

**Undertaking # 5**

With reference to last page at Tab 11 of the Board book of documents, MPI to provide commentary, or detail regarding the reference to larger corporate expense base which is seen at the claims expenses line and the road safety loss prevention line; in addition, to advise of the split between cost allocation and pension superannuation with reference to the increase in operating expenses.

**RESPONSE:**

Please see attached schedules.

To explain variances from the 2013 GRA to the 2014 GRA in the categories of claims, operating and road safety/loss prevention, the first reference should be to the overall variance in total corporate expenses. The variances in corporate expenses flow through to the total Basic expense allocation for both normal operations and improvement initiatives. The total allocation to Basic is impacted by both the absolute dollar amount of the corporate expenses as well as any changes in the allocation percentage. These total Basic expenses are then further allocated to the four expense categories on the proforma financial statements.

Based on the schedules attached, the reason for the overall favourable variance from the 2013 GRA in claims expenses, operating expenses and road safety expenses of \$1,795,000 is due largely to the fact that normal corporate expenses in total decreased by \$6,392,000. The majority of this decrease is attributed to the increase in the vacancy allowance of \$3,300,000 from \$2,500,000 to \$5,800,000. In addition, reductions in data processing and printing have also been significant, and have contributed \$2,557,000 to the favourable variance.

When allocated to Basic, the resulting variance is impacted by the fact that the absolute dollar amount of total corporate expenses decreased from the 2013 GRA by \$6,392,000 but it is also impacted by a higher percentage of costs being allocated to Basic because of the change in allocation methodology. Last year the average allocation of normal operating costs was 73.4% to basic whereas in the 2014 GRA it was 74.2%. The increase in the

allocation percentage alone would have generated an increase in Basic normal operating costs of approximately \$1,982,000. The fact that Basic normal operating costs actually decreased by \$2,653,000 is because normal corporate expenses decreased by \$6,392,000 of which \$4,635,000 was allocated to basic.

The resulting favourable variance in basic normal operating expenses of \$2,653,000 is offset by an \$858,000 increase in the allocation of improvement initiative expenses to arrive at the \$1,795,000 positive variance.

The total positive variance of \$1,795,000 is further broken down as shown on the second schedule between claims, operating and road safety/loss prevention according to the Corporation's cost allocation methodology.

## Compare 2013/14 Expenses 2013 GRA to 2014 GRA

	Corporate Normal Ops			Corporate Initiatives			Corporate Total		
	2013 GRA	2014 GRA	Change	2013 GRA	2014 GRA	Change	2013 GRA	2014 GRA	Change
Compensation	153,360	149,390	(3,970)	(550)	408	958	152,810	149,798	(3,012)
Data Processing	16,535	15,386	(1,149)	6,182	10,863	4,681	22,717	26,249	3,532
Special Services	6,875	7,131	256	373	239	(134)	7,248	7,370	122
Building Expenses	11,174	12,697	1,523	-	-	-	11,174	12,697	1,523
Amortization of Capital Investments	6,404	6,173	(231)	2,215	1,801	(414)	8,619	7,974	(645)
Amortization of Deferred Development	8,802	8,906	104	5,388	-	(5,388)	14,190	8,906	(5,284)
Loss Prev/Safety Program	4,091	4,271	180	400	980	580	4,491	5,251	760
Telephone/Telecommunications	3,542	2,884	(658)	-	-	-	3,542	2,884	(658)
Advertising & Public Info	3,029	2,994	(35)	-	-	-	3,029	2,994	(35)
Printing, Stationery & Supplies	5,312	3,904	(1,408)	-	-	-	5,312	3,904	(1,408)
Postage	3,943	3,847	(96)	-	-	-	3,943	3,847	(96)
Regulatory/Appeal Expenses	3,330	3,298	(32)	-	-	-	3,330	3,298	(32)
Travel & Vehicle Expense	2,086	1,528	(558)	-	-	-	2,086	1,528	(558)
Driver Education Program	4,165	3,868	(297)	-	-	-	4,165	3,868	(297)
Grant in Lieu of Taxes	1,767	1,976	209	-	-	-	1,767	1,976	209
Furniture & Equipment/DP Equip	851	1,318	467	-	656	656	851	1,974	1,123
Merchant Fees	8,350	8,297	(53)	-	-	-	8,350	8,297	(53)
Other	7,501	6,857	(644)	252	38	(214)	7,753	6,895	(858)
<b>TOTAL</b>	<b>251,117</b>	<b>244,725</b>	<b>(6,392)</b>	<b>14,260</b>	<b>14,985</b>	<b>725</b>	<b>265,377</b>	<b>259,710</b>	<b>(5,667)</b>

