BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2000   :   Docket No. R2000-1

RESPONSES OF AMERICAN BANKERS ASSOCIATION AND NATIONAL

ASSOCIATION OF PRESORT MAILERS WITNESS CLIFTON TO INTERROGATORIES

OF USPS

(USPS/ABA&NAPM-T1-30-42)

(June 29, 2000)

The American Bankers Association ("ABA") and the National Association

of Presort Mailers ("NAPM") hereby provide the responses of witness Clifton to the

following interrogatories of the United States Postal Service which were filed on June

16, 2000: USPS/ABA&NAPM-T1-30-42.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

AMERICAN BANKERS ASSOCIATION
NATIONAL ASSOCIATION OF PRESORT MAILERS

By:_____

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June 29, 2000

Washington, D.C.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the instant document on all

participants of record in this proceeding in accordance with Section 12 of the Rules of

Practice.

_____

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June 29, 2000

USPS/ABA&NAPM-T1-30. Please explain how you define "statistically significant", as used on page 46, line 10 of your testimony. Was any hypothesis tested? If so, fully document the hypothesis test(s) performed, including a statement of the null hypothesis, the alternative hypothesis, the underlying assumptions, the decision rule, the test statistic, the results of the test, and the power of the test.

RESPONSE:

No formal hypothesis testing was done, nor was it necessary to arrive at my conclusion that the sample size taken for presort letters is statistically insignificant. The section heading on page 46, line 10 of my testimony is based on the discussion reported on pages 46-51. See WP.3 for an explanation of the statistical tests of significance. For example, I find that at a 95% confidence level, the required sample size must be at least 1,411,000 rather than 1,409 (see page 46, lines 24-27.) This says that we are 95% confident that the sample size must be that much greater than 1,409 for the presort extra ounce cost data to be statistically significant as a measure of the true cost, were all presort extra ounce pieces actually costed rather than being sampled.

USPS/ABA&NAPM-T1-31. Please confirm that the IOCS sample size of 1,409 that you refer to on page 46, line 27 of your testimony, is actually the number of unweighted tallies where the sampled employee was observed handling First-Class presort letter mail, and not the number of pieces. If not confirmed, please explain fully.

RESPONSE:

Not confirmed. The number 1,409 consists of 873 pieces of extra ounce mail and 536 tallies of employees handling multiple pieces of mail. For First Class presorted mail entering the system, the top piece rule does not make much sense for such tallies as First Class presort mail exhibits far greater heterogeneity weight wise as entered than, for example, a mass advertising mailing in Standard A.. Bank statements arriving prebarcoded and presorted in trays will typically have some less than one ounce pieces for people who write few checks, to three ounce pieces for people who write a lot of checks. The First Class presort trays that come in at a mail facility will typically not be of uniform weight, and that will be even truer at further levels of processing. All we can say is that if the first piece in such a tray is a one to two ounce letter, we can confirm that that tally means <u>at least one</u> such piece is in that tray, and that is the assumption I used in arriving at my 1,409 total. How many more than one piece is purely speculative in the case of First Class presort trays. However, even if such tallies were of trays of uniform weight, the statistical sample for presort would still be highly inadequate. For example, if all extra ounce presort letters subject to multiple piece handling definitions were in the one to two ounce range, at 250 per tray, with only the top piece sampled, 536 such tallies would yield 134,000 pieces, well under the 1,411,000 pieces required for a statistically significant presort sample of extra ounce costs.

USPS/ABA&NAPM-T1-32. Please provide formulas and show the derivation of the 1,411,000 IOCS samples referred to on page 46, line 26 of your testimony. If the derivation of this number relied on variance estimates or coefficients of variation (CV), provide the formula used to calculate the CV or variance and show actual calculations, or if the CV was obtained from the record of this proceeding, provide explicit citations. Confirm that the implications of requiring a 95% confidence level for a half-cent error level would necessitate an IOCS sample approximately one thousand times (1,411,000 ÷ 1,409 = 1,001) as large as the current IOCS sample size. If not confirmed, explain fully. If the Postal Service spends approximately $13,000,000 for current IOCS data collection, how much do you estimate it would cost to provide data with this level of precision?

