Testimony of Edward Morche, Senior Vice President, Federal Markets, Level 3 Communications
before the House Committee on Oversight and Government Reform
Thursday, May 20, 2010

Chairman Towns, Ranking Member Issa, and Members of the Committee, thank you for the opportunity to testify before your committee about the implementation of the Networx contract.

Level 3 Communications is one of the world's largest and most advanced internet service providers. Level 3 is consistently ranked as the most connected Internet Services Provider (ISP) in North America, Europe and Asia[1]. Level 3 operates a highly diversified fiber optic network that is state-of-the-art, secure, redundant and fully upgradeable. Level 3 provides telecommunications services to the federal government under a number of different contracts, including Networx Enterprise.

Three years ago, in March and May of 2007, the General Services Administration (GSA) announced the Networx contract awards replacing the FTS 2001 contracts which provide telecommunications services to the federal government. Networx is comprised of two separate contract vehicles— Networx Universal and Networx Enterprise. The intent of Networx Universal was to offer traditional telecommunications services, and was awarded to three carriers-- AT&T, Qwest and Verizon. The Networx Enterprise contract vehicle was originally focused on new Internet Protocol based, next generation services and was awarded to Level 3 Communications and Sprint, as well as the three Networx Universal carriers. Over time these two contracts have become virtually identical in terms of the range of services offered.

Mr. Chairman, you have properly identified the delay in transitioning from FTS 2001 to Networx as an urgent issue demanding oversight by your committee.

Today, 80 percent of federal government expenditures are still served on the FTS2001 contract three years after the first Networx awards were made[2]. According to GSA estimates, the federal government has lost $650-$750 million in potential savings by not transitioning to the cheaper Networx contract vehicles. Thus, the federal government faces additional losses unless the pace of transition is accelerated.

GSA's initial transition deadline was June, 2010 to coincide with the expiration of FTS2001 bridge contracts. However, GSA has already found it necessary to extend the target date to June, 2011. The 2011 target date will cost the government an additional $250-$350 million in potential savings. Considering that 46% of Fair Opportunity decisions are still outstanding[2] despite a target date of September 30, 2008, it seems highly unlikely that the June 2011 target date will be reached, resulting in additional delay and lost savings.

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[1] http://www.renesys.com/blog/2009/12/a-bakers-dozen-in-2009.shtml
[2] GSA Networx Day presentation http://www.gsanetworkservices.org/networxday/presentations/Krumbholz_Networx_Day_final.pdf

Broadly speaking, there are five (5) major work elements involved within the transition process.

Departments and agencies must:

      1. Obtain the current inventory of their services;
      2. Choose between the Networx Enterprise or Universal contracts;
      3. Convert their legacy inventory to Networx based CLINs (Contract Line Item Numbers);
      4. Conduct fair opportunity (either with the "unit pricer" or via SOW/RFP/RFQ);
      5. Evaluate the carrier responses.

Each one of these steps affects an agency's resources and has the potential to introduce delays to the process. It is the opinion of Level 3 Communications that these delays could be minimized through a combination of the following principles:

      a) Reduce department and agency workload where possible and outsource actions to the carriers;
      b) Parse out the services to be transitioned into smaller, narrower scopes;
      c) Eliminate as many decision points as possible.

Applying these principles to each of the transition process steps yields a number of recommendations:

For many departments and agencies obtaining an inventory of current services is a time consuming and difficult task. It is further exacerbated by the fact that services are continually evolving as the needs of departments and agencies change. As a result it is very challenging to assemble an inventory that is 100% complete and accurate.

Rather than seeking to establish a comprehensive inventory prior to transitioning services, departments and agencies could focus on gathering information that is easily available. Inventory could then be grouped by region, service, sub-agency, or location to facilitate a more manageable scope. This incremental approach to transition will also build necessary skills at every step in the process through repetition and experience.

For the first time ever, agencies are now required to choose between two contract vehicles – either Networx Enterprise or Networx Universal. In an effort to eliminate as many decision points as possible, departments and agencies could be instructed to use both contracts simultaneously or alternatively, they could be instructed to use the more competitive Networx Enterprise contract as the default contract vehicle.

The Networx program offers 51 services to departments and agencies. The technical specifications, features, performance and service level agreements that are common to both contracts are exactly the same (refer to Exhibit 1). For all intents and purposes, there are no differences between the two contracts except that Enterprise has more vendors and, for most services, lower prices. In fact, the Networx Enterprise contract supports 96 percent of the total number of services offered while Networx Universal has only 92 percent.

