inter-city telecommunications services would be provided at the conclusion of the current FTS2000 contracts. From that 1993 meeting the partnership was formed between the IMC and the Office of FTS2000 to develop a Post-FTS2000 Program Strategy. The IMC's approach was based on the premise that early, open discussion of requirements and program strategies involving users, industry, and other interested parties, including this Committee and other committees of the Congress, would significantly improve the resulting Post-FTS2000 concept. With that in mind, the IMC formed two subcommittees: the Future Communications Services Working Group and the Acquisition Working Group. Over the last two years and through the hard work of these two IMC working groups, the Post-FTS2000 Program Strategy was developed in an environment enjoying a dialog with industry and other interested parties unprecedented in its openness and early release of government plans. This first graphic presents a summary of this open dialog for each step of the two working groups' deliberations.

. The Future Communications Services Working Group (FCSWG) was charged with the initial determination of user requirements and the assessment of telecommunications and applications technologies in the 1998 through 2008 time frame. This working group interviewed 350 persons in Federal Government agencies, as well as 170 persons from 40 private sector organizations and academic institutions. The interviews and detailed work of the FCSWG staff confirmed that the Post-FTS2000 environment would be extremely dynamic, from the perspective of changes in Government missions, the telecommunications marketplace, and the underlying telecommunications and information technologies. Government managers told the FCSWG that growth in the demands on Government, budgetary constraints, and increased needs for integration and interoperability of Government services made it nearly impossible to predict detailed requirements more that three years in the future with any degree of certainty. Similarly, industry managers told the FCSWG that they could not predict with certainty their products and services more than five years into the future. One industry executive told us that 50% of the products that he would be selling in three years were not even under development today.

The FCSWG report, entitled *Networking for a Reinvented Government: Federal Telecommunications Requirements and Industry Technology Assessment* and released publicly in

November 1993, presented the group's major themes, which I have included on this second graphic. The broad themes are:

- The telecommunications requirements of the Government are, and will remain, extremely broad in nature and varied in detail. Further, for the period 1998-2008, these requirements can be predicted only very approximately, both in quantity and in type.

- Government budgets will be severely constrained for years to come, while demands on the Government to provide services to the citizens are likely to increase. Significant re-engineering of the way in which Government performs its functions is likely. The National Performance Review is an early indication of possible changes.

- Telecommunications technology and services, and the telecommunications industry itself, have been undergoing rapid and profound changes in the past several years. These changes will continue and possibly intensify in the years ahead.

These themes led the working group to the fundamental Post-FTS2000 requirement; that is, the ability to provide telecommunications services through a mechanism flexible

enough to adapt to changing technological, marketplace, and regulatory forces.

The Acquisition Working Group (AWG) was charged with defining a program strategy for the Post-FTS2000 environment which would build upon the findings of the Future Communications Services Working Group. The first action taken by the AWG was to seek input from all interested parties, especially industry. Comments were sought through two mechanisms. First, a call for written comments was made in July 1993 and continued through concept definition. We received comments from 25 interested parties. As written comments were received, they were placed in our publicly available Concept Development Record. Second, the first Concept Development Conference was held to seek verbal comments from interested parties, as well as nationally-known experts in telecommunications technologies, marketplaces, and regulation. At this October 1993 conference, the Acquisition Working Group and 500 observers heard from 44 speakers representing a variety of carrier, integrator, academic, regulatory, and Congressional points of view.

Only after making this call for written comments and conducting this public conference did the Acquisition Working Group begin to define alternative acquisition strategies. Eight families of alternative program

strategies were defined. These families of alternative strategies represented a broad spectrum of possible Post-FTS2000 concepts. Seeking additional comments from vendors, users, and other interested parties, the Acquisition Working Group publicly released the *Post-FTS2000 Acquisition Alternatives White Paper* in April, 1994.

As industry responded with clarification questions and comments, the Acquisition Working Group, under the leadership of Dr. Bill Chou, Deputy Assistant Secretary for Information Resources Management at the Department of the Treasury, initiated its analysis of the eight families of alternatives. During the analysis conducted in the summer of 1994, the Acquisition Working Group sought industry comment on the Security White Paper and again asked for comments related to the alternatives. In September, 1994, the Acquisition Working Group released its report entitled *Analysis of Post-FTS2000 Alternatives*, which winnowed the eight families of alternatives to four, defined the Post-FTS2000 scope, and enumerated the Post-FTS2000 technical services. Simultaneous with the release of the *Analysis of Post-FTS2000 Alternatives*, the IMC again sought industry comments through a second Concept Development Conference. In October, 1994, the Acquisition Working Group and 300 observers heard speakers from 15 industry organizations and several IMC panel members during two days of dialog. This third graphic shows the different companies that

participated in the AWG's concept development conferences or responded to the calls for papers.

After considering all of the industry comments, the Acquisition Working Group drafted and debated the Post-FTS2000 Program Strategy. Following completion by the Working Group, the strategy was presented to the full Interagency Management Council, which in turn recommended it to the Administrator of General Services. Administrator Johnson accepted the strategy and released the *Post-FTS2000 Program Strategy* in December 1994.

In reaching a final Program Strategy, the AWG balanced factors related to competition, flexibility, responsiveness, broad industry participation, and concentration on providing the best services with those factors related to ease of transition, simplicity, ease of management, ability to aggregate traffic, ability to provide and achieve interoperability, and ability to provide reliable telecommunications and management services that ensure privacy. In balancing these factors, the AWG selected the best characteristics from the eight families of alternatives, as well as those characteristics suggested by industry. A process of "mixing and matching" these best characteristics was pursued. The resulting strategy reflects an evolutionary, incremental approach to move the

Post-FTS2000 Program towards meeting the broader telecommunications needs of the users.

In attempting to exploit the changing telecommunications marketplace, the AWG found that multiple acquisitions were required to provide flexibility and responsiveness, as well as to achieve technical and price competition. The characteristics of the partition by service and the partition by service/span alternatives offered such flexibility, responsiveness, and technical and price competition. Additionally, the AWG realized that such partitioning allowed the Government to act as a catalyst in the continued development of our nation's information infrastructure.

In defining the program strategy, the AWG agreed with the industry comments that a single ten-year contract, or contracts, was not sufficient to meet the evolving needs of government users. Rather, a more market-oriented program, comprised of multiple contracts, multiple sources of supply, mechanisms to provide new and improved services on a timely basis, and an ability to initiate acquisition or contract actions needed to meet user needs in a responsive manner, was required. Through this program, the government will be able to meet its objectives and principles through a variety of acquisition initiatives begun over time.

I would like to thank the Committee for the opportunity to speak and stand ready to provide any further information that I can as we continue to work towards providing the best quality and best prices for telecommunications services to the Federal Government.

STATEMENT OF SANDRA BATES

CHAIRPERSON OF THE

INTERAGENCY MANAGEMENT COUNCIL

BEFORE THE SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION AND TECHNOLOGY, COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

UNITED STATES HOUSE OF REPRESENTATIVES

OFFICIAL

March 28, 1995

Mr. Chairman and Members of the Committee. I would like to thank you for this opportunity to appear before the Committee on the provision of telecommunications services in the Federal Government, a subject of considerable interest and importance to agencies comprising the Interagency Management Council (IMC). Over the last several years, I have participated in the FTS2000 Program and the IMC in variety of roles, including Director of the Network A Users' Forum and, now, as the Chairperson of the IMC. During this time, I have grown to appreciate how the FTS2000 Program benefits from early and frequent involvement by the users. The GSA Office of FTS2000 and the FTS2000 agency users are to be commended for working in a partnership to improve the workings of this important Government program. Through my comments this afternoon, I hope to impress upon you not only our commitment to the program and the value that we bring, but also a sense of how important the success of the FTS2000 and the Post-FTS2000 Programs are to the agencies that we represent.

The IMC serves as a board of trustees, advising the Administrator of General Services on matters related to the FTS2000 Program and, in general, holding FTS2000 in trust for the Federal Government users. Although the IMC was originally Congressionally-mandated, its origin may be traced to the 1988 FTS2000 Source Selection Advisory Council. That Advisory Council, comprised of senior Government executives and private sector telecommunications experts, ensured that the best interests of the Government and the agency users were considered in the 1988 FTS2000 award selection. The success of that Advisory Council demonstrated the need to keep the users involved in the strategic decisions of the FTS2000 Program.

The current IMC is composed of senior information resource management and telecommunications officials representing a wide spectrum of federal agencies. In this first graphic, I have listed the current IMC members. As can be seen, all of the major agencies are represented. The smaller agencies are represented through a member selected by the Small Agency Council. The IMC serves as a central focal point for the development, coordination, and customer-driven oversight of the communications programs of the federal government and related activities and organizations. The Council advises the Administrator of General Services concerning the management of all federal telecommunications programs and policies.

The IMC history is one of a continuing stream of participation in the program. The IMC facilitates communications throughout the Federal Government telecommunications user community. One means of communications that has involved hundreds of agency people, Office of FTS2000 staff, and the FTS2000 service contractors is the annual user forums. At these forums, the telecommunications users and program managers address problem areas, help define solutions, identify opportunities, track actions items, and, in general, share ideas across agencies.

During the Year 4 Price Redetermination and Service Reallocation, which was the first of two planned recompetitions between the two FTS2000 service contractors, the IMC formed an advisory group to again facilitate communications between the user agencies and to advise the FTS2000 Program Office on strategic matters. The IMC's participation proved to be extremely important in the users' consensus decision to move traffic between the two contracts.

Over the first six years of the current FTS2000 program, the IMC has conducted reviews of the services provided. Our reviews have addressed not only the contractors' services, but also the GSA services. In 1992, the IMC conducted a study of the GSA program and recommended ways to further streamline operations while also reducing program overhead. IMC recommendations and

Office of FTS2000 program management have reduced the overhead charged by the program by nearly one-half over the last 6 years.

Since 1993, the IMC has participated in the definition of the Post-FTS2000 Program Strategy. Our participation in the development of this strategy provided the agencies with an opportunity to pause and reflect upon how we wanted to obtain telecommunications services at the conclusion of the current FTS2000 contracts. The outcomes of our reflection was really quite remarkable. The first outcome was a reaffirmation of the IMC as a means of collaboratively procuring telecommunications services. The agencies rejected an alternative in which each agency procured telecommunications independently and, instead, decided to work together through the established IMC and Office of FTS2000 structures. The second outcome was a reaffirmation of the current program's approach of buying services. In the Post-FTS2000 strategy, the agencies decided not to build either individual agency or government-wide networks owned and operated by Government personnel, but rather the agencies decided to leverage the buying power of the Government and to make maximum use of the private sector telecommunications infrastructure. The agencies understand the power of working together and using the telecommunications marketplace that is alive and well in this country. The third outcome was a decision to give the agencies greater flexibility and choice in how they use and procure telecommunications services. Furthermore, we added this flexibility in a manner that increased the Government's use of

competition to obtain responsive, quality, modern services at the best possible prices. The last outcome, and perhaps the most significant, was a decision by the agencies not to just enter into the next contracts, but rather to put in place a program that would strategically maximize the use of the dynamic marketplace, evolving technology, and continuing environment of telecommunications deregulation.

As the IMC participated in the development of the Post-FTS2000 Program Strategy, we also considered how else the user agencies could help in the overall procurement of telecommunications services the Federal Government. Working with the Administrator of General Services, we decided to evolve the IMC charter to address full end-to-end service to the agency telecommunications user.

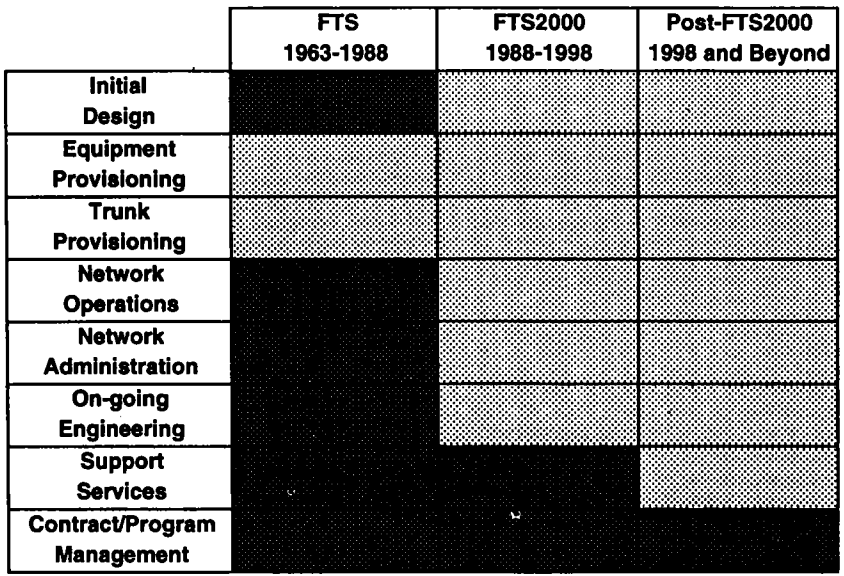
It is extremely important that the FTS2000 and Post-FTS2000 Programs, as service providers, stay well informed of the numerous initiatives undertaken by the agencies and the complete Government. Through the IMC, the FTS2000 and Post FTS2000 Programs remain well-connected with the many other initiatives such as the Government Information Technology Services Working Group, the Federal Wireless Policy Committee, and other working groups associated with the Information Infrastructure Task Force and the National Performance Review. Through our participation in these initiatives, the IMC seeks to encourage and foster efforts where we work together as a community to provide improved

information technology service. Through the IMC participation in other initiatives, we seek to ensure that the telecommunications initiatives are managed in relationship to each other and that the IMC can leverage knowledge, attention, and resources across the complete government for the benefit for all. Like the User Forums, the benefits derived from this IMC participation are a result of the communications, sharing, and learning that results from the challenges we have undertaken.

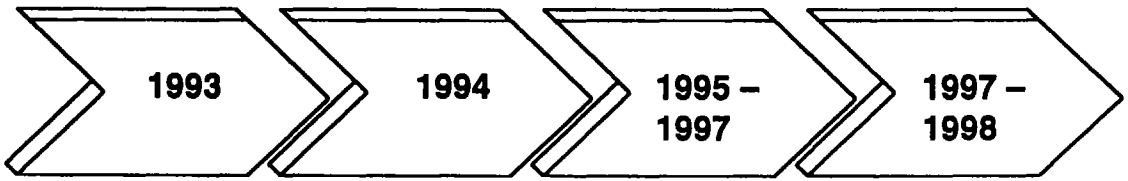
We will continue to seek opportunities in implementing the Post-FTS2000 Program Strategy, the Government's telecommunications program, in partnership with the Office of FTS2000. With that context and understanding of the IMC, John Okay will discuss our role in the development of the Post-FTS2000 Program Strategy, the focus of today's hearing.

I thank you for the opportunity to provide comments to the Committee. The IMC stands ready to work with you to continue the provision of high-quality telecommunications services to government users.

Increasing the Use of the Private Sector Infrastructure



Post-FTS2000 Schedule Summary



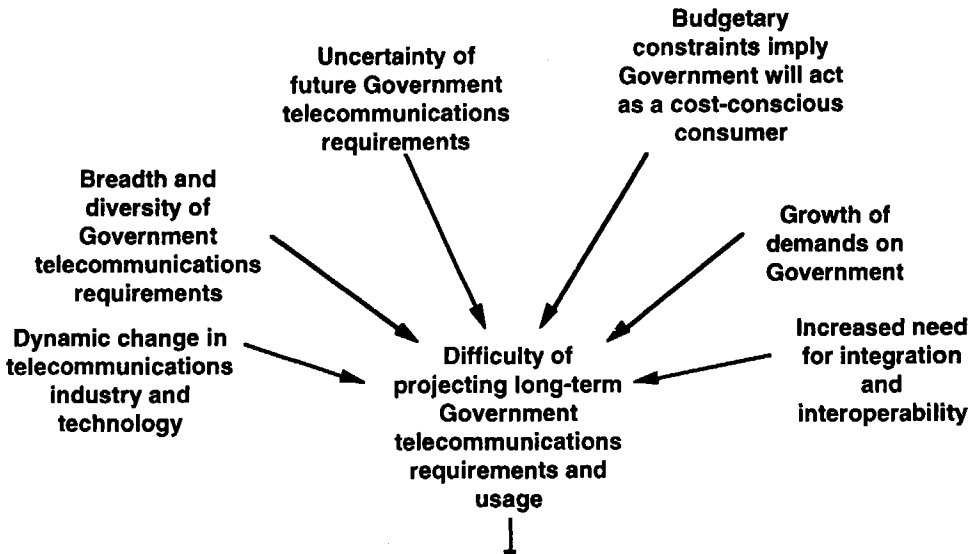
- **1993**
  - Gather information
  - Identify requirements
- **1994**
  - Develop and evaluate alternatives
  - Select course of action
- **1995 – 1997**
  - Complete procurements
- **1997 – 1998**
  - Contractors and government plan transition

Post-FTS2000 Dialog with Industry

	FCSWG Defines Requirements *Jul 93 — Oct 93*	AWG Defines Post-FTS2000 Concept Alternatives *Oct 93 — Apr 94*	AWG Analyzes Alternatives *Apr 94 — Sep 94*	IMC Recommends Program Strategy *Sep 94 — Dec 94*
Concept Papers Released by IMC	• *Federal Telecommunications Requirements and Industry Technology Assessment*	• *Post-FTS2000 Acquisition Alternatives White Paper* • *JCRC Report*	• *Security Request for Information* • *Analysis of Post-FTS2000 Alternatives*	• *Post-FTS2000 Program Strategy*
Summary of Dialog Activities	• 40 private sector and academic organizations and 170 individuals interviewed • 26 agencies and 350 individuals interviewed	• Call for industry concepts and ideas • Concept Development Conference - 3 days with 44 speakers and 500 attendees	• Call for industry clarification questions • Answer clarification questions • Call for industry comments	• Second Concept Development Conference - 2 days with 15 industry speakers and 300 attendees • Call for industry comments

IMC - Interagency Management Council
FCSWG - Future Communications Services Working Group - a subcommittee of the IMC
AWG - Acquisition Working Group - a subcommittee of the IMC
JCRC - Joint Concept Review Committee

Future Communications Services Working Group Findings



A Broad Segment of Industry Participated in the IMC's Dialog with Industry

- Alascom
- Ameritech
- AT&T Business Communications Services Federal Systems
- Bell Atlantic Federal Systems
- Bellcore
- BellSouth Corporation
- Boeing Information Systems
- Cantel
- CBIS
- Computer Sciences Corporation
- Corporation for National Research Initiatives
- Economics and Technology, Inc.
- EDS
- Electra
- George Washington University
- GTE Government Systems
- State of California
- IBM
- Information Networking Institute – Carnegie Mellon University
- Kalba International
- Lawrence Livermore National Laboratory
- LDDS Metromedia Communications
- Levine, Lagapa and Block
- Martin Marietta Management and Data Systems
- MCI
- MFS Telecomm
- MIC
- Newbridge
- Nortel Federal Systems
- NYNEX
- Pacific Bell
- Pacific Telesis Group
- PRC
- SAIC
- Snavely, King
- Southwestern Bell Corporation
- Sprint
- Telestrategies, Inc.
- TRW
- U S West Communications
- U.S. Telephone Association
- Walker
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- York

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Mr. HORN. Thank you very much, Mr. Woods.

Mr. Paige, the Assistant Secretary of Defense for Command, Control, Communications, and Intelligence, Department of Defense.

Mr. Paige.

Mr. PAIGE. Thank you. Mr. Chairman, members of the committee, I appreciate this opportunity to appear before you today to discuss the Post-FTS2000 Acquisition Strategy. I have with me Lt. Gen. Al Edmonds, Director of the Defense Information Systems Agency, and Ms. Diane Fountaine, the principal deputy in my Command, Control, and Communications Directorate, who is DOD's corporate expert in this area.

I have submitted a written statement for the record and would offer the following brief comments.

I spent 41 years on active duty in the U.S. Army, being involved in virtually every aspect of the communications-electronics business, from an operator to a service provider. I spent time in research and development and in the acquisition business. During that period, I had a full exposure to Defense's and other Governmentwide telecommunications services. As you may have noted, I spent 5 years as the COO of an aerospace and information systems company after my retirement from the Army.

Since my appointment as Assistant Secretary of Defense for Command, Control, Communications, and Intelligence, I have continued to review and change the department policies on how we satisfy our information system requirements. I have initiated changes that are driven by some important factors, foremost being our mission and the cost. Above all else, we must be prepared to perform our mission at all times and do so anywhere on the face of the earth that our commander-in-chief directs.

Information systems are critical to our mission in virtually every functional area. The existence of my office is indicative of that importance, as recognized by Congress in the early 1970's. It is an office that was directed by Congress.

Today, DOD is the largest user of the existing FTS2000 system. I am convinced that we can better leverage these efforts to our advantage by being an even larger user of the GSA contract for our CONUS sustaining-base communications connectivity. The ordinary telephone service in CONUS, as provided today by our contracts, will all be provided by the Post-FTS2000 to all bases, posts, camps, and installations. Other information systems services or connectivity in CONUS will be provided by bandwidth or broadband connectivity that we will procure via the Post-FTS2000 contract to meet our mission needs. We will competitively procure any and all services only if it is not available via the Post-FTS2000 contract.

We will interconnect the CONUS sustaining base systems with overseas government-owned or leased systems, to include use of military and commercial satellite. Under no circumstances will we reduce the quality and responsiveness of the service provided to our national command authorities or our war fighters, no matter where they are around the world.

The implementation of the most cost-effective solutions must always remain in focus as our resources continue to decrease. This means using more commercial off-the-shelf products and capabili-

ties. We intend to ensure the Post-FTS2000 contracts provide our needed services, including leading-edge technology.

It is the issue of best value that brings us before this committee today. It is best value that has forged a new, more open and active relationship with GSA and their programs.

Regarding the Post-FTS2000 Acquisition Strategy, I am sure that other Government agencies are wrestling with the same issues as we have, as they evaluate their current capabilities against their user requirements. We participated in a difficult and demanding process that selected a strategy based on the needs of all Federal agencies. We are mapping DOD's strategy to take full advantage of that effort.

At the first session of this hearing, the General Accounting Office spoke to eight issues regarding the Post-FTS2000 Acquisition Strategy. Most recognize mandatory use as being the most contentious issue. I would like to take this opportunity to endorse GAO's concern and to reiterate DOD's position that mandatory use is an unnecessary approach that has actual negative effects, especially in the OCONUS, or the overseas, environment.

Regarding the acquisition strategy itself, DOD is satisfied that it will provide a basis for continued increased service provisioning for DOD.

In conclusion, we have all committed to increased excellence and cooperation in an effort that is critical to this Nation and its success in the global economy. DOD recognizes its importance in ensuring the Nation's security from outside threats.

Our actions must strengthen the department's ability to deal with the increasing pace of change and the emerging requirements for more efficient, more cost-effective information systems capabilities in support of the new national security environment in which we find ourselves.

I wish to thank the committee for the opportunity to comment today on the Post-FTS2000 Acquisition Strategy. And let there be no doubt that there are some reluctant dragons lurking in the DOD. They are in turret defilade, as they know that I am determined to execute the alliance with GSA, as is stated in the prepared statement that we sent to you earlier. As the dragons are identified I will remove them from the path of success.

I look forward to answering your questions or providing any information I can to support this committee's efforts.

[The prepared statement of Mr. Paige follows:]

MR. EMMETT PAIGE, JR.
ASSISTANT SECRETARY OF DEFENSE FOR COMMAND, CONTROL, COMMUNICATIONS AND INTELLIGENCE (C3I)

Post-FTS2000 Acquisition Strategy

Mr. Chairman and members of the Committee, I appreciate this opportunity to appear before you today to discuss the Post-FTS2000 acquisition strategy and Department of Defense's (DoD's) support for that effort. I have with me, Lieutenant General Al Edmonds, Director of the Defense Information Systems Agency and Ms. Diane Fountaine, the Principal Deputy in my Command, Control and Communications Directorate, who is also the Department's corporate expert in the area of today's discussions.

As I am sure that most of you know, I spent 41 years on active duty in the U.S. Army with all of that time in the communications-electronics business. I have been involved in virtually every aspect of the discipline, from an operator or provider to research, development, and acquisition. I served two tours in the Defense Communications Agency which is now called the Defense Information Systems Agency (DISA). During my last tour there during the period 1970-1974, I was deeply involved as one of the senior action officers for the Defense Automatic Voice Network (AUTOVON) and the Federal Telephone System (FTS). So today's FTS2000 is no stranger to me and the issues have never changed over time. Only the players have changed. The contentious issue was always which service was less costly. The quality of the service has never been an issue. The grade of service available via FTS has always been better than that which is available to the ordinary user of AUTOVON or what is now called the Defense Switched Network (DSN). Of course the comparison can only be made between service provided by FTS2000 and DSN in the Continental United States (CONUS), as FTS is only a CONUS-based service while DSN is a worldwide network.

Since my appointment as Assistant Secretary of Defense for Command, Control, Communications and Intelligence (ASD(C3I)), I have continued to review Department policies on how we satisfy Defense's information system requirements, and I have initiated some changes. These changes are driven by some important factors. Foremost is Defense's mission. Above all else we must be prepared to perform our mission at all times and do so anywhere on the face of the earth that our Commander-in-Chief directs. Information systems are critical to our mission in virtually every area. The reason for the existence of an office called the ASD(C3I) is indicative of the criticality that Congress has recognized and placed on the assurance that we are giving the necessary attention to this area that it must have to assure the success of our military. Cost-effective solutions to our needs are another critical factor. Timeliness and availability are other factors, and they are not separable as mission needs are dynamic and reaction time must be quick.

Today, we are indeed the largest user of the existing FTS2000. I am strongly convinced by my years of experience that we can better leverage the existing and Post-FTS2000 to our advantage by being an even larger user of the General Services Administration (GSA) contract for our CONUS sustaining base communications connectivity. The ordinary telephone service as provided today by DSN and the Defense Commercial Telecommunications Network (DCTN) contract in CONUS will all be provided by the Post-FTS2000 to all bases, posts, camps, and installations. We will not

create a separate network control or management center for that level of routine services but will continue to depend on GSA as we do today for the existing FTS-2000 services. Other information systems services or connectivity will be provided by bandwidth or broadband connectivity that we will procure via the GSA Post-FTS2000 contract to meet our mission needs in CONUS. We will competitively procure any and all additional services only if it is not available via the Post-FTS2000 contract.

We must interconnect the CONUS sustaining base communications and information subsystems with the OCONUS or overseas government-owned or leased systems, to include military and commercial satellite derived media. We will configure the communications connectivity as required to provide the same level of command and control network service in the Post-FTS2000 timeframe as we do today. Under no circumstances will we reduce the quality and responsiveness of the service provided to our National Command Authorities or our warfighters around the world.

We will ensure that we have the capability to extend and expand our information systems capabilities worldwide on a quick reaction basis while integrating all services into one worldwide network as required for rapid deployment of our military forces. We will exercise network control and management of that portion of the CONUS Post-FTS2000 services that is partitioned as a part of the worldwide critical command and control network.

We believe that we do play a role in National goals and policies other than just the clearly stated Defense mission. A look at information technology's role, based on the National Performance Review, has produced three areas where we believe we contribute - based solely on our size and the demands we place on commercial industry providers as the world's largest single user of information services:

1) exhibiting strong leadership in information technology
2) implementing "electronic government," and
3) establishing its support mechanisms including the National Information Infrastructure (NII).

It is upon the NII that we view a government services information infrastructure will exist. Upon it, major elements of the Department's evolving Defense Information Infrastructure (DII) will exist. Defense's telecommunications and information systems will exist within that DII framework. DoD has submitted to the Vice President its plan to support the NII - "DoD's contributions to promote the NII." As stated in that document, we continue to remain committed to focusing our information technology strengths to help make the NII a reality.

As indicated earlier, our mission in DoD is to provide information systems support to deployed forces on a global level. This has required that DoD develop the expertise in global networking and integrate information systems within and across national boundaries as well as on any battlefield in any theater of operations. Some of that expertise we obtain via contracts with industry and we will continue to competitively procure that systems engineering and integration support, or any other support we require from industry. We will of course continue to exercise network control and management of our worldwide systems, to include our deployed forces, and our command and control

systems in CONUS and overseas and their interconnect and interfaces with the CONUS sustaining base systems. Our dominant and prevailing focus shall always be to provide the best information systems support from the National Command Authorities down to the warfighters, no matter where they might be.

As our National Military Strategy moved out of the cold war era, we were faced with challenges which are being addressed. We must ensure our systems are flexible. They must support regional conflicts occurring worldwide with Joint Service and coalition partners. We must preserve the force multiplier effect that information technology brings to the warfighter. The bottom line for all work by the Department is support for the warfighter, who is the foundation of our Nation's defense. That is why DoD exists, and we must never lose sight of this.

The implementation of the most cost-effective solutions must always remain in focus as our resources continue to decrease. What, when and why we acquire a capability are driven by the validated needs of the warfighter. As such, taking timely advantage of new technology on the battlefield is critical to maintaining a force multiplier factor. How and when we acquire is driven by the acquisition regulations and the availability of funds and acquisition vehicles. Therefore, lowering costs is critical to when and how we field new telecommunications. Major means of ensuring best value pricing is by fostering competition and leveraging our needs with the rest of government. This means satisfying the majority of our needs with commercial-off-the-shelf (COTS) products and capabilities. We intend to do all that we can to ensure that the Post-FTS2000 contracts provide the services that we need to include leading edge technology. We will aggressively move leading edge technology services into Defense's systems. Another means of lowering cost is by reducing program overhead whenever possible. Joint acquisition and management ventures among government agencies are a means to reduce those costs. The addition of value to the services, such as security or directory services, eliminates duplicate efforts. This brings overall cost reductions to the user community - again, best value.

