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August 2, 2002

VIA HAND DELIVERY

Ms. Blanca Bayo, Director
Commission Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard, Room 110
Betty Easley Conference Center
Tallahassee, FL 32399-0850

Re: Docket No. 020412-TP

Dear Ms. Bayo:

Enclosed herewith for filing in the above-referenced docket are the original and fifteen copies of the Prefiled Direct Testimony of Frank R. Hoffmann, Jr.

* Also enclosed is a diskette containing the Prefiled Direct Testimony of Frank R. Hoffmann, Jr. This testimony is in WordPerfect format.

Please acknowledge receipt of these documents by stamping the extra copy of this letter "filed" and returning the copy to me.

Thank you for your assistance with this filing.

Sincerely,

Martin P. McDonnell

Martin P. McDonnell, Esq.

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Enclosures

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*Diskette not included
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the foregoing Prefiled Direct Testimony of Frank R. Hoffmann, Jr. was served on the following individuals by U.S. Mail this 2nd day of August, 2002.

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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	)	**Docket No. 020412-TP**
Communications Act of 1934, as amended	)	
By the Telecommunications Act of 1996	)	**Filed: August 2, 2002**
	)	

PREFILED DIRECT TESTIMONY OF FRANK R. HOFFMANN, JR. ON BEHALF OF US LEC OF FLORIDA INC.

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Q: PLEASE STATE YOUR NAME, TITLE, AND ADDRESS FOR THE RECORD.

A: My name is Frank R. Hoffmann, Jr. I am Senior Interconnection Manager for US LEC Corp., the parent company of US LEC of Florida Inc. ("US LEC"), and its operating subsidiaries, including the Petitioner in this proceeding. My business address is 6801 Morrison Blvd., Charlotte, NC 28211.

Q: PLEASE DESCRIBE YOUR RESPONSIBILITIES FOR US LEC.

A: My responsibilities include directing and coordinating all activities related to US LEC's Local Interconnection and Termination Agreements and the management of these agreements and relationships with local carriers, and industry organizations. I am charged with ensuring that these agreements address and support the financial and technological goals of the company for local service. My specific duties include actual contract negotiations, staff support for these finalized agreements, day-to-day coordination and point of escalation of service/billing affecting issues surrounding these agreements.

Q: PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A: I received a Bachelor of Science degree and a Masters of Business Administration degree from the University of Maryland, College Park, Maryland in 1986 and 1988, respectively. I was employed by Bell Atlantic, Inc., in Arlington, Virginia, from 1988 through 1996. During that period I held various positions within Service Costs, External Affairs, Carrier Relations, Marketing and Finance. My responsibilities during this period included cost of service studies, rate development and tariff administration, performance metrics, sales compensation, product management and interconnection agreement negotiations. From 1996 through 1998, I worked for Teleport Communications Group, in Baltimore, Maryland, and negotiated interconnection agreements and managed its relationship with BellSouth. In 1998, Teleport was acquired by AT&T, where I was responsible for establishing collocation, interconnection trunking and E911 networks. In 1999, I went to work for TriVergent Communications, in Greenville, South Carolina, where I was responsible for all outside plant infrastructure build-out within ILEC central offices. In 2001, I joined a voice-over-IP telecommunications company, Cbeyond, Inc. My responsibilities included equipment engineering, vendor selection, procurement and inventory. In 2002, I came to US LEC, in Charlotte, North Carolina, to work in Industry Affairs, where I am currently employed.

Q: HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION?

A: Yes. While at Teleport Communications Group, I testified before this Commission during the hearing on BellSouth's Section 271 application. In addition, I have previously testified before the North Carolina Utility Commission, the Massachusetts Department of Telecommunications and Energy, and the Pennsylvania Public Utility Commission.

Q: HAVE YOU PARTICIPATED IN US LEC's INTERCONNECTION NEGOTIATIONS WITH VERIZON?

A: Yes, I participated in the negotiating sessions. In addition, I have reviewed the points of contention raised during the negotiations to ensure their consistency with US LEC's network planning and design priorities.