RESPONSE:

Please refer to Workpaper 3 ~MS Word document and the accompanying Workpaper 3 Excel file for a detailed discussion of the formula and the procedure employed, as well as the calculations.

I confirm that your number 1,001 is correct, which is why ABA & NAPM raised the issue of doing an engineering study instead of IOCS tallies in an interrogatory directed to witness Daniel I am unable to provide an estimate of the cost of collecting the sample data, but since the data is meaningless and since USPS cannot afford to expand the IOCS system by a magnitude of 1,001, the idea of an engineering study with public observers from the Commission to assure accuracy makes sense.

USPS/ABA&NAPM-T1-33 Please provide formulas and show the derivation of the 994,000 IOCS samples referred to on page 46, line 28 of your testimony. If the derivation of this number relied on variance estimates or coefficients of variation (CV), provide the formula used to calculate the CV or variance and show actual calculations, or if the CV was obtained from the record of this proceeding, provide explicit citations. Please confirm that the implications of requiring a 90% confidence level for a half-cent error level would necessitate an IOCS sample over 700 times as large as the current IOCS sample size. If not confirmed, please explain fully. If the Postal Service spends approximately $13,000,000 for current IOCS data collection, how much do you estimate it would cost to provide data with this level of precision?

RESPONSE:

Please see my response to USPS/ABA&NAPM-T1-32. I can confirm that your number 700 is correct.

USPS/ABA&NAPM-T1-34. Please provide formulas and show the derivation of the 353,000 tallies referred to on page 47, line 1 of your testimony. If the derivation of this number relied on variance estimates or coefficients of variation (CV), provide the formula used to calculate the CV or variance and show actual calculations, or if the CV was obtained from the record of this proceeding, provide explicit citations. Please confirm that the implications of requiring a 95% confidence level for a one cent error level would necessitate an IOCS sample approximately 250 times as large as the current IOCS sample size. If not confirmed, please explain fully. If the Postal Service spends approximately $13,000,000 for current IOCS data collection, how much do you estimate it would cost to provide data with this level of precision?

RESPONSE:

Please see my response to USPS/ABA&NAPM-T1-32. I can confirm that your number 250 is correct.

USPS/ABA&NAPM-T1-35. Please provide formulas and show the derivation of the 248,000 tallies referred to on page 47, line 2 of your testimony. If the derivation of this number relied on variance estimates or coefficients of variation (CV), provide the formula used to calculate the CV or variance and show actual calculations, or if the CV was obtained from the record of this proceeding, provide explicit citations. Please confirm that the implications of requiring a 90% confidence level for a one cent error level would necessitate an IOCS sample approximately 176 times as large as the current IOCS sample size. If not confirmed, please explain fully. If the Postal Service spends approximately $13,000,000 for current IOCS data collection, how much do you estimate it would cost to provide data with this level of precision?

RESPONSE:

Please see my response to USPS/ABA&NAPM-T1-32. I can confirm that your number 176 is correct.

USPS/ABA&NAPM-T1-36. Please provide formulas and show the derivation of the 22,406 tallies referred to on page 47 in footnote 25 of your testimony. If the derivation of this number relied on variance estimates or coefficients of variation (CV), provide the formula used to calculate the CV or variance and show actual calculations, or if the CV was obtained from the record of this proceeding, provide explicit citations. Please confirm that the implications of requiring a 95% confidence level for a four cent level of precision would necessitate an IOCS sample approximately 15 times as large as the current IOCS sample size. If not confirmed, please explain fully. If the Postal Service spends approximately $13,000,000 for current IOCS data collection, how much do you estimate it would cost to provide data with this level of precision?