It is the issue of best value and mission accomplishment that brings us before this Committee today. It is also best value that has forged a new, more open and active relationship with GSA, its current FTS2000 program and the follow-on effort, the Post-FTS2000 program. The historical aspects of our relationship with both GSA and the FTS2000 program are a matter of record. It was over a year ago that the GSA administrator, Mr. Roger Johnson, and I started reviewing the relationship between our organizations, with a mind set on improving it for the benefit of the government as a whole. We agreed to move forward together in the telecommunications area when and where it met both of our needs and made business sense to do so. This decision has been reflected in Defense's increased support and involvement in the Interagency Management Council. This includes the Acquisition Working Group of that council, charged with the formulation of the Post-FTS2000 acquisition strategy, and the Interagency Task Group whose people have been working in the trenches pulling this Post-FTS2000 effort together. I believe the Department has provided positive support in getting this strategy to where it is today. The improving relationship has also increased DoD's participation in

the current FTS2000 program. We are its largest customer and our usage share will continue to grow.

Before going further into the Post-FTS2000 strategy and our relationship with GSA, I need to comment on DoD's current information systems capabilities. Over the last decade, the military strategy has changed from a preponderant dependence on fixed, forward-based infrastructures and prepositioned forces to flexibly-organized and rapidly-deployable Joint Task Forces. Today's Defense information system is predominantly a fixed-site system designed to support that cold war posture. Service and functional based stove-pipe systems have emerged, requiring interface gateways to support end-to-end connections and basic interoperability among various user groups. The system has grown cumbersome to reconfigure due to its dedicated elements and applications and complex service contracts. We have recognized these problems and are actively developing solutions for them.

As we move toward the future, DoD's systems must be evolving to an information infrastructure that more effectively and efficiently supports those forces, and be as equally flexible and deployable as the forces themselves. It must offer reliable access and service, protect the confidentiality and integrity of the users' information, ensure that only authorized users have access to the networks, and be flexible enough to deliver the full spectrum of information services anywhere, anytime, and to any location on extremely short notice.

These are some of the basic, driving factors behind DoD's information services. All are based on, or derived from, validated user requirements and are the criteria driving DoD's telecommunications architecture and systems design. The migration path of the current baseline systems to this Department-wide, seamless, global, common-user transport infrastructure is one full of issues. Some are contractually based, some technology based, some organizationally based and some security based. Some of the issues being addressed are of the same nature and difficulty as those addressed by GSA, the Interagency Management Council and the Acquisition Working Group in arriving at the Post-FTS2000 acquisition strategy.

With regards to the Post-FTS2000 acquisition strategy, I am sure that other government agencies are wrestling with the same issues as they evaluate their current capabilities against their user requirements. We participated in a difficult and demanding process that selected an acquisition strategy based upon the needs of all federal agencies. Clearly, there is no exact or perfect strategy for an end state of the system nor the transition from the current baseline system to that target system. Given the selected strategy, our job within the Department is to ensure that our DoD information systems strategy is in congruence with the maximum extent possible in order to effect a viable NII. We are mapping our DoD strategy in concert with this GSA initiative, intent on taking full advantage of that effort. If the Committee desires, I will be glad to provide copies of our most current program strategy. It is evolving just as the technology and industry are evolving to meet user demand.

At the first session of this hearing, the General Accounting Office (GAO) spoke to eight issues or areas of concern regarding the Post-FTS2000 acquisition strategy. Most

have been recognized by the participants in the Acquisition Working Group and Interagency Management Council with the issue of "mandatory use" being the most contentious. I would like to take this opportunity to endorse GAO's concerns and to reiterate DoD's previously held position that "mandatory use" is an unnecessary approach that has actual negative effects. As with the current FTS2000 contract and mandated use provisions, integration of those services with DoD's elements providing command, control, and intelligence support in both a deployed and sustaining base environment is a continuing challenge for DoD. We understand business and the business decisions that we must make as a part of our fidicuary responsibility as well as our warfighting responsibilities. We know that we must juggle a lot of balls at the same time as we apply the intent of Congress with the common sense that we believe you intend for us to exercise on a daily basis. With the rapid rate at which the technology changes, the technology insertion issues and the existing disparate global infrastructure, "mandatory use" exacerbates this already difficult situation, increasing resource expenditures in order to accomplish a mission. DoD understands the issues surrounding "mandatory use" such as attaining economies of scale for services and required minimums on indefinite delivery-indefinite quantity (IDIQ) type contracts. We also recognize that GSA as the government's agent in acquiring services should not have to assume the financial risk for failure to meet contract minimums. Short of no mandated use requirement, negotiated low minimums and GAO's "mandatory for consideration" approach would appear to provide a more workable alternative for services within the United States. For international services, there should be no use requirements, keeping a more open and leverage capable environment. DoD's specific concern is associated with the treaties and agreements under which we obtain and integrate most of our overseas services.

Regarding the Post-FTS2000 acquisition strategy itself, DoD is satisfied that the planned strategy will provide a basis for continued increased service provisioning for the Department. As a participant in the Acquisition Working Group and the Interagency Management Council, we expressed openly and candidly our concerns and issues with each of the considered alternatives. The selected strategy is a compromise position, which is to be expected with the diversity of players and requirements that each member carried to that forum. It is one that has sufficient flexibility to support our needs and is capable of migration over the life of the program to a strategy more in line with DoD's mission demands. For those services not available under this strategy, such as leading edge technologies, DoD is committed to working with GSA and the Interagency Management Council to create an environment that will leverage our activities for the good of the government, especially as these services mature and migrate to the COTS environment.

Our plan is to migrate to the Post-FTS2000 environment that which is feasible, cost effective and meets DoD's requirements which includes key elements of operational direction and management control of the assets supporting the Department. Overall, I feel that there are numerous positive elements of the program that will benefit the Department in meeting its mission of the National Defense and support of the warfighter.

In conclusion, I hope the Committee recognizes the significance of the efforts in this area. We have all committed to increased excellence and cooperation in an effort that

is critical to this Nation and its success in the global economy. It is imperative that we continue to be successful. DoD also recognizes its importance in ensuring the Nation's security from outside threats. Our ability to respond in the changing world and meet the challenges associated with regional contingencies is based, in large part, upon rapidly deployable, flexible, reliable and assured telecommunications connectivity anywhere on the globe. That is the warfighter's need. Our actions must strengthen the Department's ability to deal with the increasing pace of change and the emerging requirements for more efficient and cost-effective telecommunications capabilities in support of the new national security environment.

Mr. HORN. I thank you, Mr. Secretary. When you finish slaying those dragons, I've got a long list of others in DOD you might want to work on.

I forgot to mention, when we introduced you, that you are accompanied by Lt. Gen. Albert J. Edmonds, U.S. Air Force, Director of the Defense Information Systems Agency, in the DOD, and Ms. Diane Fountaine, Principal Deputy and Deputy Assistant Secretary of Defense for Command, Control, and Communications in the Department of Defense.

Chairman Clinger will begin the questioning.

Mr. CLINGER. Thank you very much, Mr. Chairman. I thank the panelists. I hope, Mr. Paige, you don't have too many dragons to slay, as has been indicated here. And I also want to, again, congratulate you on the award you received the other night, which I was privileged to be in attendance at, when you got that award.

Mr. PAIGE. Thank you very much, sir.

Mr. CLINGER. Mr. Woods, last week, when we had GAO before us, they testified that it agreed with those critics of mandatory use that it is inherently anticompetitive, in their words, and results in higher prices. As I understand it, your program strategy contemplates that contracts will not be mandatory, so agencies would have, quote, flexibility—as they go about seeking their requirements.

The question is, how can the Government expect companies to expend—which they have to do—enormous resources, in terms of time and money, and leading to entering into very complex contractual relationships, without any kind of minimum guarantees and long-term commitments? How do you intend to establish a balance between minimum guarantees and mandatory use? They seem to me sort of antithetical.

Mr. WOODS. Well, I think there are actually two parts of the issue that we've wrestled with. One is minimum guarantees of revenue, and the other is mandatory use, mandatory use being a tool to get at the first issue, which is minimum guarantees of revenue.

The group that has worked on it from the IMC believes that we have to, in one way or the other, meet minimum guarantees, but we do not believe that that necessarily means mandatory use for the life of the contract.

I have to remind you at this stage that, although some of these details are worked out, the committee is still in the pre-RFP stage, so, in our great deal of communication that has gone on with industry, it appears as though we're a long way into, and we are—we are 2 years into this dialog—but we still are not to the pre-RFP stage, and it's our sense that, if at all possible, we want to use competitive forces, and not the mandatory use issue, in order to bring flexibility to our customers.

So mandatory use is one of those issues that is one tool, but we would prefer to use other tools that are out there, and the agencies themselves have helped devise this strategy, and their belief is that mandatory for consideration is a better tool.

Mr. CLINGER. I'm sorry. That what is a better tool?

Mr. WOODS. Mandatory for consideration, meaning that agencies would first have the choice to pick from the array of contracts, and then, if none of those met their needs or were not cost-effective,

then they could go outside that. But we would force them through a process, to evaluate what's there.

Mr. CLINGER. And you think you can achieve—the objective, of course, of the mandatory use is to achieve the goal of minimum guarantee.

Mr. WOODS. Right.

Mr. CLINGER. And you can achieve that objective of minimum guarantees for the suppliers by other means; is that right?

Mr. WOODS. Yes. And we believe we can do that, and we can give you some more detail on that. But we're still working through that strategy. Those details are not totally ironed out yet. We have been having sessions with the agencies over a number of issues—this is one of them—to talk about our best tools for achieving the minimum revenue guarantee.

We're well aware that, when agencies—when industry spends their bid and proposal money—those are scarce resources.

Mr. CLINGER. At last week's hearing, again, GAO identified eight specific areas that, although not in their view fatal to the Post-FTS2000 strategy, are going to have to be resolved before draft RFPs are going to be issued.

Mr. WOODS. Yes.

Mr. CLINGER. One major issue noted by GAO and several of the industry witnesses that we listened to was in the area of program management. What, specifically, can you tell us about your plans and who will be responsible for product management? And will the present Governmentwide exercise of downsizing have any impact on how you propose to carry out the program management?

Mr. WOODS. I might point out that, as we have gone through—and there's a chart here that shows the program management aspects that have happened over time within the agency and give you some sense of what's happening, in terms of Government involvement. The first column there, this one here, is the old FTS. This was the pre-1988 system. Down the side you see the things the Government used to do. They are initial design, provisioning, network operations. We actually operated that network.

When we went to FTS, we dropped these things in here, which had to do with operations and network administration and engineering. In the follow-on, we plan to get down to an even more essential Governmental function. So what I can tell you, Mr. Chairman, is that we're in the process now of sizing what we're going to need in the follow-on for program management.

We can submit some more detail to the question, because I know you're pressed for time.

Mr. CLINGER. So what you're saying is that the items—because you have eliminated a number of items that you had previously been responsible for administering, you can do more with less by focusing on program management.

Mr. WOODS. It makes us more leveraged, and I would point out to you that, for some time, we have been going through this privatization-type process, from left to right. And the idea there was to lessen the Government's involvement and put more of it into the private sector.

Mr. CLINGER. Does GSA plan major outsourcing initiatives on Post-FTS2000, due to expanded downsizing?

Mr. WOODS. My sense is that we're about as far down—by the time we get to what you see on that chart, we'll be about as far as I believe the Government should go, in order to effectively manage its Post-FTS2000 environment. So we have looked at that.

Mr. CLINGER. Mr. Paige, in determining DOD's requirements for the Post-FTS2000 program, how are you making the most of the opportunity to maximize your use of commercial communications services?

Mr. PAIGE. Well, as I stated in my prepared remarks, we intend to take all of that normal, day-to-day, administrative service that is—currently, some of it is on DSN, or the DCTN—and put all of that on the Post-FTS2000.

Mr. CLINGER. How much of DOD's commercial traffic is planned for transition to Post-FTS2000? Can you give us a sense of how much of that?

Mr. PAIGE. How much of the——

Mr. CLINGER. Of the commercial traffic.

Mr. PAIGE. Well, I hadn't estimated any percentage of it, down to the point of percentages, but I would say a quick estimate would probably be somewhere in the neighborhood of 70 percent of the overall will be on Post-FTS2000, assuming that the command-control portion that we will have in a separate network will be managed, and supervised by ourselves.

The transmission pipes in CONUS—if they're available, they will all come from FTS2000, even for that 30 percent that are command and control.

Mr. CLINGER. Thank you, gentlemen. My time has expired.

Mr. HORN. I hope you can stay with us, Mr. Chairman. We're going to have another round, I think, if you can.

I now yield 5 minutes to the ranking minority member, the gentlewoman from New York, Mrs. Maloney.

Mrs. MALONEY. Thank you very much.

As you testified, the Federal Government and Federal departments and agencies pay hundreds of millions of dollars each year for FTS2000 and commercial telecommunications services. USDA alone spends over $100 million each year for telecommunications, a large portion of which is spent on FTS2000 and commercial carrier services provided to thousands of USDA office sites throughout the country.

I would like to know, do you have any numbers on how much the Federal Government spends annually on telecommunications, totally, and how much of that amount is spend for FTS2000 and how much for non-FTS2000-provided services? Do you have a dollar amount? Mr. Paige was saying 70 percent was going to be FTS2000, but currently, right now, how much are we spending on FTS2000 and how many for other, non-FTS?

Mr. WOODS. Mrs. Maloney, I can tell you what we spend, which is roughly $575.

Mrs. MALONEY. For FTS?

Mr. WOODS. For FTS.

Mrs. MALONEY. You don't know what is being spent otherwise?

Mr. WOODS. We don't keep those numbers. We could probably do some research and get you back a rough estimate of that, but we do not, ourselves, account for the other expenditures.

Mrs. MALONEY. Well, in some agencies, there is a redundancy, in that they are using several different types of telecommunications systems. What effort has GSA undertaken to reduce costs and consolidate services where redundancies may exist?

Mr. WOODS. Within the long-distance services, which is what FTS concentrates on, there have been several IMC efforts to look at the actual consolidation and what we call aggregation of traffic in certain areas. In fact, last week, I believe, one of the witnesses that you had showed the Denver area, and that effort was done under the auspices of the IMC.

In fact, I believe Dr. Okay could probably talk about that some, because his group at USDA has been involved in some of that consolidation effort.

Mr. HORN. Dr. Okay, would you like to comment?

Mr. OKAY. There are some efforts across the Government under the auspices of the IMC. We have a subgroup that is working across agencies to identify cities in which there are a number of Federal agencies which would benefit through consolidation of their communications.

Actually, Kansas City has been identified as a pilot site, and we have some work going on right now with several Federal agencies to identify even building locations where we could do some consolidation and reduce overall costs. That's an ongoing effort that we will be continuing over the next few months and years.

Mrs. MALONEY. Do you believe we should have a report on how we could consolidate and attack redundancies before we move forward with FTS2000? Testimony earlier said that mandatory use—and I quote—has a "negative effect," yet, as Mr. Okay has just testified, in USDA they have identified many overlapping of services, duplication of services, that are costly.

So if we're not going to mandate mandatory use and have other systems out there, what is the control on it? Do you understand what I'm saying? You could be—you're not mandating this particular system, and then you're allowing every agency—I feel DOD is a special case, with the security, et cetera—but other agencies, using the example of USDA, can contract a whole separate communications system that is totally redundant, as he just testified. What are we doing to control that?

Mr. WOODS. The IMC, Mrs. Maloney, has for some time had some concern about those sorts of issues, and when we refer to redundancy here, I probably should clarify what that means to us. To us, in some cases, it means that the design itself gets changed in order to make it more efficient. It's not the same as having two levels of service going into the same spot.

So the redundancy is not so much in numbers to the same spot not being fully utilized. It's that we could better design it. And we are taking a look at that.

I might also say that we envision, for the post environment, that the IMC looks at a broad set of services across Government and not just single contracts under a look-alike set of contracts that we have today. In other words, an agency might go out and procure something, but it would do it under the auspices of the IMC, so we would know about it and we would be aware of what was going on there.

So it wouldn't be done unknowing to the IMC. We would pay attention to the potential redundancy.

Mrs. MALONEY. But, because many agencies obtain FTS2000 and commercial carrier services separately, in support of their own individual needs, they often have overlapping. And I was wondering, could you give the committee a report on where the overlapping exists in the various agencies? That would be helpful in going forward with this contract.

As I said before, I'd like to know how much we are spending on non-FTS2000 communications.

Mr. WOODS. I think, to be fair, I'd have to say that I'm not sure of the quality of what we have in hand, but we would get you back an answer. I think that's the best thing to give you at this stage. The answer is, we will take a look at it and give you back our assessment of it—of any redundancy we see.

Mrs. MALONEY. To what extent does GSA monitor Federal agencies to ensure compliance with the mandatory use of FTS2000, and what efforts has GSA undertaken to identify and monitor agency use of private Federal networks outside of FTS2000?

Mr. WOODS. We at the moment have an exemption process, that an agency, because of mandatory use, has to come to us and say, "For this reason, we believe we should go outside the current contract." We look at that rationale, and then we give an answer back, granting or rejecting that exemption.

That exemption typically is on the grounds of service-not-offered; we don't have that service under the current contract. What we typically do in that case is give them the exemption, with the proviso that they have to put it on FTS if and when that service becomes available.

Mrs. MALONEY. My time is up. Thank you, Mr. Chairman.

Mr. HORN. We will have additional questions in the next round.

Mr. Scarborough, the gentleman from Florida, do you have some questions?

Mr. SCARBOROUGH. Thank you, Mr. Chairman. I'd like to thank the panel for coming and testifying today, and I'd like to commend you on increasing your use and input of the private sector in the Post-FTS2000.

What I'd like to ask you is, from my understanding, in April 1994, GSA published a white paper outlining eight possible acquisition alternative strategies for Post-FTS2000. GSA asked for comments from the industry, which were due Friday, September 23, 1994. However, on the following Monday, on September 26, 1994, GSA went ahead and published its own analysis of the eight alternatives and narrowed the original list down to four.

What I'm curious about is, what is the process you all went through that weekend? Some of the industry have said that you solicited comments from them and then, in the end, didn't end up being too interested in it. Are you all just extremely efficient and work long hours over the weekends, or were the decisions possibly reached before that deadline?

Mr. WOODS. Gil or Bruce, if you would put up the schedule that we have been going through.

The answer to it is we do have a very hard-working group of interagency people that work on this task, Mr. Scarborough, and I would——

This is the broad schedule. I think I'd like the one with some detail in it, Bruce.

But we had been monitoring these comments for some time. In other words, when we had received comments for the prior time period, we had been getting that for a long period of time. What we have gotten, in many stages of these comments, from here in the July 1993 timeframe forward, have looked a lot alike. In other words, when I got a comment from a particular company, the next time I got the comments they didn't vary very much.

So our group by then pretty well had the sense of what they were getting, and they were preparing the paper as they got comments in. When they got comments toward the end, they simply looked at how those comments compared to the prior comments, submitted by the same company, and if they didn't change there wasn't much to do. If they had changed, then we sat down and looked at what we did to incorporate that into what we were doing. At that stage of things, as I remember it, we really didn't get much that was different from what we had received before.

So we were pushing for a date; we were pushing for a timeframe; and we didn't see anything that different, and we went ahead.

Mr. SCARBOROUGH. So you are testifying today, then, that you did consider all comments and input that you received?

Mr. WOODS. Yes, sir.

Mr. SCARBOROUGH. OK. Thanks.

The next question I have has to do with the companies that may be eligible, based on your procurement strategy. As part of its announced strategy for Post-FTS2000, GSA has, in effect, from my understanding, limited competition to the national interexchange carriers. However, when FTS2000 contracts come up for renewal, two of the three largest U.S. long-distance companies are going to have substantial foreign ownership, and the fifth-largest long-distance company will be totally foreign-owned. We could go through MCI and Sprint and cable and wireless and the foreign-owned—the substantial foreign involvement in those largest long-distance companies.

Are you all going to be taking into account the foreign investment in these companies, and would you tend to favor companies that have substantial foreign investment or are more solidly American-owned?

Mr. WOODS. I think at this time we really aren't settled on that issue, because we're at a point where many companies are entering into worldwide, global kinds of relationships. I must say that our primary objective in the strategy has been to maximize competition as much as we can. We opened this dialog very early, with the express purpose of trying to keep as many parties interested in this effort as possible.

I'm really not in a position at this stage to say we will rule companies out or favor companies based on their foreign ownership, because that seems to be an ever-changing market. I think that's also a broader public-policy issue that we'll have to fit within. But I can tell you, for the program in general, that we believe that there's a

lot of room for a lot of interested companies to play, and the strategy is designed to do that.

Mr. SCARBOROUGH. Right. Thanks for your answers. I appreciate it.

Mr. HORN. Thank you very much. Those were excellent questions.

The gentleman from Virginia, Mr. Davis, is recognized for 5 minutes.

Mr. DAVIS. Thank you.

In April 1994, GSA published a white paper outlining eight possible acquisition alternative strategies for Post-FTS2000. GSA asked for comments from industry, which were due Friday, September 23, 1994. However, on Monday, September 26, 1994, GSA published its own analysis of eight alternatives and narrowed the original list down to four.

What I want to know is what process was followed over that weekend, in order to thoroughly review, and fairly consider, the comments that all respondents from industry—at their expense, I might add—had made on Friday and still publish the GSA analysis on Monday? Or, in fact, had GSA already completed its own analysis before the deadline for receiving comments?

Mr. WOODS. As I previously stated, I believe in that weekend—I could come back with a detailed answer, so that we would be factual, for the record.

Mr. DAVIS. OK.

[The information referred to follows:]

The General Services Administration's (GSA's) Post-FTS2000 program staff carefully reviewed and considered all comments received from industry. Specifically, the Post-FTS2000 program staff reviewed and considered all inputs received from the Regional Bell Operating Companies (RBOC's). For the period August 1993 through October 1994, the RBOC inputs were:

—August 1, 1993 Input, G. Schwartz, et al, Inter-City Telecommunications Services Concept

—October 1993 Conference Presentations

—September 23, 1994 Input, S. Girton and J. McGee, untitled white paper

—October 1994 Conference Presentations

The RBOC input received September 23, 1994, via overnight mail, was received by GSA three days prior to the release of the Acquisition Working Group's report entitled "Analysis of Alternative Acquisition Strategies." A review of this specific RBOC input concluded that the comments, ideas, and concerns provided were not different than previously received RBOC comments. Further, the September 23, 1994 input was similar to the input that the RBOC's had also given to the Department of Defense for their Defense Information Systems Network strategy.

Given that the RBOC input received September 23, 1994, was determined to be a repeat of earlier input, GSA's Post-FTS2000 program staff and the Acquisition Working Group decided that it was appropriate to release the "Analysis of Alternative Acquisition Strategies."

Mr. WOODS. We had been going through some analysis for some time, Mr. Davis, and in that time period we had received comments from the industry multiple times; we had held open forums with them, to give us feedback; we had analyzed, in fact, the Department of Defense's prior experience with many of the same issues, to see where the companies stood. And we had done analysis prior to that weekend. That is true.

Then we looked at the comments, as we received them, to see if there was anything that had substantially changed. We did not find substantial change, and therefore we went ahead with publish-

ing the paper and narrowing our original eight alternatives down to four. And then, several months later, we reduced that, of course, down to a published strategy from the four.

Mr. DAVIS. What is really magic about the announced timetable of procurement activities, since the present contract doesn't expire until 1998?

Mr. WOODS. The magic is that—of course, part of it is we have known, since December 1988, that the contract expires in December 1998, and so we have had a fair amount of time to contemplate this. It was our sense, Mr. Davis, that if we started early and we had time to involve industry and create a dialog, that would produce the best product and the most competition. And so that is our thinking.

It is our belief that, by awarding the first set of contracts in the early part of 1997, some year and a half before the end of the contracts, we'll have time to rationally plan a transition and to do it in a way in which the Government's prices and costs are minimized, because, I would hope, in the post environment, we get better prices.

And so we will receive that pricing structure in early 1997. We'll have some time to plan a transition. The transition will involve about 1.7 million customers, so it takes a long time. In the last transition, we had roughly 6,000 user meetings, to do the transition, so it takes a while to do it.

Mr. DAVIS. I don't know if anybody asked this before, and I guess it kind of goes along with my previous question, but at the present time, with major telecommunications reform pending and the RBOCs have filed a request for waiver of the MFJ, which would permit them to prime the Post-FTS2000 contract—both these actions would allow significantly more competition in the Post-FTS2000 arena and, in so doing, perhaps drive down the resulting costs.

In light of these potential benefits, would you consider, if necessary, delaying the release of that draft RFP and the final RFP until either the MFJ waiver request was granted or the pending legislation were enacted? Would that change your mind, as you saw those evolving?

Mr. WOODS. If I thought it substantially affected competition, that the Government was not going to get the best price, we certainly would sit down and look at the alternatives. Our problem with it is that, as we squeeze that transition time, we pretty well put the Government in the position of having to do a very rapid transition and not meeting the end-of-contract deadlines.

We support the idea of the RBOCs being able to compete. We believe that anything that enhances competition is in our best interest. So we have told them in comments that, if it was up to us, we want to see any viable player involved. So that is—I mean, ideologically, we would like to see the competition, as much as possible.

Mr. DAVIS. Mr. Chairman, I yield back.

Mr. HORN. Thank you very much. I might add that all of the charts which you displayed will be put in the hearing.

Mr. WOODS. Thank you, Mr. Chairman.

Mr. HORN. Let me ask a few questions here, before we have another round.

Another of the key issues that the General Accounting Office raised in its testimony last week was the issue of purchasing local telecommunications services separately from long-distance services. Many have suggested that all telecommunications be consolidated in GSA, to resolve the issue. Do you agree or disagree?

Mr. WOODS. We recognized the marketplace is changing, and it certainly is, and the traditional lines of demarcation between local service and long-distance may not apply much longer. The IMC has already agreed to add local service to its scope of oversight and is beginning a management evaluation in that area.

GSA's reinvention analysis of local services program will be joined with that evaluation, where we're going through in GSA now and looking at lines of business.

So the answer is, as soon as the IMC gets through with its analysis, I think we'll have a go-no go in that area. There's no doubt GSA will eventually have to merge the areas.

Mr. HORN. If we could get a copy of that analysis, when it's available, we'd appreciate it, and perhaps add it at this point in the record, if the record has not been published yet.

Mr. WOODS. We'll be happy to do that.

[The information referred to follows:]

The IMC did an analysis and the results are described in a letter dated June 19, 1995, from Sandra Bates, IMC Chair, to the Administrator of GSA. A copy of the letter is attached.

Attachment

National Aeronautics and
Space Administration
Headquarters
Washington, DC 20546-0001

JUN 19 1995

Reply to Attn of: OS

The Honorable Roger Johnson
Administrator
General Services Administration
Washington, DC 20405

Dear Administrator Johnson:

I am writing on behalf of your telecommunications advisory group, the Interagency Management Council (IMC) for Federal Telecommunications. As you will recall from our meeting last fall, you invited our recommendations on two specific questions: the role and scope of the IMC, and the organization of GSA staff supporting various telecommunications-related services and functions. As you also know, we have now dealt with the first of those questions. We appreciate your support in broadening the scope of the IMC to include all Federal telecommunications and not only believe that we are already seeing the benefits of this change, but are moving ahead aggressively in working through the implications of this change. The purpose of this letter is to address the second of your two questions.

We commend the efforts of the GSA staff to improve cooperation and coordination within the current organizational environment. However, given the increasing convergence of computer and telecommunications technologies, and of the local and long-distance telecommunications marketplaces, the current bifurcation of responsibilities in GSA is an anachronism. The IMC strongly urges that you act now to mirror, in the organization of GSA offices and staff, the integrated approach to Federal telecommunications you have already approved for the IMC; we believe that the productivity, quality, timeliness, and cost-effectiveness of GSA's service to the rest of the Federal Government would be significantly increased by merging all GSA offices and staff currently associated with overseeing and supporting the provision of various telecommunications systems and services into a single telecommunications-directed GSA organization.

In our view, this would best be done by combining Washington-based GSA staff supporting Federal telecommunications (including local, long distance, and international) into a single organization empowered to implement operational policy as set by the IMC and the Administrator with respect to one integrated program. Moreover, the leadership role of this combined organization should be clarified and confirmed with respect to operational activities of GSA regional organizations. In this respect, GSA's prior experience with the Office of

Security Management is pertinent. There, an effective balance was struck between centralized authority for establishing and maintaining uniform national policy and decentralized regional support activities. Beyond this, where additional GSA organizations may be involved in other related but somewhat ancillary support activities, such as procurement, we see these as separate issues that can be addressed as separate matters in the future as appropriate.

We believe the proposed consolidation would be of great value and interest to your customers. Among other reasons, the consolidation would:

- Improve program quality by best positioning GSA offices and staff to work together in a tightly coordinated and efficient manner that maximizes cross-workgroup synergies in planning, operating, and supporting an effective integrated telecommunications program.

- Reduce overhead by eliminating the need for duplicative and sometimes conflicting processes and procedures.

- Improve timeliness and responsiveness of service delivery by streamlining internal policy and management processes.

- Facilitate, reinforce, and leverage the benefits of the program strategy laid out in the post-FTS2000 arena by speeding the rate at which this approach is implemented more comprehensively.

As mentioned above, we urge not only a consolidation, but that it be implemented now. To be sure, and as the Commissioner of the Information Technology Service pointed out in a recent letter to me, this issue has been under study for some time. Over the longer term, in the "big picture," there would also be benefits from further improving the integration of Federal telecommunications and information management programs.

As to the first point, we believe this consolidation is an approach that makes sense under any future scenario. Indeed, it could well be that a consolidation now would actually facilitate implementation of other changes that may be contemplated in the future. In any event, it would improve the current and future quality of this portion of GSA's overall service program.

Also, while we agree that the overall long-term goal should be further improved integration and coordination of telecommunications and all other information technologies and services, we believe the shortest and most effective path to this objective is to start creating an effective overall telecommunications program with direct line reporting responsibility to you.

These recommendations were unanimously approved by the IMC in the June 19, 1995 meeting. We would be pleased to meet with you or provide any additional information that may be helpful to you in moving ahead with your review of these recommendations. Please contact me on 202-358-2000 if I can be of further assistance.

Sincerely,

Sandra Bates
Chair
Interagency Management Council

Mr. HORN. There remains, apparently, considerable confusion about local access charges in the current FTS200 program. As I understand it, the long-distance carriers, in their testimony last week, said that access fees paid by them to local telephone companies, principally the regional Bell operating companies, account for 40 to 45 percent of every dollar paid by the Government under FTS2000.

