

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

WRITTEN TESTIMONY BY SHELLEY MURPHY,

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GENERAL SERVICES ADMINISTRATION NETWORK ACQUISITION PROGRAM

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*Mr. Chairman and Members of the Committee, Verizon Federal Inc. respectfully submits the following written comments on the NetworX Acquisition to become part of the Committee Record.*

Verizon Federal Inc. submits that the General Services Administration's (GSA) proposed acquisition approach for the NetworX program of acquiring services through two separate contracts, NetworX Universal and NetworX Select, raises several significant concerns including the ability of the GSA to maximize competition and establish the best value for Federal government customers. The acquisition approach should be reformed to eliminate the Universal and Select dichotomy and to permit bidding by suppliers on a service and geographic basis. These reforms will permit competition by incumbent and competitive local exchange carriers against the incumbent long distance carriers in areas of geographic competition, improve price competition for services, and promote innovation that will not be fostered by Universal and Select approaches. The latter approaches appear to be structured to favor a business as usual approach for existing long distance incumbents under the FTS2001 regime. Only those carriers will be able to provide global service at postalized rates.

Additionally, due to the proposed timing outlined for the Select procurement, the Universal procurement will undoubtedly cut off any potential business for those limited to that procurement, depriving the government of the stated benefits of Select. The Universal procurement appears to be a rollback of the progress made when the FTS2001 and Metropolitan Area Acquisitions were designed, without the opportunity to "crossover" currently afforded by the FTS2001 program. The ability to "Crossover" was provided in the prior FTS2001 program allowing holders of Metropolitan Area Acquisition (MAA) contracts, which provided local services to "crossover" and become bidders of the Long Distance services when they were able to meet the requirements. This approach ensured continuous competition and allowed for new market entrants throughout the life of the long distance contract FTS2001.

**Acquisition Structure and Recommended Change to Approach**

The proposed approach of holding two procurements would seem to maximize the government's program risk and minimize true competition for the follow-on procurement. Based on the outlined program, it is quite possible that only traditional long distance carriers can effectively bid for the Universal Contract, thus denying many

communications players (including major companies) in the industry a realistic chance to compete for major portions of the federal government's telecommunications business.

While we understand that the GSA is planning to satisfy small business goals and other niche capabilities with the NetworX Select procurement, the Select procurement appears to have some shortcomings. Based on the stated procurement timetable, the nine month delay in awarding the Select contract will serve to effectively minimize the opportunity for many companies to provide the Federal government important telecommunications services and reduce the Federal agencies desire to consider niche solutions that may provide greater value to the customer than the Universal solution set given the volatility and rapid technological changes in the telecommunications marketplace. The proposed acquisition strategy gives minimal details on the Select procurement, which serves to preclude vendors from effectively commenting on the planned acquisition strategy.

There appears to be little room for the non-traditional FTS vendors to play in the main Universal procurement, as currently envisioned by GSA. Today, the government has various vendors and capabilities available to them to increase the survivability of their telecommunications infrastructure, provide best value and quality to meet federal telecommunications requirements. The Universal procurement would appear to limit federal customers to a few vendors while the Select procurement will offer limited business opportunities for smaller companies and non-traditional FTS long distance carriers.

Verizon respectfully suggests that GSA implement the following recommendations to change the structure of the program:

- Eliminate the distinction between NetworX Universal and NetworX Select and create a single NetworX Procurement with several service categories, allowing for multiple awardees within each category. A detailed example of this will be provided later in this document.
- Significantly reduce the number of mandatory and ubiquitous service offerings.
- Develop multiple categories of services, e.g. voice, data, converged solutions and others to allow all segments of the industry to participate in direct competition with the traditional long distance carriers.
- If desired, some of the standard commodity based service offerings could be placed on GSA schedules.
- Allow vendors to limit their offerings to the geographies where they provide services, with the opportunity to expand them during the life of the contract.
- Allow vendors to bill all customers directly without going through GSA.

- Reduce the number of government unique management, operations and billing requirements to allow vendors to use their commercial systems thereby reducing costs and risk for the government.
- Create a separate new technology insertion mechanism that allows for rapid contract modifications to add new technologies, as they are made available.

This approach does ensure that agencies with remote locations will have service providers available to meet their needs. Where agency offices are predominantly located in major cities with many potential providers, these vendors will be able to provide services at potentially lower rates. Since many new technology offerings are limited to major metropolitan areas, agencies will also be able to “pilot” new offerings for these sites, potentially minimizing transition issues and keeping pace with the current rapid technical changes. This approach allows more competition and provides the best value for the government customer. Many non-traditional long distance vendors will be able to provide service to the vast majority of the government customers if the requirement to provide complete geographic coverage domestically or internationally is removed. Verizon recommends GSA revise the original procurement to reflect the following categories of service and eliminate the ubiquitous requirement to reflect this market reality as follows:

<u>Category 1</u> – Circuit Switched Voice Global*	<u>Category 2</u> – Circuit Switched Voice Regional
Category 3 – Circuit Switched Voice International	Category 4 – Network Data Services – Frame & Cell Relay, Dedicated Transmission Services
Category 5 – Convergence, Combined and New Technologies/Solutions – Combined (Service Bundles), Virtual Private Network (VPN), Managed Network Services, Internet, Wireless, Remote & mobile users, VoIP	Category 6 - Management & Application Services – Conferencing, Security, Applications & Bus Operations Solutions, Outsourcing
Category 7 – Access Services	Category 8 – Satellite Services

- Category 1 can be selected by agencies that require a single vendor to provide a ubiquitous worldwide voice service for service continuity, all other categories are provided by vendors based on their geographic coverage or particular service capabilities.

