

**BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION**

Petition of US LEC OF FLORIDA INC. )  
For Arbitration with Verizon-Florida, Inc. )  
Pursuant to 47 U.S.C. § 252(b) of the )  
Communications Act of 1934, as amended )  
By the Telecommunications Act of 1996 )  
\_\_\_\_\_ )

Docket No. 020412-TP

Filed: September 26, 2002

**REBUTTAL TESTIMONY OF FRANK R. HOFFMANN, JR.  
ON BEHALF OF US LEC OF FLORIDA INC.**

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1 Q: PLEASE STATE YOUR NAME FOR THE RECORD.

2 A: My name is Frank R. Hoffmann, Jr.

3 Q: ARE YOU THE SAME FRANK R. HOFFMANN, JR. WHO FILED  
4 DIRECT TESTIMONY IN THIS DOCKET ON AUGUST 2, 2002?

5 A: Yes.

6 Q: WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

7 A: The purpose of my testimony is to address the arguments raised by Verizon's  
8 witness Peter J. D'Amico concerning Issues 1 and 2 in US LEC's arbitration  
9 petition.

10 Q: DO YOU AGREE WITH VERIZON'S CHARACTERIZATION OF  
11 ITS VIRTUAL IP PROPOSAL AS A COMPROMISE (D'AMICO  
12 DIRECT AT 4-5)?

13 A: No. As the text of the Verizon contract language shows, its proposals  
14 *require* US LEC to pay for all of Verizon's originating transport costs,  
15 beginning at Verizon's originating end office switch, if US LEC declines  
16 Verizon's "request" to establish *collocated* physical IPs. Under Verizon's  
17 proposal, US LEC would be forced to bear the cost of both parties'  
18 originated traffic. Shifting all of this financial responsibility to US LEC is  
19 definitely not a compromise because Verizon provides US LEC nothing in  
20 exchange for assuming this burden. Further, as I understand it, Verizon's  
21 "compromise" simply does not comply with the requirements of the Act as  
22 interpreted by the FCC or this Commission's recent order in Docket No.  
23 000075-TP. As Ms. Montano discusses in more detail, the Commission's

1 recent order confirms that VGRIPs does not comply with Verizon's  
2 obligations under federal law. In short, Verizon would force US LEC to  
3 either establish multiple physical *collocated* IPs or assume financial  
4 responsibility for *all* of Verizon's transport obligations. This shifting of  
5 financial responsibility is what I've termed the "transport penalty."

6 **Q. US LEC ASKED VERIZON TO CALCULATE THE TRANSPORT**  
7 **PENALTY THAT WOULD APPLY IF US LEC DID NOT**  
8 **ESTABLISH THE PHYSICAL IPs REQUIRED UNDER VGRIPs. DO**  
9 **YOU AGREE WITH THE ASSUMPTIONS THAT VERIZON USES**  
10 **AS THE BASIS FOR ITS CALCULATION?**

11 **A:** No. In response to US LEC's Interrogatory No. 5, Verizon assumes "that no  
12 tandem switching is performed and no other costs are incurred." This is  
13 highly improbable, as Verizon would only impose its transport penalty if US  
14 LEC did not establish *collocated* IPs at Verizon's tandems (or chose not to  
15 identify an established US LEC end office collocation arrangement as an IP).  
16 Since US LEC does not currently collocate at Verizon's end offices,  
17 Verizon's implementation of their transport penalty would only occur if US  
18 LEC established either non-collocated POIs at Verizon's tandem(s) (as US  
19 LEC does today), or chose a technically feasible POI at a location other than  
20 Verizon's tandem(s). Therefore, Verizon's originated traffic will always be  
21 tandem switched. The only possible exception to Verizon tandem switching  
22 all traffic bound for US LEC's network is in the rare case of when Verizon  
23 originates in excess of 200,000 minutes-of-use per month from a specific

1 Verizon end office to US LEC. Therefore, if the cost of tandem switching is  
2 included in the transport penalty that US LEC would incur under VGRIPs  
3 (under US LEC's current network architecture), the revised calculation  
4 demonstrates that Verizon would deprive US LEC of approximately 87% of  
5 the reciprocal compensation rate.

