Testimony of Anthony D'Agata, Vice President and General Manager Government Systems Division, Sprint Corporation

Good morning Mr. Chairman, members of the Committee, my name is Tony D'Agata, I am Vice President and General Manager of Sprint's Government Systems Division. I would like to express my appreciation for the opportunity to share with you this morning Sprint's views on "NETWORX," the follow-on program to FTS2001.

For Sprint, the FTS program holds a special meaning. It was Sprint's FTS2000 win in December of 1988 that gave "US Sprint," a fledgling up-start company, the confidence and credibility to compete in a long distance industry dominated by giants. Sprint appears before you this morning, over 15 years later, in the unique position as the only provider to be a successful offeror for both the FTS2000 and FTS2001 programs. This experience gives us a unique perspective on the needs of our customer agencies and the industry. This morning, we would like to share this experience and perspective with you.

Simply stated, Sprint endorses GSA's NETWORX acquisition plan to replace the FTS2001 program. Its proposed structure is the evolution of the FTS2000 and FTS2001 programs and is designed to deliver complex telecommunications solutions to the Government well into the 21st Century. We will, however, recommend changes to the NETWORX acquisition strategy in order to make the Program an even more effective vehicle for meeting the needs of the Government.

THE NETWORX ACQUISITION STRATEGY IS SOUND

The Government's experience over the past 15 years with multiple-award IDIQ telecommunications contracts has been extraordinary. These vehicles have enabled the Government to aggregate its buying power to the benefit of the smallest Government agency. As of the third year of FTS2001, the Government had saved over $400M compared to the best prices available on FTS2000. By the end of the term of FTS2001, the Government savings will approach $1B. The FTS program has shown that the carrier/prime contractor is able to design, implement, and deliver complex telecommunications solutions directly to the Government without the costs associated with the involvement of an intermediary management contractor. Moreover, FTS has provided to the Government agencies unprecedented management tools such as on-line ordering, pricing, and trouble report handling to manage accomplishment of their respective missions.

But the carriers cannot take all the credit for delivering unparalleled value to the Government. The General Services Administration, as a full partner, has played a significant role in the success of these vehicles. GSA is in the unique position of facilitator for the rest of the Government. It understands the agencies, the market, and provider expectations. GSA, in its ministerial role, acts as the central procurement management authority, monitors the performance of the providers, enforces contract compliance, and performs a dispute resolution function for the Government. GSA also monitors the performance of the agencies and requires them to take the actions necessary to maximize the advantage for the Government.

While some would say that it is time to change the above winning proven formula for a successful telecommunications program to one resembling a set of schedules, Sprint strongly disagrees. It must be remembered that the schedule procurement model has been successful for the procurement of "one size fits all" commercial off-the shelf commodity items. It is not suited to the delivery of complex customized telecommunications solutions. The services delivered by FTS2001 and envisioned by NETWORX require sophisticated service-level agreements and intricate internet-based management tools.

THE NETWORX ACQUISITION STRATEGY SHOULD BE MODIFIED

Sprint supports the concept of a successor program like NETWORX to replace FTS2001, but its 15 consecutive years of experience as an FTS provider compels us to recommend the following changes to the acquisition strategy.

First, NETWORX carriers/contractors should not be put in a position of assuming the economic risk of an unpredictable access market. FTS2001 required that carriers forward-price access services for eight years. FTS2001 offerors relied on the Telecommunications Reform Act of 1996 to bring open competition to the local access market. Unfortunately, full competition and those projected price reductions in access have not materialized. This has caused significant financial harm to the service providers. As a result, the Government must consider the future uncertainties of access prices when forming its price expectation of the NETWORX offerors.

Second, the existing NETWORX procurement strategy is to award a "Universal" contract to provide the mandatory ubiquitous services and a "Select" contract to provide niche services. But this structure, if not administered properly, could result in pitting the "Universal" and "Select" contractors against each other to the detriment of the

contractors and the Government. The NETWORX "Select" contract should not be used to "cannibalize" the "Universal" NETWORX program. The "Universal" contractors must provide the entire spectrum of NETWORX services ubiquitously at the same price. If the "Select" program awardees are permitted to subsequently provide overlapping but geographically limited similar services, the "Select" program provider could "cherry pick" or "cream skim" the business base of the "Universal" providers. This would destroy the economic basis of the prices bid by the "Universal" providers and could cause substantial economic harm to the "Universal" providers. To avoid this conflict, Sprint recommends that the "Select" program be reserved exclusively to provide opportunities to "small" and "small, disadvantaged" businesses. The services deemed mandatory on the "Universal" NETWORX contract should not be available on the NETWORX "Select" contract. The "Select" contract scope should be limited to giving "small" and "small, disadvantaged" businesses the opportunity to provide non-competing but complimentary services to those provided by the NETWORX "Universal" providers.

Third, Sprint recommends that the successor contract not contain a substantial minimum revenue guarantee or "MRG." One of the major economic rationales to support a substantial MRG is to guarantee the contractor a specific volume of business to justify the sizable system development costs associated with complying with the billing and management information requirements of the Request for Proposal. However, due to the foresight of the architects of the FTS2001 acquisition strategy, all FTS2001 "long distance" and MAA "local service" program participants must already comply with those requirements. One of the requirements of the existing FTS2001 program is that all FTS2001 long distance providers and all FTS2001 MAA or local service providers must

first comply with the same billing and information management requirements in order to be awarded a "cross-over" modification to their respective contracts to offer either long distance or local service. Therefore, an MAA or local service contractor must comply with the billing and information management requirements of the FTS2001 long distance contract as a condition precedent for being awarded a modification to offer FTS2001 "long distance" services. Similarly, an FTS2001 long distance contractor must comply with the billing and information management systems requirements of the MAA or local service contracts before being awarded a modification to provide "local service". Today, all of the long distance providers and likely offerors for the NETWORX "Universal" program are either awardees of FTS2001 or have been awarded modifications to their MAA contracts to offer FTS2001 services. But even those MAA local service contractors that are without "cross-over" modifications must comply with the management information system requirements in their own contracts. Therefore, as long as the NETWORX billing and information management requirements do not require substantial additional systems development, the likely NETWORX offerors should already substantially comply with these requirements and there is no need for any significant MRG to cover those costs.

Finally, we recommend a change in the Government's mindset on how these telecommunications contracts are administered. All provisions that could grant undue discretion to the Government to deprive contractors of legitimate payment for services provided should be deleted or modified. The burden of proof to deny contractors payment for services rendered must be shifted to the Government. Sprint has provided millions of dollars in free service to the Government under FTS2001 due to a clause that

was intended to prevent the contractor from invoicing for services so long after those services were provided that the Government could not verify the accuracy of the invoice. Because the provision now specifically identifies a hard "90 day" rule, invoices not delivered strictly within the 90 days after the services were initially provided are rejected. This harsh result is not consistent with the intent of the parties

Fundamentally, Sprint's message today is that the NETWORX procurement strategy has a long and successful pedigree. The Government has enjoyed extraordinary success in forging a relationship with industry to provide the Government leading edge services at leading edge prices. We urge the Committee to stay the course that the GSA set with the inception of the FTS2000 program in 1987 and the awards of the FTS2001 contracts in 1998. NETWORX is the evolution of that strategy. It is a winning formula that has stood the test of time.

I would be happy to answer any questions you may have.