### **Suggested Contract Term and Minimum Revenue Guarantees**

GSA requested that vendors suggest a contract term and a minimum revenue guarantee for the Universal procurement. Based on the government’s extensive custom management and operation requirements, the NetworX contract length should allow time

for industry to recover investments made to meet the government's unique requirements. This is especially true for non-traditional FTS vendors. Therefore, Verizon recommends that the contract term be for a total of ten years, with a five-year base period and five one-year options. The GSA should also consider awarding a minimum of four to six contracts in the various service categories to provide the government protection from the uncertainties of the ever-changing telecommunications environment.

Verizon recommends that the GSA consider very small minimum revenue guarantees, which are guaranteed payments to winning vendors. The GSA should let competition drive the price. Even with small minimum revenue guarantees, the GSA achieved extremely competitive pricing for their local services contracts: WITS2001 and MAAs. In lieu of establishing a large minimum revenue guarantee, GSA should allow the federal customer to choose vendor supplied pricing options, which are consistent with specific term lengths to obtain a better pricing. Term and volume plans with early termination liabilities are used very effectively in the commercial market to drive better prices and meet customer's specific needs. If the procurement allows for customers to choose pricing based on different term lengths, customers will still receive low prices for signing up for longer terms, and GSA will not have to worry about vendors meeting artificially established MRGs. Since Agencies tend to only transition between providers at the end of a contract period, they are already in effect committing to a de-facto term plan. Verizon understands that there will be issues to resolve regarding Indefinite Delivery Indefinite Quantity (IDIQ) contract terms and firm fixed pricing structures in this proposed term pricing approach, however, this modification will provide the government with the best price, utilize commercial practices, and eliminate risks of meeting large MRGs.

### **Suggested Evaluation Approach**

GSA should award on best value utilizing several evaluation criteria. While incumbency cannot be held as a disadvantage to new vendors, one specific portion of the criteria should address the vendor's proposed transition plan. Transition (moving services from one vendor to another) in the past has been difficult for the government and the contractors. If able to compete, there are vendors who currently provide a substantial portion of the government's existing local access service and have experience with transition. These vendors will have the line and circuit inventories to allow for a smooth transition with minimal disruptions. Other new vendors may offer new technologies to minimize service disruption. Transition planning should be key evaluation criteria for NetworX.

Given the volatility of the telecommunications market, an examination of a bidder's past performance as well as a true assessment of the bidders' financial resources and the ethics of their business dealings must weigh heavily in the evaluation criteria. The government must seek to ensure that only solvent corporations with firm financial positions are allowed to receive awards for this critical procurement. Corporations should also demonstrate their commitment to the federal market as well as demonstrate their funding

strategy and commitment to new technology insertion and expansion of their existing network infrastructure.

The GSA should require that vendor's operational and management systems be a part of the evaluation criteria given the level of customization required by the government for their provisioning, invoicing and network management systems. Though all requirements cannot be available at time of the evaluation, the government should use the Operational Capabilities Demonstrations (demonstrates that test the operational readiness of proposed systems) to make a risk assessment on the ability of the vendor to upgrade its current systems to meet government schedule.

### **General Comments on Suggested Pricing Approach for NetworX**

The pricing approach for NetworX must be geographically based to maximize competition and achieve price reductions. If GSA requires a single rate for ubiquitous access and transport within the continental United States, they effectively limit the competition to traditional long distance carriers only. Many non-traditional long distance vendors have local tariff access pricing structures and service delivery constraints, which limit their ability to offer a single ubiquitous flat rate, access price for each service type across the continental United States. Allowing pricing to be geographically based will ensure that the government receives the lowest possible pricing structure for the vast majority of its requirements. Pricing by city or state will allow more players into the competition and drive lower prices for the government.

Verizon supports the GSA's plan allowing vendors to utilize their existing state and local tariffs to the maximum extent possible. By allowing vendors to propose discounts from existing tariffs, GSA will reduce the administrative burden of adding new area codes, new exchanges and new service wiring centers, which continuously change throughout the life of the contract.

If GSA mandates universal pricing in this procurement, bidders will average their rates across multiple locations and likely penalize customers in larger cities where lower pricing is available. If GSA requires end-users to have single universal rates, they can internally create a universal pricing scheme using there government fee structure.

