

STATEMENT OF
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U.S. GENERAL SERVICES ADMINISTRATION
BEFORE THE
COMMITTEE ON GOVERNMENT REFORM
U.S. HOUSE OF REPRESENTATIVES
FEBRUARY 26, 2004



Good morning, Chairman Davis and Members of the Committee. Thank you for inviting me to appear before you this morning. As always, it is a pleasure to discuss FTS programs that support critical agency requirements and address the future of Government telecommunications. As we develop programs that address the ever changing network technology landscape, we welcome the opportunity to share our perspectives and to solicit ideas and support from the Members of this Committee. In my remarks, I will address the work we are doing to provide our customers critically important technologies to fulfill their mission needs well into the next decade.

Introduction and Background

As you know, the Network Services business line within the Federal Technology Service, formerly called the Federal Telecommunications Service, was established to provide mandatory voice telephone service to all Federal Agencies. That charter has expanded, over the past four decades, to include a broad array of technology services and solutions that agencies use today, not because they are mandatory, but because they represent the best value in the marketplace.

The current FTS2001 program, now starting its sixth year, certainly exemplifies best value. The FTS2001 and Crossover contracts have been modified 229 times for the benefit of all agencies, and have grown from an acquisition offering 21 core services, of which 60 percent were switched voice, to a much more robust acquisition offering 35 core services, of which nearly 60 percent are now data. Advanced services and networking technologies have been incorporated into the FTS2001 and Crossover

contracts at a rate nearly parallel to their introduction into the commercial market. Moreover, price reductions and service enhancements, such as embedded security offerings, have continuously improved the overall value of the contracts to agency customers.

While the scope and structure of the FTS Network Services program has grown commensurate with rapid changes in our industry and technology, certain fundamental objectives remain as important today as they were four decades ago. First, we believe we have demonstrated there is significant government-wide value in providing centralized contracting and program management expertise to develop, award, implement, and administer contracts to meet complex agency needs for networking technology services. Second, leveraging the government's large volume of requirements continues to prove a successful formula to acquire high quality telecommunications and networking services at the lowest possible prices. Finally, coordinated transition planning and life-cycle operations support helps to achieve government-wide efficiencies. FTS has a proud tradition of carrying out its mission to meet these objectives by working closely with this Committee, with user agencies through the Interagency Management Council (IMC), and with the entire community of stakeholders. We are pleased to continue working together as we plan for the replacement of several of our expiring contracts. As in the past, we are depending on your counsel and support as we plan the next generation of telecommunications acquisition strategies.

Throughout the tumultuous period that has characterized telecommunications deregulation, and despite the complexities of the industry environment we face today, our acquisition strategies have served our customer agencies well. The FTS2001 program is a resounding success, providing state of the art services at unparalleled low prices. The program achieved its primary objective, as established by this Committee, of ensuring the best service and price for the government while maximizing competition in acquiring those services. In so doing, we reaffirmed the benefits of coordinating across agencies to achieve economies of scale in the acquisition of networking services. And, we have confirmed the idea that by working together we can minimize the resources needed to acquire a large volume of service across a significant number of agencies. Quantitatively, the results have been significant. When compared to best commercial pricing, FTS2001 savings are approaching \$2 billion across all agencies and will continue to accrue until the contracts expire.

Importantly, these savings benefit all customers, from the smallest Commission to the largest Agency. All receive the benefits of service enhancements, technology upgrades, intra-program competition, and continually declining prices. In this sense FTS2001 users are treated equally. Those who use more save more, but those who use less save as well since they pay prices they would have little hope of achieving on their own. Even agencies who choose to do their own acquisitions benefit from the low prices achieved in FTS2001 as those prices set a standard to be matched or bettered.

The huge cost savings on FTS2001 do not reflect the whole story. The program also

provides agencies with a fast and flexible migration path for acquiring advanced technologies and services. Users have recognized that the FTS2001 contracts have built-in processes for acquiring commercial technologies as soon as they are introduced into the marketplace. This means, for example, that all agencies can obtain the services and technologies they require – from common every day service to sophisticated services that support such missions as law enforcement and homeland security. Agencies can move toward Internet Protocol-based Virtual Private Networks (IP VPNs) that will support a host of new applications and services to meet the demands of the present as well as the future. And agencies benefit from the flexibility to move forward at their own pace, as their mission demands evolve and as budgets permit.