6 **Q: PLEASE EXPLAIN YOUR UNDERSTANDING OF HOW THIS**  
7 **TRANSPORT PENALTY WOULD BE CALCULATED IF THE**  
8 **COMMISSION WERE TO ADOPT VERIZON'S PROPOSAL.**

9 **A:** My understanding of Verizon's proposed transport penalty, which is included  
10 in sections 7.1.1.1.1, 7.1.1.2, and 7.1.1.3 of the Interconnection Attachment,  
11 is that first, US LEC shall bill and Verizon shall pay only the lesser of the  
12 negotiated intercarrier compensation rate for relevant traffic or the end office  
13 rate. As an initial matter, there is no "negotiated intercarrier compensation  
14 rate" in the contract. However, there are two reciprocal compensation rates  
15 in the interconnection agreement. First, there is a rate for traffic that US  
16 LEC originates for termination on Verizon's network through their tandem,  
17 which is called the tandem reciprocal compensation rate. There is also an  
18 end office reciprocal compensation rate, which is lower, for traffic directly  
19 terminated at a Verizon end office. Based on the FCC rule concerning  
20 tandem treatment of an ALEC's switch (47 C.F.R. § 51.711(a)(3)), US LEC  
21 is compensated at the tandem reciprocal compensation rate for traffic it  
22 terminates for Verizon.

1           Today, all of our originating traffic terminates to Verizon's access  
2 tandems.       Therefore, US LEC pays Verizon the tandem reciprocal  
3 compensation rate. Under the FCC's tandem treatment rule, Verizon pays  
4 US LEC the same tandem reciprocal compensation rate. However, when  
5 applying the transport penalty, Verizon ignores the FCC rule right off the bat  
6 and is immediately going to pay US LEC only the lower end office rate. So  
7 that is the first step by which Verizon penalizes US LEC for not conforming  
8 to Verizon's preferred physical network interconnection architecture.

9   **Q:   WHAT ARE THE NEXT STEPS?**

10   **A:**   The next step is that Verizon will deduct a transport rate, multiplied by the  
11 mileage between their originating end office and US LEC's IP. They have  
12 told us that they will use their UNE rates for this (D'Amico Direct at 15), but  
13 that is not specified in their contract language.

14           The next step would be deducting the tandem switching rate, to the  
15 extent the traffic is tandem switched. As I explained above, Verizon will  
16 almost always switch their originating traffic through their tandem before  
17 handoff to US LEC, so this rate deduction also applies. Again, Verizon  
18 claims that they will use their UNE rate, but that is not explicitly stated in  
19 their contract proposal. Finally, Verizon adds "other costs" to its transport  
20 penalty. To the extent Verizon buys something—a facility or a service—  
21 either from US LEC or a third party, Verizon also deducts that cost from the  
22 compensation rate Verizon pays US LEC. These "other costs" are definitely  
23 not UNE rates. US LEC has no control over the appropriateness of the other

1 third-party costs that Verizon may choose to incur in order to transport their  
2 traffic to US LEC.

3 **Q: VERIZON CLAIMS THAT US LEC WILL NOT ACCEPT VERIZON-**  
4 **ORIGINATED TRAFFIC AT THE POIs US LEC HAS**  
5 **ESTABLISHED ON VERIZON’S NETWORK (D’AMICO DIRECT**  
6 **AT 17). PLEASE RESPOND.**

7 **A:** Verizon is correct with respect to the POIs US LEC has agreed to establish at  
8 a Verizon end office. However, US LEC is willing to accept Verizon-  
9 originated traffic at the POIs US LEC has already established at Verizon’s  
10 tandems so long as Verizon continues to compensate US LEC, via a non-  
11 distance sensitive entrance facility charge, for providing the transport  
12 between the POI and US LEC’s switch. It is my understanding that the FCC  
13 Wireline Competition Bureau (“Wireline Bureau”) recently confirmed that it  
14 is entirely appropriate for an ALEC to charge an ILEC for the use of this  
15 facility because it is being used to deliver the ILEC’s traffic to the ALEC’s  
16 network.<sup>1</sup>

