FEDERAL TELECOMMUNICATIONS SYSTEM ACQUISITION STRATEGY (POST-FTS2000)

HEARINGS

BEFORE THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

FIRST SESSION

MARCH 6 AND 12, 1997

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FEDERAL TELECOMMUNICATIONS SYSTEM ACQUISITION STRATEGY (POST-FTS2000)

THURSDAY, MARCH 6, 1997

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

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

Present: Representatives Burton, Morella, McHugh, Horn, Davis of Virginia, McIntosh, Sessions, Barr, Waxman, Norton, Cummings, Kucinich, Blagojevich, and Davis of Illinois.

Staff present: Kevin Binger, staff director; Dan Moll, deputy staff director; Jonathan Yates, counsel; Bill O'Neill, director of procurement policy; Judy McCoy, chief clerk; Teresa Austin, assistant clerk/calendar clerk; Mark Stephenson and Ronald Stroman, minority professional staff; and Ellen Rayner, minority chief clerk.

Mr. BURTON. The Committee on Government Reform and Oversight will come to order. I would like to apologize before we start today because at 10:40 I have to appear at the House Oversight Committee to propose our budget for this year. So my colleague, Mr. Horn, will take over the Chair in my absence, and then I will be back as soon as possible after I make that presentation.

The Committee on Government Reform and Oversight is meeting today to hear testimony regarding the Federal Government's Post Federal Telecommunications System (Post-FTS2000) Acquisition Strategy.

The current multi-billion dollar FTS2000 program, managed by the General Services Administration, provides long distance telecommunications services for agency users across the Federal Government. This contract expires in December 1998. Today's hearing will focus on the General Services Administration's pending request for proposal (RFP) for the Post-FTS2000 contract from the provider and the user perspective. The objective of this hearing and the one to follow next week is to ensure that the Government purchases the most technically efficient and cost-effective telecommunications system, thereby giving the best possible value to the American taxpayer.

There are four principal goals this procurement must meet in order to proceed forward: first, and foremost, it must be the best possible deal for the taxpayer; (2) it must take advantage of emerging market forces in the telecommunications industry; (3) it must allow as many vendors as possible to compete for it while ensuring

a level playing field. And (4), it must take advantage of the leverage provided by the Federal Government's purchasing power.

These hearings will determine whether the current RFP meets these requirements. If it does not, I say to those parties opposed to this RFP, "How does your proposal meet this test?" For once met, these goals will ensure a procurement that proceeds in the best interests of the American taxpayer, the Federal Government, and the telecommunications vendor.

The current program has proven to be highly successful in providing excellent services at below market prices. However, as this program approaches its conclusion, the Government needs and the technology to meet them have changed dramatically as we move toward the next century.

This contract will be one of the largest non-defense procurements the Federal Government has ever awarded, with total value estimated at more than $5 billion. GSA currently has the authority to issue this RFP on April 2, 1997. These hearings will determine whether this is a prudent course of action to take. The Post-FTS2000 program must be capable of meeting the agency user needs, while accommodating a telecommunications marketplace undergoing great change.

This committee takes its oversight of Federal procurement very seriously, and we view this program as one of our most important oversight responsibilities. While the committee evaluates the proposed RFP, ultimately, it is up to the users and managers of the program and the vendors supplying the services to make it a success. Through these hearings, we hope to determine how best to provide telecommunications services to the Federal Government users following the expiration of the current FTS2000 contracts.

Today, the committee will hear testimony from the following two witnesses: the Honorable Robert J. Woods, Commissioner of the Federal Telecommunications System, who is representing the General Services Administration, and the Honorable Frank J. Lalley, Associate Deputy Assistant for Telecommunications for the Department of Veterans Affairs, who is representing the Interagency Management Council. I look forward to hearing from our witnesses today as they discuss the merits of the proposed RFP from the provider and user perspective.

Before we proceed to Commissioner Wood's testimony, I would like to recognize my distinguished ranking minority member, Mr. Waxman, for an opening statement.

[The prepared statement of Hon. Dan Burton follows:]

DAN BURTON, INDIANA
CHAIRMAN

HENRY A. WAXMAN, CALIFORNIA
RANKING MINORITY MEMBER

ONE HUNDRED FIFTH CONGRESS

Congress of the United States
House of Representatives
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
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Statement of

The Honorable Dan Burton (R-IN)

Chairman

House Committee on Government Reform and Oversight

Federal Telecommunications System Acquisition Strategy (Post FTS-2000)

March 6, 1997

The Committee on Government Reform and Oversight will come to order. The Committee is meeting today to hear testimony regarding the Federal Government's Post Federal Telecommunications System (Post-FTS2000) Acquisition Strategy.

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1.) First and foremost it must be the best possible deal for the taxpayer.

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3.) It must allow as many vendors as possible to compete for it while ensuring a level playing field.

4.) It must take advantage of the leverage provided by the Federal Government's purchasing power.

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Mr. WAXMAN. Thank you very much, Mr. Chairman. I want to thank you for holding this important hearing today.

Our committee has played a major role in the development of the FTS2000 Acquisition Strategy. After a difficult beginning, this procurement system has worked well. According to GSA, FTS2000 has resulted in an 80 percent reduction in the cost of long distance voice calls for Federal agencies and produced savings of more than $5 billion over the previous FTS system.

Despite these achievements, we can continue to improve the system. We should maintain its successful features and take advantage of innovations expected under the 1996 Telecommunications Act. That law envisioned competition in local and long distance service at some point in the future. We will not reach that point for a number of years, however.

I am concerned that we provide maximum competition in local and long distance service in the Post-FTS2000 Strategy. We must be careful that neither the long distance nor the local companies be given a competitive advantage in their respective spheres.

We spent a great deal of time and debate on that very issue in the Commerce Committee when we considered the 1996 Telecommunications Act. We must make sure that we carry out the principle of open and fair competition we adopted in that act in government procurement as well as in the private marketplace.

We must make sure that our procurement process set in place today is fair to all of the bidding companies so we can maximize competition and increase savings for local and long distance service. We must make sure that this does not inadvertently skew competition or pre-determine the result.

I note with interest that within the last 2 months, there has been a significant policy change made in the Post-FTS2000 Strategy. I am interested to hear what the witnesses today have to say about that as well as the witnesses next week.

The hearings scheduled today and next week will be extremely beneficial as we review these changes and how the system can best serve the Federal Government and the next American taxpayers.

I welcome today's witnesses and look forward to the testimony and I, too, must apologize in advance because I will be at the meeting with the chairman discussing our committee's budget. I yield back the balance of my time.

Mr. BURTON. Thank you, Mr. Waxman.

Before I recognize the Chair and ranking member of the Government Management Subcommittee for opening statements, without objection, I would like to request that other members of the committee submit their opening statements for the record.

Without objection, so ordered.

Now, I would like to recognize the Government Management Subcommittee Chairman, Mr. Horn, who held a number of hearings on the Post-Federal Telecommunications System Acquisition Strategy in the 104th Congress and will continue to be a leader on

this issue in the 105th Congress; and, while he is making his statement, I think I will turn the Chair over to him so we can go make our presentation to the House Oversight Committee.

Mr. Horn.

[The prepared statement of Hon. Benjamin A. Gilman follows:]

Ted Gilman
Statement
Post FTS 2000
March 6, 1997

THANK YOU MR. CHAIRMAN.....

I AM PLEASED THAT WE ARE HOLDING TODAY'S HEARING AND WELCOME THE OPPORTUNITY TO LEARN MORE ABOUT GSA'S PENDING REQUEST FOR PROPOSAL (RFP) FOR THE POST-FTS2000 CONTRACT.

I HAVE BEEN APPRISED THAT THIS CONTRACT WILL BE ONE OF THE LARGEST NON-DEFENSE PROCUREMENTS THE FEDERAL GOVERNMENT HAS EVER AWARDED, WITH A TOTAL VALUE AT MORE THAN FIVE BILLION DOLLARS.

IN LIGHT OF THIS, IT IS IMPERATIVE THAT WE ENSURE THAT THIS CONTRACT IS NOT ONLY COST EFFECTIVE AND TECHNICALLY EFFICIENT, BUT BASED ON A PROPOSAL THAT IS FAIR AND EQUITABLE. WE MUST ENSURE THAT THOSE COMPANIES WITH THE MOST COST-EFFICIENT AND TECHNICALLY EFFICIENT TELECOMMUNICATIONS SYSTEM ARE ENCOURAGED TO SUBMIT PROPOSALS AND NOT SHUT OUT FROM COMPETING IN GSA'S RFP.

ACCORDINGLY, I LOOK FORWARD TO LEARNING MORE ABOUT THE GSA'S PROPOSED LONG DISTANCE SERVICE AND LOCAL TELEPHONE SERVICE STRATEGY, AND WOULD LIKE GSA TO CLARIFY HOW THE FTS

OPTION FOR LOCAL SERVICE AND THE METROPOLITAN AREA LOCAL SERVICE (MAA) BID WILL WORK. OBVIOUSLY, THOSE WAITING TO BID ON A THE NEW YORK MAA WOULD LIKE TO BE ASSURED THAT A LONG DISTANCE SERVICE PROVIDER WOULD NOT HAVE THE UNFAIR ADVANTAGE OF OFFERING A LOCAL SERVICE OPTION PRIOR TO THE NEW YORK MAA BID.

AGAIN, I LOOK FORWARD TO LEARNING MORE ABOUT GSA'S PROPOSED RFP AND THANK THE WITNESSES FOR THEIR TESTIMONY.

Mr. HORN [presiding]. Thank you very much, Mr. Chairman. I appreciate the leadership you are taking on this effort.

The Subcommittee on Government Management did pay close attention to the Post-FTS2000 Acquisition Strategy in the 104th Congress. There has been significant activity in recent months, and I look forward to the testimony we are about to receive. Congressional attention to the matter is indispensable, and I commend Chairman Burton for calling this hearing.

I only want to make a couple of points on this matter at this time. I would like to recognize the effort that has already gone into the Post-FTS2000 program, particularly that of the General Services Administration, which began formal consideration of the Post-FTS2000 acquisition process in the fall of 1993 and since that time has given a great deal of thought and effort into the matter and all the policy issues involved as well as practical operations. And I think that has been very significant. A high level of attention and effort is clearly warranted. The American taxpayers stand to save or, if things go badly, to squander billions of dollars in telecommunications fees over the next several years. We hope we will save that amount of money.

At the same time, it is imperative that this process concludes as quickly as possible. Extensions of the current contract could become very expensive. While GSA is to be praised for its responsiveness to congressional concerns, I hope there is now a sense of urgency from everyone about bringing this process to a close with minimum delay.

In its December 1996 Report to Congress, the General Services Administration listed the main lessons gleaned from 8 years of administering of FTS2000 and 3 years of planning for Post-FTS2000 arrangements. GSA also articulated the principles guiding its pursuit of Post-FTS2000 contracts. The General Services Administration observed in its report that, "The future environment is uncertain." This uncertainty obviously applies to technology, to the marketplace, and to future government requirements.

There is simply no way to foresee in concrete terms what the Government can or should expect from the telecommunications industry even 3 or 4 years from now. New services will be available. New companies will have arrived on the scene and prices are anyone's guess. We cannot overemphasize the importance of recognizing this uncertainty, although it is tempting to use the government's muscle to extract obligations for the long terms, we must avoid assumptions of stability.

Indeed, it seems to me we must make uncertainty, itself, the basis of the negotiations. The government's greatest asset is large traffic volumes. These can be used not just to bargain for lower prices, but for the flexibility necessary to take advantage of a rapidly changing marketplace.

The General Services Administration has put this lesson into practice admirably. GSA must continue to emphasize and maximize competition in each segment of the telecommunications market. An important element of flexibility is, of course, the length of the contract. Given the incredibly dynamic nature of the telecommunications market at this time, GSA has correctly limited the terms of this contract.

The basis on which we will judge the merits and demerits of this contract are easily stated. Is it a good deal for the Government and the taxpayers? Will it maximize competition? Will it allow flexibility? And we look forward to hearing from our witnesses on these issues.

I now want to give the oath to the panel. We had the unanimous consent all other opening statements would be put in the record. And if they want to make some of them during their period of questioning, why, that's fine; but that was the chairman's ruling on it.

Let me now swear in the witnesses, the Honorable Robert J. Woods, General Services Administration, Commissioner of Federal Telecommunications Service; and the Honorable Frank E. Lalley, Associate Deputy Assistant Secretary for Telecommunications, Department of Veterans Affairs.

Gentlemen, if you would stand and raise your right hand?

[Witnesses sworn.]

Mr. HORN. Mr. Woods.

STATEMENTS OF ROBERT J. WOODS, COMMISSIONER, FEDERAL TELECOMMUNICATIONS SERVICE, GENERAL SERVICES ADMINISTRATION; AND FRANK E. LALLEY, ASSOCIATE DEPUTY ASSISTANT SECRETARY FOR TELECOMMUNICATIONS, DEPARTMENT OF VETERANS AFFAIRS AND CHAIR, INTERAGENCY MANAGEMENT COUNCIL FOR TELECOMMUNICATIONS

Mr. WOODS. Mr. Chairman, Mr. Ranking Member, and members of the committee, let me express my appreciation to you for allowing me the privilege to appear before this committee.

As the manager of a program that affects all of the Government and directly reaches tens of millions of Americans each year, I understand the seriousness and importance of the role of this committee. I welcome this opportunity to appear before you and to continue our longstanding dialog concerning the Federal Telecommunications Program. This committee's leadership has been and will continue to be vital to the overall success of the program.

While we are on the subject of successful leadership let me also take time to acknowledge and thank the Interagency Management Council for Telecommunications for their continuing involvement and guidance in the Federal Telecommunications Program.

This council of senior managers from our customer agencies have been involved in the management of our contracts and have been the driving force responsible for the development of the strategy for the Post-FTS2000 environment.

The advice the IMC has provided to me and the administrator since its inception has fostered a pioneering relationship among government agencies, resulting in a truly customer-driven approach to providing telecommunications services.

And while I am on the subject of pioneering relationships, let me also acknowledge the members of the telecommunications industry, with whom we have partnered these last several years.

First let me publicly express my gratitude for the hard work and dedication of the thousands of industry employees who, under the FTS2000 program, deliver services to millions of Government work-

ers and millions of taxpayers who are seeking or are receiving assistance from the Government each and every day.

Since 1989, FTS2000 has carried over 50 billion minutes of telephone service, data communication services, and video services within the Government and between the citizens and their Government.

Undoubtedly, this staggering statistic represents industry's and history's largest, most inclusive and most extensive conversation ever conceived. We are in awe of the achievements of the industry itself. And I am very proud to work with them and with the customers, the programs, and the citizens in this pioneering way.

While the industry serves the Federal users under FTS2000, they have also been participating in and continuing to support the process leading to the development of the strategy for Post-FTS.

In that regard, let me thank them for the time and effort they have put into it. It has truly been a collaborative effort.

We began this process, Mr. Chairman, as you mentioned, back actually in late 1992, well before the passage of telecom reform, well before the explosive growth of the Internet, before personal communications services, electronic banking, Web TV, and all the other services that are beginning to appear.

Nevertheless, through all this and through all the mergers partnerships and joint ventures that industry has been experiencing, we at GSA and at the IMC have made it our priority to articulate our intentions fully, to pay close attention and attempt to address the issues of greatest concern to industry.

We have heard their concerns, and we have adapted our strategy over this period to embrace industry objectives when they are consistent with the principles of the program and the best interests of the Government.

I am convinced that the overall quality of our program has been markedly improved by the inclusiveness of this process. Industry's participation will undoubtedly move us toward a program that works better and costs less. In retrospect, I cannot imagine doing it any other way.

Since the first IMC study in 1993 related to Post-FTS2000, we have always intended that the post program address all the Federal agency users' telecommunications requirement, including voice and data, local and long distance, wire line and wireless.

The IMC and the GSA issued the post strategy back in December 1994, followed by a draft RFP in August 1995. We received comments from industry and held a 2-day conference with the industry in the fall of 1995.

In February 1996, 1 year ago, we issued a revised strategy. In developing the program strategy, the IMC and GSA have sought to ensure flexibility for the program and to adapt to changes in the marketplace and in the technology.

From the February 1996 release of the strategy until now, more than a year later, the central issue has been determining when the Government will buy end-to-end integrated services—that is long distance plus local services—under an umbrella contractor, or set of contracts.

This is an important issue because it points the way to a new telecommunications paradigm, one in which the traditional local

and long distance paradigm is replaced by an approach that does not distinguish between those.

In February 1996's revised strategy we dealt with this issue by defining the scope of any contract in a program to be sufficiently broad to allow for that new paradigm.

That is the scope of the contracts would allow for the addition of local services to long distance services at a time to be determined by the Government.

Of course, at about the same time we released our strategy in February 1996, you passed the Telecommunications Reform Act of 1996. And we received numerous requests to modify the strategy to further reflect the industry changes anticipated by the act.

Responding to those concerns during the summer of 1996, we developed a two-pronged approach to evolve to this new paradigm for providing end-to-end integrated services.

First we proposed awarding FTS2001 contracts for comprehensive network transport and local access services. Second, we proposed concurrently awarding metropolitan area acquisition contracts for local services. By taking this approach, we established dual, concurrent, and evolutionary paths.

One from the starting point of the traditional long distance carriers and the second from the starting point of the local exchange carriers. Later at a time to be determined by the Government, we would award comprehensive contracts for the provision of end-to-end integrated services.

While this approach further reduced barriers to program entry, the decisions of when and where to move to the new paradigm remained within the Government's discretion and not within the industry or individual contractor's discretion.

We presented this enhancement to our program strategy in the recent report to Congress in December 1996. While the Congress recognized the most recent enhancements as reflective of the 1996 act, it was suggested that the strategy should allow industry to determine when to offer end-to-end services.

As a result of these most recent Congressional concerns and suggestions, we proposed a refinement to the program strategy that gives industry the discretion of which services as well as when and where they would like to propose an end-to-end integrated solution. This refinement encourages industry to move to end-to-end services. And it is reflective of each company's individual plans and abilities. We have released the details of this refinement for public comments to be provided by March 15th. And I have provided the details of the refined strategy to members of the committee and their staff in my written testimony.

Under this refinement, this strategy—to the strategy, the two evolutionary paths to the new paradigm remain the same. However, the contractors can now determine the pace that they chose to move along that path. But the decision to purchase these optional services remains, as before, with the agency users.

Because of the hard work of all the stakeholders to this process, the Congress, Mr. Chairman, and members of this committee, the IMC, and industry, we are now poised to move to the future. The strategy for the Post-FTS represents an approach that I believe has been wrought on the anvil of collaboration and partnership.

While each individual participant in this process may not be wholly satisfied with the precise shape of strategy, I am well satisfied it represents an innovative approach that is market-driven, maximizes the use of the private sectors and their services and infrastructure, and provides to agency users maximum flexibility in selecting services to best meet their needs. In these respects, I think all stakeholders agree.

Now we must get on with implementing the strategy as any business would, so that we can reap its benefits for our stockholders, the American taxpayers. Thank you, Mr. Chairman. I will be pleased to respond to questions that you and the committee members may have at a later time.

[The prepared statement of Mr. Woods follows:]

TESTIMONY OF ROBERT J. WOODS

COMMISSIONER, FEDERAL TELECOMMUNICATIONS SERVICE

GENERAL SERVICES ADMINISTRATION

BEFORE THE COMMITTEE ON

GOVERNMENT REFORM AND OVERSIGHT

HOUSE OF REPRESENTATIVES

MARCH 6, 1997

Mr. Chairman, Mr. Ranking Member and Members of the Committee let me express my appreciation to you for allowing me the privilege to appear before this Committee. As the manager of a program that affects all of the government, and that directly reaches tens of millions of American citizens each year, I understand the seriousness and importance of the role of this Committee. I welcome this opportunity to appear before you and continue our long-standing dialogue concerning the Federal Telecommunications Service (FTS) program. This Committee's leadership has been and will continue to be vital to the overall success of the FTS program.

While we are on the subject of successful leadership, let me also take this opportunity to acknowledge and thank the Interagency Management Council for Federal Telecommunications (IMC) for their continuing involvement and guidance in the Federal telecommunications program. This council of senior managers from our customer agencies has been involved in the management of the FTS2000 contracts and has been the driving force responsible for development of the strategy for the post-FTS2000 environment. The advice the IMC has provided to me and the Administrator since its inception has fostered a pioneering relationship among government agencies resulting in a truly customer-driven approach to providing telecommunications services.

And while I am on the subject of pioneering relationships, let me also acknowledge the members of the telecommunications industry, with whom we have partnered these last several years. First, let me publicly express my gratitude for the hard work and dedication of the thousands of telecommunications industry employees who, under the FTS2000 program, deliver telecommunications services to millions of government workers and millions of taxpayers who are seeking or receiving assistance from the government each and every day. Since 1989, FTS2000 has carried over 50 billion minutes of telephone service, data communications services, and video services within government and between the citizens and their government. Undoubtedly this staggering statistic represents history's largest, most inclusive, and most extensive conversation ever conceived. We are in awe of the achievements of the American telecommunications industry, and I am very proud to work with industry to serve these customers, this program, and our citizens in this pioneering way.

While the industry has served the Federal users under FTS2000, they have also been participating in and continuing to support the process leading to the development of the strategy for the post-FTS2000 environment. In that regard, let me also thank the entire telecommunications industry for the vital role they have played in contributing to the shape of this strategy. We began this process in late 1992, well before the passage of telecommunications reform, well before

the explosive growth of the Internet, and before the emergence of Personal Communications Services, electronic banking, Web TV, and all of the other telecommunications services that are appearing even as we speak. Nevertheless, through all of this, and through all of the mergers, partnerships and joint ventures that industry has been experiencing, we at GSA and at the IMC have made it our priority to articulate our intentions fully, to pay close attention to and attempt to address, the issues of greatest concern to industry. We have heard those concerns and have adapted our strategy over this period to embrace industry objectives when they are consistent with the principles of the Program and in the best interests of the government. I am convinced that the overall quality of our program has been markedly improved by the inclusiveness of this process. Industry's participation will undoubtedly move us toward a program that works better and costs less. In retrospect, I cannot imagine doing it any other way.

With these thoughts in mind I wish to address the remainder of my remarks to a brief historical review of how we got to where we are today in the FTS strategy followed by a brief overview of the strategy as it is currently formulated.

Since the first IMC study[1] in 1993 related to the Post-FTS2000, we have always intended that the Post-FTS2000 Program (now referred to as FTS) address all of the Federal agency users' telecommunications requirements, including voice and data, local and long distance, wireline and wireless. The IMC and GSA issued the Post-FTS2000 Program Strategy[2] back in December 1994, followed by a draft request for proposals[3] (RFP) in August 1995. We received comments from industry and held a two-day conference with industry in the fall of 1995. In February 1996 we issued a revised strategy. In developing the FTS Program Strategy, the IMC and GSA have sought to ensure flexibility for the Program to adapt to changes in the marketplace and in technology.

From the February 1996 release of the revised Post FTS2000 strategy until now, more than a year later, the central issue has been determining when the Government will buy end-to-end, integrated services (that is, long distance plus local services under one umbrella contract). This is an important issue because it points the way to a new telecommunications paradigm - one in which the traditional local/long-distance paradigm is replaced by an approach that does not distinguish between local and long distance services. In the February 1996

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1 *Networking for a Reinvented Government: Federal Telecommunications Requirements and Industry Technology Assessment*, MTR-93W0000222, November 1993.

2 *Post-FTS2000 Program Strategy*, December 1994.

3 *Draft Request for Proposals for Post-FTS2000 (PF2K) Program*, KEF-95-BN-000A, August 23, 1995.

revised strategy, we dealt with this issue by defining the scope of any contract in the Program to be sufficiently broad to allow for the new paradigm. That is, the scope of the contracts would have allowed for the addition of local services to long distance services at a time to be determined by the Government.

The February 1996 approach seemed appropriate at the time, just prior to Congress' passage of the Telecommunications Act of 1996 (the 1996 Act). The approach was also well suited to the new consolidated GSA telecommunications organization, the Federal Telecommunications Service (FTS), formed in late 1995 as a result of several internal business line reviews and consultations with our customers through the IMC.[4] So we knew that reform was coming and we took the necessary steps to prepare for it. We had developed a strategy that gave us appropriate latitude in deciding what services to acquire and we had an organization responsive to our customers' needs under the anticipated model of merged local and long distance services.

[4] In 1995 GSA reorganized its telecommunications operations by combining the local services operations with the long distance operations in the Office of FTS2000 to create the Federal Telecommunications Service (FTS).

Upon passage of the 1996 Act, we received numerous requests[5] to modify the strategy to further reflect the industry changes anticipated by the 1996 Act. Responding to these Congressional concerns, during the summer of 1996, we developed a two-pronged approach to evolve to this new paradigm for providing end-to-end, integrated services. First, we proposed awarding FTS2001 contracts for comprehensive network transport and local access services. Second, we proposed awarding Metropolitan Area Acquisition (MAA) contracts for local access, local transport, and local loops. In August 1996 the first MAA industry conference was conducted in New York City, the first MAA city identified. Recently, we have announced a list of approximately 20 additional candidate MAA cities to be competed over the next 18-24 months, and we will be releasing the draft MAA RFP for industry comment shortly.

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5 May 10, 1996 letter from Congressman William F. Clinger, Chairman of the House Committee on Government Reform and Oversight, and Congressman Stephen Horn, Chairman of the Subcommittee on Government Management, Information and Technology.

June 27, 1996 letter from Senator Richard C. Shelby, Chairman of Senate Appropriations Subcommittee on Treasury, Postal Service, and General Government, and Senator J. Robert Kerrey, Ranking Member of this Subcommittee.

July 18, 1996 letter from Congressman Gene Green, member of the House Government Reform and Oversight Committee.

October 15, 1996 letter from Senator Ted Stevens, Chairman of the Senate Committee on Governmental Affairs.

Statement of Managers accompanying the Omnibus Consolidated Appropriations Act, Public Law 104-208.

By taking this approach, we established dual concurrent evolutionary paths - one from the starting point of the traditional long distance carriers and the second from the starting point of the local exchange carriers. Later, at a time to be determined by the Government, the Program would award comprehensive contracts for the provision of end-to-end, integrated services under the new paradigm. While this approach further reduced barriers to Program entry, the decisions of when and where to move to the new paradigm remained within the Government's discretion, not to be determined by industry or individual contractors. We presented this enhancement to our Program Strategy in the recent report to the Congress in December 1996.[6]

While the Congress recognized the most recent enhancement as reflective of the 1996 Act, it was[7] suggested that the strategy should allow industry to determine when to offer end-to-end services. As a result of these most recent Congressional concerns and suggestions, we proposed the refinement presented below. This refinement to the Program Strategy gives to industry the discretion of which services, as well as when and where, they would like to propose on an end-to-end, integrated basis. Industry is encouraged to move to

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6 *The GSA Report to Congress on the FTS Program Strategy and Business Plan Analyses*, U.S. General Services Administration, Federal Telecommunications Service, December 1996.

7 January 9, 1997 letter from Senator Ted Stevens, Chairman of the Senate Committee on Appropriations.

the new end-to-end paradigm at a pace reflective of each company's individual strategic plans and abilities. We have released the details of this refinement for public comments to be provided by March 15.

Let me move on to describing the refined strategy. First, though, let me review the very simple and unchanging goals of the FTS Program:

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

In general, these goals will be met through:

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

Specifically, the Government will:

- Award multiple contracts for FTS2001[8]
- Award MAA contracts in multiple areas; multiple contracts may be awarded in any particular area at the option of the Government[9]
- Award niche contracts to focus competition where and when needed (e.g., Federal wireless contract awarded in late 1996)

Both FTS2001 and MAA contracts will continue to include certain required telecommunications services, enumerated in Figure 1. In order to provide all industry players with an opportunity to provide end-to-end services when and where they are able, both FTS2001 and MAA contractors will be able to offer optional services, also enumerated in Figure 1.

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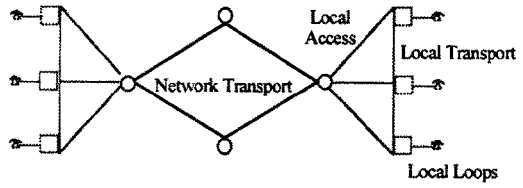
[8] The Government expects that up to three contracts may be awarded for FTS2001 for a total minimum revenue guarantee of $1.0 billion.

[9] The Government anticipates that as many as twenty MAA competitions may be held before the end of 1998.



FTS2001 Contracts
Required services
Network transport
Local access
Optional services
Local transport
Local loops

MAA Contracts
Required services
Local loops
Local transport
Local access
Optional services
Network transport

Figure 1

Required and Optional Services for FTS2001 and MAA Contracts

The two evolutionary paths to the new paradigm remain the same. However, the contractors now determine the pace that they choose to move along the path. The decision to purchase these optional services, which may be offered under the conditions enumerated below, will be made by the agency users.

The following list summarizes the conditions placed on the offering of required and optional services under the FTS2001 and MAA contracts. For each condition, a statement is provided about whether or not the condition represents a change to the strategy described in the December 1996 report to Congress.

1. Vendors must bid required services. All vendors, whether responding to FTS2001 or MAA RFPs, must, at the time of the submission of the initial proposals, propose technical solutions and prices for the required services contained in the RFP to which the vendor is responding. This condition is not a change to the strategy.

2. Vendors must meet all requirements specified in the appropriate RFP (e.g., technical specifications and price structures). In proposing technical solutions and prices for the required services, the vendor must meet all of the technical and price requirements of the RFP. That is, the proposal of required services must be responsive to the RFP. This condition is not a change to the strategy.

3. The vendor may choose to offer services from owned facilities or as a reseller. The Government's evaluation of services offered will be facility-neutral. As is the case in the current FTS2000 contracts, the vendor may propose any combination of facilities that the vendor owns or leases. Further, as is also the case in the current FTS2000 contracts, the vendor may choose to change how services are provided during the course of the contracts, provided that all technical performance specifications continue to be met. This condition is not a change to the strategy.

4. Compliance with the RFP requirements for the required services and evaluation of the unbundled prices for the required services, using the

traffic models provided by the Government, will serve as the sole basis of the contract awards. The Program will limit the basis of award to RFP compliance and unbundled prices in order to ensure that all proposals are evaluated on a level playing field basis with respect to the required services. Evaluation of optional services will not form a basis for the award of any contracts, either MAA or FTS2001. The decision of which specific, required or optional, services to purchase will be made by the agency users. This condition is not a change to the strategy.

5. The Government's sole obligation under any contract will be to meet the minimum revenue guarantees (MRG). (e.g., the Government does not plan to manage a revenue or traffic distribution among the contracts). When the awards for either FTS2001 or MAA contracts are made, the Government intends to purchase at least as many services as required to fulfill the MRGs. Agencies will decide which services to purchase from which contractors in order to fulfill the minimum revenue guarantees. The MRGs are sized to encourage serious competition for the Government's large traffic volumes. The potential FTS2001 MRGs are $400 million, $300 million, and $300 million. The MRGs for the MAA contracts are currently unspecified, but will be at the time the MAA RFP is released. This condition is not a change to the strategy.

6. Contractors (i.e., vendors who have won either an FTS2001 or an MAA contract) may offer optional services. Contractors determine which

specific optional services to offer. Contractors determine when (i.e., at time of submission of proposals or anytime during the contract life) and where to offer optional services. A 'contractor' is defined as a vendor who has competed and won either an FTS2001 or MAA contract. Once a vendor has won one such a contract, that contractor may offer optional services when and where they choose. This places at the contractor's discretion which end-to-end, integrated services are offered, as well as when and where. However, it should be noted that a contractor can only offer optional services after winning one (or more) of the FTS2001 or MAA contracts. In addition to the MRGs discussed above, the requirement that only contractors may provide optional services encourages the competition that the Program seeks. This condition is a change to the strategy.

7. Optional services must meet all requirements as specified in the appropriate RFP (e.g., optional local transport service offered by an FTS2001 contractor must meet the technical specification for local transport in the MAA RFP). The Government has requirements that are specified in the FTS2001 and MAA RFPs. While the contractor may decide which services to optionally offer, the optional services offered must nevertheless meet the Government's requirements. This condition is a change to the strategy.

8. Prices, whether offered for required or optional services, must comply

with the price structures contained in Section B of the appropriate RFP (e.g., optional local transport service offered by an FTS2001 contractor must comply with the price structure for local transport in the MAA RFP, optional network transport service offered by an MAA contractor must comply with the price structure for network transport in the FTS2001 RFP). The Government has some basic and fundamental requirements for how prices are proposed. These basic requirements are specified in Section B of the FTS2001 and MAA RFPs. The specified price structures provide the vendors with considerable flexibility and latitude. Again, while the contractor may decide which services to optionally offer, the optional services offered must nevertheless meet the Government's requirements. This condition is a change to the strategy.

9. Individual price elements (i.e., unbundled prices) are required for all required and optional services. The Program believes that in the current telecommunications market there are market segments (e.g., local access) that will benefit from competition. This includes the initial competition leading to contract awards, as well as the internal competition built into the Program. As a result, at this time all proposals must include individual price elements. This condition is a change to the strategy.

10. Contractors may also offer bundled prices. The price structure will allow fixed discounts for optional bundles offered by the contractor.

(This is structurally similar to the scenario based discounts used in the FTS2000 Year 7 Price Redetermination.) However, the sole basis of contract award is per item 4 above. Again, the Program is providing all vendors the opportunity of determining which optional services to offer. While the bundled prices will not be considered as part of the initial contract awards, the bundled prices will be considered by the agencies as they make their individual purchasing decisions. This condition is a change to the strategy.

11. MAA contractors may elect to offer any MAA-required service, on an optional basis, outside of the awarded MAA area. This simply says that MAA contractors may provide so-called required services outside of the awarded MAA area on an optional basis. This is in addition to the MAA contractor's ability to offer optional services, as discussed above, inside or outside of the MAA award area. As discussed in item 6 above, FTS2001 contractors may optionally offer such MAA services either inside or outside of an awarded MAA area. This condition is a change to the strategy.

12. MAA contractors may offer in-region network transport services (and submit technical and price information) on a contingent basis for ordering immediately upon regulatory approval. The Program is aware that some of the potential contractors are currently seeking regulatory approval to offer all of the discussed services. In order to allow the agency users to

see and examine technical services and prices from such contractors, the Program will accept technical and price information for optional network services that the contractor plans to offer at any time. Such technical and price information may be submitted initially with a proposal or at any time during the contract. Such acceptance of technical and price information will ensure that the agencies are fully knowledgeable of any offered, or likely to be offered, optional network services. Also, acceptance of this information will ensure immediate ordering of such optional services as soon as regulatory approval is provided. This condition is a change to the strategy.

Because of the hard work of all of the stakeholders to this process - the Congress, Mr. Chairman and Members of this Committee, the IMC, and industry - we are now poised to step into the future. The strategy for the post-FTS2000 represents an approach wrought on the anvil of collaboration and partnership. While each individual participant in this process may not be wholly satisfied with the precise shape of the strategy, I am well satisfied that it represents an innovative approach that is market-driven, maximizes the use of private sector services and infrastructure, and provides to the agency users maximum flexibility in selecting services to best meet their needs. In these respects I think all stakeholders agree. Now we must get on with implementing the strategy as any business would so we can reap its benefits for our stockholders, the American

taxpayers. Thank you, Mr. Chairman.

I will be pleased to respond to questions that you and the committee members may have at this time.

Federal Telecommunications Service Program
Statement of Principles
Page 1 of 2

FTS Program Goals

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

Program Strategy

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

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

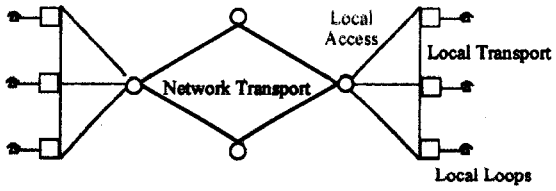
Specifically, the Government will:

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

Required and Optional Services

FTS2001 Contracts
- Required services
  - Network transport
  - Local access
- Optional services
  - Local transport
  - Local loops

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

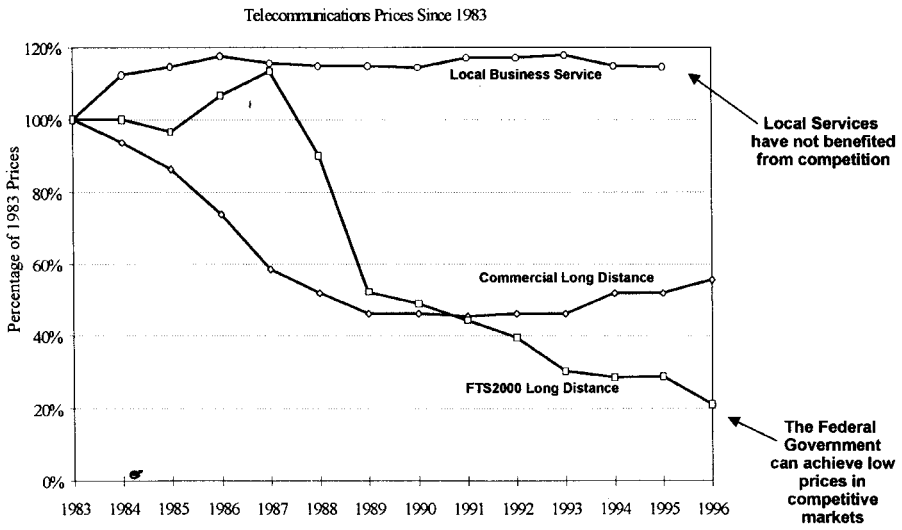


Federal Telecommunications Service Program
Statement of Principles

For FTS2001 and MAA Contracts

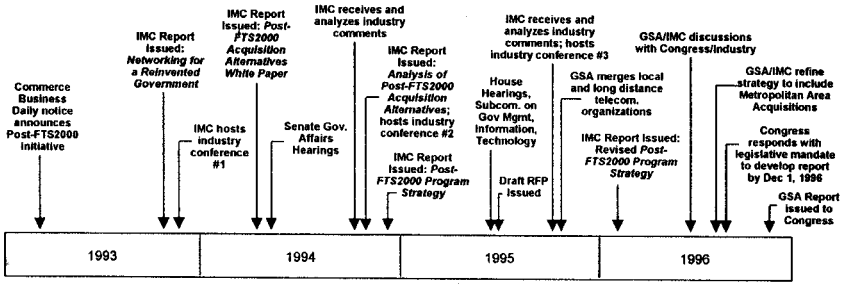
1. Vendors must bid required services.
2. Vendors must meet all requirements specified in the appropriate RFP (e.g., technical specifications and price structures).
3. The vendor may choose to offer services from owned facilities or as a reseller. The Government's evaluation of services offered will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

Maximizing Benefits in Competitive Markets



CHART

Post-FTS2000 Strategy Development - Open, Collaborative, and Adaptable



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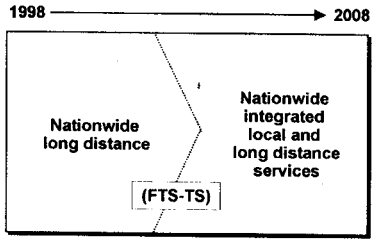
Evolution of the Strategy - A Solid Foundation for a Changing Environment



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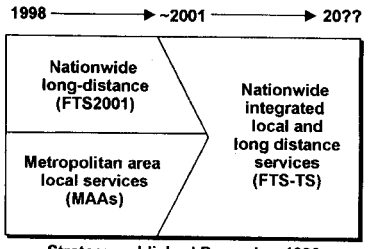

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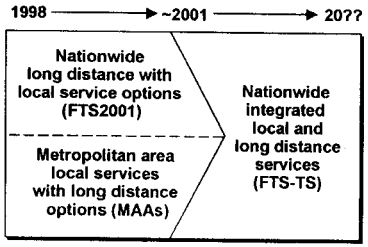

Strategy published February 1997

Mr. HORN. The full statement is filed in the record, and we will now move to Mr. Lalley, who is here in two roles: One, he is the Associate Deputy Assistant Secretary for Telecommunications, Department of Veterans Affairs; but, more important to his Federal testimony, he is here as chairman of the Interagency Management Council for Telecommunications. So we welcome your statement, and please summarize the essence of it. It is all filed for the record for the rest of it.

Mr. LALLEY. Good morning, sir. Mr. Chairman, members of the committee, thank you for this opportunity to discuss how the Federal Government will buy telecommunications services in the future. I am a customer member of the Interagency Management Council, the IMC. I am also a member of the Post-FTS2000 Acquisition Strategy Team. And as you indicated, I am here today as chair of the IMC, representing the collective interests of that group.

I have three main messages. The first has to do with the partnership that has produced the Post-FTS2000 Strategy; the second relates to the strategy as an integrated set of acquisitions, not a single procurement; and the third deals with the schedule for implementing the proposed strategy. During the course of my conversation, I will cover how the FTS program strategy and the pending acquisition maximize the competitive environment for telecommunications services.

First of all, the partnership. The IMC has a strong commitment to the FTS2000 program. A successful Post-FTS2000 Strategy is a most important objective for us. As you know, the IMC was mandated by Congress in 1988. It included Government executives and private sector telecommunications experts and ensured that the FTS2000 contract awards in 1988 met the best interests of the Government.

The Council has evolved over the years and today all the largest agencies, and a representative selected by the Small Agency Council are members.

The history of the IMC is one of active participation in FTS programs. For example, we help organize annual user forums. These provide customers with opportunities to clarify problems, to find solutions and share ideas across agencies. They keep customers involved in the solutions. They also help GSA and the vendors identify and prioritize issues and actions.

Second, in 1991 and 1995, the IMC was deeply involved in the FTS2000 price re-competitions. Members provided staff for the teams that evaluated proposals and took the lead in key decisions. This involvement resulted in savings of over $1 billion to taxpayers and produced the lowest prices in the industry.

We show no mercy to our colleagues at GSA. Our recommendations for streamlining operations and reducing program overhead contributed to 80 percent reductions over the life of the FTS2000 program.

Last, the IMC has been a principal driver of the strategy for the Post-FTS2000 environment. We started the process in 1993. The IMC has become a potent and powerful forum for decisionmaking. It is potent because it accommodates user needs and depends on participation from industry. And it is powerful. The process, as I have said already, demonstrated that it can deliver more than $1

billion of real savings while improving both the quality and the delivery of services.

My second topic is the acquisition strategy. The IMC acquisition strategy is a program strategy, not a strategy for an individual acquisition. The IMC strongly supports the strategy for Post-FTS2000 because it is flexible; it is responsive to changing requirements, technologies and markets; it provides interoperability to enable seamless communications across the Nation with other Federal agencies and with the public; and we believe it will produce the best available prices. This strategy gives user agencies maximum flexibility in the selection and timing of purchases. It spells out how industry may compete for Government business and how to introduce new services and pricing methods. We believe that this approach balances the Government's interest to get the best possible deal and the needs of industry.

The payoff from this strategy will be much quicker availability and delivery of services and increasing competitive forces within Government marketplace. The strategy involves an integrated set of component acquisitions within the FTS program, not a single, very large acquisition. Each component has a particular purpose. All components are available to all agencies and industry may decide which components to compete for.

The Government has minimized barriers to entry for industry, maximized the mix of services and technologies available to users and maximized the competitive market forces, that will keep prices in check. We urge the committee to consider the pending acquisition in the context of the complete FTS program.

My third and final topic is the schedule. Agencies believe in the FTS program because it has given us interoperability with each other, economies of scale and great prices. But we have programs to run, and as we near the end of the FTS2000 contracts, it becomes less practical to purchase the new services and the new technologies we need to meet our missions using the existing FTS program.

In the absence of a follow-on FTS option, we are already looking for alternatives outside the program. We will continue to use the current contracts for existing services, but it may be more prudent to order new services and new technologies using other programs that have contracts that extend for several years into the future.