RESPONSE:

Please see my response to USPS/ABA&NAPM-T1-32. I can confirm that your number 15 is correct.

USPS/ABA&NAPM-T1-37. Please provide formulas and show the derivation of the 15,529 tallies referred to on page 47 in footnote 25 of your testimony. If the derivation of this number relied on variance estimates or coefficients of variation (CV), provide the formula used to calculate the CV or variance and show actual calculations, or if the CV was obtained from the record of this proceeding, provide explicit citations. Please confirm that the implications of requiring a 90% confidence level for a four cent level of precision would necessitate an IOCS sample approximately 11 times as large as the current IOCS sample size. If not confirmed, please explain fully. If the Postal Service spends approximately $13,000,000 for current IOCS data collection, how much do you estimate it would cost to provide data with this level of precision?

RESPONSE:

Please see my response to USPS/ABA&NAPM-T1-32. I can confirm that your number 11 is correct.

USPS/ABA&NAPM-T1-38. Please provide formulas and show the derivation of the 18,596 tallies referred to on page 48, line 7 of your testimony. If the derivation of this number relied on variance estimates or coefficients of variation (CV), please provide the formula used to calculate the CV or variance and show actual calculations, or if the CV was obtained from the record of this proceeding, provide explicit citations. Confirm that the implications of requiring a 95% confidence level for a one-half cent error level would necessitate an IOCS sample approximately 14 times as large as the current IOCS sample size. If not confirmed, explain fully. If the Postal Service spends approximately $13,000,000 for current IOCS data collection, how much do you estimate it would cost to provide data with this level of precision?

RESPONSE:

Please see my response to USPS/ABA&NAPM-T1-32. I can confirm that your number 14 is correct.

USPS/ABA&NAPM-T1-39. Please provide formulas and show the derivation of the 4,276 tallies referred to on page 48, line 19 of your testimony. If the derivation of this number relied on variance estimates or coefficients of variation (CV), provide the formula used to calculate the CV or variance and show actual calculations, or if the CV was obtained from the record of this proceeding, provide explicit citations. Confirm that the implications of requiring a 95% confidence level for a one cent error level would necessitate an IOCS sample approximately 3.3 times as large as the current IOCS sample size. If not confirmed, please explain fully. If the Postal Service spends approximately $13,000,000 for current IOCS data collection, how much do you estimate it would cost to provide data with this level of precision?

RESPONSE:

Please see my response to USPS/ABA&NAPM-T1-32. I can confirm that your number 3.3 is correct.

USPS/ABA&NAPM-T1-40. Consider a hypothetical subclass for which all mail processing is done by the mailer. In other words, they hand the mail to the carrier as the carrier is leaving the station to deliver mail.

a. For this hypothetical subclass, how many IOCS tallies would you expect? Would this number of tallies be too few to reliably estimate the mail processing costs associated with this subclass?

b. What decision rule would you apply for determining whether there were sufficient tallies to reliably estimate the mail processing costs for this subclass?

c. Suppose that on two out of 850,000 IOCS readings, employees were observed handling this type of mail. How much more than the $13,000,000 the Postal Service currently spends for IOCS data collection should it spend to obtain what you deem a reliable estimate of the costs for this hypothetical subclass?

RESPONSE:

a. through c. The issue of IOCS tallies for mail processing would not exist if all the work was done by the private sector. They would only pay the Postal Service for delivery costs as estimated by witness Daniel plus a mark-up reflecting that subclass's cost coverage.

However, in light of the preceding interrogatories, let me attempt to be responsive to what I think you are asking in this question. For several rate cases, the Postal Service has been unresponsive to repeated requests by the Commission and intervenors such as ABA and MMA to provide a reliable and updated extra ounce cost study for First Class Mail, and for intervenors for presort letters especially. These intervenors feel strongly based on their own direct experience with mail processing that the USPS extra ounce rates are way out of line with costs that can reasonably be assigned as weight related. Until this case, the Postal Service had declined to provide any study, raising suspicions even further that this rate in First Class is set almost solely on the basis of revenue requirements without any regard to section 3622 (b) cost considerations.