17 **Q: MR. D’AMICO STATES THAT VERIZON WANTS TO DELIVER**  
18 **ITS TRAFFIC TO US LEC AT A MORE CENTRAL LOCATION**  
19 **(D’AMICO DIRECT AT 4). PLEASE RESPOND.**

20 **A:** Verizon is aggregating and delivering its traffic to US LEC at a central  
21 location today – US LEC’s switch. As I understand Mr. D’Amico’s

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<sup>1</sup> *Petition of WorldCom, Inc. Pursuant to Section 252(e)(5) of the Communications Act for Preemption of the Jurisdiction of the Virginia State Corporation Commission Regarding Interconnection Disputes with Verizon Virginia Inc., and for Expedited Arbitration, CC Docket Nos.*

1 testimony, however, he does not equate “central location” with “single  
2 location.” Rather, by “central location,” what he really means is at Verizon’s  
3 tandem switches; via collocation no less!

4 **Q: DO YOU KNOW WHY VERIZON’S VGRIPs PROPOSAL**  
5 **REQUIRES US LEC TO USE A COLLOCATION ARRANGEMENT**  
6 **TO ESTABLISH AN IP AT VERIZON’S TANDEMS?**

7 **A:** No. In our interrogatories (No. 9), we asked Verizon to explain the financial,  
8 technical, or other reasons why US LEC could not meet its VGRIPs  
9 obligation by establishing an IP through a means other than collocation. In  
10 its response, Verizon offers no explanation of why VGRIPs requires a  
11 collocated IP. In fact, at an earlier stage in negotiations, Verizon offered US  
12 LEC a slightly different, and more onerous proposal known as  
13 Geographically Relevant Interconnection Points (“GRIPs”). Under GRIPs  
14 US LEC would be permitted to choose the type of physical IP  
15 (Interconnection Attachment, Section 2.1.3), but would be forced to establish  
16 a physical IP in every Verizon local calling area. This further indicates the  
17 anticompetitive nature of Verizon’s proposals, both GRIPs and VGRIPs,  
18 which are designed to foist unnecessary costs on US LEC and to improve  
19 Verizon’s bottom line through increased collocation revenues.

20 Verizon’s response to our Interrogatory No. 9 states that they would  
21 be willing to consider a proposal from US LEC that includes multiple  
22 interconnection options. As I stated earlier, US LEC is willing to allow

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00-218 *et al.*, Memorandum Opinion and Order, DA 02-1731, ¶¶ 66, 68 (Wireline Competition Bureau, rel. July 17, 2002) (“*FCC Arbitration Order*”).

1 Verizon to deliver its traffic to US LEC at POIs US LEC has established at  
2 Verizon tandems via entrance facilities, provided that (1) US LEC does not  
3 have to change its established method of interconnection at Verizon's  
4 tandems and (2) Verizon continues to compensate US LEC for a non-distance  
5 sensitive entrance facility, at the rate contained in Verizon's own state access  
6 tariff, to transport Verizon's traffic from the POI to US LEC's switch.

7 **Q: MR. D'AMICO SUGGESTS THAT US LEC HAS "MISREAD"**  
8 **VERIZON'S PROPOSED CONTRACT LANGUAGE (D'AMICO**  
9 **DIRECT AT 15, 16). PLEASE RESPOND.**

10 **A:** US LEC has not misread Verizon's proposed contract language. Mr.  
11 D'Amico may not agree with US LEC's position, or with the words I use to  
12 describe their proposed contract language. Verizon prefers words like  
13 "choice" and "may refuse" and "significant compromise." But the bottom  
14 line is that through VGRIPs, Verizon would force US LEC to "choose"  
15 between one of two equally unacceptable options. US LEC would either  
16 have to establish multiple physical connections to Verizon's network, at  
17 locations dictated by Verizon and using methods dictated by Verizon, or  
18 relieve Verizon of its current financial responsibility for transporting  
19 Verizon's customers' traffic. In other words, US LEC must either establish  
20 and pay for the physical network architecture Verizon prefers today, or pay  
21 to transport all of Verizon's originating traffic, including transport within the  
22 local calling area, beginning at Verizon's end office switch where the call  
23 originated.