Our toll-free phone services, our data networks and our business processing re-engineering projects are too complex to rely on a single set of FTS contracts that will soon expire. And once an agency goes, the economies of scale and interoperability suffer. We need the new FTS contracts and the new strategy now to maintain the advantages and successes that the FTS program has achieved. The time has come to move out on the pending acquisition.

The way we see it, the mighty hand of procurement has a firm grasp on the telecommunications tail of the government dog and the dog cannot hunt that way. As strongly as we can, we urge you to let the dog run. Encourage GSA to move quickly on the pending acquisition. Thank you for this opportunity to offer comments on behalf of the IMC.

[The prepared statement of Mr. Lalley follows:]

STATEMENT OF

FRANK E. LALLEY

CHAIR, INTERAGENCY MANAGEMENT COUNCIL

FOR TELECOMMUNICATIONS

BEFORE THE COMMITTEE ON

GOVERNMENT REFORM AND OVERSIGHT

HOUSE OF REPRESENTATIVES

MARCH 6, 1997

Mr. Chairman, Ranking Member and Members of the Committee, thank you for this opportunity to appear before you today to discuss the very important subject of how the Federal Government will acquire telecommunications services. As a representative of one of the many customer agencies that make up the Interagency Management Council for Federal Telecommunications (IMC), I have participated in the FTS2000 program and in the development of the post-FTS2000 strategy. Now, as Chairperson of the IMC, I will address my remarks today to three principal topics of interest to the agency customers of the Federal Telecommunications Service (FTS) program:

1. The partnership that has, in a collaborative and cooperative manner, produced the post-FTS2000 strategy.
2. The post-FTS2000 strategy as an integrated set of component acquisitions rather than a single acquisition or procurement activity.
3. I will note the practical schedule considerations for implementing the proposed strategy.

In particular, I hope to offer insights about how the GSA Federal Telecommunications Service (FTS) program in general, and the pending acquisition in particular, maximize the competitive environment in which agency end users and the Federal Government as a whole will acquire telecommunications services.

The Partnership

The IMC's commitment to the post-FTS2000 program has been and continues to be very strong. Accordingly, the successful implementation of the post-FTS2000 strategy continues to be a very

important objective for the member agencies of the IMC. IMC members, serving as the board of trustees for FTS2000 and the post-FTS2000 program, take very seriously their responsibilities to hold the FTS program in trust for the Federal Government users. Originally mandated by Congress, the IMC traces its origins to the 1988 FTS2000 Source Selection Advisory Council. That Advisory Council, comprising senior Government executives and private sector telecommunications experts, ensured that the 1988 FTS2000 award decision accommodated the best interests of the Government. The success of the Advisory Council confirmed the need to maintain user involvement in the strategic decisions of the FTS2000 program.

The current IMC has evolved over the years to include senior information resource management and telecommunications officials representative of the diverse and wide-ranging requirements of the entire Federal user population. All Federal agencies are represented on the IMC either directly, as in the case of all of the largest agencies, or via a representative selected by the Small Agency Council. The IMC serves as a central focal point for the development, coordination, and customer-driven oversight of the telecommunications programs of the Federal government agencies and related organizations. In that role, the Council advises the Administrator of GSA concerning GSA's management of all FTS programs and policies.

The history of the IMC is one of increasingly substantive participation in the FTS programs. The IMC facilitates greater and more effective communications throughout the Federal user communities. Let me briefly describe several such activities of the IMC in recent years that illustrate this role and its importance to the FTS programs and to the value received by the American taxpayer for the telecommunications dollars spent by our agencies.

First, the IMC has helped organize and sponsor participation in annual FTS2000 user forums. These events provide telecommunications users and program managers with opportunities to address problem areas, help define solutions, identify opportunities, track action items, and share ideas across agencies. Though straightforward in concept and execution, these events have offered significant value to agency participants where nothing like this had existed before, and each agency was something of an island unto itself in its acquisition and management of telecommunications. The forums keep customers involved in finding common solutions that others can share. They also help GSA identify and prioritize issues on which it must act.

Second, the IMC has formulated numerous program improvement initiatives that have led to significant expansion of the program to meet agencies' needs while reducing the costs of doing business within the program. For instance, IMC reviews of the current FTS2000 program have produced recommendations for streamlining operations and reducing program overhead. In this role, the IMC has contributed significantly to the 80 percent overhead reductions that GSA has made over the life of the FTS2000 program.

Furthermore, in 1991 and 1995, the IMC was deeply involved in the FTS2000 price recompetitions known as Price Redetermination and Service Reallocation (PR/SR). IMC member agencies provided the staff for the interagency teams that evaluated proposals and they, in turn, took the lead in making key decisions. These two price reductions resulted in projected savings of over $1.0 billion to the taxpayers, and produced the lowest known prices in the industry. Judged as a business, this program's metrics are very solid and the IMC is proud of its record as

part of the management team.

Third and finally, the IMC has been the principal driver in the development of the strategy for the post-FTS2000 environment. The IMC has been working since 1993 to define the program strategy for how the Federal government should obtain telecommunications services at the conclusion of the current FTS2000 contracts. I will discuss the strategy in a moment, but I wish here to emphasize the cooperative spirit in which the IMC has labored to develop this strategy. I am here to report to you that collaboration among the agencies is not only possible, but has been in place in the telecommunications arena for quite a few years, and it works very well. The IMC structure has developed into a potent and powerful means for decision making about strategic telecommunications services delivery in government. It is potent because it accounts for the needs of the users and depends on participation and input from industry. It is powerful because the IMC collaborative process has demonstrated that it can deliver optimum value for the taxpayers telecommunications dollars by delivering billions of dollars of real savings on the cost of telecommunications services over the life of the FTS2000 program, all while improving both the quality and delivery of services.

The Strategy

Next, I will address the proposed program strategy for post-FTS2000. Bob Woods will describe the road we have traveled to arrive at the FTS program strategy as currently formulated. The IMC strongly supports this strategy, because

- It is flexible;

- It is responsive to changing requirements, technologies and markets;
- It provides interoperability to enable seamless communications across the nation, with other Federal agencies and with the public;

  and,
- We believe it will produce the best available prices.

This strategy affords to us, the user agencies, maximum flexibility in the selection of services as well as the timing of our purchases. At the same time, the strategy spells out clearly the means by which industry may compete for the government's business, as well as the mechanisms by which industry may introduce new services and pricing methods to their existing contracts with the government. To my knowledge, this kind of mechanism has never before been implemented in technology-based government contracts. We believe that this pioneering approach prudently balances the government's interests in securing the best possible deal against the rapid changes anticipated for industry that cannot tolerate long purchasing cycles typical in government procurements. We are convinced that the payoff from this strategy will be much quicker availability and delivery of services to government markets and users, and increasing competitive forces within the government marketplace that mirror the increasingly competitive commercial telecommunications marketplace fostered by the deregulation envisioned in the Telecommunications Act of 1996.

This flexibility comes not from a strategy that involves a single mega-acquisition. Rather, the flexibility derives from an integrated set of component acquisitions. Each component is targeted to a particular purpose, but all components are available to all agencies and industry may decide which components to compete for. In this way, the government has minimized barriers to entry

for industry, maximized the mix of services and technologies available to the users as well as maximized the competitive market forces that will keep prices in check. We are pleased with this result and we urge this committee to consider the proposed strategy from this perspective.

The Schedule

Finally, let me briefly comment on a more practical aspect of the strategy that is of particular concern to all agency users, that is the schedule. Agencies believe in the FTS program because it has given us interoperability with each other, economies of scale and great prices. But we have programs to run and as we near the end of the FTS2000 contracts it becomes less practical to purchase the new services and new technologies that we need to fulfill our missions using the existing FTS program.

In the absence of a follow on FTS option, we are already looking for alternatives outside the program. We may continue to use the current contracts for certain existing services, but it may be more prudent to order new services and new technologies using a program that has contracting vehicles and options planned for several years into the future. Our toll-free phone services and our data networks are too complex, and our business process reengineering projects are too extensive to rely on a single set of FTS contracts that will soon expire. We need the new FTS contracts and the new strategy *now* to maintain the advantages and successes that the FTS program has achieved. The time has come to move out on the post-FTS2000 strategy, and the IMC stands ready to assist in that process in every way that we can.

Thank you for this opportunity to offer my comments on behalf of the IMC. We look forward to working with this Committee to continue providing high-quality telecommunications services to government users.

Mr. HORN. I thank you very much, Mr. Secretary and Commissioner. We are going to now begin the questioning. It will be 5 minutes per Member alternating between the majority and the minority, and we will go until everybody has exhausted their questioning, so there will be more than one round here.

I now will begin the questioning. Let me ask you, Commissioner, did you believe the September 1996 strategy was inconsistent with the Telecommunications Reform Act?

Mr. WOODS. Absolutely not. I believe that at that time our sense of the Reform Act was that it had set conditions under which this industry could begin to move forward and compete. It set conditions that had to be met before each set of players could move into the other's business, and we recognized that and we understood that.

But we believe that as you have heard already that we had to maintain flexibility, that we had to move ahead with the thought in mind that we got the best prices that the industry could offer at the best quality the industry could offer. So we believe it is consistent with the act. At that time, you might remember, we were about 6 or 8 months past the act having been passed, and there was still some shaking down of how the act would be implemented and what its effects would be. So we were guessing some at it, but we believe and still believe we were very consistent with the act at that time.

Mr. HORN. When a long distance company such as AT&T, Sprint, MCI, et cetera, wants to offer optional local services, how will that entry into the market be accomplished to maximize competition?

Mr. WOODS. Well, the way we look at it, when someone, when a company out of either sector, out of the local market wants to get into long distance or long distance wants to get into the local market, our sense of that would be that as we have proposed in our recent refinements to the strategy that we would do that by the Government still managing the process. In other words, if the company, an inter-exchange carrier such as AT&T wanted to provide service on an optional basis, we would look at several factors. One would be that they propose the option and then the Government decides whether it is in their best interest. So there is no automatic here. It has to be proposed and the Government has to decide.

If the Government has strong contractual obligations, for instance, already in that area, it is not likely that we would be interested in servicing that area right away. But we do believe, as we outlined in our metropolitan acquisition strategy last year that it is time to get on with competition in the local market. And I would point you to chart A that is on the easel at the moment.

And if you look at that chart, this chart really represents the cost of service since divestiture of the Bell System in 1983. And if you look at it and you see the chart across the top, that graph represents what has happened to local service prices on a price indexing basis since 1983. This is a composite of the long distance industry. And of course, we are very proud of the other line, because that is the FTS line.

But if you look at that, it is our belief that we have got to bring some competition to the local market. We merged local and long

distance last year in GSA and in that time period, we realized we had to get on with taking advantage of the act.

Mr. HORN. Thank you very much on that.

The GSA performed a lengthy analysis of the RFP before its recent revision. Has that recent revision, reportedly made at the insistence of a colleague in the other body in a letter to the Office of Management and Budget, also been subjected to the same level of analysis?

Mr. WOODS. We believe it has. And I think it is chart B over there or C. I am sorry. Chart C. If you look at sort of the depiction of what we have done in the revision, I think you will get some sense of the nature of what we have done. In the original 1996, February 1996 strategy, we, in effect, had nationwide long distance as a stand-alone set of contracts. We were going to move to, eventually, to integrate end-to-end service. The Government was going to pick the times in which we were going to do other contracts and that was in the original strategy. And you probably remember that from your prior hearings.

Now, in the latter part of last year, we, in effect, decided to break out this local service area into these MAAs and to begin to try to get some competition in that area.

And we would eventually, again, in some time period, 4 to 5 years out, go to an end-to-end integrated solution sets of contracts. And we had worked a lot with industry last summer to bring that about.

The point brought up by Senator Stevens was that the—why not let these providers in this area and in 2001 and in the MAA area provide end-to-end solutions if they were ready.

And so as we looked at that and we contemplated that within the administration, to be honest, we could not see a reason why not to do that. That maximizes the Government's options. And by not requiring it nationwide right off the bat, it worked out.

So we were able to do it—it worked out by the nature of not forcing the industry to go to an end-to-end solution off the bat and take years to get there.

Mr. HORN. Once the extension is completed, and I hear there is a 6-month extension available, would GSA have to go to the incumbent providers and negotiate a contract to cover the gap?

Or if either of the current incumbents does not win a contract under the follow-on contract, the Government would be put in a very precarious position, presumably, without any leverage?

Mr. WOODS. Right.

Mr. HORN. What is your time table for managing the transition of the new contract? And will you avoid a stop-gap contract after the 6-month extension?

Mr. WOODS. If we move on releasing the request for proposals by the first week in April, as projected, we should be awarding these contracts next year at about this time. It will take roughly 12 months to get the contracts awarded.

In that period—so we are talking about early 1998—we would have contracts awarded. At that point, you have to sit and say what have I got for contracts? How many of them are there? And where are agencies going to be assigned?

You have got—we have got—we think, about 4 to 5, 6 months to plan the transition. And it is a very complex operation.

And then we have got, we think, about 12 months to actually physically do the transition of 1.7 million customers. So our sense is that we will go about 6 months beyond the December 1998 contract termination point with the two current providers.

Every day we delay, we, of course, are going beyond that 6 months. It is 6 months plus each day we go. Our sense—our sense is that we will be——

Mr. HORN. Excuse me, you mean December 1998 or December 1997?

Mr. WOODS. December 1998.

Mr. HORN. 1998, OK.

Mr. WOODS. 1998. So right now, if we—if everything went on schedule, we would finish our transition roughly the middle of 1999, 6 months beyond the end of that contract. And we would have to go to a sole-source extension with the current providers.

Mr. HORN. Well, I thank you very much. I now yield 5 minutes to the gentleman from Maryland, Mr. Cummings.

Mr. CUMMINGS. Thank you, Mr. Chairman. I want to thank you for coming and testifying before this committee today. Our topic today, as you know, is focused on telecommunications service for the Federal Government.

Mr. WOODS. Right.

Mr. CUMMINGS. That strategy is focused on getting the most bang for the buck—that is, the best service for the lowest cost possible.

Mr. WOODS. Right.

Mr. CUMMINGS. This may seem a pipe dream, but through congressional reforms it has been done. We, in Congress, are charged with spending the taxpayers' dollars wisely. And in my view, one of the greatest ways to reduce costs is through a competition.

The General Services Administration developed the original Federal Communications System Program to provide low-cost, long distance telephone service to the Federal Government. The cornerstone of that policy is the promotion of competition between carriers, which will result in the best service and price for the Government.

The telecommunications reforms enacted by Congress were designed to take advantage of new and rapidly developing telecommunications and at the best possible price. I believe that the Members on both sides of the aisle support this principle.

I realize that new strategy is a result of extensive discussions with congressional staff, representatives of the telecommunications industry, and with senior agency officials. However I have concerns that under this revised strategy, long distance contractors do not have to compete head-to-head with local service companies to provide local service.

I am curious as to how this will achieve the best possible service and price for the Government. The FTS2001 program is essential to ensure continuity of service at competitive prices to current users. It is my hope that we may continue to provide the American taxpayer with the best possible return for their dollar.

I commend my colleagues on the other side of the aisle for holding this hearing and in the spirit of bipartisanship.

Gentlemen, I hope we can agree that the best way to reduce prices and guarantee the best telecommunications service is to maximize competition.

To that end, let me quote from the GSA—GSA's December 1996 report to Congress on the FTS2000 Strategy. All right, page 211.

And it says, "for effective competition to occur on an end-to-end basis, local carriers need to be long distance carriers in most of the states in their region. This is not expected to be the case in the near term."

The question is, if that is still the case, why have you changed your strategy to permit end-to-end options, immediately?

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

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THE HONORABLE ELIJAH E. CUMMINGS (D-MD)
STATEMENT AT THE COMMITTEE ON GOVERNMENT REFORM & OVERSIGHT
MARCH 6, 1997

"Federal Telecommunications System Acquisition Strategy (PostFTS2000)"

Thank you Mr. Chairman.

I want to thank you for coming and testifying before this committee.

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The FTS2001 program is essential to ensure continuity of service at competitive prices to current users. It is my hope that we may continue to provide the american taxpayer with the best possible return for their tax dollar. I commend my colleagues on the other side of the aisle for holding this hearing in the spirit of bipartisanship.

I wish to thank you for testifying today and I'm looking forward to hearing from you.

Thank you Mr. Chairman.

Mr. WOODS. Thank you. I will start with that, and maybe Frank has some thoughts, as well.

Basically, Congressman Cummings, what we see is that the industry is going to move forward unevenly. It is not going to all happen overnight. And it is not going to happen evenly throughout the country. We are going to have players move into different markets at different times.

The revision to the strategy basically says that at the Government's option, the players in the local market and the players in the long distance market could propose and move into the other market as they become—as they become capable of doing so.

We do not have any magic idea about when that is going to happen exactly. And as we do move forward, the act is monumental. It is a fundamental change that I think most people in this industry support wholeheartedly. At least from a consumer-buyer side, I do.

But what we are trying to do is time when that might take place. And our sense is we are never going to get the perfect time when everybody is ready and we are all 100 percent there. What we are going to end up with is mixed market in which you will have an inter-exchange long distance carrier who now can offer service in Washington, DC, at great rates, but they cannot offer it anywhere else.

You may have a local service provider who can offer great long distance rates in part of the country but not everywhere.

What we are trying to do here is to allow, at the Government's option, when the prices and the service warrant that, to be able to do that on an optional and dynamic basis. That we do not stop everything at some point in the future and start over.

The system is too big and too complex for that. So we are having to go ahead because the industry is changing to a much more evolutionary process—and again, I think the act itself is monumental. And the changes you see here are a reflection of that. Frank.

Mr. LALLEY. The other new dimension we have not talked about is that, in the new environment, the FTS Program is not mandatory for Government agencies. And so we are going to be offered competitive service in every marketplace that we are in.

We will look very carefully at those offers. The new strategy allows IMC—GSA to introduce those market offers faster than the old strategy would have.

Mr. CUMMINGS. Now, did OMB consult with you regarding whether this policy change would maximize competition?

Mr. WOODS. Yes, it did. The sort of sequence of events there—I covered those so you would have a sense of that.

When Senator Stevens wrote to OMB—to Franklin Raines—questioning whether or not we should not be able to move into end-to-end area faster, we sat down with OMB in terms of answering that letter. We went through the options and what this would do for competition and what it would do for pricing and those kinds of things.

We had a preliminary meeting with them, FCC, and the Department of Justice, a look across the issues. After that meeting, we then met with Senator Stevens staff and heard their side of the

story and how they saw the act itself being interpreted as they saw our prior strategy.

We went through that. OMB was in agreement that the act was more strictly interpreted with the change we have here, which allows players to come into the market as the market develops. And that was really how the policy change was made.

And then we sat down and looked at how that would affect our strategy. And we, in effect, made those changes you see in that third block there.

Mr. CUMMINGS. Thank you.

Mr. HORN. I thank the gentleman. I now yield 5 minutes to the gentleman from Georgia, Mr. Barr.

Mr. BARR. Thank you, Mr. Chairman. Let me follow on the questioning of my colleague.

You just said something fairly interesting. And I suppose if we—tell me if I am wrong, if this would make a fair chart, if you charted out what you just said.

We go from Senator Stevens. Then there would be an arrow to a preliminary meeting with OMB, SEC, and DOJ. Then there would be another arrow back to Senator Stevens' staff. Then there is an arrow to OMB. And then we have a policy change. Did I get that wrong?

Mr. WOODS. Well, I do not think you got it wrong. I would say that given that the act had been in—had really been passed about a year ago, this—this set of circumstances had never been—been brought up before.

Mr. BARR. Meaning what I just—what I just said is a new set of circumstances?

Mr. WOODS. The set of circumstances about offering end-to-end service was, yes. Of that being offered as an option under current—under the—under the second block of strategy there.

Mr. BARR. Was it—where in the chart that I just laid out here, which apparently is accurate, where was the input from the affected parties? The industry?

As I understand it, what bothers me here is that we had, after apparently very long and careful and deliberative study, a three-part strategy announced in September of last year.

Mr. WOODS. Right.

Mr. BARR. And then—and it is also my understanding, and I am not an expert on this, but it is my understanding that there was fairly broad agreement among all of the industry participants and actors in this that that strategy would probably provide for a great deal of competition.

Mr. WOODS. Right.

Mr. BARR. It was open and so forth. And then, apparently, very abruptly, less than a month ago, you all change your strategy and very, very important policy decisions are made by going from a Senator to a meeting with OMB, SEC, and DOJ, back to the Senator's office, then to OMB. And we have a policy decision being made contrary to a very lengthy study with plenty of input. And I presume that the stakes here are fairly large, are they not?

Mr. WOODS. Yes, they are.

Mr. BARR. Give me some order of magnitude, for example, over the last—the 10-year contract under FTS2000, what sort of ballpark figures are we talking about?

Mr. WOODS. We are talking roughly $5 billion to $6 billion.

Mr. BARR. Billion with a B?

Mr. WOODS. Billion with a B.

Mr. BARR. And over the—say project out 10 years under FTS2001, what sort of figures are we talking about?

Mr. WOODS. If we go 8 years under 2001, we are probably talking somewhere in the neighborhood of $5 billion—$5 billion to $8 billion.

Mr. BARR. So a fairly significant amount of money?

Mr. WOODS. Absolutely.

Mr. BARR. That is what bothers me, the process that you all have gone through here with that much money at stake. Am I missing something here?

Or would this new strategy limit the number of bidder and preclude important industry segments from competing for the long distance—for the local service?

Mr. LALLEY. I think—I think——

Mr. BARR. I would like the Commissioner to answer that, please.

Mr. WOODS. I think when we got down to that policy interpretation, which is what I think it is, the policy itself had never been challenged.

It was something which we had never dealt with, that issue of whether we should let each party or each group of contracts—the two that you see there—2001 and the MAAs—whether we should allow them to go into the other's territory. This really is a question about the timing of industry. Who can play in each other's business area.

So our sense of that was to keep that more or less separate, let the two go forward to a point where you could then go to end-to-end service and then do another set of contracts.

The interpretation that we got in those meetings with OMB was, the act does not really set up to keep these things separate. It, in fact, allows the long distance carriers to go ahead and go into local service now.

And the local carriers not to be able to do it until they meet certain checklist points.

Mr. BARR. But wouldn't it allow that without having the local service prices evaluated against other competitors? It is my understanding that this new so-called strategy would allow that.

Mr. WOODS. The new strategy allows each group, each set of contractors to propose services that they do not now—that are not the basic services.

In other words, long distance providers can provide—can offer up local services when they are ready. And local service providers can offer up long distance when they are ready and have met the regulatory requirements.

So what we were doing there is keeping the Government's options open so that when the industry is ready, and it can provide service, we are not caught behind. So that really was what we were after in this policy interpretation. And that is the discussion we had with OMB.

Mr. BARR. But again, wouldn't—with this new so-called strategy—wouldn't it allow the long distance provider to add on the local phone service without having those local service prices evaluated against other competitors?

Mr. WOODS. No, not exactly. What happens is, the example I gave earlier. Let us suppose that the long distance provider could offer us good rates in Washington, DC, and nowhere else. It is where they have decided to compete.

If they came forward——

Mr. BARR. How would you know that relative to the market?

Mr. WOODS. Well, they would——

Mr. BARR. I mean, they would just say so?

Mr. WOODS. No, they would come forward and show us prices. And we, the Government would look at those prices and decide whether or not they are something in our best interest.

For instance, right now we offer service in the Washington, DC——

Mr. BARR. But there would not be a requirement to have the provider have their proposal opened up so that other—so that other competitors?

Mr. WOODS. There would be no requirement. But it would be the Government's option to do so if they so chose.

Mr. BARR. I know my time is up. I am—it just seems like not a very good way to reach a major policy change here.

Mr. HORN. I thank the gentleman from Georgia.

I think in light of the floor situation, I am going to recess the committee now. We have a 15-minute vote on the journal and there is about 10 or 11 minutes left. I would like to start in the next 5 minutes, but that just gets too edgy should we have an eager speaker pro temp who brings the gavel down and somebody will miss a vote. And as a freshman, I remember that and I am not going to put you gentlemen in the minority and in the majority on that type of schedule. So we are going to recess now.

Mrs. MORELLA. Mr. Chairman?

Mr. HORN. Yes.

Mrs. MORELLA. Do you remember that the late wonderful Bill Natcher never missed a vote?

Mr. HORN. Right.

Mrs. MORELLA. His advice to chairmen was, "Please, as soon as you begin the legislative session, miss a vote."

Mr. HORN. I know. [Laughter.]

And I took his advice personally and I did miss a vote, and I do not want to do it again. [Laughter.]

So we are in recess for about 20 minutes.

[Recess.]

Mr. HORN. The committee will be in order.

Thank you for your patience. We not only had two votes, but we also had a motion to adjourn by the minority or one of the minority that had also earlier been voted on in the morning and I did learn something new in the parliamentary rules. You can offer a motion to adjourn as many times as you would like during the day. So if people want to create chaos, why, there we are. [Laughter.]

But most of us are in committee, and that is where the real work of Congress is done, as Woodrow Wilson noted when he wrote his

doctoral dissertation at Johns Hopkins University, later called "Congressional Government," and he wrote it without ever coming near Congress. Now, that might be the best way to view Congress. I have not made up my mind yet.

But let me, until we get some questioners in here, let me ask a series of questions that I was eventually going to get to so we do not waste time.

Consider this scenario. In the FTS2001 contract, both current incumbents lose all of their contracts with the Federal Government. This is a fantasy one of them has. All Federal long distance traffic must migrate to the new contractors. If this gargantuan task is not accomplished by the end of the optional 6-month extension period, these current incumbents have no incentive to limit costs since they have no relationship to protect and every incentive to maximize profits. How would GSA respond to an incumbent contractor at the end of the contract extension period when that contractor insists on charging triple the current rates?

Mr. WOODS. Well, we still have, Mr. Chairman, I think we still have in the contract language and that is the basis under which you do extensions. You do it under the conditions of the current contracts. There is a restriction on raising prices as they are. So there is not so much a danger of raising prices as there is the issue of living with a world in which prices are not continuing to decrease. We have lived off these decreases over the years where we have managed prices downward and my concern is that at some point up here you would begin to see these 30 and 40 percent growth in usage turning into 30 and 40 percent increases in budget. So that is my worry. I think we are OK on price increases.

Mr. HORN. What is the estimated cost per month in terms of higher prices?

Mr. WOODS. It is at this point a rough estimate. But my sense is that we buy about—let's take voice long distance—we buy about 450 million a year under the current contracts. And we have got growth in that area of 25 percent. So if you left the prices, unit prices the same, a 25 percent increase in growth would amount to about $110 million. So it is not insignificant.

Mr. HORN. Let me move to local rates. Why do rates for local services differ so much by area? For example, in San Francisco, as I understand it, local rates are triple those for Washington, DC.

Mr. WOODS. My theory is that it is based on the competitive atmosphere we are in. I believe that when you, the Congress, passed the Telecom Reform Act, that is exactly what you were saying is that you need competition in those areas and it is strictly a matter of competition. The competitive rate that we pay here in Washington, DC, we buy it from the local provider here for about $8 a month. So it is extremely low priced and it was done in a competitive atmosphere. So competition works.

Mr. HORN. Besides competition, is there anything GSA can do to reduce those costs which exist now between the triple local rates in San Francisco versus Washington?

Mr. WOODS. Well, you know, the metropolitan area acquisition effort was just that kind of effort. It was to begin to bring that competition, for one thing. The other things that we have done is we have attacked our own overhead. Our overhead for local service,

when that was merged in with long distance a year-and-a-half ago, we found those rates to be extremely high. So we have lowered that overhead about 40 percent.

Mr. HORN. What was it in terms of dollar terms?

Mr. WOODS. We used to buy local service, about a year-and-a-half ago, we bought it for $17 a month national average. We sold it for $28. So the overhead in there, the management fee, the engineering, so forth, was about $11 a month. Our ambition, stated ambition publicly to our customers is $15 a month from $28, and we are down to about $19.97 at the moment.

Mr. HORN. Well, let's get into it. What is the average markup that GSA now includes for local and long distance services? Is there an average dollar fee markup?

Mr. WOODS. Yes. There—to start with, local and long distance in our current product set are extremely different kinds of services. Local services really sold sort of one and two at a time. Currently, the overhead for long distance is averaging, is about 8 percent of the base; 1 percent of that is used for governmentwide innovations in certain areas between agencies. So we are operating at about 7 percent. That is less than half of what it was at the beginning of the program.

Mr. HORN. Now, as I understand the numbers for the area in which we are now having this hearing, the National Capital Region, Bell Atlantic reportedly charges GSA $9.63 per local line.

Mr. WOODS. Right.

Mr. HORN. GSA reportedly charges the agency the $5 surcharge.

Mr. WOODS. Right.

Mr. HORN. Or 34 percent of the total cost to the agency, which would be the $9.63 plus the $5 is $14.63.

Mr. WOODS. It is actually—those numbers are, I believe, a little bit out of date. I think they have been changed some this year.

Mr. HORN. Would you send us up to put at this point in the record what the current numbers are now?

Mr. WOODS. We will do that.

[The information referred to follows:]

The current rates for Washington, DC, our largest concentration of customers in the nation, is $13.73. This includes a charge of $8.07 for the local dial-tone and $5.66 for overhead and administrative expenses. Please note that this overall rate is about half the rate other Non-GSA customers pay locally. This fact has been confirmed independently. In addition, the $5.66 overhead rate has been reduced significantly in the past two years and we are working to reduce that even further. The bottom line is that our customers continue to receive more for less because we continue to leverage the combined requirements of Government in the marketplace.

Mr. HORN. Now, what does the Interagency group think, Secretary Lalley? What is their reaction to the charges? Interagency Management Council.

Mr. LALLEY. One of our highest priorities since about this time last year was to ask GSA to take a very careful look at the prices in the local markets, and we have enthusiastically supported them in the New York City market.

Mr. HORN. Would you move that microphone a little closer? It is hard for the audience to hear.

Mr. LALLEY. We have enthusiastically supported GSA in the New York market and we are encouraging them to move rapidly in

other markets across the country. We expect to see substantial reductions in rates as a result of their activities there.

Mr. HORN. Does that mean you and your fellow Interagency Management Council members think those charges have been unreasonable?

Mr. LALLEY. Yes, sir.

Mr. HORN. What do you think the charge ought to be?

Mr. LALLEY. Well, we have actually worked very carefully with GSA over the course of last year. We have met with them on several occasions and we looked at the components of their overhead rates and we think that the numbers that Mr. Woods has identified are very attractive.

Mr. HORN. Let me ask another question here and that will be the last and I will move over to the Democratic side. As the customer for whom this contract is being negotiated, can you tell us what your average rates are for long distance and local voice service? And each of you might want to comment on this. I think the Interagency Management Council also has that.

Mr. WOODS. Let me just clarify that. You say the rates we charge for each.

Mr. HORN. The average rates, what are they for the long distance and local voice service? In other words, I am thinking really of the Interagency Management Council. You are the customer, really. You represent the customers. And I would just be curious what are, as a customer in particular, the contracts being negotiated, you are involved in it, can you tell us what your average rates are for long distance and local voice service.

Mr. LALLEY. You are talking about FTS alone?

Mr. HORN. Right.

Mr. WOODS. Let's split this maybe along this line. I will tell you what they are and then Mr. Lalley can tell you what he thinks of them.

The local service 2 years ago was about $28 a line nationwide per month. It has declined. It declined last year, last fiscal year to $24 and it has declined again this year to $19.97. I did that as a little ploy, because $20 did not sound as good as $19.97 for the year 1997.

The voice rates on long distance on a weighted average are between 5 and 6 cents a minute between the two carriers. And it goes as low as below 2 cents a minute for on-net, which means Government office to Government office. So those are the rates that we have.

Mr. HORN. Now, does one of these fees, let's say, the local voice service, versus the long distance, do they subsidize each other? How is that accounted for?

Mr. WOODS. No. They are individual cost centers. They stand on their own. We have purposefully not subsidized them because we want products to hold their own. The only thing I can say that would amount to any kind of subsidy, it would be the common overhead where at some point or another, we would turn our management attention to one area or the other. That is the only——

Mr. HORN. Well, that was my next question. How do you figure your overhead? Is it the way an auditor would figure it for a private firm or a university where you look at everybody in the hier-

archy that might have anything to do with this function and ascertain the time and put a dollar cost on it?

Mr. WOODS. Yes, we do. The answer is it is very much like a university setting. We do it in terms of the management is done—the management in the program, that overhead is added on. And then there is a central slice that comes from GSA Central Office that reflects all the management in the program. So it is very much like that, Mr. Chairman. And what we have been doing in GSA in the last few years is working very hard to reduce all elements of that. In fact, we have got an overhead reduction plan right now in Central Office that includes the Office of the Administrator and Administration and other things. And there has been a very aggressive program to reduce that.

But I think, again, as you said, maybe only the customer can react to what you think about it.

Mr. HORN. Well, what does the Interagency Council think about it?

Mr. LALLEY. It is easy for me as a customer to react. It is a lot harder for me to react as an IMC member, because the IMC has spent a lot of time talking about local issues. The focus of our activity has been on long distance. However, we do use local service collectively in the Washington area. We are looking at it carefully in New York.

For many agencies such as my own, we buy local service locally. And in many parts of the country, we do not use the GSA service because the prices are far too high. Have been far too high in the past. We are looking at the changed prices now. And GSA's aggressive price reductions have started to look a lot more attractive to us.

Mr. HORN. Well, we will get back to some of that. Let me now yield 5 minutes to Mr. Blagojevich of Illinois. Welcome.

Mr. BLAGOJEVICH. Thank you, Mr. Chairman. As a Member of the minority party, I knew I was coming here as a Member of the minority, but I did not realize it would be this lonely. [Laughter.]

Mr. HORN. You are the ranking Democrat in just a few months. It shows what talent we have——

Mr. BLAGOJEVICH. I am losing rapidly. [Laughter.]

I would just like to ask, just to sort of make some general comments, I think I am echoing some of the remarks that some of my colleagues made earlier. And I address them generally to both Mr. Woods and Mr. Lalley.

Some of the concerns that were expressed regarding the post-Federal Communications Acquisition Strategy, it is my understanding there is a 4-year time delay that was originally negotiated to allow the seven regional Bell operating companies the opportunity to try to become competitive in the long distance market. And that the underlying principle that motivated that was that there was the thought that one sector would have a competitive advantage over another and that is why you would want to give some of these companies a chance to get started.

The new strategy that is being implemented, is that not putting the Government in the position of picking winners and losers, by taking away that 4-year delay and some of the other concerns that were addressed earlier?

Mr. WOODS. I believe that the policy analysis that resulted from the recent efforts really—I came away with the idea that we were doing exactly the opposite of that. That by allowing these optional services, and I will go back to my chart. It may be the easiest way of doing it.

When we were doing this up here at this stage on top, this thing works, when we were doing it up here in this second block, which was the December version of this, in effect, you are correct. We were really trying to shoot at about 4-year window here, about 2001, when we would go for this integrated long distance and local service kind of approach.

The idea with that was we were trying to predict this point in time. Is that 4 years? Is that 8 years? Is that 10 years? What we are doing down here is by having these options, we take the pressure off that and basically say, "Yes, there is a point out here where we are going to make this all work in an integrated fashion. Meantime, we are going to start taking advantage of wherever we could get these other services on an optional basis." And it would, in effect, start bringing new players into every part of our market earlier. So we viewed that and it was OMB and FCC's view as well, that that would, in fact, bring more players sooner. We just could not bring them to every spot. So this would mean in a case where a provider can do, say, four large cities, but cannot do the nationwide, they could go ahead and start doing things the way the industry, itself, the commercial industry is going to do it.

Mr. BLAGOJEVICH. Does it concern you at all that some of these decisions that are being implemented in the new strategy is actually not allowing the market to determine the result, but rather, we are trying to dictate that from a standpoint of these new policies?

Mr. WOODS. Our view is that the new policies have, in effect, taken—again, have done sort of the opposite of that. We have kind of taken ourselves out of predicting that 4-year point. Is that 4-year point, 2 years, or 6 years?

That is what we were doing up there in December. What OMB and Senator Stevens and others were pointing out is, look, you have got players out there today that can begin to give you this end-to-end service, they just cannot do it every spot in the Nation. Why not let them get in at an earlier stage of things? That really was the hinge of the debate.

And so the idea here is to try to get some in there earlier. And that you are not excluding—in fact, you are bringing more players to the table.

Now, when you get out here to this future part, where everybody can play, where seven regional Bells—which may become five regional Bells here soon—plus inter-exchange carriers, plus, perhaps, cable companies or others could play, you will have more robust competition in that arena, we believe.

But in the meantime, we believe we have upped the amount of competition between this version and this version. That this one has more competition than the previous one.

Mr. BLAGOJEVICH. But the seven regional Bells in your version, in the newer version, when you say when they are—they are not allowed to play now? Is that right?

Mr. WOODS. They are allowed—they are allowed to offer long distance service when they meet the—when they meet the conditions of the Reform Act. They cannot do it now.

Mr. BLAGOJEVICH. So under the second scenario—the seven, I mean, there is a competitive disadvantage, arguably, that the seven regional Bells may have in that they are not getting started at the same time as some of the others. And therefore, there is an unfair advantage, I would think, with those who are able to get out of the gate faster?

Mr. WOODS. That is—I think that is one way to look at it. Although when the legislation was written, Congress decided purposefully to restrict the local Bells from moving into long distance market until they had opened their infrastructure so that others could offer local service in their area.

So that is a choice that was made in the law, in effect. So what we are saying is that, in this version, you have got the same—the regional Bells have the same competitive capability here that they have here. They are excluded from long distance in both cases outside their—inside their territory. So in that sense, it has not changed.

The real question is, are you going to allow players down here to go ahead and start offering optional services as soon as they are ready, or not? And then we are still going to, as some point, out here, have to hit this market full and open.

Mr. BLAGOJEVICH. Now, this new strategy was developed only recently, correct?

Mr. WOODS. Correct.

Mr. BLAGOJEVICH. And it is supposed to be done by April 2d? Is that correct? And the comment period closes March 15th?

Mr. WOODS. March 15th.

Mr. BLAGOJEVICH. I mean, do you feel that is sufficient enough time to study the ramifications of this new proposal? And allow everyone access to be heard on how this strategy is going to be implemented?

Mr. WOODS. Yes, sir. I believe it is. I believe that we—that in terms of the actual contracting process, this is a relatively minor change.

Mr. BLAGOJEVICH. Thank you very much.

Mr. LALLEY. From the—from that agency viewpoint, the situation has evolved a little differently than I have heard described up until now.

The IMC, when it evolved its acquisition strategy a couple years ago, envisioned this wide open market. And then competition across voice and data local and long distance service merged.

Yet, as we went through the spring of last year, and we were running close the end of the FTS contracts, the agencies put a lot of pressure on GSA to come up with a new contract that captured the portions of the program that are working right now.

So if you see a change in strategy or a roll-back, the roll-back really occurred when we dropped the local service. And we had envisioned that the RFP, we voted on an RFP to be released in the September timeframe of last year.

The world has moved on since then. Each change as it is described here moves us back toward the intended goal. IMC mem-

bers at each stage of the process have spoken with GSA, have reviewed their proposals, and have voted up or down on them.

IMC has already talked about this particular proposal. Individual agencies have the opportunity till March 15th to comment on it. But we have already signaled GSA that they should go ahead.

Mr. BLAGOJEVICH. See, my concern again, I am speaking from the perspective of a freshman who is all alone in trying to learn and understand these issues.

It just seems to me that implementing a new strategy and giving this small—seemingly to me anyway—window to study this and have a better understanding of it, it just seems like there is not enough time to consider the full ramifications of the new strategy.

And then I suspect my question is, why did you change the strategy that was originally implemented when you passed the telecommunications bill last year? So I am just throwing that out.

Mr. WOODS. Yes, I understand that very well. And basically what you are talking about and get back to Frank's point, as well. Originally, we had intended for local service to be an option, as it is down here. This was back—this was in this timeframe here, before we did this version.

We dropped it because we were in the—in discussions with industry. And industry's view was, you know, give the long distance—do the long distance separate from the local. And then about 4 years out, do a version that incorporates the end-to-end.

This idea of local service being included in long distance or local being included had always been there. The metropolitan area acquisitions were developed last when we started trying to bring the prices down on local. So the long distance idea there had not matured.

But we have thought it through. And in fact, the RFP to do this, to put it out, is written and in good shape to take comments and to look at what we get on the 15th. And I think we can—we are prepared to have it ready for April 2d.

Mr. LALLEY. And from an agency's point of view——

Mr. HORN. I thank you for that comment. And I thank you for the good line of questions. We will still be able to get back to you. We have got two Members that need to leave for other commitments.

I am now going to recognize the gentleman from Texas, who is the distinguished vice chairman of the Government Management Subcommittee, Mr. Sessions.

Mr. SESSIONS. Thank you, Mr. Chairman.

Commissioner Woods, I would like to, if I could direct our attention to what would be model A, the one that is on the floor there.

Mr. WOODS. OK.

Mr. SESSIONS. And I apologize I was not here when you went through this. And perhaps, this could be redundant or a line of questioning that you have already answered. Please bear with me, if you would, Mr. Commissioner.

Mr. WOODS. OK.

Mr. SESSIONS. If you could please just go over this. And tell me what you are trying to show. I notice that you start prior to divestiture?

Mr. WOODS. Right.

Mr. SESSIONS. Show me what these—where these come from? What the source might be? And are we comparing apples and oranges?

Mr. WOODS. Right.

Mr. SESSIONS. Just run through that if you could, please.

Mr. WOODS. Let—I would be happy to do that. This chart was a chart that I asked for some time ago from my staff to ask them in simple terms what has happened to prices since we broke up the Bell system since 1983, when we first—when that split was created with the modified——

Mr. LALLEY. Final judgment.

Mr. WOODS. Final judgment. So we were looking at that. They went back and essentially used a sort of a consumer price index sort of approach.

In effect, what you have here is an index. It is not the absolute price. In other words, you cannot say the price of one is higher than the other. They are simply comparing to themselves.

So if you go from that basis, what has happened in the commercial long distance market—and there we have essentially combined the rates for three of the major carriers today and looked at where they were over that time period, that is what has happened. And they are not all having gone down evenly.

We also did the same thing for local business service and looked at those rates from the industry and how they have changed.

Mr. SESSIONS. Is that dial tone?

Mr. WOODS. That is your monthly business dial tone. That is your——

Mr. SESSIONS. Dial tone, nothing else?

Mr. WOODS. Correct.

Mr. SESSIONS. OK.

Mr. WOODS. And then the same—the rates in the bottom then had to do with commercial long distance rates.

Mr. SESSIONS. If I were a person that just walked in here, what kind of conclusion would you wish that I would draw by looking at this?

Mr. WOODS. I believe what it tells you is that, that the—when we opened up competition in the long distance market, there was a large effect from that.

That competition has worked. It has been a very healthy thing. You have seen a 60 percent decrease in prices in long distance. You have seen an 80 percent decrease from a Federal standpoint. But local business service has essentially remained the same. And has actually increased some.

Mr. SESSIONS. Would you, in this analysis, also perhaps imply and know that one had been cross-subsidizing the other? And that perhaps they fall into market value?

Mr. WOODS. Could be. But that is——

Mr. SESSIONS. Can you discuss that market value then? I am just trying to see the relationship of how I am supposed to read this.

Mr. WOODS. Well, let me tell you what the chart—why we did the chart.

The chart, for my purpose, was to look at the prices we were charging our Federal customers and saying to myself how far down

could I offer these prices. I have squeezed a lot out of the long distance market.

If you look at those—I am sure Sprint and AT&T look at these prices are not real happy that this last data point is pointing down.

But we believe the margins in long distance are obviously much different than the margins in local service. And so we are looking for better ways to do this and better ways to price it.

But we just believe it is a difference in the effect of competition in one and not the competition in the other. And I believe that if we go out 10 years from now, we will see a chart on the top looking something like the charts on the bottom.

