

OVERSIGHT OF THE POST-FTS2000 TELECOMMUNICATIONS CONTRACT

HEARING

BEFORE THE
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION, AND TECHNOLOGY
OF THE
COMMITTEE ON
GOVERNMENT REFORM
AND OVERSIGHT
HOUSE OF REPRESENTATIVES
ONE HUNDRED FIFTH CONGRESS

FIRST SESSION

APRIL 30, 1997

Serial No. 105-46

Printed for the use of the Committee on Government Reform and Oversight



U.S. GOVERNMENT PRINTING OFFICE

44-262 CC

WASHINGTON : 1997

For sale by the Superintendent of Documents, U.S. Government Printing Office
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CONTENTS

	Page
Hearing held on April 30, 1997	1
Statement of:	
Barram, David J., Administrator; and Robert Woods, Commissioner, Federal Telecommunications Services, General Services Administration	6
Letters, statements, etc., submitted for the record by:	
Burton, Hon. Dan, a Representative in Congress from the State of Indiana, letters referred to	20
Maloney, Hon. Carolyn B., a Representative in Congress from the State of New York, prepared statement of	12
Stevens, Hon. Ted, a U.S. Senator from the State of Alaska, prepared statement of	3
Woods, Robert, Commission, Federal Telecommunications Services, General Services Administration:	
Information concerning awards	9
Information concerning language	32
Letter from the Industry Advisory Council	17

OVERSIGHT OF THE POST-FTS2000 TELECOMMUNICATIONS CONTRACT

WEDNESDAY, APRIL 30, 1997

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

The subcommittee met, pursuant to notice, at 10:10 a.m., in room 2154, Rayburn House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn, Sessions, Davis of Virginia, Maloney, and Davis of Illinois.

Ex officio present: Representative Burton.

Staff present: J. Russell George, staff director; Mark Brasher and John Hynes, professional staff members; Andrea Miller, clerk; and David McMillen and Mark Stephenson, minority professional staff members.

Mr. HORN. A quorum being present, the Subcommittee on Government Management, Information, and Technology will come to order. I apologize for the delay, but we are having a meeting of the Conference at this time, and a lot of us had to be tied up there.

The drafting and negotiating stage of the Post-FTS2000 telecommunications process is finally coming to a close, or so we hope. Today, we will hear from the two people who have been intimately involved throughout the long process, who can tell us whether or not that is the case.

In the past, I have noted that a high level of attention to this matter is clearly warranted. This is a multibillion dollar procurement. The General Services Administration must do what is in the best interests of the taxpayers. GSA observed in its December 1996 report to Congress that the future environment is uncertain. Maybe we can learn today whether this uncertainty still exists.

Now that we are on the verge of the new contract, we look forward to hearing from the key agency on how it maximizes competition and leaves the Government the flexibility it needs in order to take advantage of the quickly changing telecommunications environment. We are going to hear from David Barram, the acting Administrator of the General Services Administration. After a successful career in Silicon Valley, Mr. Barram has joined the Department of Commerce as Deputy Secretary, Chief Operating Officer. He has been acting Administrator at the General Services Administration since March 4, 1996.

Mr. Barram is accompanied by Robert Woods, who is Commissioner of the Federal Telecommunications Service of the General Services Administration. Mr. Woods knows this issue backward and forward. He has appeared before this committee a number of times, and we salute his diligent efforts on the Post-FTS2000.

A word of thanks is also due to Chairman Burton, who will probably be along shortly when the Conference adjourns. He has devoted careful attention to this issue over the past several months.

We welcome our distinguished witnesses. As you know, under the traditions of this committee, we would ask all witnesses to be sworn in. So if you will raise your right hands?

[Witnesses sworn.]

Mr. HORN. Thank you. We are inserting in the record at this point a statement of Senator Ted Stevens, who cannot make it.

Without objection, that is inserted in the record.

[The prepared statement of Hon. Ted Stevens follows:]

Statement of Senator Ted Stevens
before the House Government Reform and Oversight
Subcommittee on Government Management, Information, and Technology

April 30, 1997

Mr. Chairman. Thank you for holding this hearing on the General Services Administration's plans for new contracts for Federal Telecommunications Services. I have been actively involved in this issue for a number of years now, and would like to add my support to the revised plan that Administrator Barram is presenting today. These revisions came about through a series of productive meetings that were held at the request of Chairman Burton, and in which Commissioner Woods and his staff, all segments of industry, House staff, and my staff participated. We were able to clear up a number of concerns and make some further changes to ensure that the government and the federal taxpayer get the most for their money.

Administrator Barram should be very proud of his Federal Telecommunications Service team. Working together with the Office of Management and Budget, Commissioner Woods and his staff proposed revisions to their plan this January in order to ensure that the government got the full benefit of the pro-competition provisions that Congress overwhelmingly enacted in the Telecommunications Act of 1996. As one of the authors of that Act I did not want to see the government impose upon itself restrictions that did not apply to private industry. The American taxpayer should get the same opportunity to benefit from the Telecommunications Act that large corporations do.

As proposed by GSA last September, the new contracts would have prevented a telecommunications carrier from offering both long distance and local services as a package to the government. This clearly contradicts the changes made by Congress in the Telecommunications Act. After I raised this issue in a letter to OMB Director Raines, the FCC, Justice, OMB and GSA staff met with my staff to propose changes to make sure the government could benefit from competition in both the long distance and local markets. Those changes were announced in a 13 point summary this past January. The House Government Reform and Oversight held a hearing on these changes, as did the Senate Committee on Governmental Affairs, of which I am a member.

After the hearing by this committee, GSA agreed to postpone issuing a request for proposals on the new contracts until May 2, and to undertake the meetings requested by Chairman Burton. Those meetings took place, and now there is widespread agreement on some changes that were incorporated as three additions to the original 13 point summary. The additions clarified the relationship of the optional service component of the long distance and local contracts, and that there would be a competition conducted either by GSA or an individual agency for any telecommunications services valued over a specified threshold. It is my understanding that GSA will set this threshold at a point where the cost of conducting a competition would outweigh the likely benefits from any savings provided through competition. In addition, I also understand that GSA plans to incorporate a one year "cooling off" period for both the long distance and local contracts, in order to give the bid winner an incentive to complete any transition in a timely fashion.

This is a good plan Mr. Chairman, and I urge the Committee to support this revised proposal. I would like to thank Commissioner Woods and his staff for all of their efforts on this

issue, and look forward to continuing our dialogue on these matters as the contracts move forward. In particular, Mr. Chairman, I am pleased to say that Commissioner Woods has committed to continue to work with the Congress to see that small local telephone companies are kept apprised of the contract requirements and any offers that affect competition in their area. I have also been assured that GSA's contracts will require that telecommunications carriers offering service to the government comply with all State and Federal law, in particular the geographic rate averaging requirements and provisions regarding service in rural areas.

Thank you for allowing me to add my support to this revised proposal. I look forward to continuing to work with the members of this Committee on this issue.

Mr. HORN. Is there an opening statement from Mr. Davis of Illinois?

Mr. DAVIS OF ILLINOIS. No, thank you.

Mr. HORN. I thank the gentleman.

We will proceed then, however you would like, Mr. Administrator.

**STATEMENTS OF DAVID J. BARRAM, ADMINISTRATOR; AND
ROBERT WOODS, COMMISSIONER, FEDERAL TELECOMMUNICATIONS
SERVICES, GENERAL SERVICES ADMINISTRATION**

Mr. BARRAM. Thank you Mr. Chairman, and good morning. If I could make an opening statement, I would appreciate it.

On March 12, you initiated a process that had as its purpose achieving a consensus strategy that would allow the Post-FTS2000 program to proceed. You asked us, under your leadership, to meet with industry to forge this consensus. Moreover, you requested this be accomplished within a 30-day period so as to minimize the effects of potential delay to the program.