The RBOCs testified last week that the figures cited by the long-distance carriers are closer to 11 to 14 percent.

The question to you: What amount, in percentages, is expended on local-access charges? Does anyone know?

Mr. WOODS. Yes, Mr. Chairman. I think we know. We have looked at actual revenue paid to the two current providers, and we have looked at what they have paid for local services. The recent AT&T data showed about 39.9 percent. And I spoke with the Sprint officials as late as an hour ago, and it's in the 40 to 45 percent range.

So I've actually seen numbers for one of our providers, and I have assurances from the other that they are looking at revenue in the 40 to 45 percent range.

Mr. HORN. And MCI—did they have part of that action?

Mr. WOODS. They don't have part of it.

Mr. HORN. How would you expect this to change, or remain the same, in the Post-FTS2000 program?

Mr. WOODS. It's our long-range view that, when we start meshing local service and long-distance, we will have to look at local access and we will have to compete that more vigorously than we see today. We believe that, when the core costs in the program are in the 40 percent range, we obviously can't ignore those, and it is in our long-term best interest to more vigorously compete local access.

Mr. HORN. What do you mean by "more vigorously compete"? Would you set up your own service? Would you try to broaden the field of competition? If so, how?

Mr. WOODS. There are several alternatives available. One is that there are now some alternate local-access carriers available. The second is that, as you deregulate—what seems to be the trend, at least in thinking, here and in the industry, is that that area will open up to competition.

Our third choice, and the choice of least desirability, in my mind, is that you do your own local access, through other means. But I think we'd rather stay as commercial as we can, and we would like it to be as competitive as we can.

Mr. HORN. The General Accounting Office pointed out that the General Services Administration has recognized the need for agencies to state their telecommunications requirements better, especially where the introduction of new technology is at stake. However, some witnesses at our previous hearing believed the strategy does not allow enough flexibility to adapt for new technology. Is that a correct perception, or do you feel differently?

Mr. WOODS. Our belief is that in the next 5 to 10 years flexibility is extremely important. It is, in fact, the No. 1 requirement that came out of Dr. Okay's study group. Our belief is that the industry is going to change a great deal and that it is shifting fairly rapidly. But I believe that the approach that we have taken, of an umbrella program, managed collectively by the agencies, with multiple con-

tracts involved, and technology refreshment capabilities built into each of those contracts, is adequate to do the job.

Our sense is, if the technology refreshment feature works well in the contracts, we stay there, but if they do not, we have the option then to go back out on a different contract all together.

Mr. HORN. Let me move to Secretary Paige, while I have you here, Mr. Secretary. I remember back in the Grenada invasion we had a little problem with walkie-talkies in one service communicating with walkie-talkies in another service. I want to start with that simple problem and ask the obvious: has that been solved?

Mr. PAIGE. Well, hopefully, that has been solved. I had not heard that that was a problem between walkie-talkies. The Army has conventionally, over the years, provided that particular radio to all the services, the Marine Corps, the——

Mr. HORN. Do you want to get that microphone a little closer to you there? We're having trouble hearing you.

Mr. PAIGE [continuing]. The Marine Corps and the Army alike. I am not aware that there was a problem with walkie-talkies, as such, during the Grenada operation. General Edmonds was around then. May be he can answer that.

Mr. HORN. Well, I think, General, you remember the famous case of a noncom going to a pay phone and calling back to the United States, in order to communicate with the other service, since they couldn't communicate in the field.

Mr. PAIGE. I heard that, but we never could find him.

Mr. HORN. You never could find him?

Mr. PAIGE. The individual that was supposed to have done that——

Mr. HORN. You mean that's like the welfare queen story and all the——

Mr. PAIGE. That's right.

Mr. HORN. Well, OK. Can you ensure me, General—or Mr. Secretary—that we can communicate in the military, between services, on the battlefield?

Mr. PAIGE. We can communicate. The level of interoperability, across all means of communications, is not what it should be, neither air-to-ground nor ground-to-ground. So there are problems still out there.

Mr. HORN. My last query on this would be domestically. The military can perform a great role when there is an emergency. I think back—not that I was there, but I think back to the 1906 earthquake in San Francisco. The military at the Presidio of San Francisco turned out and helped save the town from as much destruction as it could.

One of the things I find when you do these emergency exercises—and I was president of a State university, where we had our own police department that had jurisdiction within a mile around the campus. And you've got dozens of situations where you've got the military, civil defense organizations, State police, the highway patrol, in the case of California, the county sheriff; 70 cities in Los Angeles County, looking for a centralized system of communication; and you have, then, dozens of State universities and other State entities with police authority.

What I would like to know is, to what degree has the military and the civilian sector, through FEMA or whatever, worked out some compatibility of communications when we have a flood, an earthquake, fire, whatever?

Mr. PAIGE. Well, we have a structure that is in place called the National Communications System, the NCS, where FEMA and all the other agencies of the Federal Government, and those kinds of issues are worked out by that group. As you probably know, during the earthquake out in California, Northridge, the military went there, and we normally go wherever there is a problem. Hurricane Andrew—we were there, too.

Mr. HORN. And you have been satisfied with the level of communication? Were there any difficulties in communicating between the services and the civilian sector?

Mr. PAIGE. Yes, there are difficulties. But is it improving? It is improving day by day. But do we have complete interoperability, across the board? No.

In those cases where we find we have a problem, we normally solve that problem by what we call liaison officers. In other words, we will send an individual or a piece of communications equipment where it is needed that is interoperable with ours. So if FEMA has a problem, or even a State activity, then we will normally provide service to them that will connect back into our network, the same as we do in combat.

Mr. HORN. In order for that liaison officer to communicate back to his or her base, presumably they need a channel of some sort. I find, when I have been through these emergency exercises, all channels are taken; not enough channels are available on the West Coast, because they're taken by police departments on the East Coast, et cetera. Have we solved that problem?

Mr. PAIGE. The frequency-coordination problem exists. To say that we solved it? No, because most of the time we won't know until we get there what problems really exist, as we have no control and very little information over the local, county, State government activities and what they have. The Federal activities—we normally know what they have, in terms of frequencies and communications.

Mr. HORN. Is there a way, technologically, that you see down the line—and if so, how far off is it—where we won't have those communications jams simply because of a limited spectrum?

Mr. PAIGE. No, I don't see—I think the spectrum will always be congested. Even with the increased means or methods of radio—millimeter waves, so on and so forth—the more we get, the more we use, the more we consume. So I don't think the spectrum problem will ever disappear.

Mr. HORN. I yield 8 minutes to the ranking minority member, to make up for the time I went beyond, to Mrs. Maloney of New York.

Mrs. MALONEY. Actually, I would like to follow up on one of your questions. That was your line of questioning on the adoption for new technology.

You testified, Mr. Woods, that you would have an umbrella and then you would have technology refreshment with the original contractor; if it was not met, then you would go outside of the contract and have it met.

Mr. WOODS. Right.

Mrs. MALONEY. Since this is the largest procurement ever undertaken, and since competition for Government's telecommunications dollars should occur not just at the time of the original contract, but throughout the life of the contract, particularly in new technology, have you considered allowing competition for new technology—in other words, having an active, living contract, as opposed to one written in stone, for the new FTS2000?

It seems to me, from prior experience, even in FTS2000, that competition has driven prices down. Why not allow competition when you want to bring new technology into the system?

Mr. WOODS. I think, in effect, that would happen with multiple contracts. I mean, if we've got multiple comprehensive-type contracts and they each have an array of services——

Mrs. MALONEY. But you are recommending two contractors from your original recommendation.

Mr. WOODS. At least two.

Mrs. MALONEY. At least two, but when you say "at least two," you're going to end up with two. I mean, if you said "three," you would end up with three. If you use the long-distance approach, then the most you could end up with is three, because they're the only three long-distance companies in the country right now, to my knowledge.

But my main point is, why limit it? Why limit it when you have many—assuming you end up with at least two, why not have it broader? Because the main thing is to save the taxpayers' dollars and possibly—you were saying you would have technology refreshment—possibly a contractor out here may have a better idea that would serve us better and be cheaper, yet they're not going to even be able to compete under the system that you've set up that will give technology refreshment to the original one, two, or three contractors.

Mr. WOODS. Let me back up just a moment and clear up what I believe is a miscommunication on our part. We do not see this contract limited to the long-distance carriers. We see nothing to keep a system integrator, for instance, from putting together a team and bidding this. We see nothing that keeps a regional Bell operating company teaming with a system integrator or another provider and bidding.

Mrs. MALONEY. But you're talking about how a contractor comprises their bid.

Mr. WOODS. Right.

Mrs. MALONEY. You're talking about ending up with two or three—or at least two—contractors, with their package of subcontractors and others. Do you see what I'm saying? And that may leave out a lot of other people who could bid on the new technology.

My main question is not on the overall framework of the contract. My main question is, why not have a living contract that can react to new technologies and not be tied in to whoever wins the original contract? We're talking about a 10-year contract, a 4-year—a long-term contract. And as we've seen in technology, I can't keep up with it. It changes every day. And it seems that we would be limiting ourselves to grow, and limiting the savings for the citizen taxpayer.

Mr. WOODS. Well, our concern and bias is not toward limiting it to two contracts. I would like to reiterate that. We see ourselves having, first, multiple contracts.

Mrs. MALONEY. Assume you ended up with 10 contractors. Why, then, would you limit who could react to the new technology? The way things change in America, we could have a new firm pop up tomorrow who has the best idea of all, and they're excluded from the process.

And I think that that's not fair to us, to respond to the framework, but the way it is written, or the way I understand it, if you have technology refreshment—boy, if I was the contractor, I would make sure that I was the one that refreshed anything that you needed, and I would win that contract. And if I didn't get it, because I had the technology refreshment, you know that I would be in court the next day, tying you up and suing you, because you didn't give it to me. And you prove to me 80 times to Sunday that this contractor, who doesn't have my track record, since I got the contract in the first place—I think we're terribly limiting Government and the citizen taxpayer.

My main question is, could you relook that and see if you would open up new technology to all people who can compete within a 30-day timeframe, or a short timeframe, so we can act very quickly?

Mr. WOODS. We will certainly address your concerns, and it is well within the philosophy we are pursuing. I might remind you that the current contract has had a lot of technology refreshments; it has worked pretty well. But the committee who put this together believes we still want to encourage competition in the bigger picture.

Mr. PAIGE. I don't think we would want to put the Government in the role of being the systems integrator under any circumstance, either, where you already have contractors, and now you're going to go out and award separate contracts to new bidders out there, for a new technology. The way I see it, if there is a requirement for new technology, those same companies can go and bring that new technology to you from whoever has that technology. And we should maintain a position as the user, the buyer, to be able to ask for whatever service we want from those contractors.

Mrs. MALONEY. But it appears to me the price would be cheaper if we allowed them to compete in a competitive bid, as opposed to being sponsored by the contractor who has the contract. But I look forward to your answers in writing on it, and an explanation.

I would like to ask Mr. Paige, earlier you testified that you saw 70 percent of DOD's traffic going on FTS2000. Did I hear you correctly?

Mr. PAIGE. I said that I had never considered a percentage, but if I had to do that, to answer the question that was given to me, I would estimate approximately 70 percent of the total traffic would ride—that is, in CONUS, we are talking about, where the FTS2000, Post-FTS2000 contracts exist and will exist—that the bulk of the traffic will be riding FTS2000 or—and even that which is not riding FTS2000, in terms of switches and so on, and under their direct management—even the majority of that 30 percent would be riding the trunks, the connectivity, that would be provided via FTS2000 services—or Post-FTS2000 services.

Mrs. MALONEY. What assurances can you give the committee that DOD will, in fact, meet these objectives? Personally, I think that's incredibly high.

Mr. PAIGE. Well, I am not—I wouldn't dare sit here today and try and assure you that we are going to meet any percentages, but when you look out there and look at the possibilities, to me it is not inordinately high.

Mrs. MALONEY. Is DOD building its own telecommunications infrastructure?

Mr. PAIGE. DOD already has its own telecommunications infrastructure today, with the overseas systems that we have, that connect our forces all over the world, and that which we lease here in CONUS, to include that which we get from FTS2000 today, where we are the largest user.

Mrs. MALONEY. Is this the DISN program you're talking about?

Mr. PAIGE. The DII, DISN will be a part of the Defense Information Infrastructure. That will be the largest portion of it, in terms of the transmission systems. Yes, that's it.

Mrs. MALONEY. How might you construct DISN procurements to facilitate their evolution to the Post-FTS2000 network?

Mr. PAIGE. We are working that issue now, and, in terms of transitioning, I don't see where we—at least we don't plan to wait until we get to the Post-FTS2000, to start moving traffic or service away from the existing contract, the existing DCTN contract, over to the FTS2000. We're going to gradually go about building that.

Mrs. MALONEY. Our security network for very sensitive matters and national security—is that on the DISN network? Where is that kept?

Mr. PAIGE. Today, it's on all—some of it rides today what is known as DSN, and it rides all of the various networks that are out there. The capability to secure the communications is not related to the network that it rides.

Mrs. MALONEY. Really? Thank you very much. My time is up.

Mr. HORN. Before I yield to Mr. Fox from Pennsylvania, I would like to follow up on this question, so we can have it all in one place. I think the ranking minority member has pursued an excellent question here. Let me put it my way. There will be one or two different wrinkles for Mr. Paige.

Mr. Secretary, the proposed strategy expressly states the Government should not be in the business of constructing its own telecommunications infrastructure, as it is costly and lags the commercial sector in technology refreshment. Your testimony stated that you are mapping your DOD strategy in concert with this GSA initiative, intent on taking full advantage of that effort, and certainly your 70 percent figure would be close to one interpretation of the full advantage. Are there any initiatives under way which might limit the DOD traffic available to be placed on the Post-FTS2000 program?

Mr. PAIGE. Sir, I cannot think of anything at the moment that would limit us to what can be placed there on the FTS2000. As I said, even the command and control systems that will be used to provide service to our CINCs, in CONUS and overseas, and to the national command authorities—that, too, will utilize some of the

FTS services when that service is available. If the FTS2000 contract can provide the service, we will utilize that.

The command-control systems service that will be provided—we will bring that on. We will integrate it with the overseas, the CONUS, and we will manage that network; we will control that network.

Mr. HORN. Outside of that, do either you or General Edmonds or Ms. Fountaine know of any service that is trying to bankroll the system right now, to avoid having to participate in FTS2000?

Mr. PAIGE. Well, I would say, first off, I don't know of any that are trying to do that that I'm not trying to cutoff at the pass. OK? There will always be somebody out there that is trying to get around whatever it is that we plan.

I would guess that you might be referring to the intelligence community, and if that is who you are referring to, they work for me, too, within the Department of Defense, and we will be using—that is, the intelligence community—as DISN builds up and we have the capability, we will roll that service into the DISN.

For the same reason you suggest that the more we get onto Post-FTS2000, the cheaper the service will be—the same thing I look at when it comes to bringing all of the various defense-related activities that we control—not the CIA and the others, but all of those things that we control—we'll try and have them riding the DISN.

Mr. HORN. I would like to ask both General Edmonds and Ms. Fountaine, are you aware of any particular service attempts to get around the Post-FTS2000 program?

General EDMONDS. Sir, there is no service that I know of attempting to get around it.

There is a congressionally mandated requirement, to put commercial satellite communications in the Department of Defense, to save money. That was mandated by Congress, with dollars, and that takes the same kind of service, and that is point-to-point type service. So if one were to describe that as getting around, that is a service of record, that we have been told to do to save money.

Other programs like that, military satellite systems, of course—they are also part of the DISN.

People tend to combine—they tend not to think of the DISN as just all the Department of Defense services. They think of it as either FTS2000 or DOD. There are several facets to it. There are military satellites, and different bands, SHF, UHF, VHF, radios, all kinds of systems, and all of those are interoperable and make up the DISN. It is the transport part of the defense information infrastructure.

So a lot of people are confused about that part of it and tend to think we are trying to do something to get around things. That is the farthest from the truth. It is to our advantage to use FTS2000 to provide services to us that are both supportive of the war fighter and cost-effective, and we are the ones who roll the services over there; we are the largest customer of FTS2000. So we have no reasons not to support FTS2000 or its follow-on.

As a matter of fact, we have four people that have been working with GSA since last June to make sure that as much of DOD requirements that can be satisfied by the follow-on will be satisfied

by the follow-on. So we are a party to the effort, not against the effort.

Mr. HORN. Ms. Fountaine, do you have any comment?

Ms. FOUNTAINE. I know of no efforts.

Mr. HORN. You're not aware of any.

Let me ask you, Mr. Woods, are you in GSA aware of any, either in Defense or outside of Defense—FEMA, whatever—that are trying to develop other systems to get around the Post-FTS2000?

Mr. WOODS. I would have to, overall, say no, but I understand some of the debate, and I understand some of the concern in the industry in general, and a lot of that has to do with the fact that eventually the IMC wants to see service end to end, desktop to desktop. We're not quite there yet, in our evolution as a program, so other contracts and other efforts have to pick up where we let off and take it from our service delivery point to that desktop. So a lot happens in between there, and that is part of the debate over local service, and that is part of the debate over systems integration.

So I understand why the debate is there. I can assure you that General Edmonds and Secretary Paige and our staffs and myself have put a lot of time and effort into this, and our intent is to make it go together and leverage the Government's requirements to the taxpayer's benefit.

Mr. HORN. Ms. Bates and Dr. Okay, you both chaired the Interagency Management Council. You're obviously aware of the civilian dragons, as well as the Defense dragons. What is your reading on this? Do we have other competitive systems that are trying to get in now, under the deadline, one way or the other, through appropriations by Congress, to avoid the consolidated system?

Ms. BATES. I know of none at this time.

Mr. HORN. Dr. Okay.

Mr. OKAY. Mr. Chairman, I'm aware of no such efforts.

Mr. HORN. Will the Department of Defense, Secretary Paige, make use of the Post-FTS2000 switched services, or will DOD's participation be limited to the purchase of the bandwidth to support the construction of the DOD private network?

Mr. PAIGE. No. We will use the switched network for all of those day-to-day services, in the same manner as we are using the FTS switched-network services today.

I don't intend to go out and take over and manage a separate network ourselves, except that which is command and control.

Mr. HORN. In other words, the linkages between the Pentagon, various commander-in-chiefs throughout the world, that's essentially your own system there.

Mr. PAIGE. That is correct, sir. And we will interconnect that, of course, with the Post-FTS2000, to be sure that, no matter where they are, we will be able to get them.

Mr. HORN. Sure. And, as I understand it, within the United States or wherever the Post-FTS2000 system is working, you will try to use it; you would, obviously, be able to code your information and everything else. But it is a question of, if they can give you a good deal, you're glad to have it.

Mr. PAIGE. That's correct. You've got it, sir.

Mr. HORN. All right. The gentleman from Pennsylvania, Mr. Fox.

Mr. FOX. Mr. Chairman, I'm not aware of any efforts in the Congress to undermine the FTS2000, but I'll be sure to let you know. [Laughter.]

I would ask one question, if I could, as a general matter, to the panel. How would the Post-FTS2000 program support seamless electronic commerce and electronic mail? Anyone is free to answer.

Mr. PAIGE. As you probably know, we have a joint office today that—and we have been working now for almost 2 years—a joint effort, GSA and DOD, putting together the EDI/EC program to be used by all of the Federal Government. We have put the basic package together, wherein DOD had a process action team that had worked through that for the Department of Defense, and when we got together it was suggested that—well, the group decided that they would not go out and reinvent the wheel; they would take the PAT team effort that DOD had and we would build on that. And that is what we have done.

Today, in terms of enactment or implementation, we have a joint project management office that is co-chaired by a GSA individual and a DOD individual. The means for EDI/EC—it doesn't make any difference whether it is FTS. Wherever it is necessary for us to pass the transactions, we will have the capability to do that, either in the FTS, via FTS connectivity, or via DISN. And within the Department of Defense, we have something called a Defense Messaging System that will also enhance that capability.

Mr. FOX. Mr. Woods, do you care to comment further?

Mr. WOODS. Yes. I would like to add that oftentimes you hear about our shortcomings in the things we do inside the executive branch, but I would like to solidly endorse the fact that these have been cooperative efforts: the electronic commerce, electronic mail, FTS itself. And there have been several others, where we are trying to leverage the Government's requirements.

My belief is that the Federal Government has got to start looking outward, to the State and local governments, as well. They also have a leveraging kind of requirement, much like ours. And when we talk to them and we see the prices they pay, it all ends up to the same taxpayer paying that bill.

Mr. FOX. Right.

Mr. WOODS. And so we would like to do what we can to leverage across those boundaries. It has a functional benefit because it means our transactions flow smoother, back and forth, to them. So it is an area in which we've got a great deal of interest.

Mr. FOX. I just have one final question to the panel. Do you believe that the strategy that we are discussing today contemplates allowing all interested vendors an opportunity to participate in the program, or are we limiting competition in any way?

Ms. BATES. I believe the strategy, as put forth by the IMC—which, by the way, I would like to comment on. The strategy we—the IMC is very proud that we partnered with GSA in developing this strategy and taking into account all of the comments of the industry as we went along. And I personally feel, and the IMC feels, that this is the way that the Government should operate, so I think we are a good example of the future.

I don't think the proposed strategy in any way limits competition. We are trying to seek competition to its maximum, and the

result—one of the major factors of Dr. Okay's committee, in defining our requirements: flexibility became one of the key requirements of all of the Government agencies. And I think that, with competition, this requirement will be achieved.

Mr. FOX. Thank you, Mr. Chairman. I have no further questions, and I thank the panel for its time and cooperation.

Mr. HORN. I yield 5 minutes to the ranking minority member, Mrs. Maloney of New York.

Mr. WISE. Could I get in here at some point?

Mr. HORN. Sure.

Mrs. MALONEY. I yield to my colleague, Mr. Wise.

Mr. HORN. Sorry. I didn't see you.

Mrs. MALONEY. I yield to my colleague.

Mr. WISE. We sneak in quietly sometimes.

Mr. Chairman, I would ask that you use the prerogatives of the Chair with brutal efficiency. If I repeat a question that has been asked, would you just rein me in and don't be polite and let me go on? Because I think those who come in late should not go over old ground, but I do have two questions I would like to ask.

For GSA, it has been stated by GSA that the FTS2000 currently meets the Government's demands at or below market prices, and this year the two companies, AT&T and Sprint, will participate in a 7-year FTS2000 price redetermination and service reallocation. My question is, what changes do you expect for the remaining 3 years of the FTS2000 contract, or do you anticipate any?

Mr. WOODS. I have to tell you up front, Mr. Wise, that at year 4, when we had that price recompetition, we were able to drive the prices down some $430 to $450 million, and so our expectation, in going into this price recompetition, service reallocation process is certainly to continue to drive those prices downward.

You probably know that, in addition to that mechanism, we also have in place something called a publicly available price cap, in which prices we encounter in the public arena that we find are at or below ours then are used to negotiate with the two companies, at any point, and at that point we renegotiate those prices. So those two mechanisms put together—the fact that we can move major portions of traffic at year 4 and year 7—keeps the two providers honest, keeps us honest, keeps us paying attention to prices, and then the day-to-day price cap—PAP cap process—keeps us fine-tuning that.

Mr. WISE. The figures that you mentioned—are those the cost savings that you expect, or is that what you feel you have realized? If so, what do you expect?

Mr. WOODS. The 450 was from year 4 to the end of the contract, and so it is conceivable that, at year 7, if we get further reductions, we will add to that 450.

Mr. WISE. Do you anticipate the current contract will run through 1998?

Mr. WOODS. We expect to. I would put it this way: unless we had some cause for termination, which we—at this point it would be important to point out that we believe both contractors have provided excellent service and that the prices, which are yearly certified to you as being below market levels, have produced a good

deal, and at this point we see no reason why they will not run through 1998.

Mr. WISE. In the previous hearing, there was a lot of discussion about interoperability, and in GAO's March 21 testimony they cited the fact that they considered there to still be interoperability problems, particularly citing video teleconferencing and data communication services. Both companies have said that, if there were interoperability problems in the beginning, they feel they have worked them out. My question is, from your standpoint, who is correct? Are there still interoperability problems?

Mr. WOODS. Yes, sir. We believe that interoperability is central to the current Government initiatives for cross-agency programs and the reengineering and reinventing kinds of things that go on. We have stated that as an objective since the beginning of this Post-FTS2000 effort, and in our preparation of the draft RFP the staff continues to examine a mix of contractual, market, and technological devices we might use to deal with that interoperability.

We still think, yes, it is an issue, and what I mentioned earlier, in my answer to Mr. Fox, about the fact that I believe someday we've got to deal with State and local governments—it is going to broaden our interoperability issues. I don't think that is a reason not to do it. We have to move forward, because the business demands are there. We are not here for just ourselves; we are here to support the business of Government.

Mr. WISE. Does that also, then, get into the issue of the local telephone companies, whether they are RBOCs or whomever, who would argue, I suppose, that they have been dealing with interoperability for many years?

Mr. WOODS. What happens under the current contracts is that our two providers, AT&T and Sprint, are responsible for service all the way to our service delivery points, and that means including local service access. And so they are responsible for working out the interoperability issues with the local access providers. And so that is the contractual mechanism we have used today. We have tried to keep the Government out of the nuts and bolts and into a service-type environment.

Mr. WISE. But then isn't there another issue, because there are those arguing that you ought to decentralize this further and not have just the two national companies in there, but have the regional systems, as well. And then there is interoperability between those systems—the regional company's ability to interact with one another, to carry each other.

Mr. WOODS. Right.

Mr. WISE. Have you looked at that issue?

Mr. WOODS. We view it as a balancing act, that the more services you have, the more interoperability issues you have, but the more flexibility you have. And so you buy flexibility at the cost of interoperability, and so somewhere you've got to bring that back, so that the customer receives a transparent, end-to-end type service, in which they don't deal with those interoperability issues.

So what I'm telling you is, we're willing to take a little more flexibility, at the expense of dealing with some interoperability issues, and we recognize that, as a group.

Mr. WISE. Thank you. Let me just say that we may be having some interoperability problems, understanding each other. I have not phrased the question well, but also I think this is an issue that is probably going to take more than 5 minutes, or even one hearing, to deal with. But it does seem to me that there is—whether or not it is in the framework of this particular contract or what is to come, this whole issue of the regional telephone networks and their ability to get in here, and whether they are able to provide the same level of services, or better, that you are presently obtaining, is going to be crucial.

Mr. WOODS. Right.

Mr. WISE. And I would assume that GSA is constantly evaluating that.

Mr. WOODS. And we would be happy to follow up with further information.

Mr. WISE. Good. Thank you.

Thank you, Mr. Chairman, and Mrs. Maloney.

Mr. HORN. Thank you very much.

I now yield 5 minutes to the ranking minority member, Mrs. Maloney.

Mrs. MALONEY. Thank you, Mr. Chairman. The Deputy Associate Administrator and the Assistant Deputy Associate Administrator of the Office of FTS2000 will soon be leaving GSA. Both have had intimate knowledge in constructing the program and implementing it. How do you think their departure will affect the implementation of the new procurement? Do you believe there will be a smooth transition into the Post-FTS2000 environment without their leadership and background of knowledge? How will this affect the running of the operation?

Mr. WOODS. Mrs. Maloney, I wouldn't be totally forthright if I didn't say I wasn't going to miss them, because I certainly will. I would remind you that the buyout program that we have, though, gives them up to 2 years before they depart, so we have about a 20- to 24-month window. My belief is that the program office has a very talented group of people. The depth is, at this point, good, and I believe we've got time to transition.

Mrs. MALONEY. I thought your office was insulated from the downsizing activities.

Mr. WOODS. No, it's not. And we have—some time ago, the IMC looked at the staffing level—about 3 years ago—and recommended taking it from around 300 down to about 240. We did that, and we're down to about 228 now, but we still are experiencing some downsizing from the overall downsizing of Government effort.

Mrs. MALONEY. What support are you receiving from your superiors to address this problem?

Mr. WOODS. They have assured me that, when we have redesigned the program, as I showed earlier, on the chart, and we have looked at such things as local service access—local service issues and so forth—and we make our requirements known, then we will sit at that time and look at the resources required. I think we've got to look across Government, as well as within GSA, and that is where, I believe, the IMC is critical to this. The agencies are going to have to pitch in and do this as a group.

Mrs. MALONEY. It's going to be difficult to do this, with losing so many key people.

Last week, we heard testimony which suggested that the requirement—and this follows up on my colleague's questioning, and the chairman's, earlier—to provide comprehensive, nationwide services will restrict the Government's ability to use the services of specialized regional providers, because, by law, RBOCs are prohibited from providing nationwide service. Why is it important, for the success of this program to the Government, to get all of the services from really a relatively small pool of companies, who can provide comprehensive services? Why was that the total structuring of the contract, to begin with—comprehensive services?

Mr. WOODS. We didn't view it as a very limited number. Our belief is that the large system integrators that are out there today can obviously bid this. We believe that the interexchanges can bid this.

The regional Bell operating companies and the local access providers today are 40 percent of the game, as we certified before. They are not non-players in this process. In fact, in aggregate, they today receive as much revenue as Sprint does, as, quote, a winner in the bigger picture. So my belief is they will always be—or they are going to be players as long as we are in a monopoly environment. And then, when we deregulate, they will have a chance to play as players.

So we are in somewhat of a transition time, and that was part of what Dr. Okay's conclusion in the futures group was about, in flexibility, recognition that the industry is changing a great deal.

Mrs. MALONEY. I would like to ask Dr. Okay, why did the Interagency Management Council reject the idea of allowing regionals to bid to provide regional services, as opposed to being a subcontractor, to be able to competitively bid for those services? And as I understand it, comprehensive, nationwide providers can compete for the regional services, too, correct?

Mr. OKAY. Mrs. Maloney, if I could take the first part of your question, the IMC examined the range of eight potential options, and the final recommended solution, or strategy, was one which we felt properly balanced the need for the Government to have the capability for end-to-end services, for agencies such as the Department of Agriculture, which has field offices all over the country, to balance the needs for managing multiple contracts with the need for efficiency in Government operation.