Mr. SESSIONS. Interesting. So in other words, you are saying that it is competition, not the value—the market value—that is driving this. Or does, at some point, market value—do they ever equal each other?

Mr. WOODS. I think—I am not an economist—but I believe the formula there is that somewhere they ultimately always do. But I also believe there is a line of thinking that says if you price your product based on what it costs for you to build it, versus manage the cost of your product, versus the price the public will pay, you have entirely different philosophies.

One says I want a $600 fax machine, figure out how to do it. The other one says, it costs me $6,000 to build a fax machine—with profit and overhead, it costs $9,500.

I think that is the difference. And that is what we are driving at, it is market pricing.

Mr. SESSIONS. Good. Thank you. Mr. Chairman, I yield the rest of my time. Thank you.

Mr. HORN. Thank you very much. I am now delighted to yield 5 minutes to the most patient member of this full committee. And the distinguished—very distinguished chairman of our Regulatory Affairs Subcommittee—Mr. McIntosh of Indiana. We thank you for your patience.

Mr. MCINTOSH. My pleasure. Thank you, Mr. Chairman, for your leadership in this and several other areas. And you are my model for patience. So I appreciate that.

I guess I want to express some sympathy for my colleague across the aisle that things are often not what they appear. And I have to say I agree with you, Commissioner Wood. I think competition is what can drive down prices.

But I am very distressed by an article that I saw in Federal Computer Week. And Mr. Chairman, if we could put that into the record.

Mr. HORN. Without objection, it will appear in the record.

[The information referred to follows:]

FEDERAL COMPUTER WEEK

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POST-FTS 2000

Critics blast GSA's revised strategy

BY BRAD BASS

General Services Administration officials were roundly criticized last week by members of Congress, industry and users of its telecommunications services for their revised acquisition strategy for purchasing telecom services after the current FTS 2000 contract expires.

GSA issued last month a proposed revision to its plan for purchasing voice and data services that would allow vendors who win the long-distance FTS 2001 contracts to offer optional local services. Winners of GSA's Metropolitan Area Architecture local service contracts could offer optional network transport services.

Previously, GSA had planned a separate procurement for long-distance services exclusively, and MAA would call on bidders to offer only local services in specified metropolitan areas. The new strategy was designed to create competition sooner between traditional providers of long-distance services and companies that have focused on the local level.

GSA undertook the revision with the Office of Management and Budget after Sen. Ted Stevens (R-Alaska), chairman of the Senate Appropriations Committee, criticized GSA's previous acquisition plan in a letter to OMB director Franklin Raines.

David Bittenbender, chief of telecommunications at the Justice Department, said last week that the revision puts the interests of some segments of the telecom industry ahead of the agencies that will use the contract. He said the new strategy bears little relation to the list of requirements drawn up three years ago by members of

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the Interagency Management Council, a group of agency telecom managers charged with documenting users' expectation for the Post-FTS 2000 contracts.

Bittenbender said the new strategy will create a confusing array of services offered by multiple vendors and will tax agencies' ability to ferret out the best deal and keep up with changes.

"We'd like longevity and stability with our contracts," he said. "We're not getting budget increases, so we will have fewer and fewer staff to deal with increasingly complex technology. We don't want to pick up more complex contracting relationships."

The proposal marks the second major revision to the Post-FTS 2000 acquisition strategy in less than a year. Last year's revision resulted from concerns raised by members of Congress, notably former Rep. William Clinger, and representatives from regional Bell operating companies (RBOCs).

11th-Hour Notice

At his confirmation hearing last week, acting GSA administrator David Barram was riddled with questions on the revision from Sens. Fred Thompson (R-Tenn.), chairman of the Senate Governmental Affairs Committee, and John Glenn (D-Ohio), ranking minority member of that committee. Both senators, who were not notified of the proposed change until less than a day before GSA issued it, demanded to know why GSA changed its strategy at the 11th hour.

Although Stevens intervened and told the senators he had requested the changes, Thompson told Barram he wanted to see documentation supporting the new proposal.

"They need to come up here and lay things out for us," said a member of the committee staff. "We would ultimately like to see resolution to this issue. We thought it was resolved already."

Officials at the RBOCs reacted negatively to the proposal, asserting that it would allow long-distance companies to compete in their territories long before they get an opportunity to widely offer network transport services. "Through the FTS 2001 and MAA contracts, the government could give multiple vendors the capability to compete in my territory before I even have a chance to compete for it," said Ron Montague, national account manager for federal services at US West.

Barbara Comer, president of Bell Atlantic Federal Systems, said she was "disappointed" with GSA's change of heart. "It is a step backwards," she said. "We believe this strategy is not consistent with the intent and spirit of the Telecom Reform Act."

Bob Woods, commissioner of GSA's Federal Telecommunications Service, last week distanced himself from the decision to revise the strategy. At a industry conference, Woods noted the action was instigated by Stevens OMB and called the revision "an exp sion of policy" based on OMB's per tion of how the government should r to telecom reform legislation.

"I do take some umbrage to the spective that we had changed our s egy," he said. "[The revision] is a pression from OMB on what the ac istration policy is. I'm not zigzag back and forth."

AT&T and Sprint, the incumbent tractors, wholeheartedly endorse new proposal.

An AT&T spokeswoman said th vision reflects a "more balanced" a sition approach that will "bring th vantages of local services compet to the government for the first tim Sprint spokesman refused to com on the revision, but a company s said the changes are moving GS the right direction."

Mr. McINTOSH. In it, it talks about criticism that GSA has gotten from among others a fellow named David Bittenbender, who is the chief of telecommunications at the Justice Department, who said that the revision puts the interest of some segments of the telecom industry ahead of the agencies, ahead of the agencies that will use the contract.

Now—and in that, it sounds like two things are amiss. One that certain segments of the industry are disadvantaged by the change in GSA's strategy, and that that change also is not in the best interest of some of the agencies.

Frankly, and through—it becomes clear to me that what is happening there is that everybody except seven of the largest companies in this country and the world are able to compete for the long distance.

And I am baffled, frankly, that the Government would not want to bend over backward and say, let us have even more competition from the people who are also then going to compete on the local level service, condition their entry into that competition with also opening up the local service for competition.

And that was the intent of our act that passed in Congress last year. Now it appears that the Government is essentially erecting a barrier to that by saying, we are going to use a red herring of the Telecommunications Act to say seven of those companies who could compete and give us even more benefits in the Government are not going to be allowed to on long distance.

And I guess the question I have is, is it true that that action will effectively exclude the Baby Bells from competing for the long distance service? And how does that benefit the agencies?

Mr. WOODS. Good question. To start with, it would probably be better if we put the other chart back up. Let us look at what has changed between now—between today and last December.

In looking at that, it is true that the Baby Bells cannot compete until they meet the checklist that is outlined in the Reform Act itself. These are the conditions that were placed in the law on what they had to do before they could offer long distance in their territory.

Now, when we did the first one there, when we did this one up here, they have—they are essentially in the same competitive position there that they are down here. There is no difference. They cannot offer long distance in their territory in either case. Because that is the law.

What we have said is, should we allow the long distance provider here to offer local service when they can, so we can get to end-to-end service in some parts of our Nation sooner.

The local providers that will be providing service here under the metropolitan area acquisitions, should they be able to offer long distance when they are ready?

The only thing keeping that from happening is the Reform Law—the Reform Act itself. We really cannot change that. We are buyers of services from the Federal side. We really do not do the regulation. We are not in the regulatory business.

So that is—so we are following the law here, in my mind. We—this one says you cannot provide long distance.

Mr. MCINTOSH. But you are saying both proposals were following the law?

Mr. WOODS. Yes, they are.

Mr. MCINTOSH. The earlier one and the recent one?

Mr. WOODS. Yes, they are.

Mr. MCINTOSH. Why is then that the Baby Bells feel they cannot compete under the new proposal, but they could under the older proposal?

Mr. WOODS. They are—I am not sure what they are saying. Now, they are here next week, so you get—you will get to ask them to explain that.

But my view is, they can compete the same. The difference is, the long distance carriers can begin to offer local service here, where they could not here.

Mr. MCINTOSH. I see. So the complaint essentially is that it upsets the agreement that we reached in the Telecommunications Act that we would allow competition on both sides to occur at the same time, which is troubling to me. And I start out by mentioning that because what appears to have happened is that you guys were on one track that would have respected that notion that we are going to have competition on both sides eventually, but at the same time, then a colleague of mine over on the Senate side writes a letter and says, you need to do something else. And all of us know what it means when you act on behalf of different constituent interests in these areas, but it is not necessarily in the broad interest of the agencies.

And so what apparently David Bittenbender is saying is that the agencies will not be as well off under this new proposal.

Mr. LALLEY. I would like to take a crack at that.

Mr. WOODS. OK.

Mr. LALLEY. The first comment I would make is that we work closely with Dave Bittenbender. He is a very knowledgeable and thoughtful guy; and if you had held this hearing last month instead of this month, he would be here instead of me because he is the former chair of the IMC.

The second thing I would say is I think you have read the wrong thing into Dave's message. Probably most of the members of the IMC would agree with the words that you read, and from my viewpoint, they reflect the frustration we have that the process is dragging on. And so long as it takes a long time to put the new contract in place, those of us who run telecommunications programs are getting more and more and more nervous.

We are going to have to move elsewhere. If we move elsewhere, it is going to cut into our economies of scale. It is going to drive our prices back up.

Now, as I understand the legislation, all agencies, as soon as a local exchange carrier passes the FCC tests, they can offer us service because we are not required to go mandatorily to GSA in the future. What we would like to do, and what the new proposal does, is it allows GSA to bring these provisions into its program. And what that does for us, if GSA can follow the option they have proposed here, is it brings back the economies of scale.

In other words, if we buy individually from the local exchange carriers, we will pay a higher price.

Mr. MCINTOSH. Mr. Chairman, if I could ask permission. The question I have got is, if the ultimate goal is to reach that point where you have got long-distance providers and local providers competing with each other for all the services, isn't it better to adopt a strategy that pushes them to reach that level sooner, better in terms of what is good for the agencies as a customer?

Mr. WOODS. Right. That is true.

Mr. MCINTOSH. OK. And what I am understanding—and you are right; we will hear more next week—is that by switching to this where you give an advantage to the long-distance carriers to be able to compete in both fields, that creates the incentive to drag out the process to allow competition for long distance in each of the local regions.

Mr. WOODS. Well, OK. Let me take an example. Let us suppose that in our prior version of this we had let these contracts. The difference is this one up here has competition, but they are segregated. You are only in here, or you are only in here; you are not in both.

Mr. MCINTOSH. And that is in the short term with the long term——

Mr. WOODS. With the long term coming. Correct.

Now, down here, what we are saying is, let us suppose we let a contract here for long distance and tomorrow one of those providers can offer very cost-effective service in five major U.S. cities. That is all; that is the only place they are. Now, and let us suppose at the same time we have a metropolitan provider that wins New York City, is able to provide long-distance service, they meet the FCC points, and they are ready next year.

Now, if we had stayed with this one here, what would happen is we would be 4 years before we could start getting those better prices. Down here, they can offer them up, and if they are in the Government's best interest—and remember that: Only if it is in the Government's best interest would we accept those.

Mr. MCINTOSH. And my question is, is that short-term gain worth the long-term prospect that you are not going to have wide-open competition as quickly, which is your end goal in both scenarios?

Mr. WOODS. No. We are still going to do that. That ultimate goal of combining those in this arena is the same.

Mr. MCINTOSH. I guess I am putting in a reality check. I guess, in my opinion, when you do not have that balance of pressure to meet your competitive situation, it is going to be in one party or the other's interest in delaying that, to preserve their own position. And we have seen that for a long time now in the industry. It is natural behavior.

Mr. WOODS. Sure.

Mr. MCINTOSH. People respond to incentives. What we need to do is make sure that you have got a correct balance between that long-term goal and the short-term advantages.

Mr. WOODS. Right. And that is the art of managing this. That really is.

Mr. MCINTOSH. And I guess I am somewhat troubled that you are on one plane and one that made sense to me to reach that goal, and then the sudden shift with intervention, I understand, inter-

vention from someone in Congress. But I am skeptical that that ends up being in the best interests of the country and the agencies.

Mr. Chairman, I will yield back the balance of my time.

Mr. HORN. I thank the gentleman for pursuing that line of inquiry. That happened to be my next quote and question, the one from David Bittenbender, and I think you have well explored it. I would remind all members of the committee if we have additional questions that we cannot get today, the record will be kept open for 5 days, and as usual, if you gentlemen will give us the courtesy of responding to them in writing, we would deeply appreciate it.

So let me now yield 5 minutes to the gentleman from Virginia, another very distinguished member of this committee, the chairman of the District of Columbia Subcommittee, Mr. Davis of Virginia.

Mr. DAVIS OF VIRGINIA. Mr. Chairman, thank you. I apologize for not being here earlier. I had a bill on the floor this morning, and I had another bill before another committee I had to appear before, so I wanted to get here, and, Commissioner Woods, I appreciate you coming by yesterday to my office, where we had a chance to just candidly discuss some of the changes from the September letter, how they occurred really at OMB, and Senator Stevens, and answer some of my questions at that time, and I appreciate that. I think you have been straight up and forthcoming.

FTS2000 contracts have been successful. The lowest rates are now at about 2½ cents per minute on long distance voice service. How much lower can they go, do you think?

Mr. WOODS. I hope a lot lower. I believe——

Mr. DAVIS OF VIRGINIA. The long-distance guys are not smiling. I do not know what that means.

Mr. WOODS. I will bet not, but I still believe that if you look at—and not to make this too technical, but the usage, the actual capacity usage for voice is still extremely low, and some day, I think, when we are filling up the capacity that we have built out there, you are going to see voice at a flat rate for long distance. And I believe that day is going to come, and I believe 5 cents a minute as much as I brag about that and am obnoxious about that, I believe in 5 years or 8 years those prices will look very high.

So I think that we still have got room to go, that we have got a long way to go on the local market as well.

Mr. DAVIS OF VIRGINIA. OK. How do the end-user agencies—and if you answered this before, you can just refer me to that, and I will get it in the record—how will the end-user agencies, who are the ultimate consumers of the Post-FTS2000 services be able to compare prices and service offerings if you have different vendor offerors, services at different locations on different schedules? Doesn't the Government end up with the best deal if it has to keep paying, or do we end up with the best deal if we have to keep paying for transition costs to get the latest and the greatest offer?

Mr. WOODS. I think I would like to start by letting Frank Lalley answer it as a user, and then I have got a comment on that.

Mr. LALLEY. We much prefer to buy from a program like the FTS program because it gives us opportunities in addition to price. It gives us interoperability. It gives us the ability to communicate

with other parts of Government and with the private sector, and we need that.

The primary concern that I have with your question relates to data services and to toll-free services that are very laborious to change from one place to another. Price is not the primary option. Interoperability is or functionality, the ability to do the job that you need to have done.

The likelihood for an organization like mine to jump back and forth between providers because price is particularly attractive is not one that I would get excited about, although we do on a daily basis compare prices in industry, both in local markets and long-distance markets. That becomes particularly important in the future as we move away from the nonmandatory FTS2000 program. If the new FTS2000 program gives us economies of scale and an attractive alternative, we will use it, and that is the best for us, it is the best for government as a whole, and it is the best for the taxpayer.

Mr. WOODS. I would also add that we have built quite an analytical capability to compare prices. We do that now. We put a lot of effort into that because we have found that it pays. My sense of it, Congressman Davis, would be that you cannot jump around on all services. There are some services where we can be very dynamic, and I think you take advantage of the ones you can if the price warrants it, and we have to consider those.

So we put a lot of analytical work into knowing what we are paying and whether we are getting the best deal, and then I think we have got to make a business decision as to whether or not it makes sense to move.

Mr. DAVIS OF VIRGINIA. OK. It is not a question of the lack of information; it is just the lack of comparable prices that concerns me on this, and I know you will do the best you can, but that is the concern.

This contract will probably be one of the largest, non-Defense procurements the Federal Government has ever awarded. You have got a lot of interest out of groups up here following this, and it is critical, I think, that the Federal Government pursue a prudent course of action that will allow for the adaptation of new technologies in the work place and the requisite value for the taxpayer dollars.

The refinement that came to the September strategy gives industry the opportunity to propose optional services when and where they desire, but there are many regulatory agencies at State and Federal levels that have a hand in allowing and directing this.

Mr. WOODS. Right.

Mr. DAVIS OF VIRGINIA. How will you reconcile this?

Mr. WOODS. We are going to have to move as the industry moves. I believe that is part of the misconception here, that suddenly this is going to happen overnight. My belief is that you still have got a long way to go with these regulatory changes. A lot of these have to be cleared through States and through other regulatory processes not controlled by the Federal Government, and certainly not controlled by this program.

So we really have to react to and be flexible to what is going to happen in this industry as it moves forward. I do not think that

anybody has got it nailed down as to how fast it will go, so I think we are just going to have to choose that as we go and be able to react commercially to what is available.

Mr. LALLEY. As an agency, we are going to react in each individual marketplace also. The national averages do not mean anything at this point.

Mr. DAVIS OF VIRGINIA. Contracts for the Federal Government's local telecommunications have been competitive for many years, with a wide range of competitors; yet you have said you need to kick start local competition for the Federal Government. I do not disagree with that, but what do you say to those who feel that shouldn't we be trying to get a choice of more than two or three companies for the long-distance contract before handing these companies all the Federal Government's local services? What is your comeback to that?

Mr. WOODS. The local market really has not had much competition. We have done it here in Washington, DC. That is why we have got the best rates in the country for the Federal Government in that arena. But trying to figure out the timing of who can play in whose sand box, so to speak, I think is something that we do not benefit from. I think when we keep trying to guess at that market, we are invariably going to be wrong.

I think it is more a sane policy to kind of let the industry progress as it might, take advantage of that, and have flexibilities in your contracting to allow that to take place and not to try to outguess the industry, because we are down into depths of stockholders and investment policies and markets and so forth that I do not believe is something that we can control or forecast. So we are trying to be as flexible as we can so that we can take advantage of whatever.

Mr. DAVIS OF VIRGINIA. I have just a little, tiny question.

Mr. HORN. One tiny question to go. We need to clear the room at 1.

Mr. DAVIS OF VIRGINIA. Exactly. I think you have shown your strategy provides significant competition for local services. How many long-distance bids do you anticipate receiving versus the number of awards you will be making?

Mr. WOODS. My sense is that 2001 will, from my own personal analysis, and we could even supplement this, too, is that we have got at least five major companies that can do that.

Now, how they partner and how they bid and how they put those packages together, of course, is up to the industry. The question is, is 5 good, would 12 be better? That is a different question, but I think we have got five that can play, and I think we will award probably two to three.

Mr. DAVIS OF VIRGINIA. OK. Thank you.

Mr. HORN [presiding]. I thank the gentleman for promoting that exchange. I have about four questions to go, gentlemen. The first is on, when will the first metropolitan area acquisition awards be made?

Mr. WOODS. They are late this year, aren't they? December? The one in New York, I believe, right now is on track for December of this year. It is one which we think meets the spirit of what we are trying to do. When we picked those metropolitan areas, we picked

those where we have got a lot of service, prices not so good, and there is good competition.

Mr. HORN. Have you developed a timeline to follow for the other awards?

Mr. WOODS. Those are under development, but, yes. And we have, in fact, shared with industry our tentative list.

Mr. HORN. Good. We will insert it into the record at this point, without objection.

Mr. WOODS. Yes. We will provide that.

[The information referred to follows:]

Based on the April 1997 supplement to the refined strategy that resulted from the consensus developement previously initiated by this committee, the current projected schedule for the Metropolitan Area Acquisitions (MAAs) is as follows:

- Release of draft MAA solicitation for industry comments: May 2, 1997
- Final date for receipt of comments on draft solicitation: June 2, 1997
- Target for release of pre-qualification package to industry: July, 1997
- Target for completing initial pre-qualification process: Fourth Quarter of Calendar Year 1997
- Target for release of MAA Requests for Proposals (RFPs) in New York City, Chicago, and San Francisco: Fourth Quarter of Calendar Year 1997
- Target for completion of pre-qualification process and release of RFPs for ten additional MAAs: First Quarter of Calendar Year 1998
- Target for awarding ten additional MAA contracts: Third Quarter of Calendar 1998

This schedule may change depending on the volume and substance of comments received in response to the May 2 draft solicitation, and on the number of firms seeking to participate in the pre-qualification process.

Mr. HORN. Do you believe that the metropolitan area acquisition contractors will be able to offer large-scale, long-distance service in the near future?

Mr. WOODS. If I have to meet all the conditions of the question, no. I do not think they are going to provide large scale; I think they are going to provide long distance on a limited basis, and I have every reason to believe that some of those prices, even in a restricted area, may be extremely attractive.

So that is part of the reason why we cannot go straight to the ultimate end-to-end, is you have got to take what you can get where you can get it as soon as you can get it.

Mr. HORN. Do you have any comments on this, Secretary Lalley? Feel free to get into it.

Mr. LALLEY. The market that GSA is dealing with in New York is one that is very attractive to us and we do not buy GSA service right now. We would love to buy service from them, and most other Federal agencies feel the same way.

Mr. HORN. Move that microphone a little closer. I am having difficulty hearing you.

Mr. WOODS. I want to hear it, too.

Mr. HORN. I want everybody to hear it. Go ahead. Repeat that answer. I could not hear it.

Mr. LALLEY. I said the market they are looking at, the New York City marketplace is one where we do not buy from GSA in the New York City marketplace. We would like to in the future, and we think that this is an attractive alternative for us.

Mr. HORN. Getting back to you, Commissioner, do you believe the FTS2001 contractors will be able to get into local service markets in any meaningful way in the near future?

Mr. WOODS. Let us think about what they have got to do. For long distance providers to get into a local market, in many cases it will be in a reselling mode, meaning that they have got to go in and buy the service from local providers and resell that.

Now, they also are beginning to build out some infrastructure themselves. I believe they will get into some limited spots early, but I believe that they also are not only going to be limited in where they can go, but they are going to be limited in their competitive processes because they are going to have to buy and resell; but, yes, I expect them to see them out there, and I think it will improve the choices we have got in cities where we have very little now.

Mr. HORN. Do you feel GSA has a strong role here in promoting these competitions?

Mr. WOODS. I believe we do, and, in fact, we have started doing that. When we have bid out on the metropolitan area acquisitions, in New York alone we had 20-some companies show up. We had a 1-day forum to listen to them, and we encouraged people to come, and, in fact, some of the companies really had not done very much Federal contracting, and we kind of called them up and said, "We are having a party. Would you please come?"

So yes, we are encouraging it, and we believe it is in our best interests.

Mr. LALLEY. Agencies rely very heavily on GSA to lead this charge, too. There is nobody else we can turn to that has the same interests for us, and we would not do it on our own.

Mr. HORN. Last question. This procurement gives industry the opportunity to propose optional services when and where they desire. However, there are many regulatory agencies at the State and Federal levels that have a hand in allowing and directing this. How do you reconcile these differences?

Mr. WOODS. I think we rely on the market. I believe that the one thing you have to remember that is sometimes kind of difficult when we talk to the industry is that, yes, we are the Government, but, yes, we, the GSA Federal Telecommunications Service, are not the regulators. We are buyers, like many buyers in the market. What we are trying to do is buy smart, buy at a good price; and as this industry moves forward, they are going to be buffeted by a number of changes, not the least of which will be mergers and acquisitions. And I believe we have got to be poised to take advantage of that and buy in a commercial market.

One of the sort of pitfalls you can fall into is, why don't we build our own so we will be protected? I do not believe in that. I believe we have got to stay with the commercial market. We have got to believe in free enterprise and let it take place. It is ugly at times. It is not the greatest process sometimes in the very short run. In the long term, it brings you 2 cents a minute on that service, it brings you very top quality, and it allows the Social Security Administration to run the biggest 800 service in the world.

So I think you have got to stick with that philosophy, and the fact that there are other players in this, like State regulatory, I think we have got to let that play out, and, yeah, there will be some times when it will not be to our advantage, but it still has to play out.

Mr. HORN. Mr. Lalley.

Mr. LALLEY. I agree with that. The local facilities in our organization are very much aware of the prices that they are paying, and they know who has a good deal and who does not have a good deal; and so if there are pockets of the marketplace that are moving slowly, the people who live in those markets are going to draw to the attention that point.

Mr. HORN. Secretary Lalley, is there anything else, in your judgment and the judgment of the fellow members of the Management Council, that the GSA or the Federal Government should be doing to make this the most competitive contract, advance the input of technology as it changes so we are not locked into something with one or two or whatever firms? Anything you see and all of you see that we ought to hear that we have not heard?

Mr. LALLEY. We have the opportunity to participate on a day-to-day basis with the people in GSA who are developing the program. We have ample opportunity to have our voices heard. The primary concern we have at this point is the concern about urgency. It is a serious problem for us.

Mr. HORN. Last question. Do you think this is all going to end up in court, and can it go into a State court, or would it be strictly a Federal court?

Mr. WOODS. Predicting legal processes is not a job for an engineer, but I do believe that there will be challenges, but I do not believe that is a reason not to move ahead. GSA has actually done quite well in this arena. We did lots of challenges early on in the FTS2000. There have been to date, I believe, 44 or 45 protests or challenges. We have won them all. We have not lost one of those, and we believe we are poised to defend what we have got here. We believe that what we have got is solid, and we are prepared to defend it if necessary in court.

Mr. HORN. Well, I thank both of you, and I am sorry to keep you so long this morning, but votes are votes, and we cannot ignore them.

Let me thank the staff who prepared this hearing. Bill O'Neill is our new procurement counsel for the full committee. Stand up, Bill, so everybody can know whose office to knock on.

And Russell George—stand up, Russell—is staff director for the Subcommittee on Government Management. Mark Brasher, to your right, is the professional staff member that put together a good part of the hearing, along with Bill O'Neill. And John Hines—John, where is John? He is gone. OK. A new member of our subcommittee staff. And Jonathan Yates, parliamentarian, was here at the beginning with Chairman Burton.

And we have got on our Democratic side Mark Stephenson and Ron Stroman, and those are the ones actively involved.

And then for the clerks, of course, Judy McCoy and Teresa Austin, and we appreciate the help from the General Services Administration of Bill Ratchford and Josh Bobeck. And our recorder is Ted Fambro, and we also appreciate the help of all the people in the room that seem to be descending on everybody around here.

So with that, we will recess this meeting, and we will followup on it next week. Adjourned.

[Whereupon, at 1:52 p.m., the committee was adjourned.]

FEDERAL TELECOMMUNICATIONS SYSTEM ACQUISITION STRATEGY (POST-FTS2000): AN INDUSTRY PERSPECTIVE

WEDNESDAY, MARCH 12, 1997

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

The committee met, pursuant to notice, at 12:50 p.m., in room 2154, Rayburn House Office Building, Hon. Dan Burton (chairman of the committee) presiding.

Present: Representatives Burton, Morella, Schiff, Horn, Davis, Shadegg, Sessions, Snowbarger, Waxman, Wise, Maloney, Barrett, Norton, Fattah, and Holden.

Staff present: Kevin Binger, staff director; Dan Moll, deputy staff director; Bill O'Neill, director of procurement; Judy McCoy, chief clerk; Teresa Austin, assistant clerk; Jonathan Yates, counsel; Robin Butler, office manager; Russell George, staff director, Subcommittee on Government Management, Information, and Technology; Mark Brasher, professional staff member; Mark Stephenson, minority professional staff; and Jean Gosa, minority staff.

Mr. BURTON. The Committee on Government Reform and Oversight will come to order.

The current multibillion-dollar FTS2000 program, managed by the General Services Administration, provides long-distance telecommunications services for agency users across the Federal Government. This contract expires in December 1998. Today's hearing will focus on the General Services Administration's pending request for proposal for the Post-FTS2000 contract from an industry perspective.

The objective of this hearing and the one held last week is to ensure that the Government purchases the most technically efficient and cost-effective telecommunications system, thereby giving the best possible value to the American taxpayer.

As I stated in the last hearing, there are four principal goals this procurement must meet in order to proceed forward: First and foremost, it must be the best possible deal for the taxpayer. Second, it must take advantage of emerging market forces in the telecommunications industry. Third, it must allow as many vendors as possible to compete for it while ensuring a level playing field. And fourth, it must take advantage of the leverage provided by the Federal Government's purchasing power.

These hearings will determine whether the current RFP meets these requirements. If it does not, I say once again to those parties

opposed to this RFP, how does your proposal meet the test? For once met, these goals will ensure a procurement that proceeds in the best interest of the American taxpayer, the Federal Government, and the telecommunications vendors.

The current program has proven to be highly successful in providing excellent services at below market prices. However, as this program approaches its conclusion, the Government's needs and the technology to meet them have changed dramatically as we move toward the next century.

This contract will be one of the largest non-Defense procurements the Federal Government has ever awarded, with the total value estimated at more than $5 billion. GSA currently has the authority to issue this RFP on April 2, 1997. These hearings will determine whether this is a prudent course of action for them to take.

The Post-FTS2000 program must be capable of meeting the agency user needs, while accommodating a telecommunications marketplace undergoing great change. This committee takes its oversight of Federal procurement seriously, and we view this program as one of our most important oversight responsibilities.

While the committee evaluates the proposed RFP, ultimately, it is up to the users and managers of the program, and the vendors supplying the services, to make it a success.

Through these hearings we hope to determine how best to provide telecommunications services to the Federal Government users following the expiration of the current FTS2000 contracts.

At our hearing last week, the committee heard testimony from two witnesses: Robert J. Woods, Commissioner of the Federal Telecommunications System, who represented the General Services Administration; and Frank J. Lalley, Associate Deputy Assistant Secretary for Telecommunications for the Department of Veterans Affairs, who represented the Interagency Management Council. They discussed the merits of the RFP from the provider and user perspective.

Today, we will hear testimony from two industry panels. The first panel consists of Mr. Richard Lombardi, the president of AT&T Government Markets; Mr. Jerry A. Edgerton, vice president of MCI Government Markets; and Mr. Donald E. Teague, Jr., vice president and general manager of Sprint Corp.

The second panel consists of Ms. Barbara Connor, president, Bell Atlantic Federal Systems; Mr. William J. Hannigan, vice president, business sales, Pacific Bell Corp.; and Mr. Kevin G. Hess, vice president, Federal affairs, TDS Telecom.

I look forward to hearing from our witnesses today as they discuss the merits of the proposed RFP from an industry perspective.

Before we proceed first to Mr. Lombardi's testimony, I would like to recognize Mr. Waxman, our ranking minority member.

Mr. WAXMAN. Thank you very much, Mr. Chairman. I want to thank you for holding hearings on March 6 and today on Post-FTS2000 Strategy.

With an estimated total of $5 billion, the Federal Government's Post-FTS2000 contracts will be highly lucrative for the companies fortunate enough to win them. Each company has an obvious interest in maximizing its own position in the Government's procurement process.

The job of our committee is to ensure that the goals we seek—fair, head-to-head competition and the best services at the lowest cost—are actually realized.

The central issue we face is the same one we worked hard to resolve in the Commerce Committee to reach agreement on the Telecommunications Act of 1996: How to provide optimal competition in telecommunications services when the segments of that industry have operated under vastly different rules and, in some cases, under complex histories of monopoly control and regulation.

The Telecommunications Act of 1996 paved the way for full-fledged competition in our foreseeable, but not immediate, future. The act imposed restrictions on industry activities and put specific timetables in place to discourage any one segment of the industry from gaining a competitive advantage over the others.

The Telecommunications Act of 1996 is still in its infancy, and we are still anticipating the benefits of full competition. This committee should take care not to take any action involving Government procurement of telecommunications services that will upset the balance we worked hard to achieve in that act.

The long-distance and local phone companies have different views on the effect GSA's February 1997 refinements of the Post-FTS2000 Strategy will have on competition. I welcome today's distinguished group of witnesses and look forward to their testimony. I also look forward to working with you, Mr. Chairman, and the other members of the committee to ensure that the Federal Government's procurement process opens rather than closes out competition in this important contract process.

Mr. BURTON. Thank you, Henry.

Before I recognize the chair and ranking member of the Government Management Subcommittee for opening statements, without objection, I would like to request that any other Member that has a statement submit their statement for the record.

I would now like to recognize the chairman of the Government Management Subcommittee, Mr. Horn, who held a number of hearings on the Post-FTS2000 Acquisition Strategy in the 104th Congress and continues to be probably the most knowledgeable person and a leader on this issue in the 105th Congress, as he so ably demonstrated at last week's hearing. I want to thank him for chairing that after I had to leave last week. I really appreciate that.

Mr. Horn.

Mr. HORN. Well, thank you very much, Mr. Chairman. In the interest of time, I'm going to file my opening statement. I agree with both what you have said and Mr. Waxman has said. I think what we're all about here is to make sure everybody has been brought in, everybody has had a chance to state what their interests are, and to let GSA ultimately decide that, with consultation with this committee on the overall generic matters.

What I think every one of us is for is the best deal for the American people, and that means we've got to keep it open, in terms of getting advantages from the latest improvements in technology. We cannot get locked into an old system that won't change. I think that's where most people are coming from. We want to make sure

we get every single dollar we can for the taxpayer saved and effective use of our communications systems.

Thank you, Mr. Chairman.

Mr. BURTON. The Chair now recognizes the gentlelady from New York, Mrs. Maloney.

Mrs. MALONEY. I would like to be associated with the comments of the ranking member, Mr. Waxman, and ask that my opening statement, in the interest of time, be submitted in the record.

I would like to underscore his comments that it should be a fair and open competition. I would like to just add that this contract is the largest civilian procurement ever undertaken by the Federal Government. It is a staggering 10-year, $25-billion contract, and it serves the long-distance, voice, data and telecommunications needs of more than 1.7 million Federal employees.

Under this contract, the cost to the Federal Government of a long-distance phone call has dropped from 27 cents a minute to 5.5 cents per minute, well below the lowest commercial prices available. Truly, GSA is to be commended for that.

In light of this, I am interested, Mr. Chairman, in working with you and Mr. Horn to establish a pilot project to examine whether State and local governments might benefit from participating in the FTS2000 program. We would be able to realize substantial savings in our local governments on their telecommunications services.

I just wanted to add that and say that I look forward to the testimony today. I would like my statement to be in the record, and I underscore the full and open competition and fairness that Mr. Waxman stressed.

Mr. BURTON. Without objection, the rest of your statement will appear in the record.

We will now proceed with our first panel. Our first witness today is Mr. Richard Lombardi, president of AT&T Government Markets. He is AT&T's senior executive to the government marketplace, responsible for all programs and services provided by AT&T to the Government.

Did we have someone else who wanted to make a statement?

Mrs. MORELLA. Thank you, Mr. Chairman.

Mr. BURTON. Pardon me. Let me defer just a moment.

Mrs. MORELLA. I would just ask unanimous consent that it will be put into the record.

I have been in and out listening to the opening statements. I want to thank you for calling for this hearing on Post-FTS2000 Acquisition Strategy, because the issue before us today is one of great importance to the taxpayers, not only in terms of getting the best value for their tax dollar, but also because the quality of Government communications services is elemental to citizen involvement and participation in Government.

I believe that today's hearing and the one which the committee held last week will help us better understand the various factors that are involved in deciding whether we should be taking bids on end-to-end service immediately or wait until there is a more competitive environment, and how we can best take advantage of new communications technology, in the coming years, to serve our constituents.

I hope that the witnesses will be able to shed some light on those issues. Thanks again, Mr. Chairman.

Mr. BURTON. I thank the gentlelady.

I understand that Representative Norton has a group of young people she would like to introduce.

Representative Norton.

Ms. NORTON. Thank you very much, Mr. Chairman.

I want to welcome students from Truesdale Elementary School and to congratulate their teachers and parents for bringing them down. I appreciate your recognizing me and allowing me to do that.

May I just say that I recognize, also, what an important hearing this is. We have all prepared for it, and we know how important it is to efficiency and economy in the Federal Government.

Thank you very much, Mr. Chairman.

Mr. BURTON. Now, Mr. Lombardi, since I have already introduced you, I will not restate your qualifications.

I have been informed that we now have a practice that we are going to be employing with all panels, so would you all rise, I want to swear you in.

[Witnesses sworn.]

Mr. BURTON. Now, Mr. Lombardi.

Mr. LOMBARDI. Thank you.

Mr. BURTON. We would like to try to keep your statements as close to 5 minutes as possible. We will let you fudge a little bit, but we would like to move the committee meeting along. We have some things we would like to talk to you about later on.

Mr. LOMBARDI. Understandable.

STATEMENTS OF RICHARD J. LOMBARDI, PRESIDENT, AT&T GOVERNMENT MARKETS; JERRY A. EDGERTON, VICE PRESIDENT, MCI GOVERNMENT MARKETS; AND DONALD E. TEAGUE, JR., VICE PRESIDENT AND GENERAL MANAGER, SPRINT GOVERNMENT SYSTEMS DIVISION

Mr. LOMBARDI. Thank you very much, Mr. Chairman, and members of the committee. Thank you for the opportunity to testify on behalf of GSA's refined Post-FTS2000 Acquisition Strategy. Your oversight commitment does signal the importance of the Post-FTS2000 effort.

I would also like to take this opportunity to thank the IMC, the Interagency Management Council, along with GSA's FTS2000 Commissioner, Bob Woods, for their efforts over the past 3 years to coordinate the telecommunications services needs of the Federal users and, more recently, to interrelate these needs with Government policy. We know and appreciate how difficult a task this has been.

AT&T is pleased to testify in support of the refined strategy, and I detail that support in written testimony which I ask to be included in the hearing record.

Mr. BURTON. Without objection.

Mr. LOMBARDI. Thank you.

We believe the strategy is faithful to the Telecommunications Act of 1996, the Telecom Act, and will bring the benefits of competition to taxpayers at the earliest possible time and, thus, should be implemented without any delay.

Mr. Chairman, with Government and industry facing new challenges to provide more services at reduced costs, we see numerous breakthroughs to address these challenges. Indeed, change is moving across the globe at an unprecedented speed, and that offers hope for improving the effectiveness and efficiency of our institutions.

I call your attention to the recent meeting of nearly 70 countries under the auspices of the World Trade Organization. By agreement, U.S. Trade Representative, Charlene Barshevsky, and her counterparts, set out to dismantle the State monopoly telecommunications operations around the world.

Why is this significant? In discussing the agreement, noted economist and commentator, Robert Samuelson, was quoted as saying, "The weaknesses of the monopolist model were exposed. It kept prices high and delayed new technologies. Services often suffered. People now understand that the monopolist model isn't inevitable. Communications can be interconnected; effective competition is possible."

According to Washington Post business writer, Paul Blustein, the old orthodoxy, which relied on State-controlled telephone companies to provide cheap, ubiquitous phone services, has been turned on its head. The reason? Case after case of vastly superior results in countries that have deregulated their telecommunications sectors.

It is somewhat of an irony, then, Mr. Chairman, that on the eve of this fairly substantial change, as more and more nations of the world are recognizing the power of free market forces, in our own backyard there are those that would argue against permitting the Federal Government to procure telecommunications services, specifically, local telecommunications services, on a very competitive basis.

Using arguments of fairness, the regional Bell companies now claim it is unfair to let companies into their markets without letting them into other markets at the same time. They would have the Government buy local services, as if the Telecom Act had not been passed, from incumbent suppliers, at high prices, and without competition. It is a concept of fairness that only a monopolist could love.

Customers, in this case the Federal Government and the taxpayers, would continue to pay more than they should for local service, and for no reason other than to insulate local companies from competition until they are ready to open their markets to competition and thereby gain the right to compete in long-distance.

Mr. Chairman, this is wrong for two reasons: First, the question of whether to further delay the opening of local markets to competition has already been answered, correctly, by Congress. The Telecommunications Act of 1996 got it right. Monopoly markets should be opened immediately, and when they are open and competitive, the Bell companies will be able to compete in long-distance, including going after the Government's long-distance business under this refined strategy.

Second, delaying competitive procurement of local service is wrong because it would deprive the Government and taxpayers of the demonstrated benefits that are achieved when the Government

utilizes competition to buy what it needs. There should be no doubt that competition works.

As Congressman Maloney just stated, the Government's experience with FTS2000 would put those doubts to rest. Under FTS2000, competition has delivered anywhere from $4 billion to $5 billion in long-distance savings over the life of the program, while prices dropped 70 percent. In contrast, noncompetitive local prices have risen 15 percent over that same period of time.

When you consider that a significant percentage of the Government's telecommunications expenditures are for local services, you begin to appreciate the wisdom of the refined strategy. By allowing competitive bids to be considered for local services as soon as competitors are legally and technically able to bid, GSA restores the reliance on the market. That's what Congress intended.

And by giving the Bell companies access to the Government's long-distance business as soon as they are legally and technically capable of providing those services, the Government can maximize its reliance on competition for long-distance services, as well.

I want to assure you of the obvious: If GSA's efforts to obtain, on a competitive basis, all telecommunications services used by the Government, if those efforts are supported, the Government will see the benefits of competition in local services, as well, and AT&T will be in the forefront of those seeking the Government's business with what I think are very innovative services. You may have already heard about two recent AT&T announcements that typify the sort of excitement that competition can unleash.

AT&T already introduced and has in the market in 45 States AT&T Digital Link service—that's the trademark—which enables large customers to directly connect their locations to AT&T's switching infrastructure. This brings to those customers their local service needs, the same advantages, the same features, the same functions and discounts enjoyed for their long-distance services. I am also pleased to report that if the rate at which commercial customers are signing up is any indication, we at AT&T believe we've got something really of great value to this customer set and something that may be very useful to the government, as well.

Even more exciting is our recently announced fixed wireless technology, which is a technological breakthrough that we will be trialing this year. Fixed wireless for portable phones is nothing new; but the quality, the security, the versatility, and the service this will offer, we believe, is very new and very exciting.

These are but examples of innovations that are starting right now that AT&T and other companies will bring to this competitive market. There was great wisdom in the Telecommunications Act of 1996, and we are only beginning to see the benefits that this market will receive if the act is implemented as intended.

Mr. Chairman, the refined GSA strategy gives the Government the opportunity to gain the benefits derived from competition: efficiency, technological innovation, new services, lower prices, especially for that significant percentage of the Government telecommunications expenditures associated with monopoly local services.

To sum it up, Mr. Chairman, the strategy supports your principles. First by promoting competition, it gives the Government the

opportunity to obtain efficiency, technological innovation, new services, and lower prices, and that represents the best possible deal for the taxpayer.

Second, by leaving the Government's options open, the refined strategy takes advantage of emerging market forces in the industry.

Next, by permitting vendors the opportunity to provide evaluated optional services in both long-distance and local, it enables the entry of as many vendors as possible to compete while ensuring a level playing field.

Finally, by promoting competition in all markets, the refined strategy takes advantage of the leverage power of the Federal Government's purchasing power.

We believe that the Congress should stand by the Telecommunications Act, and the refined strategy provides a clear opportunity to do so. So, Mr. Chairman, I say, "Let the games begin." Support GSA's release, on April 2, of the Post-FTS2000 RFP based on the refined strategy.

Thank you for the opportunity to testify today, and I will be glad to answer any questions you may have.

[The prepared statement of Mr. Lombardi follows:]

Testimony of Richard J. Lombardi
President, AT&T Government Markets
before the Committee on Government Reform and Oversight
March 12, 1997

Introduction

Mr. Chairman, members of the Committee on Government Reform and Oversight, thank you for the opportunity to testify on GSA's refined Post-FTS2000 Acquisition Strategy. Your oversight commitment not only signals your dedication to improved government operations, but also reflects the importance of the Post-FTS2000 initiative for government as it enters the next century.

Since March of 1993, the Interagency Management Council (IMC) has worked diligently in coordination with GSA FTS2000 Commissioner Bob Woods, seeking to identify how to integrate telecommunications services with the changing needs of federal users. The IMC involved stakeholders from government and industry early on to provide a continuing dialog to address our dynamic telecommunications technologies and marketplace.