Q: PLEASE PROVIDE AN OVERVIEW OF YOUR TESTIMONY.

A: My testimony will address the technical, or network, perspective on Issues 1 and 2 in US LEC's arbitration petition. I will explain how US LEC's single Interconnection Point ("IP") per Local Access and Transport Area ("LATA") proposal in Florida appropriately balances the financial responsibility of each party and is technically feasible, already utilized by the parties in their current network interconnection architecture, and consistent with sound engineering practices.

Q: BEFORE ADDRESSING EACH ISSUE, PLEASE PROVIDE BACKGROUND ON US LEC'S NETWORK ARCHITECTURE.

A: The US LEC network is composed of advanced digital switches from Lucent Technologies Inc. US LEC has a Lucent 5ESS AnyMedia digital switch deploying advanced switching technology that functions as an intraLATA local switch. US LEC uses the "Smart Build" strategy of owning and operating its own digital switching centers while leasing the necessary fiber transport from various network providers across its footprint. US LEC invests time, money and resources into owning and operating our own network because we believe that the quality and reliability of our network translates into improved operations, products and services that we deliver to our customers.

US LEC typically serves a market, or markets, by deploying a single switch and leasing transport. This transport takes the form of point-to-point circuits and fiber ring facilities. Because US LEC's switch supports both line and trunk connections, the transport is used to provide interconnection with both the ILEC and US LEC's customers' local loops. With this network architecture, US LEC takes advantage of decreased transport costs to provide service over a large area with a single switch. For example US LEC has a single switch in Verizon's service territory in the Tampa area. This switch currently serves the Tampa LATA and numerous local calling areas within that LATA.

Q: PLEASE CONTRAST US LEC'S NETWORK ARCHITECTURE WITH VERIZON'S.

A: In contrast to US LEC's architecture, Verizon's network uses a large number of switches, each serving a relatively small area. Rather than interconnect at every Verizon end office, US LEC interconnects with Verizon's access network that is designed as a hub and spoke network architecture in which traffic from a group of end offices is aggregated and collected at a tandem. Thus, a call from a US LEC customer to a Verizon customer must travel through a tandem switch to reach a Verizon customer or be directly routed to the Verizon end office switch serving that customer. US LEC cannot deliver a call for any Verizon customer to a particular end office except the small number of customers for whom Verizon has established service from that switch. Verizon's local network is comprised of multiple end office connections between each and every end office and may also include one or more local tandems used to control traffic congestion. This local network is typically referred to as a spider web network architecture in which traffic can be routed directly from an end office to any other end office without the use of a tandem.

ISSUES 1 AND 2 (Glossary, Section 2.45; Interconnection Attachment, Sections <u>7.1.1.1, 7.1.1.1.1, 7.1.1.2, 7.1.1.3)</u>

Q: PLEASE SUMMARIZE THE DISPUTE BETWEEN US LEC AND VERIZON CONCERNING INTERCONNECTION POINTS.

A: In order for US LEC and Verizon to exchange traffic between their respective customers, they must interconnect their networks. The physical points at which they perform the connection are called Points of Interconnection or "POIs" under Verizon's defined terms. The billing points that distinguish the financial responsibility of each Party are called Interconnection Points or "IPs" under Verizon's defined terms. Issues 1 and 2 relate to the number of IPs that US LEC must establish and how and where US LEC must establish them. US LEC has agreed, in its negotiations with Verizon, to establish multiple POIs in every LATA in which it interconnects with Verizon. US LEC has agreed to establish POIs at every Verizon access tandem within each LATA where it assigns local numbers, and, additionally, US LEC has agreed to establish direct end office trunking to each Verizon end office where US LEC delivers at least 200,000 minutes of use ("MOU") per month. US LEC has also agreed that Verizon may designate multiple Verizon-IPs, one at each tandem in a LATA. However, the parties have been unable to agree on the location and number of US LEC-IPs.