I would second what Mr. Woods said: that we believe there is ample opportunity in the broad range of contracts, the comprehensive contracts, the niche contracts, for all segments of the telecommunications industry to participate in the contracts.

We also recognize that over the expected life of these contracts is a time of great transition in the entire industry, and what today may be a particular industry structure and regulatory structure will, in all likelihood, be vastly different over the period from 1998 through into the early 2000's.

So we think there is ample opportunity for all segments of the communications industry, today and in the future, to be viable players in the future contracts.

Mrs. MALONEY. Not if we're locked into one contract for 7 years or 10 years.

But I wanted to follow up on one of your statements. You said that you were weighing the Government's necessity of managing the contracts with the other problems, but in the testimony we heard last week GSA originally wanted to award the first FTS2000 contract solely to one contractor, and, as I understand it, Congress really suggested that there be more competition, and I believe that history has proven us right, that more competition, according to testimony we heard last time, really drove the prices down.

Why would we want to restrict ourselves now? It would seem that any way that we could build competition, whether it is a living contract with new technology or allowing regional systems to supply some of the regional support—we heard, earlier, Mr. Paige saying that he didn't believe that there should be mandatory requirement of being on the system, because out in the field they may decide they need another system. Why not allow, wherever that system is, to have it competitively bid and have the sources that will be using it, whether it is DOD or the Department of Agriculture, be part of drawing the specs for it, so it responds to their local needs?

Mr. OKAY. The selected strategy, first of all, does not recommend a 10-year contract period. We are recommending——

Mrs. MALONEY. Four-year and 4-year?

Mr. OKAY [continuing]. Four-year and 4-year, so there will be some competition much sooner than we have in the current context.

And through the combination of comprehensive contracts and specialized, or niche, contracts, again, we believe that there is an opportunity for all segments of the industry to participate.

Mrs. MALONEY. But not taking it from the industry point of view, but from the taxpayer's point of view, and really the regional, DOD office out in some really remote area and the Department of Agriculture in another area—why not let them competitively bid it? Possibly we could get a lower price.

We've got this deficit we've got to take care of. I'm just curious why it was rejected. Don't you believe that, if you had competitively bid regional services, it would have driven down the price? Or do you believe they could not perform the service? Yet in the contract, as I read it, you are going to be doing long-distance and then have regionals subcontracting here.

My question: why don't we, as a Government, competitively bid and have them contract with the Government? Wouldn't that cut prices and save taxpayers' dollars?

Mr. OKAY. Let me ask Mr. Woods to respond.

Mr. WOODS. Mrs. Maloney, I might add a historical note that you may not be aware of. In 1988, in the last contract that was bid, Judge Greene did give the regional Bell operating companies the permission to bid it. They bid it in tandem with the losing team, and they were, by far, the highest price of the group, as I remember it, or the price was higher. It was the reason we didn't select.

Mrs. MALONEY. For a unified program?

Mr. WOODS. Right.

Mrs. MALONEY. I'm not asking that, or questioning that. And, in fact, anyone can bid now, in the proposal you have, for it. I can even bid, if I feel like I can provide the services.

So anyone can bid, but my point is—and that is not my question. My question is, when you get to the point where you are subcontracting major portions of the contract—according to your testimony, 40 percent, if not higher, of the contract is a subcontract—my question is, why do you not allow competitive bidding for the subcontract? Would that not drive the prices down and save taxpayers' dollars?

In other words, have the Government subcontract—or is that too much work for the Government, or whatever?

Mr. WOODS. I think the problem is it puts the Government back in the position of being their own telephone company. And if we go out and buy the piece parts, there is no doubt that on paper we could put together a proposal that would look cheaper. That means—if you'll pardon my metaphor, my metaphor is, if you want a hamburger, you don't buy a cow. We could get it, by the pound, cheaper by going out and getting the piece parts, but our worry is that the Government will get back in the position it was in between 1963 and 1988, where we're running our own systems; they don't keep up. We were probably the worst off, technologically, in that period we've ever been.

Our sense is that the subcontracting part of it is part of the natural product aggregation that we require. So I can tell you that, through a lot of history, we have not found the aspect of buying individual services and then trying to put them together ourselves a productive environment.

Mrs. MALONEY. My time is up, but one last question.

Mr. Paige testified earlier, Mr. Woods—and I would like to ask you, Mr. Woods—that he didn't feel that it was necessary to require mandatory use. What bothers me is, if you don't require mandatory use, then you will have USDA offices, or any offices, deciding they are going to set up their own system. And I would like you to respond to that, and I am not clear what enforcement we have to require mandatory use. And then last week we heard testimony that what was the best part about FTS2000 is that we had saved really a great deal of money by lowering costs, by this one system, but if you don't require mandatory use you're going to have many other systems, and would you give me your thoughts on that?

Mr. WOODS. Well, my thinking there is that mandatory use, under the current effort, I believe, has worked for a couple reasons. One was we were coming off our own network, and there was a tendency to say, "Well, since we've got it here, let's just go ahead and use it. And I'll just stay over here, on the old system." So I believe mandatory use, in the first part of the current contract, was a very good aid to get the Government to move off its own network and into the commercial environment.

We are now in the commercial environment, and I believe that mandatory use is not a tool by itself. GSA still has the policy and oversight function that any agency that wants to go out and buy its own system of sorts still has to come to us for a delegation to do that and can't just go out on its own and do it. So, if we looked at what they were doing and it was not cost-effective and there

were services clearly available under current contracts, we would simply not give them the delegation to do that.

So it's not that they simply can just go anytime, anyplace, and do it.

Mrs. MALONEY. Well, thank you very much.

Mr. HORN. Thank you very much.

Does the gentleman from West Virginia have any more questions?

Mr. WISE. No.

Mr. HORN. If not, I think the ranking minority member would like to thank members of her staff, just as I will be thanking the majority staff. Last night was the Academy Awards. I'm sure a lot of us saw it. I always take particular interest in the people behind the scenes that are recognized that we seldom see, rather than the big stars that sometimes deserve it and don't. So we're now going to talk about the people behind the scenes, before we close the hearing.

Mrs. Maloney.

Mrs. MALONEY. That was very eloquently put, Mr. Chairman. I would like to thank very much Cheryl Phelps, from the minority staff, the professional staff member for procurement; Kevin Davis, a Congressional Black Caucus Fellow, also from the minority staff; and my own staff member, Mark Stephenson. Thank you all very much.

Mr. HORN. I thank you, and I would add that, on the majority side, Ellen Brown is the full committee's procurement counsel and had the responsibility for arranging this series of hearings. Keith Brown is the committee LEGIS fellow; Andrew Richardson is the subcommittee clerk; and today we have Mark Handy as the reporter of the proceedings. So we thank all of you for your work, and we thank each of the witnesses. I think it has been a very interesting dialog, and I appreciate the candor of my colleagues up here, on both sides of the aisle, and the witnesses.

Thank you all for coming, and this committee hearing is adjourned.

[Whereupon, at 3:45 p.m., the subcommittee was adjourned subject to the call of the Chair.]

[Additional information submitted for the hearing record follows:]

Responses to Questions Raised on the Post-FTS2000 Strategy

Hearings before the
Government Reform and Oversight Committee
U.S. House of Representatives
March 21 and 28, 1995

EDS

Table of Contents

Section		Page
1	Introduction	1
2	Size of the local and long distance telecommunication markets	2
3	Percent of revenue from the current FTS2000 contracts going to the local exchange companies	4
4	Level of interoperability in the current contracts and the role of the local exchange companies in interoperability	7
5	Availability of technology upgrades under the current and alternative strategies	12
6	Cost savings associated with the current contracts	14
7	Choice between centralized and decentralized contract and management approaches	16
8	Ability of all telecommunications market segments to participate	19

1 Introduction

On March 21 and 28, 1995, the Government Reform and Oversight Committee, U.S. House of Representatives conducted hearings on the Post-FTS2000 program strategy and heard testimony from the Government Accounting Office, senior government managers, and members of industry.

The responses to questions raised by the members of the Committee during both of the hearings related to the existing FTS2000 and the future Post-FTS2000 are presented in this document. The purpose of these responses is to provide additional background and analytical information concerning the seven questions and the issues related to each.

2 Size of the local and long distance telecommunication markets

The Federal Communications Commission (FCC) statistics list 400 billion local calls and 63 billion toll calls in the 50 states for 1990. Thus, over 85 percent of all calls were local. In addition, about 20 billion of the toll calls were intra-LATA. These calls are also usually completed by the local exchange companies. Telecommunications service operating revenue for the top three long distance carriers in 1993 was about $60B. Operating revenue for the top eight local exchange companies was about $100B. Approximately $25B of the interexchange revenue was passed to the local exchange companies for access fees. Thus, local exchange companies actually accounted for about 75 percent of telecommunications revenue after access charges have been subtracted from the long distance company totals. See Figure 1 for local and long distance market shares.

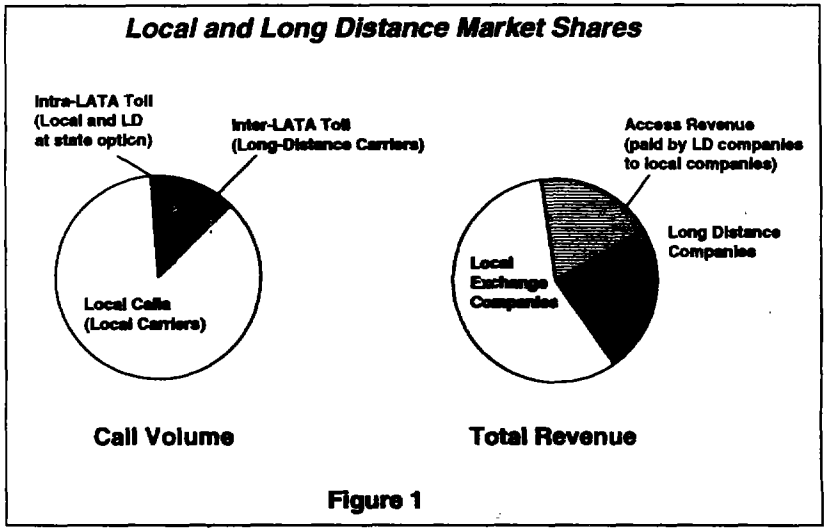

Figure 1

Equivalent telecommunications traffic statistics for government telecommunications are not available. This is because local telephone service billing often includes a flat monthly fee for some or all local calls. Good cost data are difficult to find. However, based on data from the General Services Administration (GSA) customers, 1993 rates for local voice service are about $30 to $35 per line per month, including message units and management costs. Long distance service on FTS2000 costs about $20 per line per month.

Valid data communications statistics are unavailable. However, the explosive growth of local area networks (LANs) and client-server data systems are sharply increasing local data

communications. Estimates for costs associated with a workstation on a LAN, including telecommunications, are from $170 to $320 per month. Meanwhile, the growth of the Internet, on-line services, and electronic commerce is increasing both long distance and local data traffic.

Based on this data, it is a reasonable estimate that 80 percent of telecommunications is local, whether measured by cost or traffic. The question of long distance service driving government telecommunications therefore is worth reconsidering. Including the "Access Services" contracts in the initial Post-FTS2000 procurements, instead of delaying them as indicated in the current strategy[1], would focus on the local cost area. There is no reason Access Services contracts need to be particularly complicated. They should include all services available commercially in the local area, under normal commercial conditions, discounted appropriately. This approach would have the benefits suggested by Mr. Lanthier, Pacific Bell. That is, it would encourage development of new local service features to more efficiently meet government requirements, which could then be used by the rest of the community.

[1] Post-FTS2000 Program Strategy, December 1994, p. 29.

3 Percent of revenue from the current FTS2000 contracts going to the local exchange companies

The apparent discrepancy between Mr. Lombardi's (AT&T) and Mr. Teague's (Sprint) estimates of 40 percent and 44 percent, respectively, of FTS2000 revenue going to local exchange companies, and Mr. Cobb's (U.S. West) estimate of 11 to 14 percent may be explained by different assumptions. Data for GSA-consolidated local service customers served by the Sprint FTS2000 contract indicate that in March 1994 about 48 percent of charges to the government for switched voice service were access charges for originating and terminating all types of calls. However, only about 20 percent of total charges were access charges covered under FTS2000 agreements between the access providers and Sprint. The rest of the 48 percent (28 percent of total charges) were for terminating off-net calls (calls to anyone not on the Sprint FTS2000 network, such as contractors or the public). While charges for terminating off-net calls are paid to the local exchange companies, they are done as part of the normal local exchange tariff, apart from the FTS2000 contracts (see Figure 2).

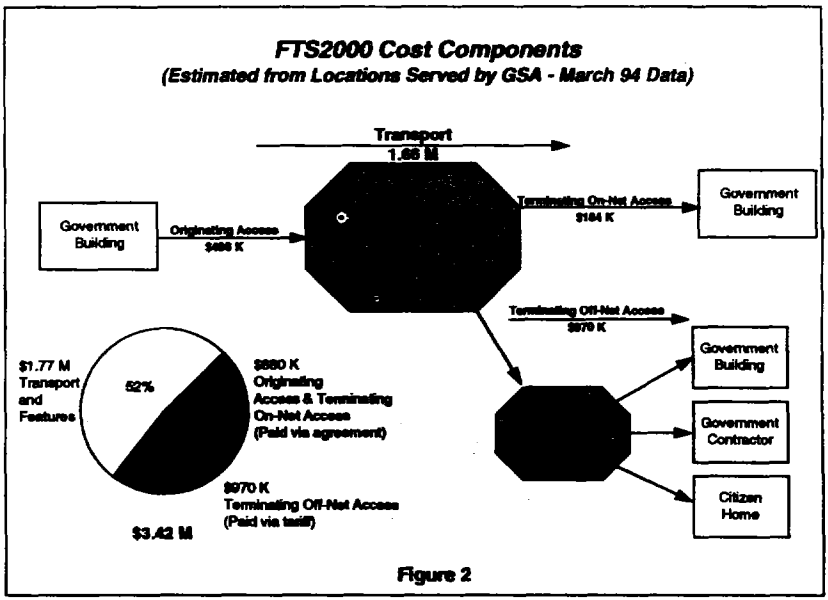

Figure 2

This whole issue does not normally arise in commercial contracts. One of the differences between FTS2000 and commercial practice is the way services are priced. In commercial practice, access is priced separately from the transport and switching costs on the long distance network.

Dedicated access, the type of access normally used to connect large customers, is priced at a fixed monthly rate. Customers can choose to have the long distance vendor provide access, as a separately costed item, or they can provide it themselves. If the vendor provides it, there may be a small surcharge associated with the service. In FTS2000, access is included in the price per minute for voice, switched data, and packet data services. This creates some major complications for the FTS2000 vendors (and the government customers), because the variable usage charge must be used to recover a fixed cost to the vendors. Charges for access look like a sawtooth as a function of the minutes of use. Because of this, a customer calling 10,001 minutes per month might have a substantially lower bill than one calling 10,000 minutes (see Figure 3).

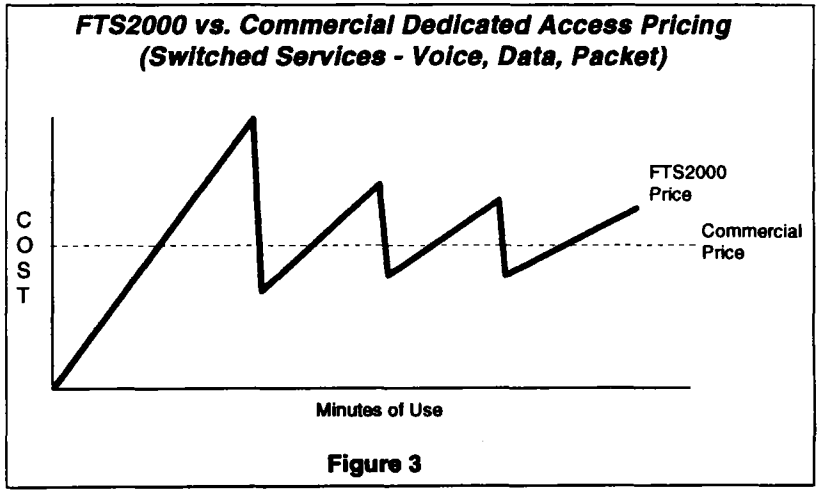

Figure 3

The Post-FTS2000 solution is to charge separately for access and to recover fixed access costs with fixed charges[2]. Unfortunately, because access is initially being provided only as part of comprehensive service contracts, access facilities will probably not be shared among comprehensive service providers, and access will also not be directly competed. If access service contracts were awarded at the same time as the comprehensive service contracts, the best prices for access would be obtained. Also, the same access could be used with all the comprehensive service vendors (see Figure 4). This would be the most effective approach to reducing access costs from the current 40-48 percent of FTS2000 costs.

[2] Post-FTS2000 Program Strategy, December 1994, p. 29, note 3.

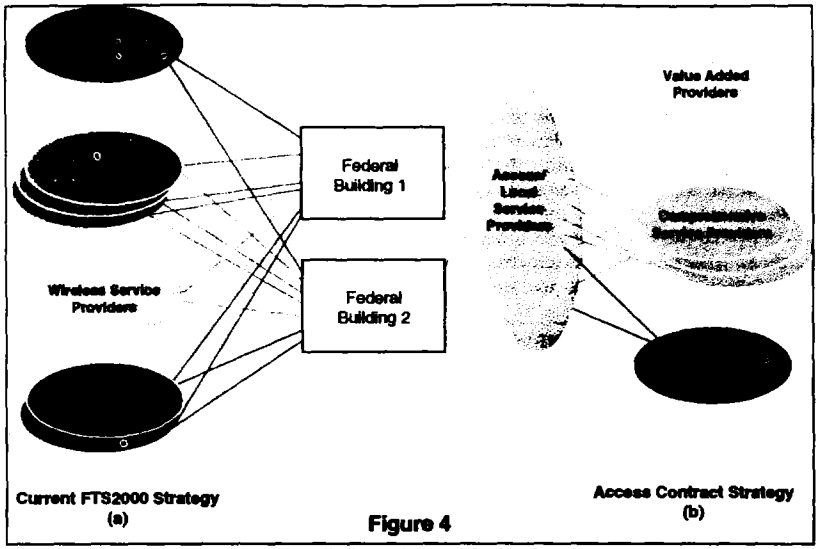

Figure 4

Separate access contracts would also eliminate the need for local exchange companies to participate with all the comprehensive service providers in the proposal process, a problem the local companies mentioned in the hearings. If access were competed separately, the same access services could be used by all comprehensive service providers, and access charges could be removed from their proposals, greatly simplifying evaluation of the Comprehensive Service contracts. The long distance vendors could bid only the surcharge, if any, they would impose if the customer requested that the long distance provider manage the access. The Technical and Management Services support contractor could also provide this service, again with a competed surcharge. This approach would allow the local access providers to more efficiently manage the access to multiple consolidated service providers. This would also allow much easier transition between the long distance service providers than if the access were bundled as it is today.

4 Level of Interoperability in the current contracts and the role of the local exchange companies in interoperability

The FTS2000 contracts specified that although the vendors did not have to interoperate at time of award (except for voice service), they should work together to achieve interoperability after award. Voice service was, and is, not directly interoperable between the two vendors since interoperability is actually provided by the local exchange companies (see Figure 5). These are the "off-net" calls discussed above. If a telephone customer on one net wishes to call a customer not on that net, the vendor can tell from the area code where to send the call. Once the call has reached the right geographic area, the call is transferred to the local exchange company, which then determines where to complete the call, just like any other long distance call.

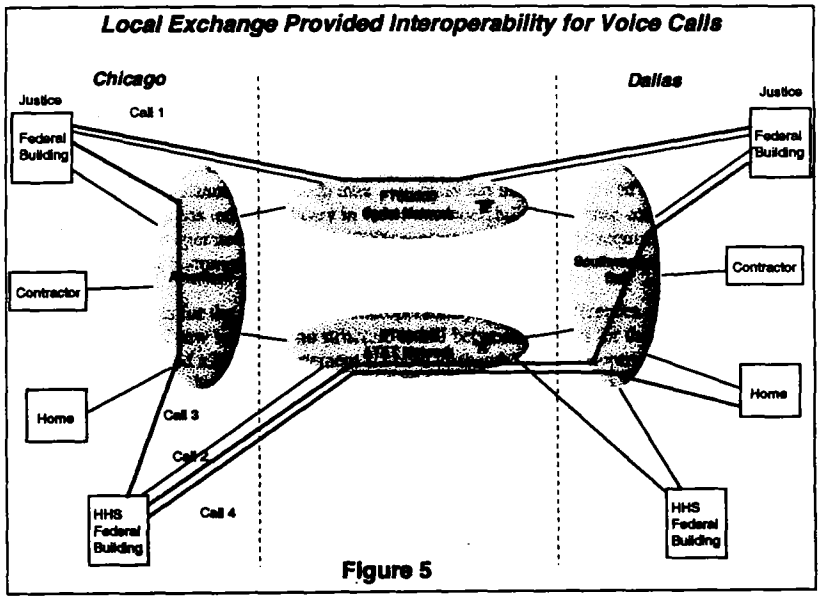

Figure 5

Interoperability can be achieved in varying degrees. The ideal is that of voice telephone service. Almost every telephone in the world, whether connected to a public or private network, can connect to any other telephone. This is no small accomplishment, and has not yet been replicated for any other telecommunications service. The Internet comes close, but there are still thousands of isolated LANs using Internet protocols. However, lower degrees of interoperability than the ideal can be useful. For example, it would be useful if all government financial systems could directly exchange data with the Treasury Department, or if e-mail attachments could be freely

transferred between government agencies (or even within government agencies). It would also be useful if electronic commerce transactions could be freely exchanged between the government and its commercial trading partners. Two key questions are: "Did the current contracts represent a successful strategy for implementing interoperability?", and "Is there a better way?" The answers are clearly "No" and "Yes."

Exactly what was meant by interoperability for services other than voice was not specified in the original contracts. Communication between customers on the two networks would have been a reasonable minimum level, and communications off-net (to vendors, citizens, etc.) would have been ideal. The program office began work on interoperability shortly after contract award, but progress was slow, and is still not complete. Although video service was recently made interoperable, switched data service, which most customers now use for video because of its greater cost-effectiveness, is not directly interoperable. X.25 packet data service has limited interoperability, but frame relay, a newer form of packet service is not yet interoperable. Electronic mail is interoperable, but it is being superseded by the Internet for e-mail interoperation.

It has been a major struggle to achieve interoperability with the current contracts between the two vendors. Except for electronic mail and video, such interoperability has really not been adequately achieved. Instead of being a testbed for interoperability issues, which had been the initial hope of some planners, FTS2000 interoperability has usually followed commercial efforts. Sprint, for example, has led the industry in video interoperability, but these commercial facilities were not easily incorporated into the FTS2000 contracts and had to be acquired on a case-by-case basis by individual customers.

Some of the reasons for the slow pace of interoperability include: differences in proprietary implementations of new services; no structure to bill between vendors for their portion of the services rendered; and a lack of agreement for how Research and Development (R&D) for interoperability capabilities should be paid for. The vendors may also lack incentives for developing interoperability, since an interoperable customer is a movable customer. Additional difficulties are discussed below under the topic of technology upgrades.

Current strategy does little to resolve these problems. Mr. Lombardi said at the hearing that he believed that interoperability may be costly, and the business case should be addressed case-by-case. If the comprehensive contracts, as now envisioned, are implemented, these concerns, which are probably shared by the other long distance vendors, are likely to slow interoperability of new services, as they have in the past. The problem could be worse if more that two comprehensive contracts are awarded, since all the comprehensive service providers would have to make pair-wise agreements on interoperability issues. Program management for interoperability is also unlikely to be performed better than in the past, since the approach is unchanged and it is unlikely that new expertise will be added due to government downsizing. The current strategy does provide one improvement: since agencies are not assigned to a specific service provider, agencies that need to interoperate on a new service could all choose to acquire that service from a single provider.

Possible changes to the current approach that would improve the outlook for interoperability include transferring the management of interoperability to the Technical and Management Support Contracts, and adding Access Contracts to the initial plan. This provides two additional avenues for interoperability in addition to agreements among the Comprehensive Service Providers (see Figure 6).

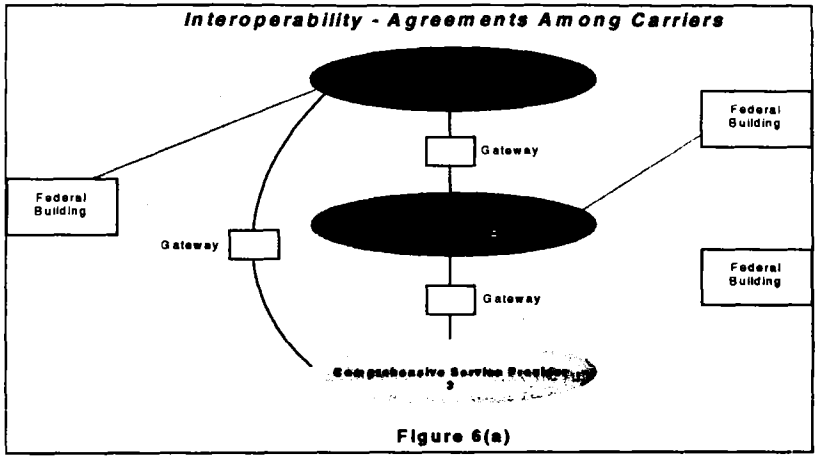

Figure 6(a)

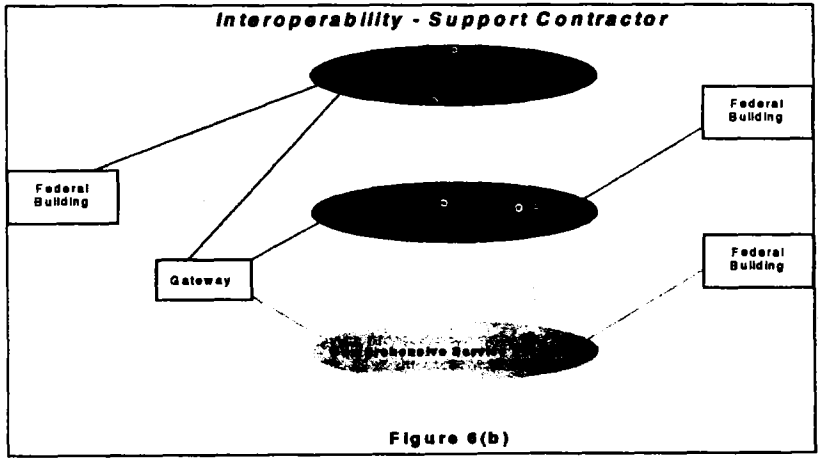

Figure 6(b)

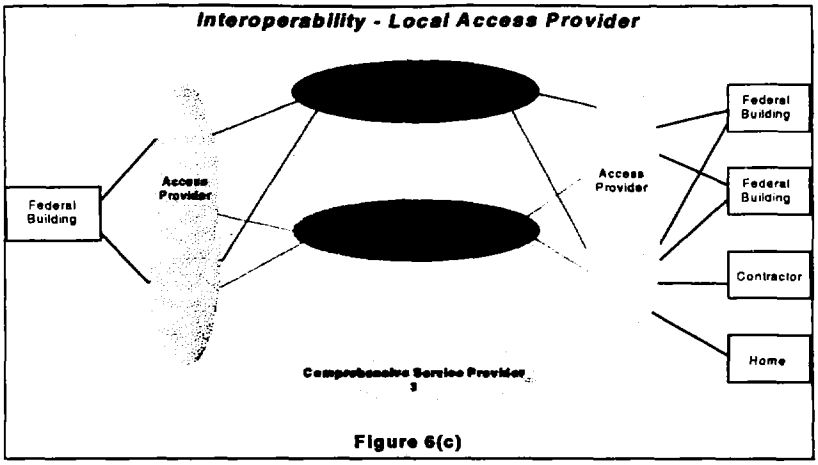

Figure 6(c)

The Technical and Management Support Service contractors could support interoperability by providing third party solutions and working out arrangements for payment among the users of the service. No direct involvement of the comprehensive service providers is required. As industry standard approaches to interoperability are developed, the third party approach would be phased out. This approach is common in industry, where, for example, Softswitch and other companies provide electronic mail interoperability services pending adequate standards.

Access Service contractors could also be a third party to solve interoperability problems, in the same way that they provide telephone interoperability today. Bellcore supports this approach by providing common standards used by all the local exchange companies, as well as common interfaces to the long distance providers. The National Integrated Services Digital Network (ISDN) standards, developed by Bellcore, are an example of this approach. ISDN, a high speed digital voice and data service that can be provided over existing copper telephone lines, is finally beginning to gain acceptance because of these standards. Once these standards are set in the local market, it is difficult for the long distance vendors to adopt different standards, since customers want to use new services for both local and long distance. Therefore, the single local service standard tends to be adopted by all long distance service providers, and all these providers can be connected to any local service provider. The local service provider then sorts out the destinations and delivers the traffic. If the local service providers are only providing access as subcontractors to the Comprehensive Service providers, as in the current strategy, this opportunity is lost.

Increasing the role of the Technical and Management Support Contracts, and adding Access Contracts can therefore provide substantial improvements in interoperability. Although at first glance, it adds to the number of parties involved, this strategy actually reduces the number of parties implementing interoperability solutions, and provides a number of new avenues to solve interoperability issues. Solutions developed for the government would likely be quickly adopted in the commercial marketplace, and conversely, commercial solutions to interoperability problems could be quickly provided to solve government problems.

5 Availability of technology upgrades under the current and alternative strategies

In response to a question from Congressman Wise about how technology upgrades in FTS2000 compare to those in the commercial world, Mr. Teague responded that, because Sprint uses their commercial network to provide FTS2000, the government gets the advantages of technology upgrades at the same time as commercial customers.

While the specific case that Mr. Teague used (the upgrade of the Sprint fiber network to a more fault tolerant architecture known as SONET rings) was accurate, the general case is not so simple. If the upgrade is internal to the network and does not change the services the customer sees, then Mr. Teague is correct. If, however, a new service is provided to commercial customers, such as frame relay or fractional T-1, then a contract modification must be negotiated, and the FTS2000-unique ordering and billing systems must be modified. This process can take several years. In the meantime, agencies are reluctant to buy the new service commercially since they fear they will have to convert to FTS2000, because of mandatory use, when the service is finally added to the contract.