GL Summary Description	Basic Normal Ops			Basic Initiatives			Basic Total		
	2013 GRA	2014 GRA	Change	2013 GRA	2014 GRA	Change	2013 GRA	2014 GRA	Change
Compensation	108,817	109,002	185	-	330	330	108,817	109,332	515
Data Processing	13,193	11,965	(1,228)	4,447	8,227	3,780	17,640	20,192	2,552
Special Services	5,221	4,787	(434)	364	217	(147)	5,585	5,004	(581)
Building Expenses	8,390	9,479	1,089	-	-	-	8,390	9,479	1,089
Amortization of Capital Investments	5,069	4,673	(396)	1,383	1,395	12	6,452	6,068	(384)
Amortization of Deferred Development	8,025	7,871	(154)	3,963	-	(3,963)	11,988	7,871	(4,117)
Loss Prev/Safety Program	3,840	3,991	151	318	834	516	4,158	4,825	667
Telephone/Telecommunications	2,730	2,253	(477)	-	-	-	2,730	2,253	(477)
Advertising & Public Info	2,272	2,226	(46)	-	-	-	2,272	2,226	(46)
Printing, Stationery & Supplies	2,159	1,544	(615)	-	-	-	2,159	1,544	(615)
Postage	1,989	2,452	463	-	-	-	1,989	2,452	463
Regulatory/Appeal Expenses	3,297	3,257	(40)	-	-	-	3,297	3,257	(40)
Travel & Vehicle Expense	1,575	1,076	(499)	-	-	-	1,575	1,076	(499)
Driver Education Program	3,751	3,307	(444)	-	-	-	3,751	3,307	(444)
Grant in Lieu of Taxes	1,391	1,485	94	-	-	-	1,391	1,485	94
Furniture & Equipment/DP Equip	652	1,001	349	-	485	485	652	1,486	834
Merchant Fees	6,157	6,032	(125)	-	-	-	6,157	6,032	(125)
Other	5,735	5,209	(526)	185	30	(155)	5,920	5,239	(681)
<b>TOTAL</b>	<b>184,263</b>	<b>181,610</b>	<b>(2,653)</b>	<b>10,660</b>	<b>11,518</b>	<b>858</b>	<b>194,923</b>	<b>193,128</b>	<b>(1,795)</b>

GL Summary Description	Basic % allocation Normal Ops				Basic % allocation Initiatives				Basic % allocation Total			
	2013 GRA	2014 GRA	Change		2013 GRA	2014 GRA	Change		2013 GRA	2014 GRA	Change	
Compensation	71.0%	73.0%	2.0%		0.0%	80.9%	80.9%		71.2%	73.0%	1.8%	
Data Processing	79.8%	77.8%	-2.0%		71.9%	75.7%	3.8%		77.7%	76.9%	-0.7%	
Special Services	75.9%	67.1%	-8.8%		97.6%	90.8%	-6.8%		77.1%	67.9%	-9.2%	
Building Expenses	75.1%	74.7%	-0.4%						75.1%	74.7%	-0.4%	
Amortization of Capital Investments	79.2%	75.7%	-3.5%		62.4%		-62.4%		74.9%	76.1%	1.2%	
Amortization of Deferred Development	91.2%	88.4%	-2.8%		73.6%		-73.6%		84.5%	88.4%	3.9%	
Loss Prev/Safety Program	93.9%	93.4%	-0.4%		79.5%	85.1%	5.6%		92.6%	91.9%	-0.7%	
Telephone/Telecommunications	77.1%	78.1%	1.0%						77.1%	78.1%	1.0%	
Advertising & Public Info	75.0%	74.3%	-0.7%						75.0%	74.3%	-0.7%	
Printing, Stationery & Supplies	40.6%	39.5%	-1.1%						40.6%	39.5%	-1.1%	
Postage	50.4%	63.7%	13.3%						50.4%	63.7%	13.3%	
Regulatory/Appeal Expenses	99.0%	98.8%	-0.3%						99.0%	98.8%	-0.3%	
Travel & Vehicle Expense	75.5%	70.4%	-5.1%						75.5%	70.4%	-5.1%	
Driver Education Program	90.1%	85.5%	-4.6%						90.1%	85.5%	-4.6%	
Grant in Lieu of Taxes	78.7%	75.2%	-3.6%						78.7%	75.2%	-3.6%	
Furniture & Equipment/DP Equip	76.6%	75.9%	-0.7%			73.9%	73.9%		76.6%	75.3%	-1.3%	
Merchant Fees	73.7%	72.7%	-1.0%						73.7%	72.7%	-1.0%	
Other	76.5%	76.0%	-0.5%		73.4%	78.9%	5.5%		76.4%	76.0%	-0.4%	
<b>TOTAL</b>	<b>73.4%</b>	<b>74.2%</b>	<b>0.8%</b>		<b>74.8%</b>	<b>76.9%</b>	<b>2.1%</b>		<b>73.5%</b>	<b>74.4%</b>	<b>0.9%</b>	

