

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20068-0001**

Postal Rate and Fee Changes, 2006

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Docket No. R2006-1

**RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS SIWEK TO
INTERROGATORIES OF UNITED STATES POSTAL SERVICE
(USPS/NNA T3-1-19)**

NNA hereby responses to interrogatories of the United States Postal Service,
USPS/NNA T3-1-19. Each interrogatory is repeated verbatim and a response follows.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have filed the foregoing document online in accordance with
the Commission's Rules of Practice.

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October 2, 2006
Arlington, VA 22206

RESPONSE OF NNA WITNESS SIWEK TO INTERROGATORIES
OF UNITED STATES POSTAL SERVICE

USPS/NNA-T3-1. Please refer to your testimony at page 4, lines 2-3. You state, “Absent a known extraordinary event, cost increases of this magnitude, occurring within so limited a time frame are simply not believable.”

- a. Do you consider the IOCS redesign, which you mention at lines 13-14 on the same page, to be a “known extraordinary event”?
- b. Did you consider the possibility that the change of the IOCS instrument could contribute to the increase in measured costs? If not, why not?

RESPONSE:

- a. No. In this statement, I meant a known and extraordinary event that was external to the cost measurement systems of the USPS and that actually increased postal costs. The IOCS redesign itself would not increase actual postal costs for a given subclass.
- b. Yes, I considered the possibility that the change of the IOCS instrument could contribute to the increase in measured costs.

RESPONSE OF NNA WITNESS SIWEK TO INTERROGATORIES
OF UNITED STATES POSTAL SERVICE

USPS/NNA-T3-2. On page 4 of your testimony, lines 4-6, you claim that apparent cost increases for Within-County “far more likely ... result from .. deficiencies” in Postal Service “processes and data used... [for] the Within-County Periodical [sic] subclass.”

a. Are you claiming that the Postal Service changed any of the processes (described in USPS-LR-L-9, Appendix X) specifically applicable to Within-County Periodicals, as opposed to general IOCS changes affecting all Periodicals?

b. If your answer to part (a) is affirmative, please explain in detail what changes you believe were made, and please provide citations to USPS-LR-K-9 and USPS-LRL-9 to support your claims.

c. If your answer to part (a) is negative, please explain how you believe processes that did not change between BY 2004 and BY 2005 can account for the measured cost increase.

RESPONSE:

a. I have not reviewed Appendix X to USPS-LR-L-9. In my review of USPS-LR-L-9, I did not find such an Appendix.

b. N/A.

c. N/A.

RESPONSE OF NNA WITNESS SIWEK TO INTERROGATORIES
OF UNITED STATES POSTAL SERVICE

USPS/NNA-T3-3. Please refer to your testimony, section VIII(d), p. 16, where you state "... a margin of error equal to only 3% is generally used in surveys where a 95% confidence interval is measured." and in footnote 3 quote Dr. Lohr "For many surveys of people in which a proportion is measured, $e = 0.03$ and $\alpha=0.05$;" also refer to your testimony at page 17, lines 18-19. Please also refer to USPS-T-1 at pages 14-15.

a. Please confirm that, based on Postal Service methods, Within-County Periodicals constitute 0.156 percent of mail processing volume-variable costs reported in Dr. Czigler's Table 1. If you do not confirm, please explain.

b. Please confirm that, based on Postal Service methods, Within-County Periodicals constitute 0.303 percent of city carrier in-office volume-variable costs reported in Dr. Czigler's Table 2. If you do not confirm, please explain.

c. Do you believe that in her textbook Dr. Lohr referred to estimates of proportions of the magnitudes of the Within-County cost proportions from parts a and b?

d. Do you propose that the CV for the costs of the Within-County Periodicals subclass should be about 1.5 percent, so that the confidence interval about the point estimate is ± 3 percent?

e. If in part (d) you do not agree the CV should be no greater than 1.5 percent, what do you recommend as the maximum value for the CV for estimate of costs of Within-County Periodicals?

f. Do you agree that the CVs of the pooled estimates you propose on page 17 (8.81 percent for mail processing, 9.13 percent for city carrier), which require two full years of data, are much greater than 1.5 percent? If you do not agree, please explain fully.

g. Are the CVs of the pooled estimates you propose less than the maximum CV value you recommend in part(e)?

h. Do you propose that the cost estimates for all subcategories of mail measured by the IOCS, no matter how small, should have a CV no greater than the value you recommend in part (e)?