Since the AT&T FTS2000 network has switches which are separate from their commercial network, the situation there is somewhat different. The network is based on an active commercial product, the 5ESS switch, and new releases for this product appear regularly. However, the actual upgrades of the FTS2000 switches do not necessarily occur at the time the commercial products become available. The timing of the upgrade depends on a combination of government requirements, availability of internal operating improvements which reduce AT&T costs, and completion of contract and support system modifications.

The net result is service availability to the government has usually lagged behind the availability of service enhancements in the commercial market. Since one vendor cannot gain customers from the other because of rigid agency assignments, as well as other technical considerations, there is little incentive to provide new services such as fractional T-1 that quickly cannibalizes a vendor's existing revenue stream. The non-competitive nature of such upgrades also causes the government to move cautiously in validating cost and pricing data and making market comparisons.

This approach to business is entirely different from commercial practice. In the commercial market, as soon as a service is implemented, it is normally available to all commercial customers. Vendor marketing strategies may be aimed at competitor's customers, but the service is available with ordering, provisioning, and billing arrangements already in place, for both new and old customers. Depending on the specifics, price may or may not need to be negotiated. If a new service is developed in response to the requirements of a particular customer, the vendor may enter into a partnership with the customer. The price of implementation may depend on the expected market for the service. The customer may have some ownership rights in the product, and share in future revenues associated with the new service.

The Post-FTS2000 strategy includes several improvements, but also retains a number of the current system's drawbacks. Since agencies can, at least theoretically, shop for new services among the winners, a vendor who is first with a new service may have an advantage. This is a major improvement, but the government still intends[3] to evaluate each new service suggestion using a process similar to the current Publicly Available Price (PAP) Cap and issue a specific contract modification for each new service. This bureaucratic process is unnecessary in a competitive market, and will slow the government's ability to take advantage of unique new services. Requiring the vendors add new services under commercial terms and conditions seems to be a better approach. At most, a price negotiation would be required. However, if the same discount were applied to the new service as to existing services, even this step should be waived. Interoperability concerns are usually minimal with unique new services (because they initially respond to unique requirements), and, if handled via the modifications suggested above, should not pose a major problem.

The other critical changes needed to speed up technology upgrades are adding Access Service contracts, and strengthening the Technical Management and Support Contracts. Access Service contracts are important for two reasons. First, they may permit customers to use enhancements from any service provider without requiring a new access facility out of the customer's premises. Ideally, all the requirements in a building could be managed by the Access Service provider and distributed to whichever service provider had the needed service. This cannot be done with the current Comprehensive Service contract approach, because the access is provided to the services of only a single Comprehensive Service provider (see Figure 4, page 4 of this document). This is a major barrier to the use of multiple Comprehensive Service providers by an agency. Second, the Access Service provider can itself provide technology upgrades. These upgrades may solve local needs, even though no comprehensive service provider has yet offered the service. Switched Multi-Megabit Data Service (SMDS), frame relay, ISDN, and Asynchronous Transfer Mode are all services which are being implemented at different rates, but where local users are benefiting before complete national implementation.

By allowing the Technical and Management Support Services contracts to put together specific service packages for customers, on both an agency and a geographic basis, and act as a full agent for those customers in dealing with the other service providers, technology enhancements could actually be put to use more quickly. This role permits customers to have a single point of control for end-to-end service if they wish, but also permits them to select services from multiple providers, and to integrate these services into useful capabilities to solve specific business needs.

[3] Post-FTS2000 Program Strategy, December 1994, p. 30.

6 Cost savings associated with the current contracts

The current vendors identified estimated cost savings of $3 billion over the old FTS system. While this figure is probably in the ballpark, it is not a particularly useful comparison. That is because the old FTS system was extremely expensive—it was cheaper to call from home than to use the old system. A more valid comparison would be with best commercial practice. This comparison is not necessarily that used in the government's PAP Cap process. For voice service, Tariff 12 and its equivalents are probably the most comparable. Figure 7 is an estimate of the approximate relationships of various long distance costs.

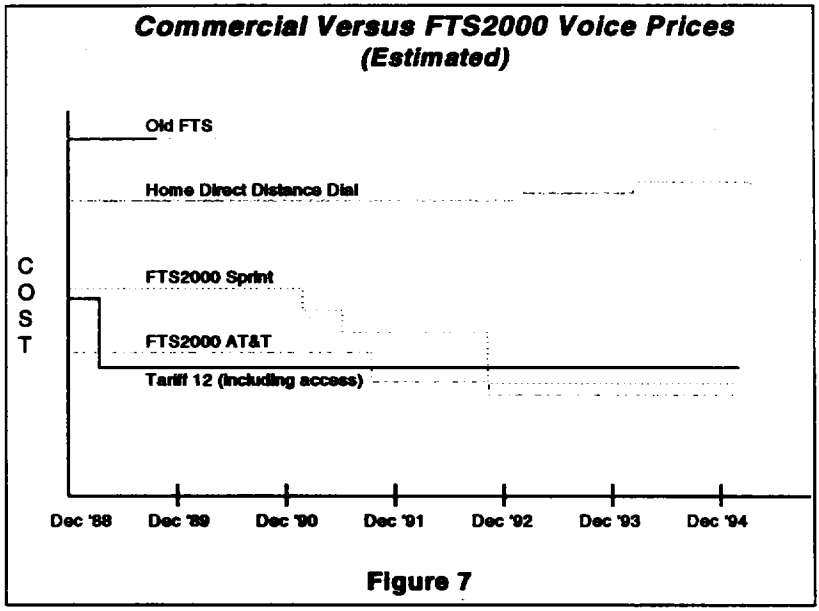

Figure 7

For data services, the relevant criteria are rates for the longest term commitment for the biggest customers. Vendor claims that government-unique requirements justify the higher prices are of limited merit. This is because most large customers also obtain a number of special services as part of their deals with the vendors. The part of their claim which does have merit is the overhead due to the non-standard pricing of FTS2000, as well as due to the government procurement process.

Using the measure of best commercial practice, FTS2000 has, at best, a mixed record of cost savings. While the costs were good on the day of award in December 1988, they turned from mixed to bad by March 1989 when AT&T lead a major reduction in Tariff 12 pricing. This was before any service had been provided under the contracts. Prices remained high until price reductions by AT&T and Sprint in 1991. Even then, they were only at or above Tariff 12 pricing. At price redetermination in 1992, price reductions brought voice service prices to at or below Tariff 12 levels. Many other services remained above commercial prices, which is one reason for their slow sales among agencies. PAP Cap may have helped some, but it is unclear how much.

In addition to the vendor prices, GSA has added a management fee of 8 percent or greater. Much of this fee is used to manage the non-commercial practices associated with the contracts, such as PAP Cap, Price Redeterminations, cost and pricing studies for contract modifications, etc. The fee supports essentially no system integration or optimization functions. Much of this overhead could be eliminated by using commercial practices and increasing competition. In addition, substantial additional savings could be achieved by management of access aggregation, use of the low cost service provider for each service, and greater management of misuse, particularly unofficial telephone calls. Under the current system, there are few government resources, and little vendor motivation, to address these areas. Moving up the Access Service contracts to the initial awards, and strengthening the role of the Technical and Management Support Service contractors would significantly improve the ability of the government to react rapidly to new commercial market developments on favorable terms. These changes, combined with multiple awards, no rigid agency assignments, and removal of mandatory use, will let market forces drive prices and service quality, allowing costly regulatory approaches such as PAP Cap to be eliminated.

7 Choice between centralized and decentralized contract and management approaches

There is no need to make a hard choice between centralized and decentralized approaches to contracts and management. The commercial reality today is that both approaches are needed in any effort to meet the complete range of telecommunications requirements. Normal commercial practice is to promulgate and enforce some enterprise-wide standards, and to award some commodity contracts for nationwide (long distance) services. The rest of the telecommunications services needed, including local voice service and LANs, are largely decentralized. This may include locally provided access to the centrally acquired long distance services. This approach balances specific local needs with the need for easy and cost-effective communications across the enterprise. Management of the total system may either be done in-house, or outsourced to a system integrator who can provide end-to-end management of the system for those components necessary to support the enterprise as a whole.

The modifications to the current approach needed to support a contract and management structure similar to best commercial practice are those we have suggested: immediate implementation of Access Service contracts, and a strengthening of the role of the Technical and Management Support Services contracts to include the majority of the program management functions. The Comprehensive Service contracts, restricted to the long-distance portion (but perhaps including value added services), should be awarded and managed on a centralized basis, as government-wide assets. The Access Contracts, enhanced to permit the full range of local and metropolitan area services, should be awarded on a decentralized basis in recognition of current (and likely future) market realities. That is, responders should be allowed to specify the range of locations in which they can provide service, and the initial range of services they can provide. All bids which are advantageous to the government could be accepted. These should be Indefinite Delivery/Indefinite Quantity (ID/IQ) contracts with perhaps a range of rates based on minimum service commitments, as is commercial practice. The range of services offered should not be narrowly limited, and should allow telecommunications services to be added easily.

The likely result of this approach would be for the local exchange carriers to bid access in their entire regions, and for competitive access providers to bid nationwide in metropolitan areas (see Figure 8). This gives the government the best possible result in the current market, with real competition in the metropolitan areas (where the bulk of Federal requirements are located), and valid arrangements under the Competition in Contracting Act (CICA) elsewhere. (This is not the case today, since many services are bought from uncompeted tariffs, even though competition may be present.) This could substantially reduce the number of separate contracts at the local level that exist today, providing substantial savings in management resources in the field. The ability of Access Services vendors to deal directly with the customers would allow the types of solutions described at the hearings by US West in Colorado and Oregon to be implemented on the initiative of the Access Contract providers, since contracts would be in place. It is unlikely they would have this ability as subcontractors to a Comprehensive Service vendor, since such solutions could reduce the prime (long distance) contractor's revenue.

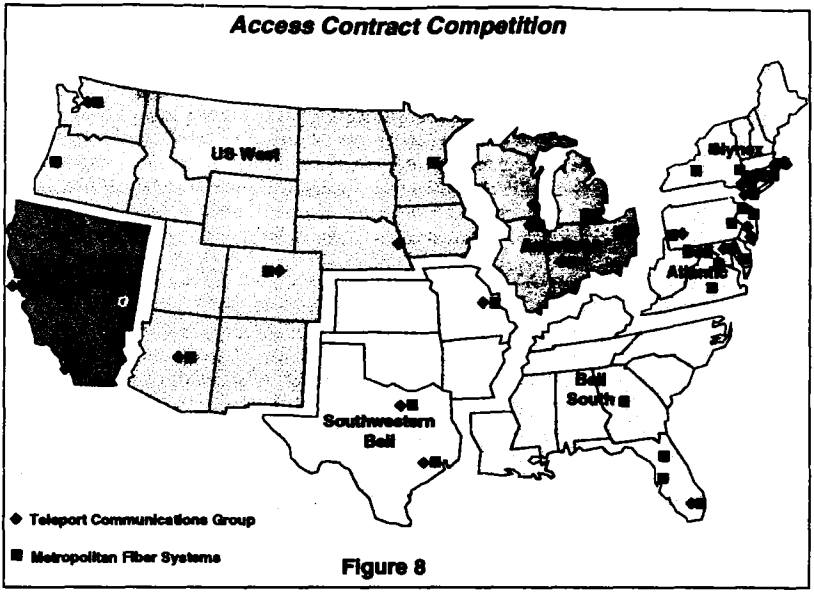

Figure 8

The major concerns raised by the suggested approach are the increased complexity of management. The reality is that it solves a number of management issues and much more closely resembles current commercial practice. It allows both centralized management of those areas which can benefit from central management, and decentralized management of areas which are best handled decentrally, such as local access. It also permits centralized management of subsets of user requirements, without requiring all management activities to be located in one place.

In general, users would have options for how both individual and aggregated services were offered and managed. A small agency with simple requirements could choose a Comprehensive Service provider for long distance service, and request that the provider manage end-to-end service for the agency. A large agency with complex requirements but a small telecommunications staff might choose to use the services of a Technical Management and Support Services contractor. This contractor could design a technical approach that allowed the agency to take advantage of the best service offerings of each Comprehensive and Access Service provider, and integrate Value Added Services into a coherent system with integrated ordering, billing, and system management. An agency with a larger telecommunications staff could perform more of the management functions for itself. Major data networks serving single agencies could use all the Post-FTS2000 contracts, while using the services of a Technical and Management Support Services contractor at the hub of their network. A large Federal building, with many agencies, could request an Access Service provider to aggregate and manage access to a range of

services provided by multiple Comprehensive and Value Added Service providers, as well as services of the Access Service provider. All of these arrangements are difficult to implement today, and would be difficult to implement under the current Post-FTS2000 strategy.

The changes suggested would permit a much higher level of flexibility, while still maintaining adequate control. The exact approach taken to each situation is determined at the time the requirement is developed, rather that trying to determine all possible requirements and the proposed approach to solution in advance—a hopeless task. The modest changes proposed greatly simplify the individual contracts, allow direct customer contact with the full range of service providers, and much more closely follows current best commercial practices.

8 Ability of all telecommunications market segments to participate

Although GSA has stated that the current strategy allows all market segments to participate, both integrators and local service providers are at a significant disadvantage to the long distance carriers. The reason for this is that no one can compete without the participation of a long distance carrier on a team. Assuming all the major long distance carriers decide to participate as primes, there is likely to be no way for anyone else to put together a comprehensive service bid. This, in effect, repeats the old FTS2000 strategy.

If additional contracts (beyond two) are awarded, without changes in the strategy, the defects of the current approach will be magnified, and the benefits which could be provided by full participation of the other segments of the market will be reduced. Current defects include lack of incentives for service optimization and technology upgrades, inability to select the best services from different vendors, complex vendor transitions, expenses and delays associated with non-commercial practices, and a lack of vendor responsiveness because of mandatory use and other technical factors which "lock in" customers. In addition to mitigating these defects, full participation by local telecommunications suppliers and systems integrators would provide rapid access to innovations in local services, more flexible strategies for interoperation, the ability to acquire and integrate customer equipment needed to make use of new services, and integrated billing and ordering for services which require components from multiple suppliers, including the comprehensive service providers. Moving the access service contracts into the initial procurements and strengthening the Technical Management and Support Services contracts are the principal changes needed to allow all market segments to participate fully and allow the government full benefits from that participation.

Boeing Information Services, Inc.

The Boeing Company

Boeing Comments Regarding Post FTS 2000 Acquisition Hearings

The recent hearings of the Government Reform and Oversight Committee regarding the Federal Government's Post Federal Telecommunications System 2000 (PFTS2K) Acquisition Strategy are the latest demonstration of the Committee's commitment to ensuring that the Federal Government receives technically effective and cost efficient telecommunications services in the Post-FTS2000 environment. The Government Accounting Office (GAO), in its related report to the Committee, identified eight associated issues. They were:

- (No) mandatory use
- Strengthen program management
- Consolidate local/long distance services
- Repackaging of services (more opportunities)
- Interoperability
- Defining current requirements
- Security
- Support for national infrastructure

During the hearings, the Committee Chairman specifically challenged all participants to help in answering the question, "How can the PFTS2K program be even better?" The comments in this brief paper are submitted in response to that request and address some of the aforementioned GAO issues; Boeing also previously submitted additional comments and information in its response to the Government's requests over the past year.

PFTS2K Acquisition Objectives. The main objective of the PFTS2K acquisition is to provide assured, responsive telecommunications support for government needs, incorporating the desired levels of interoperability, security, reliability and National Security Emergency Preparedness through a programmatic approach flexible enough to adapt to changing technological, regulatory and marketplace forces while adhering to the basic concept of open and continuous competition. The comments below are framed in light of that objective.

THE POST-FTS2000 CONTRACTING PROCESS

Continuous full and open competition. There are factors in the current version of the PFTS2K strategy that appear to limit competition by not encouraging all potential competitors -- large and small providers -- carriers and integrators -- to participate in a full and open competition for all categories of service. At the same time, there is a wide diversity of integration skills in "carriers" with AT&T, Sprint and MCI at one end with their bundled cost structures and WILTEL

and IDB at the other end with their more basic wholesale approach. The possibility also exists that carriers (or "owners") of circuits, equipment and facilities will use these items for as long as possible to maximize the return on their investments and hence may not be as driven toward continuous technology insertion to best benefit the Government. It is for these reasons, among others, that we believe that the better way to acquire data and value-added services for PFTS2K is through commodity-oriented, continuous full and open competition that focuses on solution-oriented, end-to-end products and services. Encouraging such full and open continuous competition has resulted in 40% price advantages in the current marketplace by effectively treating telecommunications components as commodities. We believe that a systems integrator can play a key role in facilitating the achievement of similar gains for PFTS2K.

SYSTEMS INTEGRATOR'S ROLE

There is great diversity in the marketplace in the areas of data, value-added and multimedia services. No carrier has even come close to dominance in this marketplace, not even AT&T. The market is composed of many telecommunications vendors, large and small, and many private networks that have been assembled in both Government and industry using the components those vendors have provided. The cost-effective assembly and use of these evolving information systems goods and services is an area where a systems integrator can provide real added-value in the marketplace and is the area where they are most often used.

For PFTS2K, the role for a systems integrator is to oversee the responsive integration into PFTS2K of diverse and evolving data, value-added, and multimedia services, to ensure interoperability, network management, system security and end-to-end connectivity. The active, timely involvement of a PFTS2K systems integrator will result in increased responsiveness to user requirements at decreased service costs.

Systems Integrator and Carrier Roles. There is a marked difference between the capabilities, functions and perspectives of integrators and those of carriers. Distinctions between the two become significantly more meaningful as the Government grapples with the ever-increasing selection of mature, evolving and leading-edge services and the multiplicity of their providers. Integrators, unlike carriers and equipment providers, have the advantage of being able to consider technology insertion from the standpoint of user requirements without being limited by a primary concern for the need to maximize return on or the sunk costs of previous investments. As the Government's need for sophistication increases and available Government resources

decrease, the need for a cost-driven integrator to act as implementer, honest broker and standards "watchdog" becomes paramount.

Program Management and Technical Support. The GSA's standard strategy for PFTS2K highlighting the hands-on involvement of the Government appears to be inconsistent with the current environment of downsizing, privatizing and re-inventing Government. Rather than limit the true advantages available to the Government, we believe program management should also be outsourced through full and open competition, consistent with inherently governmental responsibilities.

SERVICE REQUIREMENTS

Government User Service Requirements. PFTS2K voice services represent only a fraction of the projected requirements for a successful program. In order for industry to properly gauge the size of the user community and the opportunities available, and thereby maximize responsive competition, more information is needed about projected needs. It is essential that the Government provide industry with specific requirements for services beyond traditional voice, e.g., value added services and multimedia. This data would be an invaluable backdrop to, and to provide support for, the telecommunications acquisition decision process in both Government and industry. This also amplifies the need for a systems integrator to help the Government acquire and manage the products and services to meet these diverse needs.

Further Opportunities for Reductions in End-to-End Costs. We believe Federal telecommunications costs could be further reduced (and FTS2000 has been very effective at this) by combining local and long distance (inter-city) services to provide a seamless end-to-end infrastructure.

CONCLUSIONS

Boeing strongly agrees with the GSA that PFTS2K presents a remarkable opportunity to leverage the total set of Government telecommunications support requirements to both improve the delivery of Government services to citizens and to provide incentives for further development of the private sector information infrastructure. We believe that the systems integrator plays a key role in facilitating the achievement of those objectives. We also believe the eight issues addressed by the GAO, some of which we covered here in part, should be addressed prior to release of the final PFTS2K request for proposal.

THE ADMINISTRATION'S PROGRESS ON THE POST-FEDERAL TELECOMMUNICATIONS SYSTEM (POST-FTS2000) ACQUISITION PROGRAM

THURSDAY, JULY 20, 1995

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION, AND TECHNOLOGY,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

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

Present: Representatives Horn, Flanagan, Davis, Bass, and Maloney.

Ex-Officio Present: Representative Clinger.

Staff present: Ellen B. Brown, committee procurement counsel; J. Russell George, staff director and counsel; Susan Marshall, procurement specialist; Andrew G. Richardson, clerk; Ellen Brown, procurement counsel; Susan Marshall, procurement specialist; Cheryl Phelps, minority professional staff member; and Jean Gosa, minority staff assistant.

Mr. HORN. The subcommittee will come to order.

The subcommittee is meeting today to hear from the administration on its development of the Post-Federal Telecommunications, Post-FTS2000, acquisition program.

I am hopeful that we will have the best and the lowest priced services over the time of the program, there will be a way to continually incorporate the latest technology over time, and that there will be a prominent role for small business.

The current FTS2000 Program managed by the General Services Administration will expire in 1998. GSA testified at our hearings in March that the current program is meeting the demand for quality telecommunications services at prices that have produced upwards of $4 billion in savings. We also heard that the Federal Government seeks to continue these successes by providing quality, up-to-date, cost-efficient telecommunications services.

Several issues were raised at our hearings, including how to expand the program's scope to include intercity, wireless, international voice and data, and the provision of full end-to-end services, both local and long distance.

While I expect we will learn much from the hearing today, I believe we must probe more deeply into the unresolved issues before

the executive branch proceeds further with the program. I am concerned that, since the hearings, there has been no ongoing dialog between the Government and industry.

We've discussed that privately with responsible executives at GSA. The Government has remained silent on the eight critical issues raised at our hearings by the General Accounting Office, while choosing instead to respond to comments with requests for proposed RFPs.

The draft RFP, originally due for release in June, has now been moved to August 1995. It is my belief that releasing this document before settling the many open issues risks thrusting the program into a premature acquisition phase, limiting discourse on fundamental policy issues about which there appears to be substantial disagreement.

Further, events in the market suggest a substantial change over the short run. Congress is now debating an overhaul of the law governing the Nation's telecommunications system. Technology itself is evolving every 18 months in the information technology market, and we in Congress are considering a substantial refocusing of the way in which Government acquires its goods and services.

While we in Congress will continue to address the many issues surrounding Government procurement reform and telecommunications, the administration and the executive agencies must assure that the open issues are resolved before the RFPs are issued, so that millions of taxpayer dollars are not wasted on an inefficient and ineffective acquisition program.

Transitioning to a new program is no easy task, but, if we can all work together, I believe the most technically efficient and cost-effective acquisition program of telecommunications services can be developed, and it ultimately will be in the best interest of the taxpayers, and thus the Nation.

So I look forward to today's testimony from our distinguished panel: the Administrator of GSA and the Associate Administrator.

I now ask the ranking minority member, Mrs. Maloney, the gentlewoman from New York, for her opening comments.

Mrs. MALONEY. Thank you very much, Mr. Chairman.

I am pleased to join you today to continue the committee's examination of the Post-FTS2000 Acquisition Strategy, a roughly $500-million-a-year contract. This committee played a major role in the development of the current FTS2000 acquisition strategy, and our ongoing oversight is critical to the success of the Post-FTS2000 procurement.

Given the magnitude and complexity of issues surrounding the upcoming acquisition, I welcome today's opportunity to assess the General Services Administration's progress in developing this procurement prior to next month's scheduled release of the draft request for proposal.

The Post-FTS2000 procurement will significantly affect the future cost, efficiency, and technological expertise of Government telecommunication services well into the next century. For this reason, the RFPs must be structured in a way that solicits those commercial services that effectively position the Government on the leading edge of the emerging information-intensive economy. Frankly, if we fail to accomplish this goal, Federal agencies will be

forever behind the curve in the utilization of information technologies.

Serious questions have been raised regarding whether GSA can implement and manage a technically efficient and cost-effective Post-FTS2000 procurement. For example, the General Accounting Office determined there were eight specific issues unresolved in GSA's acquisition strategy.

These issues include whether the Post-FTS2000 Program should be mandatory for all Federal agencies; how the issues of local services and local access are to be addressed; three, some evaluation of the Government's interoperability needs; four, how these needs will be met; what levels of security will be available; and how the Post-FTS2000 Program will support the goals of the National Information Infrastructure and the National Performance Review.

Second, I am concerned that the Defense Department's unique communications, technical, and security needs may not be accommodated in the Post-FTS2000 procurement.

My concern is based, in part, on the recent request for proposals issued by DOD to acquire services that are beyond the contractual scope and structure of the current Post-FTS2000 contracts, while it does not necessarily follow that because the current contracts cannot meet DOD's requirements that the new procurement may not be utilized to its fullest extent.

DOD is in the process of building its own information systems architecture to close the gap between the expiring of the Defense Commercial Telecommunications Network and the onset of Post-FTS2000. It is my understanding that GSA acknowledges and endorses this activity, given its assessment of the differences between the FTS2000, Post-FTS2000, and DOD approaches.

It seems to me, then, that while DOD is adopting a "wait and see" attitude, GSA may be somewhat pessimistic of its capability to combine defense and civilian telecommunications requirements into a Post-FTS2000 procurement.

It simply does not make sense for this committee to stand by and watch the development of two separate Federal telecommunications networks: one capable of state-of-the-art communications, technical and security applications; and the other deemed somewhat less adequate by the agency that would be its largest customer.

The only way we can ensure that the Federal Government receives the most technically efficient and cost-effective telecommunications services is to construct a procurement capable of meeting the most exacting requirements. If my reasoning is in error, I look forward to some explanation of this matter from our esteemed witnesses.

Finally, Mr. Chairman, I remind you that, at some point in the near future, the Office of FTS2000 will lose its two key staff members responsible for the administration of the current program and the Post-FTS2000 procurement: Mr. Cunnane and Mr. Brignull. The pending departure of these crucial employees is a devastating blow to the current program as well as the follow-on.

I simply cannot imagine how GSA can effectively administer this new procurement in the face of this loss. I want a frank and honest assessment of where the Office of FTS2000 will go from here.

I certainly join my colleagues in welcoming today's witnesses. I thank them for their time, and, in light of the serious issues facing the multibillion-dollar Post-FTS2000 Program, I enthusiastically await their remarks.

Unfortunately, Mr. Chairman, I have a conflict with Banking with an important Whitewater proceeding that I must be at right now, and I will be back as quickly as possible.

[The prepared statements of Hon. Carolyn B. Maloney and Hon. Cardiss Collins follow:]

OPENING STATEMENT
of
REP. CAROLYN MALONEY

"Oversight of the Administration's Progress on the Post-FTS2000 Acquisition Program"

July 20, 1995

Mr. Chairman, I am pleased to join to you to continue the Committee's examination of the post-FTS2000 acquisition strategy. This Committee played a major role in the development of the current FTS2000 acquisition strategy, and our ongoing oversight is critical to the success of the post-FTS2000 procurement. Given the magnitude and complexity of issues surrounding the

upcoming acquisition, I welcome today's opportunity to assess the General Services Administration's progress in developing this procurement prior to next month's release of the draft Request For Proposals.

The post-FTS2000 procurement will significantly affect the future cost, efficiency and technological expertise of government telecommunications services well into the next century. For this reason, the RFPs must be structured in a way that solicit those commercial services that effectively position the government on the leading edge of the emerging information-

intensive economy. Frankly, if we fail to accomplish this goal, Federal agencies will be forever behind the curve in the utilization of information technologies.

Serious questions have been raised regarding whether GSA can implement and manage a technically-efficient and cost-effective post-FTS2000 procurement. For example, the General Accounting Office determined that there were eight specific issues unresolved in GSA's acquisition strategy. These issues include whether the post-FTS2000 program should be mandatory for all Federal agencies; how the issues of local services

and local access are to be addressed; some evaluation of the government's interoperability needs and how those needs will be met; what levels of security will be available; and how the post-FTS2000 program will support the goals of the National Information Infrastructure and the National Performance Review.

Second, I am concerned that the Defense Department's unique communications, technical and security needs may not be accommodated in the post-FTS2000 procurement. My concern is based, in part, on the recent request for proposals

issued by DOD to acquire services that are beyond the contractual scope and structure of the current FTS2000 contracts. While it does not necessarily follow that because the current contracts cannot meet DOD's requirements that the new procurement may not be utilized to its fullest extent, I cannot ignore the possibility.

DOD is in the process of building its own information systems architecture to close the gap between the expiration of the Defense Commercial Telecommunications Network (DCTN) and the onset of post-FTS2000. It is my understanding that GSA acknowledges and endorses this activity

given its assessment of the differences between the FTS2000, post-FTS2000 and DOD approaches. It seems to me then, that while DOD is adopting a "wait-and-see" attitude, GSA may be somewhat pessimistic of its capability to combine defense and civilian telecommunications requirements into a post-FTS2000 procurement.

It simply does not make sense for this Committee to stand by and watch the development of two separate Federal telecommunications networks: one capable of state-of-the-art communications, technical and security applications, and the other deemed somehow less

adequate by the agency that would be its largest customer. The only way we can ensure that the Federal government receives the most technically-efficient and cost-effective telecommunications services is to construct a procurement capable of meeting the most exacting requirements. If my reasoning is in error, I look forward to some explanation of this matter from our esteemed witnesses.

Finally, Mr. Chairman, I remind you that at some point in the near future the Office of FTS2000 will lose its two key staff responsible for the administration of the current FTS2000

programs and the post-FTS2000 procurement: Mr. Cunnane and Mr. Brignull. The pending departure of these crucial employees is a devastating blow to the current program as well as the follow-on. I simply cannot imagine how GSA can effectively administer this new procurement in the face of this loss. I want a frank and honest assessment of where the Office of FTS2000 will go from here.

I join my colleagues in welcoming today's witnesses. I thank them for their time and, in light of the serious issues facing the multi-billion dollar post-FTS2000 program, I enthusiastically await their remarks.

OPENING STATEMENT OF REP. CARDISS COLLINS
BEFORE THE GOVERNMENT REFORM AND OVERSIGHT
SUBCOMMITTEE ON
GOVERNMENT MANAGEMENT, INFORMATION, AND
TECHNOLOGY

"Oversight of the Administration's Progress on the
Post-FTS2000 Acquisition Program"

July 20, 1995

Mr. Chairman, thank you for convening this hearing to consider the General Services Administration's progress in developing the post-FTS2000 acquisition program. I appreciate this opportunity to join you and the ranking Democratic member of this Subcommittee in your continued examination of this matter. The Committee played the major role in the development of the current FTS2000 acquisition strategy. As former Chair of the Government Activities and Transportation Subcommittee, I helped to shape many aspects of that procurement.