As a participant from the beginning, AT&T appreciates how difficult a task this has been, especially in light of the changing federal and commercial landscape. The IMC deserves our recognition and appreciation.

We are here not only as one of the two current providers of competitive long distance services to the government under the FTS2000 Program, but also as an eager bidder on the Post FTS2000 Acquisition. Our own experience as an FTS2000 vendor demonstrates what all of us intuitively know -- competition works. Competition for FTS2000 has helped deliver over $4 billion in savings to the Federal Government over the life of the program. This experience supports our belief that the Government should proceed with the successor acquisition without delay.

We believe, further, that the Government should take advantage of the Telecommunications Act of 1996 (Telecom Act). The Telecom Act was founded on the time-tested economic theory that a rapid transition to competition among a variety of vendors would lead to improvement in technologies, efficiencies, new services, and lower prices. Thus, the Government should take every opportunity to seek competitive bids for any and all services -- long distance, local, and anything else -- wherever and whenever competing carriers can meet the Government's needs.

Moreover, aside from potential savings and other benefits that might flow to agencies, it is appropriate to consider the good that can be achieved from the Government's active solicitation of competitive bids for all telecommunications services. As the largest user of telecommunications services, the Government stands in a unique position to use the weight of its buying power to facilitate

implementation of the Telecom Act. The faster the Act is implemented, the faster new and improved services, competitive prices, and new technology will flow to the consumer, and in the Government's case, the taxpayer.

The Refined Plan for Local Services Competition Should Be Supported

The Federal Government has established the development of the National Information Infrastructure as a priority. This infrastructure promises effective delivery of services by providing enhanced access to government information, systems, research, facilities and representatives. Such service delivery is a key concern as we recognize that in the future agencies will rely on technology to reduce cost without reducing service to the citizen.

Having evolved as a service from a simple phone call to the movement and management of information, telecommunications opens up a new horizon for improving service to the citizen. The challenge in acquiring these services is not only a question of using the right technology; it is also a question of obtaining that service at as low a price as possible. Competition is the answer to both questions.

It is unquestioned that the current FTS2000 program, has brought high-quality, modern telecommunications services to the government at or below commercial market prices. From the time of award in 1988 to the present, the price per

minute charge for an on-net FTS2000 long distance call has decreased significantly. At the same time, however, costs for local services used by the Government have risen 15 percent. When one realizes that a substantial portion of the Government's telecommunications expenditures are on local services, the urgent need to expand the benefits of competition to this area becomes apparent.

Mr. Chairman, the refined GSA strategy gives the Government the opportunity to gain the benefits derived from competition, -- efficiency, technological innovation, new services, lower prices -- for the significant percentage of Government telecommunications expenditures associated with monopoly local services. The strategy restores reliance on the market that Congress intended. Under any analysis, this result is superior to that proposed under the strategy prior to the refinement. By focusing only on facilities-based entry for the MAA competitions, the pre-refinement strategy risked locking-up monopoly local markets from competition for 3-5 years.

FTS2000 is a successful program because competition is the cornerstone of its foundation. In 1987, the Program sought offers from all market participants. Vendors, ***including*** systems integrators and the Regional Bell Operating Companies, competed for two contracts to provide long distance services to the Government. Then, the two winning vendors, Sprint and AT&T, competed for each other's market over the life of the Program.

All that competition yielded unprecedented technological and price benefits to the government. For this reason, AT&T supports the Government's efforts in the refined strategy to obtain the full benefits of competition by including all aspects of local and access services.

Indeed, AT&T believes the refined strategy should be and can be ***implemented without any delay***. By allowing all carriers to bid on any or all portions of the Government's service needs as soon as they can meet those needs, the strategy will help extend competitive procurement to all service areas, including local, as soon as competition develops. The strategy does not, contrary to some suggestions, lock the Regional Bell Operating Companies out of long distance. Rather, the strategy gives added incentive to those companies to open their markets to comply fully with the Act. The procurement structure enables them to become active participants during the acquisition term as soon as they meet the criteria for long distance entry established by the Telecom Act. Furthermore, and equally mandated by the Act, the refined procurement strategy would end the years of monopoly acquisition of local service by allowing competitive bids as soon as competitors can meet the Government's needs for more services.

It is no wonder, then, Mr. Chairman, why Regional Bell Operating Companies are seeking a delay of the Post-FTS2000 Program, or at least a delay in including local services within its scope. Competition means they will lose their ability to

charge monopoly prices to the Government and have the taxpayers foot their bills. Competition will push their prices toward real costs, thus requiring them to become efficient or lose business. Competition means customers will have real choices, and those customers that are rational will choose local carriers that are good, fast, smart, and innovative. In short, competition means they will have to change the way they do business and actually run the risk of losing customers to potentially superior firms.

If the Government's procurement of local services on a competitive basis pursuant to the refined strategy is delayed, would-be competitors like AT&T will not be the only loser. The taxpayers will lose as well.

History Supports the Government's Refined Strategy

FTS2000 has been a Government success story. Replacing a fractured, outdated telephone system, the Program was designed to reduce government management of telecommunications and promote competition and competitive commercial practices, all with an eye toward reducing costs. These results were achieved, and Government studies have shown that this vendor-managed system has brought great savings to the Government.

The system, however, like all commercial and Government activity, can be improved. Indeed, lessons learned from the program support a modification to

the old acquisition approach. For example, vendors who did not receive a contract, lobbied against the program, diverting scarce Government resources from providing citizen service to intensive oversight of the Program. In addition, many contract modifications took an inordinate amount of time to complete, leaving agencies to wait for technology. The limited ability to obtain solutions outside of a central contracting process at GSA led to some counter-productive behavior.

We trust that the refined strategy will assure changes to address prior shortcomings. For instance, we expect the modification process to be incorporated in the post-FTS2000 Program to allow the rapid infusion of new technology. For example, when our wireless technology for local services is brought to market, we would like the ability to bring this service under the contract quickly to assure that benefits flow expeditiously to agencies.

Guiding Principles for Today's Realties

In an effort to address the lessons learned from the FTS2000 Program, as well as changes in Government and the telecommunications market, the Government should be guided by fundamental principles in the establishment of an acquisition strategy. Specifically:

- The Government should provide a Government-wide buying vehicle/process to be used by all agencies. A Government-wide contracting vehicle reduces the administrative cost of procurement.

- Agencies should have the discretion to purchase commercial telecommunications services at any time. By vesting purchasing discretion in agencies, the Government avoids the inherent problems created by a "one-size-fits-all" approach, allowing agencies to appropriately meet their needs as they arise.

- Government requirements should be expressed in terms of commercial, off the shelf items/solutions. This expression is consistent with recent procurement reform initiatives, and it makes practical sense, as the Government will save the cost of designing unnecessarily unique solutions.

- Vendors, when legally and technically able to do so, should be able to offer available solutions at any time to the agencies. Under these circumstances, new technologies and solutions will be marketed to the agencies in a commercial-like manner, again, consistent with recent procurement reform initiatives.

Overall, these principles seek to free the Government from a process-driven scheme of acquisition where needs may be subordinated to procedures for

contract administration to one where needs and their efficient fulfillment dictate the acquisition. Letting agencies procure needed services at any time also avoids "locking out" would-be competitors who might have only recently been able to enter the market.

The Refined Strategy Is Consistent With These Guiding Principles

The Government's refined strategy for the Post-FTS2000 Program is consistent with these principles. The strategy employs two general contract approaches for the provisioning of services. Through the FTS2001 contract, the strategy will result in competitive long distance services contracts being awarded to up to three vendors. Under several Metropolitan Area Acquisitions (MAAs), the government will procure local services. In each contracting activity, there exists the option to compete for the ability to extend service provisioning into the other. For example, if a Regional Bell Operating company wins an MAA contract, it may compete for the provisioning of FTS2001 services as soon as it is legally and technically able to do so.

The refined strategy eliminates the problems associated with maintaining flexibility for the Government in a changing environment. By keeping the scope of both acquisition constructs broad, and issuing them as Government-wide activities, agencies will be able to partake of them as the market and their needs evolve. Likewise, as vendors cross into different realms of service provisioning,

they too will be able to offer services as they arise in the commercial market. At the same time, the refined strategy avoids the pitfall of the previous strategy by allowing vendors to bid on local services now, without artificially delaying these procurements until such time as local competition develops.

The fact is that different competitors will take different approaches to entering the local market, and competitive benefits may be achieved by customers even before full facilities based competition is achieved. The Telecom Act recognized this fact and dealt with the 3 different approaches to market entry: facilities based entry, entry based on acquisition of unbundled network elements, and resale. By delaying competitive procurement until facilities-based competition was established, the earlier procurement strategy risked retaining monopoly acquisition of local services even after competitive entry, as envisioned by Congress, had occurred. Now, by allowing competitive bids to be considered for local service as soon as competitors are able to bid, the GSA has restored a reliance on the marketplace, and this is what Congress intended to be the model.

In sum, Mr. Chairman, the refined strategy represents a positive step toward securing the benefits of the Telecom Act for the Government. It gives the local companies an incentive to comply with the Act, and as a result, positions the

Government to best capitalize on market changes while realistically acting to fulfill current needs.

AT&T Will be an Aggressive Competitor in the Local Market

Mr. Chairman, I want to assure you of the obvious: if GSA's efforts to obtain on a competitive basis all telecommunications services used by the Government are supported, the Government will see the benefits of competition in local services as well. And AT&T will be in the forefront of those seeking the Government's business with innovative approaches.

You may already have heard about two recent AT&T announcements that typify the sort of excitement that competition can unleash. AT&T has already introduced, and has in the market in 45 states, AT&T Digital Link service, that enables large customers to directly connect their locations to AT&T's 4ESS™ Switches, bringing to those customers' local service needs the same advanced features functions, and discounts enjoyed by those customers with their long distance services. I am pleased to report that if the rate at which commercial customers are signing up is any indication, we at AT&T believe we have introduced something of great value to customers, and something that the Government might be interesed in as well.

Even more exciting is our recently announced fixed wireless technology, a technological breakthrough that we will be trialing next year. Fixed wireless, of course, is not new. But the quality, security and versatility this will offer, we believe, is.

These are but examples of innovations starting right now that AT&T and other companies will bring to a competitive market. There was great wisdom in the Telecommunications Act of 1996, and we are only beginning to see the benefits the market will receive if the Act is implemented as intended.

Local Companies Already Are Seeking to Undermine the Strategy

Mr. Chairman, based on what I am told of the aggressive lobbying efforts over the past few weeks, I am sure you will hear a lot of talk from some companies currently providing local services that the refined strategy is unfair. As they did during deliberations on the Telecom Act, these companies consistently complain that by allowing the competitive vendors the option to provide local services before the monopolists can enter long distance, the government has "un-leveled" the playing field. Mr. Chairman, this argument was considered and rejected during the Telecom Act deliberations. The rationale for rejecting this argument was sound then and remains sound now.

The Telecom Act is not designed to protect individual competitors. It is designed to promote competition. Thus, Mr. Chairman, "fairness" needs to be measured from the perspective of the beneficiaries of competition -- in this case the Government and taxpayers. It is ***not*** "fair" to enable the Regional Bell Companies to continue charging monopoly prices until they are able to enter long distance markets. It ***is*** fair to secure the benefits of local competition as soon as possible, without artificial delay, and to allow the Regional Bell Companies to bid on the Government's long distance needs as soon as they have complied with the requirements of the Telecom Act.

As an incentive to comply with the Telecom Act, the Bell monopolies are required to fully open their markets to competition as a precondition to their in-region long distance entrance. This "sequence," established by Congress, is not only fair but prudent. It recognizes that monopolies, especially ones that control the local networks needed initially by all competitors, have no incentive to permit competition if they are allowed to enter adjacent markets before their bottleneck monopolies are broken. Congress resolved this issue correctly last year. Now, using arguments of "fairness," the regional bell companies ask the Government to purchase local service as if the Act had not been passed -- from existing monopolists, at high prices, and without competition. That result, Mr. Chairman, aside from being wasteful to the taxpayer, simply makes no economic sense.

Acquisition Reform Also Promotes Use of the Refined Strategy

Mr. Chairman, the bi-partisan acquisition reform efforts of the last two Congresses also prompts a new acquisition modality along the lines of the refined Post-FTS2000 Acquisition Strategy. Through the leadership of Senators Glenn, Roth, Thurmond, Nunn, Warner, Levin , Cohen, and Congressmen Clinger, Spence, Conyers, Collins, and Dellums, the Government has shifted its focus from a process and regulation driven system, to one directed to the acquisition of commercial items through commercial practices. The implementation of this reform has been carefully managed by the Administration, notably, the Office of the Vice President and OFPP Administrator Steve Kelman.

Under the Federal Acquisition Streamlining Act and the Federal Acquisition Reform Act, Congress stripped useless provisions of law from the code, re-defined commercial items to include services, streamlined the manner in which commercial items are acquired, and reduced the labor-intensive audit processes associated with acquisition.

Under the Clinger-Cohen Act, Congress explicitly repealed the Brooks Act, placing emphasis on agency discretion in buying and de-emphasizing overly-structured "mega-buys." New agency Chief Information Officers closely watch technology buying and implementation, and agencies exercise the discretion necessary to procure as they need to fulfill their statutory requirements.

The net result is that the Government stands unshackled from an outmoded acquisition system that, at times, emphasized form over substance. Agencies now have the flexibility to procure for their needs in our rapidly changing environment.

Conclusion

In the past, we have supported mandatory contracts for mandatory use through one agency. But, in the last several years, the world has changed significantly. Congress has enacted a wholesale reform of the telecommunications industry and changed fundamentally its acquisition system. The current FTS2000 approach -- which did much to deliver low long distance prices -- is less desirable than a wide-open, commercial approach, recognizing the eradication of market barriers aided by Congressional reform.

Mr. Chairman, Congress stands at a crossroads. It can continue on the path it set out on with the Telecom Act, opening the telecommunications market and bringing benefits to all consumers, including the Government. Or, it can retreat from its bold decision last year, sustain the inefficiencies of a monopoly local services market, and as our country enters the third millennium, resurrect a high-tech Berlin Wall for generations to come.

We believe that Congress should stand by the Telecom Act, and the refined strategy represents a clear opportunity to do so. The competition it promotes will bring savings to the Government at a time when resources are scarce.

Mr. Chairman, thank you for the opportunity to testify today. I would be happy to address any questions you or the members may have.

Addendum to Statement of R.J. Lombardi
March 12,1997

Pursuant to House Rule XI (g)(4), and Rule 12 of the Rules of Procedure for the Committee on Government Reform and Oversight for the 105th Congress, the following is a listing of any Federal grants and contracts (other than classified grants or contracts) received by AT&T Government Markets in the previous fiscal year:

AT&T is one of two incumbent contractors for the FTS 2000 telecommunications network. Under this "mandatory use" contract, with an estimated annual revenue in excess of $500 million, we have entered into a number of modifications to that contract through the General Services Administration to provide additional services to federal end-users. Based on the Year 7 recompetition within the existing FTS 2000 contract, AT&T was awarded a 76% share of the applicable traffic under the contract, and the Department of Treasury was reassigned to AT&T, effective December 8, 1995.

In 1996, AT&T signed the DISN Transition Contract (DTC), with an estimated value over the life of the contract of approximately $270 million.

In addition, in 1996, AT&T Government Markets was awarded contracts:

--from GSA for their Multiple Award Schedule 70E, an IDIQ contract with no minimum revenue guarantee;

--from the State Department for their Passport Center, with revenue to offset our call center costs to be determined based on usage by the public;

--from FEMA for disaster recovery, an IDIQ contract;

--from NIH as part of their CIO-SP program, as a team member with no minimum revenue guarantee;

--from the Federal Home Loan Bank Board for their UNIPLAN; and

--from the Department of Defense for the Defense Research and Engineering Network Inter-Site Service Contract, an IDIQ contract with an maximum estimated value over the life of the contract of $430 million.

In 1997, AT&T Government Markets has been competitively awarded contracts from the Department of Defense for their DISN Transmission services, with an estimated value over the life of the contract of up to $5 billion; for their DISN Videoteleconferencing services, with a ceiling amount over the life of the contract not to exceed $125 million; and their Hawaii Information Transfer System (HITS), with an estimated value over the life of the contract of $291 million.

Mr. BURTON. Mr. Lombardi, I guess I made a mistake by saying I'd let you fudge a little bit beyond the 5 minutes. If the panel could try to stay close to 5 minutes, I'd appreciate it. I don't want to start throwing the gavel. You know, it slips out of my hand every once in a while, so I want to be real careful.

Our second witness is Mr. Jerry Edgerton, vice president of MCI Government Markets. He oversees strategic initiative sales and implementation of MCI services in the Federal marketplace.

Mr. Edgerton.

Mr. EDGERTON. Good afternoon, Mr. Chairman, and distinguished members of the committee. Thank you for the opportunity to come before the committee to share MCI's view on the strategy of the General Services Administration has announced for acquiring telecommunications services as the existing FTS2000 contracts come to an end and local service competition begins.

MCI also commends the efforts of the GSA, the Interagency Management Council, and Congress to involved all interested parties in developing and analyzing strategies for acquiring telecommunications services to meet the Federal Government's requirements in this very dynamic environment.

MCI takes great pride in serving our Federal customers. MCI has competed for and won the privilege of providing telecommunications to the Government, outside the scope of FTS2000. Our services support critical missions: military command-and-control, air traffic control, global information services, and legislative communications, for the most demanding customers.

We speak today in support of moving forward aggressively with the strategy that years of experience, discussion, and debate have produced. The time for talk has now passed. It is time to move from the legal and political maneuverings of the lawyers and lobbyists to competition based on the merits of the respective service offerings that meet the customers needs. Further delay will yield no benefits.

Fundamental changes have been mandated in Federal procurement under the leadership of this committee. These changes emphasize on competitive market forces, commercial practices, and plain old common sense in obtaining best value from procurement decisions. After years of effort, Congress has also passed a comprehensive rewrite of the Nation's laws governing telecommunications to reform regulation and to promote competition across the entire industry.

The GSA and the IMC have framed a telecommunications procurement strategy that is consistent with the dictates of recent legislative reforms in both Federal procurement and telecommunications. The strategy maximizes customer choice and competition, while retaining the flexibility to respond to a rapidly changing environment.

MCI knows competition. We know no other way of doing business. Of the world's top telecommunications companies, MCI is the only one that has earned every single customer through competition. History demonstrates the benefit of competition in providing customers choice, innovation, and quality, along with an overall 72 percent reduction in price.

We look forward to continuing that tradition and competing for more of the Government's local and long-distance service. Much as we did 20 years ago, MCI anticipates breaking new ground to extend benefits to local competition.

We have already invested over $1 billion in our local network infrastructure. In 1997, we have a capital plan of over $4 billion for our infrastructure, and about another $700 million will go into that local network. We will have local networks operating in 30 metropolitan, in 24 States, in 1997.

The current program strategy will acquire commercially available services from multiple providers and empower the user agencies to choose the best mix of those offerings and for providers to meet their specific needs. Expanded vendor participation will enable the Government to capitalize on industry expertise and investment to deliver increasingly affordable telecommunications services for both local and long-distance.

The strength of this acquisition strategy lies in maximizing customer choice. This puts the burden on industry to offer the best mix of price, technology, and quality. Failing to meet the customer's needs can result in the loss of the business to alternative providers who can meet those customer needs.

MCI believes that the current strategy, either as put forth last September or the refined version announced in February, will put the Government in the lead in promoting competition across all segments of the telecommunications market. The strategy promotes customer choice and competition in local and long-distance service and excludes no one from competing to provide any service.

With this approach, no one has any undue advantage over any other competitor. Long-distance providers can compete to provide long-distance and or local services under either strategy. Incumbent local telephone companies can compete to provide local and or long-distance services anywhere in the country. Even with the limitations imposed by the Telecommunications Act, the Bells are in an enviable position under either version of the proposed strategy.

As local service incumbents, the Bells have an advantage in the metropolitan area acquisition procurements. Moreover, within their own regions, the Bells hold the key to their future ability to compete in the long-distance market. They can accelerate the day when they can offer in-region long-distance service to Government and other customers by implementing the local competition requirements of the Telecom Act, bringing long-distance access charges to economic cost, and allowing competition to emerge in their regions.

Further delay, for any reason, however, is the one option that clearly conflicts with the goals of both Telecom and Federal procurement reforms. Postponing the FTS2000 metropolitan area acquisitions any longer will compel the Government to continue to buy long-distance and local services from the current vendors without the benefit of fresh competition.

The current strategy evolved over 4 years of study, debate, and analysis. It is sound. It has the flexibility to alter course in the future to adjust to changing market conditions and technology advances. MCI opposes further delay. Delay will continue to limit the telecommunications choices of the Federal Government customers. To maintain the status quo will deprive Federal agencies of savings

that could easily amount to millions of dollars, innovative technologies, as well as service quality improvements.

As a result of this evolving environment, GSA is now on an extremely aggressive schedule for completing the FTS2001 and the metropolitan area acquisition procurement process, and transitioning from current providers. To meet that schedule, the Government must issue the solicitation now and move out very quickly with these procurements.

In testimony before the committee last week, the Interagency Council Chairman, Frank Lalley, expressed concern about the rapidly approaching expiration of the FTS2000 contracts and the obvious need to have telecommunications resources to meet their mission needs.

MCI shares the IMC's sense of urgency about moving forward with competition. A lengthy, open, collaborative process of exhaustive analysis, careful planning, and thorough debate has produced a strategy that will maximize the customer choice and competition. Any remaining issues are procurement-related, not policy or strategy.

The time for talk is over. Let's get on with competition. We look forward to competing to meet the Government's telecommunications needs in the next millennium.

Thank you.

[The prepared statement of Mr. Edgerton follows:]

STATEMENT OF

JERRY A. EDGERTON

MCI TELECOMMUNICATIONS CORPORATION

Before the

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

UNITED STATES HOUSE OF REPRESENTATIVES

March 12, 1997

Mr. Chairman and distinguished Members of the Committee, thank you for the opportunity to come before the Committee to share MCI's views on the strategy that the General Services Administration (GSA) has announced for acquiring telecommunications services as the existing FTS2000 contracts come to an end and competition for local services begins to develop.

MCI takes great pride in serving our federal government customers. Despite limitations on customer choice imposed under the current FTS2000 program, MCI has competed for and won the privilege of providing telecommunications to the government outside the scope of those contracts. Our services support critical missions -- military command, control and intelligence, air traffic control, international dealings and legislative operations -- for the most demanding customers -- the Departments of Defense, Transportation and State and the Congress.

MCI commends the unprecedented efforts of the GSA, the Inter-Agency Management Council (IMC) and Congress to involve all interested parties in developing and analyzing potential strategies to address the substantial challenges of acquiring telecommunications services to meet federal government requirements in a very dynamic environment. MCI has actively participated in that process, submitting written comments for the record on many occasions and making presentations at three GSA-sponsored conferences on the subject in 1993, 1994 and 1995. In addition, we appreciated the opportunity to share our views on the concept

development process in testimony before the Subcommittee on Management, Information and Technology of this Committee two years ago.

We speak today in support of moving forward aggressively with the strategy that the years of study, discussion and debate have produced. The time for talk now has passed. It is time to move the competition from legal and political maneuverings of the lawyers and lobbyists to an evaluation of the business merits of respective service offerings to meet customer needs. Further delay will yield no benefits. In fact, delay will impose substantial penalties in the form of lost savings from rate reductions, unrealized productivity enhancements and wasteful administrative expenditures. MCI stands ready to compete aggressively to provide the next generation of telecommunications to federal users. Indeed, MCI urges the Committee to support GSA's efforts to proceed with competitive acquisitions without further delay.

The Proposed Acquisition Strategy Is Consistent With the Telecommunications Act of 1996 and Federal Procurement Reform.

In the years since GSA and the IMC initiated this planning process, many fundamental changes have occurred in federal procurement and telecommunications. Under the leadership of this Committee, Congress enacted comprehensive reforms to streamline federal procurement that move government more toward commercial acquisition practices that emphasize reliance on competitive market forces and plain old common sense in obtaining best value from purchasing decisions. After years of trying, Congress also passed a comprehensive rewrite of the nation's laws governing telecommunications to reform regulation and promote competition across the entire industry. Passage of these landmark laws did not end, or even slow the pace of, change. Both government and the telecommunications industry will continue to experience rapid and profound change. Indeed, change seems to be the only constant in the environment in which the government must make these important acquisition decisions.

The GSA and the IMC have framed a strategy that maximizes competition while retaining the flexibility to respond to a rapidly changing environment consistent with the dictates of recent

legislative reforms in both federal procurement and telecommunications. MCI applauds the GSA and the IMC for confidently moving away from a management approach of rigid control and central direction that limits agency alternatives to a strategy which puts customer choice and continuing competition at its center.

MCI Will Compete in Both the FTS2001 and MAA procurements.

MCI knows competition. We brought competition to the long distance industry. Indeed, competition is theology at MCI. We know no other way. MCI has earned every single one of our customers through competition. Of the top 20 telecommunications companies in the world, MCI is the only one that can say that. The history of MCI provides irrefutable evidence of the benefits of that competition. That history is one of providing customers choice, innovation and quality with a 72% reduction in the price of a long distance call. We look forward to continuing that tradition in competing for more of the government's long distance business.

We also relish the prospect of breaking new ground again to extend the benefits of competition to local service customers for the first time. MCI already has invested $1 billion in building local network infrastructure. We will invest another $700 million in 1997. By the end of 1997, MCI will have local networks operating in 31 markets in 24 states. MCI welcomes the opportunity to put that investment to work providing local services to the federal government.

The Proposed Acquisition Strategy Maximizes Customer Choice and Flexibility to Respond to Changing Market Conditions.

The government has adopted a Federal Telecommunications Service (FTS) 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 needs. Expanding vendor participation will enable the government to capitalize on industry expertise and investment to deliver increasingly affordable telecommunications services. Minimizing government investment in infrastructure also will provide flexibility to respond to

rapidly changing technology and market conditions. Market competition provides the best assurance that the FTS program offers the most technically-effective and cost-efficient telecommunications solutions on an ongoing basis. MCI wholeheartedly endorses the shift from cumbersome bureaucratic processes toward greater reliance on competitive market forces to acquire and manage federal telecommunications 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 meet customers needs at the right price.

In September 1996, GSA decided to move forward quickly with separate competitive procurements to acquire local and long distance services under multiple, overlapping contracts and to evolve toward acquiring all services on an integrated, end-to-end basis nationwide once telecommunications reform's promise of competition across all markets becomes reality. The FTS2001 procurement program will award multiple contracts to make expanded and enhanced global long distance services available nationwide to replace the expiring FTS2000 contracts. On a parallel track, GSA will conduct Metropolitan Area Acquisitions (MAAs) to acquire local services on a competitive basis for the first time in regions all across the country. The strategy recognized that competition in all telecommunications markets will develop on different schedules over the next several years and contemplated a solicitation for integrated local and long distance services in 2001 or 2002.

The September 1996 strategy enjoyed broad industry support. The only area of continuing debate centered on when the government would purchase in local and long distance services bundled together in an integrated package. Some argued that the Telecommunications Act of 1996 required the government to purchase services on an integrated basis to provide

agency customers "one stop shopping." Others argued that the Act required GSA to postpone soliciting any integrated offerings until all companies had authority to provide all services. In February 1997, GSA announced refinements to the strategy to permit FTS2001 contractors to offer local services and MAA contractors to offer long distance services on an optional basis when and where they were ready to do so.

The strength of the proposed acquisition strategy -- consistent with recent reform initiatives in both federal procurement and telecommunications -- lies in maximizing customer choice that puts the onus on industry to offer the optimal mix of price, technology and quality. Failing to meet customer needs will result in loss of the business to alternative providers either within the FTS program or outside of it. Nothing in the acquisition strategy as outlined in September would have prevented government customers from acquiring local and long distance services on an integrated basis immediately. They just would have done so under independent competitive procurements. The February 1997 refinements simply enable government customers to take advantage of that option in the context of either FTS2001 or the MAA program that may offer economies from aggregating traffic volumes.

Either the "original" September strategy or the "refined" February version will enable the federal government to assume a leadership role in promoting competition across all markets consistent with the intent of federal procurement reform and the Telecommunications Act. Both versions of the strategy promote customer choice and competition in local and long distance services. Neither excludes anyone from competing to provide any service. Neither gives any company or industry segment any undue advantage over any other company or industry segment.

Long distance providers can compete to provide long distance and/or local services under either strategy. Incumbent local telephone companies can compete to provide local and/or long distance services anywhere in the country, except for the Telecommunication Act limitations on the Regional Bell Operating Companies provision of long distance services in their own regions. Even with those limitations, the Bells have an enviable position under either version of the proposed strategy. As local service incumbents, the Bells have a decided advantage in the MAA

procurements. Moreover, even within their regions, the Bells themselves hold the keys to their future ability to compete in the long distance market. They can accelerate the day when they can offer in-region long distance service to government and other customers by implementing the local competition requirements of the Telecommunications Act, bringing long distance access charges to economic cost, and allowing competition to emerge in their regions.

Competition Delayed is Competition Denied – Delay Will Cost the Government and the Taxpayer.

Delay, however, is one option that clearly conflicts with the goals and intent of both telecommunications and federal procurement reforms. Postponing the FTS2001 and MAA solicitations any longer will compel the government to continue buying long distance and local service from the current vendors on a sole source basis without competition -- depriving federal customers of the cost savings, technology advances and service improvements that increased choice and competition will produce. Continuing monopoly domination currently limits customer choice on the local service side while "mandatory use" policy limits customer choice under the current FTS2000 program.

Delay will cost the government millions in savings lost from dealing with providers that have no competitive pressure to lower their rates. Delay will cost the government in denying federal agency users and citizens access to innovative technologies and service improvements that will enhance productivity and convenience. Delay will cost the government in added administrative expense as agency customers needlessly conduct independent procurements to meet demands for alternatives to the limited choices under FTS common user programs.

The Government Needs to Move Forward.

GSA has laid out an extremely aggressive schedule for completing the FTS2001 procurement process and making the transition from existing providers within the six months extension of the existing FTS2000 contracts. To have any chance at meeting that schedule, the

government must issue the solicitation now and move out very quickly with these procurements. Every day of delay will force taxpayers needlessly to bear the costs of limited choice. Moreover, every additional day of delay diminishes the government's role in making the Telecommunications Act's promise of competition across all markets a reality.

In his testimony before this Committee last week, IMC Chair Lalley expressed concern about the rapidly approaching expiration of the FTS2000 contracts and the obvious need to have telecommunications resources available to meet mission needs of federal agencies. MCI shares the IMC's sense of urgency about moving forward with competition. A lengthy open, collaborative process of exhaustive analysis, careful planning and thorough debate has produced a strategy that will maximize customer choice and competition to benefit the government and the taxpayer. The time for talk is done. Let's get on with the competition. MCI looks forward to competing to meet the government's telecommunication needs in the post-FTS2000 era.

ENCLOSURE (1). **Federal Contracts or Grants Awarded to MCI this fiscal year and the two preceding fiscal years.**

Department	Agency	Program Name (if any)	Contract Number
Commerce	USIA		IA0300-C5234519
Commerce	USIA		IA0300-S6234656
Commerce	USIA		IA2401-C0243816
Commerce	USIA		IA2401-C1243920
Commerce	USIA		IA2401-C3244347
Defense	AAFES		94-020-96-54
Defense	DECCO		DCA200-95-C-0038
Defense	DISA		DCA200-95-D-0079
Defense	DISA	BOA	DCA200-96-H-0044

Department	Agency	Program Name (if any)	Contract Number
Defense	DITCO		DCA200-96-C-0030
Defense	DITCO	DS/BMS-C	DCA200-96-D-0096
Defense	DITCO	BOA	DCA200-96-H-0077
Defense	DITCO	BOA	DCA200-97-H-0048
Defense	Naval Research Lab		N00014-96-C-2015
Defense	NEXCOM	USS JFK	NNA250-96-C-0009
Defense	US Army		DACW05-95-C-0049
Defense	US Army		DACW35-96-P-0147

Department	Agency	Program Name (if any)	Contract Number
Defense	US Army		DAHA90-95-M-0015
Defense	US Army		DAHC92-95-P-0245
Defense	US Army (NGB)		DAHA90-96-M-0007
Defense	US Navy		N00600-95-C-0525
Defense	US Navy		N00600-95-R-1383
Defense	USAF		DCA200-95-C-0038
Defense	USAF	Peterson AFB	F0560496MR525
Defense	USAF	Peterson AFB	F0560497MR500

Department	Agency	Program Name (if any)	Contract Number
Defense	USAF		F29601-95-C-0051
Energy			95AK39999
Energy			DE-AP04-97AL76593
Energy	Argonne National Lab		060058
Executive	NSA, via MPO		MDA904-95-C-7032
Executive	NSA, via MPO		MDA904-95-P-Z372
Executive	NSA, via MPO		MDA904-96-C-0050
Executive	NSA, via MPO	Dockmaster	MDA904-96-C-0154

MCI PROPRIETARY

Department	Agency	Program Name (if any)	Contract Number
HHS	CDC		96-107(N)
HHS	FDA		223-96-5594
Independent	NASA		S-47360-E
Independent	NASA		S-47371-E
Independent	NRC		DR-95-0528
Independent	USPS		483083-96-F-0262
Justice	FBI		J-FBI 96-037
Legislative	GAO		95-1800-1412
Legislative	GSA	GSA Schedule	GS-35F-2033D

Department	Agency	Program Name (if any)	Contract Number
State			S-OPRAQ-97-A-0019
State	DTS		S-DTSPO-94-C-0035
State	DTS		S-DTSPO-95-B-0021
State	DTS		S-DTSPO-95-C-0020
State	DTS		S-DTSPO-95-C-0069
State	DTS		S-DTSPO-95-C-0082
State	DTS		S-DTSPO-95-C-0083
State	DTS		S-DTSPO-95-C-0087

Department	Agency	Program Name (if any)	Contract Number
State	DTS		S-DTSPO-95-C-0099
State	DTS		S-DTSPO-96-B-0015
State	DTS		S-DTSPO-96-B-0016
State	DTS		S-DTSPO-96-B-0017
State	DTS		S-DTSPO-96-B-0018
State	DTS		S-DTSPO-96-B-0040
State	DTS		S-DTSPO-96-B-0051
State	DTS		S-DTSPO-96-C-0009

Department	Agency	Program Name (if any)	Contract Number
State	DTS	DCSP	S-DTSPO-96-D-2004
Transportation	FAA		DTFA05-95-P-30708
Transportation	FAA, via DITCO	FAATSAT	DCA200-96-D-0079
Treasury	Bureau of Public Debt		TPD-96-C-0007
Veteran Affairs	VCS		V101(93)P-1323

ENCLOSURE (2).

The following are the products or services for which MCI is a supplier to the federal government:

- Domestic private line/long distance voice and data telecommunications service
- International private line/long distance voice and data telecommunications service
- Toll free voice telecommunications service VIA "800" number
- Virtual network telecommunications services
- Voice telecommunications service using debit cards
- Internet access
- Long distance telecommunications service for cellular telecommunications
- Digital data telecommunications service
- Frame Relay telecommunications service
- Integrated Services Digital Network (ISDN) telecommunications service
- X.25 packet switching telecommunications service
- Asynchronous Transfer Mode (ATM) telecommunications service
- International and domestic satellite voice and data telecommunications service

Special Programs

- **Defense Information System Bandwidth Management**
Bandwidth Management services, including construction of telecommunications system backbone, creation of a private/dedicated voice/data network.

- **FAA Leased Interfacility NAS Communications System**
Construction of digital backbone, creation of a private/dedicated voice/data network.

- **FAA Telecommunications Satellite System**
Construction of earth stations, provision of domestic satellite service.

ENCLOSURE (3).

Revenue from federal government contracts relevant to the Disclosure of Federal Grants and Contracts by Public Witnesses:

	Revenue from federal government contracts	
	-- FY 1995 --	-- FY 1996 --
Civilian Agencies	$ 91,906,000	$112,421,000
Defense-Related Agencies	$143,208,000	$200,369,000
FAA/DOT/NASA	$ 86,885,000	$ 93,541,000
Other Agencies (any not included above)	- 0 -	$ 3,999,000
Government Markets Total	$321,999,000	$410,330,000

Note 1 - **Report Date: February 26, 1997.**

Note 2 - **Data Source: PARTS**

Note 3 - **December, 1996 figures not yet available.**
FY 1996 figures have been annualized using Jan-Nov actuals.

Mr. BURTON. Thank you, Mr. Edgerton.

We will now hear from our third witness, Mr. Don Teague, the vice president and general manager of Sprint Government Systems Division. He is responsible for strategic initiatives, market share, and contract compliance for Sprint services to the Federal Government.

Mr. Teague.

Mr. TEAGUE. Thank you, Chairman Burton and members of the committee.

As indicated, my name is Don Teague. I'm responsible for all of Sprint's Government business, to include the FTS2000 contract and the follow-on FTS2001. That applies to Federal, State and local governments.

As you all know, Sprint is a global telecommunications company, and in 1988, we were extraordinarily honored to have been one of the awardees of the FTS2000 contract. It was an amazing and marvelous undertaking by the GSA and Members of Congress, and we continue to thank you for that.

That 10-year contract that provided long-distance, voice, data, and video telecommunications services to the Federal Government has emerged as the largest, most successful civilian contract of its kind ever. We stand by that record and believe that's an extremely important precedent to be dealt with as the FTS2001 and MAA contracts are considered by this committee.

The program has enjoyed broad bipartisan support. It was awarded and implemented during the administrations of President Reagan and Bush, and the FTS2000 contract was cited in a very prominent way as a model procurement by President Clinton's National Performance Review. Again, we take great honor in that citation.

Today, it is a state-of-the-art network. There is no network in the Federal Government, in the civilian side of the house, that can compare in terms of technology, innovation, and the quality of services brought to the Federal Government and, in turn, to the many millions of Americans who benefit directly by the Government-sponsored programs.

FTS2000, according to the Interagency Management Council's most recent estimate, will, in fact, save the American taxpayers $5 billion over the life of the 10-year contracts. That is not a Sprint statistic; that's a user statistic. The contracts currently serve nearly 2 million customers on a national scale, to include Guam, Puerto Rico, and the U.S. Virgin Islands. We applaud the GSA for extending the reach of FTS2001 beyond those territories.

GSA's strategy for the Post-FTS2000 procurement has undergone significant change. On February 17 of this year, the GSA announced revisions to its original strategy that made some improvements but also raised some significant concerns. Since the announcement is in summary form, our conclusions regarding GSA's new strategy can only be tentative.

Under its current proposal, the GSA will procure two sets of contracts: the 2001 contracts for network transport and local access; and metropolitan area acquisition, or MAA, contracts for local access, local transport, and local loop service. In addition, each set of contracts may contain options which, if exercised, would permit

contractors to offer end-to-end service, the most desirable form of service as we proceed.

Sprint supports the bundling of local and long-distance service in the FTS2001 acquisition. We have been long supporters of that, and we are major contributors to the body of knowledge association with the Telecom Reform Act of 1996. Unlike the RBOCs, the long-distance providers are under no statutory constraints against offering both local and long-distance service. By procuring local and long-distance service in a bundled fashion, the GSA can forego the need for a separate set of procurements directed to the local market.

However, GSA's strategy for the MAA procurements permits the RBOCs to propose "optional" long-distance services before they have implemented the requirements imposed by the Telecommunications Act for providing long-distance service. Sprint believes that the MAA should not permit the RBOCs to propose long-distance services they cannot legally provide. The prices and features included in such "options" are so dependent on future regulatory and market conditions that they cannot provide a meaningful basis for competition.

There is another, more fundamental problem with the GSA strategy for procuring the MAA contracts. GSA plans to begin these sweeping procurements this calendar year and award MAA contracts covering approximately 80 percent of the Federal customers by 1999, according to the GSA report, pages 2–6. This timetable has been devised without regard to whether the area covered by the MAA contract has, in fact, met the Telecommunications Act's test for meaningful competition.

The act's test requires the presence of a facilities-based carrier able to provide a second dial tone as an alternative to the RBOC's monopoly service. It's just that straightforward. GSA should not undertake a nationwide program for procurement of local telecommunications service without considering Congress' very clear policy judgment as to when meaningful local competition actually exists.

When the RBOCs open their monopoly markets, as the act requires, GSA should permit them to compete for bundled local and long-distance telecommunications requirements. This procurement strategy will, in fact, give the Government the best possible deal, objective No. 1, based on the largest aggregated volume of traffic. In this environment, GSA will be able to properly evaluate end-to-end offerings from the RBOCs and the traditional long-distance carriers.

It will also allow the Government to use its role as one of the largest buyers of telecommunications service to engender incentives that will accelerate the implementation of the act's important goal of eliminating local monopolies. Therefore, Federal purchasing leverage will, in fact, be a reality.

Under the strategy we propose, the Government will be able to lock in the dramatic savings it has already achieved through competitive procurements of long-distance service. It will maximize the possibility of even more dramatic savings, and it will avoid duplicative procurements, which are very expensive and very hard to manage.

As currently structured, the GSA's procurement strategy will not provide the benefits that made FTS2000 successful. It is our opinion that these benefits include not only lower prices, which are obvious and have been reported many times, but also the efficient management of the FTS2000 networks and the timely technology infusion which have benefited the member agencies as their missions have rapidly evolved.

GSA's February 17 proposal effectively abandons all pretense of network management or allocation of traffic among vendors. The selection of vendors and the implementation of orders will be left to the individual agencies. This may produce chaos in meeting the Government's requirements and is most certainly inconsistent with the evolution of logical networks.

The burden on agencies will be significantly increased, not only by GSA's abdication of its former role, but also by GSA's use of numerous contracts that include identical services. Sprint does not know of any commercial customer that opens its telecommunications needs to numerous contractors and then continuously competes network requirements among them. This strategy is also self-defeating.

GSA's procurement approach avoids meaningful revenue guarantees, contains multiple overlapping contracts, and significantly departs from sound commercial practices. This approach has already diminished competition for other telecommunications procurements. There was only a single bidder, GTE, on the recent Federal wireless telecommunications services contract, a so-called niche contract, in Post-FTS2000.

Both Sprint and AT&T, the two FTS2000 incumbents, chose to no-bid GSA's procurement for commercial Internet and electronic mail access. In each case, we have articulated our views in a detailed letter to the administrator of the GSA and other executives, indicating these niche contracts are not consistent with the evolution of Government needs.

In summary, GSA should follow the policies of the Telecommunications Act and construct a procurement with meaningful traffic commitments. To the extent consistent with the Government's requirements, the GSA should also rely on standard commercial terms and conditions.

If these suggestions are implemented, the GSA is able to replicate the management structure that made FTS2000 a success, the savings in time and money that the Government has already achieved and will continue to achieve for many years to come.

This concludes my formal statement. I am pleased to answer any questions.

[The prepared statement of Mr. Teague follows:]

STATEMENT OF DON TEAGUE

Vice President and General Manager

Sprint Government Systems Division

Thank you Chairman Burton and Members of the Committee. My name is Don 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 telecommunications services to the United States and state governments under FTS2000 and other contracts. I appreciate the opportunity to appear before you today and share Sprint's perspective on the Post-FTS2000 program.

Sprint is a global telecommunications company, with annual revenues exceeding $14 billion and over 50,000 employees. Sprint is 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 government telecommunications market. In 1988, the General Services Administration awarded Sprint one of the two, 10 year contracts under the FTS2000 program to provide long distance, voice, data and video transmission for Federal Government agencies.

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. FTS2000 was cited as a model procurement by President Clinton's National Performance Review.