The location and number of IPs has competitive and operational/service implications, and is governed by the legal framework established in the Telecommunications Act of 1996 ("1996 Act"). My testimony addresses the financial and operational/service implications of multiple IPs while Wanda Montano will provide testimony concerning the legal and competitive policy framework that makes Verizon's position untenable. The Commission must consider all of these factors in making its determination on this issue. The Commission must also take into consideration the fact that Verizon, or at least Verizon's customers, benefit from interconnection that is reasonable and fair because it permits their customers to reach ours.

Q: IS IT TECHNICALLY FEASIBLE FOR VERIZON TO INTERCONNECT WITH US LEC VIA A SINGLE US LEC-IP IN THE MANNER THAT US LEC IS PROPOSING?

A: Yes, as is evidenced by the fact that the parties operate using this architecture today.

Q: SO US LEC IS ALREADY INTERCONNECTED WITH VERIZON IN FLORIDA?

A: Yes. After investing a substantial amount of personnel and financial resources in planning and engineering the interconnection architecture, the parties executed an interconnection agreement and interconnected in the Tampa LATA in 1998.

Q: DOES US LEC MAINTAIN A SINGLE US LEC-IP IN THE LATA IN WHICH US LEC PROVIDES SERVICE?

A: Yes, US LEC offers service in the Tampa LATA and maintains a single US LEC-IP. US LEC delivers its originating traffic to the Verizon-IPs via its point-to-point circuits that connect US LEC's switch to Verizon's tandems. Additionally, US LEC has agreed that where it delivers at least 200,000 minutes of use per month to a Verizon end office, it will deliver such traffic to that end office via direct end office trunks it purchases from Verizon, or via a third party transport provider. Similarly, Verizon is financially responsible for delivering its originating traffic to the US LEC-IP. It is my understanding that Verizon has three tandems in the Tampa LATA, all of which are located within the same building, which is one-third of one mile from US LEC's switch. US LEC has established POIs at two of those tandems where US LEC has numbers and has been assigned NXX codes. US LEC purchases an OC-48 entrance facility from Verizon as its method of interconnection to those tandems.

After accepting Verizon South's traffic at the POIs, US LEC transports that traffic over the same OC-48 entrance facility back to US LEC's switch and bills Verizon a non-distance sensitive entrance facility charge for providing that transport. It is my understanding that the FCC Wireline Competition Bureau ("FCC Bureau") recently confirmed that it is entirely appropriate for an alternative local exchange telecommunications company ("ALEC") to charge an ILEC for the use of this facility because it is being used to deliver the ILEC's traffic to the ALEC's network.[1]

Q: **PLEASE SUMMARIZE YOUR UNDERSTANDING OF VERIZON'S IP PROPOSALS.**

A: Verizon calls its IP proposal "Virtual Geographically Relevant Interconnection Points" or "VGRIPs." Through VGRIPs, Verizon is trying to dictate the physical manner in which US LEC establishes its chosen IP. Verizon attempts to dictate US LEC's physical network architecture by giving US LEC the "option," under Verizon-proposed Section 7.1.1.1, of establishing a US LEC-IP through collocation at each Verizon tandem and other wire centers designated by Verizon (so-called "option one"). Similarly, Verizon attempts to dictate US LEC's physical network architecture by giving US LEC the "option," under Verizon-proposed Section 7.1.1.2, of designating a US LEC end office collocation arrangement as a US LEC-IP (so-called "option two"). Even though the parties have operated under our existing network architecture for nearly four years, VGRIPs would give Verizon the right to request that US LEC alter the existing architecture and would require that US LEC agree to the new architecture within thirty days (Section 7.1.1.3).

Verizon calls these "options" because VGRIPs gives US LEC the right to decline Verizon's requests to establish these new collocated IPs.

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[1] *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. 00-218 *et al.*, Memorandum Opinion and Order, DA 02-1731, ¶¶ 66, 68 (Wireline Competition Bureau, rel. July 17, 2002) ("*FCC Arbitration Order*").