Thank you for that, by the way.

Mr. Chairman, I am here to report to you on the outcome of this process. At the outset, please permit me to offer a perspective on what is ahead for us all.

Nothing I know will better describe the new world order than how we use and how we cope with telecommunications. Everything we do in our regular work, and probably our lives, will be affected by the changes ahead. We have been very successful with FTS2000. It has given us excellent services and great prices.

The next step would not be possible without the platform we built with FTS2000. But I believe the next step, which is FTS2001 and the MAA, will be exciting, unpredictable, satisfying and challenging. Because we all want a Government that works better and costs less, this is the right step to take. We will save money, provide productivity-enhancing services and give Government employees the tools to do their jobs as this country turns or as we cross the bridge to the 21st century.

You know that famous bridge; it is a big deal to us and to the industry. Companies will merge, make alliances, get in and out of markets, innovate and generally keep all of us on our toes. If history is our guide, we will all benefit as these changes occur.

Mr. Chairman, I believe the consensus-building process of the last month has worked and that we have achieved success. Under the leadership of this committee, representatives from a broad range of industry, the Interagency Management Council, various congressional committees and the General Services Administration attended the consensus development session. Collectively, we reviewed and considered the concerns and comments of industry and the FTS users. There was considerable discussion on the detailed provisions of strategy, and my staff provided clarification on these provisions as needed.

Based on the comments and suggestions offered at the consensus development session, we formulated enhancements to the February 1997 refined Post-FTS2000 program strategy. These enhancements were incorporated as specific changes to the FTS program statement of principles and were presented in writing to the industry

and Government representatives on April 4, 1997. A followup discussion among all parties was held on April 7, to explain the changes and seek additional comments.

Copies of the statement of principles and the supplement developed following the consensus development session have been provided to the committee. I am satisfied, Mr. Chairman, that the program principles, as supplemented by the consensus development process initiated at your direction, continue to allow the future FTS2001 and metropolitan area acquisition contractors to move toward offering true end services. As of this moment, these final provisions are being incorporated within the contractual language of the solicitation documents and we are prepared to proceed with release of those documents on schedule this Friday, May 2.

Mr. Chairman, the concerns and comments of all interested industry and user parties have been heard. An important illustration of this give-and-take process occurred when industry suggested that we incorporate a prequalification process within the MAA program to increase the speed and enhance the competitiveness with which MAA contracts may be awarded. That was an excellent suggestion, Mr. Chairman, and we have heard industry and incorporated this process.

With this suggestion and others, I believe we now have a strategy that is in the best interests of the American taxpayer, the Federal Government users, and the industry providers. In consultation with the attending congressional staff, we believe it is time to release the final FTS2001 solicitation and a draft MAA solicitation on May 2. Release of the FTS2001 RFP should ensure that the FTS2001 contracts are awarded and transition planning is under way prior to expiration of the current FTS2000 contracts. As we move forward, we will continue to receive and consider industry comments and questions as a normal part of the Federal acquisition process.

There are times in life when we need to get on with it. This is one of those times. We have been listening and we will keep on listening. We have insisted on broad, deep and fair competition, and we will keep on insisting.

Mr. Chairman, we have constantly aimed to achieve innovation, and we will keep on aiming for that innovation. Again, let me thank you and the committee for your leadership during the March hearings and the April meetings. Bob Woods and I will be happy to answer any questions you may have.

Mr. HORN. We thank you for that statement.

Mr. Woods, do you have anything else to add to that?

Mr. WOODS. No, Mr. Chairman, I don't.

Mr. HORN. Let me just go through a few questions. We are going to take 10 minutes to a side; I don't think this is going to last too long.

Just for the record, does the current strategy you have described represent the acquisition structure which will best promote Federal interests and get the best deal?

Mr. WOODS. Mr. Chairman, I believe that it will. We have worked hard with the industry and with our customers, and we believe that the refinements will add. So we are quite confident that the enhancements made serve the interests that were broad, and

that we worked those in a way that I think will serve this Government well.

I think the Administrator said it well when he said we have got a good base and the current program has been successful. But if we don't change in this environment, the next generation won't be. So we have had to change from a base of success, and sometimes that is awfully hard to do.

When you fail, change is fairly easy. We have been successful, and this change has come in consultation with a lot of interested parties. So we have a lot of confidence in what has been done.

Mr. HORN. Have any segments of the industry expressed reservations regarding the current strategy, and what are their concerns? Would you like to respond to them?

Mr. WOODS. I think as we go along in this, it is not so much whether they express reservations as it is a matter of dimension. They agree with most of it, but there are some parts of it they don't agree with. You are always going to get some of that. If I am representing my organization effectively, whether I am in industry or in Government, I am always going to want the part that is good for me.

My job and the Administrator's job is to represent the Government's interests well. As we have gone through this, I don't think anybody got the whole loaf, but I think they all got something out of it; and I think we will always have some reservations, and there are always going to be some fine points that have to be worked out. That is going to happen.

Mr. BARRAM. Let me add just one comment. The Federal Telecommunications Act and our proposals here are both designed to respond to an incredibly different environment, where long distance providers can offer local service and local can offer long distance, and there are all kinds of new technologies.

So this is a time of incredible change. It would be illogical not to have everyone wondering just how they are going to play in that new environment.

What we have tried to do is concoct a program with all kinds of consultation that gives everybody a chance to compete, which is what we found really works, and that is no surprise, and that we end up with the best service for our customers, the Federal Government agencies.

Mr. HORN. When do you expect to make the awards for the FTS2001 contract?

Mr. WOODS. Right now, we are looking at early next year, next calendar year. We have not announced a formal time on that, although our web page does show dates for those, and we could get you, for the record, those exact dates.

Mr. HORN. Without objection, it will be inserted at this point.
[The information referred to follows:]

FEDERAL TELECOMMUNICATIONS SERVICE (FTS) ACQUISITION STATUS as of 9May97

FTS Acquisition Projects Pending

Acquisition	RFP Release	RFP Close	Projected Award
International Direct Distance Dialing (ID ³)	26Jul96	16Dec96	4 th Qtr FY97
Technical and Management Support (TMS)	1Nov96	24Jan97	4 th Qtr FY97
Wire and Cable (WAC)	11Apr97	Projected 9Jun97	1 st Qtr FY98
FTS2001	2May97	Projected 4 th Qtr FY97	2 nd Qtr FY98
Chicago, New York, San Francisco Metropolitan Area Acquisitions (MAAs) <ul style="list-style-type: none"> • Draft RFP issued 2May97 • Qualification Request, Projected 4th Qtr FY97 • Qualification Completion, Projected 1st Qtr FY98 	Projected 1 st Qtr FY98	Projected 1 st Qtr FY98	3 rd Qtr FY98

FTS Acquisitions Recently Completed

Acquisition	Award Date	Contractor	For Information...
Technical Services Contract II	6Sep96	Booz-Allen & Hamilton	1-800-458-4TSC (BAH) 703-904-2838 (GSA)
Federal Wireless Telecommunications Services	6Nov96	GTE	1-888-FED-WIRE (GTE) www.fedwire.com (GTE) 703-904-2888 (GSA)
CINEMA (Electronic Commerce, Internet Access, and E-Mail)	9Apr97	Advantis BTG	800-588-5808 (Advantis) www.ibm.net/cinema.html 888-883-2662 (BTG) www5.btg.com/cinema/ 703-904-2838 (GSA)

Additional information about FTS projects is available on the World Wide Web at <http://post.fts2k.gsa.gov/> and for the MAA at <http://www.gsa.gov/maa/>.

Mr. HORN. When do you anticipate migrating the traffic from the incumbents to the FTS2001 winners?