RESPONSE:

a. Confirmed.

b. Confirmed.

c. In this context, I did not find any reference to magnitudes of proportions in Dr. Lohr's textbook. Absent such a reference, I have no basis upon which to speculate as to what magnitudes she may have been referring to.

d. No.

e. I do not recommend a "maximum" value for the CV for estimate of costs of Within-County Periodicals.

- f. Yes, I agree the CVs for the pooled estimates are still much greater than 1.5%, but they are noticeably lower than reported in Mr. Czigler's Table 1 and Table 2.
- g. See my response to Part (e) above.
- h. See my response to Part (e) above.

RESPONSE OF NNA WITNESS SIWEK TO INTERROGATORIES
OF UNITED STATES POSTAL SERVICE

USPS/NNA-T3-4. Please refer to your testimony at page 5, lines 9-10.

a. Please confirm that the entire sentence from which you quoted is “Within-County Periodicals were not studied separate from Outside-County Periodicals in the beta test because the test would not be expected to produce sufficient Within-County tallies to support statistical inference.”

b. Do you disagree with Dr. Bozzo’s conclusion that the expected sample of Within-County Periodicals pieces from the Postal Service study would be too small to “support statistical inference”? Explain the basis for any disagreement.

c. In your opinion, how many observations of Within-County Periodicals pieces would be needed to validate the Postal Service procedures?

d. Assume the pre-deployment tests of the redesigned IOCS data collection instrument had been expanded to produce sufficient observations of Within-County Periodicals by the standard of your response to part (c). Would the additional costs of the expanded tests be borne by Within-County Periodicals?

Please explain completely any answer other than a simple affirmative.

RESPONSE:

a. Confirmed.

b. I have not attempted to evaluate whether Dr. Bozzo’s conclusions regarding statistical inference in this context were or were not correct. My point was that these studies were simply not done for Within-County Periodicals.

c. Analysis as well as new observations would likely be needed to “validate” the Postal Service’s procedures in this context. I have not attempted to assess whether and to what extent a specific number of new observations would be needed. However, as noted above, the Postal Service analyzed no observations for Within County Periodicals in its beta tests.

d. If you mean that the pre-deployment costs should be borne fully by Within-County Periodicals, the answer is No. The Within-County Periodicals subclass now bears a disproportionate risk that it is paying excessive postal rates because the Within-County CV’s are so high relative to other subclasses. If the USPS were to reduce this risk by improving Within-County CV’s and, at the same time, impose additional cost burdens solely on the Within-County Periodicals subclass, Within County mailers would have simply traded one form of unequal treatment for another. For the reason, any new study costs should not be borne entirely by the Within County subclass.

If you mean that these pre-deployment costs should be shared among the Within County subclass and other mail classes, I would not object in principle to such a policy.

RESPONSE OF NNA WITNESS SIWEK TO INTERROGATORIES
OF UNITED STATES POSTAL SERVICE

USPS/NNA-T3-5.

- a. Please confirm that the Within-County piece rates are less than Outside-County piece rates by percentages ranging from 64% to 85%, and that Outside-County piece rates are higher than Within-County piece rates by factors of 2.74 to 6.8. If you do not confirm, please provide the correct ranges of differences.
- b. Do you agree that the Periodicals rate structure provides publishers with a price incentive to mail eligible pieces at the lower Within-County rates rather than higher Outside-County rates? Please explain any negative answer.
- c. Please describe any circumstances known to you where a Periodicals piece is eligible to claim a Within-County rate but nevertheless was mailed at an Outside-County rate. Explain each circumstance fully, in particular the frequency with which such situations occur in the real world.

RESPONSE:

- a. I have not attempted to systematically compare Within-County piece rates with Outside County piece rates in my testimony or since it was filed.
- b. I believe that such an incentive exists for eligible pieces but I have not attempted to confirm its existence.
- c. I personally know of no such circumstances, but I cannot speak for other NNA witnesses. The concerns that I raise in my testimony center on a somewhat different circumstance, namely one in which a mailer actually paid Outside County rates on a mail piece that appeared to the USPS to be eligible for Within-County rates but was not.