However, if US LEC exercises this right, the so-called "option three" of VGRIPs shifts the financial responsibility for transporting all of Verizon's originating traffic, beginning at the Verizon *end office*, from Verizon to US LEC. Thus in one way or another, adoption of VGRIPs would dictate US LEC's physical interconnection architecture and establish financial penalties for non-compliance at Verizon's sole discretion. And, if US LEC establishes end office interconnections via collocation at any of Verizon's end offices in the Tampa LATA, and elects not to utilize the end office collocation to exchange traffic with Verizon, VGRIPs would force US LEC to pay for the transport of Verizon's originating traffic *within the local calling area.*

Q: WHY DOES US LEC OBJECT TO CHANGING THE PARTIES' EXISTING ARCHITECTURE?

A: First, the parties have invested a lot of time and resources to plan and implement the existing architecture and US LEC does not believe that Verizon should have the power to change that architecture at its sole discretion. Rather, the parties should mutually agree to any changes in existing network architecture and such changes should be implemented under a mutually agreeable timeframe. The arbitrary and unreasonable thirty (30) day period proposed by Verizon to reach such agreement is not enough time to complete such negotiations and deprives US LEC of bargaining power to negotiate a mutually agreeable time to complete the transition. Second, in order to prevent any disruptions to existing customers, it is important that existing network facilities not be disturbed as the successor agreements are implemented.

Q: WHY DOES US LEC PREFER TO MAINTAIN THE EXISTING ARCHITECTURE RATHER THAN ADOPT THE NEW ARCHITECTURE PROPOSED BY VERIZON IN CONTRACT NEGOTIATIONS?

A: As I mentioned, US LEC currently maintains a single US LEC-IP in the Tampa LATA where US LEC provides local service. US LEC currently utilizes transport leased from Verizon as its method of interconnection with Verizon. US LEC has not established collocation arrangements with Verizon anywhere in Verizon's territory because collocation, historically, has not been part of US LEC's network architecture. If Verizon were to exercise its right, under Verizon-proposed Section 7.1.1.3, to require US LEC to establish an IP via collocation at wire centers designated by Verizon then US LEC either would have to order collocation from Verizon or seek out a third party collocator with sufficient network capacity to support US LEC's traffic requirements. In other words, transitioning to Verizon's proposed interconnection architecture would impose additional, unnecessary costs and restrictions on US LEC, as well as the burden of accommodating a network design not currently supported, or advocated by US LEC. US LEC believes this is unreasonable and anticompetitive.

Q: DO YOU AGREE WITH VERIZON'S ALLEGATION THAT ITS PROPOSALS DO NOT AFFECT US LEC'S RIGHT TO ESTABLISH A SINGLE PHYSICAL CONNECTION TO VERIZON'S NETWORK

IN A LATA? (RESPONSE AT 14)

A: No. A close reading of the contract reveals that there are very negative financial consequences if US LEC does not comply with Verizon's VGRIPs proposal which seeks to have US LEC establish collocated IPs. Under "option one," US LEC *must* establish its IP through collocation at the Verizon tandem. Similarly, under so-called "option two," US LEC "may" designate an end office collocation arrangement as its IP. Thus under either "option" one or two, if US LEC wishes to avoid Verizon's transport penalty (defined in 7.1.1.1.1), the IP is more than just a point of financial demarcation, it is a physical connection between US LEC's network and Verizon's network.

Q: **VERIZON SAYS THAT SECTION 7.1.1.1.1 IS APPROPRIATE COST SHARING. (RESPONSE AT 15) PLEASE RESPOND.**

A: Despite Verizon's arguments to the contrary, the text of the Verizon contract language shows that its proposal *requires* US LEC to establish multiple, physical, collocated connections to Verizon's network (under so-called "option one" and "option two") or, if US LEC declines to establish such physical, collocated connections, to pay for Verizon's transport costs *within* the local calling area (so-called "option three").