I come to today's hearing with serious reservations about the likelihood that we will see a viable draft Request for Proposals for the post-FTS2000 acquisition next month. Given the importance of this procurement in the government's deployment of information technologies for the next several years, I will not have any problem sending the General Services Administration back to the drawing board should the draft RFPs fail to allay these reservations.

The post-FTS2000 procurement will have significant effects on the future cost, efficiency and technological expertise of government operations well into the next century. The post-FTS2000 environment promises to be more sophisticated, more inter-reliant, more fluid, and more competitive. The post-FTS2000 acquisition program must respond to a variety of needs -- military and civilian, international and domestic, security, interoperability, and innovations in telecommunications technologies -- arising from this vastly changed environment.

The draft RFPs represent the Federal vision of the government's utilization of current, emerging and future technologies. If that vision is flawed or deficient in any way, it will first be reflected in parameters of the solicitation. As I pointed out in the March hearings, questions remain as to whether the post-FTS2000 acquisition strategy fully responds to the operational, technological, fiscal and socio-economic priorities of the Federal government and our nation as a whole.

The General Accounting Office elaborated on eight specific issues that were not fully reconciled by GSA in the acquisition strategy, including issues related to the capability of GSA to even construct and implement this procurement. These issues, GAO determined, are integral to the government's acquisition of its future telecommunications services, the responsiveness of those services to the government's needs, and the management of its acquisition program. They encompass mandatory use, program management, long-distance versus local telecommunications services, packaging of services, interoperability, operational requirements, security, and support for National Information Infrastructure and National Performance Review initiatives.

For example, GAO stated that the post-FTS2000 strategy has failed to clearly delineate the operational requirements of many Federal agencies. It seems obvious to me that if we don't understand the requirements of this procurement, we can not possibly craft an RFP that adequately meets the needs of the Federal government. In addition, clear operational requirements are needed to assure interoperability, network management, security, and ease of billing.

At the very least, the Committee must see that all eight of these issues are satisfactorily addressed before the issuance of the draft RFPs.

In addition, I am very concerned about the pending loss of critical staff with leadership responsibility for implementing the acquisition strategy: William Cunnane, Deputy Associate Administrator, and Bruce Brignull, Assistant Deputy Associate Administrator in the Office of FTS2000. However, although I find this matter alarming, I am not surprised. By all reports, the General Services Administration is in a crisis state. The agency has been plagued with management difficulties and has lost hundreds of key employees.

Mr. Chairman, this situation cannot be ignored by Congress. I am glad that we have GSA Administrator Roger Johnson were today to address the telecommunications acquisition from this aspect. However, I strongly encourage the Committee to immediately review the operations of GSA in order to develop some understanding of the magnitude of the management and fiscal problems the agency is experiencing.

Mr. Chairman, I look forward to today's proceedings, and to the testimony of Mr. Johnson as well as Mr. Woods from the Office of FTS2000.

Mr. HORN. I thank the gentlewoman and am delighted to hear she is going to a really noncontroversial hearing.

Another esteemed Member, indeed, our leader, Chairman Clinger, had hoped to be here for the opening. I will file his statement at this point in the record, without objection. He thought this might be too much for him, so he decided to go to the noncontroversial hearing known as the Waco hearing down the hall.

[The prepared statement of Hon. William F. Clinger, Jr., follows:]

Opening Statement of the

Honorable William F. Clinger, Jr.

Committee on Government Reform and Oversight

July 20, 1995

Mr. Chairman, I am pleased to be here today and look forward to further testimony from the General Services Administration (GSA) on the Post-FTS2000 Acquisition Strategy.

As I said during previous hearings held by this subcommittee, the Government Reform and Oversight Committee is committed to ensuring that the Federal government receive the most technically-effective and cost-efficient telecommunications services in the Post-FTS2000 environment.

Although the current FTS2000 program has been successful in providing services at a reduced cost to the taxpayer, rapid technology changes and still-evolving customer requirements would seem to dictate the need for continuous reevaluation of current perspectives for the Post-FTS2000 environment. Clearly, the focus

on the follow-on program must be on adapting to these changes and applying "common sense" and technically-sound approaches to the Post-FTS2000 procurement.

Mr. Chairman, I was in Congress when the current program was started in 1988. The then Government Operations Committee maintained oversight over the program such that the Federal government was able to obtain the best prices and services, including price reductions.

For the Post-FTS2000 environment, we again must ensure that the best prices and services are obtained, and the taxpayer again reaps the rewards. However, the Post-FTS2000 program must be better! It must include enhanced competition among market forces and better ways to insert and use new technology.

As you know, this Committee is changing the status quo in government operations. For example, we have introduced procurement reform legislation in Congress to change the old paradigms concerning Federal procurement. Those changes are

directly related to the efficiency of this program. And we continuously are evaluating plans and proposals to change the way the Federal government operates. We will be looking at reforming the civil service system and government management generally, as well as other areas under the jurisdiction of this Committee.

The General Services Administration must be prepared for the changes that will take us into the future. I know there are plans for changes overall at GSA, and Administrator Johnson and I will be meeting later today to discuss those plans.

But the question for the Post-FTS2000 program is "how can government resources be reduced and yet effectively manage the government's needs?" I hope GSA is considering developing detailed plans -- with specific milestones -- for outsourcing to private industry, effective implementation of new technologies and key integration activities, and specific management plans that go well beyond the traditional boundaries of the past.

I also hope you will address today, or through continued reassessment of this program, several major issues. I am concerned about your ability to establish requirements for this large system when agencies fail to respond to your "requirements calls," and I wonder how you intend to establish and administer "revenue pools" to encourage competition in Post-FTS2000 in view of limited established requirements. Also, can you tell us how much savings you expect by combining local and long distance services, and what do you envision as the effect on the program? Finally, I hope you will address the fundamental issue regarding the actual need for a Post-FTS2000 program. Several agencies seem to want to "go it alone" by procuring their own services without GSA overhead. Is your involvement necessary for the future?

By holding hearings and encouraging results-oriented management of programs such as this, we in Congress can promote sustained efficiency and effectiveness in the Federal government. However, as I said at our earlier hearings, it is up to the users and managers of the program, and the vendors supplying the services to make this program a success. We will continue our

thorough oversight of this program by holding hearings, raising issues, demanding solutions and answers, and by continuing to facilitate dialogue between government and industry. The government must move in a direction that is responsive to an evolving and rapidly changing telecommunications environment and be able to develop the best solutions for the Post-FTS2000 program.

I look forward to hearing from our distinguished panel of witnesses.

Mrs. MALONEY. Mr. Chairman, could we leave the record open for other opening comments from the minority?

Mr. HORN. Absolutely.

Mrs. MALONEY. Thank you very much.

Mr. HORN. Gentlemen, you know our routine on this committee where we swear in all witnesses. If you don't mind standing.

[Witnesses sworn.]

Mr. HORN. Both witnesses affirmed.

Since you are our only witnesses this morning, we have no timers; we have a chance for dialog. Welcome, Administrator Johnson and Associate Administrator Woods. I assume the Administrator would like to make a few pertinent comments.

STATEMENT OF ROGER W. JOHNSON, ADMINISTRATOR, GENERAL SERVICES ADMINISTRATOR, AND ROBERT J. WOODS, ASSOCIATE ADMINISTRATOR FOR FTS2000, GENERAL SERVICES ADMINISTRATION

Mr. JOHNSON. Thank you, Mr. Chairman. I appreciate your opening comments and those of Congresswoman Maloney. I hope she returns. We will address those issues.

I don't think it's a secret, Mr. Chairman, that there are a variety of Federal programs that I have been fairly critical of, particularly in the procurement area, but the FTS2000 Program, in the two-plus years or so I've been associated with it, I think is an example of a good Government program that is well managed, not that it can't be improved, and we're working on that.

But we do throw enough rocks, legitimately or otherwise, at programs. I think it's important to acknowledge that, in the main, this has been an excellent program for the Federal worker and for the American taxpayer.

This is a little graphic which just demonstrates, from a cost standpoint, I think reasonably well, how effective it has been. It shows that you and I at home, depending on whatever special deal we might take today, but, in general, pay about 16 cents a minute for long distance calls.

Others with major buying power, such as large corporations, the one I was with before I came here, who can negotiate good deals, they are paying around 9 cents, but the Federal Government is paying a nickel, that in the face of a lot of improvements in service as well. So it isn't just cost-driven; it's well-serviced.

I think one of the reasons for that is that this program has been fortunate, and it has used many of the techniques that are currently incorporated in some of the procurement reform issues we've all talked about, and I think is using some of the approaches that are being suggested in yet even more effective procurement reform that is in front of your committee and in the Senate.

For example, this program effectively gathers volume forecasts from across the Government. It aggregates them in a multiyear manner and applies them as fundamental to this contract. That may not sound very startling; on the other hand, from my investigations over the past couple of years, it's one of the few places that the Federal Government actually brings to bear the total volumes that it uses. One of the other examples would be air traffic.

Unfortunately, in most other cases, we just kid ourselves, and the Government does not bring to bear, even though it thinks it does, the full volumes that it uses. They are dealt with in a very fragmented fashion.

Second, the planning, specifying and, to some degree, management assistance is helped tremendously through an active and effective integrated interagency council called the IMC. The use of a council concept is a cornerstone of most of the next generation of procurement reform that is being proposed. It certainly is of the plans the administration has put forward. Senator Cohen, I think, recognizes the value, as do you and others on your committee.

This program has been using that process for a long time and terribly effectively. I think the days when each agency can or even should individually staff to meet all of the complexities of the various technologies that it must deal with, each staffing to handle them on their own, are long gone. On the other hand, the Federal Government has, somewhere in it, the capability and individuals who can deal with the most complex issues technology puts before us.

Just as it is critical for us to bring together the volumes of things we purchase, it is also critical, I think, to find a way now to bring together, wherever they are, the best talent we can get our hands on to apply them to specific, individual, complex technology issues. This program has done that well, and I think the interagency council that works with it is a good model as we go forward and look at other ways to accomplish that.

Industry involvement has been extraordinary. I say that in due respect to the comments that you made and the concerns you have, because I think it is one of those situations, Mr. Chairman, where you can never really have enough total involvement, so it gets to be a question of when is enough enough. Two years of involvement by the industry is significant time.

There are open issues remaining. I think our job, between us, is to sort out which of those issues are really issues that are germane to the whole procurement system and which are issues merely that other competitors—are issues because they don't like the approach we are taking. There is a difference there. I spent most of my life, of course, on the other side of these arrangements and am greatly in favor of competition, but certainly as long as there weren't too many and it wasn't too aggressive. So I think we have to sort that out.

This follow-on procurement, Mr. Chairman, in my humble view, will be the most significant technology procurement by the Federal Government since the beginnings of the space program. I say that not only because of its impact on the Federal worker and our structure, and its ability and opportunity to improve, but also because it will be driving through the Nation a lot of the newest communications technologies. And the spillover, for good or bad, of opportunity in the country will be enormous.

So I agree with you that it is critical for us to assure that we are doing the very best job we can as we head forward. There is a lot at stake here, more than just our own costs and operations in the Federal Government. I think, therefore, its relationship to

the national information highway is very critical, and we work closely with the groups involved with that.

How we specify the products, the greatly expanded products and services that we will be offering to the Federal Government, what signals we send to the industry, in terms of guidelines, in terms of assuring that there is geographical access to all parts of our country, that all people will have access, we can do a lot because our Federal workers are, in fact, in all places. So there is a lot here, I think, that can be accomplished if we do this job correctly, and I think we are well on the road to doing that.

There are still problems, of course. Congresswoman Maloney mentioned one relative to the fact that even today we are not taking advantage of the current contract across the Government. Large segments of the Department of Defense, even the Congress itself, I think maybe could take better advantage of some of the opportunities that we offer.

I think the enlightened leadership of General Paige, Secretary Paige, in DOD, is moving us in a direction of helping to resolve the DOD issue. However, that is not all resolved, and I know there are open issues within that department, some legitimate, I think, of what we should do.

In the main, though, I think we should be aware that the technology has moved far enough and fast enough that systems that used to have to be separate to maintain necessary security may not now need to be separate. The technologies are such that they can be cohabitated, and we can really get the best of both worlds. I think the General can talk more to that point.

I am hoping that Congress will make more use of these systems, particularly since we are going to be adding data imaging, all kinds of things which this Administrator, at least, would love to share with Congress and the staff on an on-line basis. It would certainly save a lot of parking spaces up here, I think, if nothing else.

There are issues open that GAO has raised and that other industry people have raised, and we are, in fact, working with them on that. We have worked individually with them as we went forward. We will be having more meetings with total industry and more formal discussions with them in the future. Bob Woods will go into the specifics of those eight issues with you in a second.

The issue of mandatory use has been on the radar screen since I came. It was one of the first issues raised by some of your predecessors. And I would like to make clear our view of that—my view anyway. Mandatory usage in a competitive situation is, at best, good temporarily. There are times and situations, in my view, where you do need to put in force requirements that people have to do something for a period of time.

I think the initial FTS2000 Program was a good example of that. This was a brand new approach. People were skeptical. On the other hand, it was completely founded on the basis that there would be large volumes and everyone would use it. So there's a good example, I think, of where saying, "No, for a period of time, you're just going to use this, and if then it doesn't work and all your concerns are correct, then we will change."

On the other hand, we've been at this now many years. The system works well, in almost everyone's opinion. It is cost-effective. It

has good service. Why would we have to keep it mandatory? I think not on the surface of just that statement. On the other hand, I've been counseled that the contracts we let for this particular in-force deal may well have implied mandatory usage needed to be maintained.

So my view is, for the current situation, we're probably best not fooling with that at this point, leaving it as it is. I think there is little gain. But in terms of the follow-on, I will be pushing and arguing and moving toward having it be nonmandatory. I think it needs to stand on its own two feet. Its abilities have been demonstrated well enough to do that.

The only concern I have, Mr. Chairman, is that I have noticed that there may be an inclination in Washington for agencies to want to grow their staffs and grow their organizations, and there aren't the normal controls there, self-imposed controls.

So I would be concerned, and we would need to have a way to assure that agencies or other parts of the Government did not use the nonmandatory nature of the contract simply to grow separate organizations to support other things they want to do. With that proviso, fundamentally, I think mandatory is not effective.

This is a critical program. As I said, I think it's the most critical technology procurement the Government has had since John Kennedy asked us to go to the moon. I think we're well-positioned to make it very effective. We welcome the comments and concerns of everyone. But I think, in the end, we're going to be very pleased and proud of the next procurement as we have been with the first.

I thank you for being here. And I would like, if you would allow me, to turn the time over to Mr. Woods, who is the capable director of that program.

[The prepared statement of Mr. Johnson follows:]

FINAL

STATEMENT OF ROGER W. JOHNSON

ADMINISTRATOR OF GENERAL SERVICES

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION AND TECHNOLOGY, COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

UNITED STATES HOUSE OF REPRESENTATIVES

JULY 20, 1995

Mr. Chairman, Mrs. Ranking Minority member and members of the Subcommittee, I thank you for giving me the opportunity to testify today on the present and future of the Federal Telecommunications Service (FTS) 2000 Program within the General Services Administration GSA. I appreciate the continuing dialogue that we and the Subcommittee have engaged in concerning this important program. I believe FTS2000 is a model federal program that embodies what the government can do well and is capable of delivering to the taxpayers what they expect: a government that works better and costs less.

Since I came on board as Administrator of the GSA, I have been resolved to improving the way the government operates. As a former member of the private sector, I realize the advantages of changing the culture of an organization to make it more focused on customer satisfaction, more

customer-driven and have consistently stressed the importance of this approach. I truly believe that we have made tremendous strides to improve the level of service to our customers; not only other federal agencies, but to the taxpayers. The FTS2000 program illustrates the success we have had in providing service to our customers in a cost efficient, customer-driven program that relies upon the private sector to deliver services to government agencies.

The Interagency Management Council (IMC), the group of top level managers from our customer agencies that advise me on the FTS2000 program and follow-on contracts, play a pivotal role in the program and is one of the reasons the program is such a success. I believe the IMC to be a model of what the government can accomplish when it puts the customer first. The IMC meets regularly with the Office of FTS2000. We also have a Users Forum, where issues surrounding the current program are discussed and resolved to the customers satisfaction. This type of "customer first" mentality is one of the reasons the program has been such a successful government enterprise.

The Vice President's National Performance Review has called for the consolidation of local and long distance service functions into one organization. Due to the changing landscape of the marketplace, attributable in part to deregulation and technology advances, it is no longer

appropriate to separate long distance and local telecommunications services. I recently asked the IMC to expand their role to provide me guidance and advice on local telecommunications and government-wide telecommunications policy. As a result, they have formed a sub-group to deal with these issues. The IMC has unanimously recommended that GSA combine all of its telecommunication functions into one organization. That is why I have decided to merge both long distance and local telecommunications functions into a new telecommunications service under the leadership of the GSA's Associate Administrator for FTS2000. As we move forward with the follow-on contract and competition begins in earnest in the local area, having both long distance and local function in one organization will provide the government with the best opportunity to leverage its requirements to garner the best possible prices for our customer agencies and the ultimate customer, the taxpayer.

A task force has been established to determine the most viable form of reorganization and to determine how best to merge these functions to receive the best possible value and to appropriately meet our customer needs. I will keep you informed of the progress in this area as we move forward.

The IMC has also agreed to assess the state of government-wide telecommunications. The National Information Infrastructure that the Clinton Administration seeks to

implement through use of private/public partnership needs to have an integrated federal telecommunication system as the linchpin in order to ensure the necessary level of interoperability and integration among systems. Therefore, it is critically important that as we move forward into the next century we are aware of the various technologies being utilized in the federal telecommunications arena and make certain that the systems are compatible.

Another reason the FTS2000 Program has been so successful is that it utilizes the private sector to own and operate the telecommunications networks on which the government's voice, data, and video are transported, as is the trend in the private sector. The government is no longer in the business of owning and operating its own network. The result has been significant savings, technology refreshment in a timely manner, and improved efficiency of the government as a whole.

The current FTS2000 program which began in 1988 employs competitive forces through the use of two contract awards, one with AT&T and one with Sprint. Over the life of this ten year contract, it is expected that the program will save the taxpayers roughly $3 billion over what it would cost the government under the old way of doing business. These cost savings reflect our ability to capitalize promptly on downward trends on industry pricing, the benefits of

leveraging large volumes of traffic, and the success of an effectively managed program. We continue to offer customers the lowest rates for telecommunications services through use of pricing mechanisms in the contract that allow for price adjustments at year 4 and 7 of the contract. The year 4 price adjustment resulted in savings of $450 million over the remaining years of the contract. This pricing vehicle along with others contribute to the cost effectiveness of this program and illustrates that the government can be creative as it seeks to deliver services to the citizens.

The Post FTS2000 program represents a broader and more comprehensive approach to federal telecommunications than the current program. The contracts will provide many more services and a richer set of features, including value-added data services, wireless, international and a broad set of technical and management support capabilities. Each of the new contracts represents an important part of the government's overall strategy for the provision of telecommunications services to its users. Therefore, it is important that the federal government approach telecommunications through one overall, well integrated and coordinated program.

While the involvement of customer agencies and the IMC in the current program has been invaluable, their participation and influence in the Post FTS2000 Program has been even more

extensive. From technology assessments to development of acquisition alternatives, in the Post FTS2000 Program Strategy, they have personally participated and provided staff to support this vast undertaking. We are continuing to work with the Department of Defense to define where our common business interests lie. They are still a major player in our planning efforts, participating on the IMC-led working groups and interagency teams.

As the federal government continues to reengineer itself, it is imperative that it utilize the telecommunications technology that enables the government to carry out its responsibilities in a more expedient and less costly fashion. Through an acquisition strategy that allows individual agencies flexibility to choose their services from multiple contracts or from several comprehensive contracts offering a range of services from wireless technology to data and video, we will deliver services in the most efficient manner possible. This flexibility will ensure current technology is accessible and that these services can be secured at the best possible price to the taxpayer. The Post FTS2000 Program Strategy was developed with this flexibility at its core. We have engaged industry in unprecedented dialogue and received comments from them throughout this process. We will provide industry with the opportunity to offer telecommunications solutions based on their expertise, instead of having the government dictate to

industry how to solve the problem. Again, this is part of the culture change that we have been undergoing in GSA and one of the reasons we are confident the Post FTS2000 program will be as successful as the current one.

GSA is working with the National Performance Review to supply access to the FTS2000 program for a number of initiatives that make the government more accessible and more responsive to its citizens, such as a national 800 number where citizens can call and be transferred to any government agency that they need to speak with; supplying the US General Store in Houston, Texas, with access to the telecommunications network to make it easier for US businesses to get information from federal agencies that have oversight over business, to working on a network of kiosks that will allow citizens to access government information and transact business, such as renewing vehicle registration across federal, state and local lines. The Post FTS2000 program will be a platform from which the government will continue to be more responsive to the needs of its citizens, through the use of telecommunications and information technology applications.

As agencies carry out their duties, they depend on the services which FTS2000 supplies to them. As budgets begin to shrink, resources become more scarce. It is particularly important that as we move into the follow-on contract we do

this in a continuous and seamless fashion, delivering the services in a timely manner that our customers depend upon. It is also critical that we seek to leverage the volume of the federal government's requirements to secure the best possible prices for our customers. These will be the challenges that we face as we move forward with acquisition and implementation of the Post FTS program. We do not take these challenges lightly. Nor do we shrink from them. What has made the current program so successful-the employees who run the program, the managers who manage the program and the customers that provide advice and policy guidance-will no doubt contribute to the success of the follow-on program.

The citizens of this country expect more out of its government, and justifiably so. We are making progress down this road. And we have further to go. However, with programs that seek customer input and are well managed, we hope to demonstrate this to the American people instead of just telling them.

That concludes my prepared remarks and I am glad to answer any questions that you may have.

Mr. HORN. Please. Associate Administrator Woods.

Mr. WOODS. Thank you, Mr. Chairman, and members of the subcommittee.

I would like to thank a number of you. I think the opening comment about your influence on this program is well stated. We have, over the years, had quite a dialog back and forth with this committee, and, in my opinion, a good deal of the success of the program is shared by this committee.

I would also like to thank, as I often do in open public forums, the Interagency Management Council. I think that we cannot do that enough, mostly because they take their time, their effort, and their commitment to make this program work. I think you will very seldom hear them call it GSA's network; it's their network, and they are not going to give it back. So we're not about to make it a GSA network anytime soon.

The industry, in particular, deserves credit for not only the interest they have had but their ideas and the concepts that they have forwarded to us. We have taken them seriously, and we will continue to do so.

Finally, GAO, who almost never gets any thanks from the executive branch—or at least in my 27 years, it has been scarce—because they have raised eight issues that we think are critical, as well, to get settled, and we believe that they must be settled in time for this program to move into the next stage. So we are happy to address those issues, and I will go through those eight.

Our program strategy, which we issued last December, represented, I think, again, an effort on our part to be very, very open with the industry. We've been at this almost 2 years—it probably has been 2 years, if I go back and look at the calendar—where we've talked about this next phase of the program. In that time, we have tried, every 4 to 5 months, to open up the process and basically put all the cards we have on the table. We need the sort of 4 or 5 months in between to get some work done.

We have had several open forums for industry and the public and our customers to come give us their input. We have, in fact, enticed members of the IMC to be the inquiring panel on those open forums, in which case, in what I would like to think is a fit of brilliance, we get our suppliers and our customers together, and we let them settle some of the issues that are bothering each side. So we have tried to arrange that atmosphere and to promote it.

I think that our strategy reflects the changes that are going on in the industry and are going on in our customer atmosphere. A couple of days ago, the Administrator and I, in making a presentation to the customers on some reductions we hope to make in the local telecommunications program, and which we thought was a pretty good job at reducing costs, and they smiled kindly and said, "Good start."

Their budgets are being pressed, and if we don't appreciate that, don't work within that structure, we're going to lose them as customers. And we fully recognize that that dialog has to take place; it has to be real, and we have to be willing to deal with their problems.

We also believe that our strategy reflects the desire and the requirement to get closer to the citizens that we serve. Today, over

20 percent of our voice service is 800 service that comes from the public, and that reflects something that in 1986 or 1987 very few people could have forecast in this industry, that that area would have grown that much, and that the Government would have become as electronic as it has become.

Our Administrator, at least from my perspective, coined some of the terms about costing less and working better, and we believe that that has to be fundamentally what happens in the next phase of this program. At the same time, we are being asked for a richer array of services.

I would point out to you that, in many cases, what you are going to see in the Post-environment is a richer array of services that are being required by the users, in which they want to be able to do a variety of things and, at the same time, operate in their culture and in their way of doing business.

In Congresswoman Maloney's opening statement she mentioned the DOD relationship. It's interesting, we never specify to an agency how they do business or what their architecture ought to look like, but we work very hard to make our services fit in and allow them to get their job done.

In our progress since the March hearing, several things have happened. We have conducted a number of agency roundtables in several areas, including security requirements areas and billing, some areas that we still had some questions on. We continue to receive a number of white papers from industry. I continue to have members of industry come in and give their presentations and their concerns, and so forth.

The Administrator, in that time, did a lot of listening to what goes on. In fact, our delay in the release of the draft RFP from the end of last month to the middle of August had a lot to do with that input. We didn't feel we had addressed it enough. I was offered a choice of, to either close the window at some point, put out a draft RFP that we were sure didn't do everything we wanted and incorporate the comments later, or go ahead and do the comments and put out a more complete draft. I chose the second option because I believed we needed to do that.

In working the eight issues from GAO—I'll just go through those quickly, and then we can have a dialog on those—I have submitted for the record our answers in each area. Mandatory use, I think has been covered very well by the Administrator. I would just add, in mandatory use, that one of the values in the IMC is, we have sort of lived down the idea that it's an oppressive, kind of requirement, that we have worked around, in some cases, that issue and made the program work very well.

So, in other words, I didn't hammer them because I didn't have to hammer them. They made many of the decisions. The local service versus long distance service, the agency is in the process, at the moment, of going through a number of alternatives on how we might make that merger. We should be ready in the near future to announce what we are going to do about that.

We do see some real advantages there, and, quite frankly, we want to make local service as competitive as we have in long distance. So we are very concerned about that. Part of the issues

raised before were technical, but we have business issues in that area that we think have to be settled.

The program management area, as we go into the Post-environment, I very much want to leverage what has happened with the IMC. I think to pass up a lesson that strong would be a mistake. We will continue to use the Government's resources in the whole and not just let it be a GSA program.

In packaging of services, one of the areas they brought up is, how do we package them? And there are a lot of ways to slice this program in its Post-environment. We believe that we should stick with several principles, one of which is commercial service.

I would distinguish there that we're not talking just commercial products. I can go out and buy commercial products and become my own phone company, and that, in my opinion, is not a commercial service. A commercial service is the services that the industry itself has put together and that meets the agency's and Government's needs, as well as the public.

We have had some industry recommendations that basically say, buy everything in small form and become your own integrator, or have someone else be your own integrator. Our sense is that that shifts risk to the Government that is unnecessary and does not allow us to take advantage of the marginal cost the industry can offer us off of their public switched network.

We have had a lot of dialog about regional approaches, as well. We have yet to find the advantage to the Government of dividing up the country into regions and, again, shifting risk for systems integration and functionality back to the Government.

On interoperability and security, as I said, we had roundtables with the agencies. We have essentially adopted what we believe is going to be the industry approach, and we will offer both basic and enhanced services, on an option basis, to agencies, based on needs.

The requirements area, we continue to work on that. We have had additional efforts with some of our larger users. We continue to work that area, and I believe we have a good handle on the categories of service. What we are doing now is refining the exact forecasts and numbers.

Finally, on support of NII, it is interesting that, in these days and times, staff almost never have one job. In many cases, we sit on different committees with NII kinds of issues. The Administrator himself is a member of the IITF, the Information Infrastructure Task Force working on the NII, so we are heavily involved.

To try to make this as brief as possible, I would like to thank you for our opportunity to speak to you today about the subject, and we do appreciate that opportunity.

[The prepared statement of Mr. Woods follows:]

FINAL

STATEMENT OF ROBERT J. WOODS

ASSOCIATE ADMINISTRATOR,

OFFICE OF FTS2000

GENERAL SERVICES ADMINISTRATION

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION AND TECHNOLOGY, COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

UNITED STATES HOUSE OF REPRESENTATIVES

July 20, 1995

Mr. Chairman, Mrs. Ranking Minority member and members of the Subcommittee, I want to thank you for giving me the opportunity to appear before you today to continue our dialogue regarding the FTS2000 Program. I appreciate the attention both you and your staff have given to this important Program, and its success is due in large part to this Subcommittee's leadership.

I wish to thank the Interagency Management Council(IMC) for their continuing leadership and involvement in both the current and future Program. This group of senior managers from our customer agencies has shaped the Post FTS2000 strategy and has rendered excellent advice to the Administrator since its inception. The IMC serves as an

I also want to express my appreciation on behalf of my staff and the (IMC) to industry, with whom we have worked to develop an acquisition strategy for the Post-FTS2000 Program. Throughout each stage of this process the IMC and GSA have sought and received industry's input regarding the proposed acquisition strategy. As I am sure you are aware, there are many views when it comes to the Post FTS2000 strategy. We at GSA and at the IMC have strived to articulate our intentions fully, by focusing increased attention and effort on those issues of most concern to industry. In addition we have adapted our plans to reflect industry objectives when they are both consistent with the objectives and principles of the Program and in the government's best interests. I also believe that we have improved the quality of the Program by inviting industry participation at the beginning of the process rather than waiting for the draft RFP'S. Having listened to and analyzed all views and the different perspectives, we are well positioned to offer a Federal program that will work better and cost less.

Finally, I wish to thank the General Accounting Office for raising eight important concerns they had for the Post FTS2000 Program in such a timely fashion. GSA and the IMC agree that these issues are of significant importance to the success of the Program. We appreciate the manner and detail

in which the GAO has explained their concerns. I believe that we have made significant progress on these issues, which will be reflected in the RFP's, since GAO raised them. I will elaborate on that progress after I briefly discuss the Program Strategy that we will employ for the Post FTS2000 Program.