The FTS2001 program will end in just under three years. FTS has begun looking to the future and I would now like to turn the Committee's attention to our initial ideas for the successor program FTS is developing. Our goal is to build upon the success of our current program to create a new acquisition that will enable Government to continue to take advantage of emerging technologies while creating greater contracting and management efficiencies. Let me stress that these plans, just like the planning for FTS2001 a decade ago, will evolve based on a collective dialogue with all of our stakeholders, including our agency customers, the Members of this Committee, the oversight Committees of the other Chamber, and industry.

FTS Networx Goals

FTS is calling our follow-on program, “FTS Networx” (with an “X”). We have chosen this name because it conveys our belief that the future of telecommunications is increasingly about networking and efficiencies that can be achieved through the use of enhanced technology and services. While we believe that Networx should be designed to support the continuity of our customers’ current networking communications infrastructure as it will exist almost three years from now, near the end of the FTS2001 program, it must also look beyond 2006 to the future by providing the new capabilities that will be enabled by the networks of tomorrow. Ideally, Networx will entice agencies to move away from their legacy arrangements and to embrace the benefits of the future.

The infrastructure for these newly emerging networks is being deployed as we speak. These so-called “converged” networks will enable the delivery of all types of services – voice, data, and video – over a single unified Internet Protocol (IP) infrastructure. This environment will have a dramatic and beneficial impact on the services delivered and on the management of those services as well. We will be able to access information using mobile, fast, and secure communications in ways we can now only imagine. This future is near, and FTS plans to deliver these capabilities and efficiencies to our agency customers as industry brings them to market.

In partnership with our customers as represented by the Inter-agency Management Council we have established goals for Networx that reflect FTS’ ongoing responsibilities

to our agency customers and our responsibilities as a procuring agency. Most importantly, our goals reflect our belief that we must assure continuity of telecommunication services and solutions for our customers – and I'm referring to continuity for what will exist three years from today. FTS2001 provides telecommunications services to tens of thousands of locations worldwide. Government users depend on FTS2001 for uninterrupted service to perform their missions, and we must ensure that service continues following the expiration of the current contracts.

In addition, we believe that we must continue to provide best value for all services and solutions by attracting the most innovative and highest quality services from industry at the best possible prices. With your guidance and support, FTS2001 established a benchmark for innovative acquisition that successfully leveraged competition, provided greater choice for federal agencies, and provided a means to engage industry throughout the life of the program. We believe the Networx program must do no less in creating a competitive framework that will achieve comparable success within the current and evolving environment.

Next, we believe we must respond to a changing marketplace by providing access to a broader range of services and service providers than on previous FTS telecommunications contracts. We have seen the benefits of the FTS2001/Metropolitan Area Acquisition strategy as defined in the Federal Telecommunications Statement of Principles and we plan to continue in that strategic direction to provide the opportunity for more companies to compete over the life of the program. We believe that

continuous competition among a larger number of competitors will allow access to new technology more quickly while maintaining downward pressure on prices throughout the program life.

Finally, we seek to offer expanded opportunities for small and medium sized businesses. We believe it will be possible for the Networx strategy to provide opportunities for small and medium sized businesses to compete.

Focusing on these goals and working in collaboration with our customer agencies, we developed an initial acquisition strategy for the Networx program. Last fall we shared that strategy with this Committee. Subsequently, we released the strategy to industry and the public in the form of the Networx Request for Information (RFI). The RFI solicited both general and specific feedback on the proposed Networx strategy that is critically important as we compare our approach to meeting the Government's requirements with industry's ability to respond.

I will now briefly summarize the highlights of the Networx program strategy proposed in the October 2003 RFI.

Networx Description

The RFI proposed that FTS would conduct two phased acquisitions: Networx Universal

and Networkx Select. Networkx Universal would be competed among providers, or teams of providers, who could offer a comprehensive range of domestic and international services. Service providers would be required to provide service to all government locations currently served under existing programs, as well as all commercial locations served by the offeror. This acquisition would be structured to provide Government Agencies with uninterrupted service to all locations currently served and ensure continuity for mission essential activities. The acquisition would be structured such that the competition to win a Universal contract would provide industry with incentives to offer their most attractive prices.

The Networkx Select acquisition would establish contracts with more focused service offerings and more flexible geographic coverage. While Networkx Universal would require a full and comprehensive set of global offerings, Networkx Select would allow each industry provider more flexibility, within the framework of the acquisition, to propose a subset of the required services and geographic coverage based on their core competencies and competitive advantages. This program would offer opportunities for all players in the telecommunications and networking marketplace. Since Select was proposed to be conducted after the Universal competition, the Universal prices would serve as a benchmark that would yield highly competitive prices for Select.