Verizon's proposed contract language reveals that its "option three," also called a "virtual IP," requires US LEC to pay for Verizon's originating tandem switching costs and *all* of Verizon's originating transport costs, beginning at the *end office* serving the customer that originates the call. The financial obligation Verizon shifts to US LEC under "option three" is defined in Section 7.1.1.1.1 of the Interconnection Attachment:

> Verizon's transport rate (calculated by taking the dedicated transport per mile rate multiplied by the average mileage between the originating end offices and the CLEC POI plus the fixed dedicated transport rate and dividing the total by the average minutes of use of a DS1), tandem switching rate (to the extent that traffic is tandem switched), and other costs (to the extent Verizon purchases such transport from US LEC or a third party) *from Verizon's originating End Office* to US LEC's IP. (Emphasis added.)

While the mechanics of calculating the transport rate are less than clear, what is clear is that US LEC must pay for Verizon's transport beginning at the originating end office.

Thus, if US LEC does not establish a *collocated IP* at every Verizon tandem, Verizon charges US LEC for transport beginning at each and every Verizon *end office*. This results in US LEC paying for *all* of Verizon's transport costs *within the local calling area*. If US LEC establishes a collocation arrangement at a Verizon end office but declines Verizon's request to designate that collocation arrangement as a US LEC-IP, then US LEC again must pay for *all* of Verizon's transport costs, beginning at that end office. No matter which option one assesses, the result is the same: under Verizon's proposed language, US LEC becomes obligated to pay all of Verizon's transport costs and, as I understand it, that simply does not comply with the requirements of the Act as interpreted by the FCC. In short, VGRIPs would shift to US LEC financial responsibility for <u>all</u> transport of Verizon's originating traffic.

Q: WHY DO YOU STATE THAT THE FINANCIAL RESPONSIBILITY FOR ALL TRANSPORT WOULD BE "SHIFTED" TO US LEC?

A: Today Verizon bears financial responsibility for delivering its originating traffic to US LEC's chosen IP. Under VGRIPs, Verizon would be relieved of that responsibility and US LEC would be required to bear it.

Q: PLEASE RESPOND TO VERIZON's ALLEGATION THAT ITS PROPOSAL IS AN EQUITABLE ALLOCATION OF TRANSPORT COSTS BETWEEN THE PARTIES. (RESPONSE AT 5)

A: Verizon's proposal is not equitable because it forces US LEC either to establish multiple physical, collocated connections to Verizon's network or to bear all costs of transport, for both Verizon's originating traffic and US LEC's originating traffic. When US LEC delivers traffic to Verizon, it is financially responsible for the transport to bring its calls to the Verizon-IP and must pay Verizon reciprocal compensation for terminating the call to the end user. Yet under the virtual IP "option three," when a Verizon customer originates a call, Verizon would have US LEC pay for all of the transport. In short, Verizon's proposal is only "equitable" if the Commission wants to relieve Verizon of any financial obligation to transport the traffic it exchanges with ALECs.

Q: VERIZON ALLEGES THAT US LEC SHOULD BEAR THE COSTS OF ITS CHOICE "NOT TO INVEST IN THE FACILITIES NECESSARY TO ESTABLISH MULTIPLE PHYSICAL POIs". (RESPONSE AT 15) PLEASE RESPOND.

A: First, although it is my understanding that under federal law we are not required to do so, US LEC has invested in the facilities necessary to establish two physical POIs at Verizon's tandems. Second, US LEC does bear the costs of its interconnection choices. When US LEC's switch is located in one local calling area and its customer is located in another, US LEC must transport its customer's traffic to US LEC's switch and deliver that traffic to Verizon at the POI, which is also Verizon's IP. In the case of traffic that will be tandem-switched by Verizon, US LEC has agreed that the Verizon-IP is at the Verizon tandem. Or, where US LEC delivers 200,000 minutes of use per month to a Verizon end office, US LEC has agreed that the Verizon-IP is at the Verizon end office, and that US LEC must pay Verizon (or a third party) for the transport needed to deliver the traffic to Verizon's end office. In addition, US LEC must pay Verizon reciprocal compensation for terminating US LEC's traffic from the Verizon IP to the Verizon end user, whether or not the IP and the end user are located in the same local calling area. Similarly, when a Verizon customer calls a US LEC customer, US LEC must accept the traffic at its designated POI. Because the POI is not at US LEC's switch, Verizon is responsible for paying the cost of the transport necessary to haul its originating traffic to US LEC's switch, which, likes Verizon's switches, is US LEC's IP. Verizon then pays US LEC terminating compensation for terminating the traffic from the IP to US LEC's end user customer. US LEC must transport that traffic to its end user customer for the same termination rate, even if that customer is located in a different local calling area than US LEC's switch. Thus US LEC bears the cost of its interconnection choices.