OBJECTIVES OF THE STRATEGY

The Strategy for the Post FTS2000 Program, which was issued in December 1994, has several objectives. One goal is to support government services in an era where customers, both in and out of government will receive these services in ways which are different from those with which we are accustomed. The government will increasingly be delivering services to its citizens electronically. In addition, all of us in Washington, especially the Congress are seeking to integrate services and to better share governmental information among State, Federal and local entities. These efforts will have significant implications for the networks required to support such activities. These concepts, of bringing government closer to the citizen and making government work better, are embodied in the strategy for the Post FTS2000 Program. The Post FTS2000 Program is changing the platform for a reinvented government.

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IMPACT OF TELECOMMUNICATIONS REFORM

In addition to the changes resulting from government activities, we are all aware of a coming change in the telecommunications environment. We are already experiencing an explosive growth in technology and services that are now available, all of which provide opportunities to apply information technology to the daily activities of government. We seek to respond to a newly technological environment but be reasonable about complexity.

The result is a Program that has the ability to offer many more services to the customer and the ability to leverage competition to achieve the lowest possible cost to the taxpayer. We must be aware, however, that government services and operations rely upon this Program on a daily basis for their success and therefore we do not want to take a high risk approach. For example, the loss of service at the Social Security Administration could result in the delay of millions of benefit checks to citizens.

The result of this approach is a strategy for Post FTS2000 that reflects this vision:

PROGRAM STRATEGY

This Program reflects many more services in a significantly broader scope than the current FTS2000 Program. As I just stated, this reflects changes and advances in technology and

the opportunities it offers, particularly value-added services and wireless technologies. It also reflects a growing global marketplace with the addition of international services where commercially available. Our customers have requested this broadening and we believe this is consistent with how industry sees this market evolving. At the same time, however, GSA and the IMC have sought to broaden the Post FTS2000 Program on the solid foundation of the current Program. While the variety of services will expand the number of contracts and the number of authorized vendors, the number will also increase to allow for increased competition.

VARIETY OF CONTRACTS

As a result, the Post FTS2000 Program will include significantly more contracts than we currently have. In addition to comprehensive service contracts, we plan on awarding data contracts, wireless contracts, and a number of technical and management support contracts. While the exact number will be determined by the competitive bids themselves, we expect to initially award between 8 and 20 contracts as compared to the two we have today. As the Program evolves and new capabilities enter the marketplace, we expect additional opportunities for new contracts, new players, in addition to technology refreshment activities. This Program may also encompass agency-led, Government-wide acquisitions that fit within an IMC-managed umbrella.

VARIETY OF CUSTOMER REQUIREMENTS

The range of choices this Program represents reflects the variety of needs our agency customers have as well as the differences in their current telecommunications and operating environments and their abilities and interest in directly managing a telecommunications Program. Some customer agencies have a strong desire to be able to use one company to provide a comprehensive set of integrated services (voice, data, etc.). Others want the ability to choose to mix and match among multiple services and contracts. We have added technical and management support specifically at the request of agencies to allow them to draw on the private sector to help them make these choices and apply the contracts in their current environments. We believe this approach not only responds to our customers demand, but will also allow us to maximize the government's ability to obtain the best prices, through deliberate competition within the Program.

ATTENTION TO DATA SERVICES

We have paid particular attention to the data services area because it is a rapidly expanding and maturing component of the market, one where we believe the government has an opportunity to reduce costs significantly, and one where the volume of the government's requirements can contribute to and support industry growth and investment. We believe this

strategy creates significant competition between both the comprehensive services contracts and the data services only contracts. With the issuance of the draft RFP'S, we will be requesting additional industry comments on the advantages and disadvantages of bundling and un-bundling these services.

CONTRACT LENGTH

The initial awards are for 4 years with two 3 year options. These options will be aggressively exercised. In other words, if one or several of the contracts are not meeting full expectations, we will not renew the contract. This gives us the potential for the stability of long term relationships but with flexibility to alter the nature of the arrangements and to provide incentives to the winning vendors to perform well from service and pricing perspectives.

In summary, this strategy represents a deliberate attempt on the part of the government to leverage competition, use commercial best practices while keeping what has worked best from the current Program and improving where needed and where new opportunities exist.

In developing this strategy, we have been cognizant of Congressional proposals toward deregulation of the telecommunications industry. We will continue to follow the

debate over telecommunications reform as we move forward both with the initial awards but particularly as we assess whether to extend after the first 4 years or initiate other contracts. We believe strongly that the government should be positioned to take advantage of whatever happens in the industry yet recognize that no one fully understands the ramifications or consequences of a fully deregulated industry and marketplace. We believe with this strategy the Government is positioned with sufficient flexibility to take full advantage of the changes and benefits that will come with deregulation.

Throughout the drafting of the acquisition strategy, we attempted to strike a balance between competition on the one hand and ease of use on the other. We did this by increasing the number of contracts and services provided to maximize competition and provide for ease of use, flexibility and choice while attempting to reduce management complexity and promote long term Program stability.

LOCAL ACCESS

In addition to the data area which I have addressed, we believe that local access offers a significant opportunity for savings. As we discussed at the March hearings, a significant portion of the Post FTS2000 Program is in this area and I have submitted written documentation to clarify our position. At a minimum, we believe that we need to have

local services priced separately so that we can analyze the nature of these prices in more depth. We are also considering competing local services separately in several parts of the country where we believe there is true competition. We will ask industry for their thoughts on this area simultaneously, with the issuance of the draft RFP'S. We believe this approach will balance increased attention in the local area with the reality of the current marketplace. Of course, we also urge those bidding the contracts to propose other solutions that provide value to the government in these and other areas.

PROGRESS SINCE MARCH HEARING

Since we last met, we have made significant progress in several areas. The draft RFP'S will be released next month after review by an IMC-led Source Selection Advisory Council. We have held additional roundtable sessions with agencies to obtain their input on ten areas, including interoperability, security, billing and other requirements. We have engaged in substantial dialogue with industry to further communicate our intentions and to listen to their suggestions and concerns. We have contracted with several experts from the private sector, experienced in dealing with large telecommunications contracts, in order to get other perspectives on the Post FTS2000 Strategy. In addition, we are continuing to work on the eight areas raised by the GAO. At this point let me briefly address these issues. I ask

that the committee allow me to submit more detailed responses to these issues in writing for the record.

GAO ISSUES

1. MANDATORY USE

As stated at the March 28, hearing, I believe that industry concerns can be met primarily with minimum revenue guarantees. We have received extensive input from industry and technical consultants on what level of minimum revenue commitment is necessary to support industry interests and their risks while retaining the government's best interest and flexibility. That strategy, coupled with more competition through the increased number of contracts, inherently provides more choice and flexibility to our customer agencies within the Post-FTS Program. We have a commitment with the IMC for them to manage initial assignments of agencies consistent with the need to meet contractual minimums, but endeavoring to be responsive to agency preferences. The IMC will also develop policy guidelines and ensure the government's ability to contractually commit to these minimum revenue guarantees. We are also aware that Congress continues to have concerns about overall cost Government and therefore we understand that we must make wise decisions from a macro, government-wide perspective.

I also believe it is important to move away from the terminology and implications that mandatory use connotes some type of forced use. We believe agencies continue to be our customers because we offer them the best combination of quality services and pricing. We must ensure, however, that we utilize the leverage of volume that the government can offer to ensure the best prices to the taxpayer. We believe we can only do this through guaranteeing minimum revenues to the vendors so that they can bid on these contracts with a certain expectation of business.

2. LONG-DISTANCE VERSUS LOCAL TELECOMMUNICATIONS SERVICES

As the Administrator stated in his testimony, we are actively working on this issue within GSA, and agree with GAO and the IMC on the benefits of merging local and long distance organizations. As the lines between these two telecommunications technologies blur, we see substantial opportunity for significant cost savings in the local area.

3. PROGRAM MANAGEMENT

The area of Program management is of critical interest not only to GAO but to the IMC and the FTS2000 Program office. We are also aware of the industry's interest in this area. This is one of the more complex issues and one of the most likely to be affected by decisions in each of the stages of acquisition, including selection and award. In general we

will continue to build on the model of a broadened IMC role in government-wide telecommunications with the likelihood of additional cross-agency participation and involvement at working levels. This area presents some fundamental issues such as contract management, price management and continuing acquisition functions. We have begun to explore options within these areas, both internally and with outside experts. The added complexity of the Post FTS2000 Program will present agencies with more choices and an increased demand for analysis and associated support. Some of our thinking in this area will be reflected in the draft RFP'S for technical and management support contracts. In addition, as deregulation evolves, we will continue to look for other opportunities for the leveraging of government services. The IMC also has significant interest in this area and is likely to establish another subgroup, similar to the subgroup that analyzed the local telecommunications issue. Once industry sees the draft RFP'S we expect them to be extremely vocal on whether we have covered everything and we are eager to hear their comments.

We have submitted additional comments on the area of Program Management for the record.

4. PACKAGING OF SERVICES

As I alluded to earlier in my testimony, the Post FTS2000 Program Strategy calls for both comprehensive contracts and separate contracts for switched data, value-added, technical and management support, and wireless services.

We have continued to explore options regarding packaging of services since issuance of the Program strategy in December 1994. Industry advisors have recommended separate contracts for commodity services such as switched voice and dedicated circuits, and for local access service in selected areas. Some industry inputs have also generally favored a more granular approach to service packaging, In particular, the RBOC's have generally recommended a regional approach, while some interexchange carriers and systems integrators have suggested greater disaggregation by both service and span. Increasing the number of contracts provides greater choice and competition, but increases complexity and hence acquisition, management, and oversight costs.

We are planning to issue, with the draft of the RFP'S, a white paper describing an alternative service partitioning which allows additional awards for commodity services, but not for local access. The purpose of this white paper is to solicit responses from industry and other interested parties with a view to revising service framework in the final

RFP'S. The white paper will contain the following alternatives for partitioning of services:

- Comprehensive services
- Circuit switched services (and possibly 800 service)
- Dedicated digital circuits
- Switched data and value-added services
- Fixed satellite service
- Cellular/personal communications service (PCS)/Wireless

We do not believe that effective competition exists at the local level at present, nor will exist by late 1996, when the initial Post-FTS2000 awards are planned. What access competition exists is primarily in dedicated access rather than switched access, and thus would not address a major portion of the Post-FTS2000 requirements. Additionally, possible offerors appear to be limited to the local RBOC's and the major IXC's; competitive access providers do not yet have the resources or infrastructure to compete in this switched access arena. As viable new service provider's emerge, this strategy gives us the flexibility to bring them into the Program through additional competitions.

The draft RFP'S have been written to provide the technical and pricing specifications necessary to enable separate acquisition of local access at a later time. Immediately following award of the initial Post-FTS2000 contracts, an

analysis will be undertaken to identify metropolitan areas suitable for local access competition and to determine when such competitions should take place.

The Post FTS2000 Program Strategy was designed as just that- a Program strategy- not a hint at a design approach where pieces are carved out to meet the needs of particular provider's based on their geographic location or other criteria. This is a strategy that is designed to maximize competition, offer flexibility to its customers while at the same time leveraging the volume of the government to obtain the best possible prices for our ultimate customer: the citizens of this country. We believe that this strategy in fact does this in a fair and reasonable fashion, and that vendors from all areas of the industry have the opportunity to compete for this important Program.

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5. INTEROPERABILITY/SECURITY

We have made significant progress in the areas of interoperability and security since March and in particular, clarifying agency in these technically complex areas.

We are essentially adopting the industry approach to interoperability. We will utilize gateways, multiple "homing" and the public switched network as a default. In addition, some Internet technologies may be suitable while others may become suitable as the security of the Internet matures. The RFP'S will specify interoperability requirements separately for each telecommunications service, which we believe is responsive to industry's expressed concerns.

Our security requirement will allow two security arrangements, based on their needs. We will, however, require a basic service as part of the Program. Enhanced services will be available at additional cost. Again, best commercial practices in this area will dictate our approach. We will clarify the requirements for each different level of security in the draft RFP'S and have submitted a more detailed statement in writing.

6. REQUIREMENTS

We agree with GAO's concern about the need for specific requirements from agencies, even with the awareness that requirements will evolve over time and that we must remain flexible. We have received more data from our customers since March and are continuing to work on this important area. For example, we have held roundtable meetings with agencies and have held meetings with four agencies that have very large and time critical applications. We also have underway, an inventory of existing requirements and believe we are making steady progress and as such we have submitted a more detailed response to this issue in writing for the record.

7. SUPPORT FOR THE NATIONAL INFORMATION INFRASTRUCTURE (NII)

We have concerns regarding the GAO assessment of where we ought to be and what progress we have made in the area of supporting the National Information Infrastructure (NII). There is cross-membership between the Interagency Management Council, the Government Information Technology Services Working Group (GITS) of the National Performance Review (NPR), which is implementing the recommendations of the Information Infrastructure Task Force (IITF), and various other IITF working groups. The Administrator of GSA is a member of the IITF. I am also the chairman of the Customer Service Improvement Team of GITS, which utilizes information

technology to improve the service delivery of the government to its customers. We believe this broad involvement ensures support from these groups and that the Post-FTS2000 Program is being conducted in tandem with the activities of the other groups that will help make up the NII.

Nevertheless, we continue to have briefings with and seek input from, other governmental groups involved in shaping the future of the NII. We have had groups such as those dealing with electronic commerce and government-wide e-mail review and comment on early drafts of the RFP'S so that we can ensure the compatibility with all the activities that will utilize and combine to form the NII. We have submitted for the record a more thorough discussion of specific actions we have taken regarding this critically important subject.

CLOSING

We expect to continue working on these and other issues before the final RFP'S, due in December 1995, are released. We believe we are on track to award contracts with sufficiently enough time to successfully transition agencies from FTS2000 to the Post FTS2000 Program. We appreciate and require your continued interest in the Government's telecommunications program and support the active and productive interaction with industry, to which we are committed. I appreciate the opportunity to respond to your

concerns and am happy to answer any questions you have. Thank you again.

Mr. HORN. I thank you.

As I mentioned in my opening statement, one of the concerns—and I know it's one of your concerns—in this whole process is the degree to which we can include, on some continuing basis, if possible, the small businesses, however defined, and the small and disadvantaged businesses. Could you address that issue and indicate what your thinking is at this point as to the steps you are going to take to ensure that small businesses will be able to participate?

Mr. WOODS. We have scheduled two sessions in the near future. In fact, I think we have just finished one up with small business in which we have asked them to come in to have a dialog back and forth. We have also set up a partnership with the Small Business Administration on how we are going to involve small business. We have some ideas already; they have some, and we are in the process now of working through those details.

I can just tell you that the Administrator has been very strong in this area and has a great deal of interest in it, and I have paid attention to his strong desires. We are very much interested in making that happen.

Mr. JOHNSON. Mr. Chairman, I think we have to answer that in the context of the Supreme Court decision recently, and, also, we will be responding to the President's directive. I just asked this morning that we begin a methodical, detailed review of all of our affirmative action programs in that regard. Having said that, we will be, one way or another, assuring that everyone gets an equal opportunity to take part in this very vast and important procurement.

One of the dimensions that I think will naturally help it is, it appears as though there will be many more senior winners to this contract than there are to the past contracts—we have two now—because of the different types of products that we are requesting. Because we have restructured the contract, there well could be double-digit winners. That, of course, would cascade, if we do it right, to opening up magnitudes more business for other corporations as it tiers down.

Mr. HORN. Very good. I notice the Chairman of the full committee, Mr. Clinger, has arrived.

We did put your opening statement in the record. If there are some extra comments you would like to make, we would appreciate it, and I know you have some key questions.

Mr. CLINGER. I do have some. Thank you for entering the statement in the record.

I am pleased to welcome our witnesses here and hear what has been happening and what is contemplated.

Mr. HORN. If you have some questions, why don't you go ahead and ask?

Mr. CLINGER. Well, then, I will, if I may.

Mr. Woods, you indicated in the March hearing that agencies had a poor record when asked to identify their requirements in a timely and succinct manner in response to questions. In December 1994, you, I believe, issued a requirements call to address the problem. My understanding is, the response continues to be poor.

I guess my question would be, what has GSA done to resolve the issue, and how will requirements be treated in the draft RFPs

which you intend to release, as I understand, next month? And, finally, do you believe that GSA will have sufficient definition of agencies' requirements in time to issue the RFPs in December of this year?

Mr. WOODS. I guess my terming of the submissions wasn't so much poor as it was slow in response. The quality, once we've gotten them, has been fairly good. We have had a number of sessions, follow-up sessions, with bigger users to refine those and get down into some questions we have.

We do believe we are going to be ready in the timeframes to release a draft and to release the final RFP. However, we're not going to sit still between the two events, because forecasts will change during that period, and we very much want to have the latest we can have. We will probably do that all the way until final award. We will try to make these forecasts as accurate as possible.

I would like to also emphasize that forecasts themselves can get you to orders of magnitude and time periods that we are dealing with, but they are extremely difficult to get down to high levels of accuracy. I would just point back to our thoughts about 800 service in 1986 and 1987, which were totally off the mark.

Even voice service, which every expert would have said, if you can forecast anything, you can forecast voice, between fax machines and the fact that our service has gotten better and we don't have as much blockage as we had under the old system, it is actually easier to use and the price is right.

So it has been extremely difficult to stay on top of every forecast, but I think we are doing as credible a job as anybody in this industry can do. But it has been an extremely high growth period of time.

Mr. CLINGER. Administrator Johnson, you have had a realignment of local and long distance services, as I understand it, in GSA. You combined them into one office. How much money does the agency plan to save by combining these organizations? Have you got any figure of what you might ultimately end up saving?

Mr. JOHNSON. Well, we haven't actually put them together yet, Chairman Clinger. We are in the process of analyzing how we will do it, in detail, and getting an answer to that particular question. So far, it appears as though it makes a lot of sense to do that, simply from the standpoint that we will be able to give more effective service to our customers. They are encouraging us to do that. I would expect some measurable savings, as well.

Mr. CLINGER. You anticipate that there would be savings in your customer agencies, in terms of their overhead rates?

Mr. JOHNSON. Yes, sir. We are projecting right now—the data I have seen would drop the overhead rates 15 percent per year over the next couple of years. Before you came, Mr. Woods commented that we had a discussion even yesterday with our own customers and some of our own regional people, and they suggested the 15 percent was nice, but they would certainly like 30 percent better. And I think there may be even more there.

So we expect material savings. I want to make sure we have it all nailed down. It's not complex, technically, but from a people standpoint, logistically, I want to make sure, when we do it, we don't leave some gaps or overlap.

Mr. CLINGER. Some have suggested the GSA's role would perhaps be most appropriate regarding contract management service oversight and quartering and billing, which reflect the current responsibilities the agency has.

Do these roles, in your view, need to be performed by GSA in the future, just as they are today? Considering the fact that you, like every agency of Government, are involved in downsizing, can these practices which you are presently involved in be reengineered to reduce GSA's overhead costs?

Mr. JOHNSON. Oh, I think there is no doubt, and it is why, from the first day I came, we have begun analyzing every piece of this agency, in terms of what it does and how it does what it does, and what alternatives do we have to what we do.

We have taken the approach, Chairman Clinger, of truly trying to analyze, in an objective fashion, how we might make it work better and cost less, and have resisted the temptation and sometimes the urging to jump to prescriptive conclusions too soon. So we're not doing that, and I think it would answer one of Mrs. Maloney's questions that, certainly, we are in the process—we have offered buy-outs to lots of people, and they have taken them; we have had people leave through attrition.

On the other hand, we have some extraordinarily talented people. When you have an agency of 20,000 people, now 16,000, if I can't find somebody to replace anybody, including myself, I'll eat my shirt. But it's a result-driven analysis, not just jumping to privatization or contracting out for its own sake.

Mr. CLINGER. If you were told today that you were going to have 100 people to manage this program, what would you have them doing? In other words, in the FTS2000, you had the wherewithal, the resources to really manage the whole entire program. I guess my concern would be, would you still have that capability to manage the Post-FTS program in the same way?

Mr. JOHNSON. Well, it's almost rhetorical. I don't know, Chairman Clinger. If you told me I could only have 100 people, and it was a directive from Congress, I would probably do the same thing I would do now, I would go back into it on a factual basis and say, "All right. What can I do with 100 people? What is the highest leverage work?" And I would come back to you and probably say to you, you know, "I don't think it's effective. I think we could effectively use 20 more people better than alternatives." Or I would come back and say, "We need 20 fewer."

Mr. CLINGER. Right. If you had to prioritize what you were going to be doing, what would your priorities be of what you would be looking at, in terms of emphasis?

Mr. JOHNSON. Well, we have congressional responsibility for a certain amount of oversight. So I think the first would be to, whatever you give us, if you give us a dollar and say, "You're responsible for oversight," I would try to make sure that we are spending the dollar in a way that was most effectively assuring that it was properly being run.

If you gave me a second dollar, then I would use it to see if we might be able to actually do some of the managing functions better than others could do it, defined as better control, better measurement, lower cost. And I would just continue down that path.

At some point, I would reach a stage and say, you can give me any more dollars you want or people, and it isn't going to help, because others or other approaches can be better used.

Mr. CLINGER. Do it better.

Mr. JOHNSON. Yes.

Mr. CLINGER. Thank you.

Mr. WOODS. I might add to that, Mr. Chairman, that when the IMC conducted a study of FTS about 4 years ago, we also added to that process the kinds of products that the customers weren't interested in. There were some things we thought were important that, when we got together, they didn't think were important. So there is a class of those that we have gone through.

I think there are times when agencies like ours have to sit down at the customer level and say, "Does this add value?" And we have done that, but we need to do more of that as we look at local services and other areas. What is the agency capable of doing or not doing for themselves, and what should we do as an added value? If you can answer that question, then you have to go into how to do it best. Once you decide to produce the product, then you want to produce it as efficiently as possible.

So I would add that issue, because at that time FTS had over 300 people in the program. It has been reduced by almost one-third in that time period, based on that study, and based on feedback, and based on the buy-out kind of process we have gone through.

Mr. JOHNSON. There is an organizational structuring that I am concerned with, Mr. Chairman, that we haven't concluded here yet. One of the dangers, in my experience, with things such as this is that you put a group of people together to handle what I would consider to be a project. If you don't do it in a certain way, it's going to end up living forever, even though it had a particular purpose.

Therefore, as we are looking at organizational structure overall, I am probably going to be searching for ways to have this work identified even as a project and reporting into a structure that is an ongoing structure. But, clearly, this is a project, so it is continuously challenged why is it still here 10 years later, and why shouldn't it be on other projects.

So that's another dimension of how to look at the thing. That's one of the reasons I put the long distance together with the short haul.

Mr. HORN. I now yield to the gentleman from New Hampshire, Mr. Bass, for questioning.

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

I would like to extend a welcome to our witnesses. I have a couple of fairly specific questions and then a general one.

Mr. Johnson, you mentioned in your testimony, on I think it was pages 2 and 3, the role that the Interagency Management Council plays in FTS2000. I'm just wondering if you are confident that the IMC members will have the necessary management support of their agencies so that expanding the IMC's role in managing Governmentwide telecommunications will be feasible?

Mr. JOHNSON. I think so. Two reasons: I think, one, the individuals who are on the team, by the nature of their knowledge and skills, command a great deal of respect; therefore, they have the confidence, or appear to now, of their management.

I am hoping—since that type of relationship could be passing—I am hoping that, as we look and as you all look at new procurement reform, if you do agree with us that these councils are important as an ongoing process, that maybe in that legislation, one way or another, you would reinforce their importance and their relationships. It could be by defining the characteristics of the person who should be on them. It could be in terms of what levels of people they should be.

But I think it's a good point. Interagency councils will only work to the degree that they have the support of their management and will quickly fall apart if they get subjugated. So, so far OK. I think there are some things we could do to maybe help assure that in the future it stays that way.

Mr. BASS. One other question, Mr. Johnson. In your written statement, you discussed competition for local access in certain metropolitan areas. Who would conduct the analysis to identify the appropriate metropolitan areas for these competitions?

Mr. WOODS. That's probably more my arena. We would look at that based on the kind of potential, cost potential, we believe is in that area. In other words, a highly competitive area, prices are very good, we would look at it differently than if it was a high-cost area in which competition had suffered.

I would just reiterate that, typically, what we want to do is see increased competition and basically stay out of the business ourselves, in almost every case. We would only get into any kind of business on our own if there was no choice, and that would be our only basis for trying to do something on a local basis ourselves. Otherwise, it would always be contracted out, and we would encourage competition in those areas.

We still believe the local service area is probably one of our better potential areas for cost savings, so it is an area we are going to pursue.

Mr. BASS. Thank you. I guess my last question is a general one, and I am not even sure exactly how to ask it.

I wasn't here when FTS2000 was developed, and no one could have possibly forecast what would have happened when the Bell system was broken up. Again, we are now in the very midst of a major effort to deregulate telecommunications. I don't think anybody can possibly forecast, should this effort be successful, what it will be like in the year 2002 or 2003, or 2001, for that matter.

I read in your testimony, Mr. Woods, on page 4, you have a section on the impact of telecommunications reform, then a whole series of subcategories which, I assume, relate to telecommunications reform: program strategy; variety of contracts; variety of customer requirements; attention to data services; contract length; and local access, long distance versus local telecommunications services; as an effort to address what might be the impact of telecommunications reform.

My question is, do you think that those various mechanisms for reflecting a vision of what might happen under telecommunications reform are adequate to address those things that may happen that we have not anticipated? Do you understand my question?

Mr. WOODS. I think I do, because it's part of why I come to work every day, I guess. I think that the mechanisms that are there are

our best judgments of what it takes to stay flexible enough during this period. We don't know exactly when deregulation will happen. We also don't know exactly in what period of time the impact will take place.

As we looked at the industry, as we see things happen, it's exciting, but it's also confusing. We have cable companies digging up their coax cable so they can put fiber down to the home. Does that tell you there is going to be less competition? Not to me. That tells me there are going to be a lot of people involved.

We have wireless services coming on a digital basis, in which there are projections of a $25 handset and a $20-a-month charge. That will fundamentally change the way you and I live, not necessarily for the better, from best I can tell. It also, much like the low-cost fax machine, will make it more pervasive, the kinds of services that are going to be out there.

So what we've tried to do in our structure is to position ourselves to deal with the changes as they come. We're not trying to hold the waves back from the shore; we're simply trying to figure out how you get on top of them and not drown in the process. So we are trying to be adaptive and still stay in the commercial market.

One answer some people have come up with is, if I can't control, if I can't ride the wave, then the answer is to just build my own. Having gone through 25 years of that in the prior FTS2000 timeframe, the Government does not do well in those arenas. We can't keep up. We can't keep up with the investment; we can't keep up with the technology; and we don't have the people to manage it.

So stay adaptive, stay flexible, and try to use the mechanisms available to you to do that.

Mr. BASS. I appreciate that answer. I think it's a very good answer.

Thank you very much, Mr. Chairman.

Mr. HORN. My colleague has asked a very thoughtful question which triggers one question on my part, and I don't know if there is even an analogy there.

But when he thinks about his own State of New Hampshire, and you think about other States, some of which are low-wage States in labor, and some of which, smaller States, are high-wage States in labor, and you see an industry where they are moving communications operations to perhaps Kentucky, and even some of the major telephone companies, where they can take these calls from all over America, now are there analogies you see here, in terms of Federal servicing of a national clientele from some town of 300 in Kentucky, or closer to the Canadian border in New Hampshire, or wherever? What are the economics of this?

Mr. JOHNSON. Well, there are two thoughts I have with that, Mr. Chairman: One, the first answer is, absolutely. I think it's critical and it's economically sound. Information is more and more fundamental to any job creation or enrichment for people. Therefore, the more we can disperse it, the more access we can get to it, inherently, the better the country will be, rural or cities.

I was interested to notice, because of my past experience, recently, some data that indicated that since the last census—or the previous census—which was showing really the decline of industry in small towns, that has begun to reverse. And there was a great

correlation between the parts of the Nation where there was good communications capability and the reversal.

Companies, many of my past industry, who really would like to get out of some of the bad parts of cities, really can operate simply with communications. So they have access to it. They are moving into Sioux Falls, SD, and some other places, with very large industry.

So I think both sides of that say, yes, get it out there; get it everywhere; get it accessible to everyone. And industries will come because it's there, because they like it, and the people who are already there will do a lot better for being able to communicate externally and bring information in. It's a no-lose situation, I think.

Mr. WOODS. I might add, also, the telecommuting programs that are beginning to grow, in which people are staying in their own communities to work, even when they have jobs somewhere else. So we're seeing a very strong growth in telecommuting, an initiative that the Administrator has put a lot of effort into.

I also might add one other plug in here that electronic Government, in terms of our service delivery, should not be a basis for why people are moving toward urban areas. We should be able to service these people. In any spot that we can put a bank ATM machine, we ought to be able to give Government in electronic form in the same fashion.

So part of what this technology should foster is better service delivery, and, in my opinion, you should be asking that question: Does the public know the difference from the investment, and will they see a difference in service?

Mr. HORN. The gentleman from Illinois, Mr. Flanagan.

Mr. FLANAGAN. Thank you, Mr. Chairman.

Good morning, gentlemen.

Mr. JOHNSON. Good morning.

Mr. WOODS. Good morning.

Mr. FLANAGAN. Mr. Johnson, you and I have talked before in the Judiciary Committee, with telecommunications reform and other areas, too, and I have just one question to augment that. Of course, that legislation is with the Commerce Committee, and the monster grows regularly as to how this reform will actually look before it's done, and then we will just throw this piece in the pie, too, and truly make it deeply complicated.

Local access—and that is of deep concern to everyone, most people think of the telecommunications reform as opening up the long distance market. It actually has just as much to do with looking at the local access market, or closing it down, depending upon your point of view.

In your bidding and in taking bids for this, do you have an eye on the future of the telecommunications reform, in trying to accentuate this, and in the long distance market, as well, I guess? Because I would hate to see this entire process repeated after the reforms were completed, and, furthermore, I would hate to see this entire process changed immeasurably, because that will involve significant delay and incredible cost.