RESPONSE OF NNA WITNESS SIWEK TO INTERROGATORIES
OF UNITED STATES POSTAL SERVICE

USPS/NNA-T3-6. Please refer to your testimony, where on p. 8 you state, “Mr. Heath also points out that in a costing environment for a lower volume subclass like Within-County Periodicals, ‘small errors loom large.’” Also, please also refer to Dr. Czigler’s response to NNA/USPS-T1-16 (Tr. 10/2402).

- a. Do you agree that the Postal Service analysis produced 193 direct tallies for Within-County Periodicals in FY2005? Please explain any disagreement.
- b. Do you agree that an error in one tally would affect the estimated costs of Within-County Periodicals on average by less than 1 percent—i.e., approximately 1/193? If not, please explain.
- c. Please identify which of the 193 Within-County tallies in the Postal Service’s dataset you would propose to recode as Outside-County Periodicals. Please describe all criteria you would apply for the purpose, and explain why you believe your classification to be more accurate than the Postal Service’s.

RESPONSE:

- a. It is my understanding that 193 direct tallies were ultimately used for Within-County Periodicals in FY2005.
- b. No. It is my understanding that the 193 direct tallies relate specifically to Clerks and Mail Handlers Mail Processing costs and to City Carrier In-Office costs. An error in one of these tallies would affect these cost segments directly and other cost segments indirectly through the USPS’ cost allocation process. However, I do not believe that all of Within-County costs would fall by approximately 1/193.
- c. I don’t propose to recode any specific Within-County tallies in the case since, like the USPS, I do not possess all the data required to assess these tallies accurately. Rather, as noted in my Direct Testimony, I propose either that the Commission reject the USPS’ proposed rate increase for Within County Periodicals in its entirety or in the alternative, that the Commission accept my recommendations for cost adjustments and significantly reduce the proposed Within-County rate.

RESPONSE OF NNA WITNESS SIWEK TO INTERROGATORIES
OF UNITED STATES POSTAL SERVICE

USPS/NNA-T3-7. Please refer to your testimony at page 6, lines 4-6. You state:

By choosing to ignore actual postage payments and to focus only on eligibility, the USPS has introduced the possibility that the Within-County pieces that it analyzed were eligible for Within-County rates but were not assessed postage at those preferred rates.

a. Please confirm that if a mailer indicates pieces at Within-County rates on a mailing statement, the mailer has actually paid Within-County rates for those pieces. If you do not confirm, please explain.

b. If a mailer indicates Within-County pieces on a mailing statement, is it appropriate to infer that the mailer was eligible to claim Within-County rates for those pieces? If not, why not?

c. Please also refer to Dr. Czigler's response to NNA/USPS-T1-17 (Tr. 10/2403), where Dr. Czigler states, "The count of 129 [tallies]... is the number of tallies identified by the recode.f program where PostalOne! reported a positive volume at Within-County rates in the same county as the destination of the periodical."

(i) Please confirm that for a majority of the Within-County Periodicals tallies, the Postal Service determined that the mailers had, in fact, actually paid Within-County rates. If you do not confirm, please explain.

(ii) Please reconcile your claim that the Postal Service "choos[es] to ignore actual postage payments" with Dr. Czigler's statement.

RESPONSE:

a. Confirmed.

b. Yes.

c. I cannot confirm this statement. As I understand the Postal Service's procedure, if, after the **recode.f** processing has been completed and if the origination and destination county of a particular tally match, the Postal Service considers whether the publication has recorded 2005 volumes at Within-County Periodicals rates in the *Postal One* system at the office where the tally was recorded. If such volumes were recorded in the *Postal One* system during the first 11 months of 2005, the Postal Service concludes that it has verified the tally. However, as I understand this procedure, the Postal Service does not determine whether the actual tallied piece was included within the *Postal One* Within County volume for that publication. As noted both in my testimony and in the testimony of NNA witness Heath, there are a number of circumstances in which a publication whose origin and destination counties are the same would still not qualify for

Within County rates. The *Postal One* procedure cited in this question does nothing to solve those problems since it does not capture the actual postage paid by each tallied piece.