Q: VERIZON ARGUES THAT ITS COST-SHIFTING PROPOSALS ARE JUSTIFIED BECAUSE A SINGLE POI PER LATA IS EXPENSIVE. (RESPONSE AT 11-12) DO YOU AGREE?

A: No. Verizon argues that because a single POI per LATA is "expensive," it is permitted to "recover" its costs by moving the point of financial demarcation to shift transport responsibility from Verizon to US LEC.

To support its "expensive interconnection" theory, Verizon relies on paragraph 199 of the *Local Competition Order*, which states:

> The deliberate and explained substantive omission of explicit economic requirements in sections 251(c)(2) and 251(c)(3) cannot be undone through an interpretation that such considerations are implicit in the term "technically feasible." Of course, a requesting carrier that wishes a "technically feasible" but expensive interconnection would, pursuant to section 252(d)(1), be required to bear the cost of that interconnection, including a reasonable profit.[2]

I understand that the FCC is currently considering rules that would

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[2] *Implementation of the Local Competition Provisions in the Telecommunications Act of 1996*, CC Docket No. 96-98, First Report and Order, 11 FCC Rcd 15499, ¶ 199 (1996) ("*Local Competition Order*") (subsequent history omitted).

clarify whether a particular request for interconnection is "expensive."[3] But Verizon selectively quotes only one of the questions the FCC is considering relative to so-called "expensive" interconnection. (Response at 14-15) The remainder of the paragraph Verizon quoted from shows that the FCC is considering US LEC's position as well:

> Or, by requiring carriers to pay ILECs for transport outside a local calling area, are we forcing the competitive carrier into an inefficient replication of the ILEC network? Assuming that the ILEC receives reciprocal compensation for transporting terminating traffic, how precisely does a distant POI unfairly burden the LEC? Is the efficiency concern limited to those instances in which traffic between two networks is unbalanced and/or where transport is required beyond a certain distance?[4]

These questions posed by the FCC make it clear that a single point of financial demarcation per LATA (an IP in Verizon's parlance) per LATA is not automatically "expensive," as Verizon would have the Commission believe. Verizon would not be permitted to recover supposed expenses of loop provisioning or collocation without demonstrating that it in fact incurred the costs it was seeking to recover, and the same principle should govern here.

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[3] *Developing a Unified Intercarrier Compensation Regime*, CC Docket No. 01-92, Notice of Proposed Rulemaking, FCC 01-132, ¶¶ 112-114 (rel. April 27, 2001) ("*Intercarrier Compensation NPRM*").

[4] *Id.* at ¶ 114.

Q: WHAT EVIDENCE DO YOU SUGGEST THE COMMISSION REQUIRE OF VERIZON TO PROVE ITS "EXPENSIVE INTERCONNECTION" THEORY?

A: As Verizon's Response notes, the Third Circuit found that a commission should not consider cost shifting (*i.e.*, in Verizon's terms, establishing an IP that is separate from the POI) without "proof" that the requested POI is expensive. Response at 14. In order to have its cost-shifting proposal adopted, Verizon should be required to show that a single US LEC-IP per LATA causes Verizon to incur specific costs for which it is not already compensated by the services it provides its customers that originate its traffic.

The cost of a single ALEC-IP per LATA could vary substantially depending on the facilities being used to transport traffic to the IP, the traffic volumes, and mileage. For example, depending on the local calling area and LATA, Verizon's costs may be minimal -- it may have facilities already available to carry Verizon's originating traffic from the local calling area to the ALEC-IP, there may be only a *de minimis* traffic volume exchanged for that local calling area, and the distance between the local calling area and the ALEC-IP may be minimal. In short, Verizon's vague allegations of uncompensated costs do not prove that US LEC's requested interconnection arrangement is "expensive."