Services on the Networkx acquisitions would include all the services on FTS2001 including services added as modifications during the life of the contracts. In addition,

approximately 20 new services would be added reflecting new technologies and new customer requirements. The technical service sections of the Networkx acquisition would use a performance based specification approach to foster performance-based contracting by Networkx customers through the inclusion of detailed performance metrics for each service. These metrics would serve as the basis for contract-defined incentive-based Service Level Agreements upon contract award, providing our agency customers with new leverage for ensuring best-practice service delivery.

Transition to Networkx

As we look to the future and the eventual award of replacement contracts for FTS2001, we are reminded of the challenges associated with moving from one contract to another. In anticipation of those challenges, FTS, together with the IMC, have identified transition lessons learned and begun the process of planning for the Networkx transition. In May of 2003 we established an IMC-led transition working group and, working with that group, we have agreed on actions that must be undertaken in order to be ready to move forward following the award of the Networkx contracts. These actions include the identification of transition funding, FTS and agency roles and responsibilities, inventory requirements, site planning, methods for reporting the progress of the transition, as well as other activities that will help to achieve a more efficient transition.

Networkx RFI and Responses

Mr. Chairman, I am happy to report to the Committee that the RFI process has been

very successful. We see that there is healthy interest in the program as demonstrated by the large number and high quality of responses provided. We believe the RFI has succeeded in stimulating the type of dialogue we seek with our stakeholders. That dialogue is critical to the success of the strategy development phase we are in right now.

As I have only a brief time to make my remarks, I will attempt to summarize both the extent of the participation in the RFI process as well as the nature of the comments we received.

As to the extent of the participation in the RFI process, Mr. Chairman, we received over 700 substantive comments from nearly 50 respondents. Our experience suggests that 50 responses is a relatively large number, indicative of great interest in the program. Overall, the respondents to the Networx RFI covered all market segments, including traditional long distance carriers, local carriers, integrators, small and medium sized businesses and a few agencies as well. We were especially pleased to receive well over a dozen responses from small businesses.

In general, there was highly useful and constructive feedback from the respondents on the services described in the RFI and on significant aspects of the strategy. For

example, most respondents agreed that Networx is needed and appropriate to provide the complex tailored solutions required by agencies.

In the area of billing, there was general consensus that the Government's billing data requirements as outlined in the Networx RFI are too extensive. Respondents generally preferred to offer their commercial billing solutions, or retain current FTS2001 data requirements, rather than incur the expense of undertaking complex modifications to their systems to meet Government requirements.

Respondents generally agreed that our technical service requirements and pricing approaches are sound and cover the appropriate offerings. Industry agreed with our plan to use a performance specification. The responses indicated that converged service offerings are just now emerging. Although there are no commercial standard offerings either technically or with respect to price structure, industry challenged us to develop an innovative service description which will allow them to bid this service.

Overall, Mr. Chairman, we believe that the responses to the RFI were thorough and constructive. In addition, we continue to engage industry in an active dialogue seeking feedback to refine our strategy.

Summary of Networx Benefits

With these responses in mind, FTS continues to review the information obtained from its stakeholders. The Networkx strategy to mature as a result of all input we receive.

So, as we move forward and continue to develop the strategy, let me summarize the benefits we anticipate realizing from the ultimate Networkx strategy, in whatever form it takes.

First, Networkx should offer an orderly migration to the future. We are increasingly convinced that IP based services are the future. Within two years we expect to see substantial advances in IP service quality, reliability, and performance. We must plan carefully now to reap the benefits of these new capabilities. That means we must ensure that Networkx provides appropriate stability for the legacy services that will allow government agencies the time needed to chart the most efficient course for deploying and using all-IP infrastructures. In addition, we must ensure that Networkx includes, from a wide array of providers, the IP-based services needed to enable this migration.

Second, the Networkx program must enable effective management of our future risk as we navigate through the fluid and dynamic industry environment. We do not know who will be the dominant service providers in the future. Perhaps it will be those we know today, but significant change is also possible. For example, a very significant transaction in the wireless component of our industry was consummated just last week. Accordingly, we believe we must anticipate that new IP services may lead to new service provider options. The dual acquisition approach we proposed in the RFI is one

way to open the federal telecommunications market to a wider array of service providers while also providing the Government greater flexibility in adapting to future industry change. Maybe there are better ways to accomplish this. Members of industry have suggested alternatives both in their RFI responses and as recently as last week at the public forum sponsored by the Industry Advisory Council. We are happy to receive them. We are considering them, and we continue to be open to all suggestions.