Mr. WOODS. After the award of the new 2001. At that stage, you have really got to sit down and take stock. You have to have a sense of what you have got and who the current providers are and who the new providers are going to be.

At that stage, we anticipate it is going to take anywhere from 3 to 4 months to put together a transition plan; that is ambitious. We have staff working to do everything they can do without knowing who the players are. And then, from that point on, from that 3- or 4-month planning period, it will take, we think, about 12 months to do the actual transition.

Mr. HORN. Can you predict how long distance rates will go under the proposed FTS2001 contract?

Mr. WOODS. How far they will go in terms of reduction?

Mr. HORN. I am sorry, predict how low long distance rates will go under the proposed FTS2001 contract?

Mr. BARRAM. Don't look at me. Zero.

Mr. WOODS. I hope very low. I think the economics of this business are that you have very high capital investment and you have very low operational unit costs. So as you buy volume, your rates would go down substantially.

We have not predicted at this point, Mr. Chairman, what might happen, but my personal belief is that the industry is sitting on top of tremendous capacity that is unsold, and I think as we begin to sell the rest of the capacity, that some areas, like switch voice, will begin to decline significantly. When we say 5 cents a minute and 2 cents a minute on-Net, I still believe those rates are going to come down.

Federal agencies—and I spent 20-some years, 25 years, in Federal agencies as a customer of this type of service; I still believe that the agencies are looking for declines in those kinds of prices, and they are either going to get them from us or from other sources. So I believe the expectation of customers is for continuing declining prices.

Mr. HORN. Just as the last general question, perhaps a softball question, how did you arrive at the changes encompassed in the current strategy?

Mr. WOODS. Well, as we went through it—and I think both of us have something to say on that—but as we went through the development of the strategy some 3 or 4 years ago, we have genuinely tried to bring the customer into this process as deeply as we can, and it is in fact part of how I got to be in this job; I sort of got lured into being one of those customers who participated heavily. And the customers 3 or 4 years ago said, your main requirement in the next generation is flexibility. They were concerned at that time about the great changes that were coming.

So we got here by trying to read where the industry is going; and, quite frankly, the changes have been significant, as you know, over the last 18 months. As we have listened to different groups and moved ahead with interpretations of the Telecommunications Reform Act and others, we made those changes based on the best interpretations we could find from the people that actually were there and actually worked it.

So it happened by nature, its very nature of consultation with Congress, with the industry, and with customers.

Mr. HORN. When you look at the contract, is there a thought on what is the total limit of time of that contract? Or do you think smaller time periods will permit more flexibility in taking advantage of technology? How do you deal with that problem?

Mr. WOODS. My personal belief is that—and this sounds like a very Washington answer—you have got to do both. There are some services in which you need long-term stability.

Switch voice is going to be here in some form forever. Will it be here in the form exactly as we have today? Probably not. So for some things, that kind of service, especially advanced 800 routing where you call in to the Social Security office at 5 o'clock in the afternoon and it starts switching you to different offices that are still open in order to save money and still provide the service, those are very complicated arrangements. You can't take agencies in and out of those contracts at the drop of a hat.

There are other services, we believe, that should be much more dynamic and much more responsive. So we really have to mix that.

We can't take one silver bullet and hope for the best. We have got to go after the contract length that matches the product. As the Administrator said, we found competition works and we are going to continue to bring that to bear; as we move ahead, we will bring new players in.

Mr. BARRAM. Let me add one thought. I think one of the powerful and exciting opportunities we have ahead of us is trying to keep some stability while we are dramatically changing the way people use telecommunications. I have a hard time imagining after the turn of the century that most of us will not be carrying our telephone with us most of the places we go and have numbers that are identified with us.

This is different than we operate today. So we will have a lot of different kinds of switching.

The providers who get contracts are going to have to play in that arena, because that is what is going to be happening. So they are both going to want some stability and have to be making dramatic changes within what they are doing.

We are going to have a real challenge managing this, and we are going to have to be very focused on the services rather than facilities on our own side, so that we don't end up with what we call "stranded investment." We want the providers to be telling us what the next great thing is, and there will be enough competition that I think we will keep getting the next great thing.

Mr. HORN. That is very helpful.

I now yield 10 minutes to the ranking minority member, the gentlewoman from New York, Mrs. Maloney.

Mrs. MALONEY. First, I would like to ask that my opening statement be put in the record, as read.

Mr. HORN. Without objection, it will be put with the rest of the opening statements.

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

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Opening Statement -- Hon. Carolyn B. Maloney
 Hearing on "Oversight of the Post-FTS 2000 Telecommunications Contract"

April 30, 1997

Thank you Mr. Chairman, and welcome to our witnesses.

At recent hearings by the full Government Reform and Oversight Committee, Members from both sides of the aisle expressed concerns about certain provisions of GSA's acquisition strategy for telecommunications services. Revisions to that strategy attempt, to be discussed today, attempt to address those concerns. Those revisions were crafted with input from all segments of industry, interested Members of Congress, and representatives of the Executive branch. They make improvements to the strategy by ensuring fair competition in every stage of the procurement of new services. This will help to ensure that the government gets the best price possible for those services, and that the various segments of the industry will face a level playing field when competing for the government's business. I look forward to hearing from our experts on the details of the revisions.

The current Federal contract for telecommunications services, FTS 2000, is the largest civilian procurement ever undertaken by the Federal government, a staggering 10-year, \$25 billion contract. It serves the long-distance voice, data and video telecommunications needs of more than 1.7 million federal employees across the United States. It has been an outstanding success -- 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 today, well below the lowest commercial prices available. GSA is to be commended for its management of this contract, but we must not stop here. We must continue to ensure that the American taxpayer get the best price available for telecommunications service.

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

Thank you Mr. Chairman.

Mrs. MALONEY. I would like to really congratulate GSA for winning one of Vice President Gore's Hammer Awards for lowering the price for long distance phone calls from 27 cents a minute to 5.5 cents per minute today. It is an extraordinary achievement and what is really the largest procurement contract ever undertaken by Government, a staggering 10-year, \$25 billion contract.

But in that process, you succeeded in lowering the cost to the American taxpayer, and I congratulate you.

I would like to really ask some questions about the outcome of the task force that Chairman Burton put in place to reach a compromise on the final stages; and particularly I would like to talk about the prequalified bidders list and the use of a prequalified process for the metropolitan area acquisition program, which is intended to increase speed at which contracts can be awarded and to ensure that the telecommunications services will be subject to fair competition.

First of all, how are you going to devise this prequalified list and how will this prequalified bidders list increase speed and increase competition?

Mr. WOODS. The idea behind the prequalified list came out of the task force work sessions that we held up here, that Chairman Burton's staff hosted. The suggestion actually came from the industry side over their concern that if every one of these procurements—and there are going to be about 20 or so, or maybe more—that it was going to take too long a period of time; that every time we did one of these, they would look 90 percent like the last one, but you would be going through the whole process from the start.

The idea here is not to exclude anyone or that you get some exclusive list. It is simply to try to do some front-end work that lets you say that company X, that is qualified technically from a managerial standpoint in the first city certainly hasn't lost that qualification when you get to the third city.

So the idea was that we would develop this list, it would allow the Government to move fairly rapidly in getting through what is 90 percent of the routine work that it takes to do the evaluation.

Mrs. MALONEY. Do all the industry groups support the prequalified bidders list concept? Are they on board on that?

Mr. WOODS. I think they are. We have heard no objection to that yet. Its function does not exclude anyone.

Let's say we have eight people, eight companies on the list, and a qualified company comes along and wants to bid. They can either get prequalified ahead of time or they can bid at the time of the solicitation.

Mrs. MALONEY. So it is not anticompetitive. People can come into the process.