Q: ARE THERE OTHER FINANCIAL CONSIDERATIONS THE COMMISSION SHOULD TAKE INTO ACCOUNT IN EVALUATING THE PARTIES' POSITIONS?

A: Yes. The Commission must consider the financial impact of Verizon's VGRIPs proposal on competition. As the U.S. Court of Appeals for the Third Circuit recently held:

> To the degree that a state commission may have discretion in determining whether there will be one or more interconnection points within a LATA, the commission, in exercising that discretion, must keep in mind whether the cost of interconnecting at multiple points will be prohibitive, creating a bar to competition in the local service area.[5]

Adopting Verizon's proposal would fundamentally alter the economics of an ALEC's decision to provide service to each and every local calling area in Verizon's serving territory in Florida. Verizon's multiple IP (whether physical or virtual) requirement could deter an ALEC from competing with Verizon until the ALEC has enough customers to justify efficiently utilizing the dedicated facility it is forced to build or lease from Verizon. Adopting Verizon's multiple IP proposal also expresses a policy preference for the incumbent's historical network architecture, effectively penalizing new entrants for any deviation from that architecture. The Commission should therefore also reject Verizon's proposal as inconsistent with the public policy of opening Florida's telecommunications markets to competition.

Q: LET'S RETURN TO THE PHYSICAL NETWORK ARCHITECTURE

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[5] *MCI Telecommunication Corp. et al. v. Bell Atlantic-Pennsylvania et al.*, 271 F.3d 491, 517 (3d Cir. 2001).

IMPACTS OF VERIZON'S PROPOSAL. WHY DOES US LEC OBJECT TO DESIGNATING A COLLOCATION ARRANGEMENT THAT US LEC HAS ESTABLISHED AT A VERIZON END OFFICE AS A US LEC-IP?

A: Verizon's proposal would require US LEC to plan and pay for additional, and potentially inefficient and unnecessary, capacity for each collocation arrangement. For example, although US LEC does not currently collocate in Verizon end offices, if US LEC decided to order collocation in the future, it is possible that US LEC would not know if Verizon wished to designate the new arrangement as a US LEC-IP until *after* that arrangement was provisioned. ALECs typically design and use end office collocation arrangements to access the incumbent's unbundled local loops. The traffic from those loops is aggregated and, where necessary, multiplexed, at the ALEC's collocation site and transported back to the ALEC's switch via transport the ALEC leases from the incumbent or another carrier. Moving the ALEC-IP to an established end office collocation arrangement would require that the ALEC add equipment in its collocation space and extra transport to carry the Verizon-originated traffic from the collocation site back to the ALEC switch. Thus, under Verizon's proposal, the ALEC's space requirements, equipment costs, and transport costs would all increase. Furthermore, because the volume of traffic originating from that end office may not fill a DS-1, US LEC may be forced to provide, and inefficiently strand, a facility that will be underutilized. This is inconsistent with

Section 2.2.4 of the contract. In that section, the parties have agreed that a DS-1 is the volume of traffic that will justify direct end office trunking for the delivery of one party's traffic to the other. However, notwithstanding the lack of sufficient traffic volume, Verizon's proposed language in Section 7.1.1.2 would require that US LEC designate a collocation site US LEC had established at a Verizon end office as a US LEC-IP in order to avoid Verizon's transport penalty (defined in Section 7.1.1.1.1). This would effectively force US LEC to provide an underutilized direct end office facility to carry Verizon's originating traffic back to US LEC's switch even though Verizon itself would not establish a direct end office connection to US LEC if the collocation arrangement did not exist.