RESPONSE OF NNA WITNESS SIWEK TO INTERROGATORIES
OF UNITED STATES POSTAL SERVICE

USPS/NNA-T3-8. Please refer to your testimony at page 6, lines 14-19, where you criticize the Postal Service analysis for not assessing Within-County rate eligibility on an issue-by-issue basis. Please provide any quantitative information you have on the extent to which eligibility for Within-County Periodicals rates actually varies from issue-to-issue for titles that claim Within-County rates at some point during a year.

RESPONSE:

Like the USPS, I have no data on the extent to which eligibility for Within County rates varies from issue-to-issue for titles that claim Within-County rates at some point during the year. I do note that in the June 2002 issue of the USPS' Handbook for Applying for Periodicals Mailing Privileges (Handbook DM-204), at Appendix B, the Postal Service includes the following: "**NOTE:** In-County rate eligibility is determined on an issue-by-issue basis and remain subject to your total paid distribution. Changes in paid circulation can affect In-County rate eligibility. Make copies of this worksheet and use it regularly to determine whether your publication remains eligible for IN-County rates." (Emphasis Added).

RESPONSE OF NNA WITNESS SIWEK TO INTERROGATORIES
OF UNITED STATES POSTAL SERVICE

USPS/NNA-T3-9. Please refer to your testimony at page 7, lines 3-13.

- a. Please explain your understanding of the number of Within-County tallies where the classification was made on the basis of circulation figures obtained from publication directories.
- b. Please explain in detail your understanding of the extent to which the circulation of the affected titles fluctuates over time.
- c. Do you have more current circulation figures for any of the tallies listed in USPSLR-L-9, file 'hand2005.xls' that were classified as Within-County Periodicals based on circulation figures obtained from publication directories? If so, please provide the more current figures and describe your source(s) in detail.
- d. Are there other sources you would consider to be authoritative on the question of the circulation of Periodicals publications?

RESPONSE:

- a. As I understand it, the USPS uses publication directories to support its assumption that a given tally was eligible for Within-County Periodical rates as part of its manual checking process. Directories are used to determine a publication's circulation if other manual checks have failed to generate a definitive subclass.
- b. I have no data on the extent to which circulation figures for these "affected" publications varies over time but neither, I believe, does the USPS. According to USPS witness Bozzo, the exact date of the circulations taken from these directories was not determined. In addition, the USPS only appears to have recorded from the directories a single circulation value for each publication. See Response of USPS witness Bozzo (USPS-T46-24) to NNA/USPS-T46-24.
- c. No. I do not have more current circulation figures for any of these publications.
- d. If you mean total circulation, I would image that more recent directories would provide more timely data on total circulations than the directories used by the USPS in this case. In addition, I would imagine that the publishers of each publication possess recent data on total circulations.

RESPONSE OF NNA WITNESS SIWEK TO INTERROGATORIES
OF UNITED STATES POSTAL SERVICE

USPS/NNA-T3-10. Please refer to your testimony at page 7, line 19 to page 8, line 3. Please describe in detail the basis (e.g., DMM references) for your claim that the Postal Service “limits the time period during which Periodicals sent to such late-paying subscribers could actually qualify for Within-County rates.”

RESPONSE:

My understanding from NNA witness Max Heath is that the relevant reference is DMM 707.7.6. A typographical error appeared in witness Heath’s testimony. An erratum is being filed to correct the citation from DMM 708.7.6 to DMM 707.7.6.

RESPONSE OF NNA WITNESS SIWEK TO INTERROGATORIES
OF UNITED STATES POSTAL SERVICE

USPS/NNA-T3-11. Please refer to your testimony at page 8, line 20-21. You state, “For Within-County Periodicals, the Postal Service assumes that original entry and destination counties should be the same.”

a. Please confirm that this is a requirement for Within-County rate eligibility. If you do not confirm, please explain.

b. Please confirm that for each tally whose original entry and destination county match, the Postal Service subjected that tally to additional scrutiny to confirm its status as Within-County.

RESPONSE:

a. Confirmed.

b. Confirmed.

RESPONSE OF NNA WITNESS SIWEK TO INTERROGATORIES
OF UNITED STATES POSTAL SERVICE

USPS/NNA-T3-12. Please refer to your testimony at page 9, lines 5-9. Please also refer to USPS-LR-L-9, file 'hand2005.xls.'