\* 2013 GRA reflects the old allocation methodology and has been adjusted to reflect IBM Data Centre in Initiatives rather than normal operations for comparison purposes.

GL Summary Description	Basic Normal Ops 2013 GRA					Basic Normal Ops 2014 GRA					Basic Normal Ops Difference				
	Claims	Operating	Road Safety	Regulatory	Total	Claims	Operating	Road Safety	Regulatory	Total	Claims	Operating	Road Safety	Regulatory	Total
	Expense	Expense	Expenses	Appeal Expenses		Expense	Expense	Expenses	Appeal Expenses		Expense	Expense	Expenses	Appeal Expenses	
Compensation	75,306	30,882	2,629	-	108,817	72,187	35,118	1,697	-	109,002	(3,119)	4,236	(932)	-	185
Data Processing	7,262	5,930	1	-	13,193	8,141	3,824	-	-	11,965	879	(2,106)	(1)	-	(1,228)
Special Services	2,351	2,443	427	-	5,221	1,992	2,701	94	-	4,787	(359)	258	(333)	-	(434)
Building Expenses	6,047	2,186	157	-	8,390	6,637	2,746	96	-	9,479	590	560	(61)	-	1,089
Amortization of Capital Investments	3,531	1,407	131	-	5,069	3,075	1,466	132	-	4,673	(456)	59	1	-	(396)
Amortization of Deferred Development	5,191	2,797	37	-	8,025	5,027	2,844	-	-	7,871	(164)	47	(37)	-	(154)
Loss Prev/Safety Program	-	-	3,840	-	3,840	-	-	3,991	-	3,991	-	-	151	-	151
Telephone/Telecommunications	1,882	821	27	-	2,730	1,523	730	-	-	2,253	(359)	(91)	(27)	-	(477)
Advertising & Public Info	35	527	1,710	-	2,272	15	421	1,790	-	2,226	(20)	(106)	80	-	(46)
Printing, Stationery & Supplies	1,341	700	118	-	2,159	788	671	85	-	1,544	(553)	(29)	(33)	-	(615)
Postage	915	969	105	-	1,989	1,236	1,167	49	-	2,452	321	198	(56)	-	463
Regulatory/Appeal Expenses	-	-	-	3,297	3,297	-	-	-	3,257	3,257	-	-	-	(40)	(40)
Travel & Vehicle Expense	1,084	460	31	-	1,575	699	363	14	-	1,076	(385)	(97)	(17)	-	(499)
Driver Education Program	-	-	3,751	-	3,751	-	-	3,307	-	3,307	-	-	(444)	-	(444)
Grant in Lieu of Taxes	1,274	109	8	-	1,391	1,037	435	13	-	1,485	(237)	326	5	-	94
Furniture & Equipment/DP Equip	299	347	6	-	652	505	492	4	-	1,001	206	145	(2)	-	349
Merchant Fees	-	6,157	-	-	6,157	-	6,032	-	-	6,032	-	(125)	-	-	(125)
Other	924	4,329	482	-	5,735	825	4,065	319	-	5,209	(99)	(264)	(163)	-	(526)
<b>TOTAL</b>	<b>107,442</b>	<b>60,064</b>	<b>13,460</b>	<b>3,297</b>	<b>184,263</b>	<b>103,687</b>	<b>63,075</b>	<b>11,591</b>	<b>3,257</b>	<b>181,610</b>	<b>(3,755)</b>	<b>3,011</b>	<b>(1,869)</b>	<b>(40)</b>	<b>(2,653)</b>