Do you have to have certain qualifications to get on the prequalified list? Do you set a standard that people must reach before they can get on the list? That cuts down Government's work, too, by not having to look at contractors' bids that cannot handle the job.

Mr. WOODS. That is correct. The only caveat I would see there is that we would not take it forever. In other words, if you get prequalified and 4 years later you have had doubtful performance, the Government has left itself the option that we may go back to

a specific company and say, we would like to see you requalified because we have had some problems.

But other than that, it really does make our work a lot easier.

Mrs. MALONEY. Do you have sort of a list of qualifications to make this fertile to the prequalifying?

Mr. WOODS. Yes. Essentially what we do is take the qualification and take everything but the specifics for the particular city, and they have to pass the technical marks for everything within that basic solicitation.

What is happening is, they are almost doing what they do on a bid on a regular proposal, but they do it as though they are bidding to a specific city. In fact, when we bid the first one in New York, it is very possible that companies that come in, they will in effect be prequalified during that actual bidding. So we would keep them prequalified.

Mrs. MALONEY. This sounds like a good solution of Government and private industry working together to come up with a solution that will solve many of the six questions we went over at the last hearing.

As you know, I am interested in having GSA conduct a pilot project which would test the feasibility of allowing State and local governments to purchase telecommunications through the FTS2000 program or any successor to it. You have been so tremendously successful for Government on the Federal level, I was thinking probably some of our localities would likewise like to benefit from your work in this area.

First of all, is this something that GSA has the legal authority to test, without legislation?

Mr. WOODS. Without trying to get out of my bounds and get into the legal arena of trying to be an attorney, the basic rules to date are that, under our current programs, we do not have specific authority to sell to States, and without the specific authority, we are precluded from doing it.

In the next generation, 2001 and MAA, we have said in the solicitation we will sell to State, local and other Government entities as the law permits. So we have left our door open from a contracting standpoint to do this.

I would have to tell you that not a month goes by that I don't get a letter, a call, an inquiry from a State or local government about the use of FTS2000.

Mrs. MALONEY. I have some draft legislation that would allow some pilot programs across the country for localities. I would like to know if you could look at it and get back to me.

And also could you get back to the subcommittee with sort of general pricing data so that we can begin to gauge the possible benefits to State and local governments?

Mr. WOODS. We would be happy to do so, and we have, in fact, run some traffic from States that compare the current prices with our prices. So we have actually done that on a request basis from several States already.

Mrs. MALONEY. Great.

Mr. WOODS. We would be happy to present that to you.

Mrs. MALONEY. I would love to look at that.

Mr. BARRAM. Could I add one comment? The whole idea of selling not just telecommunications, but a lot of stuff we are involved with, to States, is an important issue that I think we need to resolve in the next year. As you know, we are in suspension on an overall procurement opportunity for States to buy off our schedules; and so I think we need—I think it is inevitable, and we need to get moving on that.

Mrs. MALONEY. Prior to the latest round of meetings, the regional Bell Operating Co.'s expressed some concern that the long distance companies would be able to offer local services as unevaluated options after winning a FTS2001 contract. At those latest meetings, Mr. Woods emphasized the fact that this was not accurate and that any options would be evaluated as contract modifications.

How will these contract modifications be evaluated by GSA, what is the normal process, what is the existence of prequalified bidders, enhanced competition, in this process?

Mr. WOODS. There were in fact two issues at stake when we talked about this. One was, you are the winner of a contract, and immediately that region can be opened to competition from other companies. In other words, if I won, what have I won?

During the negotiations and the work sessions with industry, we have decided to go into a forbearance period for a year in which the winner of a contract has time to get on board and sell and have a minimum revenue guarantee.

The idea that we would just add service without evaluating it, our answer on that before dealt with just what you said, that we would not do it without evaluating it. In effect, if we already have providers in an area, which is what we are talking about, and we are talking about other providers being offered the opportunity to do that, first of all, you would have to start out with the idea if you don't offer better terms than we currently buy at, the Government would not have any interest in pursuing it.

So we look at what we pay, we look around the industry and we do a price analysis. So we do evaluate it and we evaluate quite carefully.

If we had service offered in, say, the Washington, DC, area, and we paid \$13 a line and somebody comes in and tries to sell it for \$16, we just will not buy. We will look at this strictly as a business.

So we will evaluate. They are not unevaluated options.

Mrs. MALONEY. Some people complain to my office or argue that the February 1997 strategy violated the Competition and Contracting Act. What is your reading of that law's requirements in light of the latest revisions?

Mr. WOODS. I believe we are on solid ground. Our counsel has been involved in this probably more than they wished, but we have been into this in great depth, and we believe we are on solid ground with the Competition and Contracting Act and we are prepared to move forward.

So we have gone over this issue, we have listened to the specific arguments from different companies. We have sat and listened to the line-by-line argument, not the sort of general idea, but we have gone into that. Our counsel is confident that we have done what it takes to move ahead.

Mrs. MALONEY. And when you have the final draft RFPs, will you make them available to this subcommittee?

Mr. WOODS. Yes, we will, and we will make them available both electronically on our web site and make them available in paper, if needed.

Mrs. MALONEY. Since the last meeting and the conclusion and the strategy that was put in place then, have you received a lot of statements, pro and con, on that; and, again, could the committee look at those statements?

Mr. WOODS. We are happy to share any of those. We, in fact, received late yesterday from the Industry Advisory Council, which represents some 200 of those companies, a letter in general about the process; and in fact they thought it was open and worked, and they in fact were lauding our efforts on this.

We have listened. We will continue to listen. We have taken comments without the sort of supposedly open and closed comment periods that you see in some procurements. We have taken them whenever we have gotten them, and we have gotten a lot.

[The letter referred to follows:]



7777 Leesburg Pike, #315
Falls Church, VA 22043

April 29, 1997

Mr. Robert J. Woods
Commissioner
Federal Telecommunications Service
General Services Administration
7799 Leesburg Pike, #210 North
Falls Church, VA 22043

Dear Mr. Woods:

As you know, the Industry Advisory Council (IAC) was organized in 1989 as an Advisory Group within the Federation of Government Information Processing Councils (FGIPC). The purpose of the IAC is to enhance communications between professional government information resources managers and the information technology community. This purpose is accomplished, in part, by providing a forum for studies and analyses of public sector information resources management issues, arriving at IAC positions on those issues, and presenting the results to FGIPC and other interested groups.

In this context, the IAC Shared Interest Group (SIG) for Telecommunications has worked closely with GSA throughout the development of the strategy for the FTS2001 procurement. The Telecommunications SIG has participated in numerous meetings with GSA forums, has met with the IMC and has worked on focused groups. The cooperation between GSA and the IAC SIG remains the best argument that successful, useful and valuable dialog between government and industry is possible.

The Telecommunications SIG has addressed a broad range of topics and issues in the past three years, including Billing, Interoperability, Year 2000 concerns and Transition. Feedback from GSA and the IMC has been enthusiastically positive for the contribution of the IAC.

In recent months, the pace of interaction has increased and the IAC Telecommunications SIG has responded with substantive discussion and a willingness to work the issues alongside the GSA. As the period for dialog on the FTS2001 comes to a close, the IAC on behalf of its membership is eagerly awaiting the formal beginning of the 2001 acquisition with the release of the solicitation. As in the past, we are ready to assist in every way possible to facilitate timely and open communication with our Government partners.

Sincerely,

L. Kenneth Johnson
Chairman

Industry Advisory Council
Federation of Government Information Processing Councils

Attachment 2

Mrs. MALONEY. Well, congratulations. My time is up.

Congratulations on your Hammer Award. You are up for another one. Having 5 cents a minute is quite an achievement. I congratulate you over this long process. I think GSA has done an excellent job.

Mr. WOODS. Thank you.

Mr. BARRAM. Thank you.