- a. Please explain your understanding of the number of Within-County tallies classified on the basis of prior years' identifications.
- b. For each of the affected tallies, do you have evidence that the publications had not been eligible to claim Within-County rates in FY 2005? If so, please describe it in detail.

RESPONSE:

- a. As referenced in f/n 19 of my Direct Testimony, in USPS-LR-L-9, at Appendix D, page D-3, the USPS describes its manual checking process for IOCS Periodicals tallies. As part of this process, the USPS stated that 174 out of 7,671 Periodicals tallies required manual checks. Among the manually reviewed tallies, the USPS considered tallies where the original entry or destination county could not be determined. For these tallies, the USPS states "Third, if a publication was mailed at Within-County Periodicals rates at least once in the previous two years, it is assumed that it is still eligible to mail at Within County Periodicals rates."
- b. I have not attempted to determine whether the individual tallies sampled by the USPS from publications that were classified by the USPS as being eligible for Within County rates on the basis of prior years' identifications had actually come from publications that were no longer eligible in FY 2005. I would note that even if such publications remained eligible for Within County rates, such eligibility need not extend to the individual tally at issue.

RESPONSE OF NNA WITNESS SIWEK TO INTERROGATORIES
OF UNITED STATES POSTAL SERVICE

USPS/NNA-T3-13. Please refer to your testimony at page 9, lines 14-21.

- a. Is it your testimony that the Gonzales Tribune does not claim Within-County rates for pieces it mails to addresses in Sonoma County, CA? If so, please provide all evidence to support your claim.
- b. Please confirm that the Gonzales Tribune tally is the only tally subject to the “local appeal” criterion in FY 2005. If you do not confirm, please explain.

RESPONSE:

- a. No.
- b. I cannot confirm this statement. I have not attempted to determine the number of tallies that were classified on the basis of the “local appeal” criterion in FY 2005.

RESPONSE OF NNA WITNESS SIWEK TO INTERROGATORIES
OF UNITED STATES POSTAL SERVICE

USPS/NNA-T3-14. Please refer to your testimony, page 10. You state, “Since the Postal Service has not identified actual Within-County Periodicals in its cost studies, it has not measured the actual costs of Within-County Periodicals for use in this proceeding.”

a. Would you recommend, for instance, that every copy of a Periodical actually mailed at Within-County rates have identifying markings, which would enable data collectors to directly identify Periodical copies that were actually mailed at Within-County rates?

b. Would you recommend a special study focused specifically on the costs of Within-County Periodicals?

c. If your answer to part (b) is yes, do you agree that the costs for such a study should be attributed to Within-County Periodicals?

RESPONSE:

a. I do not make such a recommendation in this case.

b. I believe that the USPS study entitled “IOCS Periodicals Tally Edits” that is described in Appendix D of USPS-LR-L-9 already attempts to address the costs of Within County and Outside County Periodicals. I also believe that a study of this basic topic will likely be needed in the future.

c. I believe that the costs of such a study should not be borne solely by Within County Periodicals but that these costs might be shared among the Within-County subclass and other mail classes.

RESPONSE OF NNA WITNESS SIWEK TO INTERROGATORIES
OF UNITED STATES POSTAL SERVICE

USPS/NNA-T3-15. Please refer to your testimony, NNA-T-3, section VIII d), p. 17, where you write, "If the 2006 sample is not large enough to obtain accurate and reliable estimates for this low volume subclass, ...".

- a. Do you believe that sample size affects the accuracy of an estimate?
- b. If so, please explain how sample size affects the accuracy, as opposed to the precision, of an estimate.

RESPONSE:

- a. Yes.
- b. I have used the word "accuracy" as equivalent to the word "precision" in my testimony. The larger the sample size, the more accurate/precise an estimate can be.

RESPONSE OF NNA WITNESS SIWEK TO INTERROGATORIES
OF UNITED STATES POSTAL SERVICE

USPS/NNA-T3-16. Please refer to your testimony, section VIII d), p. 17, where you quote “If it is desired that the sample contain a certain number of members from the rare population, the initial sample could be used to obtain a preliminary estimate of prevalence, and that estimate of prevalence is used to estimate the necessary size of the second sample.”