Today, FTS2000 is a state-of-the-art, digital telecommunications system that uses fiber optics and other advanced technology to provide high quality long distance, voice, data and video transmission for Federal. According to GSA, the program will save the U.S. taxpayers $5 billion over the life of the 10 year contracts. The General Accounting Office reported in May, 1996, that the Department of Defense could have saved over $3.5 million a month by switching voice traffic to FTS2000. In addition to direct savings, FTS2000 is also saving millions of dollars through the elimination of agencies' costs to plan and manage their own telecommunications acquisitions. FTS2000 serves more than 1.7 million customers at literally thousands of locations throughout the United States, including Guam, Puerto Rico and the U.S. Virgin Islands.

The FTS2000 contracts awarded to Sprint and AT&T will expire in late 1998. Although Sprint prefers that the follow-on procurement proceed expeditiously, this acquisition should not go forward until GSA establishes a workable plan that will insure the program's continued success. In addition, the procurement comes at a critical time for the entire telecommunications industry. Last year, Congress passed the Telecommunications Act that made sweeping changes to the structure of our industry. Many of the Act's benefits will only be achieved after the Regional Bell Operating Companies (RBOCs) complete the steps defined in the Act to open their monopoly markets for local telecommunications service to competition. Currently, monopoly local exchange carriers' charges represent over 98% of the access costs paid by Sprint to connect its network to local exchanges.

The Telecommunications Act established a carefully calibrated plan that will permit the Regional Bell Operating Companies (RBOCs) to provide long distance telecommunications service after--and only after--they open their markets to meaningful competition. The Act specifies both the nature of the competition that must be available, and the process for determining whether the required competition exists in a particular area.

The procurements that GSA is planning for post-FTS2000 service may well be the largest acquisition of telecommunications service in the country. It should be conducted in a manner that encourages the RBOCs to accelerate their efforts to open their markets as the Telecommunications Act envisions. As one of the largest buyers of telecommunications in the world, the U.S. Government has the power to prod the industry into more competitive structures that benefit all consumers. This was the result of the original FTS2000 awards which, by establishing strong and continuing competition between two long distance providers, increased competition throughout the entire long distance industry.

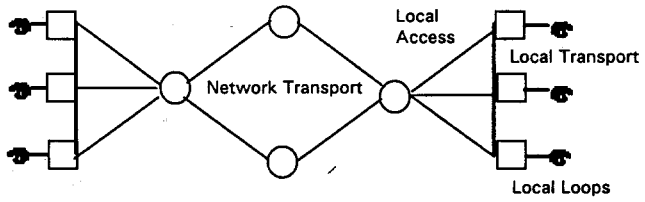
GSA's strategy for the post-FTS2000 procurement has undergone significant change. GSA's initial plans for the procurement provoked questions from some members of Congress as to whether the acquisition supported the policies of the Telecommunications Act and other statutes. On February 17, 1997, GSA announced revisions to its original strategy that made some improvements, but also raised numerous, unanswered questions. Since the announcement is in summary form, and omits numerous details, our conclusions regarding GSA's new strategy can only be tentative. Our preliminary review raises questions as to (1) whether GSA has adequately addressed the concerns raised by Congress and others, including Sprint, (2) whether the procurement is properly structured to service agencies' telecommunications needs, and (3)

whether the post-FTS2000 procurements will fulfill their potential of encouraging prompt implementation of the Telecommunications Act.

Under its current proposal, GSA will procure two sets of contracts: the FTS2001 contracts for network transport and local access, and the Metropolitan Area Acquisition or MAA contracts for local access, local transport, and local loop service. In addition, each set of contracts may contain options which, if exercised, would permit contractors to offer end-to-end service. As described by GSA, the breakdown of services between these overlapping contracts is:

FTS2001 Contracts	MAA Contracts:
Required Services	Required Services
Network Transport	Local Loops
Local Access	Local Transport
	Local Access
Optional Services	Optional Services
Local Transport	Network Transport
Local Loops	

The services that GSA will procure are configured as shown in the diagram below:



At least two aspects of this plan are inconsistent with the scheme established by Congress for the regulation of the telecommunications industry.

First, GSA is permitting the RBOCS to propose long distance service before they meet the Telecommunications Act's criteria for entry into the long distance market. Second, GSA proposes to conduct "competitions" for local telephone service without regard to whether meaningful competition, as defined by the Telecommunications Act, is available in the local area.

GSA's procurement strategy permits the RBOCs to propose "optional" long distance services before they have implemented the statutory prerequisites for providing long distance. GSA states that its strategy "gives to industry the discretion of which services, as well as when and where, they would like to propose on an end-to-end, integrated basis. Industry is encouraged to move to the new end-to-end paradigm at a pace reflective of their company's individual strategic plans and abilities." (GSA February 17, 1997 Announcement, page 1).

This approach may work for the FTS 2001 procurements, which are likely to be bid by providers of long distance service who are under no legal prohibition against providing all of the services that GSA requires. However, GSA cannot use the same approach for the MAA contracts without conditioning the RBOCs' ability to offer long distance on their completion of the procedures in Section 271 of the Telecommunications Act. Then, and only then, does the Act permit the RBOCs to provide long distance service. Specifically, the Telecommunications Act prohibits each RBOC from providing long distance service until

• Facilities based competitors offer local loop and local transport in the relevant market;

• Interconnection and access arrangements with one or more facilities based competitors is fully implemented in accordance with a statutory checklist;

•The RBOC provides required assurances that it will conduct its authorized business in full compliance with statutory safeguards; and

•The FCC determines, in consultation with the Justice Department, that granting the RBOC's application to provide long distance service is in the public interest.

GSA's description of its MAA procurements contains no mention of these requirements. Rather, GSA will allow RBOCS to offer "optional" long distance services at their discretion before they have met the statutory requirements for entry into the long distance market. This acquisition approach cannot be reconciled with the procedure enacted by Congress.

From the outset of the process that led to the enactment of the telecommunications legislation, the RBOCs have steadfastly resisted attempts to open their monopolies to the benefits of competition. Among other tactics, the RBOCs have launched extensive litigation in federal court to overturn rules issued by the Federal Communications Commission that are needed to implement some of the Act's critical sections. Further, some RBOCs are apparently skeptical that the advantages of competing in the long distance markets outweigh the loss of monopoly returns in local markets. As a result, some RBOCs may be planning to delay their compliance with the Telecommunication Act's procedures, and consequently, their entrance into the long distance market until the 1999-2001 period. (The GSA Report to Congress on the FTS Program Strategy and Business Plan Analyses, page 2-7). GSA's own estimates show that the RBOCs will not likely provide bundled local and long distance service for at least two to three years. (Id., page 2-13). However, GSA intends to begin the MAA procurements in 1997. It is highly unlikely that the

RBOCs will meet the statutory conditions for entering the long distance market nationwide before the MAA contracts are awarded. Given the RBOCs' resistance, it is virtually impossible for this sweeping change to occur before initial proposals are received in 1997.

The MAA Acquisitions should not permit the RBOCS to propose long distance services that they cannot legally provide. The prices and features included in such "options" are so dependent on future regulatory and market conditions that they cannot provide a meaningful basis for competition. Moreover, the existence of the option assumes that it can be exercised during the term of the MAA contract. This is a dubious proposition, since both the FTS 2001 and the MAA contracts are of sufficiently short duration to permit GSA to conduct a subsequent, bundled procurement when the RBOCs are legally able to offer long distance service. Rather than permitting the RBOCs to propose options that cannot be exercised at the time of award, GSA should simply omit long distance service from the MAA RFPs, and permit the RBOCs to compete for the Government's long distance needs when they are legally able to do so.

GSA's February 17 announcement also states that the prices for optional services in both the FTS2001 and the MAA proposals will not be considered as part of the source selection decision. Since the option prices are not material to the selection, the RBOCs have no incentive to offer truly competitive prices for long distance service. GSA's practice is inconsistent with the strategy in many federal procurements where the proposed option prices influence the award decision. The MAA options will likely contain noncompetitive prices that serve no purpose except to give the RBOCs contractual authority to provide long distance services before they receive the required regulatory and statutory clearances.

The inclusion of optional long distance service in the MAA procurements is inconsistent with important considerations that should guide GSA's strategy. The post-FTS2000 acquisitions should adhere to the Telecommunications Act's policies, and thereby avoid contradictory positions by different federal agencies. GSA should also use its buying power to provide the maximum incentives for the speediest possible implementation of the Telecommunications Act's provisions. Properly structured, the post-FTS2000 procurements can provide a strong incentive for the RBOCs to comply with the Act as quickly as possible.

Local telecommunications costs are a relatively small part of the total Government telecommunications market. GSA has reported that of the $2.4 billion that the Government spends annually on telecommunications, only $0.7 billion is for local services. (GSA Report at 4-29). This disparity should encourage the RBOCS to accelerate their efforts to satisfy the statutory requirements for offering a broader range of services and equipment to the Government. However, if GSA lets the RBOCs propose "unevaluated options" for long distance service before these requirements are met, the RBOCs will lose an important incentive for rapid completion of the steps required by the Telecommunications Act.

There is another, more fundamental, problem with GSA's strategies for procuring the MAA contracts. GSA plans to begin these sweeping procurements this year, and award MAA contracts covering approximately 80% of Federal customers by 1999. (GSA Report, page 2-6). Many of the significant MAA procurements are scheduled for completion in 1998. This time table has been devised without regard to whether the area covered by the MAA contract meets the Telecommunications Act's test for meaningful competition. The Act's test requires the presence of a facilities-based carrier who offers a second dial tone as

an alternative to the RBOC's service. GSA's amorphous test for when an area is ripe for MAA competition only considers a few of the variables that Congress defined for determining the presence of adequate competition. For example, as part of its criteria, Congress established a delicately crafted checklist of fourteen separate elements that must be present before local competition truly exists. GSA's vaguely defined criteria include only three elements that are far less precise than Congress's checklist.

GSA should not undertake a nationwide program for procurement of local telecommunications service without considering Congress's policy judgment as to when meaningful, local competition actually exists. It is questionable at best to dedicate scarce, procurement resources to massive acquisitions in areas where Congress has determined that competition is not present. The Telecommunications Act does not authorize the FCC to apply one test of competition, and GSA to embrace another.

By undertaking competitive procurements when the law's requirements are met, GSA will fulfill two, important objectives. It will achieve meaningful competition for both local service and long distance telecommunications. At this point, GSA will be able to permit the RBOCs to compete for bundled local and long distance telecommunications requirements. This procurement strategy will give the Government the best possible prices based on the largest aggregated volume. In this environment, GSA will be able to properly evaluate end-to-end offerings from both RBOCs and traditional, long distance providers. This will likely reduce the Government's costs for telecommunications service dramatically. It will also allow the Government to use its role as one the largest buyers of telecommunications services to engender incentives that will accelerate

the implementation of the Telecommunications Act's important goal of eliminating local monopolies.

There is no question that future, Government savings in telecommunications must come from reductions in the cost of local service. GSA's statistics show that local telephone costs have actually increased since 1983. (Report at 4-30). However, under FTS2000, the Government is now paying only one-quarter of the price for long distance switched voice service that it paid under prior FTS contracts. Also, the Government is now paying about one third of the initial FTS2000 award price for bundled long distance and local access service.

Thus, future telecommunications savings are likely to come, not from the long distance industry, but from the monopoly providers of local service who have not reduced prices for at least 13 years. GSA will only achieve these savings when competitive conditions exist in the relevant markets. Until then, GSA's plans to conduct massive procurements covering 80% of the federal work force are both wasteful and contrary to statute. GSA should not declare a market ready for competitive procurements before the statutory tests are met. Congress properly entrusted implementation of our nation's telecommunications policy to the FCC and the Justice Department--not to GSA.

For all of these reasons, GSA should not attempt to obtain end-to-end telecommunications service under the MAA ground rules until GSA can obtain meaningful competition consistent with statute. Sprint recognizes that the Government will continue to require local telecommunications service until statutory competition is available. GSA should continue to procure such service as it has in the past under the current, monopoly-driven ground rules. If limited

competition can reduce the Government's costs at particular locations, GSA should attempt to obtain whatever savings are available. However, these limited procurements do not require a massive commitment of scarce procurement resources whose efforts are doomed to failure until the competition defined by Congress is available. Then, and only then, will we see significant cost reductions that have been a hallmark of the FTS 2000 program for almost ten years. At that point, GSA can conduct highly competitive end-to-end acquisitions in which both RBOCs and traditional long distance providers compete.

In the interim, GSA should proceed with the FTS2001 acquisition. Sprint supports the bundling of local and long distance service in the context of that procurement. Unlike the RBOCs, the long distance providers are under no statutory constraints against offering both local and long distance service. Although the long distance companies who would likely bid FTS2001 as prime contractors cannot provide meaningful savings in the local markets until the Telecommunications Act's tests are met, industry is better equipped than GSA to maximize whatever savings are currently available. By procuring local and long distance service in a bundled fashion, GSA could forego the need for a separate and wasteful set of procurements directed to the local market.

The strategy Sprint proposes applies to the period in which the RBOCs cannot provide long distance service. Once meaningful competition has been achieved in the local markets, and the RBOCs can legally compete for long distance awards, GSA can and should conduct fully competitive end-to-end procurements that allow all vendors--RBOCs and long distance companies--to compete. But GSA should not act as if this competition is available before it exists. Under the strategy we propose, the Government will be able to lock in

the dramatic savings it has already received through competitive procurements of long distance service. It will maximize the possibility of even more dramatic savings as meaningful competition arrives in the local market. It will also avoid wasteful procurements.

As currently structured, GSA's procurement strategy will not provide benefits that have made FTS2000 successful. These benefits include, not only lower prices, but also efficient management of the FTS2000 networks. In a period when agency procurement staffs are subject to increasing budget pressures, the FTS2000 contracts provide an efficient means for all agencies to obtain telecommunications services without establishing duplicate infrastructures for procurement and network management. The concentration of these resources within GSA has saved the Government considerable costs that will become even more significant in the years ahead.

Sprint recognizes that with the repeal of the Brooks Act, GSA lacks the legal authority to perform all functions that it undertook for FTS2000. However, both Congress and OMB are clearly able to authorize GSA to continue its current functions. There are numerous reasons for doing so. GSA's February 17 proposal effectively abandons all pretense of network management or allocation of traffic among vendors. Under GSA's current proposal, no one will manage the distribution of traffic among the various contractors. The selection of vendors and the implementation of orders will be left to the individual agencies. This may produce chaos in meeting the Government's requirements, and is certainly inconsistent with the evolution of logical networks.

The burden on agencies will be significantly increased not only by GSA's abdication of its former role, but also by GSA's use of numerous contracts that

include identical services. GSA plans to award up to three FTS2001 contracts in which long distance service must be proposed as a required service. In addition, GSA will award an unspecified number of MAA contracts that also include long distance service. Both sets of contracts will require the contractor to provide local access service, which connects the customer to the long distance provider's point of presence. If GSA simply awarded one MAA contract per RBOC region (although its plans indicate that far more contracts are contemplated), the Government would have ten or more contracts with local access as a required feature.

This smorgasbord of offerings will place considerable burdens on agencies to thread their way through the individual contract terms and prices. Since agencies are permitted to pick and choose among the various services and vendors, GSA's contract structure encourages agencies to obtain local access from one vendor, network transport from another, and local service from yet a third.

GSA's potpourri of conflicting contracts deviates significantly from sound commercial practices. Sprint does not know of any commercial customer that opens its telecommunications needs to numerous contractors, and continuously competes its network requirements among them. This strategy is also self-defeating. One of the reasons why the Government has received such attractive pricing under FTS2000 is the traffic volume that the program gives Sprint and AT&T. Without this volume, neither FTS2000 contractor would be able to give the Government pricing that is nearly as attractive as what the Government pays today. Although the FTS2001 program provides minimum revenue guarantees for each contractor, they are insufficient to attract the large discounts that GSA

clearly desires. Among other problems, they are significantly below the annual revenue currently generated by the FTS2000 contracts.

GSA's announcement also contains no provision for mandatory use of the post-FTS2000 contracts. FTS2000's mandatory use provisions were imposed at the request of Congress, and have greatly enhanced competition for the program. Congress has enacted mandatory use legislation each year since the contracts were awarded in 1988. Mandatory use is necessary to insure that the vendors achieve the traffic volumes necessary to offer aggressive prices. Without mandatory use, the vendors could not have proposed the highly competitive pricing or the enormous capital and human resources that Government customers have received. 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.

If mandatory use is not available, and GSA permits agencies to compete their requirements at any time, the savings that the Government received from FTS2000 will likely diminish. GSA's procurement strategy which avoids meaningful revenue guarantees, contains multiple, overlapping contracts, and significantly departs from sound commercial practices, has already diminished competition for telecommunications procurements. There was only a single bidder--GTE--for the Federal Wireless Telecommunications Services Contract. According to the trade press, AT&T abandoned the procurement because of its stark deviations from commercial practices, and its lack of a significant revenue commitment. Several months later, Sprint and AT&T independently came to similar conclusions regarding CINEMA, a GSA procurement for Commerce Internet and Electronic Mail Access. Both Sprint and AT&T--the two FTS2000

incumbents--have no-bid CINEMA and the wireless contract, thus abandoning two of the three FTS2001 niche contracts that GSA has issued to date.

In summary, GSA should follow the policies of the Telecommunications Act, and construct a procurement with meaningful traffic commitments. To the extent consistent with the Government's requirements, GSA should also rely on standard commercial terms and conditions. If these suggestions are implemented, and GSA is able to replicate the management structure that made FTS2000 a success, the savings in time and money that the Government has already achieved will continue for many years to come.

This concludes my statement. I would be pleased to answer any questions that the Committee may have.

FEDERAL AWARDS SINCE 10/1/94*

PROGRAM	SOURCE	AMOUNT
36 CONS/LGCV	Dept. of Air Force - Pacific Air	**
45th Contracting	45th Contracting Squadron	50,900.00
AAFES	Army Air Force Exchange Svc.	
AAFES - 800 service	Army Air Force Exchange Svc.	715,000.00
DECCO BOA	DISA/DECCO	
Dept. of Navy - Guantanamo	Dept. of Navy	
Dept. of State - Abu Dhabi	Dept. of State	125,435.70
Dept. of State - Athens	Dept. of State	129,284.67
Dept. of State - Bahamas	Dept. of State	87,094.00
Dept. of State - Canberra	Dept. of State	63,680.66
Dept. of State - Hong Kong	Dept. of State	285,903.63
Dept. of State - London	Dept. of State	258,593.19
Dept. of State - Panama,	Dept. of State	210,000.01
Dept. of State - Mexico City	Dept. of State	112,500.56
Dept. of State - New Delhi	Dept. of State	287,013.10
Dept. of State - Rome	Dept. of State	321,226.39
Dept. of State - Sao Paolo	Dept. of State	356,563.31
Dept. of State - Singapore/BIMC	Dept. of State	38,286.37
Dept. of State - Singapore/WTC	Dept. of State	38,286.37
Dept. of State - Stockholm	Dept. of State	87,071.36
DISA - Diego Garcia	DISA/DITCO	
DISA NH, CA & UK T1	DISA/DITCO	260,955.57
DISA Onizuka/Vandenberg	DISA	
DITCO - Europe/Hungary	DITCO	36,000,000.00
FAATC Internet Data	FAA	38,616.00
Federal Reserve Bank - San	Fed. Reserve Bank - SF	500,000.00
Fort Knox Phones	Fort Knox, KY Barracks	
GSA DTS Agreement	GSA	
GSA Schedule 58	GS-35F-1171D	
GSA Schedule 70	GS-35F-3273D	

* List excludes classified awards.
** Not immediately determinable.

I-NET	I-Net	
IMF Datalink (X.25)	International Monetary Fund	6,600/mo.
IMF Frame Relay	Int'l Monetary Fund - Frame Relay	291,785.85
IMF Voice/Fax	International Monetary Fund	
Information Technology	Info. Technology Procurement	36,468.00
Infosec (SAIC)	Infosec	
Lightcom Int'l, Inc. - Basic	Lightcom Int'l, Inc.	
NESC - Essex Amphib. Ready	NESC	
NESC - Saipan - Pers. Telecom	NESC - Saipan	
NESC - USS Peliliu	NESC	
NIPRNet	DISA	
NOAA/Dept. of Commerce	NOAA	30,000.00
NOAA/Dept. of Commerce	NOAA	30,000.00
NOAA/Dept. of Commerce	NOAA	30,000.00
OPARS/NODDS	DECCO/NODDS	141,670.00
PDN	NASA/RMS Associates	10,000.00
PDN	NIH/Nat'l Library of Med. Canada	116,666.67
SAIC CIO-SP	SAIC/NLM	66,861.00
SailorFon	NESC	
The Battle Group, Inc.	The Battle Group, Inc.	500,000.00
Treasury IRS DTS Agreement	Treasury IRS DTS Agreement	20,000.00
TSR - DITCO	DITCO	
TSR - DITCO	DITCO	
TSR - DITCO	DITCO	
US Coast Guard	US Coast Guard	99,337.00
US Information Agency - Hong	USIA	146,504.80
USDA - FAS	USDA - FAS (Foreign Agricultural	250,000.00
USDA X.25 Gateway	USDA	65,000.00
USPS - Little Rock Payphones	US Postal Service	100,000.00
USPS 800 Service	USPS	638,191.32
USPS C/B	US Postal Service	108,000.00
USPS Payphones (Eastern	US Postal Service	1,000,000.00
USPS T1-3/FR/ATM Svc.	US Postal Service	2,000,000.00
USSS - SNET	US Secret Service	2,200,000.00
UXBRIDGE	DISA/DECCO	

Mr. BURTON. Let me just say we have two votes that are coming up right now, and it should take us about 20 minutes before we get back. I hate to ask you gentleman to stay, but I think a number of us have questions we would like to ask you.

Mr. WISE. Mr. Chairman, just before you recess us, if I could just ask for the record, I will try to make it back, but I have to be ranking member in a hearing on Amtrak at 2 o'clock. I would just like the record to show why I am not back, if that's the case.

Mr. BURTON. That will be fine.

So, if you wouldn't mind staying—and I apologize once again. I mean, how would you like to live with all those bells? We will be back very shortly.

[Recess.]

Mr. BURTON. First of all, I think anybody who is even remotely involved in this process feels like Alexander the Great must have felt when he came up to the Gordian knot. I mean, it's just very difficult to deal with.

GSA and the IMC have all expressed a sense of urgency about this and the need to move forward on this FTS2000. You have all said that we need to move forward on it. Do you think it's something that has to be done today, or how quickly do you think we need to move?

Mr. LOMBARDI. Mr. Chairman, let me start. The complexity associated with providing services to the Government, especially where those services are supporting the missions of Government, the services to the citizens, requires some fairly complex understanding of networks and how to manage them and how to provide levels of end-to-end service. So planning for transition is no small task.

So I would encourage, for two reasons, for that reason alone and, second, to assure that the level of detail that we're talking about—because really, when you get right down to it, the devil is in the details, and the details will be seen in the RFP, not in the strategy paper. The sooner we can get that moving forward, the more we will be able to understand and the better we will be able to plan for the transition from the current level of systems.

Mr. BURTON. How long would it take for transition?

Mr. LOMBARDI. My estimation would be that planning for transition probably is at least a 6-month effort, and then the transition is fundamentally a function of technology, so it may be another 9 months or so after that.

Mr. BURTON. If you gentlemen have differences of opinion, be sure to chime in. Now, the contract is to be in force on December 1998, and you say that you have 6 months that you have to be preparing for the transition. So if there was a short delay, a very short delay, in bringing this to conclusion, it still would not impede whoever gets the contract from moving ahead and getting it done.

Mr. LOMBARDI. I wouldn't think so, but I think the contract can be awarded before December 1998.

Mr. BURTON. No, of course. I'm talking about a very short timeframe.

Mr. LOMBARDI. So the transition planning could occur prior to December 1998. I just want to reinforce that point, that's all.

Mr. BURTON. OK. Anybody else have any comment?

Mr. EDGERTON. I would tend to agree with Mr. Lombardi that the time is now. I think the transition period requires planning. It certainly requires an implementation stage of approximately 12 months. We've been anxiously waiting for this competition now for about 8 years, so we're ready to go.

Mr. BURTON. Oh, I know. I think we're getting very, very close.

Mr. Teague, do you have anything you would like to say?

Mr. TEAGUE. Yes, Mr. Chairman. Our perspective is, we've had some practical experience on transitions between Mr. Lombardi's company and my own, in the course of the last several years, and what Mr. Lombardi states as the practical considerations for transition planning and the execution of transition is, in fact, borne of experience. So we know of what we speak, whether it's complex or not so complex.

Our only position, I think, of substance today, besides hawking the merits of the current contract, is that the Telecom Reform Act must take precedence in all matters. We believe that the current structure of the MAA procurement strategy permits the GSA to inappropriately insert itself in favor of the guidelines established by the Congress, to be implemented by the FCC, when long-distance service can be offered from a local monopoly.

We don't believe that that change in the provision of the strategy should be some sort of lengthy debate or complicated adjustment to the timetable.

Mr. BURTON. Let me ask you, you don't like the GSA's proposal at the present time, the requirements they have set forth?

Mr. TEAGUE. The only portion that we take exception to is that portion that allows optional long-distance services to be offered by the MAA contract winners in advance of the FCC's execution of the Congressional Telecommunications Act.

Mr. BURTON. I understand. And you both think that it's all right.

Mr. EDGERTON. Absolutely. There are initiatives underway by most of the Bell companies to get in-region long-distance permission. So there is nothing, when you look at the schedule that is laid out, to preclude them from bidding this, in its current form.

Mr. BURTON. Let me pose a hypothetical question to you. Let's say that we had a 30-day period, and we asked all of the interested parties to get together with Mr. Horn and maybe someone from Mr. Thompson's staff in the Senate, as well as the minority members of those committees, along with somebody from GSA, like Mr. Woods, to try to hammer out, as close as possible, all of your differences, to get as close as possible to what everybody would find would be acceptable.

Do you think that's something that might be productive?

Mr. LOMBARDI. Mr. Chairman, I will support—and I suspect my compatriots here will—anything this committee would like to do. I think it's very, very important, though, that if we're going to talk about something that needs to be done differently, that we talk about it at a level of detail that I believe only an RFP or a draft RFP can provide.

I think part of the reason we're having this debate today is that we see a concept paper. I think we interpret the concepts differently at different edges, and that represents a level of debate.

I think it's important that we see an RFP and use that as an instrument for continued dialog and communication.

Mr. BURTON. I guess I just wanted to get your ideas on whether or not you thought that all of the interested parties could narrow their differences by sitting down with the leadership here in the Congress and GSA, to make it more fair and equitable for all the bidders.

Mr. LOMBARDI. Again, I believe the most important thing we don't want to lose sight of is, what's fair and equitable for the Government and the taxpayer, as well.

Mr. BURTON. Oh, of course. That's the No. 1 concern. But, at the same time, we have a number of people who want to bid on this contract that have differing views on how and what should be in the process.

It seems as though there's a real divergence of opinion on that. The ones who feel like they are going to be in a better position to get the contract are happy with what we have at the present time, and those who feel like they might be left out in the cold are not happy.

So what I was saying, in the interest of the taxpayer, trying to get the best price, the best product for the money, do you think that a 30-day period within which all of the interested parties sat down with the relevant subcommittees in Congress, or the people who are in leadership positions on that, as well as the GSA, if you think you might be able to narrow your differences so everybody feels like they are getting a better shot at it.

Mr. EDGERTON. I would like to comment on that. If we can limit it to 30 days. I think there's an economic opportunity that's being missed here. I would like to sort of comment that there are other applications that are enabled by communication services that are anticipating this contract.

Also, I think that Mr. Woods has to be in a position, at the end of 30 days, to be somewhat of a Solomon and be able to make the decisions to go forward with the procurement, having made best efforts to do that.

Mr. BURTON. Well, Mr. Woods, is in a very difficult position, as you might well imagine. That's why I was suggesting that the people who are most conversant with this issue in the Congress be participants in the discussions. The final product we come up with, hopefully, will be maybe even a little bit better than what we have right now, and maybe assist Mr. Woods in the decisionmaking process.

I personally would not be involved in that. I would ask the subcommittee that has been working on that to do that, and then they would come back and bring it to our attention and make a recommendation.

Mr. TEAGUE. Sprint votes yes for your idea. We think that that's a very practical approach. It would be very important. I would second the point that Mr. Lombardi makes about right now we are dealing with a concept paper, a strategy document. It is very difficult to get to the details, which is where some of our differences lie, embedded below the surface, without a more definitive set of documents.

Sometimes that is accommodated by a draft RFP that is very close to a final product but not quite final. That has, in my experience—been doing this a long time—facilitates this sort of activity. But, fundamentally, your idea is sound, and we support it.

Mr. LOMBARDI. Mr. Chairman, I think it's very important that we decide, though, if we're going to spend any period of time doing this, that we do not debate the Telecommunications Act, that we debate the acquisition strategy and not the Telecom Act.

Mr. BURTON. I don't have any problem with that, do you, Mr. Horn?

Mr. HORN. Not off the top of my head, I don't have a problem. I might have something put in my head that says this isn't a good idea, but right now it sounds great.

Mr. BURTON. I think that's a definite "I don't know."

Do you have any questions, Mr. Horn?

Mr. HORN. Not now, Mr. Chairman. I assume we can send them questions in writing, and you will be glad to respond. Because there's a long list of questions we have, but I don't think we ought to take up the whole afternoon with it. We need to get to other panels.

Mr. BURTON. Mr. Holden.

Mr. HOLDEN. Thank you, Mr. Chairman.

I thank the panel for their comments. It has been very interesting to hear the testimony about this critical issue. These hearings are very important as the Federal Government considers how to most effectively and efficiently procure phone service in future years.

As I have listened to the testimony and discussion today, it reminds me of the promises of competition in last year's Telecommunications Act. I would guess that most if not all the Members here today voted for the 1996 act. I think that most of us supported the goal of competition. If we all support competition for the public, I think we should also support competition for the Government's plan.

In the Congressional Accountability Act, we made a bipartisan statement that Congress should live by the same laws as everyone else. In that same spirit, the Government should abide by the principles of the Telecommunications Act as we set Government policy.

Since GSA began to consider this issue, there have been a number of complaints about the fairness of the proposals. On its face, GSA's proposal plan for telecommunications services is fair to the American taxpayers. This plan will ensure that many companies will compete to offer services to agencies across the country, lowering prices and saving the taxpayers money. This seems pretty fair to me. As elected representatives, our goal should not be to favor one industry over another. Our goal should be to find the best way to deliver services with fairness to the taxpayers.

These complaints about fairness ring hollow because we are talking about bidding for services to be offered in 1999. By 1999, local phone companies will be restricted from offering long-distance services only if they have not followed the 1996 act's requirements to unbundle their network and allow competitors to interconnect.

The 1996 act established a 12-point checklist for Bell entry into long-distance services within their region. One local phone com-

pany has already filed for permission to offer long-distance services, claiming it has met the checklist. Many more are expected to file in April. If we are this far down the road to competition right now, I see no legal reason that local phone companies won't be able to bid for long-distance services and end-to-end services, just as other industries will, by 1999.

In conclusion, I urge the committee to focus on ensuring that taxpayer dollars are spent wisely. Just like it is cheaper to buy in bulk when we are shopping for food in a grocery store, it is cheaper to buy telecommunications services in bulk. The Federal Government should take advantage of the benefits of bulk purchasing so that we can pass the benefits on to the taxpayers.

[The prepared statement of Hon. Tim Holden follows:]

STATEMENT OF THE HONORABLE TIM HOLDEN
GOVERNMENT REFORM AND
OVERSIGHT COMMITTEE
March 12, 1997

Thank you Mr. Chairman, I appreciate the panelists offering their thoughts about the post- FTS 2000 acquisition strategy.

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As I have listened to the testimony and discussion today, it reminds me of the promises of competition in last year's Telecommunications Act. I would guess that most if not all of the members here today voted for the "96" Act and I think most of us supported the goal of competition. Just

as we support competition for the public, I think we should also support competition for the government's plan. In the Congressional Accountability Act, we made a bipartisan statement that Congress should live by the same laws as everyone else. In the same spirit, the Government should abide by the principles of the Telecommunications Act as we set government policy.

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These complaints about fairness ring hollow because we are talking about bidding for services to be offered in 1999. By 1999, local phone companies will be restricted from offering long distance service ONLY if they have failed to follow the "96" Act's requirements to unbundle their network and allow competitors to interconnect. The "96" Act established a 12-point checklist for Bell entry into long distance service within their region. One local phone company has already filed for permission to offer long distance service, claiming it has met the checklist. Many more are expected to file in April. If we are this far down the road to competition right now, I see no legal

reason that local phone companies won't be able to bid for long distance services and end-to-end services just as other industries will by 1999.

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I just have a few questions for the panelists.

Mr. HOLDEN. I just have two questions, and I believe, Mr. Edgerton, you answered this one. In your opinion, there is nothing keeping the Bell companies and GTE from bidding in 1998 on the FTS2001 contract; is that correct, sir?

Mr. EDGERTON. That is correct.

Mr. HOLDEN. You don't see any hurdle at all. How does GSA's current strategy take advantage of two things: No. 1, emerging markets in the telecommunications industry; and No. 2, the Government's ability to procure new technologies and services when they become available? If anyone on the panel would want to address those two concerns.

Mr. LOMBARDI. Let me start and perhaps use the experience of the current program, because the current program has benefited from technological innovation and insertion over its life. It's now 7-plus years old, and the services that are on that contract today reflect the modernization and the changes in the industry, and changes in technology that have occurred over the life of that contract.

What you do is, you write, as part of the RFP, the condition that both provides both the right and the obligation of a service vendor to provide technological upgrades to that network. And that's the basis under which we currently do it. I must admit, early on in the process, it was much more difficult to do it because we were plowing some ground, and we met a lot of resistance from our competitors. But, again, that was the nature of the competitive marketplace then.

I think the conditions that surround the words in the RFP can permit the support of emerging markets as well as emerging technology. I, for one, would hope that our wireless technology, the one we recently announced, we would be able to add to the FTS2000, Post-FTS2000, or MAA contracts.

Mr. HOLDEN. Thank you.

Mr. EDGERTON. Yes, I would like to make the point that the Government has not enjoyed the benefit of competition for local services yet. The potentials from the technology, as well as the cost savings that could result from the metropolitan area acquisitions are yet to be realized.

Mr. HOLDEN. Thank you.

Mr. TEAGUE. It is our expectation that the desire for the regional Bell operating companies and GTE to enter into in-region long-distance services is a very high priority. It is our expectation that, therefore, we must be prepared, be very competitive across all the converging markets. So we think there is no doubt that the Telecom Act of 1996 will, in fact, jump start the convergence of local and long-distance and, therefore, bundling and true end-to-end service.

So there is no doubt about the intent of the act and the ramifications of the act. There are some questions about speed and which region of the country will move faster than other regions. This will not be a "one size fits all." But there is no doubt that this is a high catalyst and a significant motivator.

Mr. HOLDEN. Thank you.

Thank you, Mr. Chairman.

Mr. BURTON. You're welcome.

Mrs. Morella.

Mrs. MORELLA. Thanks, Mr. Chairman.

Thank you, gentlemen, for your testimony. I noticed that in the testimony of at least two of you is the term "refined strategy," refined strategy referring to the February strategy versus the September strategy. My understanding is that everybody signed off on the September strategy, but not everybody signed up in February. Can you tell me what the difference is between one where everybody signed up and then one that is so-called "refined," which is a changed strategy?

You see what I'm getting at. I don't understand why, if you've got everybody signed up in September, why suddenly there's a new one in February.

Mr. LOMBARDI. Congresswoman, I'm not too sure where the information comes from, but I would speak for AT&T by saying that we did not fully support the strategy in September. It may be a matter of degree.

Mrs. MORELLA. Had you signed up on it?

Mr. LOMBARDI. No, there was no sign-off or anything like that.

Mrs. MORELLA. No sign-off. I guess it was a gentleman's agreement.

Mr. LOMBARDI. As a matter of fact, I think a lot of the public record and the public document that we provided would indicate that we took exception to certain parts of it. But strategies like this get developed over a period of time; they evolve. This has been an evolving strategy.

There was progress made in the September strategy, and so we tried to reinforce with GSA the progress that they made. But, frankly, I could not understand why, in light of the recently passed Telecommunications Act, this procurement strategy did not reflect the Telecom Act. That, for me, was a disconnect, and I objected then and made my feelings pretty well known.

Mrs. MORELLA. You objected in September, but yet it became kind of an accord, I thought. You also voiced those objections in September.

Mr. LOMBARDI. Absolutely.

Mrs. MORELLA. Yes, Mr. Teague.

Mr. TEAGUE. Yes, we also did not line up 100 percent behind the September strategy and articulated those concerns in a letter to Members of the Senate, and indicated where we had differences. But we also indicated where we had definite support and where there was agreement. We also anticipated that to be an evolution, as Mr. Lombardi suggests.

Again, what we take exception to now is the lack of overt reference to the role of the Telecom Act and the FCC's implementation of the 14-step rules for entry into long-distance in-region service.

Mrs. MORELLA. How many people signed off—groups, organizations—signed off on the February refinement? Do you know?

Mr. LOMBARDI. You'd probably have to ask GSA. I didn't think there was a formal signing procedure here either.

Mrs. MORELLA. I use the term figuratively, not literally. Agreeing or going along.

Mr. LOMBARDI. We did not figuratively.

Mrs. MORELLA. We believe in, like, compromise, trying to get together, as the chairman asked you, "Could we all get together?"

Mr. EDGERTON. Again, considering the stakes that are here, we have encouraged the process to move along. Therefore, we agreed with the September strategy and then what we considered refinements to the February strategy, because it leveled the playing field, it provided opportunities for all entrants. It basically met the four-point checklist of the chairman.

Mrs. MORELLA. OK. Let me turn to another question. Can anyone put an approximate dollar estimate on the various options which are being considered in this procurement? I haven't seen one yet; I want to be honest with you.

Mr. LOMBARDI. I don't think you can do that until you see an RFP. I think that's probably part of our problem here, too, there's a level of detail that's missing in terms of creating a better level of definition around both the process as well as maybe the size and scope.

Mrs. MORELLA. So are we operating in a vacuum?

Mr. TEAGUE. Well, not entirely. I'd like to comment on that.

Mrs. MORELLA. Yes, sir.

Mr. TEAGUE. Let me give you some real live statistics, and we can extrapolate those over a larger set. Every month, out of every $1 of revenue that we take in from FTS2000, we spend between 42 and 45 cents of that $1 with a monopoly local exchange carrier.

Now, multiply that dollar by N numbers of dollars across a national and potentially international scope, you get a sense of the significance of this debate; 42 to 45 cents goes to switched access or dedicated access with a monopoly carrier. That is a substantial amount of money on anyone's scale.

Mrs. MORELLA. That would be different from—I mean, this is something that would only happen with the February strategy; is that what you're saying? Because sometimes I see figures like the amount that has been saved over the life of the 10-year contracts, which is no different, I mean, it's just in general. Whatever strategy you have, that would be the amount going from the old way of doing it to the new way, with Telecom.

Do you see what I'm saying?

Mr. TEAGUE. Yes.

Mrs. MORELLA. I'm looking for some new figures, in terms of what the difference is. Do we save more with the February accord or strategy versus the September one?

Mr. TEAGUE. It is, in fact, very difficult to answer that question in a quantifiable fashion.

Mrs. MORELLA. Yes.

Mr. LOMBARDI. But you clearly save on every dollar that's not being competed for today. And there's a substantial amount of Federal dollars that are being spent today for services that are not being competed.

Mrs. MORELLA. So is the February strategy more competitive, and if it is, how is it more competitive?

Mr. LOMBARDI. Well, it opens the field on both the long-distance and local side, kind of all distances now, to many more competitors. The experience in industry, Government, all over, is the more competition you get, the better your prices are, the better your savings.

Mrs. MORELLA. I think my time is up, Mr. Chairman. Thank you. Could I submit a few questions to you afterwards?

Mr. LOMBARDI. Absolutely.

Mrs. MORELLA. Great. Thank you.

Mr. BURTON. Mrs. Maloney.

Mrs. MALONEY. First of all, I'd like to compliment the chairman on his call for a task force to try to work out the differences in committee meetings.

Mr. Woods, when he testified before this committee, has stated that he believes that there are currently about five companies who will compete for the long-distance portion of the FTS2000 procurement. Do you agree with his assessment, and who are those five?

Mr. LOMBARDI. I'll speak for one.

Mrs. MALONEY. OK.

Mr. EDGERTON. I'll speak for the other one.

Mrs. MALONEY. OK. Who are the other two? Do you know any other two that will compete for it?

Mr. EDGERTON. I think the way the procurement is structured right now, we believe that there are in excess of 500 companies providing long-distance services. They do it in a variety of ways.

Mrs. MALONEY. I didn't ask who's providing it. He said five companies would compete. The panel is going to compete; who are the other two? Who do you think would be competing?

Mr. EDGERTON. I would think that WalCom certainly has the potential of competing. I would think LCI has the potential of competing. These all started out as regional carriers and now are national carriers. Certainly, Frontier. So I think the list goes beyond an initial five, in terms of the potential competitors.

Mrs. MALONEY. Other than the members of this panel, what companies would be able to provide nationwide long-distance services and local service on an optional basis?

Mr. EDGERTON. I think any of the ones that we've just mentioned. I think these companies have announced some plans that are similar to ours, to be in the local as well as the long-distance service business.

Mr. LOMBARDI. Congresswoman, if you're asking that question in the context of a future point of time when a checklist is completed, there are a number of regional Bell operating companies that would clearly do that.

Mrs. MALONEY. Well, Mr. Lombardi, I'd just like to ask you—and really just go down the panel with sort of a yes or no answer, and if you'd like to briefly add to it. Does the strategy we have now before us assure a level playing field?

Mr. LOMBARDI. I believe, if you start with the principle of the Telecommunications Act of 1996 and assume that is attempting to provide the right level of balance for the purposes of opening up the monopoly local markets, and you couple that with this strategy, the answer is yes, a level playing field, absolutely.

Mrs. MALONEY. OK. Since you mentioned the Telecom bill, I would like to refer again to Mr. Woods' testimony last week. In defending its decision to issue a new strategy, GSA has consistently pointed out the requirements of the Telecommunications Reform Act of 1996 as the rationale.

Yet Mr. Woods testified last week that last year's September strategy did not violate the Telecom Act. And further discussions with the FCC indicate that they feel nothing in the current strategy or the previous one necessarily violates the Telecom Act, and that the decision on when to allow offers on end-to-end service is a policy decision, not a legal one.

Do you agree that nothing in the September strategy violated the Telecommunications Act of 1996?

Mr. LOMBARDI. When you say "violate the Telecommunications Act," that implies a breach of law. I don't believe that the issue of a breach of law existed in the September 1996 strategy. I think it was not reflective of the realities of the marketplace, and I think that is the basic difference and the basic reason for the revised strategy. I don't think it's a matter of a violation; I think it's a matter of reflecting what is happening in the marketplace.

The Government has had, for many years, a series of thrusts at procurement reform, for instance. It has had two points associated with it: one is flexibility, getting services to market faster, flexibility in procurement; the second is commercial, off-the-shelf, and commercial-like practices. That strategy, in September 1996, did not reflect commercial-like strategies in the marketplace. It now does.

Mrs. MALONEY. But there's really no legal violation; it's just a policy decision.

Mr. EDGERTON. I think we put in our testimony that the current strategy really allows the fulfillment of the intent of the Telecom Act by enabling and opening up competition in all segments of the market, the Government being a leader in doing that.

Mrs. MALONEY. Well, I'd like to ask all three of the companies here before us, does any company or segment of the market have an unfair advantage in the strategy that is before us now? It's really a two-part.

Mr. Lombardi started, so let's go to the second member of the panel. Do you think that the strategy before us assures a level playing field, and does any company or segment of the market have an unfair advantage?

Mr. EDGERTON. We do not believe anybody has an unfair advantage.

Mrs. MALONEY. You think the so-called "smaller" companies can compete just as well as the bigger companies?