Q: **DOES US LEC ANTICIPATE DEPLOYING END OFFICE COLLOCATION ARRANGEMENTS DURING THE TERM OF THIS AGREEMENT?**

A: Collocation, historically, has not been part of US LEC's business plan, however, it is possible that US LEC will deploy end office collocation arrangements during the term of this agreement. I do not agree with Verizon that by merely establishing a presence at Verizon's end office we are therefore obligated to pick up (either financially or physically) Verizon's originating traffic from that end office. The parties have agreed that direct end office trunks are only necessary when certain traffic volume thresholds are reached. Requiring US LEC to designate its end office collocation as an IP, or requiring a virtual IP at that end office, regardless of the traffic volume originated from that end office is just another Verizon attempt to impose additional and unnecessary costs on its competitors.

Q: COULD THE TRANSITION TO NEW PHYSICAL IPs ADVERSELY AFFECT US LEC'S OPERATIONS?

A: Yes, it would. Moving from existing to new physical IPs would interfere with US LEC's growth and ability to add new customers during the transition and impose unnecessary economic costs on US LEC.

Interconnecting two networks requires not only facilities, but also careful planning and other necessary support systems. For example, moving from an existing IP to a new physical IP could involve a facilities build or facilities augmentation, submitting new trunk orders, and switch translations. All of this consumes scarce personnel and network resources that could otherwise be used to grow US LEC's business and expand its customer base. Furthermore, I understand that Verizon imposes a turn-up limit of 10 T-1s per day. This means that after all the planning and network engineering is completed, it could still take an inordinate amount of time to make the transition to a new US LEC-IP. Thus during the transition period, Verizon could effectively stop US LEC's ability to win new customers and jeopardize the growth of US LEC's existing customers' business. Requiring US LEC to transition to a new physical US LEC-IP would therefore give Verizon a competitive advantage in either retaining its existing customers or winning customers new to the market during the transition period.

Q: HOW DOES TRAFFIC VOLUME AFFECT THE ENGINEERING

AND FINANCIAL ASPECTS OF IPs?

A: If the volume of traffic originating from and/or terminating to an additional Verizon tandem or end office is low, it is more efficient for such traffic to be carried on Verizon's common network capacity. Establishing dedicated capacity that would be used solely to carry low traffic volumes would be inefficient.

Each carrier needs to install or lease transmission facilities and equipment to deliver its originating traffic to the other party's IP. Of course Verizon has been in this business for over 100 years and has built ubiquitous facilities to transport traffic throughout its serving area. Since Verizon already has facilities in place that can carry the traffic the parties exchange, and therefore benefits from economies of scale and the technological advances in transport capacity, its costs to switch and transport the incremental traffic it exchanges with US LEC are relatively low. Both parties benefit from these economies of scale -- Verizon for its originating traffic and US LEC for its terminating traffic. Furthermore, the amount of Verizon traffic that is destined for US LEC likely makes up only a very small percentage of the total traffic Verizon transports over its common network capacity.

In contrast, US LEC as a new entrant has not deployed transport facilities throughout Verizon's serving area. Thus, in order for US LEC to reach additional Verizon wire centers, US LEC must either construct new facilities, which requires local permits, digging up streets, etc., or lease existing facilities from Verizon or another carrier. In short, where traffic volumes from additional wire centers are low, if Verizon requires US LEC to establish a US LEC-IP at the additional wire center, Verizon's avoided costs are negligible but US LEC's costs are high. Furthermore, if US LEC purchases dedicated transport from Verizon to transport Verizon's traffic from the new/additional US LEC-IP back to US LEC's switch, then Verizon has succeeded, through its designation of new/additional US LEC-IPs, in generating a significant amount of revenue for itself from selling dedicated transport to US LEC. Finally, through their proposal, Verizon may also strand PSTN resources since capacity dedicated to calls between Verizon and US LEC customers may be grossly underutilized.

Q: PLEASE SUMMARIZE YOUR PROPOSED RESOLUTION OF THESE ISSUES.

A: The Commission should adopt US LEC's proposal on Issues 1 and 2 because it preserves the parties' existing interconnection architecture, appropriately allocates the financial burden of traffic exchange, is consistent with sound network engineering practices, and promotes efficient network deployment.

Q: DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A: Yes.