- a. Please confirm that it is Within-County Periodicals that are the rare members that you wish to sample. Please explain if you do not confirm.
- b. What is the number of rare Within-County Periodicals that in your judgment should be obtained in the second sample? Please justify your response.
- c. Please refer to USPS-LR-L-9, page 10, Table 3. Do you agree that there were 725,184 readings taken by the IOCS in FY2005?
- d. Please estimate the number of IOCS readings that would need to be taken in the second sample in order to obtain your desired number of readings with Within-County Periodicals.

RESPONSE:

- a. Yes.
- b. I have not estimated such a number.
- c. Agreed based on page 10 of USPS-LR-L-9_R2006-1_IOCS.pdf.
- d. I have not estimated such a number.

RESPONSE OF NNA WITNESS SIWEK TO INTERROGATORIES
OF UNITED STATES POSTAL SERVICE

USPS/NNA-T3-17. Please refer to your testimony, section VIII(d) where you state, “Effectively, my cost estimates are based on a pooled sample combining the Shaw sample and the Czigler sample.”

- a. Do you believe that it is valid to pool data from two distinct populations to obtain a pooled estimate when those populations are significantly different from each other? If so, please provide justification from a standard statistics reference that supports your opinion.
- b. Do you agree that FY2005 estimated costs should reflect the FY2005 population of mail processed by FY2005 Postal Service operations? If not, why not?
- c. Please refer to Dr. Bozzo’s testimony, USPS-T-46, section IV.C.1, p. 35. Do you accept Dr. Bozzo’s statement that “The Within-County increase appears to have resulted from new methods to facilitate identification of Periodicals in the redesigned Question 23?” If not, please explain in detail the basis for disagreement.
- d. Do you agree that if Dr. Bozzo’s statement quoted in part (d) is true (whether or not you agree with it), it implies that the costs for Within-County Periodicals were understated in FY2004?

RESPONSE:

- a. No.
- b. Ideally FY2005 estimated costs should reflect the FY2005 population of mail processed by FY2005 Postal Service operations.
- c. Yes, new methods to facilitate identification of Periodicals in the redesigned Question 23 could be one of the reasons that contributed to the increase in the Within-County cost estimates.
- d. No. Costs for Within-County Periodicals were not necessarily understated in FY2004. Dr. Bozzo’s statement implies only that the new estimates of Within County costs based on the Postal Service’s new methods were higher than previous estimates that were based on prior methods.

RESPONSE OF NNA WITNESS SIWEK TO INTERROGATORIES
OF UNITED STATES POSTAL SERVICE

USPS/NNA-T3-18. Please confirm that, while the pound rates you propose in Appendix D to your testimony (at 10), increase current Within-County rates by less than 4 percent, all of the piece rates in your proposal (other than Ride-Along) would increase current rates by more than 30 percent, and that the piece rates for Basic Automation Flats, Basic Automation Letters, 3-Digit Automation Flats, 5-Digit Automation Flats, and 5-Digit Automation Letters would increase by more than 80 percent. If you do not confirm, please explain why not.

RESPONSE:

a. Confirmed. My rate proposal for Within County Periodicals shifts revenue recovery from pound rates to piece rates. For this reason, as compared with the USPS proposal, my proposed rate design increases the revenue to be recovered from piece rates and reduces the revenue to be recovered by pound rates. Note however that my rate design proposal also maintains the same level of overall revenue recovery from the Within County subclass as that proposed by the USPS in this case.

RESPONSE OF NNA WITNESS SIWEK TO INTERROGATORIES
OF UNITED STATES POSTAL SERVICE

USPS/NNA-T3-19. In section VII(b) of your testimony you appear to recognize that comparisons between IOCS costs presented by witness Shaw in Docket No. R2005-1 and by witness Czigler in Docket No. R2006-1 present some difficulties (although they are for respective base years 2004 and 2005 – not 2005 and 2006 as you state in your analysis). Do you agree with this characterization?

a. Is one difficulty the fact that different IOCS instruments were used to generate the respective cost estimates?

b. Please provide justification from authoritative sources for your applying confidence intervals developed by witness Shaw for FY 2004 to estimates for FY 2005 using a revised instrument.

RESPONSE:

Yes.

a. Yes.

b. I did not simply apply confidence intervals developed by witness Shaw for FY 2004 to estimates for FY 2005. I made adjustments to the confidence intervals to reflect the increase in total cost estimates between the two years. See my Tables 1A and 1B.