Mr. EDGERTON. I think there's ample indication in the marketplace of that. The mere existence of 500 companies providing long-distance service says there's a marketplace there.

Mrs. MALONEY. Would you agree?

Mr. TEAGUE. I absolutely agree. Our core issue remains, in terms of the level playing field, to ensure that the Telecom Act is, in fact, carried out to the letter of the law, as Congress intended it, and that the MAA procurements not be implemented in a fashion that may be contrary to the act. So we want to see explicit guidance indicating the FCC's overt role in determining when meaningful local competition exists.

Mrs. MALONEY. Well, part of the argument is that, if we wait additional years so that other companies can be certified by the 14 points before permitting the telecommunications companies to offer

end-to-end services, we will likely increase competition for that service, because the regional Bell operating companies will then be in a better position to compete.

Would you agree or not? Wouldn't that increased competition be in the best interest of the American taxpayer? Although, I must say that the report from GSA, from Mr. Woods, of lowering the cost from 27 cents to 5 cents a minute is really extraordinary. Do you think, if we waited 4 years or so before permitting companies to offer end-to-end services, we would increase competition and therefore drive down the cost to the taxpayer even more than the 5-cent cost that we have now?

Mr. LOMBARDI. Let me comment. I don't believe so. We introduced a new service for local service in January of this year, and we currently have 4,000 new customers on that service. We are bundling local and long-distance services in certain parts of the country where we've made the technology available. I don't know why the Government should wait—and those customers are getting the benefits of features and discounts that they otherwise would not have had—I don't know why the Government should wait.

Mrs. MALONEY. On that point, Mr. Chairman, very briefly. My time is up, but the chairman is very interested in saving money.

I would just like to ask you, how do you feel about the degree of probability of allowing local governments to opt into this system? It would probably save hundreds of millions dollars for our local governments if they could come into this system and not pay the 27 cents per minute but 5 cents per minute. What are your comments on that?

Mr. LOMBARDI. I support that.

Mrs. MALONEY. Do you think it would be a huge savings?

Mr. LOMBARDI. I think it's probably inappropriate to categorize even local governments as still paying 27 cents a minute. They are probably doing their own thing and have probably driven that price down. But there's probably more savings there, too, yes.

Mr. EDGERTON. I think the Government has a true opportunity to lead the way in fostering local competition, because the local governments have still been subjected to the monopoly's providers, and a real opportunity exists in the Government showing the way to provide competition there.

Mr. TEAGUE. It seems to us that it's eminently fair for the State and local governments to be able to benefit from the buying power—again, the Federal purchasing leverage the chairman highlighted earlier—and that fairness should extend to all of the States and the territories.

Some States, point of fact, don't need that leverage. They are already big enough and substantial enough in their requirements that they would not benefit. That's a very candid remark. But there are many States that, by population and demographics, today cannot benefit but should be allowed to benefit from that. That leverage is an extraordinarily important part, and we support it.

Mrs. MALONEY. My time is up. Thank you, Mr. Chairman.

Mr. BURTON. I thank the gentlelady from New York.

Mr. Davis of Virginia.

Mr. DAVIS. Thank you. I'm going to be very brief.

I think the willingness of everybody here to try to sit down, for 30 days only—I mean, so we don't delay this—and see if we can work out a procurement where we can keep it even more competition than it is now, so that the Government may be able to get even more reduction than we would otherwise get. The best price for our citizens and the best quality of service is, I think, very reasonable.

I just want to commend the chairman for suggesting it, and the subcommittee chairman, and we'll see what happens. I think this will be the largest procurement of this type we've ever awarded. We, obviously, would like to do what we can to have the maximum number of bidders, but we also don't want to write this in such a way that, even with more bidders, it's written in such a way that we would raise the price of doing business. I think that's what we have to work with here.

I just want to commend you for being willing to sit down and work with this, and get everybody together and see if we can really produce the best product for the taxpayers and users of this system. So I thank of all of you.

Mr. Chairman, I thank you, as well.

Mr. BURTON. Thank you, Mr. Davis.

Mr. Horn, the subcommittee chairman.

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

Gentlemen, having looked at your testimony and heard various snatches this afternoon, I take it you're generally happy with the RFP as it is composed now.

Is that not correct, Mr. Teague?

Mr. TEAGUE. I think I take exception with my colleagues as I was listening to them. I'm not sure that "happy" is the word that I would cite.

Mr. HORN. Would "pleased" please you more than "happy"?

Mr. TEAGUE. I'm working on the correct word. I'll get to it in just a moment.

Mr. HORN. "Lukewarm"?

Mr. TEAGUE. We believe that the only deficit, the only shortcoming in the strategy that has been brought to you, and you've heard testimony and read testimony, is in the manner in which the MAA contracts will be managed. We believe that that management structure, as articulated, is inconsistent with the Telecom Reform Act.

If the Congress and the FCC's overt will is not explicitly stated, then our concern is that this can get away from us and we will not have meaningful competition in the monopoly local exchange territories, and we will be back up here again arguing. That 42 cents that I pay out of every revenue $1 is still 42 cents.

Mr. HORN. OK. Mr. Edgerton, how do you feel about it?

Mr. EDGERTON. We believe that the refined strategy, which is not at the RFP stage, certainly is a starting point. We're ready to move to the next level. There is no prohibition from anybody—I think we stated in our testimony that we believe that it's fair and equitable to everybody—there's no prohibition from anybody.

I think the point was made a few minutes ago that we're bidding on service to be implemented in 1999. The willingness of the Bells

to aggressively get into the long-distance business is indicated by a lot of their recent actions. So there's no prohibition.

Unlike Mr. Teague, who is concerned about the checklist, they can bid on this, they can offer the services, and if they are not capable of providing them, they haven't met the checklist, shame on them, because the opportunity certainly exists.

Mr. HORN. How about you, Mr. Lombardi?

Mr. LOMBARDI. Let me just reinforce. It's a minor technicality, but it's a very important point for me. There is no RFP, so I can't be pleased with something that doesn't exist yet. And I think that's very, very important, because our dialog is around a strategy paper and a concept, and so this debate has been around that.

Generally, though, I would say I'm pleased with where we are today because it reflects reality in the marketplace, and that's the most important thing, in my company's viewpoint.

Mr. HORN. If no change were made in the current marketing strategy, what's the likelihood that the protest would be successful?

Mr. Teague.

Mr. TEAGUE. That the protest would be successful?

Mr. HORN. Yes. See, GSA has felt that the protest won't be successful, as I understand it, so I'm just curious what the probabilities are.

Mr. TEAGUE. I don't believe that a protest is likely to be successful. I believe that the GSA has the wherewithal, from its past track record, to manage. We are, frankly, a big fan of the manner in which the GSA has managed the FTS2000 contract.

So we're not really concerned. We don't think that's necessarily a major concern. We believe that logic will prevail. As long as the Telecommunications Act is permitted to be the guiding principle, then we think that will, in fact, be the key. We don't think that's a major concern.

Mr. HORN. Does anybody have any other comment on that one, the success of a protest?

Mr. EDGERTON. I believe that to even speculate on a protest is moot, because I believe that the checklist will be met and that the Bells still have an opportunity to compete on a level playing ground. So we have some experience in protest, and success and failure.

Mr. HORN. Mr. Lombardi.

Mr. LOMBARDI. You've asked the question. For the first time, I'm still thinking about how to answer. I don't know how to answer that question. I would be speculating, Congressman.

Mr. HORN. OK. To your knowledge, have either your firms or anyone that might be in the competition filed any sort of suit to this day? Is there any suit we don't know about out there, in terms of delaying the process?

Mr. EDGERTON. Not that I'm aware of.

Mr. TEAGUE. None that I'm aware of.

Mr. HORN. We thank you very much for your testimony.

Thank you, Mr. Chairman.

Mr. BURTON. Mr. Schiff, do you have any comments or questions?

Mr. SCHIFF. Mr. Chairman, I'm sorry I'm bouncing back and forth with Judiciary. We have a markup. However, I appreciate your holding this hearing. I don't have any questions at this time.

Mr. BURTON. OK. Gentlemen, Thank you very much. I don't know if you're going to be around, but we will probably be making some statements and recommendations at the conclusion of the meeting that might be of interest to you.

We would like to have the next panel come forward at this point.

The next panel consists of Ms. Barbara L. Connor, president of Bell Atlantic Federal Systems; Mr. William J. Hannigan, vice president, business sales, Pacific Bell Corp.; and Mr. Kevin Hess, vice president, Federal affairs, for TDS Telecom.

Would you all stand so I can swear you in?

[Witnesses sworn.]

Mr. BURTON. We will start off with Ms. Connor. I welcome Ms. Connor and look forward to hearing her perspectives. She is president of the Bell Atlantic Federal Systems. She is responsible for overseeing Bell Atlantic's sales and servicing activities to the Federal Government in the continental United States, Puerto Rico, and Europe.

Ms. Connor.

STATEMENTS OF BARBARA CONNOR, PRESIDENT, BELL ATLANTIC FEDERAL SYSTEMS; WILLIAM J. HANNIGAN, VICE PRESIDENT, BUSINESS SALES, PACIFIC BELL; AND KEVIN G. HESS, VICE PRESIDENT, FEDERAL AFFAIRS, TDS TELECOM

Ms. CONNOR. Thank you, Mr. Chairman.

I would like to thank you for giving me the opportunity to testify here today regarding the Post-FTS2000 procurement. I would respectfully request that my full written testimony be included in the record.

Mr. BURTON. Without objection.

Ms. CONNOR. Thank you.

Mr. Chairman, you outlined four principal goals that the Post-FTS2000 program must include in order for this procurement to proceed. I agree with you. Meeting the goals is critical to the success of this program. The essence of these goals, as we have talked about in the hearings that were conducted last week as well as today, the essence is that competition needs to be maximized in order for the taxpayer to realize the benefits.

I address each of these goals at length within my written statement, and I explained how the current February strategy misses the mark on each one of these. I need to comment on the use of the word "refinement," because that's the word that came out in the testimony today. This February strategy is now being referred to as a "refinement."

I think we need to be candid here. We're talking about a proposal with major changes that seemingly only benefit the incumbent providers, and it's the taxpayers who ultimately are going to pay. The compromise that was released last September, however, fully maximizes competition and thus will result in the best deal for the taxpayer.

I know that this has been a difficult issue for many of us, and I have attempted to summarize the issues in the form of an example that I think will bring home what is likely to happen if, in fact, the February strategy is allowed to proceed. This is a hypothetical

example, but it's an example that I believe is very likely should the February strategy take place.

Let's just say, for example, that MCI is one of the awardees of the Post-FTS2000 acquisition. And let's just say, for the moment, that MCI targets the Boston MAA. Just using some numbers so that we can get some sense of what's going on, let's say that there are about 10,000 Federal Government agency users in Boston. About 2,000 of them are IRS, and it's exactly the IRS that MCI intends to target.

MCI goes to the IRS and says, "We've got a deal. Here are our long-distance rates." And these rates, by the way, were competitively bid through the procurement. In addition, MCI has the ability, through the non-evaluated option that's in the February strategy, has the option of offering the IRS a local service option.

MCI can go to the IRS and say, "Look, I know you're paying $8 a line today, I'll give it to you for $7." Well, I know this isn't NASA, and perhaps the folks at IRS aren't rocket scientists, but this isn't rocket science. It sounds like a good economic deal, for the moment, because what the strategy calls for are the MAA competitions. Let's say that the MAA competition comes along 6 months later. Bell Atlantic bids, and Bell Atlantic wins because it offers yet another dollar off.

The point here—two. No. 1, how does the IRS know, when MCI comes to them and gives them the first dollar off, that that's the best deal they could have gotten? It's clear, from the MAA competition, it wasn't. In addition, one of the criteria that you, Mr. Burton, outlined, was the need for the strategy to take advantage of the leverage that the Federal Government has, the purchasing leverage.

What this current February strategy is doing is fragmenting the market, because when Bell Atlantic put its prices together, it had knowledge that 2,000 of the IRS users were with MCI. So in developing its costs and its pricing strategy, it couldn't count on those 2,000 users, and that's where the fragmentation takes place. This is not an unlikely scenario. In fact, it's a lose-lose situation for just about everybody in this case, except MCI.

I know I've thrown a few numbers around here and a few percentages around, but it clearly delineates, in my mind, the problems with the February strategy. Does it maximize competition? Does it provide for adequate price competition, and is it the best deal for the taxpayers?

I really need to challenge what I heard here today from my colleagues, the interexchange carriers, because while I know most of them have been in the Federal Government arena for quite a while, I haven't. But one of the things I don't think they brought to your attention is the fact that local competition has existed in the Federal Government marketplace for a long time. If I may, I would just like to show you a couple charts.

The first chart I think was alluded to, obliquely, by Mr. Woods. We go back to the comments that say local rates haven't gone down; local rates have stayed the same. I need to challenge that. First of all, we are confusing some issues here. The rates that are being compared are not apples to apples. The rates that I want to show you here today are rates that the Federal Government is being charged. I just saw this light go on, so I'm going to hurry up.

What you see here are the WITS line rates. This is the Washington Interagency Telecommunications System. I think Mr. Woods would acknowledge that those local rates have come down over the last several years, and we have worked very hard with Mr. Woods to get that done. That was because there are numerous companies, local area access providers, who have come after us. There is competition.

The next chart I'd like to show you is just not what we're doing in Washington, these are cities throughout the United States. Line rate comparison before competition; line rate comparison after competition. Just need to dispel the notion that there is no competition in the local service markets today.

I also want to make the point and dispel the notion that we want to hang onto a monopoly. We realize the monopoly is gone. We signed up for the Telecom Reform Act. We realized, in doing so, the monopoly days are over. But we, in the Federal Government marketplace within Bell Atlantic, have known the monopoly is over a long time ago. I think it's an important point that needs to be made.

Finally, I think I need to make another point that addresses the comments that were brought forth earlier. We are not seeking a delay. We want to move on with this procurement as quickly as the interexchange carriers. It's not in any of our interests, let alone the taxpayers and the Government, to delay this. Therefore, I ask that the new last-minute proposal, known as the February strategy, be given very careful scrutiny.

When you have analyzed the implications of this last-minute change, you will agree that the September strategy—or compromise, I should say, because we have compromised. As some of the folks have said, they are not happy with everything in there. Neither are we, but it was a compromise; it was an effort to move this procurement forward. When you have analyzed the September compromise, it's clearly the best deal for the Federal Government and the American taxpayer.

One final note, and it deals with an attachment that is on my filed testimony. I am going to urge this committee, the OMB, and the GSA to carefully review this legal opinion. In addition to the anticompetitive problems that I've already outlined, this last-minute proposal is an open invitation to the Government procurement lawyers. This kind of folly will only result in delay, a delay that will only benefit the incumbents, and at the taxpayers' expense.

Thank you for your time.

[The prepared statement of Ms. Connor follows:]

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

STATEMENT OF BARBARA CONNOR,

PRESIDENT OF BELL ATLANTIC FEDERAL SYSTEMS

FEDERAL TELECOMMUNICATIONS SYSTEM ACQUISITION STRATEGY

POST FTS2000

MARCH 12, 1997

Mr. Chairman and members of the Committee, my name is Barbara Connor, and I am the President of Bell Atlantic Federal Systems.

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 is a line of business within Bell Atlantic that is specifically organized to serve the information technology needs of our federal government customers. Federal Systems has numerous contracts with various federal agencies outside of the above mentioned states as well.

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

Last week, Chairman Burton outlined four principle goals that the Post FTS2000 program must include in order for the procurement to proceed. They are:

1) It must be the best deal for the taxpayer
2) It must take advantage of emerging market forces in the telecommunications industry
3) It must allow as many vendors as possible to compete, while ensuring a level playing field
4) It must take advantage of the leverage provided by the Federal Government's purchasing power.

These are critical and very appropriate goals, and I can appreciate the challenges GSA faced in developing a strategy that would meet these goals. Even with these challenges, GSA did succeed in developing an acquisition strategy which satisfied all of these requirements. They released this strategy in September of 1996. The vast majority of industry and the Interagency Management Council supported GSA's September strategy - which, in itself, is noteworthy. Between last September and February 17th, however, something happened to change the strategy. While I question the process used to develop the new strategy, the most important thing to note is that the new strategy will not meet the program goals.

First, it will not result in the best deal for the taxpayer. Congress fully understands that aggressive competition results in the best deal for taxpayers and their policy is reflected in the Competition in Contracting Act. However, the current GSA strategy is directly contrary to the Act. It allows the long distance vendors to offer non-evaluated options for local services in combination with their long distance offer. This means that a long

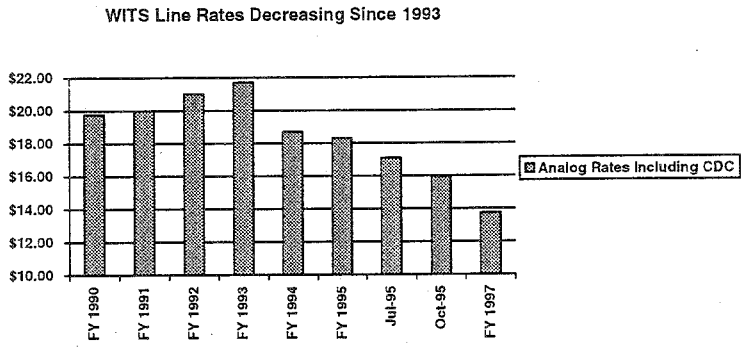
distance vendor could include an option for local services in its long distance bid, and even though the government did not weigh or evaluate the local offer, award that optional business to the long distance vendor without having any competition on the local service piece. This is inconsistent with federal law and regulation.[1] In contrast, GSA's September 1996 strategy ensured the best prices by testing local service prices in the competitive, open marketplace. This was called the MAA procurement. If a long distance company wanted to offer local service, they had to compete with other industry participants for an MAA award.

The second goal is to "take advantage of market forces." Aggressive competition is the strongest market force and I strongly believe that the government should let competition work for them. We have seen how competition has worked to the government's advantage in the FTS2000 environment. I think that the competitive position can be improved upon in the Post FTS2000 environment, if the right procurement strategy is adopted.

Last week, Mr. Woods discussed a chart which showed that local service rates had not decreased over the last 14 years, while long distance rates in general and FTS2000 rates in particular had dropped significantly. I disagree with Mr. Woods' conclusion about local service rates - especially for the federal government. The following graph depicts the line rates for the Washington Interagency Telecommunications System or WITS program. As Mr. Woods testified last week, federal agencies in the Washington

[1] Reference letter from Marcia Madsen of Miller & Chevalier to Barbara Connor, dated March 7, 1997.

Metropolitan Area enjoy the best local service rates in the country. There are two major reasons for this: 1) Competitive market forces have steadily driven prices down and 2) GSA leverages its substantial buying power. I will discuss the leveraging issue later in my remarks. The result of a competitive marketplace is evident in the graph. GSA, as Mr. Woods testified, deserves a lot of the credit for these rates as they have significantly decreased their Common Distributable Charge (CDC) or overhead. Bell Atlantic has also aggressively lowered its rates in order to compete with equipment vendors and alternate access providers, who continually try to lure customers away from the WITS contract with the promise of lower rates.



Another example of the government taking advantage of market forces is depicted on the following chart:

Region/Competitive Contract Vehicle	Line Rate Before Competition	Line Rate After Competition
Washington D.C. - WITS	$18.49	$8.07
Texas - ASP	$15.50	$11.56
New York City - ASP	$21.89	$14.81
California - Rate Stabilization Agreement	$19.95	$12.95
Chicago - Rate Stabilization Agreement	$9.10	$8.92

The procurement strategy which is likely to drive these local service rates down further is the September 1996 strategy, as it will bring significantly more competitive market forces to bear. As competition heats up in the local arena, vendors will invest millions in their local infrastructure development, instead of providing services through resale. This will bring new technologies and efficiencies not only to government end users, but also to the American public.

Mr. Burton's third stated goal is to "allow as many vendors as possible to compete, while ensuring a level playing field." I recognize the importance of proceeding with a program to replace the FTS2000 contracts, upon their expiration. While I would like to participate in the FTS2001 contract and provide the government with long distance services, Bell Atlantic and the other Regional Bell Companies are not legally permitted to do so, until they meet the 14-point checklist. My colleague from Pacific Telesis will discuss where

we are in the process of becoming long distance providers in his testimony. Though I cannot bid, I understand that the government must continue to provide a vehicle for agencies to procure long distance services. That is why Bell Atlantic supported the September 1996 acquisition strategy.

On the other hand, Bell Atlantic can and does offer local services. As we are a significant player in the local services arena, we are very concerned with the current strategy's concept of non-evaluated options for local service within the long distance contracts. This means that the long distance providers do not have to compete with local service providers before they can market local services to government users. This is certainly not a level playing field, as the long distance community gains a significant advantage.

The February strategy also offers a few long distance companies the advantage of a head start. As the long distance contracts will be awarded prior to the majority of the local service - or MAA - contracts, the long distance contractors may "close deals" with end users, before those end users have the benefit of comparing prices with the MAA contract in a particular city. Again, this is not a level playing field.

The final criteria is that the Post FTS2000 program should leverage the purchasing power of the federal government. Much of GSA's success in lowering both local and long distance rates can be attributed to their ability to buy in "bulk." The WITS contract, I described earlier, is a perfect example. WITS provides service to 167 thousand federal

users in the Washington Metropolitan Area. As Mr. Lalley testified last week, federal users purchase from GSA- negotiated contracts when the prices are better than those they could negotiate themselves.

By giving the long distance providers a head start and not requiring them to compete with local service providers on the MAA contract, GSA is decreasing their purchasing power by fragmenting the customer base. Let me describe for you a hypothetical, though likely situation under the current strategy. Let's say AT&T wins a long distance contract and immediately sells local services through the non-evaluated option to the IRS in Boston. The MAA contract has not yet been competed in Boston, but AT&T offered the IRS a price of 10% less than what it was paying for local service, so the IRS decided to transition to AT&T. There are 10,000 federal users in Boston and the IRS comprises 2000 lines of the user base. Six months later, GSA awards the Boston MAA contract to Bell Atlantic for 20% less than the going line rate. Bell Atlantic based its price on 8,000 lines as it knew the IRS is served by AT&T. Bell Atlantic's price per line for a 10,000 line system would have been less, but as transitioning is a costly proposition for end users, Bell Atlantic knew it couldn't count on winning the IRS's business, even with lower prices.

This is a lose-lose situation for everyone except for AT&T. The government did not leverage its buying power to the maximum extent, losing the price advantages of "bulk" buying. The IRS is paying more for local service than it would have if it had waited for

the MAA competition, but as it has no budget to cover transition costs and cannot afford any downtime associated with a transition, it is stuck with higher rates.

By adopting the September 1996 strategy, this situation can be avoided. All companies who wish to provide local services in a specific geographic area will be required to compete for an MAA. Competition will be maximized and rates will decrease as a result.

I ask that the current strategy be given careful scrutiny. I believe that when you have analyzed the implications of the current strategy, you will agree that the September 1996 strategy is clearly the best for the federal government and the American taxpayer. I thank the Committee for the opportunity to express my views and I will be glad to answer any questions you may have.

MILLER & CHEVALIER
CHARTERED
655 FIFTEENTH STREET, N.W., SUITE 900
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March 7, 1997

MARCIA G. MADSEN
(202) 626-1468
INTERNET: MMADSEN@MILCHEV.COM

Barbara L. Connor
President
Bell Atlantic Federal Systems
1710 H Street, N.W.
9th Floor
Washington, D.C. 20006

Re: Federal Telecommunications Service Program

Dear Barbara:

This is in response to your request for a review of the Government's current Program Strategy for FTS 2001 and Metropolitan Area Acquisition ("MAA") contracts as reflected in the seven-page document entitled "Federal Telecommunications Service Program" which you provided. This Strategy document would permit offerors for an FTS 2001 contract to propose options for MAA services that would not be evaluated in award of the FTS 2001 contract. Following award of the FTS 2001 contract, these options could be exercised by end user agencies, thereby awarding local service business to the FTS 2001 contractor without conducting competitive evaluations for those services.

This Strategy appears to evade both the letter and spirit of the Competition In Contracting Act, 41 U.S.C. § 253, ("CICA") and several requirements of the Federal Acquisition Regulations ("FAR"). CICA provides that, with certain exceptions, executive agencies in conducting a procurement for property or services "shall obtain full and open competition through the use of competitive procedures in accordance with the requirements of this subchapter and the [FAR]; and . . . shall use the competitive procedure or combination of competitive procedures that is best suited under the circumstances of the procurement." 41 U.S.C. § 253(a)(1). There are, of course, significant policy considerations supporting this Congressional preference for full and open competition, including assuring that the Government obtains the best product at the most favorable terms, and reducing costs to the Government from requiring offerors to hone their offers and prices in public contests.

The Government's current Program Strategy, which creates opportunities for FTS 2001 contractors to receive significant additional business based on unevaluated options, appears inconsistent with CICA and the underlying policy considerations. In

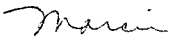
particular, the Government would be awarding these business opportunities without requiring the prices (and technical approaches) to be tested in competition, and would also be excluding others from competing directly for these opportunities. Specifically, FAR 17.206(a), dealing with the evaluation of options, states that, in awarding basic contracts, contracting officers shall, subject to an inapplicable exception,[1] evaluate offers for any option quantities or periods contained in a solicitation when it has been determined prior to soliciting offers that the Government is likely to exercise the option. Moreover, competition considerations are expressly identified at FAR 17.207(f), which states in relevant part:

> Before exercising an option, the contracting officer shall make a written determination for the contract file that exercise is in accordance with the terms of the option, the requirements of this section, and Part 6 [the FAR competition requirements]. To satisfy requirements of Part 6 regarding full and open competition, the option must have been evaluated as part of the initial competition . . . .

(Emphasis added). This regulation is clear that unevaluated options for MAA services in an FTS 2001 contract could not be exercised, which we believe is consistent with CICA's general mandate and the strong policy considerations supporting full and open competition. The General Accounting Office is unequivocal in its position that the exercise of unpriced or unevaluated options is at odds with the requirement to full and open competition. See e.g., Stoehner Security Services, Inc., B-248077.3, Oct. 27, 1992, 92-2 CPD ¶ 285 at 7 citing Varian Assocs., Inc., B-208281, Feb. 16, 1983, 83-1 CPD ¶ 160. ("For an option to be exercised, the essential terms of the option and the corrsponding commitment on the part of the contractor, have to be established at the time the underlying contract is awarded ...). See 51 Fed. Reg. 39456.

Please let us know if you have further questions or require further information on this point.

Sincerely,



Marcia G. Madsen

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[1] The exception, at FAR 17.206(b), states that an evaluation is not necessary "when it is determined that evaluation would not be in the best interests of the Government and this determination is approved at a level above the contracting officer. An example of a circumstance that may support a determination not to evaluate offers for option quantities is when there is a reasonable certainty that funds will be unavailable to permit exercise of the option." (Emphasis added). Here, we are unaware of any factors that could justify by-passing evaluation of MAA options – especially in comparison to the substantial offsetting interest in performing evaluations to maximize competition.

Truth in Testimony
Bell Atlantic Contracts and Subcontracts

Bell Atlantic provides custom designed network access services for the exclusive use of the interexchange carriers (ICs) selected by the U.S. Government to provide the Federal Telecommunications System 2000 network. This Federal Telecommunications Access Service (FTAS) is a tariffed service, exclusively provided pursuant to a contract with the participating authorized ICs. Bell Atlantic earned S9.1M and $11.0M in 1995 and 1996, respectively, from provision of these access services.

Bell Atlantic provides a variety of other services under contract to federal agencies outside the scope of FTS 2000. A list of such contracts, awarded to Bell Atlantic during FY 1995, 1996 and 1997 is attached.

In addition, as the local exchange carrier, Federal Systems earned $175.4 and $150.2 from the provision of other, mostly tariffed non-contract services to the federal government in 1995 and 1996, respectively.

BELL ATLANTIC CORPORATION

ACTIVE FEDERAL SYSTEMS CONTRACTS
AWARDED FY95, FY96, FY97

CUSTOMER	AWARD DATE	TERM	$ VALUE
AIR FORCE (VPS)	7/18/95	1 Yr.+ 8 Yr. Option	$27.9M
ARMY (CDS)	10/16/96	1 Yr. + 4 Option Yrs.	$37.5M
ARPA	12/13/94	5 Yrs.	$2.2M
Center for Disease Control (sub to Gen'l Analytic Corp.)	4/1/96	4 Yrs.	$500K
CSC NASA Marshall	11/29/95	5 mos. w/6 - 1 Yr. Options	$7M
Dept. of COMMERCE	6/26/95	30 days & 1 Yr. Mntnce.	$397K
DOEd	4/1/96	3 Yrs.	$12M
Defense Communications Agency (sub to SAIC)	7/12/95	1 Yr. + 4 Yrs. Option	$15M
EPA (sub to DynCorp)	3/22/96	2 Yrs. - 9 Mos.	TBD
EPA	12/30/96	1 Yr. + 3 Option Years	$769K
FEDERAL RESERVE BANK OF RICHMOND	2/29/96	3 Months	$89K
FEMA	12/22/94	3 Yrs.	$9.5M
FERC	10/1/94	Base & 4 Option Yrs.	$1.25M
Federal Aviation Admin. (sub to Compunetix)	5/29/96	2 Yrs.	$700K
GSA	5/25/95	4 Yrs.	$500K
GSA	2/8/95	4 Yrs.	$4M
GSA	9/1/96	2 Yrs. + 1 Yr. Option	$3M
GSA (sub to Hi-Tech)	9/23/95	Base Year + 2 Option	IDIQ
IRS (sub to HR Electric)	10/14/95	2 Yrs.	$450K
MARYLAND PROCUREMENT OFFICE	12/1/96	18 MONTHS	$18.5 M
NAVY	3/29/95	9/29/96	$800K
NAVY	3/29/96	7/29/96	$240K
MPO (sub to Booz Allen)	8/14/96	5 Yrs.	$4.2M
National Endowment for the Arts (sub to CEMIS)	8/7/95	5 Yrs.	$1M
NCI Information Systems	10/16/95	8 Months	$2.2M
Nat'l Institute of Stds and Technology	2/28/96	3 Years	$546K
NAVY - Portsmouth ACF (sub to Fischbach & Moore)	8/28/95	3 Yrs.	$3M
Navy PAX River	11/14/94	1 Yr. - 6 Options	$20M
Navy TMI	8/28/96	3 Yrs.	$10M
U.S. Geological Survey	2/1/95	1 Yr. w/2 Options	$100K

3/10/97

Mr. BURTON. Thank you, Ms. Connor.

We will now hear from our second witness, William J. Hannigan, vice president of business sales for Pacific Bell Corp. He is responsible for designing, selling, and supporting telecommunications solutions for Pacific Bell's 1 million business and Government customers.

Mr. Hannigan.

Mr. HANNIGAN. Good afternoon, Mr. Chairman, and members of the committee.

My name is Bill Hannigan. I'm vice president for business sales at Pacific Bell. Prior to joining Pacific Bell 1 year ago, I was with Sprint Corp. for 13 years. So between my year at Pacific Bell and 13 years at Sprint, I couldn't even spell "monopoly."

I appreciate this opportunity to be with you today to discuss the Post-FTS2000 issue. Like Barbara Connor before me, I'd like to cast my comments today in terms of Chairman Burton's four goals for the FTS2001 program, focusing in particular on his first and second goals: A, getting the best possible deal for taxpayer; and B, taking advantage of the emerging market forces unleashed by the Telecom Act.

We once had a plan that met those goals. It was negotiated over many months by all segments of industry and finally completed last September. The process was expertly facilitated by Commissioner Woods of GSA, with IMC involvement. That plan was in sync, we believe, with the national telecom goals set by Congress in last year's historic Telecom Act.

But Mr. Chairman and members of the committee, a funny thing happened on the way to the RFP. Last month GSA abruptly dropped the compromise. Suddenly, the agency embraced an entirely new proposal which, in my view, not only ignores but actually contradicts Chairman Burton's goals. In my company, we've come to call it the "February surprise."

This ill-considered new plan completely misses Chairman Burton's goals. Let me start with an emerging market overview, which will lead directly into a real world example that captures the cost problem for taxpayers. If I can, let me talk about these issues in the context of California.

We have been busy since the Telecom Act was signed. Local competition is booming in our State. Thus far, Pacific Bell has signed 22 interconnection agreements with resellers for our local services, including agreements with the three largest long-distance companies. We're currently negotiating with 21 other companies to do the same thing.

In addition to resale, a number of companies are providing or have announced plans to provide facilities-based service to large business and Government customers. Nationwide, by the way, local telecom companies have signed 470 interconnection agreements.

In addition, there will soon be several new and aggressive players in the long-distance market as the Bell companies move rapidly to meet the checklist spelled out in last year's act. We are moving as fast as we can, but we are not allowed—no Bell company is—into the in-region long-distance market just yet.

The booming competition in both local and long-distance service will be a boon for residence and business customers alike. It will

enable everybody, with the odd exception of the Federal Government, to gain the benefits of competition intended with the act.

Why will the Federal Government miss out? Well, because GSA's new plan allows the FTS2001 long-distance winners to offer local service on an optional, non-evaluated basis, without an examination or review of the cost-effectiveness of their proposals. We're talking about $700 million in annual service costs, with the Federal Government not bothering to examine whether or not it's getting the best price. This idea simply won't work.

Let me give you a real world example that demonstrates why Chairman Burton's first goal of getting the best possible deal will continue to be compromised if long-distance companies can be first in with a bundled and unchallenged local offer.

In the last couple of years, the current FTS2000 long-distance providers began offering short-haul toll calls on the same kind of optional, non-evaluated basis that GSA is now proposing for all local service. GSA has encouraged Federal agencies to procure their short-haul toll service in this way. In response, many have signed on. Well, they are getting overcharged big-time.

For example, one military installation, a large military installation in California, utilizing the FTS2000 contract, is paying approximately 7 cents per minute for its short-haul toll. By contrast, Pacific Bell's discounted tariff rate for the same service is less than 5 cents per minute, 4.7, to be exact. That's about a 50 percent premium.

It gets worse. For a customer of this size, we typically would offer even lower rates via contract. This is just one example. The majority of Federal agencies in California are paying, we believe, exorbitant prices for this type of service. Of course, the Government doesn't know this, because it never bid the contract.

You may be wondering why Pacific Bell account teams can't simply convince our customers to switch back. Unfortunately, there is little incentive for Federal managers to even care about this. They are encouraged to use the FTS network for as many services as possible, whatever the cost. The incentive for them to do so is that all the bills are paid in Washington, and local managers have little or no accountability to manage the volume or cost of their usage. Indeed, we've heard some Federal managers in California finally refer to FTS as "free telephone service."

If GSA's new plan is allowed to stand, the same thing could happen to local service, and taxpayers could lose tens of millions of dollars. I know that some people will point out that local telecom companies will still be able to compete to provide local service under the metropolitan area acquisitions, or MAAs, even though the long-distance providers could have first right of refusal. It may sound plausible, but it simply doesn't wash. In fact, the metropolitan area acquisitions may turn out to be useless for the reasons I just stated and Barbara stated earlier.

Our Federal customers have plenty on their plate. If there is a lack of local price accountability and or visibility, and they have already gone through the transition, I would bet Chairman Burton's goal No. 1, the best possible deal for taxpayers, could be history.

Mr. Chairman and members of the committee, the bottom line is, the "February surprise" is a very unpleasant surprise indeed. The

only beneficiaries are the two or three large long-distance companies that win the FTS2001 contract. The list of losers is much longer: the taxpayers, Federal Government customers, and the many new competitors Congress voted to unleash with the Telecom Act of last year.

As the committee that oversees the efficiency of the operations of Government, I urge you to encourage GSA to drop this risky new plan and revert to the far more rational plan that the agency brokered last year.

It is interesting to me today, observing, that it seems that only one vendor, AT&T, seems pleased with the refined plan. MCI just seems to want to go with one plan or another. And Sprint has concerns. To Congresswoman Morella's question, we all had concerns with the compromise that was brokered in September. I expect that might be an indication that that was a good compromise, therefore.

Thank you for the opportunity to speak on this important issue today. I would be pleased to answer any questions, of course.

[The prepared statement of Mr. Hannigan follows:]

Good morning, Mr. Chairman and Members of the Committee. My name is Bill Hannigan, and I am Vice President - Business Sales for Pacific Bell. Pacific Bell is a subsidiary of Pacific Telesis Group, a San Francisco-based diversified telecommunications corporation.

I appreciate this opportunity to be with you today to discuss the Post FTS-2000 issue. It is complex. It is important. As you well know, American taxpayers have a great deal at stake in its outcome -- as do government telecommunications customers and United States telecommunications providers.

If I may, I would like to offer my remarks this morning in the context of the goals for the FTS 2001 program that Chairman Burton outlined in last week's hearing. He said that the Request For Proposal (RFP) should meet four criteria:

- It must be the best possible deal for the taxpayer;

- It must take advantage of emerging market forces in the telecommunications industry;

- It must ensure a level playing field and allow as many competitors as possible to compete; and

- It must leverage the federal government's purchasing power.

Members of the Committee, we once had such a plan. It was negotiated over many months by all segments of the telecommunications industry -- and expertly facilitated by Commissioner Bob Woods and his staff at General Services Administration (GSA). The Interagency Management Council (IMC) was very actively involved as well.

The proposal met all of Chairman Burton's criteria. It reflected the nation's new national telecommunications policy that Congress set out so clearly in last year's historic Telecommunications Act. It created a level playing field and guaranteed that the federal government would get the best deal possible.

But, Mr. Chairman and Members of the Committee, a funny thing happened on the way to the RFP.

Abruptly, without warning, and with what appears to be little thought or analysis, the proposal was altered early last month. An entirely new proposal appeared

which, in my view, ignores -- indeed contradicts -- Chairman Burton's goals. In my company, we have come to call it the "February Surprise."

Mr. Chairman, I am a businessman. My job is to provide customers the services they want when they want them and to do a better job than my competition. I do not pretend to understand the way Washington works behind the scenes. But I can tell you one thing. If one of the goals of this Committee is to see that government functions effectively, you have a textbook example right here of why it sometimes does not. To toss out a carefully crafted strategy whose benefits were obvious and suddenly insert a new one whose benefits do not even seem to have been evaluated is a strange and risky way to do business.

When Congress passed the historic Telecommunications Act last year, it established an important new national policy for the future. Congressional intent, if I can try to synopsize it in my own words, was to dramatically increase competition in all segments of the telecommunications industry by letting everybody into everybody's else's market. Congress set out procedures and a timetable for doing so, and gave the Federal Communications Commission (FCC) the charge to make it happen. The goal was to give consumers the greatest possible array of competitive options at the lowest possible price. As I understand it, this policy was bipartisan -- it was supported by people in both parties as well as the Administration.

In short, it was a strategy that was designed to work.

My assumption is that this Committee would want to apply the principles of the Telecommunications Act to the FTS 2001. You would want the federal government to take maximum advantage of the increasing competition and new opportunity the legislation creates. You would want GSA to time and structure its RFP to match the timing of the changes in the industry. As Chairman Burton says, you would want to get the best deal for the taxpayer.

The compromise reached last September with strong facilitation by Commissioner Woods and the active involvement of the IMC did just that. Initially, the proposal would have bid the long distance and local portions of the RFP separately. Then, when every segment of the industry had gone through the necessary hoops to be able to compete in all markets, everybody would be allowed to bid on everything -- creating the price and service competition envisioned when Congress enacted the Telecommunications Act last year.

Now, suddenly and without warning, GSA has reversed course. It has decided to ignore the rapid changes in the telecommunications marketplace and the state of competition in the industry. I understand that the agency had little choice. It was under intense pressure to reverse the September compromise. But I would like

to explain to the Committee why this new strategy is bad for the government, bad for the taxpayer and bad for all but a few players in the telecommunications industry.

To begin with, let me talk about the changing realities of today's telecommunications marketplace. I will focus on California, since that is the area I know best, and it is where competition is developing most rapidly.

Local competition is booming in the Golden State. Thus far, Pacific Bell has signed 22 interconnection agreements with other providers to resell our local service (see Attachment I). The players include established long distance companies and competitive access providers, as well as new competitive local exchange carriers.

But this is just the beginning. Pacific Bell is currently in negotiations over 21 other agreements with companies who want to resell local service. In addition, a number of companies are providing, or have announced plans to provide, facilities-based service to large business customers.

Just as significantly, there will shortly be more competition in the long distance markets. Today, over eighty percent of that market is dominated by the three largest carriers. But over the next year or two, the Bell companies will enter the

market -- providing seven new aggressive competitors, whose entry will result in significantly more price and service competition. All of the Bell companies are moving rapidly to meet the checklist for long distance entry spelled out in last year's Telecommunications Act. To that end, the nation's incumbent local exchange companies have signed 470 interconnection agreements to date with companies who intend to provide local service (see Attachment II).

In my view, this is just what Congress wanted to happen. And it is the timetable by which the rest of the country -- except, apparently, the federal government -- will gain the benefits of the competition created by the Telecommunications Act.

Members of the Committee, the compromise reached last September after so many months of negotiation guaranteed these benefits. It was in synch with the spirit and timing of the Telecommunications Act. It bid long distance and local service separately and allowed *all* local competitors to compete, including the many new carriers who are signing up to offer local service in California every month. In addition, the compromise contained a critical provision that permitted the federal government to benefit from the entry of the Bell companies into long distance by permitting us to bid for the government's long distance business when we were approved to do so.

It was simple. It was practical. It was agreed-upon by representatives of all segments of the industry. It was the best deal for the government.

And then, one morning, it was gone.

The February Surprise is, to say the least, a strange way to do business. It carefully protects the interests of the three largest long distance companies while tossing out the interests of the taxpayers.

My understanding is that the Competition in Contracting Act requires the government to use competitive bidding procedures when procuring goods and services. The new GSA plan appears to be at sharp odds with that principle. It allows a maximum of three long distance FTS 2001 winners to offer local service totaling $700 million in revenues on an "optional" basis *without any review at all of the cost-effectiveness or merits of their proposal.*

In short, the government will have no way of knowing whether it is getting the best price for local service. No private sector company in its right mind would operate in such a manner. Its shareholders would -- rightly so -- demand management's head.

There is a real world example I can cite to make my point here. In the last couple of years, current FTS 2000 providers have begun offering short-haul toll service (what we call intra-LATA toll) on an optional basis. GSA has encouraged federal agencies to purchase this service from them. As a result, most federal entities in California such as GSA, the Treasury Department, the Air Force and the Army have simply signed on for this service without any evaluation of its cost. This non-mandatory service was never competed, and often the federal government is paying a significantly higher price for these calls than it would otherwise have to.

One representative example: There is an Air Force base in California that is paying 7.1 cents a minute for short-haul toll. By contrast, Pacific Bell's discounted tariffed rates are less than five cents a minute for the identical service. In fact, we sampled our California federal customers from the Air Force, the Army, GSA and Treasury and found that they were paying ten to forty percent more for their short haul toll than Pacific Bell's discounted tariffed rates. And we could provide this service at an even lower cost if we were under contract.

Of course the government does not know that because it never bid the contract.

If GSA's risky new plan is allowed to stand -- and unevaluated local service is added to the FTS 2001 RFP -- the same thing will happen with local service as well.

In fact, there is little incentive for federal managers to even care about the price of service. Federal government users are encouraged to use the FTS network for as many services as possible whatever the cost. The incentive for them to do so is the fact that the bills are all paid in Washington and local managers have little or no accountability for managing the volume or cost of their usage. As a result, we have heard that some federal managers in California fondly refer to FTS as "Free Telephone Service".

I know that some people will point out that local exchange companies will still be able to bid to provide local service under the MAA contracts. That sounds good, but it is not going to work. Indeed, under the terms of GSA's risky new plan, bidding for the MAA contracts may well become a pointless exercise. By the time they are actually put up for bid, the opportunity will already have been lost. Since the FTS 2001 winners will be able to bundle long distance, local and other services from the start, there will be little incentive for companies to bid on the MAAs and even less incentive for government agencies to switch from the bundled service the long distance companies are providing. This is especially true in an environment where individual agencies and managers are, for all practical purposes, unaware of what the services actually cost. It will be far easier for federal customers to just do nothing.