Mr. HORN. I now yield 10 minutes to our distinguished chairman, who has come from another subcommittee. We would welcome his thoughts on this.

Mr. BURTON. Thank you, Mr. Chairman.

Let me state at the outset that I strongly endorse the GSA's plan to release the FTS2001 RFP and the MAA draft RFP on May 2, 1997. I believe Congress, the GSA, and the vendors have done an outstanding job, and I want to commend all of you, because there was some controversy over this in crafting these proposals that allow this process to move forward.

At our last hearing, I asked all the interested parties to sit down and attempt to narrow their differences, to negotiate in good faith and come up with an agreement that would result in the RFPs being released.

When I initially became involved in this issue, I stressed four principal goals that this procurement must meet in order to move forward.

First and foremost, it must be the best possible deal for the American 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.

Fourth, it must take advantage of the leverage provided by the Federal Government's purchasing power.

Through working together, I believe we have met these conditions, providing the American taxpayer with the most technically efficient and cost-effective telecommunications system, and I am pleased to see that this process is going to move forward. This procurement promotes competition and innovation in order to secure lower prices and higher quality services for the Federal Government and the taxpayer.

I sincerely want to commend my good friend and colleague, Mr. Horn, for his outstanding work. He has shown tremendous leadership on this subject. I also want to thank our colleague, the senior Senator from Alaska, my good friend Ted Stevens and his staff, my committee staff, and of course Commissioner Bob Woods of GSA and his staff, all of whom displayed professionalism and tremendous patience throughout this entire process.

I thank Mr. Barram and Mr. Woods for appearing before us today, and, I have one quick question for Mr. Barram. Has the criteria I laid out been met?

Mr. BARRAM. Yes.

Let me also thank you, Mr. Chairman, for your leadership in getting us to build this consensus strategy in and the work of your staff. It has been a really very profitable activity. I think we are—

I am convinced, I am satisfied we are operating from the principles you laid down.

This is the best deal for the American taxpayers, and it will be very competitive. We have got a structure in place that will let us do that—we have talked a little bit about that today and have been very successful in the FTS2000 program that gives us a platform to build on for this one.

Second, because this is a services-based contract, it meets your principles of innovation and using technology well. Because we are focused on services, as I mentioned earlier, we will not end up with what we call a “stranded investment” in the Federal Government, so that as things change, as services change, we will be able to get them from the service providers.

As I said in my opening statement, there is nothing as powerful to describe the new world order as telecommunications, with all the innovation and changes that are taking place. So we are going to have a lot of competitors in this business, and that is one of your principles as well.

It has worked for us in the past, and we are going to have some significant factor times the number of competitors we had in the past.

Finally, the strategy has always been predicated on leveraging the Government’s purchasing power. That is why we have been able to get great prices and great services. The combination of two is great value, which is what we are heading for.

So, I think this consensus process has really done a great job of strengthening our ability to make a more powerful proposal for a contract. We are going to have, I think, very great success in the marketplace for our Federal Government customers.

So I think it passes your principles, the strategy, with flying colors, and we thank you very much for your leadership.

Mr. BURTON. I thank you. Mr. Woods had to put up with an awful lot. Once again, thank you for all your help.

Mr. Chairman, thank you very much.

[The letters referred to follows:]



Administrator
General Services Administration
Washington, DC 20405

April 18, 1997

The Honorable Dan Burton
Chairman, Committee on Government
Reform and Oversight
House of Representatives
Washington, DC 20515-3805

Dear Mr. Chairman:

I am writing to thank you for convening the April 2, 1997, consensus development session to address the remaining issues concerning the post-Federal Telecommunications Service (FTS) 2000 program.

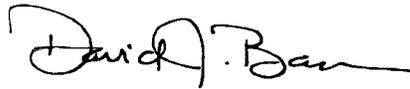
Under the committee's leadership, representatives from a broad range of the industry, the General Services Administration (GSA), the Interagency Management Council, and various congressional committees attended this session. We collectively reviewed and considered all the concerns and comments of industry and the FTS users, including those provided to the committee as part of the written testimony in your March 1997 hearings. GSA's staff explained strategy provisions in detail and provided clarifications where necessary. We then formulated enhancements to the February 1997 Refined Post-FTS2000 Program Strategy which were incorporated as specific changes and clarifications to the FTS Program Statement of Principles. These enhancements were provided in writing to the industry and Government representatives on April 4, 1997. A follow-up discussion was held on April 7, 1997, to explain the changes and seek additional comments.

I have enclosed copies of the February 1997 FTS Program Statement of Principles and the resulting supplement. The Principles continue to allow the future FTS2001 and Metropolitan Area Acquisition (MAA) contractors to move toward true end-to-end services. At the suggestion of industry, a pre-qualification process was added to the MAA program to increase the speed at which MAA contracts are awarded. This and other changes ensure that all reasonable telecommunications service requirements will be subject to competition. Furthermore, there will be no barriers to entering the post-FTS2000 program. All interested parties will be able to compete for the Government's telecommunications business.

As a result of this process, we believe that the concerns and comments of all interested industry and user parties were heard. We have a strategy that is in the best interest of the American taxpayer, the Federal Government users, and the industry providers. In consultation with the attending congressional staff, we believe that it is now appropriate and prudent to release the final FTS2001 request for proposals (RFP) and a draft MAA RFP on May 2, 1997. Release of the FTS2001 RFP should ensure that the FTS2001 contracts are awarded and transition planning is underway prior to the expiration of the current FTS2000 contracts. As we move the program forward we will continue to receive and consider industry comments and questions as a normal part of the Federal acquisition process.

Again, let me thank you and the committee for your leadership during the March hearings and the April meetings.

Sincerely,



David J. Barram
Acting Administrator

Enclosures



Administrator
General Services Administration
Washington, DC 20405

April 18, 1997

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Chairman, Subcommittee on Government
Management, Information and Technology
Committee on Government Reform and
Oversight
House of Representatives
Washington, DC 20515

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Sincerely,



David J. Barram
Acting Administrator

Enclosures

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

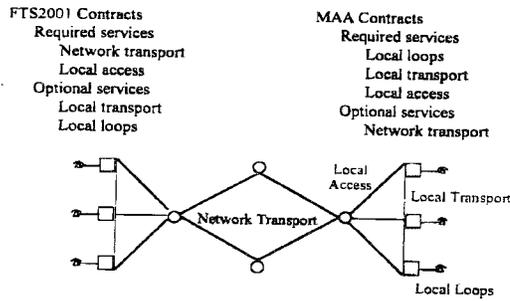
In general, the Government's goals will be met by:

- 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



Federal Telecommunications Service Program
Statement of Principles
Page 2 of 2

For FTS2001 and MAA Contracts

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

**Federal Telecommunications Service Program
Supplement to Statement of Principles**

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

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

12. The contract duration of the FTS2001 and MAA will be the same. Specifically, the contract duration for the FTS2001 and MAA contracts will be 4 base years and 4 one year options.
13. No work will be contracted for under any FTS contracts that is prohibited by any federal or state laws.
14. There are no minimum revenue guarantees (MRGs) for optional services.
15. Award process for MAA contracts:
 - 15.1. The Government will issue a request for qualification statements to which interested vendors may respond. The Government will use the standard RFP structure to enumerate its requirements. Specific price information will not be requested by the Government as part of the qualification process. Vendors may submit qualification statements at any time. However, the Government will specify a due date for qualification statements for each specific MAA. The Government reserves the right to re-examine its requirements or require re-qualification.
 - 15.2. The qualification statements will be required to address, in appropriate detail, the Government's requirements. The qualification statements must state the specific NPAs and NXXs in which the vendor is seeking to be qualified.
 - 15.3. The Government will evaluate the qualification statements. Vendors who are qualified will be placed on an MAA Qualified Vendor List.
 - 15.4. The Government will conduct competitions for each of the designated MAAs. The Government will specify the MAA-specific requirements, as well as the traffic model for that MAA, in an RFP issued for each MAA.
 - 15.5. Vendors on the MAA Qualified Vendor List may respond to the MAA RFP. Proposals shall include a price proposal based on the traffic model, an MAA-specific transition plan, and a proposal responsive to any other requirements unique to the specific MAA.
 - 15.6. Based on an evaluation of the MAA-specific proposals, the Government will award a contract(s) and an MRG(s) for that MAA.