Despite the facts above, the vast majority of Fair Opportunity awards have been made under the Networx Universal contract[3]. Departments and agencies have generally not availed themselves of the greater choice of vendors afforded by Networx Enterprise, or in general, the lower costs.

There is ample evidence that Networx Enterprise benefits from the greater competition associated with having five available vendors, rather than just three. Departments and agencies continue to choose the less competitive and more expensive Networx Universal contract.

For instance, Level 3 Communications has been informed that the Defense Information Systems Agency (DISA) has chosen the Networx Universal contract to compete its requirement for Internet Protocol Services (IPS).

I have included in my testimony current (May 2010) Internet Protocol Service (IPS) pricing from the public Networx Unit Pricer http://releasedprices.networx.gov/. This table compares the pricing of Internet Protocol Service (IPS) on both contracts for a range of bandwidth options. Our analysis shows that departments and agencies can realize substantial savings by using the more competitive Networx Enterprise contract. As an example, departments and agencies can save 25 percent on the most the most frequently purchased bandwidth option (Dedicated T1).

Table 1: Pricing Comparison of Internet Protocol Service (IPS)
Networx Enterprise vs. Networx Universal

IPS	Networx Universal			Networx Enterprise				
	AT&T (Univ)	MCI (Univ)	Qwest (Univ)	AT&T (Ent)	Level3 (Ent)	MCI (Ent)	Qwest (Ent)	Sprint (Ent)
Ethernet 10M	$1,391	$1,341	$758	$1,391	**$534**	$1,341	$758	**$1,586**
Ethernet 100M	$5,029	$5,473	$4,391	$5,029	$2,504	$5,473	$4,391	**$1,947**
Ethernet 1G	$23,005	$25,656	$19,259	$23,005	**$11,556**	$25,656	$19,259	$23,176
Dedicated T1	$182	$229	$194	$182	**$136**	$229	$194	$171
Dedicated T3	$1,819	$1,945	$1,731	$1,819	**$1,517**	$1,945	$1,731	$1,642
Dedicated OC3	$5,885	$5,423	$3,778	$5,885	$4,478	$5,423	**$3,778**	$5,046
Dedicated OC12	$14,980	$13,804	$9,574	$14,980	$11,980	$13,804	**$9,574**	$13,390
Dedicated OC48	$53,500	$41,277	$44,370	$53,500	**$33,705**	$43,870	$44,370	$39,593
Dedicated OC192	$267,500	$170,227	$110,926	n/a	**$96,568**	$243,840	$110,926	$157,307

The lowest cost provider for each bandwidth option is highlighted in yellow. This shows that for all bandwidth options considered, the 5 vendors on the Enterprise contract offer the same or better pricing than the 3 vendors on the Universal contract.

The cost savings benefit exhibited for Internet Protocol Service (IPS) on Networx Enterprise is repeated for service after service. I have also included in my testimony current pricing for Network Based Internet Protocol Virtual Private Network Service (NB-IPVPNS) – one of the most popular data services that departments and agencies purchase for their internal Wide Area Networks (WAN) requirements.

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[3] http://www.gsa.gov/graphics/fas/TransitionStatusToNetworxFTS2001Feb2010.ppt

Table 2: Pricing Comparison of Network Based
Internet Protocol Virtual Private Network Service (NB-IPVPNS)
Networx Enterprise vs. Networx Universal

NB-IPVPN	Networx Universal			Networx Enterprise				
	AT&T (Univ)	MCI (Univ)	Qwest (Univ)	AT&T (Ent)	Level3 (Ent)	MCI (Ent)	Qwest (Ent)	Sprint (Ent)
Ethernet 10M	$1,241	$1,092	$871	$1,241	**$705**	$1,092	$871	$1,343
Ethernet 100M	$5,136	$3,196	$4,012	$5,136	$3,483	**$3,196**	$4,012	$3,721
Ethernet 1G	$23,540	$19,552	$19,720	$23,540	**$16,917**	$19,552	$19,720	$23,035
Dedicated T1	$192	$219	$223	$192	**$144**	$219	$223	$181
Dedicated T3	$1,919	$1,898	$2,024	$1,919	**$1,439**	$1,898	$2,024	$1,732
Dedicated OC3	$6,209	$4,955	$4,353	$6,209	**$4,179**	$4,955	$4,353	$5,316
Dedicated OC12	$15,239	$12,161	$10,481	$15,239	$11,941	$12,161	**$10,481**	$13,754
Dedicated OC48	$53,500	$44,298	$49,974	$53,500	**$39,002**	$44,298	$49,974	$47,842
Dedicated OC192	n/a	$165,121	$124,934	n/a	**$98,632**	$165,121	$124,934	n/a

The lowest cost provider for each bandwidth option is highlighted in yellow. This shows that for all bandwidth options considered, the 5 vendors on the Enterprise contract offer the same or better pricing than the 3 vendors on the Universal contract.