This approach may slow down the pace of local competition as well. Since the Federal Government is a major (and sometimes the major) business customer in a metropolitan area, local competitors will have to exclude federal business from the mix when they develop a business case on whether to enter a particular market.

Mr. Chairman and Members of the Committee, the bottom line is that the February Surprise proposal that has been forced on GSA cheats the government and it cheats the taxpayer. It denies the federal government the benefits of the new national telecommunications policy Congress so carefully crafted and enacted last year. It will negatively affect the growth of competition in both the long distance and local telecommunications markets.

In short, it is an ill-conceived and counterproductive shift from the compromise GSA so carefully worked out during many months of negotiation last year.

There are only two or three beneficiaries of this last-minute change: The companies who win the FTS 2001 long distance contracts. The list of losers, however, is far longer: the Federal Government, the taxpayers and the many new competitors Congress voted to unleash in last year's Telecommunications Act.

I urge the Committeee to encourage GSA to discard the February Surprise and revert to the far more rational compromise it brokered last year.

Thank you for this opportunity to discuss this important issue with you today. I would be pleased to answer any questions the Committee may have.

PACIFIC TELESIS

March 11, 1997

The Honorable Dan Burton
Chairman, Committee on
Government Reform and Oversight
U.S. House of Representatives
2157 Rayburn House Office Building
Washington, DC 20515-6143

Dear Chairman Burton:

Pacific Telesis Group appreciates the opportunity to provide comment on the Post FTS-2000 issue.

In conjunction with our testimony, as required by House Rules, I am forwarding this statement of the amount and source of federal contracts and grants Pacific Bell has received during the last three fiscal years.

As the local exchange carrier for more than 70 percent of the California and Nevada markets, we are a significant provider of telecommunications services to the Federal Government.

Our services, which are offered both through contract, sub-contract, and by tariff, include such offerings as local transmission, local transmission re-sale, Centrex, CPE, Internet access, Voice Mail, and coin phones. Our government clients include the Departments of Treasury, Interior, Health and Human Services, Education, and Defense, the Park Service, the General Accounting Office, the General Services Administration, the Health Care Financing Administration, NASA, the Nuclear Regulatory Commission, the Postal Service, and the Federal Prison System.

Most of our business with the federal government is done through our Federal Services Group (FSG). Current annual FSG revenue is approximately $60-70 million per year. Additionally, we derive revenue from the federal government through subcontracts with AT&T, MCI, and Sprint, and from coin phones located on federal property.

We hope this information is adequate to meet the Committee's needs. Please let me know as soon as possible if you need more information.

Sincerely,

Tom Morton

Attachment I

PACIFIC BELL
INTERCONNECTION AGREEMENTS

1. MFS Intelenet of California, Inc. ("MFS") dated November 17, 1995 and Modification dated January 26, 1996, and CPUC resolution approving
2. Teleport Communications Group, Inc. ("TCG"), dated January 16, 1996
3. Brooks Fiber Communications ("Brooks"), dated March 4, 1996 and Amendment 1 dated July 5, 1996
4. Pac-West Telecomm, Inc. ("Pac-West"), dated March 15, 1996
5. ICG Telcom Group, Inc. ("ICG"), dated March 25, 1996 and amendment dated June 13, 1996
6. Continental Telecommunications of California, Inc. ("Continental"), dated June 19, 1996
7. MCImetro Access Transmission Services, Inc. ("MCImetro") dated July 2, 1996
8. GTE California, Inc. ("GTE"), dated July 16, 1996
9. Cox California Telecom, Inc. ("Cox"), dated July 25, 1996
10. Teleport Communications Group, Inc. ("TCG"), dated July 25, 1996
11. WinStar Wireless of California, Inc. ("WinStar"), dated August 1, 1996
12. ICG Telcom Group, Inc. ("ICG"), dated August 2, 1996
13. MFS Intelenet of California, Inc. ("MFS"), dated August 19, 1996
14. Brooks Fiber Communications ("Brooks"), dated August 28, 1996
15. Electric Lightwave, Inc. ("ELI"), dated August 29, 1996 and Amendment #1 dated November 1996
16. ICG Telcom Group, Inc. ("ICG"), dated October 3, 1996
17. TCI, dated November 22, 1996
18. Time Warner, dated November 27, 1996
19. GST Telecom California, Inc. dated December 12, 1996
20. AT&T of California, Inc. dated December 19, 1996
21. SpectraNet International, dated December 31, 1996
22. MCI Metro Access Transmission Services, Inc., dated January 21, 1997

Attachment II

Competitive Providers by City
United States Telephone Association

USTA Reply Comments
CC Docket No. 96-262
February 14, 1997

State	In Arbitration	Interconnection Agreements
Alabama ARB (Total - 3) ICA (Total - 23)	BellSouth and AT&T GTE and AT&T GTE and 360 Communications	BellSouth and MCI BellSouth and Comm Brokerage BellSouth and ACSI BellSouth and Comm Depot BellSouth and TCG BellSouth and TW BellSouth and Am. MetroComm BellSouth and Annox BellSouth and CCI BellSouth and Hart BellSouth and ICI BellSouth and Interlink BellSouth and Jetcom BellSouth and NOW Comm BellSouth and Payphone Cons BellSouth and Second Bell BellSouth and South East Tel. BellSouth and Tel Co Cent. FL BellSouth and Tele Sys BellSouth and Tricomm BellSouth and Unidial Comm BellSouth and USLD BellSouth and US LEC

Notes:
1. In cases where the same two parties are listed in both columns, it is because an agreement has been reached and is in effect while other portions of the interconnection arrangements are in arbitration.
2. Agreements continue to be listed in the "In Arbitration" column until the parties have incorporated the results of the arbitration into an agreement signed by the parties
3. ARB = In Arbitration
4. ICA = Interconnection Agreements

February 11, 1997

State	In Arbitration	Interconnection Agreements
Alaska ARB (Total - 1) ICA (Total - 1)	ATU and AT&T	ATU and GCI Communications
Arizona ARB (Total - 7) ICA (Total - 6)	GTE and AT&T US WEST and Cox US WEST and AT&T US WEST and MCI US WEST and ACSI US WEST and Brooks Fiber US WEST and Sprint	US WEST and Pam Oil US WEST and CitizensTelecom US WEST and TCG US WEST and MFS US WEST and Southwest Co US WEST and ATI
Arkansas ARB (Total - 2) ICA (Total - 10)	SBC and AT&T GTE and AT&T	SBC and Brooks Fiber SBC and USLD SBC and ACSI SBC and Fast Connections SBC and TIE Comm SBC and Ameritel SBC and Intermedia Comm SBC and Perferred Carrier Services SBC and Capital Telecommunications SBC and Arkansas Comm South

Notes:

1. In cases where the same two parties are listed in both columns, it is because an agreement has been reached and is in effect while other portions of the interconnection arrangements are in arbitration.
2. Agreements continue to be listed in the "In Arbitration" column until the parties have incorporated the results of the arbitration into an agreeement signed by the parties
3. ARB = In Arbitration
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State	In Arbitration	Interconnection Agreements
California ARB (Total - 5) ICA (Total - 32)	GTE and LA Cellular GTE and MCI GTE and Sprint GTE and Sprint Pacific Bell and Cook Telecom	GTE and MFS GTE and ICG GTE and AT&T GTE and MCI Metro GTE and TCG GTE and Pac Bell GTE and Pac West GTE and Winstar GTE and Continental Cable GTE and GST GTE and Western Wireless Pacific Bell and AT&T Pacific Bell and MCI Pacific Bell and MFS Pacific Bell and TCG Los Angeles, San Diego, San Francisco Pacific Bell and Brooks Fiber Communications of Bakersfield, Fesno, Sacramento, San Jose, Stockton Pacific Bell and Pac-West Telecom Pacific Bell and ICG Pacific Bell and Continental Pacific Bell and GTE California Pacific Bell and Cox California Pacific Bell and WinStar Pacific Bell and ELI Pacific Bell and TCI-TSCA Pacific Bell and TWC Pacific Bell and GST Telecom Callfomia Pacific Bell and SpectraNet International Pacific Bell and Sprint Pacific Bell and Air Touch Cellular Pacific Bell and Bay Area Cellular Pacific Bell and Cal One/Cal North Cellular Pacific Bell and LA Cellular

Notes:
1. In cases where the same two parties are listed in both columns, it is because an agreement has been reached and is in effect while other portions of the interconnection arrangements are in arbitration.
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State	In Arbitration	Interconnection Agreements
Colorado ARB (Total - 4) ICA (Total - 4)	US WEST and MCI US WEST and AT&T US WEST and Sprint US WEST and Western Wireless	US WEST and TCG US WEST and MFS US WEST and ICG US WEST and Pam Oil
Connecticut ARB (Total - 2) ICA (Total - 6)	SNET and MFS NYNEX and TCI Telephony	SNET and AT&T SNET and MCI SNET and Brooks Fiber SNET and TCG SNET and TCI Telephony SNET and WinStar Wireless
Delaware ARB (Total - 1) ICA (Total - 3)	Bell Atlantic and AT&T	Bell Atlantic and MFS Bell Atlantic and ETC Bell Atlantic and C-TEC
District of Columbia ARB (Total - 2) ICA (Total - 4)	Bell Atlantic and AT&T Bell Atlantic and MCI	Bell Atlantic and MFS (except unbundled loops) Bell Atlantic and TCG Bell Atlantic and C-TEC Bell Atlantic and Winstar

Notes:
1. In cases where the same two parties are listed in both columns, it is because an agreement has been reached and is in effect while other portions of the interconnection arrangements are in arbitration.
2. Agreements continue to be listed in the "In Arbitration" column until the parties have incorporated the results of the arbitration into an agreement signed by the parties
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State	In Arbitration	Interconnection Agreements
Florida ARB (Total - 10) ICA (Total - 37)	GTE and ACSI GTE and WinStar GTE and MCI GTE and Sprint GTE and ACSI GTE and Telephone Company of Central FL GTE and Florida Comm South GTE and AT&T BellSouth and AT&T BellSouth and Sprint	GTE and MFS GTE and ICI GTE and MCI Metro Bell South and Florida Cable Association Bell South and Telephone Company of Central FL BellSouth and Digital Media Partners BellSouth and Comm Brokerage BellSouth and Comm Depot BellSouth and Digital Cable BellSouth and ACSI BellSouth and Business Telecom BellSouth and MCI BellSouth and MFS BellSouth and TCG BellSouth and TW BellSouth and Am MetroComm BellSouth and Annox BellSouth and CCI BellSouth and FL Comm South BellSouth and Hart BellSouth and ICI BellSouth and Interlink BellSouth and Intertech BellSouth and Jetcom BellSouth and Nat'l Telecom BellSouth and NOW Comm BellSouth and Payphone Cons BellSouth and Second Bell BellSouth and South East Tel BellSouth and Strategic Tech BellSouth and Tele Sys BellSouth and TIE Comm BellSouth and Tricomm BellSouth and Unidial Comm BellSouth and USLD

Notes:

1. In cases where the same two parties are listed in both columns, it is because an agreement has been reached and is in effect while other portions of the interconnection arrangements are in arbitration.
2. Agreements continue to be listed in the "In Arbitration" column until the parties have incorporated the results of the arbitration into an agreeement signed by the parties
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State	In Arbitration	Interconnection Agreements
Georgia ARB (Total - 2) ICA (Total - 34)	BellSouth and Sprint BellSouth and MCI	Bell South and Business Telecom of Georgia BellSouth and Comm Brokerage BellSouth and ACSI BellSouth and MediaOne BellSouth and South Phone BellSouth and Comm Depot BellSouth and AT&T BellSouth and Georgia Comm South BellSouth and MCI BellSouth and MFS BellSouth and TCG BellSouth and TW BellSouth and AirTouch BellSouth and Am MetroComm BellSouth and Annox BellSouth and BA/NYNEX BellSouth and CCI BellSouth and Hart BellSouth and ICI BellSouth and Interlink BellSouth and Jetcom BellSouth and National Tel BellSouth and NOW Comm BellSouth and Payphone Cons BellSouth and Second Bell BellSouth and SouthEast Tel BellSouth and Tele Sys BellSouth and Tel Co Cent FL BellSouth and TIE Comm BellSouth and Tricomm BellSouth and Unidial BellSouth and USLD BellSouth and US LEC BellSouth and Winstar Tel

Notes:

1. In cases where the same two parties are listed in both columns, it is because an agreement has been reached and is in effect while other portions of the interconnection arrangements are in arbitration.
2. Agreements continue to be listed in the "In Arbitration" column until the parties have incorporated the results of the arbitration into an agreeement signed by the parties
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State	In Arbitration	Interconnection Agreements
Hawaii ARB (Total - 3) ICA (Total - 1)	GTE and AT&T GTE and Western Wireless GTE and Sprint	GTE and GST
Idaho ARB (Total - 2) ICA (Total - 4)	US WEST and AT&T US WEST and Cox Cable	US WEST and Western Wireless US WEST and Montana Telecom US WEST and Citizens US WEST and Pam Oil
Illinois ARB (Total - 5) ICA (Total - 3)	Ameritech and TCG Ameritech and AT&T Ameritech and MCI GTE and AT&T GTE and 360 Communications	Ameritech and Winstar Ameritech and MFS Comm Consolidated Communications and Ameritech
Indiana ARB (Total - 8) ICA (Total -2)	GTE and AT&T GTE and MCI GTE and Sprint GTE and 360 Communications Ameritech and TCG Ameritech and AT&T Ameritech and MCI Ameritech and Sprint	Ameritech and Time Warner Ameritech and MFS Comm
Iowa ARB (Total - 1) ICA (Total - 4)	GTE and 360 Communications	GTE and AT&T US WEST and AT&T US WEST and MCI US WEST and Pam Oil

Notes:

1. In cases where the same two parties are listed in both columns, it is because an agreement has been reached and is in effect while other portions of the interconnection arrangements are in arbitration.
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State	In Arbitration	Interconnection Agreements
Kansas ARB (Total - 1) ICA (Total - 10)	SBC and AT&T	SBC and USLD SBC and Fast Connections SBC and TIE Comm SBC and Ameritel SBC and Intermedia SBC and Sprint SBC and Valu-line SBC and Preferred Carrier Services SBC and Capital Telecommunications SBC and Kansas Comm South
Kentucky ARB (Total - 7) ICA (Total - 21)	BellSouth and MCI BellSouth and AT&T GTE and MCI GTE and ACSI GTE and AT&T GTE and Vanguard Cellular Cincinnati Bell & ICG	BellSouth and TCG BellSouth and TW BellSouth and ACSI BellSouth and Am MetroComm BellSouth and Annox BellSouth and CCI BellSouth and Comm Brokerage BellSouth and Comm Depot BellSouth and Hart BellSouth and ICI BellSouth and Intertink BellSouth and Jetcom BellSouth and Now Comm Bell South and Second Bell BellSouth and SouthEast Tel BellSouth and Tele Sys BellSouth and Telephone Co. of Cent. FL BellSouth and Tricomm BellSouth and Unidial BellSouth and US LEC BellSouth and USLD

Notes:

1. In cases where the same two parties are listed in both columns, it is because an agreement has been reached and is in effect while other portions of the interconnection arrangements are in arbitration.
2. Agreements continue to be listed in the "In Arbitration" column until the parties have incorporated the results of the arbitration into an agreeement signed by the parties
3. ARB = In Arbitration
4. ICA = Interconnection Agreements

F[illegible]ary 11, 1997

State	In Arbitration	Interconnection Agreements
Louisiana ARB (Total - 2) ICA (Total - 26)	BellSouth and Sprint BellSouth and AT&T	BellSouth and TCG BellSouth and Comm Depot BellSouth and TW BellSouth and Am MetroComm BellSouth and ACSI BellSouth and Annox BellSouth and CCI BellSouth and Centennial Cellular BellSouth and Comm Brokerage BellSouth and Hart BellSouth and ICI BellSouth and Interlink BellSouth and Jetcom BellSouth and National Tel. BellSouth Now Comm BellSouth and Second Bell BellSouth and SouthEast Tel BellSouth and Payphone Cons BellSouth and Tele Sys BellSouth and Telephone Co. of Cent. FL BellSouth and Tricomm BellSouth and TIE Comm BellSouth and Unidia I BellSouth and US LEC BellSouth and USLD BellSouth and Winstar
Maine ARB (Total - 1) ICA (Total - 2)	NYNEX and AT&T	NYNEX and Freedom Ring NYNEX and C-TEC Services (Residential Communications Network - RCN)
Maryland ARB (Total - 2) ICA (Total - 4)	Bell Atlantic and AT&T Bell Atlantic and MCI	Bell Atlantic and MFS Bell Atlantic and C-TEC Bell Atlantic and Winstar Bell Atlantic and TCG

Notes:
1. In cases where the same two parties are listed in both columns, it is because an agreement has been reached and is in effect while other portions of the interconnection arrangements are in arbitration.
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State	In Arbitration	Interconnection Agreements
Massachusetts ARB (Total - 6) ICA (Total - 4)	NYNEX and TCG NYNEX and Brooks Fiber NYNEX and AT&T NYNEX and MCI NYNEX and Sprint NYNEX and XCOM	NYNEX and Winstar NYNEX and MFS Comm NYNEX and IntermedARB Communications NYNEX and C-TEC Services (Residential Communications Network - RCN)
Michigan ARB (Total - 6) ICA (Total - 3)	Ameritech and TCG Ameritech and AT&T Ameritech and MCI Ameritech and Sprint GTE and AT&T GTE and Sprint	Ameritech and Brooks Fiber Ameritech and MFS Comm Ameritech and AT&T
Minnesota ARB (Total - 6) ICA (Total - 4)	US WEST and AT&T US WEST and MFS US WEST and MCI US WEST and Sprint GTE and Sprint GTE and AT&T	US WEST and Adv. Tel US WEST and Choice Tel US WEST and Info Tel US WEST and Pam Oil

Notes:

1. In cases where the same two parties are listed in both columns, it is because an agreement has been reached and is in effect while other portions of the interconnection arrangements are in arbitration.
2. Agreements continue to be listed in the "In Arbitration" column until the parties have incorporated the results of the arbitration into an agreeement signed by the parties
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State	In Arbitration	Interconnection Agreements
Mississippi ARB (Total - 2) ICA (Total - 24)	BellSouth and AT&T BellSouth and Sprint	BellSouth and TCG BellSouth and TW BellSouth and ACSI BellSouth and Am MetroComm BellSouth and Annox BellSouth and Brooks Fiber BellSouth and CCI BellSouth and Cellular Holding BellSouth and Comm Brokerage BellSouth and Comm Depot BellSouth and Hart BellSouth and ICI BellSouth and Interlink BellSouth and Jetcom BellSouth and Miss. Cel. Tel BellSouth and Now Comm BellSouth and Second Bell BellSouth and SouthEast Tel BellSouth and Tele Sys BellSouth and Telephone Co. of Cent. FL BellSouth and Tricomm BellSouth and Unidial BellSouth and US LEC BellSouth and USLD
Missouri ARB (Total - 3) ICA (Total - 10)	GTE and AT&T GTE and Sprint GTE and Dial US	SBC and Dial US SBC and MFS SBC and USLD SBC and Ameritel SBC and ICAst Connection SBC and TIE Comm SBC and Intermedia Comm SBC and Preferred Carrier Services SBC and Capital Telecommunications SBC and Missouri Comm South

Notes:
1. In cases where the same two parties are listed in both columns, it is because an agreement has been reached and is in effect while other portions of the interconnection arrangements are in arbitration.
2. Agreements continue to be listed in the "In Arbitration" column until the parties have incorporated the results of the arbitration into an agreeement signed by the parties
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State	In Arbitration	Interconnection Agreements
Montana ARB (Total - 1) ICA (Total - 5)	US WEST and AT&T	US WEST and Western Wireless US WEST and Citizens US WEST and Gigliott dba KADCO US WEST and Montana Telcom US WEST and Pam Oil
Nebraska ARB (Total - 9) ICA (Total - 1)	GTE and Western Wireless GTE and AT&T US WEST and Western Wireless US WEST and TCG US WEST and AT&T US WEST and Sprint AIARBnt and Western Wireless AIARBnt and Airtouch GTE and Aliant Midwest	US WEST and Pam Oil
Nevada ARB (Total - 1) ICA (Total - 3)	Nevada Tel.and Sprint/Center	Nevada Bell and Brooks Fiber Nevada Bell and Phoenix Fiberlink Nevada Bell and Shared Communications
New Hampshire ARB (Total - 1) ICA (Total - 2)	NYNEX and AT&T	NYNEX and Freedom Ring NYNEX and C-TEC Services (Residential Communications Network - RCN)
New Jersey ARB (Total - 3) ICA (Total - 6)	Bell Atlantic and AT&T Bell Atlantic and MCI Bell Atlantic and Total Telephone	Bell Atlantic and MFS Bell Atlantic and ETC Bell Atlantic and TCG Bell Atlantic and C-TEC Bell Atlantic and Winstar Bell Atlantic and Hyperion

Notes:

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State	In Arbitration	Interconnection Agreements
New Mexico ARB (Total - 6) ICA (Total - 3)	US WEST and Brooks Fiber US WEST and ACSI US WEST and Western Wireless US WEST and AT&T GTE and Western Wireless GTE and 360 Communications	US WEST and Southwest Co. US WEST and Pam Oil US WEST and Citizens
New York ARB (Total - 5) ICA (Total - 8)	NYNEX and AT&T NYNEX and Manhattan Telephone NYNEX and MCI NYNEX and Sprint NYNEX and US One	NYNEX and MFS Comm NYNEX and Teleport NYNEX and Winstar NYNEX and Frontier NY (resale) NYNEX and US Network NY (resale) NYNEX and C-TEC Services (Residential Communications Network - RCN) (resale) NYNEX and Intermedia Communications NYNEX and Manhattan Telecommunications

Notes:

1. In cases where the same two parties are listed in both columns, it is because an agreement has been reached and is in effect while other portions of the interconnection arrangements are in arbitration.
2. Agreements continue to be listed in the "In Arbitration" column until the parties have incorporated the results of the arbitration into an agreeement signed by the parties
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State	In Arbitration	Interconnection Agreements
North Carolina ARB (Total - 7) ICA (Total - 26)	GTE and AT&T GTE and Sprint GTE and MCI GTE and US LEC BellSouth and AT&T BellSouth and MCI BellSouth and Sprint	BellSouth and MCI Metro BellSouth and TCG BellSouth and TW BellSouth and Am MetroComm BellSouth and Annox BellSouth and BA/NYNEX Mobile BellSouth and CCI BellSouth and Comm Brokerage BellSouth and Comm Depot BellSouth and Hart BellSouth and ICI BellSouth and Interlink BellSouth and Jetcom BellSouth and Now Comm BellSouth and Payphone Cons. BellSouth and Second Bell BellSouth and SouthEast Tel. BellSouth and Tele Sys BellSouth and Telephone Co. Of Cent. FL BellSouth and Tricomm BellSouth and TIE comm BellSouth and Undia I BellSouth and US LEC BellSouth and USLD BellSouth and WinStar GTE and 360 Communications
North Dakota ARB (Total - 2) ICA (Total - 2)	US WEST and Western Wireless US WEST and AT&T	US WEST and Pam Oil US WEST and Infotel Comm

Notes:

1. In cases where the same two parties are listed in both columns, it is because an agreement has been reached and is in effect while other portions of the interconnection arrangements are in arbitration.
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State	In Arbitration	Interconnection Agreements
Ohio ARB (Total - 8) ICA (Total - 6)	Ameritech and TCG Ameritech and AT&T GTE and AT&T GTE and Sprint GTE and 360 Communications GTE and ICG Cincinnati Bell & ICG Cincinnati Bell & MCI	Ameritech and Time Warner Ameritech and MFS Comm Ameritech and ICG Ameritech and MCI Ameritech and Brooks Fiber GTE and TW
Oklahoma ARB (Total - 4) ICA (Total - 10)	GTE and AT&T GTE and Brooks Fiber GTE and Chickasaw GTE and Dobson Wireless	SBC and Brooks Fiber SBC and Dobson Wireless SBC and USLD SBC and ICAst Connection SBC and TIE Comm SBC and Western OK Long Distance SBC and Preferred Carrier Services SBC and Oklahoma Comm South SBC and Ameritel SBC and IntermedARB
Oregon ARB (Total - 10) ICA (Total - 4)	GTE and Sprint GTE and Western Wireless GTE and AT&T GTE and MCI US WEST and MFS US WEST and TCG US WEST and AT&T US WEST and MCI US WEST and Western Wireless US WEST and Sprint	US WEST and Gigliotti, Kadcom US WEST and Pam Oil US WEST and Montana Telcom US WEST and Adv. Telcom

Notes:

1. In cases where the same two parties are listed in both columns, it is because an agreement has been reached and is in effect while other portions of the interconnection arrangements are in arbitration.
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State	In Arbitration	Interconnection Agreements
Pennsylvania ARB (Total - 6) ICA (Total - 7)	GTE and AT&T GTE and Sprint GTE and Vanguard Cellular Bentleyville Telephone and Helecon Cable Bell Atlantic and AT&T Bell Atlantic and MCI	Bell Atlantic and MFS Bell Atlantic and ETC Bell Atlantic and CCI Bell Atlantic and C-TEC Bell Atlantic and TCG Bell Atlantic and Winstar Bell Atlantic and Hyperion
Rhode Island ARB (Total - 4) ICA (Total - 1)	NYNEX and TCG NYNEX and AT&T NYNEX and Brooks Fiber NYNEX and MCI	NYNEX and C-TEC Services (Residential Communications Network - RCN)

Notes:
1. In cases where the same two parties are listed in both columns, it is because an agreement has been reached and is in effect while other portions of the interconnection arrangements are in arbitration.
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State	In Arbitration	Interconnection Agreements
South Carolina ARB (Total - 6) ICA (Total - 25)	BellSouth and AT&T BellSouth and Sprint GTE and AT&T GTE and Vanguard Cellular GTE and Low Tech Designs GTE and 360 Communications	BellSouth and TCG BellSouth and TW BellSouth and Am MetroComm BellSouth and Annox BellSouth and ACSI BellSouth and BA/NYNEX BellSouth and CCI BellSouth and Comm Brokerage BellSouth and Comm Depot BellSouth and Hart BellSouth and ICI BellSouth and Interlink BellSouth and Jetcom BellSouth and National Tel. BellSouth and Now Comm BellSouth and Payphone Cons. BellSouth and Second Bell BellSouth and SouthEast Tel. BellSouth and Tele Sys BellSouth and Telephone Co. Of Cent. FL BellSouth and Tricomm BellSouth and TIE comm BellSouth and Undia I BellSouth and US LEC BellSouth and USLD
South Dakota ARB (Total - 3) ICA (Total - 1)	US WEST and Dakota Telecom US WEST and Western Wireless US WEST and AT&T	US WEST and Pam Oil

Notes:

1. In cases where the same two parties are listed in both columns, it is because an agreement has been reached and is in effect while other portions of the interconnection arrangements are in arbitration.
2. Agreements continue to be listed in the "In Arbitration" column until the parties have incorporated the results of the arbitration into an agreeement signed by the parties
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State	In Arbitration	Interconnection Agreements
Tennessee ARB (Total - 3) ICA (Total - 28)	BellSouth and MCI BellSouth and AT&T Bell South and Sprint	BellSouth and MCI Metro BellSouth and TCG BellSouth and TW BellSouth and Am MetroComm BellSouth and ACSI BellSouth and Annox BellSouth and Brooks Fiber BellSouth and Bus. Cel Systems BellSouth and CCI BellSouth and Comm Brokerage BellSouth and Comm Depot BellSouth and Hart BellSouth and ICI BellSouth and Interlink BellSouth and Jetcom BellSouth and NextLink BellSouth and Now Comm BellSouth and Payphone Cons. BellSouth and Second Bell BellSouth and Tele Sys BellSouth and SouthEast Tel BellSouth and Telephone Co. of Cent. FL BellSouth and Tricomm BellSouth and Tie Comm BellSouth and Unidial I BellSouth and USLEC BellSouth and USLD BellSouth and WinStar

Notes:

1. In cases where the same two parties are listed in both columns, it is because an agreement has been reached and is in effect while other portions of the interconnection arrangements are in arbitration.
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State	In Arbitration	Interconnection Agreements
Texas ARB (Total - 8) ICA (Total - 31)	GTE and MCI GTE and AT&T GTE and Western Wireless GTE and 360 Communications GTE and ICG GTE and Sprint GTE and ACSI SBC and Lonestar Net	SBC and AT&T SBC and American Telco SBC and Kingsgate Midsouth SBC and MFS SBC and Time Warner SBC and US Telco SBC and Texas Comm South SBC and ACSI SBC and USLD SBC and Fast Connection SBC and TIE Comm SBC and Ameritel SBC and NTS Comm SBC and Metrolink Telcom SBC and TCG SBC and Cytel SBC and Choctaw Comm SBC and Texas Teleconnect SBC and Call-Four-Less SBC and Poshner Telecommunication SBC and M-Tel SBC and WinStar Wireless SBC and EZ Talk SBC and Intermedia Comm SBC and Easy Cellular SBC and Local Telephone Service Co. SBC and ICG Telecom Group SBC and Dobson Wireless SBC and Preferred Carrier Services SBC and Metro Connections SBC and Capital Telecommunications

Notes:

1. In cases where the same two parties are listed in both columns, it is because an agreement has been reached and is in effect while other portions of the interconnection arrangements are in arbitration.
2. Agreements continue to be listed in the "In Arbitration" column until the parties have incorporated the results of the arbitration into an agreeement signed by the parties
3. ARB = In Arbitration
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State	In Arbitration	Interconnection Agreements
Utah ARB (Total - 5) ICA (Total - 2)	US WEST and TCG US WEST and AT&T US WEST and MCI US WEST and Sprint US WEST and Western Wireless	US WEST and Pam Oil US WEST and Phoenix Fiberlink
Vermont ARB (Total - 1) ICA (Total - 2)	NYNEX and AT&T	NYNEX and Hyperion NYNEX and C-TEC Services (Residential Communications Network - RCN)
Virginia ARB (Total - 9) ICA (Total - 6)	GTE and MFS GTE and 360 Communications GTE and AT&T GTE and Cox GTE and MCI GTE and Sprint Bell Atlantic and AT&T Bell Atlantic and MCI Bell Atlantic and Cox	Bell Atlantic and Jones Bell Atlantic and MFS Bell Atlantic and TCG Bell Atlantic and Winstar Bell Atlantic and Hyperion Bell Atlantic and C-TEC
Washington ARB (Total - 9) ICA (Total - 6)	GTE and TCG GTE and AT&T GTE and MCI Metro GTE and Sprint GTE and MFS US WEST and MFS US WEST and TCG US WEST and AT&T US WEST and MCI	US WEST and Int'l Telecom Ltd Resale & Interconnection US WEST and Pam Oil US WEST and Adv. Telcom US WEST and Citizens US WEST and Int'l Telcom US WEST and Montana Telcom
West Virginia ARB (Total - 1)	Bell Atlantic and AT&T	

Notes:

1. In cases where the same two parties are listed in both columns, it is because an agreement has been reached and is in effect while other portions of the interconnection arrangements are in arbitration.
2. Agreements continue to be listed in the "In Arbitration" column until the parties have incorporated the results of the arbitration into an agreeement signed by the parties
3. ARB = In Arbitration
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State	In Arbitration	Interconnection Agreements
Wisconsin ARB (Total - 5) ICA (Total - 2)	Ameritech and TCG Ameritech and AT&T Ameritech and MCI GTE and AT&T GTE and Sharon Tel.	Ameritech and Time Warner Ameritech and MFS Comm
Wyoming ARB (Total - 2) ICA (Total - 1)	US WEST and Western Wireless US WEST and AT&T	US WEST and Pam Oil

	1/15/97	1/31/97	2/4/97	2/11/97
Total for Arbitration:	175	213	202	213
Total for Interconnection Agreements:	46	233	261	470

Notes:
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Mr. BURTON. Our third witness is Mr. Hess. I've just been informed you flew here from Madison, WI, to testify.

Mr. HESS. That's correct.

Mr. BURTON. Are the Packers going to play the Colts next year? [Laughter.]

Our third and final witness is Mr. Kevin G. Hess, vice president, Federal Affairs, for TDS Telecom. He's responsible for researching and developing TDS Telecom's policy on regulatory and legislative issues.

Mr. Hess.

Mr. HESS. Good afternoon, Mr. Chairman, and members of the committee.

My name is Kevin Hess, vice president, Federal Affairs, for TDS Telecom. My company provides local exchange telephone service to 470,000 access lines through its 105 incumbent local exchange carriers in 28 States. I appreciate this opportunity to appear before you today on behalf of the U.S. Telephone Association and its membership, which includes virtually all of the incumbent local exchange carriers in the United States.

Unlike the other members of both panels this afternoon, I am here to discuss specifically the impact of GSA's revised Post-FTS2000 Strategy on the customers served by small and mid-sized rural telephone companies, and will be summarizing my written testimony which I ask to be entered into the record.

Mr. BURTON. Without objection.

Mr. HESS. First, GSA's revised strategy subverts the careful balance of competition, deregulation, and universal service embodied in the Telecommunications Act of 1996. Today, local exchange carriers provide one of the Nation's most valuable resources, a high quality, nationwide, public-switched telephone network.

When it passed the 1996 act, Congress recognized that virtually all Americans rely on this network and that networks in more sparsely populated markets served by rural telephone companies are different and need different policies. Rural areas are especially vulnerable to selective competition for high-volume, low-cost customers, known as "cream-skimming."

To promote universal service, Congress adopted rural exemptions, modifications, and suspensions to the act's interconnection mandates. Even as Congress prohibited barriers to competition, it also expressly preserved State authority to require any competitive entrant in an area served by a rural telephone company to provide universal service at just, reasonable, and affordable rates throughout the service area of that company.

In sharp contrast to the 1996 act, the new GSA strategy favors selective cream-skimming by the Nation's largest long-distance and local exchange carriers in any rural market with a U.S. Government presence. It actually invites Government contract winners to expand their presence to smaller markets as an adjunct to their FTS2001 contract.

Nothing could be farther from the 1996 act's painstaking efforts to maintain and advance affordable, evolving, universal service and network improvements in rural areas, while encouraging fair competition in those markets that can attract it.

Second, the revised strategy will actually restrict local exchange service competition. For example, our company serves the atomic submarine fleet base at St. Mary's, GA, through our Camden Telephone Co. Camden serves over 18,000 lines, and the naval base is our single largest business customer, with 1,450 lines.

Currently, the naval base purchases long-distance service from AT&T through the FTS2000 contract, and our company provides the local exchange telephone service. We fear that, if the FTS2001 winner can offer local and long-distance services to the naval base on a bundled basis, we will be unable to compete.

Currently, we enjoy the economies of scale on a local exchange basis; however, the FTS2001 winner enjoys the economies of scale on the much larger long-distance service package. On a bundled basis, the FTS2001 winner takes it all, and little Camden Telephone Co. is eliminated from competition before it starts.

Third, the revised strategy may undermine our infrastructure investment efforts. For example, we operate a 1,500 access line company in southeast California, called Winterhaven Telephone Co. One of its largest business customers, Fort Yuma Indian Hospital, is operated by the Indian Health Service, and it purchases its long-distance telephone service through the FTS2000 contract.

Today, the hospital and all of Winterhaven's customers enjoy the many benefits of digital switching and fiber-optic trunks. However, the loss of a major customer such as the hospital could stall or even overturn future infrastructure investment decisions. Therefore, Winterhaven would be highly motivated to compete aggressively for the local exchange business of one of its largest customers.

Rural telephone companies need a chance to compete for existing and future business, if the goal of encouraging infrastructure investment in rural America, as embodied in the 1996 act, is to become a reality.

Last, the revised strategy may likely discourage new entrants from competing for the Federal Government's local exchange services. The act unleashed a whole new set of competitors in the local exchange business. Incumbent telephone companies, including TDS Telecom, are preparing to expand beyond their traditional borders.

My company recently announced plans to provide competitive local exchange service in our hometown, Madison, WI. We plan to make great service available to all customers at competitive prices, but the revised strategy may effectively wall us off from the Federal facilities. Although we expect to have economies of scale in the provisioning of local services, we cannot compete with the big three interexchange carriers for long-distance.

It is unthinkable, as we plow fiber-optic cable down University Avenue in Madison, that we might be precluded from jogging one block to the north and picking up the large Veterans Administration Hospital and the USDA Forest Products Research Lab.

In closing, USTA strongly opposes any strategy that essentially picks the winners in the national telecommunications marketplace. Any strategy adopted by GSA should exploit all of the various economies of scale available by allowing incumbents to compete to retain their local service business, and embrace the act's more cautious transition to full competition in rural areas by tailoring its

strategy for those areas served by rural telephone companies. Such a strategy will maximize both competition and the public interest.

Therefore, the GSA should repeal its 11th-hour revised strategy of optional local exchange entry and expansion by large government contract winners.

Mr. Chairman, thank you again for the opportunity to testify on this very important telecommunications issue, and I would welcome the opportunity to work on any compromise which might more appropriately reflect the needs of rural consumers served by small and mid-sized telephone companies.

[The prepared statement of Mr. Hess follows:]

TESTIMONY OF KEVIN HESS
VICE-PRESIDENT - FEDERAL AFFAIRS - TDS TELECOM
On Behalf Of The
UNITED STATES TELEPHONE ASSOCIATION
Before The
HOUSE GOVERNMENT REFORM AND OVERSIGHT COMMITTEE
March 12, 1997

Good morning, Mr. Chairman and members of the Committee. My name is Kevin Hess, and I am the Vice-President - Federal Affairs of TDS Telecommunications Corporation (TDS Telecom). My company provides local exchange service through 105 incumbent local exchange companies, scattered across 28 states.

I appreciate this opportunity to appear before you today on behalf of the United States Telephone Association and its membership of virtually all the incumbent local exchange carriers (LECs) in the United States. I am speaking from the perspective of the small and mid-size members of USTA. My purpose is to convey to you the serious concerns that prompt USTA and its members to oppose the new Government Services Administration (GSA) strategy for replacing the soon-to-expire FTS 2000 contractual arrangements under which the U.S. government obtains telecommunications services.

GSA claims that its strategy furthers the pro-competitive purpose of our new national telecommunications policy. However, we have serious misgivings that the GSA plan will restrict competition for local exchange and access services, undermine incumbent providers in operating and improving their portions of the crucially-important public switched telephone network, discourage new competitive entrants in the local exchange marketplace and subvert the carefully balanced, pro-competitive, deregulatory and consumer-oriented vision enacted by Congress in

the Telecommunications Act of 1996 (1996 Act), to be codified as part of 47 U.S.C. §§151, et seq.

The Public Switched Telephone Network — A Precious National Resource

USTA's members have long been charged with providing service upon demand throughout their state-recognized local service areas at reasonable prices, functioning as what common carrier regulation often refers to as the "carrier of last resort." These "universal service" providers represent one of the nation's most valuable resources — a high quality, nationwide public switched telephone network upon which residents, businesses and public and private institutions rely. These incumbent local exchange companies provide local exchange service to connect calls within their service areas and "exchange access" service for the pickup and delivery of long distance services to and from their local customers. Some also provide long distance service, either through their own facilities or by "reselling" other carriers' service. While the 1996 Act embraces deregulation as a major virtue of increasing competition, the incumbent LECs actually face more regulation at present as a result of the new law.

The Bell Operating Companies (BOCs), the large USTA members that are providing local exchange and access services for virtually all of the largest U.S. telecommunications markets unlike other "independent" incumbent local exchange carriers, are subject to some additional strict preconditions before they can provide long distance service that extends outside Local Access and Transport Areas. These result from restrictions left over from the consent decree that implemented AT&T's divestiture of its local exchange operations in 1984. You are hearing directly from two Bell companies today, so I will focus my testimony for USTA on the

troubling effects on independent local exchange and access providers like my company, which we anticipate will result from the revised GSA strategy for post-FTS 2000 telecommunications arrangements to meet the U.S. government's telecommunications requirements.

Our country's world-class, generally affordable, nationwide public network is a major key to maintaining economic growth and prosperity. And the U.S. government, with all its entities and functions, is one of the largest telecommunications customers nationwide. This size and volume of traffic offers the government, represented by GSA, correspondingly large benefits in obtaining state-of-the-art telecommunications services at discounted prices. However, its importance as a customer also means that loss or exclusion from competing to serve the national government can translate to a crippling competitive disadvantage and disincentive for existing and would-be competitive participants in the nationwide public switched network. There has long been a tension between procurement of government telecommunications as a private network, apart from the public switched network, and the health and evolution of the public network. However, at least in the past, the government's private network strategy has not deliberately dictated the shape of the local marketplace by favoring expansion by huge nationwide and regional providers into services provided by smaller incumbents and new entrants.

The 1996 Act and the Network of Networks

GSA spokesmen have defended their revised strategy as more harmonious with the 1996 Act's pro-competitive thrust. They claim that allowing optional expansion by post-FTS 2000 contract winners into other services and other places will let the marketplace control the timing

of competitive growth towards the goal of integrated end-to-end service in accordance with the new law. However, the 1996 Act demonstrates a market vision completely at odds with the GSA strategy of helping very large carriers to expand into markets where smaller existing and intended providers will be forced to confront the privileged position of the government's anointed end-to-end providers. A look at the 1996 Act will demonstrate why helping the largest carriers to supplant smaller providers and bundle long distance, access and local service rates is inconsistent with the telecommunications structure Congress promulgated last year.

All parts of the local exchange industry are experiencing enormous changes in opportunities and risks as a result of the 1996 Act. The Act promises to revolutionize this nation's telecommunications marketplace by extending the national policy favoring competition into the provision of local exchange and all other services. The recent international trade agreement further advanced the national commitment to domestic and global telecommunications competition.

The 1996 Act envisions robust, multi-faceted competition from a "network of networks." Consequently, the Act's interconnection requirements seek to enable firms of all sizes and resources to enter as competitive local exchange providers, by starting their operations on a smaller scale and expanding as they become established. Even in the largest metropolitan areas, the Act's provisions seek to allow an entrant without "deep pockets" to become a competitor. The Act also provides for further unbundling of offerings and prices by carriers it considers to have an established market position. There is no hint in the 1996 Act that Congress would have looked favorably towards a government policy that conferred government service contracts upon

very large carriers, encouraged the winning bidders to bundle their prices for different services and choose nationwide or regional market areas that effectively preclude bidding and competition by smaller carriers.

At the same time, the 1996 Act recognizes that the conditions in more sparsely populated markets served by "rural telephone companies, defined in 47 U.S.C. §153(37), are different and necessitate different policies. See, e.g., 47 U.S.C. §§ 151(f); 153(a)(2) and (e); and 214(e). Understanding that rural markets are less able to support competition, and particular selective competition for the highest volume and lowest cost customers, known as "cream skimming," Congress adopted rural exemptions from and allowed additional rural modifications and suspensions of the Act's interconnection mandates. Next, even as it prohibited barriers to competition, Congress expressly preserved state authority both (1) to require that any competitive entrant must provide universal service at just, reasonable and affordable rates throughout the rural telephone company's service area it enters and advertise its services throughout the incumbent's serving area and (2) to condition duplicative universal service support for new entrants in rural areas upon state public interest findings.