- 15.7. In areas designated as MAA areas, agencies will typically participate in the MAA-specific competition to be conducted. However, an individual agency may elect to complete its requirements prior to the conduct of the MAA.
- 15.8. In areas not designated as MAA areas, the Government will conduct a competition for services in that area and will accept proposals from any firm on the MAA Qualified Vendor List. The Government may elect not to conduct such competitions for requirements below a specified dollar threshold. This threshold will be determined at a later date by the GSA with input from the IMC and will be set to ensure that the Government's cost do not exceed the possible savings.
16. Optional services (i.e., for long distance services or for local services in other areas) may be offered under the following conditions:
 - 16.1. Only contractors (i.e., those companies with either an FTS2001 or an MAA contract) may offer optional services.
 - 16.2. Optional services may be added to the contract as modifications within the scope of the FTS2001 and MAA contracts.
 - 16.3. The Government will not require service or geographic ubiquity on any optional services.
 - 16.4. MAA contractors seeking to offer long distance services will submit prices, as well as a technical/management response based on the FTS2001 RFP, which will be evaluated in the contract modification process.
 - 16.5. MAA contractors seeking to offer local services (i.e., in areas other than their awarded MAA area) will submit prices, which will be evaluated in the contract modification process.
 - 16.6. FTS2001 contractors seeking to offer local services will submit prices, as well as a qualification statement based on the MAA request for qualification statements, which will be evaluated in the contract modification process.
 - 16.7. Any contractor may offer optional services in an area after the competition is completed for that area.

Mr. HORN. We thank you again for your leadership in getting this consensus-building put together. I think everybody is happy with the result, and ultimately that result is what will satisfy the American taxpayers that pay all the bills around here.

I now yield 10 minutes to the gentleman from Illinois, Mr. Davis.

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Chairman.

I, too, would want first of all to commend and congratulate GSA on what I would consider to be an outstanding job, not only in terms of what we appear to be seeing at the bottom line, but also in terms of the process itself. I think that those involved in the industry would have to be pleased with the process, even if it turns out that they are not absolutely excited about all of the outcome in terms of where they are.

I think it is one of the most fascinating approaches to arriving at a conclusion that I have seen, and I hope that it is one that we will continue to use, not only in Government, but also I think it can be used in the private sector as well.

I also would want to commend and congratulate Chairman Burton for his outstanding leadership on this issue in terms of helping to bring it to where it is at, and certainly to you as well, Mr. Chairman.

The question that I have as we look at where we are is whether or not we are certain or we are comfortable that adequate safeguards have been built in that will allow small businesses, women-owned businesses, minority businesses to actually have a real shot at a piece of the action.

So that is the question: Are we comfortable with those kinds of safeguards built into the process?

Mr. WOODS. I believe we are. We have, in fact—I think you have been briefed or brought into this before, that we have a number of procurements that fit under this mantra of Post-FTS2000, and it includes everything from professional services, to cable and wiring, to international services, and so forth.

We have made not only conscious efforts to make sure that there are small business contracting plans in any bid that comes in. We have on several of these services made sure that there were small business awards and that we encouraged small business to participate.

We believe, as we did in FTS2000 where we exceeded the goals we set by a large margin with AT&T and Sprint, that this is not something that you get satisfied with and that you sit on. You have got to keep at it, you have got to stay diligent and moving ahead.

So we not only believe the safeguards are there in terms of the contracting, but we believe the attitude is there in terms of staff and the program and we are going to continue to go down that path. So we have in fact lately talked about some of the other procurements coming. And although 2001 is an enormous procurement and, as Chairman Horn said, one of the biggest in the Federal Government, we have got some others coming that are also likewise very complicated and very large in their size; and we intend to make sure that small business is part of that.

So we work very closely with our Associate Administrator Dietra Ford in that area, and we have held public forums for small busi-

ness and others, and continue to do that. So we are committed to it.

I don't think just language in a contract is enough. I think you have to go beyond that, and we are.

Mr. DAVIS OF ILLINOIS. I certainly appreciate that position, because I too don't believe it is something that we can leave to chance. It is not something that will ever be accomplished, unless we are diligent and unless we actually pursue it and stay on top of it.

I also note that the FTS2001 contractors will be able to offer and price local services by interconnects; that is, the three-digit local exchange, and not across the entire MAA. By structuring and setting up the options this way, does that open GSA up to the charge of allowing for cherry-picking or maybe during the basketball season, crimp-shooting?

Mr. WOODS. My Administrator is a great basketball fan, so I am afraid he may want this one.

I would say on that, that is one way to look at it. But this is a question that is often referred to as the "universal service" or "ubiquity" issue; if you provide one spot you have to provide everywhere. Our sense is, that is a barrier to entry for other competitors.

We in fact are protecting the initial awardees that have competed for that area by having a 1-year cooling-off period where no one else can move in on that territory. It is our belief that we have to allow competition, and by allowing us to go in at that three-digit level that you referred to, we believe that that functionally meets our customer requirements. The new entrant must compete and attract away the customer. The customer is already an incumbent somewhere else.

So we believe it is a good balance, and we believe requiring ubiquity-type service throughout an area really constitutes a barrier to entry and decreases competition.

So we believe it is a reasonable balance. We are protecting the initial awardee for some period of time, for a year, and we are giving them a minimum revenue guarantee. And we believe that is enough. We believe if you guarantee it forever and you don't allow anyone else to compete, that is not good for our customer and not good for the prices we pay. So we have consciously thought about that issue and we believe it is best to do it at the three-digit level.

Mr. DAVIS OF ILLINOIS. Thank you. I notice that GSA has maintained that the February 1997 strategy was required due to the Telecommunications Act of last year, and I assume that the revisions we are talking about and the changes we are talking about today are also consistent with that law. I guess the question is, could you elaborate on that in terms of the consistency of where we were, as well as where we are?

Mr. WOODS. Well, as you will recall, the Telecommunications Reform Act was passed about this time last year, in fact February 1996. And as with any new law that comes out, and it was one that replaced one that was decades old, it has taken some time to decide what specific parts of that law mean. A lot of what we went through in the February timeframe was looking at interpretations of that, that had never been challenged and never been dealt with.

So when we got some questions from the other Chamber, it was along the lines of what was intended in the act, and we sat down, listened to that, went through it; and from our perspective legally, we could have gone either way. I mean, we were not in violation of any law no matter which way we went.

The question was, what is in the spirit of the law, what is in the best interests of the Government; and those things, they are sometimes deep subjects with not easy answers. As we went through it, it was our sense that the industry is going to allow this, offerings from one sector into the other sector and so forth, the contractor was going to be around for a while or set of contracts. We wanted to be flexible enough to do the same thing that the private sector was going to do. That was the issue.

After a lot of deliberation, we agreed with that point of view that we ought to be flexible and let each segment of the industry offer other services, and then we at that point restructured to meet that.

So we not only believe it is in compliance with the letter of the act, we believe it is in compliance now with the spirit of the act. So that is really what we were doing, was fine-tuning at that point.

Mr. DAVIS OF ILLINOIS. Again, I think you have demonstrated a high level of flexibility and the ability to work with the industry, the ability to bring the industry together. Overall, it is an outstanding piece of work, and I certainly commend and congratulate you, and also would reiterate, Mr. Chairman, the commendation to you for the outstanding role that I think you have played in the process.