### **Proposed Service Incentives**

Verizon believes, and would recommend to GSA, that service incentives be included in the NetworX procurement to reward excellent performance by the winning vendors. Through the use of service incentives, GSA can ensure that vendors meet minimum performance requirements without financial penalties, while rewarding vendors that provide exceptional performance with financial rewards.

Verizon suggests that GSA consider inclusion of the following types of service incentives for network data services in the technical requirements:

- Quality of Service (QoS)
- Premium offer available with four (4) classes of service (voice, video, data and best effort)
- Operational and Performance Metrics including Mean Time to Repair (MTTR), Latency, Jitter, Throughput and Network Availability

Service incentives should be included as part of the evaluation criteria for the Management and Operations requirements. Examples of these incentives include service order completion, trouble ticket clearance, on-time billing, and level of electronic bonding with the Government. All of these areas combined provide a complete representation of the overall performance of the vendors in delivering quality service to the customer.

### **NetworX Service Offerings**

The service offerings under the NetworX procurement need to be consistent with trends in technology. The use of facsimile has substantially declined over the last several years. Various forms of broadband communications are becoming more readily available for teleworkers as well as Internet protocol - virtual private network (IP VPN) services. The use of managed service offerings is increasing dramatically as agencies lose senior personnel as a result of the aging of the federal workforce. The use of packet/frame technologies for the transport of circuit switched data services is a major industry trend. Moreover, the last few years have shown an increase in the use of packet/frame technologies to transport voice. The proposed mandatory services offerings may not reflect the needs of the agencies in the next few years as the procurement is being developed, awarded and transition begins. Coupled with the current geographic coverage requirements, users may in fact be discouraged to evolve their networks. Technology insertion (the addition of new technology during the contract's life) will be difficult if GSA implements the current structure of the procurement.

### **Billing - Government Unique versus Commercial Requirements**

With regards to the billing requirements, Verizon urges GSA to encourage the vendors to utilize existing commercial systems as they apply to billing. Telecommunications providers can bill the customer directly and take GSA out of the middle. Appropriate oversight and reconciliation processes can be provided by the carrier to ensure the government's fiduciary responsibilities are being met.

### **Transition Planning**

Transition is a key issue in determining the ultimate success of the NetworX program. Verizon strongly urges GSA to include transition planning as a significant factor in the

evaluation of potential NetworX offers. Verizon also suggests that GSA require each vendor to explain in their transition plans how they will deal with the various local service providers for acquiring their line and circuit inventories as well as determining the availability of access facilities for specific customer locations. Each winning NetworX vendor should be held accountable for the success of the transition process they manage and compliance with their transition plans.

Communications is crucial to a successful transition. Each vendor involved in the process as well as representatives from GSA and the end-user agencies should participate in a Transition Planning Integrated Process Team (IPT) that will be chartered to identify, escalate and resolve all issues impacting successful transition of services. Vendors should be given incentives to deliver quality services on time. Customers need to help minimize issues and work with vendors to establish achievable timelines so that 'customer not ready' concerns do not negatively impact the transition schedule. Web-enabled technologies are available to help solve some of the daily communications issues once the appropriate resources are identified and provided to participate in the Integrated Process Team.

Once the Integrated Process Team is put in place, vendors need to also identify service specific recovery contingency plans for each agency's transition. There are many issues, associated with areas like number portability, which are in reality difficult to reverse once a cutover begins. Vendors need to work diligently to identify these areas and ensure customers have a realistic assessment of the potential problems associated with major cutovers and a clearly defined procedure to follow when these problems arise. Vendors should be required to establish specialized technical teams to support specific service offerings for transition purposes to minimize service disruption. GSA and agency customers should consider having small-scale pilot transitions to test these processes and procedures before completing large-scale transitions. Additionally, CPE requirements need to be quickly established, particularly if agencies are using NetworX for leasing CPE to be used during transition. A rapid assessment of in-place inventory must occur shortly prior to or immediately post award. Agency personnel can share the results of this inventory assessment with their chosen vendor to help define site-specific cutover schedules.

## **Conclusion and Recommendations**

Verizon appreciates the opportunity to testify on the NetworX Acquisition strategy. Verizon respectfully requests that the following changes are made to the proposed acquisition strategy:

- Eliminate the distinction between NetworX Universal and NetworX Select and create a single NetworX Procurement with several service categories, allowing for multiple awardees within each category.
- Significantly reduce the number of mandatory and ubiquitous service offerings.

- Develop multiple categories of services, e.g. voice, data, converged solutions and others to allow all segments of the industry to participate in direct competition with the traditional long distance carriers.
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- Reduce the number of government unique management, operations and billing requirements to allow vendors to use their commercial systems thereby reducing costs and risk for the government.
- Create a separate new technology insertion mechanism that allows for rapid contract modifications to add new technologies, as they are made available.

Without these changes, Verizon believes that the Government will not receive the benefit of vigorous competition from many sectors of the telecommunications and information technology industry unnecessarily inhibiting the number and type of companies from effectively competing for the major portions of this procurement. This strategy will result in restricting competition, increased costs and not serve the interests of the government.

I thank you for allowing me to provide this testimony.