In this case, the Postal Service finally updated its cost information. Unfortunately, for First Class presort letter mail and all shapes mail, the current study done for this case, while welcomed as a

responsive effort fails to meet any reasonable statistical – or common sense -- criterion of being "credible". The cost data for First Class presort letters provided by witness Daniel does not make sense. This leads me to believe that for presort letter mail either the sampling was not properly conducted, the sample data were not correctly recorded, or inappropriate data were recorded for the weight increment. For certain, the sample size was woefully inadequate, and the bad results could flow from this fact alone.

Perhaps the Postal Service knew in advance that the small sample size it is forced to conduct for reasons of budget constraints alluded to in interrogatories 32-39 would lead to bad data results, but it felt it had to try in light of the rationale surrounding the Commission's decision to cut the extra ounce rate in R97-1. If this was the reason no updated study had been done prior to this case, doing it now based on IOCS tallies was a management error. Instead, it should have conducted an engineering study for First Class presort, and explained up-front that the reason it did so was that the IOCS sample size it could afford to do was grossly inadequate and would likely yield very unreliable results, as it in fact did.

In any event, what we've learned from this case and in light of your stated budgetary constraints, is that an engineering study will have to be conducted in place of IOCS tallies, and that in the interim, the cost data I presented in R97-1 on behalf of ABA & NAA for First Class presort and the cost data introduced in this case for Standard A regular are the best current proxies we have on which to base the extra ounce rate and the heavy piece discount.

RESPONSE OF ABA&NAPM WITNESS CLIFTON TO USPS INTERROGATORIES

USPS/ABA&NAPM-T1-41. On June 6, 2000, you filed errata to your testimony, workpapers and library reference (ABA&NAPM-LR-1). In the cover sheet accompanying your testimony errata, it states, "The numerical changes are relatively insignificant....and are due in most all instances to errata filed by USPS witnesses Mayes and Fronk." In the cover sheet accompanying your library reference errata, it states, "ABA&NAPM-LR-1...has been revised by incorporating the errata filed by witness Mayes on April 21, 2000 and witness Fronk on April 17, 2000."

     a.   Please confirm that the errata of witnesses Fronk and Mayes were available for your review over one month prior to the May 22, 2000 due date for filing your testimony.

     b.   Please confirm that an additional two weeks elapsed after the May22 due date before you incorporated the revisions of witnesses Mayes and Fronk into your testimony, workpapers and library reference.

RESPONSE:

a. and b.   The cut-off date for entering USPS errata into complex testimony such as

ABA & NAPM –T-1 occurs well before a due date. The late date of the USPS' filing

of these errata, three months after submitting its direct case, conflicted with our

production schedule. Reasonable efforts were made to read the data on – line, and to

find legible data at the Commission. By the time those possibilities were exhausted,

the modeling had to be put to bed, and not all the Mayes and Fronk errata had become

available, so none was inputted at that stage. Our intuition was that it would not

materially change our case based on what we knew. In fact, it did not once we had a

full legible set of numbers. The timing of these errata reflects the normal context of

looking for other errata and submitting them as sets rather than item by item. Had the

Fronk and Mayes data materially affected our case, we would have provided the

errata sooner. With those caveats, I confirm a. and b.

USPS/ABA&NAPM-T1-42. In the June 6, 2000 cover sheet accompanying the errata to your testimony, item 12 states, "Technical Appendices A.1 through A.5 have been changed as a result of obtaining a legible copy of errata filed by USPS witness Mayes on April 21, 2000 and witness Fronk on April 17, 2000." If you were having trouble reading those errata, did you, your counsel or anyone else on your behalf make any effort to contact the Postal Service in an effort to obtain legible copies? If not, please explain.

RESPONSE:

Please see my response to USPS/ABA & NAPM-T1-41.