That concludes my questions. I thank you very much.

Mr. HORN. I now yield 10 minutes to the gentleman from Texas, Mr. Sessions.

Mr. SESSIONS. Mr. Chairman, thank you.

Mr. Barram, Mr. Woods, I would like to pile on with the nice words that have been put on you today, not only by Chairman Burton, but also by other members of this subcommittee, including our subcommittee chairman, Mr. Horn.

Mr. BARRAM. Please do.

Mr. SESSIONS. Please take from the tone of my message that you should be patted on the back. This has been a difficult process and you have made good progress, and as an outsider looking in, let me say you responded to my letter very nicely. Thank you, Mr. Woods.

I would like to, if I could, just direct my comments in two specific areas. When I first walked in, I heard the word "forbearance," this 1-year period of time we are talking about where a person, the winning contractor of the FTS2001 contract, at the end of a 1-year period would be allowed to get in.

Can you define for me—and I know I have got this agreement, this statement of principles in front of me which is wonderful, as Mr. Davis suggested. Can you tell me, when does this year start and what the process is?

I know when someone signs a contract, it may take a period of time before they are on line, before revenue starts. When does the gun go off?

Mr. WOODS. Typically, from a contractual standpoint and a legal standpoint, we have started at contract signing, which means the

day you sign the contract, the time at that point would be ticking. But contractually you have a lot of flexibility.

A lot has to do with what you agree to ahead of time.

At this point, we have not nailed that down totally, and from my perspective, I think we would rather get you back the best answer we can. I am just telling you typically what we do, but we have not drafted that language.

That language is not set yet, so contractually the Government has not entered into a contract. So until we do that, it is kind of what you say it is, and what you agree to.

[The information referred to follows:]



General Services Administration
Federal Telecommunications Service
7799 Leesburg Pike
Suite 210 North
Falls Church, VA 22043-2413

May 29, 1997

The Honorable Pete Sessions
Committee on Government Reform and Oversight
Longworth House Office Building
Room 1318
Washington, DC 20515

Dear Representative Sessions:

Thank you for your continued interest in the progress of the Federal Telecommunications Service (FTS) program strategy. I appreciate your attention to the program as exemplified by your participation in the hearings by the House Government Reform and Oversight Committee on March 6 and 12, 1997, and the hearing before Chairman Stephen Horn's Government Management, Information and Technology Subcommittee on April 29, 1997. The purpose of this letter is to respond to your letter of May 1, 1997.

In your letter you reiterated the request you made to me at the April 29 hearing to consider starting the twelve-month forbearance period with the first billing rather than the date of contract award. You stated in your letter that you believe this to be the most equitable approach to maximize competition and receive lower rates from bidders. In response to your request:

1. We reviewed the rationale for the length of the forbearance period.
2. We reviewed the rationale for the start date of the forbearance period.

With respect to the length of the forbearance period, we believe twelve months is the maximum forbearance period that is prudent to allow. Changes in the telecommunications industry are occurring at a breathtaking pace. One of the cornerstone principles of the revised strategy is our commitment to allow industry to propose service offerings when and where they choose. We believe that the Government should not try to time the development of end-to-end markets. Moreover, in our discussions with industry, our customers and Congressional staff members as part of the consensus development process,

ATTACHMENT 3

forbearance periods of three and six months from date of award were discussed. In the final version of the strategy the period was extended to twelve months to allow time for the Metropolitan Area Acquisition (MAA) contractors to establish their incumbency. That is sufficient time for transition and significant revenue to flow to the MAA winner. In this respect, the final version of the program strategy responded substantively to industry's desire for a significant forbearance period.

With respect to the start date of the forbearance period, we are convinced that this date must be predictable in advance for both the MAA winner and for those who wish to compete with the MAA winner at a future date. The MAA contract award date was selected as an easily identifiable point in time that could not be subject to dispute or question among any stakeholders. Other possible starting points tend to place the starting time in some doubt since they would depend on some action to be taken by either the MAA contractor or the Government. Also, while forecasting revenue streams is important to contractors, the minimum revenue guarantee (MRG) is the critical element for risk mitigation in the strategy, and ultimately for achieving the best prices in the competition. We are evaluating various MRGs for the MAAs and intend to make the MRGs as attractive as possible to achieve maximum competition.

In your letter you also expressed concern about the FTS2001 contractors' ability to "cream skim" high volume locations with optional local services. You pointed to the need for asymmetric ubiquity in optional services under the post FTS2000 contracts. In considering the points you have raised, I believe I may not have articulated to you some of the details of the strategy with sufficient clarity and precision. Accordingly, I will first address the requirements for ubiquity that are part of the MAA competition. Then I will address optional service ubiquity.

First, ubiquity is a requirement for the initial MAA competition. That is, in order to be eligible to win the MAA MRG, each offeror must propose ubiquitous service coverage within that MAA. There will be no exceptions to that requirement. Thus, the initial competition is expected to provide the "logical and fair" pricing of the local market to which you refer. MAA bidders who attempt to "game" the initial full and open competition for ubiquitous service (with MRG) by bidding higher average prices as a hedge against future competition risk being undercut by more aggressive competitors seeking the advantages of incumbency in the initial competition. Also, unless a potential MAA bidder has already won an

FTS2001 contract or another MAA contract, there is no advantage to assuming a "wait-and-see" posture while a new MAA contractor consolidates its position. The "price to beat" established by the initial full and open competition will only be "beatable" by contractors within the FTS program. Contractors within the FTS program may take such a posture, but receive no MRG and forego the advantages of incumbency. Thus, such contractors will have to overcome the initial advantage established by the new MAA incumbent. Simply beating the incumbent's price after the forbearance period may not gain any business. Contractors will have to beat the MAA's price, plus any matching offers made by the MAA incumbent, by a sufficient margin to justify transition burdens incurred by the agency customer. From our perspective, this scenario describes a fully functional competitive market.

Following the forbearance period we have decided not to require either FTS2001 contractors or other MAA contractors to provide service ubiquity when offering optional services to an existing MAA. This also is true with respect to MAA contractors offering optional long distance services in competition with FTS2001 contractors. The reasons for not requiring optional service ubiquity in either case are straightforward. Furthermore, I believe our reasons are in harmony with the reasons you offered for not requiring services ubiquity of MAA providers when offering optional long distance services. I am in complete agreement with you that it makes little sense to require ubiquitous long distance services as options from MAA providers. Clearly MAA providers would have limited long distance facilities available with which to compete for long distance business. FTS2001 providers and other MAA providers too are likely to have only limited local services facilities in a given MAA with which to compete against the MAA incumbent. For the same fundamental reasons that it does not make sense to require long distance ubiquity, it also does not make sense to require local service ubiquity. Further, by not requiring local service ubiquity, the incumbent MAA contractor has the ability, when responding to a competing offer from a program contractor, to adjust services and pricing for only the area in contention, rather than being required to make adjustments that apply to all locations covered by that MAA contract.

In response to the final request in your letter that all parties know to which provisions they will be held accountable prior to award, please be assured that all of these provisions are spelled out in great detail in the solicitation

documents. The FTS2001 RFP was released on May 2, 1997. A draft MAA RFP also was released on May 2, 1997. An electronic copy of these RFPs was provided to committee staff personnel. I have enclosed an additional set for your convenience.

I am grateful for this opportunity to respond to your concerns, and I welcome continued dialogue with you on these important issues.

Sincerely,



Robert J. Woods
Commissioner

Enclosure

Mr. SESSIONS. I guess my comment would be that I would encourage you to get closer to understanding what that means, because in some instances, there may be a statement of principles that is easier to read than some of these.