Finally, as I stated earlier, we must manage performance of the Networx program through performance-based contracting vehicles. We seek to reinforce both program stability and flexibility using incentives to drive our partners' performance. We are currently developing some of the building blocks for defining measures of performance in the basic Networx contracts. We are also considering ways to incorporate specific agency business performance indicators, requirements, goals, and incentives within the task order processes under the basic contracts. We also intend to use performance management to realize improvements in everything from transition performance, to billing systems compliance, to trouble-reporting, to service and technology enhancement. Experience tells us loudly and clearly that this is no simple undertaking and we need help from all in this area.

In short, we intend for the Networx program strategy to build on all we have learned from the past and to accommodate anything that we might encounter in the future. The RFI offered a starting point for the considerable dialogue needed to develop the very best approach. Frankly, a number of aspects of the RFI strategy are unlikely to persist

given the feedback already offered to us so far. The input we have received to date has given us much to reflect on and much to evaluate. Much work is left to be done. One thing we know for sure is that we cannot do it alone. We need criticisms, opinions, advice, and sincere debate to make Networx what it needs to be. After all, in the end, it is not *just* FTS' program, it is our program – all of us.

Response to Committee Invitation Letter

Mr. Chairman, in your letter inviting me to appear here today, you outlined several issues and topics about which you intend for the Committee to gather information. In particular you indicated interest in assessing the effectiveness of the proposed RFI strategy, including issues about transition, contract performance periods, billing needs, and services and technologies requirements. You also indicated interest in gathering multiple perspectives on the centralized program approach to acquiring the Government's telecommunication needs.

As for the effectiveness of the strategy as embodied in the October RFI, I would readily agree that the proposed October strategy can be improved, and that we are committed to improving it. Industry has told us that, and we wanted to hear about how they would suggest it be improved. Its purpose as a straw man or reference strategy has been served. As I indicated earlier we continue to receive much food for thought from our stakeholders.

For example, we heard that some question having separate staggered Universal and

Select acquisitions. Some believe that Universal could overshadow Select and result in significantly fewer opportunities for Select awardees. That is a fair concern although it does not reflect the intent we had in mind when we conceived that aspect of the RFI proposal. However, now we have received some substantial suggestions that can help us to refine our thinking. As is the case with many aspects of the strategy, our challenges is to understand the trade-offs and strike an appropriate balance between the desire to be all-inclusive and the need to foster meaningful and effective competition.

We have also heard from some that Minimum Revenue Guarantees (MRGs) do not need to be so large that they reduce agency flexibility in selecting providers. The effect of large MRGs could be to lock out competition where it might otherwise take place. Naturally, we would like nothing more than to be assured we can obtain the best competitive results without establishing an MRG “straight jacket” effect. Again we have received substantial comments and opinions for consideration.

And there are other areas as well where such feedback has been extremely valuable. All of the issues you enumerated in your letter have been the subject of dialogue. In each case as a result of feedback from stakeholders we are assessing the effects of

suggested alternatives, and working to develop a more refined and, we hope, more realistic approach that reflects a better, understanding of our stakeholders’ concerns

and preferences. This is already stimulating new ideas and analyses within our strategy team.

I spoke briefly about the steps we are taking on transition planning and our goals to get ahead of the curve this time around and do a better job. We are actively engaged in these activities and both FTS and our customers are committed to a well planned, well executed, effective transition.

We have received a variety of comments regarding contract performance periods. The suggestions range from 3 years to 15 years. We believe the best performance period for the Networx strategy will likely attract meaningful competition as well as justify the resource investment required to plan and conduct an acquisition of this magnitude.

Regarding billing, we clearly heard that the billing data elements contained in the RFI may be overly burdensome to industry. Of course this view has been raised in the past, and does not come as a surprise. And, we must bear in mind that billing issues are not confined to the government arena. However, we need to understand how we can strike an appropriate balance between agencies' needs for information, and industry's ability to deliver it with their established commercial offerings. Industry recognizes, I believe, that we cannot accept 20 or 40 different billing formats, and we

understand that industry cannot be expected to revamp their entire infrastructure just to provide us with a certain number in a certain place on an invoice. We will do our best to

at least make a significant increment of progress.