1 **Q: VERIZON ARGUES THAT ITS COST-SHIFTING PROPOSALS ARE**  
2 **JUSTIFIED BECAUSE US LEC'S PROPOSAL IS EXPENSIVE**  
3 **(D'AMICO DIRECT AT 12). DO YOU AGREE?**

4 **A:** No. As I mentioned in my direct testimony, there are a number of factors  
5 that contribute to the cost of interconnecting two networks, including  
6 available facilities, traffic volume, and distance. At this point, there is  
7 nothing in the record to suggest that US LEC's proposal results in an  
8 "expensive" form of interconnection.

9 **Q: DO YOU HAVE AN OPINION ON THE COSTS VERIZON INCURS**  
10 **TO TRANSPORT ITS ORIGINATING TRAFFIC TO US LEC?**

11 **A:** Yes, I assume that the costs are de minimis.

12 **Q: WHY DO YOU ASSUME VERIZON'S COSTS ARE DE MINIMIS?**

13 **A:** First, I understand that in its recent order in Docket No. 000075-TP, the  
14 Commission found that the ILECs' costs of originating traffic to a single POI  
15 per LATA were de minimis. I have not seen any factual evidence presented  
16 by Verizon in this proceeding to the contrary. Second, for the same rates  
17 paid by its end user, Verizon transports traffic within its local calling area,  
18 and perhaps even through a Verizon tandem switch, when a Verizon  
19 customer calls another Verizon customer in the same local calling area.  
20 Third, as the incumbent carrier, Verizon already had a ubiquitous network in  
21 place prior to US LEC's entry in the Tampa market and I've seen no  
22 evidence from Mr. D'Amico that Verizon had to build new facilities solely to  
23 exchange traffic with US LEC. Fourth, US LEC only charges a non-

1 distance sensitive entrance facility rate to carry Verizon's originating traffic  
2 back to US LEC's switch, thus eliminating any concern about the distance  
3 between Verizon's existing network (*i.e.* its tandems) and US LEC's switch.

4 **Q: YOU MENTIONED THAT VERIZON DELIVERS TRAFFIC**  
5 **BETWEEN TWO VERIZON END USERS FOR THE SAME RATE.**  
6 **CAN YOU PLEASE EXPLAIN WHY THIS IS IMPORTANT?**

7 **A:** There are a variety of sources of revenue that compensate Verizon for  
8 carrying traffic that its customers originate, including its local rates, explicit  
9 universal service subsidies and implicit subsidies from other above-cost rates  
10 such as toll and vertical services. Verizon has not presented any evidence on  
11 either its costs or its revenues to support its allegations that it incurs  
12 "uncompensated costs" to interconnect with US LEC under the parties'  
13 current architecture (D'Amico Direct at 12-14). Thus it is entirely possible  
14 that even if Verizon's costs of transporting its customers' originating traffic  
15 are not de minimis, Verizon may already have been compensated for those  
16 costs through the rates it charges its end users for the services they purchase.  
17 Verizon will transport traffic within the local calling area, and perhaps even  
18 through a tandem switch, when a Verizon end user calls another Verizon end  
19 user, but it is not willing to do the same at no cost to US LEC unless US LEC  
20 establishes Verizon's preferred physical network architecture. I believe this  
21 discriminates against US LEC and US LEC's customers and also shows that  
22 Verizon is trying to impose on US LEC costs for which Verizon may already  
23 receive compensation.

1 Q: DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

2 A: Yes.