Based on Level 3 Communication's analysis of the publically available pricing information, making Networx Enterprise the default contract could save the government an incremental $1 billion over the 10 year life of the contract.

The third step in the transition process is converting legacy inventory information to the Networx CLIN structure. All five of the Networx carriers have personnel with expertise in taking basic network configuration information and putting that into the framework that is required to provide a quote under Networx. Therefore this transition activity could easily be outsourced to the carriers.

In regards to the fair opportunity process, departments and agencies could eliminate the decision on whether or not to use the unit pricer by issuing SOWs/RFPs/RFQs to all five of the Networx carriers and let the carriers do the work of putting together the best priced solutions to meet the government's needs. This approach has the added benefit of ensuring that all the carriers are actively engaged in pricing the services that are needed and it encourages the carriers to be more aggressive and responsive to the needs of the government.

Delays in the evaluation phase of transition can be reduced by making the award process simpler and establishing "lowest price" as the single and only decision criterion. The goal of transition is to move services on a like-for-like basis from FTS2001 to Networx as quickly as possible. All five Networx carriers have been vetted by GSA and offer the same set of well defined services with common service level agreements. As a result, departments and agencies could use a simplified decision criterion to make their selection. This would eliminate much of the complexity present in the evaluation phase of the transition process.

In closing, Level 3 Communications believes that each step in the transition process could be accelerated in the following ways:

1. Parsing out the legacy service inventories into smaller pieces.
2. Making Networx Enterprise the default contract or issuing all requirements on both contracts simultaneously.
3. Using the expertise that exists within the carriers to translate legacy service information into Networx CLINS.
4. Issuing all requirements as SOWs/RFPs/RFQs.
5. Establishing "lowest price" as the sole decision criterion for transition.

Level 3 Communications would like to thank the Committee for the opportunity to testify and we look forward to answering any questions.

Exhibit 1
Service Comparison: Networx Universal vs Networx Enterprise

	Universal	Enterprise
Telecommunications Services		
Communications Transport		
Voice	Y	Y
Circuit Switched Data	Y	Y
Toll-Free	Y	Y
Combined	Y	Y
Private Line	Y	Y
Frame Relay	Y	Y
Asynchronous Transfer Mode	Y	Y
Ethernet	Y	Y
IP Based		
Premise Based IP VPN	Y	Y
Network Based IP VPN	Y	Y
Voice over IP Transport	Y	Y
Content Delivery Network	Y	Y
Converged IP	Y	Y
IP Telephony	Y	Y
Internet Protocol	Y	Y
IP Video Transport	Y	Y
Layer 2 VPN	Y	Y
Optical		
Synchronous Optical Network	Y	Y
Optical Wavelength	Y	Y
Dark Fiber	Y	Y
Wireless Services		
Cellular PCS	Y	Y
Multimode Wireless	Y	Y
Cellular Digital Packet Data	Y	Y
Paging	Y	Y
Management and Application Services		
Video Teleconferencing	Y	Y
Managed Network	Y	Y
Audio Conferencing	Y	Y
Teleworking Solutions	Y	Y
Call Center/Customer Contact Center	Y	Y
Web Conferencing	Y	Y
Dedicated Hosting	Y	Y
Collocated Hosting	Y	Y
Storage	Y	Y
Customer Specific Design and Engineering	Y	Y
Unified Messaging	Y	Y
Collaboration Support	Y	Y
Internet Facsimile	Y	Y
Security Services		
Managed Firewall	Y	Y
Intrusion Detection and Prevention	Y	Y
Managed E-Authentication	Y	Y
Vulnerability Scanning	Y	Y
Anti-Virus Management	Y	Y
Incident Response	Y	Y
Secure Managed Email	Y	Y
Managed Tiered Security	Y	Y
Special Services		
Land Mobile Radio	Y	Y
Mobile Satellite	Y	N
Fixed Satellite	Y	N
Access Services		
Wireline Access	N	Y
Broadband Access	N	Y
Wireless Access	N	Y
Satellite Access	N	Y