My question is, through your processes now, what are you doing to conform to at least the current state of the telecom reform, if at all?

Mr. JOHNSON. Well, let me comment on one part of that, and I will ask Bob Woods to comment on another.

I think that one of the more exciting parts of this process we're going through and why I earlier commented I think it's the most significant procurement since John Kennedy directed us to head to the moon, is for just that reason. I think it's going to facilitate and drive into the country some basic technologies, including interconnect at local levels, and including volume availability of newer type products.

Mr. FLANAGAN. "Interconnect at local levels," you are talking about local access corridors.

Mr. JOHNSON. Sure.

Mr. FLANAGAN. Washington-Baltimore.

Mr. JOHNSON. Sure. And Peoria and elsewhere. Because one of the interesting things about the Federal Government, once you leave Washington, is that it's not only here. So by having it be a network that needs to get all Federal workers to communicate, you, by definition, are driving access out into areas that may not otherwise have been accessed. So that's one dimension to it.

Bob, you might want to comment.

Mr. WOODS. Yes. I would add that one of the things we have been concerned about is local access issues. In fact, the structure of our strategy shows cost for local access being broken out so that, at some point in the future, once you have deregulated and you start seeing major shifts in economics, that you have the option, not necessarily that you take it, but you have the option of going out on separate bids for local access to begin to deal with those costs.

There is no doubt that that's where the margins are that we want to deal with. What we're waiting for is to see when it's done and what its impact on the industry is going to be.

I spent 19 years of my life in the Department of Transportation, and I remember when airline deregulation was sitting on this same brink. And we all thought it was the right thing to do. We were all enthused for it, and we didn't have any idea in hell what was going to happen. If you had told us, "Pan Am will go out of business, Eastern will go out of business, Piedmont will be absorbed," we probably wouldn't have had guts enough to do it.

The industry will restructure; I'm convinced of that, and we've got to be ready to deal with it when it happens. In the meantime, we've got to move on and be flexible enough to take advantage of what you're talking about. It's an exciting prospect, but we're waiting to see how it shakes out.

Mr. FLANAGAN. That is important that you are ready to act when the legislation comes forward. I'm glad to see that you're not taking steps now that will be expensive and time-consuming to reverse, if the legislation should not come out as you expect or anticipate.

Thank you, gentlemen.

Thank you, Mr. Chairman.

Mr. HORN. Thank you very much.

The gentleman from Virginia, Mr. Davis.

Mr. DAVIS. Thank you, Mr. Chairman. I apologize for missing some of the earlier comments. We had another hearing of this same

committee upstairs, and they needed a quorum. But I'm back, and I had a couple of questions I wanted to ask.

Mr. Scarborough and I had raised a question earlier about timing. In our response, we got reams of what happened in the 15 months prior to September 23, 1994, leading up, but what it failed to address was specifically what detailed activities actually took place on the weekend of September 23–26, 1994.

Now, why is that important? Because GSA had set Friday, September 23, as the deadline for receiving written comments from the industry on the eight previous published acquisition alternatives, and the optimum response jointly developed by Bell Corps and six of the seven RBOCs was submitted on Friday, the 23rd of September.

On the following Monday, on September 26, GSA published its own analysis of the eight acquisition alternatives, narrowing the list to four, and one of the eliminated alternatives was the regional alternative favored by the RBOCs.

And that's fine, except that the RBOC response was nearly 150 typewritten pages. It had been developed after months of careful consideration and consultation among all of the different groups there, with the assistance of Bell Corps, and, of course, it advocated a decentralized approach and had a lot of ideas in it, I understand, that had really never been presented to the Government before.

Now, this could be very quick staff turnaround. Maybe you've got a good staff that's sitting there over the weekend reading and analyzing and everything, or maybe, the decision had been made ahead of time. Any comment on that?

Mr. WOODS. I think that's probably more mine to do. We had been researching this effort for some 2 years. The regional approach from the RBOCs and Bell Corps had been discussed in an open industry forum prior to that time period. We had studied the responses they had made to the Department of Defense in a similar situation prior to that.

We did read the material that was there; I assure you of that. We're prepared to give you details of what happened on that particular weekend.

Mr. DAVIS. Now, the staff response, we're going to expect that from GSA in the future. That's going to be a tough standard to meet.

Mr. JOHNSON. I think, Congressman, it's also fair to say—because I lived on the other side of the world for most of my life—that I sent in a lot of wonderful suggestions, too, that I thought I had thought of for the first time in the history of man, but it turns out that others, maybe, had thought of them, as well.

A lot of what was in that report, I think, had been subject for discussion and debate a long time. So it isn't that it had to be all digested and all new information at that period. That issue of regionalizing has been around a long time and I think has been rejected.

Mr. DAVIS. Well, I wouldn't have raised that except that I was looking at the number of long distance calls, and the largest component is Baltimore to Washington. It just seems to me, however this thing is constructed next time out, we ought to localize that. If there is a way to localize that, we could save a lot of money, and

I'm not sure of the best way to do that. What is the response to that?

Mr. WOODS. That gets back to a prior question about how would we determine areas in which you would look at local access. Obviously, this area in the Washington-Baltimore area is a prime one in that respect. But our sense is that, so far, we have yet to find the advantage to the Government to do that nationwide and to break it down into territories that look like the regional Bell boundaries.

Our requirements are global. We've got requirements in there that have to reach out to every community in the U.S. as well as the global parts outside.

Mr. DAVIS. But on the Baltimore-Washington side, that can be taken care of, can't it, this next time, so we're not going to be paying long distance between them?

Mr. WOODS. Yes, it could. Yes, it can and it will.

Mr. DAVIS. Let me ask you this: Do you envision any portion of the Post-FTS2000 program management being accomplished by FFRDCs, the Federal-Funded Research and Development Centers?

Mr. WOODS. We've made good use of them in the past. As you know, Mitre has furnished much of our support during this period of time and, from my perspective, offered excellent service. How that comes out in the future, I think we're probably going to diversify the kinds of management help we have, for a variety of reasons, but we have not finalized our approach on that. It's not that we won't; it's that it has not been the first thing on our list for now.

Mr. DAVIS. OK. I guess my last question is, it looks to me as proposed in the strategy, long-term contracts for commodity telecommunications services include a base of 4 years, with two options years of 3 years each.

Are you concerned that such contracts could become 10-year contracts, like the current program, and force the Government to establish price or redetermination mechanisms that may lag behind the open market competitive prices, or do you think you have enough flexibility in this case and the will to, if things change significantly, come back and alter it?

Mr. WOODS. Our view of that is that the idea behind one 4-year term and then two 3-year options is that it gives us the option—the other side of the issue—it gives us the option that, if we have a provider who has done a very good job—and, remember, we're going to have multiple providers—if we have one that has done a terrific job in staying up-to-date on technology, has offered prices better than we can find anywhere else, to get them in place for 4 years and then to turn that contract over for the sake of turning it over does not seem like good business, from our perspective.

On the other hand, if we've got a provider that has not done well, and we have met minimum revenue guarantees during that period, why would the Government want to continue an arrangement that's not to their advantage?

So what we have done is left real options in there, and we project that we would make that go/no-go decision far enough in advance to allow for a transition, if need be. So that's our view.

Mr. DAVIS. Thank you very much.

Mr. HORN. Chairman Clinger.

Mr. CLINGER. Thank you, Mr. Chairman. I would like to ask unanimous consent that a letter to me from five of our colleagues, raising some of the questions and concerns that I indicated in my opening statement, might be made a part of the record.

Mr. HORN. Without objection, so ordered.

[The information referred to follows:]

Congress of the United States

Washington, DC 20515

July 18, 1995

Honorable William Clinger
2160 Rayburn House Office Building
Washington, DC 20515

Dear Congressman Clinger:

We commend you and Chairman Horn for holding the hearings on the Post-FTS2000 program, which is of great significance to the government and the taxpayers. While we are pleased that Congressional dialogue on this issue is beginning, we are also concerned about some of the issues raised at the hearings.

The Post-FTS2000 program is estimated to cost taxpayers almost $1 billion a year. We are concerned that the current GSA approach will not maximize competition and would not allow the government to take advantage of the technology and efficiencies that could be gained if more parties were allowed to play a larger role in the contract. The GAO, the Systems Integrators and the Regional Bell Operating Companies criticized the approach, and even the incumbent long distance carriers were not entirely satisfied with the strategy.

There have been tremendous technological advances in the telecommunications industry since the first FTS2000 program was designed over ten years ago. Industry and Government no longer depend on centralized mainframe computers, instead personal computers and local and wide area networks link computers and people. This local focus will attract more competitors and provide a wider array of services in a more decentralized FTS2000 contract.

It appears that the GSA has not taken into account the unique and sophisticated ways government customers' (agencies) needs have evolved. The U.S. West example in Colorado is just the tip of the iceberg in potential cost savings and efficiencies gained by applying a decentralized approach to the procurement of telecommunications services. Given the testimony we heard, using the long distance network as the primary focus of the procurement does not represent the best solution.

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We believe the GSA should be strongly encouraged to reconsider the overall approach to this program prior to the issuance of any RFP -- by then it will be too late. We urge you to inform GSA that this procurement should not proceed until the key issues are clarified.

Sincerely yours,

Mr. HORN. Let me pursue a few questions here, in closing. Some of them have been touched upon, but I would like it in one place where I can find it. Up to this point in the development of the Post-FTS2000 Program, GSA went to extensive lengths to include all interested parties in the development of the program strategy. Does GSA plan to solicit further industry participation? If so, how?

Mr. WOODS. We are planning it. In fact, sometime between the release of the draft RFP and the final, we will have another industry and public forum. We usually say "industry," but anyone from the public is encouraged to be there. We also have some sessions, as I mentioned earlier, with small business, and we will continue to have the dialog we have had. On a personal basis, we always have an open door, at the management level, to listen. And we do listen, and my hectic schedule reflects that.

We genuinely believe that this dialog is important to us. Many of you have talked about changes coming to this industry. I can tell you, from where I sit, that as complex as the next phase will be, if you think you can stay on top of every piece of it without consulting with this industry, you are sadly mistaken. It's difficult enough with their help; it's impossible without it.

So we intend to continue that dialog, and there will be forums in that period of time. We hope, in the December-January period of next year, to release our final RFP, and we will take questions and go through the process at that time. I would again say, as I may have said earlier, that we believe the draft RFP is important because it, itself, generates dialog. It tells the industry what we're thinking. As long as we release no paper, no draft RFP, then it's speculation.

I think it encourages us to focus, to come down to how we're going to approach things, to reach a conclusion on something we may be agonizing over, and then take the responses that come back. I think that's an important exchange, and we will continue to do that.

Mr. HORN. I appreciate that. I know that's where your feelings and actions are. One of the things that concerns me is the high cost of entry to even get into the competition, particularly for a smaller business. What are your plans, in terms of including small business through some of the larger entities that will be applying?

Is there a way to do that, to encourage a diversity of small business, where there is a lot of technical know-how, as you know, and a lot of advance? They might not be at the point of takeoff, but they might have a lot of good ideas. How do we deal with that?

Mr. WOODS. I think it comes through a couple of sources: One is, I think we've got to make it clear that we're expecting a certain part of the business to go to small business when the large prime contractors do that. Also, in breaking down some of the subsets of services and other areas, we believe the technical and management services area is one in which small business can play and bid.

Part of what we were concerned about when we grouped everything into one or two very large contracts, was that there was no way to go in and say, "Hey, I can do data services very well. I'm very good at it. I can give you a very good cost. I can do technical management services very well, but I don't want to put together a lot of money just to bid it."

So we're going to encourage larger players to take on small business as partners, and we're holding public sessions with small business and inviting large business to be there. Because it isn't enough to talk to us; they have to talk to their potential partners.

And the other is, then, to set goals within the contract itself.

Mr. HORN. Have you got any sort of projection as to how many businesses might be eligible, that, say, have 100 or less workers, or, if you want to put it on a monetary situation, could we be getting into companies that have, let's say, $15 million to $50 million of gross revenue annually?

Mr. WOODS. That's part of what I view our partnership with the Small Business Administration as providing. They are the experts in that area, and they are the organization that has the outreach mechanisms to do it. So I have recruited them; they have recruited me, however you want to see that, and we believe that they can do that for us and do it quite well. And they are very enthusiastic about bringing those players in for dialog.

Mr. JOHNSON. I think, Mr. Chairman, if I may, there's another dimension to that that isn't necessarily in the structuring of the contract, but it's why I think the impact of this is so important. I think there will be an enabling factor, cascading factor, as we more effectively wire the country for data imaging, et cetera.

For example, that will open up brand new markets for hundreds of small software companies, for example, with special application products for a hospital, for a school, for a small business. It would open up, I think, some good markets for smaller customizing of hardware.

So I think there's another dimension to this that may not necessarily be involved in the direct contract itself, but a cascading effect across the country. It may be bigger, in the end, than what we actually put under the contract.

Mr. HORN. This will be the way we include technology as it advances in whatever group or groups have the particular prime contract.

Mr. Woods, in your written testimony, you referred to two security arrangements: basic service is part of the program; enhanced service is available at additional cost. Can you explain what kind of security arrangements would be considered basic and what would be enhanced services?

Mr. WOODS. You've probably got me in over my head. The basic services—or both sets of services were the result of a survey of industry back earlier, and talked about—the basic question to industry was, you know how we do it today, because you're involved with us; how should it be done?

They came back in with an approach that said, if you try to put everybody in one area, you lose them all. You're too complex for some; you're too simplistic for others. And they came back in with a structure and recommended that we go to a basic and enhanced set of services.

I've probably got staff here that can talk about what is in each of those, but the basic idea is to segment so that users can pick and choose, because it's very hard, from our perspective, to judge who needs the most, who needs security most. There is often a sense that that's basically a DOD issue, but I would challenge that.

If you're talking about the billions, trillions transferred by Treasury every day electronically, their security requirements are no less and, in fact, bring some dangers that perhaps even DOD-type security risks don't encounter.

So, if you would like some expansion on that, we can submit it to the record.

Mr. HORN. Fine. Because I've noted that potential security risks occur due to different vendors, different security arrangements; and, if so, what steps are contemplated to mitigate such risks?

If you want to file that for the record, go ahead.

Mr. WOODS. I appreciate it.

Mr. HORN. During the March hearings, the issue of interoperability was raised frequently. What specific plans do you have to address interoperability between agencies, between the contractors, and between agencies and contractors?

Mr. WOODS. Well, that, again, segments itself into certain areas. In the interoperability issue, first of all, the term itself doesn't mean that we can just pass bits of information back and forth; it means that you have to look and feel, the same look and feel at different entry points to the network.

Some areas where standards are quite mature, that isn't a problem. You can pick the phone up and call anywhere. In other areas, such as the data services area where you have different protocols, it is not easy at all. Between the physical barriers, the standards barriers, and others, it becomes quite difficult in some areas to deal with interoperability.

So what we believe has to happen is that, in areas where it is mature, you leave that to the industry that provides it. In other areas where it is not as mature, then we have to require that certain standards be met or that the industry itself develop the interfaces that have to be developed.

So it's a multifaceted approach. The interoperability issue sounds easy to say with the swipe of a hand, but it is quite difficult as you get on the front end of emerging services.

Mr. HORN. Are we still agreed on August 1995 as the release of the draft RFPs, or is that moved?

Mr. WOODS. No. Our plan is to do it around the middle to end of March.

Mr. JOHNSON. March?

Mr. WOODS. March? Oh, well. Let me get my head back in here. The middle to end of August we will release those to industry for comment; that's still our schedule.

Mr. HORN. That's the draft RFP?

Mr. WOODS. The draft, yes.

Mr. HORN. Right. So that's still going out in August. Initially, we talked about June 1995, I think, as I remember.

Mr. WOODS. Yes. And my thought, as I said earlier, was to be able to incorporate some comments and input we had gotten.

Mr. HORN. Right. What is the overall impact of the program schedule now, of that particular date? And looking at the time when you will finalize the RFP, is that to be December that you will do that? Is that on track, or what are we talking about?

Mr. WOODS. It's going to depend a little bit on the volume of response we get. In fairness, if it goes out there, in the very unlikely

case that there's just total wild enthusiasm, and says, "This is the best thing we've ever seen," we could release easily within that time period. If you get back comments that are themselves complex, and so forth, I think the latest we have any sense that this thing would go would be the January-February timeframe, if we got comments that were on the very complex end of the scale.

So, in our view, the December to February timeframe is about right.

Mr. HORN. Very good.

I yield now to the ranking member from New York, Mrs. Maloney, for questioning.

Mrs. MALONEY. Thank you very much.

As you know, last Friday, the Department of Defense issued its own RFPs and is in the process of building its own information network systems, to close the gap between the expiring of DCTN and the onset of Post-FTS2000. So now we're having two separate systems. I thought our goal was to have one system. Why does GSA endorse this activity?

Mr. WOODS. In the release of the material last week—and I've read a fair amount of it—we have a case where the Department of Defense is putting together a strategy that encompasses not only their requirements that we overlap on, that we do similar things on, but they have also got the integration issues around their secure networks, around their CONUS and, as they put it, OCONUS, the offshore and global kinds of areas.

So they have a bigger integration problem than most of our customers. I would point out that typically we have left it to the agencies to buy their common products from us, but their approach and architecture is something that they are responsible for.

For instance, we may have an agency that comes in that has data requirements between an IRS center in Martinsburg and downtown Washington. Lots of traffic, lots of data movement there, and they may come to us because it's economically smart to buy dedicated service between those two points. We do not tell them, "Use another service, because that would be good for our network." We let them make the economic choice.

We, in effect, do the same thing with Department of Defense. They are our biggest customer, and, in one sense, we have to understand their requirements better than we do anybody else's. We are still working together for the Post-environment. Remember that many of the things that were released last week are for the current environment, in which Defense has to make networks work in the short term.

So we still have members of the planning teams working together. I don't think we're ever going to have exactly congruent services. That does not look foreseeable. By that I mean that they will be limited to only the services we provide, or that we provide only the services they need. There will be overlap, but there will not be exactly congruous programs.

From where I sit, I think that's OK, if, at the same time, we're not both buying the exact same commercial services that the other one is buying and overlapping that area.

I hope that answer wasn't——

Mrs. MALONEY. How are you making sure that that doesn't happen? I thought one of the goals was to try to have everyone on the same system. That would drive down costs and be efficient. At the prior hearings, I believe there was testimony that the security of the lines—that they had the technology to secure the lines so that there could be no interruption or eavesdropping by people who are not authorized and therefore are a security threat.

So it seems to me that I've heard a lot of testimony in prior hearings that one of the things we want to do is try to get on the same system, and then you're saying people can make their own decision whether they want to be on the system or not. And, you know, I could see some problems there, where possibly they are making decisions that aren't appropriate, or cost-effective, or really up-to-date on what the top technology is of what we should be doing.

Mr. JOHNSON. Congresswoman, let me give you a view of that, because I share your concerns. I have been asking these kinds of questions you have since I first came. I am confident that Secretary Perry and Emmett Paige and others, senior management there, share our—yours, mine—objectives.

On the other hand—the other extreme—there are communication networks inside the Defense Department, their command and control networks, their international networks, which will be dedicated for military use, and those will be separate. So, technically, there will never be one great big network.

Now, the issue gets to be, what inside that—what in the middle—qualifies as being commercial traffic, even though it's being communicated between military operations, for example? You know, there is commercial traffic that goes as well as command and control traffic. And I think there are legitimate discussions of trying to separate that out.

The objective that says, yes, we want to put the commercial traffic all together because it's common, I think is agreed upon. It is not as simple as I would have hoped it would be to define just what part of that traffic is really commercial and where does that stop. Then once you make those distinctions, there are certain of the traffic that look commercial but may need some different security requirements, and can they be dealt with even in a commercial environment? Some yes; some no.

I think the intent is there, at least from my viewpoint, and I think we're going to make great strides in that approach. There are serious differences of opinion inside the Defense Department, I believe, in talking with Emmett Paige, over how do you break this apart. But I think the intent is there, and I think we're going to make very good progress.

Mrs. MALONEY. Before we go to the draft RFP, shouldn't we have a common vision and agreement? This is a fundamental question on the whole contract.

Mr. JOHNSON. Well, it has to do with the volumes. I think we will have reasonable agreement on what volumes will be commercial coming out of the Defense Department.

Mrs. MALONEY. In my opening statement, I mentioned that GAO had raised eight issues of concern regarding the follow-on program, including concerns that "mandatory use requirements are inherently anticompetitive and can result in higher prices," and I quote

from their report. "However, if mandatory use was eliminated, it would seem that the government would not be able to maximize the economies of scale and, consequently, could not solicit bids with as great a cost savings."

In other words, if mandatory use was eliminated, how would it affect the cost savings to the Government? And is mandatory use necessary for GSA to make minimum traffic guarantees to vendors?

This really connects to what Mr. Woods was saying in his other statement, as it pertained to DOD. But other carriers will have the choice of whether or not they go on the main line, so how specifically have you addressed the issue of mandatory use requirements for the follow-on procurement?

Mr. JOHNSON. We can both comment.

While you were out—I'll summarize some of the response to that. The mandatory usage, or monopoly approaches, or whatever you want to call them, sometimes are useful, in my view, when you have specific new situations. I think it was quite useful in the beginning of FTS2000. I believe, though, that FTS2000, its features, its costs, have become self-evidently very good.

To continue to force people to use something that really should be, at some point, able to stand on its own two feet, I think really asks the other question. It really says, well, if you have to force them, is it really all that good? I believe that one of the great tests of effectiveness is to give people choice.

Mrs. MALONEY. But, specifically, if you could clarify for me, how would you handle it in the RFP? How would you give the choice in the RFP?

Mr. JOHNSON. Well, the issue has to do with what rules we put on inside. So I think the RFP would say, we are going to—these are the volumes you're going to get, et cetera. It isn't an RFP issue; it's an issue of how we manage the agencies inside after we do that.

I think, initially, when you have a new approach and people are skeptical of it, which they were with the FTS2000, and it's based on the fact that you have to have all this volume, then you better have a way to make darn sure people don't run for cover and that you can enforce at least the trying out of this new approach. We did that. It works great. It's low cost; it gives good service. And if it does all those wonderful things, why do I have to order you to keep using it?

One of the better tests is to say, "No, no, you can use others if you want, but you've got to show us that what you're going to do is, in fact, better service or lower cost." Because, if you can, we will then turn to our current suppliers and say, "Let's have that for everyone." It's the fundamental nature of competitive structures.

So I think it will not affect——

Mrs. MALONEY. So, in other words, you agree with the GAO report and recommendations?

Mr. JOHNSON. I would rather say what I agree on. I think, fundamentally, the mandatory is not necessary in the follow-on. It shouldn't really be necessary in today's environment of the current one; however, the contracts, I think, were written in such a way that would open up too many issues, needlessly, to take it off of to-

day's. So I say, let's leave it alone as it is. We'll go with nonmandatory as we go forward.

Mrs. MALONEY. What would constitute sufficient competition in this procurement? For the last FTS2000, which was national in scope, there were only three competitors. How can we be sure that the Post-FTS2000 structure will attract a larger number of competitors, or is that a goal to have a larger number of competitors?

Mr. JOHNSON. It is, and it will. The nature of the industry has changed. The nature of what we're asking for, in terms of products and services, has changed. So we would expect—and from the interest and the numbers of people involved in the 2 years of discussions now, I would be surprised if the winners at the senior level weren't in double digits, as opposed to just two, as a matter of fact.

Mrs. MALONEY. Just so I understand, in the RFP you will have sort of like the general service. Yet, if service can be supplied at a lower cost, then that will be allowed to be provided in subdivisions; is that correct?

Mr. JOHNSON. Yes.

Mr. WOODS. Yes. The idea is to give categories of what we call comprehensive service; meaning, as an agency, you have a lot of requirements in which you want one-stop shopping. For instance, you're a small agency, you don't have the staff to break it down into small bits and manage it, or you're not very specialized, then you may very well say, "Give me the comprehensive service. I want to buy all of it from one spot."

The specialized service gets into the area where industry basically pointed out that, if I'm in the data services business and that's a lot of what I do, I run the Sears network, and I already have the network up and built, and I can provide you data services for the marginal cost much cheaper than someone who has to bring it up from scratch, then I should be allowed to do that. That's what that feature allows, and it allows an agency, like I said about IRS earlier, having a lot of data requirements, to buy just data.

So the idea there is to specialize when it's to the economic advantage of the Government and to generalize when it's to the operational advantage. So that was the idea behind the requirements.

Mrs. MALONEY. Thank you very much.

I yield back to you.

Mr. HORN. Fine. Thank you very much for your questions.

There is one chart that I am having it put in the record at this point. It's a nice little matrix the Office of the FTS2000 furnished us, and I do want that as an exhibit, titled, "Possible Post-FTS2000 Bidders By Market Segment."

So without objection, that will be put in the record.

[The information referred to follows:]

Possible Post-FTS2000 Bidders, by Market Segment

Market Segment	Comprehensive Services	Switched Data and Enhanced Services	Wireless Services	Technical and Management Support
Interexchange Carriers (IXCs)	• Prime contractor, building team and supplying services • Subcontractor, supplying services	• Prime contractor, building team and supplying services • Subcontractor, supplying services	• Prime contractor, building team and supplying services • Subcontractor, supplying services	• Provider of specific support services
Regional Bell Operating Companies (RBOCs)	• Subcontractor, supplying tariffed services • Subcontractor, supplying competitive services • Prime contractor, building team and supplying services (with exception from Judge Greene)	• Subcontractor, supplying tariffed services • Subcontractor, supplying competitive services • Prime contractor, building team and supplying services (with exception from Judge Greene)	• Subcontractor, supplying tariffed services • Subcontractor, supplying competitive services • Prime contractor, building team and supplying services (with exception from Judge Greene)	• Provider of specific support services
System Integrators	• Prime contractor, building team and supplying services via their public or private network assets • Subcontractor, supplying integration services	• Prime contractor, building team and supplying services via their public or private network assets • Subcontractor, supplying integration services	• Prime contractor, building team and supplying services via their public or private network assets • Subcontractor, supplying integration services	• Prime contractor, building team to provide a comprehensive set of integration and support services • Subcontractor, supplying integration and other support services

Possible Post-FTS2000 Bidders, by Market Segment (Concluded)

Market Segment	Comprehensive Services	Switched Data and Enhanced Services	Wireless Services	Technical and Management Support
Wireless Providers	• Subcontractor, supplying wireless services		• Prime contractor, building team and supplying services • Subcontractor, supplying wireless services	
Competitive Access Providers	• Subcontractor, supplying services	• Prime contractor, building team and supplying services • Subcontractor, supplying services		
Support Contractors				• Subcontractor, supplying specialized support services
Others (e.g., IBM)	• Prime contractor, building team and supplying services	• Prime contractor, building team and supplying services		• Prime contractor, building team to provide a comprehensive set of integration and support services • Subcontractor, supplying integration and other support services

Mr. HORN. I am very grateful to both of you for coming up here and sharing your thoughts on this. We have been very impressed by the diligence, the thoughtfulness, and the inclusiveness which you have both stressed, as Administrator and Associate Administrator, and we wish you the best as the draft RFP comes out.

As I said to you privately and say here again, anything you can do to assuage the nervousness of potential bidders, be they large, medium, or small, we would appreciate, since that ongoing dialog, I think, is very important.

Let me thank the staff involved with this particular hearing. On my left, your right, Ellen Brown, the procurement counsel for the Committee on Government Reform and Oversight; behind her, Keith Brown, a legis fellow; staff director Russell George, for the subcommittee; and Andrew Richardson, the assistant in charge of all the arrangements.

The minority staff of Cheryl Phelps and Mark Stephenson always, along with our majority staff, do a fine job on looking at questions to pursue.

And, of course, the official reporter, Elma Dirolf. So, thank you, Elma.

Mrs. MALONEY. Mr. Chairman, thank you very, very much. Again, I apologize for having been called to a Whitewater hearing.

This is a very important issue. It's a great deal of taxpayer dollars. I had a series of questions, and I didn't want to belabor it, given the fact that I was not here the entire time. I would like to submit them to the record. If they have been answered prior to my submitting them, then that is sufficient. But I just noticed, when I came in, he was asking a lot of the same questions that I would have asked.

Just in closing, on competition, could you just mention if you feel there will be many competitors? You always have a sense. Could you mention who you think will be competing for these contracts? Do you think there will be 10 people, 5 firms, 10 people?

Mr. WOODS. We think we're going to be somewhere between 10 and 20.

Mrs. MALONEY. Ten and twenty. Could you mention who you think will be competing on this?

Mr. WOODS. I think, out of the—first of all, the regional Bells, I assume, are going to make a great effort to be involved and have shown a great deal of interest. The three interexchange carriers that we've had a lot of interaction with, AT&T and Sprint and MCI. The integration type companies, systems integration companies like Computer Science or GTE or EDS.

I'm already digging a hole here, because the one I don't say is going to remind me of that. There are lots of large, medium, and small companies in the technical management and services area that have been in to talk to us. So there are a host of them. I very much want to see them in here, and I've put a lot of effort into getting that message across. It is a very complex procurement, and it is a very important one. So I understand their apprehension. We're trying to break some of that apprehension down so that they are willing to play. And we do need to encourage them to be in here.

Mrs. MALONEY. Just one final question: In your effort to increase competition in new technologies, will it be a requirement that the

new item coming in be more cost-effective; in other words, save taxpayer dollars?

Mr. WOODS. I don't think, contractually, you can require that. But I can say this, from an advice to the industry standpoint, we're not looking for higher prices. That's just a hint of where we want the prices to go. So when we mention these prices, in terms of services, we are not looking to see them go up.

Mrs. MALONEY. Thank you very much for your testimony.

Thank you, Mr. Chairman. As I said, I will be submitting some more questions. Thank you.

Mr. HORN. Thank you very much. I'm glad to see we're in search of the equivalent of what was the 5-cent cigar, since we're at the 5-cents-a-minute point, you hopefully will get down to 2½-cents-a-minute.

With that, this hearing is adjourned. We thank you again.

[Whereupon, at 11:45 a.m., the subcommittee was adjourned, subject to the call of the Chair.]

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