You may have a different circumstance in a different area based upon a switch performance or ordering. Someone may order some set of services, the switch, outside an operating entity's ability; something may come into play. I would encourage you to look at defining that, and probably—maybe the preference would be after you have begun billing, when the first bill goes out, because there may be some line of demarcation.

I would encourage that to be within either a statement of principles or more clearly, closely defined.

Second, I think my words—and I heard your response to this cream thinking or cherry picking, is it possible that you would have one—I will wait until this buzzer finishes.

Is it possible that you would have one of your customers within an area paying one set of prices and another FDS or Federal Government entity paying a separate set of prices? And do you think that this would mean that this would be in the best interest of the taxpayer or not? Or how do you view that circumstance that potentially could occur?

Mr. WOODS. First of all, in answer to your question, Congressman Sessions, it is absolutely possible and happens today. We have, within rock throwing distance of this Capitol, agencies who pay different rates. And that happens.

What we try to appeal to from a GSA standpoint is good business sense that you're getting what you pay for and more. And that is, in fact, what I believe our competitive advantage is, that we offer the best deal in town.

When someone here in this city pays greater than \$13.73 a line for dial tone service on the desk a month, I'm looking to hound them, because I believe they're not getting the best deal, because that's what I sell it for.

So we have that. We have, in fact, created within our reinventing effort this competitive atmosphere. We are encouraging agencies to go after the best deal. They have gone at it, I think, with great energy. But I—there's no guarantee that you won't get different rates. And sometimes they believe they're getting greater value with greater rates—with higher rates if other services are there.

And with all your years in this business, you know how selling that ends up. You've got to convince that customer that you get greater value.

Mr. BARRAM. Let me interject one thought. As you know, these are nonmandatory services.

Mr. SESSIONS. I am sure.

Mr. BARRAM. They will not be. So that has a big effect.

And the rest of our business at GSA, we have a lot of nonmandatory activities, which is very powerful for us to be better and very good for our customer. So that will help too; that will probably ensure that there may be, that there will be different rates at different places. But if we think about value, price, and service, if we think about value, price may not be the determinant.

Mr. SESSIONS. Good. I am completely satisfied that both of you and the people who work for you, as well as those people in the process, feel like it has been fair, it has been open.

One thing that I am concerned about and the reason why I talked about in the first place about this forbearance period, just know what the deal is that was cut.

Mr. WOODS. Yes.

Mr. SESSIONS. There is nothing worse than walking out to signing a deal and then walking out later saying, "I wonder what we really meant in a certain circumstance." So I encourage you to be open in this period, also to take everybody's comments about cutting the tightest deal that you can, not only on behalf of yourself and those people who are competitors, but the taxpayers of the country.

Mr. Chairman, thank you so much for your time.

Mr. HORN. Quite welcome. I now yield 10 minutes to the gentleman from Virginia, Mr. Davis.

Mr. DAVIS OF VIRGINIA. Thank you very much. And this is a much different hearing than some of the ones we have had before. And, again, thank you very much for the work. I know it has been difficult.

Let me ask a couple questions. Tell me how Bell Atlantic comes out under this, under the MAA, and how the District of Columbia and their ability to use this? In the past, they have declined to sign up. What are their options now? And what savings can they accrue?

Mr. WOODS. Well, the District has, unlike Mrs. Maloney's question about State usage, the District of Columbia actually can use our services today. And so they have, in effect, special privilege in that regard.

We have over time, as you know, put some effort into trying to get the District on board with what we're doing because we believe there not only are savings but, Congressman Davis, there are functional differences. We have at least the legend—and I have not personally observed it—the legend is we still have rotary phones in many of the schools.

Mr. DAVIS OF VIRGINIA. That is accurate.

Mr. WOODS. Well, we believe we can take them beyond rotary phones very quickly. But we also believe that distance learning, how speed telecommunications capabilities and other things that we're planning for the next generation for agencies and the Department of Defense, and so forth in this exact geographic area should be made available to them. And we need them on the planning team to do that. So we're offering that up to them. And we're working that fairly hard.

In the Bell Atlantic set of questions, as a regional Bell, they will obviously be competitors for a number of our metropolitan area acquisitions. And we hope as time goes on and they deregulate, they will be competitors for other services we've got. But they are a very large provider.

And the merger with NYNEX will cover a trail of territory. And I believe over time will—they're in the position to be in 60 percent of our long distance market; about 60 percent of our service is in that geographic territory.

Mr. DAVIS. Super. Well, thank you very much. I thank both of you very much.

Mr. WOODS. Thank you.

Mr. HORN. I thank the gentleman very much. I have one last question. Mention was made of large purchases in the future and we might apply the same technique.

Could you give us an idea of what areas those are?

Mr. WOODS. I believe that when you look at 2001, as significant as it is, we have some coming attractions that I think are going to be significant in the Federal arena. Right now, one that we are moving forward with is something called seat management. And I know that that term will probably invite some ridicule. But its idea is to provide desktop computing services on a service basis. And it, in effect, says you're not going to lease it. You're not going to buy it. You are, in effect, going to buy the service.

The Gartner Group today projects at about \$12,000—it costs about \$12,000 a seat. And the reason you use seats is most organizations have more seats than they've got people. And so you're paying for the computer that sits there.

And our belief is we can buy those seats on a service basis for a lot less than \$12,000 a seat. Our rough and very crude estimates at the moment are that that's a roughly \$10 billion Federal market. If we bring those prices down 10 percent, I don't have to do the math, I think you'd see that's a very significant area. So we believe that is an area we need to move ahead on.

The second area I believe is very significant is the Washington area communications ability. Washington, DC, represents one-third of my local telephone service business. And if we don't do this well, we don't do anything else well. And so as we provide high-speed capability for the next generation, I believe we ought to be linking up with the District. We ought to be linking up with our partners in defense and we ought to be making that a model for what the rest of the Government looks like.

So we're ambitious to do that well. And I have deep appreciation for what we've been through with 2001 to get it to the market as well as the MAA's, but there's more coming. It's going to be significant for this Government. And it's going to take leadership on all our parts to make it work.

Mr. HORN. Well, would Commissioner or——

Mr. BARRAM. No, I'd just—I agree with Bob. There's a lot of things that are going to happen in the next couple of years that are huge changes in the way we all function and work and these are two of them.

As soon as we get this RFP out, we take a deep breath and work on the next big complicated issue.

Mr. HORN. Well, I want to thank you in particular, Mr. Administrator, and Bob Woods as Commissioner, also. And I hear some of his fine staff is in the first row right behind him. And I know these things would not have happened in building a consensus if it wasn't for Commissioner Woods and his staff taking the time to sit around the table with congressional staff, as the various people that have a real stake in this come in. And you are representing the stake of the taxpayers. And so I want to thank you two first and your staff.

And then I would like to thank the congressional staff that participated in these meetings on both sides of the aisle. Starting with Bill O'Neil, the director of procurement for the full committee reporting to Mr. Burton. And Earl Comstock is here who is the legislative director for Senator Stevens, who also participated. And then nothing happens on this subcommittee without the leadership of J. Russell George, the staff director and counsel right here. And the gentleman on my left and your right, Mark Brasher, is our specialist in this area, who is seated next to me. And then Patricia Delgado represented the ranking Democrat on the full committee, Mr. Waxman. Mark Stephenson, professional staff member for the subcommittee, minority, headed by Mrs. Maloney.

And then in preparation of this hearing, we also thank John Hynes, who is the professional staff member in communications. And Andrea Miller, our clerk. And we thank the reporters who have to try and untangle what we are saying: Vicky Stallsworth and Bob Cochran.

Also thank you to Janet Javar who is working with the clerk on the minority side. So thank you all. And with that, this hearing is adjourned.

[Whereupon, at 11:12 a.m., the subcommittee was adjourned.]