Favored Expansion by Huge Government Contract Winners

The revised GSA strategy will have the opposite effects from what the 1996 Act seeks to achieve. The GSA strategy will lead to a new set of contracts, policies and ground rules, which we believe will preclude incumbent local exchange carriers from continuing to provide services they currently provide to the U.S. government. It will also effectively exclude us from bidding to continue or expand our role in serving a huge segment of the national telecommunications

market. Indeed, government entities may be the largest customer in many rural areas, owing to the diversity of government activities, ranging from Park Service facilities to military bases and Internal Revenue Service offices. The GSA strategy will, instead, provide a "leg up" for the giant, deep pocketed carriers that win nationwide long distance contracts and for the companies large enough to win local exchange contracts for the thirty-seven largest markets chosen so far for bidding as "Metropolitan Area Acquisitions" (MAAs).

Incumbent local exchange carriers such as the TDS Telecom companies do not have the resources or the large market customer bases to bid for huge long distance or local exchange contracts to serve the government. Therefore, independent incumbent local carriers are dismayed that GSA's strategy has been changed to allow the resource-rich winners of long distance and large market contracts the option of offering local exchange service in smaller carriers' service areas, without exposure to bidding from the incumbent LECs in whose areas that expanded government service option may be exercised.

The Anti-Competitive AT&T Local Competition Option

For example, a TDS Telecom local system in Georgia, Camden Telephone Company, serves an area with 18,862 access lines that is highly dependent on a Navy submarine base. When the present FTS 2000 contracts went into effect, they severely disrupted the service Camden was then providing to the Navy base. At present, for example, AT&T has facilities at the base, but uses Camden private lines for the local component of its contract government service. If AT&T again wins the long distance post-FTS 2000 contract, and can also take over local exchange service to the government in Camden's service area, AT&T will be perfectly

positioned to extend its government local service to non-government residential customers associated with the base, whether they live on the base or not. Unlike Camden, AT&T can cream skim just the lucrative government local exchange and access service, leaving Camden to serve the higher cost and lower volume customers in its service area. Camden will not even have an opportunity to bid on the optional local service arrangements for its area.

Since AT&T may bundle its long distance and exchange charges into an end-to-end charge, even if Camden had a chance to bid, it would be difficult to compare its bid to AT&T's. Indeed, even though the 1996 Act envisions deregulation, Camden is still subject to burdensome regulation and support obligations that the AT&T local exchange and access business would not have to bear. Moreover, the GSA strategy that encourages bundled end-to-end rates for long distance, local exchange and access service needs to be reconciled with the 1996 Act's unqualified requirement for interexchange rate parity for rural and urban areas and states. Customers in the TDS Telecom service areas rely heavily on interexchange rate averaging because they must typically make long distance calls to reach doctors, schools, stores and the like, numbers that urban and suburban customers can usually reach by local calling. Obscuring the price of long distance service by packaging it with other services will make it increasingly difficult to enforce the statutory long distance averaging and rate integration policies.

GSA's Competitive Preference for MAA Contract Winners in Smaller LECs' Areas

A similar dilemma would confront Camden if a large exchange carrier won the contract for government local exchange and access service in, for example, Atlanta. The revised GSA strategy would allow the large LEC that wins the Atlanta contract the option of expanding its

local exchange and access service to the Navy base in Camden's area, even though it would be outside the contract MAA area. The contract carrier could even bundle the rates for service to and beyond the contract area if it wished. Again, the option of providing local exchange and intraLATA service to government installations outside its MAA area would position the winning Atlanta bidder for further incursions into Camden's non-government customer base, perhaps without the involvement and approval of the Georgia Public Service Commission envisioned by the Act, especially for rural telephone company service areas.

The Disincentive for New Local Exchange and Access Competitors

The same unfair advantage would apply against new competitive entrants when either the long distance contract winner or MAA contract winner exercised its option to expand. There are numerous new and potential local exchange and access providers that plan to compete actively in newly-opened local markets, in the wake of the 1996 Act. They are the businesses that will compete against incumbent local exchange companies as the Act succeeds in ushering in the competitive "network of networks." Potential entrants include both new small businesses and some independent telephone companies. A number of companies, including mine, not only plan to continue to operate as incumbents in the areas where they now provide universal service as the carrier of last resort, but also intend to enter new markets as competing local exchange and access providers for places we do not serve today. For example, TDS Telecom has announced its intention to offer competitive service in Madison, Wisconsin. Its ability to compete will be impaired if it cannot compete to serve the 500-bed veterans hospital, forest products research lab or the federal courthouse.

In many markets, U.S. government entities account for a significant portion of the business that an entrant could try to attract to obtain a toehold in a new market. If that potential business is integrated into a long distance carrier's nationwide integrated service offerings, and particularly under bundled end-to-end pricing, market entry will be much less feasible for any firm without the huge resources of the largest long distance providers. It would be equally daunting to a potential smaller market entrant to face not only the incumbent, but also a large LEC with the contract for a nearby MAA, which has exercised its option to add government business in other markets.

We believe that the GSA strategy of fostering rapid expansion of the nation's largest and most financially powerful carriers into smaller local exchange and access markets without competitive bidding will impede competition by most incumbent LECs and stifle competition by new entrants to serve U.S. government customers. The result will be to frustrate the competitive purpose of the 1996 Act and to deprive the federal government of the benefits of robust multi-carrier competition in both local and long distance markets.

The GSA plan will, instead, limit bidding and extension of local and access service for what will often be the largest customer in an area — a U.S. government installation — to companies able to provide nationwide long distance services or to provide local exchange and access service for government telecommunications needs throughout (and beyond) areas with enough aggregate government local exchange and access traffic to be placed out for bidding as "Metropolitan Area Acquisitions" (MAAs).

Even before the BOCs — perhaps the strongest potential competitors for long distance

services — have cleared the obstacles to their interexchange entry established by the 1996 Act, GSA's revised strategy will permit the carriers that win long distance service contracts with the government agencies to expand into providing local exchange service. The long distance contract winners will get to expand into local exchange and access without facing competitive bidding or any other chance for the incumbent local exchange carrier or a new competitive access or local exchange provider to tailor an offer to the needs, standards and volumes of service the particular government agency seeks. Indeed, since the large contract carrier may bundle long distance, access and local exchange service pricing, the government agency might be unable to compare the smaller local incumbent or competitor's offerings even to benchmark the expanding contract carrier's rates and terms.

Cream Skimming Rural Markets In Spite of the 1996 Act

GSA's ill-considered strategy of handicapping in favor of the largest carriers to compete in rural telephone company markets by syphoning off the U.S. government business would also stand the 1996 Act's rural market safeguards on their heads. The Act allows states to recognize the particular vulnerability of rural markets and customers to selective cream skimming of the most lucrative geographic locations or most profitable customers by limiting entry to area-wide provision of universal service and delays the interconnection requirements designed to jumpstart urban competition until the state decides that the rural market's public would benefit. In sharp contrast, the GSA strategy would handicap in favor of selective cream skimming entry by the

nation's largest, most well-heeled long distance and local exchange carriers in any rural market with a U.S. government presence, by inviting government contract bidders to appropriate the government service for smaller markets as an adjunct to their government contract for another service or in another, larger market. Nothing could be farther from the 1996 Act's painstaking efforts to maintain and advance affordable, evolving universal service and network improvements in rural areas, while encouraging fair competition in every market that can attract it.

Harmonizing GSA's Government Contract Strategy with National Policy

USTA strongly opposes a strategy which allows government contract policy to control the timing and "winners" in the competitive national telecommunications marketplace. The strategy of encouraging end-to-end bundled government service provided by large carriers and expansion of this paradigm into smaller markets directly conflicts with the national policy vision of a "network of networks" and the Act's more cautious transition to full competition in rural markets served by smaller incumbent universal service providers.

The GSA should repeal its eleventh-hour revised strategy of optional local exchange entry and expansion by large government contract winners. At the very least, GSA should (1) allow the incumbent in a local exchange marketplace to compete to retain and improve its government service at a time when access, universal service and separations reform have provided it sufficient flexibility to bid on the basis of the cost of serving the particular

government entity and (2) conform its policy for "rural telephone company" markets with the carefully tailored rural provisions in the 1996 Act.

Mr. Chairman, thank you once again for the chance to testify on this important telecommunications issue. USTA stands ready to work with you to achieve a post-FTS 2000 government service strategy that will ensure the federal government of state-of-the-art service without sacrificing consistency with the national telecommunications policy enacted by Congress in the Telecommunications Act of 1996.

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TDS TELECOM

Government and Regulatory Affairs

March 10, 1997

The Honorable Dan Burton, Chairman
Committee on Government Reform and Oversight
2157 Rayburn House Office Building
Washington, DC 20515-6143

Dear Chairman Burton:

Thank you for the opportunity to testify before your committee on Wednesday, March 12, 1997. At your request, we are using our best efforts to provide a list of the federal grant and contract activity of TDS Telecommunications Corporation (TDS TELECOM) for the last three years (see list enclosed). Federal grants and contract activity includes the following:

- Rural Telephone Infrastructure Financing - TDS TELECOM borrows from the federal government to purchase and upgrade telecommunications infrastructure for its rural telephone exchanges. The US Department of Agriculture - Rural Utilities Service (RUS) operates these long term telephone loan programs. Loan proceeds come from RUS, the Rural Telephone Bank and the Federal Financing Bank.

- Rural Economic Development - TDS TELECOM promotes economic development in its rural exchanges. We have received grant funds from the US Department of Agriculture - Rural Business-Cooperative Service specifically for this purpose.

- Telecommunications Service Contracts - TDS TELECOM offers its services on a common carrier basis and we file our rates and tariffs with the state public service commission. Other arrangements would be provided on a contractual basis only.

If you have any questions, please call me at (608) 845-4160.

Sincerely,

Kevin G. Hess

Kevin G. Hess
Vice President - Federal Affairs

KGH/ml

TDS TELECOM
Summary of Federal Government Contracts
For the Years 1995, 1996 and 1997

Year	TDS Company	[1]Type	Federal Agency	Amount
1995	Somerset Telephone Co.	C	U.S. Dept. of Justice - Immigration & Naturalization Service	$12,000
1995	TDS TELECOM	M	Rural Utility Service, Rural Telephone Bank and Federal Financing Bank	$12,000,000[2]
1996	Riverside Telecom, Inc.	G	Rural Business-Cooperative Service	$333,333
1996	TDS TELECOM	M	Rural Utility Service, Rural Telephone Bank and Federal Financing Bank	$15,200,000
1997	Arvig Telephone Co.	G	Rural Business-Cooperative Service	$400,000
1997	Mid-State Telephone Co.	G	Rural Business-Cooperative Service	$277,667
1997	TDS TELECOM	M	Rural Utility Service, Rural Telephone Bank and Federal Financing Bank	$2,607,000[3]

[1] Contract Type: C = Contract, G = Grant and M = Mortgage.
[2] Contracted amount, for the years 1995, 1996 and 1997, represents current year drawdowns on RUS, RTB and FFB mortgages only. If the total contract is not drawn within the contracted time frame, the remaining unadvanced funds are rescinded.
[3] The contracted amount represents pending RUS drawdowns.

Mr. BURTON. Thank you, Mr. Hess. I want to thank the entire panel, especially for having to sit for hours waiting on us. I've been through that myself, so I apologize for the duration of this hearing.

Let me just ask you one question. You heard the question that I asked earlier. Do you think it would be helpful to ask for a postponement of this for 30 days so everybody could sit down and try to hammer out their differences and maybe narrow the differences so that there would be more competition?

Ms. CONNOR. I can answer that question, but I need to make a statement first. The statement I'd like to make is that, essentially, what we're being asked to go back and reconsider is not too far from what we were asked to comment on, and that is the initial strategy that the GSA put out a year ago, in February, I believe it was.

And February through September, we indeed sat down. We sat down with GSA, we sat down with the Interagency Management Council, a lot of industry participants, and we hammered out a compromise. So I feel as though we have been there and done that, as the saying goes.

To answer your question, we obviously will be prepared to do what's required to move this procurement further in a very fair way, but I need to make the point that we have already compromised.

Thank you.

Mr. BURTON. Mr. Hannigan.

Mr. HANNIGAN. I agree. We went through this process for many, many months. But, clearly, the situation could only improve from the "February surprise."

Mr. HESS. Yes, Mr. Chairman, I think, clearly, up to now it's been a clash of the titans. They referred earlier to the "February surprise." I would call it the "March 6 surprise," when I found about it and was asked if I could be here today. I very much would like to get the small and mid-sized rural telephone companies and those consumers' interests involved in this debate. I think our consumers in Winterhaven Telephone Co., as well as those consumers in Camden Telephone Co., deserve that option.

Mr. BURTON. Well, unfortunately—and Mr. Horn is going to love this—I have to go to another meeting, and I'm going to ask him to take over the concluding parts of this hearing. But I would like to make a final statement, Mr. Horn, if you don't mind.

I want to thank you all for being here today. This, I think, has helped illuminate the issue a little bit. Like I said earlier, it's kind of like the Gordian knot, and I don't have the wisdom of Solomon. So we'll make the following suggestion.

First of all, where do we go from here? In my opening statement, I said that for this procurement to proceed forward it has to be in the best interest of the taxpayer, the Federal Government, and the providers. And I think, I and the committee stand committed to those principles.

I believe that GSA has been working very hard to meet these goals, but we're not quite there yet, and I think Mr. Woods is getting more and more gray hair every day. However, I do believe we're narrowing the differences, at least I hope we are, and we're

close to moving the procurement forward, even though some of you are still very dissatisfied.

All of the witnesses today have indicated a willingness to sit down and negotiate, even though you've done this before. I'm sorry you have to go through this again. We go through legislative programs every year. We'll pass a bill and think it's going to become law, and the President vetoes it and we're back again next year. So sometimes redundancy is part of the game.

We've asked you to sit down and negotiate, and you've agreed to do that during questioning. I believe it's important to get the interested parties, all of you, back to the bargaining table to negotiate your best interests in a final offer. In my opinion, this will result in a fair RFP that will be in the best interest of all parties. At least we'll get as close to it as we possibly can. That is fairness.

With this thought in mind, I have discussed this briefly, but I'm going to ask my good friend, Commissioner Bob Woods, to grant a 30-day extension from the release of this procurement. At the end of this time period, I'd like for you to submit your final strategy, Mr. Woods, to the committee.

I've also asked that Chairman Horn, chairman of the Government Management, Information, and Technology Subcommittee—we need to shorten that, that's a lot of words there—to work closely with the other body. Toward that end, I will call Senator Thompson, my counterpart in the Senate, and ask him if he or someone on his staff would be willing to participate in these negotiations.

Following that, it's my hope that everybody will be able to work together to hammer out a final compromise, so that by working together we can move this procurement forward just as quickly as possible. And I hope that we can resolve this matter in the next month or month and a half, and Mr. Horn will report back to the full committee. It's my hope to move this procurement forward at the end of that time period.

So what we want to do is kind of get you all together in one room, if possible, knock heads, knock out any kind of disagreement that's possible, and where there is going to be a continued disagreement, narrow that disagreement so everybody feels like they are being treated as fairly as possible, and then move forward with this procurement.

With that, I'll turn this over to Mr. Horn, and I want to thank you all for your patience.

Mr. HORN [presiding]. Thank you very much, Mr. Chairman. I will operate as chairman from this seat.

Let me pursue some of the questions I did with the last panel with this panel. If no change is made in the current strategy basis for an RFP, what is the likelihood that a protest would be successful, in your judgment?

Ms. Connor.

Ms. CONNOR. One of the things that I included in my testimony was an opinion from outside counsel regarding the appropriateness of the strategy. We believe, based on the advice of outside counsel, that there are provisions within the current strategy that are in violation of the Competition in Contracting Act as well as certain provisions of the FAR.

So unless there is further delineation, as my colleague from Sprint indicated, to suggest that that was no longer the case, we believe we have a case to support our position.

Mr. HORN. Mr. Hannigan.

Mr. HANNIGAN. I wouldn't add anything to what Barbara said regarding that. I would want to interject, though, the previous panel talked a great deal about their view that we could bid on long-distance today, and we simply don't read the Telecom Act that way. We believe that, by law, we can't prime, at least in our regions today, where our brand and our customer base is most powerful and loyal.

Mr. HORN. Mr. Hess.

Mr. HESS. Congressman, I don't have an opinion on, I guess, the likely success of a legal challenge, from our perspective.

Mr. HORN. Well, I take it you're not aware of any suits that have been filed by either your firms or firms that are somewhat like you, at this point, in some court that we might never have heard of at this point. So I think that's one of the things that's concerning some of the people.

Let me ask a question, then, of Mr. Hess. Well, let me ask it of all of you, just for the record. Did your company support the Telecommunications Act last year?

Yes or no, Mr. Hess?

Mr. HESS. Yes, we did.

Mr. HORN. You did. How about you, Mr. Hannigan?

Mr. HANNIGAN. Yes.

Mr. HORN. And how about you, Ms. Connor?

Ms. CONNOR. Yes, we did.

Mr. HORN. You all did. We've already asked have you initiated any legal proceedings or are you participating in any legal proceedings, in either Federal or State courts, which were delaying either the implementation of the Telecommunications Act of 1996 and full and open competition for local services.

Ms. CONNOR. We have participated in none that I am aware of.

Mr. HORN. In none.

Mr. HANNIGAN. None that I'm aware of.

[The information referred to follows:]

Scott Nishioki
Director
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PACIFIC TELESIS
Group-Washington

March 20, 1997

The Honorable Dan Burton
Chairman
Committee on Government Reform and Oversight
2157 Rayburn House Office Building
Washington, D.C. 20515-6143

Dear Chairman Burton:

This letter is in response to the question posed by Representative Steve Horn at the March 12 hearing of the Committee on the FTS 2001 Federal Acquisition Strategy. Mr. Horn asked if Pacific Bell is a party to any court action challenging any provisions of the Telecommunications Act of 1996.

Neither Pacific Bell nor its parent holding company, Pacific Telesis, is a party to any court action directly challenging a provision of the Telecommunications Act of 1996. However, Pacific Telesis has challenged the Order of the Federal Communications Commission implementing Sections 251, 252 and 253 of the Act. [*See* Implementation of the Local Competition Provisions of the Telecommunications Act of 1996, CC Docket 96-98, First Report and Order, FCC 96-325, (rel. Aug.8, 1996), 61 Fed. Reg. 45476 (Aug. 29, 1996) (First Report and Order), Order on Reconsideration, 11 FCC Rcd 13042 (1996) (First Reconsideration), *pet. for review pending sub nom. and partial stay granted*, Iowa Utilities Board v. FCC, No. 96-3221 and consolidated cases (8th Cir. filed Sept. 6, 1996), *partial stay lifted in part*, Iowa Utilities Board v. FCC, No. 96-3221 and consolidated cases, 1996 WL 589284 (8th Cir. Oct. 15, 1996)]. This case is currently pending before the 8th Circuit.

Further Pacific Bell has filed a complaint with the California Public Utilities Commission charging that MCI and AT&T are violating Section 271 (e)(1) of the Act concerning joint marketing restrictions. [*See* Pacific Bell v. AT&T Communications of California, Inc., and MCI Telecommunications Corporation, C.97-03-016.]

I hope this information fully answers Mr. Horn's question.

Sincerely,

Scott Nishioki

Scott Nishioki

cc: Rep. Steve Horn

Mr. HORN. None.

Mr. HESS. None.

Mr. HORN. None. OK. Now, does your company have a schedule for meeting the interconnection requirements which the Telecommunications Act of 1996 imposes on local exchange carriers?

Mr. Hess.

Mr. HESS. I'll be glad to start. All the companies, the 105 companies that are part of TDS Telecom, are all rural telephone companies and, as such, are exempt from the interconnection requirements today, until a bonafide request is filed.

Mr. HORN. Mr. Hannigan.

Mr. HANNIGAN. We are moving very aggressively. We have 22 interconnection agreements signed, including the three largest long-distance carriers.

Mr. HORN. How about you, Ms. Connor?

Ms. CONNOR. We are moving equally rapidly. We've got 38 interconnection agreements already signed with 10 CLECs.

Mr. HORN. When will your agreements be completed? You're halfway there, with one of you, I think.

Ms. CONNOR. Yes. Well, right now, as you know, the entry into long-distance is on a State-by-State basis. We don't expect to be fully operational, in any meaningful way, in long-distance in-region, probably till sometime in 1998.

Mr. HORN. OK.

Mr. HANNIGAN. We are hoping—and, again, there are several gates that we're going through, as we speak, to complete the 14-point checklist—but we are hoping to be in the long-distance business at the end of 1997.

Mr. HORN. Mr. Hess.

Mr. HESS. Well, again, I have to say that, you know, until we get a bonafide request in one of our rural markets, or, for that matter, any of the majority of the companies that I'm here representing, it's impossible to say when the interconnection would actually take place.

Mr. HORN. Mr. Hess, just for the record, I see from your testimony you were awarded a contract from Immigration and Naturalization Service in 1995. Has that contract expired at this time, or is that still going?

Mr. HESS. To my knowledge, it still is in existence.

Mr. HORN. Do you have any other existing Federal contracts at this time?

Mr. HESS. Congressman, we became aware of this requirement last week on Friday. We did the best we could, in the timeframe we had, to gather that information, and to my knowledge, that's the only contract that we have.

Mr. HORN. In other words, as I understand it, it's a $12,000-a-year contract. Then you also have grants that are involved, don't you?

Mr. HESS. Right. We have grants that we have applied for through the RBCS. They would be termed rural economic development type grants that go out to rural communities. One, for example, was to build a water tower in a rural community, and we also put in some of our own company's funds in that location to help that come to fruition. It really helps tremendously in those rural

communities, helps get a jump start and bring other businesses to the rural communities.

Then we also have, as you can see on there, we have mortgages through the RUS.

Mr. HORN. I mentioned the $12,000 that you put the value on the contract, what's the dollar value of the grants, in essence, just roughly?

Mr. HESS. The total on the grants so far, roughly, about $1 million, sir.

Mr. HORN. OK. I guess the reason I'm asking this is, you seemed very worried about the FTS program, and I wondered, if you don't really have that many local contracts with the Federal Government, it just seemed to be out of proportion as a worry.

Mr. HESS. No. I mean, I think most of our service that we provide is based on our tariffed rates that we have.

Mr. HORN. I see.

Mr. HESS. So it's contractual arrangements. It's we provide the service based on tariffed rates.

Mr. HORN. Yes. I'm told that you do receive payments from long-distance carriers for Government service. What does that amount to? What are we talking about there?

Mr. HESS. I don't have that information.

Mr. HORN. OK. Why don't you just file it for the record. I was trying, in figuring out what the impact is on the smaller carriers, I was trying to get it piece by piece. I wasn't clear on it from the testimony.

[The information referred to follows:]

P.O. Box 5158
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TDS TELECOM

Government and Regulatory Affairs

March 31, 1997

The Honorable Dan Burton, Chairman
Committee on Government Reform and Oversight
2157 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Burton:

The purpose of this letter is to respond to a question posed by Representative Steve Horn at the March 12, 1997 hearing on Post FTS2000. Mr. Horn asked me about the level of payments that we receive from interexchange (long-distance) carriers for government service. Let me take this opportunity to respond to Mr. Horn's question.

TDS TELECOM is a local exchange company operating in 105 markets in 28 states. We bill the interexchange carriers on a per minute basis for access to our network for originating and completing calls. The rates we charge for interstate and intrastate access are included in a tariff that is approved by the FCC and state commissions, respectively. We bill access charges for all calls originated and completed and we report those in total. We do not maintain separate records for government facilities. Therefore, it would be very time-consuming and costly to aggregate the information that Mr. Horn requested for each federal facility (i.e., post office, National Weather Service, ASCS office, etc.).

In my testimony I referred to two separate examples of our local telephone companies offering service to federal installations. In both cases we provide dedicated, high capacity trunks to the interexchange carrier (AT&T) for originating and completing long distance calls. This service is called special access. I would like to provide an answer to Mr. Horn's question for the two companies that I talked about. The annual special access charges billed to the interexchange carrier for these examples are as follows:

Camden Telephone Company Kings Bay Naval Base $269,618	Winterhaven Telephone Company Fort Yuma Indian Hospital $5,048

I hope that you find this information helpful and responsive to Mr. Horn's request. If you have any further questions or need additional information, please contact me.

Sincerely,

Kevin G. Hess

Kevin G. Hess
Vice President - Federal Affairs

Mr. HESS. Sure.

Mr. HORN. I knew you were worried.

Mr. HESS. Let me offer this, that at Camden Telephone Co., I think we receive about $15,000 a month in local services from the atomic submarine base there. In the other example that I used, the hospital in Winterhaven, we receive about $1,000 a month in local billings to that hospital. But those are just two of the facilities that we provide service to.

Mr. HORN. OK. Well, we thank you all for coming to testify.

Ms. CONNOR. Mr. Horn, excuse me, if I may.

Mr. HORN. Yes.

Ms. CONNOR. For the record, point of clarification. When I answered the question, was I aware of any proceedings we had, litigation, et cetera, I answered the question, "None," and then I said, "that I am aware of." Well, I have just become aware of an issue—I want to make sure that we're clear—that we did file with the court for testing the FCC's interconnection rules. We prevailed in the District Court, and it's now appealed in the Third Circuit. So I apologize. I was not quick enough with that.

Mr. HORN. No problem. Do you know when that original filing was?

Ms. CONNOR. Geez, I don't. No, I don't.

Mr. HORN. Well, file it for the record.

Ms. CONNOR. We will.

Mr. HORN. OK.

[The information referred to can be found on page 245.]

Ms. CONNOR. The other clarification I'd like to make is that you heard two distinctly different answers regarding entry into long-distance. I want to point out that my colleague at PacTel has basically two jurisdictions to argue this in; we have seven. And that's the reason for the delay. All the carriers multiplied by these seven jurisdictions add to the delay. I just want to make that clear.

Mr. HORN. Well, it's helpful.

Any other comments, Mr. Hannigan?

Mr. HANNIGAN. Just one point, I think, to Kevin. I look at the Federal Government as a large customer, but I also look at the State and local governments as very big customers for us. So I look out over the horizon, and I see all of them potentially purchasing off of this agreement. That would be one of the reasons that we're very concerned that this rolled out in an appropriate manner.

One last point on that, because we heard "monopoly" and "high price" a lot from the previous panel. I think we've done some things to dispel that, hopefully. Another real world example is the U.S. Navy, which is currently buying some services off the contract we negotiated with the State of California, because the prices were more competitive than the Federal contract.

Mr. HORN. Any others? I'm going to yield to Mr. Sessions in a minute.

Mr. Hess, anything else you want to comment on that maybe we didn't ask you and you'd just like to get it in the record and off your chest?

Mr. HESS. Well, I think it is very important to recognize that, for those consumers served by the rural telephone companies, the act went to great lengths to preserve State authority in those matters.

I just think we need to make sure that, whatever comes out of the new or revised GSA strategy, it doesn't try to undo that delicate balance that was worked into the 1996 act.

Mr. HORN. Now, I am pleased to yield to the vice chairman of the Subcommittee on Government Management, Mr. Sessions of Texas, who knows more about telecommunications than probably the next five members of this full committee, having spent some time working in that area.

Mr. SESSIONS. Mr. Chairman, thank you.

I apologize for missing your comments, Ms. Connor, but I would like to perhaps start with you first.

Let me first say, Mr. Commissioner, it's good to see you. Thank you for your testimony last week, and we appreciate your being here.

Ms. Connor, I would like to go back to a comment that you had made earlier. I believe Chairman Burton had talked to you about getting back and working carefully. You felt like—and I'm not sure where I put the words—but you felt like there had been a hammered out compromise. Then what?

Ms. CONNOR. Basically, let me try to go back and reconstruct. When I was asked the question by Chairman Burton, my response, regarding the willingness to sit down and further hammer out the issues, my response was that we had already done that, and that activity resulted in the September strategy, which GSA, Interagency Management Council, and just about all of industry, with a couple exceptions, had agreed to. That's why I feel as though we have already been there, as I said, and done that.

Mr. SESSIONS. OK. Was there negotiation in good faith on both sides?

Ms. CONNOR. To the best of my knowledge, there was.

Mr. SESSIONS. So you feel like you've already tried to say what you wanted, and then it did not result in that? It's hard for me to know all the timeframes that have occurred. We've talked about a bunch of surprises in here. I turn 42 next week; that's going to surprise me, probably.

So you felt like you had already attempted to negotiate.

Ms. CONNOR. And we have. And we feel as though that negotiation resulted in a compromise position which we were very willing to support, make work, so that this procurement could move on.

Mr. SESSIONS. And why are you unhappy then?

Ms. CONNOR. I am unhappy because that September strategy, or that September compromise, was, in fact, for some reason, was changed. That strategy was changed in February.

Mr. SESSIONS. OK. Thank you. So you've attempted to do that, and it was changed?

Ms. CONNOR. Yes, sir.

Mr. SESSIONS. OK. I felt like that was the answer, but I did not know. Unfortunately, I missed that testimony.

Ms. CONNOR. I appreciate your forcing me to be specific.

Mr. SESSIONS. So, in other words, you believe, if Chairman Burton is asking for this new round of meetings, that you would expect to be heard again and perhaps to have an open mind about that negotiation.

Ms. CONNOR. Without a doubt.

Mr. SESSIONS. OK. I would have that same conclusion also, that I would draw. Thank you.

Mr. Hess, you had spoken a few minutes ago about the FTS2001 package, is that correct, and that it's a winner-take-all, and that they can come into—if it's an interexchange carrier—come into a local market? Can you please describe this to me? We're for competition. We're for fair competition. We're for a level playing field. And I did not understand. It seemed as though there's something there. And anyone on the panel can answer this.

Mr. HESS. Certainly, Congressman. Well, first off, I think it's important to understand the balance that was struck in the 1996 act, because the rural markets, they recognized, are so different from the more urban markets, especially when they are served by small, rural telephone companies.

So what Congress did was say, we're going to preserve State authority in those markets, and if someone wants to go in to provide local exchange service, it's going to be up to that State public service commission to make that decision. And the decision that they can make is to say, yes, because of the potential for cream-skimming the most lucrative customer in that market and providing service only to that one customer.

Mr. SESSIONS. Which many times may be the Federal Government.

Mr. HESS. That's correct. What they said was, it's within the commission's authority, if an entrant is going to come into one of those markets, to say they have to serve everyone in that service area, you know, make their service available to everyone, at affordable, reasonable rates.

Mr. SESSIONS. Is that universal service that you're making reference to?

Mr. HESS. That's correct.

Mr. SESSIONS. OK.

Mr. HESS. So I think it's inappropriate, then, if a strategy would allow, whether it be an interexchange carrier or a large local exchange carrier, because they have won a long-distance contract or because they have won the MAA, to automatically have the right to move into a rural telephone company area and bid on that local service contract, and basically may preclude us from trying to bid on it.

Mr. SESSIONS. So what you're saying is, if they win a contract, then they can come into your area?

Mr. HESS. It's my understanding, once they have the contract, that gives them the right to go outside of that MAA, if it is, or outside—well, for an interexchange carrier just to go outside and bid on local service for any government installation.

Mr. SESSIONS. Mr. Hannigan.

Mr. HANNIGAN. The hard-fought compromise of last September took into account the timing that was recognized by Congress in the Telecommunications Act, and therefore there really are three segments. That was the FTS2001, which was, simplistically, the long-distance portion; the metropolitan area acquisitions, which was, simplistically, the local piece; and then the FTSTS, which is based on timing and read of the marketplace, was the total solution, the one-stop shop.

What has now happened, in February, is that one of the two or three winners of the FTS2001 can come in and make a non-qualified, unchallenged, bundled offer for local services, and we can't compete for that. That's what could take place.

Mr. SESSIONS. Because you may not have satisfied your requirements of allowing competition for the local switch, or under what?

Mr. HANNIGAN. We are prohibited by law to compete on the long-distance side right now. So we can't compete for FTS2001, as it stands today.

Mr. SESSIONS. So, in other words, in this case, a carrier, if they win a piece, part—and there may be one or two, two or three, a small number—if they win a bid or a part of this bid under FTS2001, the long-distance piece, then that would entitle them to come in and bid for something that you could not bid for?

Ms. CONNOR. If I may, I could just correct.

Mr. SESSIONS. Please correct me. I need help.

Ms. CONNOR. Our understanding of the strategy is that if a long-distance carrier is one of the winners in the FTS2001 bake-off here, that winner could go to a metropolitan area, let's say, and offer local service through what is referred to as a "non-evaluated option."

Through the non-evaluated option, as I mentioned in my oral testimony, there's an example that they could just offer it, give the local agency a price break on their local service, and not have to compete it. That's the distinction. It would not have to be competed, because it's a non-evaluated option.

Mr. SESSIONS. Does that mean noncompetitive?

Ms. CONNOR. I believe it does. And frankly, this is precisely where we have an issue. As I mentioned in my oral testimony, we have the opinion of outside counsel to suggest that this process of the non-evaluated option is, in fact, contrary to the Competition in Contracting Act and certain provisions of the FAR.

Mr. SESSIONS. Is it inherent in this contract, or is it by law? What is the document that tells you this or that precludes this competitive fairness?

Ms. CONNOR. It's within the September strategy.

Mr. SESSIONS. Within the September strategy.

Ms. CONNOR. I'm sorry. Within the February strategy. It's within the strategy that's currently on the table, the revised strategy.

Mr. SESSIONS. So was it originally in the competitive bid, the RFP, that I might know, was it in there?

Ms. CONNOR. OK. First of all, I do agree on one thing with Mr. Lombardi, and that is that there was not an RFP. So we just need to make that clear.

Mr. SESSIONS. Well, that's my fault. I'm sorry.

Ms. CONNOR. No problem. OK. The non-evaluated option, which we just discussed, was not in the September compromise which we hammered out. This non-evaluated option appeared suddenly in the February strategy that we're here to discuss.

Mr. SESSIONS. So it's not law.

Ms. CONNOR. Not to my knowledge.

Mr. SESSIONS. It's not the intent of law. It is within this agreement.

Ms. CONNOR. I wouldn't even call it an agreement.

Mr. SESSIONS. OK. Well, I don't want to argue with you at all, but within whatever.

Ms. CONNOR. Right.

Mr. SESSIONS. OK. I'm trying to get closer to understanding what Mr. Hess had originally said, and it was just taking me a while to get to it.

Ms. CONNOR. Right. No problem.

Mr. SESSIONS. Mr. Chairman, I don't know if I've exceeded my 5 minutes—I don't know if we're on 5 or 10 minutes. I see no one on the other side.

Mr. HORN. Go ahead.

Mr. SESSIONS. I'll continue just for a few more minutes. I haven't put anybody to sleep yet, probably, but I may work toward that.

This discussion that we're having now, was that a part of the attempted agreement that you sat down to do in September?

Ms. CONNOR. The non-evaluated option that we're discussing now.

Mr. SESSIONS. Yes, this non-evaluated option.

Ms. CONNOR. Was not a part of the compromise that we resolved in September. This non-evaluated option appeared in the February strategy.

Mr. SESSIONS. OK. Have you, at any point, expressed reservation? Has this been out there, or did I just accidentally hear Mr. Hess say this?

Ms. CONNOR. This has been out there.

Mr. SESSIONS. Oh, it is. OK.

Ms. CONNOR. For those of us who are following this very closely and obviously have a vested interest, this has been a sore point.

Mr. SESSIONS. So this would be part of that negotiation that you would—even though it was not in the original negotiation, this would be something that you would expect, if Chairman Burton says to sit back down, that you would wish to discuss?

Ms. CONNOR. It would certainly be on our agenda.

Mr. SESSIONS. Good. OK.

Last week or 2 weeks ago, when there was testimony, there were some charts that were up front, a schematic that showed rates, and they were dated on or about 1983, which was right at divestiture, but it had not occurred yet. Could you discuss your rate scheme? And I know we're going back quite a ways.

As I recall, it was a given that, because of cross subsidies, long-distance was expected—and through competition—was expected to reduce its cost from what a customer saw on the bill, and that local service was expected to increase somewhat because they weren't there to pay for each other.

What have you seen from your bills? Is this what happened?

Ms. CONNOR. I'm glad you asked, because you were not here for my testimony, and I addressed this directly.

Mr. SESSIONS. OK. Then I apologize.

Ms. CONNOR. No problem. I was here when Mr. Woods presented his chart, and it did, in fact—what Mr. Woods' point was was to show the effect of competition and how the effect of competition has driven long-distance rates down, but, in particular, how it's driven down the rates for long-distance for the Federal Government with FTS2000, and, frankly, Mr. Woods can take a lot of credit for that.

However, there was an intimation that, because there is no competition in local, that line just kind of hung up there, didn't take the dive that the other two did. Well, I would like to show you what we showed here earlier, and that is—if I may—and that is the line rate.

Mr. SESSIONS. Mr. Chairman, I'm going to move to the center, if that's fine with you, sir.

Ms. CONNOR. The first point I need to make is that there seems to be a great deal of confusion here in what we're comparing. What was being compared were commercial rates. The rates that I'm showing here are rates for the Federal Government. We are comparing apples to apples.

The other point I made is that competition for local service for the Federal Government has been around for quite a while. What you see here are the local service line rates for what is known as our WITS customers. That's the Washington Interagency Telecommunications Service. It's a contract that we have with the GSA, that we manage along with Mr. Griesel and company.

What you see is the drop in that line rate in the time periods that are there. We have worked very hard. That's no happenstance. That's because there has been competition for local. Every day there are competitors who are coming after WITS customers seeking to get a better rate. We know that; we're working with GSA. Consequently, we have got our rates down.

Mr. SESSIONS. Excuse me. Can you please show me where 1983 is on that?

Ms. CONNOR. This will not show 1983. The contract that we have for WITS started in 1989. So you will not see 1983 here.

Mr. SESSIONS. OK. The conclusion I would draw is that rates have come down, if those are dollars.

Ms. CONNOR. Unquestionably.

Mr. SESSIONS. OK.

Ms. CONNOR. The next chart, not to be so parochial, is, we have taken the local service line rates for Federal Government customers for selected cities throughout the United States. You can see the change in those line rates before and after competition.

So I guess our point here, to your question, is that there was a chart shown last week, and the intimation was that because there has been no competition in local service, there has been no change. In fact, it was testified here today that the rates have increased.

Well, I can tell you that there has been no general rate case in Bell Atlantic since 1985 for local service rate increases. I can tell you that line rates have decreased for our Federal Government customers. I just need to make the point that we compare appropriately the rates that we're talking about, because I don't believe that was done appropriately.

I hope that answered your question.

Mr. SESSIONS. No further questions.

Mr. HORN. I thank the gentleman for his very fine line of questioning.

Let me just pursue one or two facts, Ms. Connor, that we're having bets among the staff as to what certain abbreviations mean. "ASP," is that as soon as possible, or what's your version?

Ms. CONNOR. As it relates to the procurement, probably yes. But "ASP" refers to the aggregated switch procurement. It is another form of aggregation of local service that's outside of the WITS territories, and that is how the GSA is securing local service, and they are competitively bid.

Mr. HORN. The chart you have there is the one you have on page 5 of your testimony, I believe, unless I'm missing that last number. And what it shows, essentially, is the WITS, Washington, DC, saving is approximately $10, based on competition, versus the line rate before competition. The Texas rate is roughly $4. The New York City rate is roughly a saving of $7.

Now, the California rate is also a saving of $7, and you note, "stabilization agreement." And the Chicago rate, which is what all our eyes landed on, is really only 18 cents, and you note, "rate stabilization agreement." Tell me a little bit about what a rate stabilization agreement does? It sounds fairly noncompetitive, if you look at Chicago. On the other hand, the California saving was the same as New York City.

Ms. CONNOR. I don't profess to be totally knowledgeable of all the specifics of this particular rate stabilization agreement. Rate stabilization agreements, in general, tend to be worked out with an agency after a bid is competitively won or lost, and terms and conditions are worked out that say, we will provide you a certain rate, let's say, per line, for a certain period of time, and we will hold those rates constant for the duration of that time period. That's typically what a rate stabilization plan is all about.

Mr. HORN. It sounded like to us that it was price fixing.

Ms. CONNOR. Oh, geez.

Mr. HORN. Because 35 years ago we had the Quality Stabilization Act in the U.S. Senate, and that was to make sure that the local druggist could set the prices, and the big volume crowd couldn't undercut the local druggist. That never became law, but Hubert Humphrey, a one-time druggist, surely pushed it. So that's the first thing that rang in my head when I saw "rate stabilization agreement."

Ms. CONNOR. OK.

Mr. HORN. It just sounds like one of those euphemisms that hides a lot of mischief.

Ms. CONNOR. I hope I dispelled that.

Mr. HORN. These are outside your area, I'm told, so you don't have to worry about them.

I want to thank you all for your testimony. Both this panel and the first panel, I think, put the best advance guard they could to come and meet this committee.

I might say, Ms. Connor, I noted you spent part of your career with the New Jersey Bell Telephone Co.

Ms. CONNOR. Yes, I did.

Mr. HORN. Do you know who Chester Barnard is?

Ms. CONNOR. I know I've heard the name.

Mr. HORN. He's not a guy running up the poles anymore. He was the former president of New Jersey Bell Tel in the 1930's. He dropped out of Harvard his junior year, majored in philosophy, worked his way up New Jersey Bell Tel. He wrote the classic work

which underlies all current thinking in the field of administration and management sciences, called "The Functions of the Executive."

So I always look with fondness on the New Jersey Bell Telephone Co., for having spawned one with the mind that he had. It's a book worth reading, I might recommend.

Ms. CONNOR. Thank you.

Mr. HORN. Now, having fulfilled my mentorship role, I'm going to read the names of the fine staff that prepared this and the previous hearing.

Bill O'Neill, of course, you know, the director of procurement for the full committee. Of course, we had the help, as always, of Kevin Binger, the staff director. Our staff director on the Subcommittee on Government Management, Mr. Russell George, right behind me. To my right, your left, is Mark Brasher, our professional staff member expert on this. And if you go far, far over here to the right, you find Mark Stephenson, professional staff member for the Democratic side of the committee.

Our clerks are on the left over here, and they always do a fine job setting up hearings, and that's Judy McCoy, Teresa Austin, and Jean Gosa.

And we couldn't know what happened here except for the court reporter, and we look forward to her transcript, which we will analyze sentence by sentence for various nuances, and that's Patricia Kueber.

So we thank you all. With that, this hearing is adjourned.

[Whereupon, at 3:35 p.m., the committee was adjourned.]

[Additional information submitted for the hearing record follows:]

Bell Atlantic

Bell Atlantic Network Services, Inc.
1710 H Street, N.W., Fourth Floor
Washington, DC 20006

Federal Systems

May 2, 1997

Mr. Bill O'Neill
Committee on Government Reform and Oversight
2157 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. O'Neill:

The following responds to the two questions asked of Ms. Barbara Connor - President, Bell Atlantic Federal Systems - at the hearing on the Federal Telecommunications Systems Acquisition Strategy (Post FTS2000), on March 12, 1997.

The first question concerned the date of Bell Atlantic's filing with the court regarding the FCC's interconnection rules. Bell Atlantic filed a petition for review of the FCC's first interconnection order with the Court of Appeals for the District of Columbia Circuit on September 6, 1996. This was consolidated with other appeals and is now pending in the 8th Circuit Court of Appeals.

The second question asked whether Bell Atlantic expected many competitors for the MAA - New York City procurement. It also asked if Bell Atlantic will use the MAA procurement (before the State Public Service Commissions, courts, and the FCC) to justify our entry into the long distance business under the Telecom Bill. First, Bell Atlantic does not know how many competitors will submit bids for the MAA - New York City procurement. Vendors are not likely to make a bid decision until they have reviewed the RFP. Second, today (prior to the Bell Atlantic merger with NYNEX), there is no legal obstacle to Bell Atlantic's provision of long distance services in New York. After the merger, New York will become and "in region" state for Bell Atlantic and the FCC would have to approve Bell Atlantic's interLATA market entry. Depending on the status of the MAA procurement, Bell Atlantic will use it to the extent it is relevant to the FCC's determination.

If you have any questions regarding the above information or any other topic, please do not hesitate to call me on (202) 392-7124. Thank you for all of your efforts on Post FTS2000.

Sincerely,

Tina Bohse

Tina Bohse
Program Development Manager