As for the value of centrally managed program acquisitions, as I stated earlier, we certainly believe we have demonstrated this value in the Government networking arena. We have the performance measures to illustrate and support our claims. Time and again when OMB or GAO or others need statistics, analyses, or other quantitative data about the government's use of telecommunications, FTS, in our central management role, can provide it. Yet we are more than a statistical service offering mere facts and figures. For example, our leadership and cross-government management role was most valuable during the planning and preparations for Y2K, and again in the damage assessment and emergency response activities immediately following 9-11. We are engaged on an ongoing basis with all our customers – more than 200 of them. We work across a broad spectrum of agencies and with many providers. The knowledge and experience we have accumulated adds tangible value across our customer base. We provide engineering analyses, business analyses, strategic consulting, and ultimately better solutions, because we draw from a multitude of experiences across government. We act as a clearinghouse for information and ideas, from agency to agency, GSA to oversight body, industry to agency, industry to industry, and so forth.

For example, telecommunications pricing is not straightforward. I am reminded of this every time I look at my home phone bill or see the orange-haired fellow on the TV 

commercials I think we are all so familiar with. For agencies to develop individual capabilities for pricing analysis would be duplicative and inefficient at the least. In addition, without a centrally managed capability, there would be no accumulation of data across agencies to provide a federal management perspective. In the past, GAO has pointed to the difficulties of collecting government-wide information about telecommunications costs and usage when gathering such data from agencies one-at-a-time. Telecommunications pricing, usage and cost data gathered individually from agencies would undoubtedly vary considerably making comparisons difficult or impossible.

Inability to collect meaningful data quickly and reliably has many potentially negative implications in several respects. Perhaps the most tangible result would be a likely loss of leverage in negotiations. Without some knowledge of the price levels being negotiated across government, agencies would have little reliable data on which to base their price evaluations of proposals. Given that we have routinely achieved price levels well under the market, sometimes as low as half the market rates, agencies negotiating contracts at 15 or 25 percent discounts to market might rightly think they are getting the best possible deal. But such deals would be 50 percent higher than our prices.

Because we do our homework on behalf of all agencies, and collect data from a wide variety of sources, we can offer the best perspective on pricing available anywhere. Under the terms of our contracts, the our partners agree to provide data about their best deals to us. We also collect raw data from other sources for analysis, and we consult

with experts in telecommunications contract negotiations to round out our understandings of best practices, best rates, and pricing trends. The pricing tools we have deployed on the web are available to anyone who wants to use them. Each month the website receives tens of thousands of hits, from hundreds of users, pricing FTS2001 services. All of this translates into tangible bottom line value for our customers and the taxpayer.

Furthermore, the qualitative value of a centrally managed program can be observed in the IMC itself. The IMC as an institutional coalition of agency technology managers acts as a clearinghouse and technology management transfer agent as well. Agencies come together at the IMC table and discuss issues both common and unique to their agency missions and technology deployments. Without an IMC, established at the behest of Congress, to advise the FTS programs, it would be much less likely that such valuable exchanges of information across agencies would ever take place.

These are just two aspects of a centrally managed telecommunications program that I offer for consideration to the Members of this Committee.

As we look to the future, we see the changing telecommunications environment to be characterized by exciting new technologies and applications that offer great potential, accompanied by significant levels of risk and uncertainty. We believe that a centrally

managed approach will enable government to navigate the uncertainty more successfully, will yield better results for our customer agencies, and will reduce costs to the taxpayer.

Nevertheless, Mr. Chairman, we are open to all ideas including those that might mean significant change to GSA and FTS and the roles we have traditionally performed in service to the Government. We are not afraid of finding the right answer, or of finding a better answer. In fact, we want to do so, and we think it is our job to do so. We are committed to looking beyond the diverse assertions to define the issues and determine the pertinent facts and data surrounding the issues. Only then can we begin to assemble the ingredients that will make for an intelligent and robust strategy. We need a strategy built on a foundation of substance, not fad or fashion since we know fads and fashions will change several times at least between now and, say, 2012 or 2014. We are committed to crafting a strategy that in the end reflects a balance among the variety of competing interests and leads to best value results and innovation that will enable government to achieve its mission.

Closing

Mr. Chairman, as in the past, we have coordinated our strategy development with our Agency customers and have received their active support. The RFI process and meetings with industry stakeholders have provided us with comments and suggestions

on all aspects of our strategy. I hope to come away from this hearing today with more ideas and suggestions. We will continue to encourage comments and perspectives that will further shape and refine the process we have initiated. We are pleased to have delivered an initial strategy that is already serving its purpose as the basis for productive ongoing discussions. We look forward to the journey as we strive to build on our past accomplishments, incorporate lessons we have learned, and ultimately harness the innovation and entrepreneurial spirit of American Industry to capture the networking solutions required to meet the future requirements of our agency customers in support of the American Taxpayer.

I would be happy to address any questions you may have at this time.