GL Summary Description	Basic Initiatives 2013 GRA					Basic Initiatives 2014 GRA					Basic Initiatives Difference				
	Claims	Operating	Road Safety	Regulatory	Total	Claims	Operating	Road Safety	Regulatory	Total	Claims	Operating	Road Safety	Regulatory	Total
	Expense	Expense	Expenses	Appeal Expenses		Expense	Expense	Expenses	Appeal Expenses		Expense	Expense	Expenses	Appeal Expenses	
Compensation	-	-	-	-	-	271	59	-	-	330	271	59	-	-	330
Data Processing	2,961	1,486	-	-	4,447	5,252	2,975	-	-	8,227	2,291	1,489	-	-	3,780
Special Services	357	7	-	-	364	190	27	-	-	217	(167)	20	-	-	(147)
Building Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Amortization of Capital Investments	981	402	-	-	1,383	933	462	-	-	1,395	(48)	60	-	-	12
Amortization of Deferred Development	2,810	1,153	-	-	3,963	-	-	-	-	-	(2,810)	(1,153)	-	-	(3,963)
Loss Prev/Safety Program	-	-	318	-	318	-	-	834	-	834	-	-	516	-	516
Telephone/Telecommunications	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Advertising & Public Info	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Printing, Stationery & Supplies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Postage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Regulatory/Appeal Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Travel & Vehicle Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Driver Education Program	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Grant in Lieu of Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Furniture & Equipment/DP Equip	-	-	-	-	-	321	164	-	-	485	321	164	-	-	485
Merchant Fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	131	54	-	-	185	19	11	-	-	30	(112)	(43)	-	-	(155)
<b>TOTAL</b>	<b>7,240</b>	<b>3,102</b>	<b>318</b>	<b>-</b>	<b>10,660</b>	<b>6,986</b>	<b>3,698</b>	<b>834</b>	<b>-</b>	<b>11,518</b>	<b>(254)</b>	<b>596</b>	<b>516</b>	<b>-</b>	<b>858</b>

GL Summary Description	Total Basic 2013 GRA					Total Basic 2014 GRA					Total Basic Difference				
	Claims	Operating	Road Safety	Regulatory	Total	Claims	Operating	Road Safety	Regulatory	Total	Claims	Operating	Road Safety	Regulatory	Total
	Expense	Expense	Expenses	Appeal Expenses		Expense	Expense	Expenses	Appeal Expenses		Expense	Expense	Expenses	Appeal Expenses	
Compensation	75,306	30,882	2,629	-	108,817	72,458	35,177	1,697	-	109,332	(2,848)	4,295	(932)	-	515
Data Processing	10,223	7,416	1	-	17,640	13,393	6,799	-	-	20,192	3,170	(617)	(1)	-	2,552
Special Services	2,708	2,450	427	-	5,585	2,182	2,728	94	-	5,004	(526)	278	(333)	-	(581)
Building Expenses	6,047	2,186	157	-	8,390	6,637	2,746	96	-	9,479	590	560	(61)	-	1,089
Amortization of Capital Investments	4,512	1,809	131	-	6,452	4,008	1,928	132	-	6,068	(504)	119	1	-	(384)
Amortization of Deferred Development	8,001	3,950	37	-	11,988	5,027	2,844	-	-	7,871	(2,974)	(1,106)	(37)	-	(4,117)
Loss Prev/Safety Program	-	-	4,158	-	4,158	-	-	4,825	-	4,825	-	-	667	-	667
Telephone/Telecommunications	1,882	821	27	-	2,730	1,523	730	-	-	2,253	(359)	(91)	(27)	-	(477)
Advertising & Public Info	35	527	1,710	-	2,272	15	421	1,790	-	2,226	(20)	(106)	80	-	(46)
Printing, Stationery & Supplies	1,341	700	118	-	2,159	788	671	85	-	1,544	(553)	(29)	(33)	-	(615)
Postage	915	969	105	-	1,989	1,236	1,167	49	-	2,452	321	198	(56)	-	463
Regulatory/Appeal Expenses	-	-	-	3,297	3,297	-	-	-	3,257	3,257	-	-	-	(40)	(40)
Travel & Vehicle Expense	1,084	460	31	-	1,575	699	363	14	-	1,076	(385)	(97)	(17)	-	(499)
Driver Education Program	-	-	3,751	-	3,751	-	-	3,307	-	3,307	-	-	(444)	-	(444)
Grant in Lieu of Taxes	1,274	109	8	-	1,391	1,037	435	13	-	1,485	(237)	326	5	-	94
Furniture & Equipment/DP Equip	299	347	6	-	652	826	656	4	-	1,486	527	309	(2)	-	834
Merchant Fees	-	6,157	-	-	6,157	-	6,032	-	-	6,032	-	(125)	-	-	(125)
Other	1,055	4,383	482	-	5,920	844	4,076	319	-	5,239	(211)	(307)	(163)	-	(681)
<b>TOTAL</b>	<b>114,682</b>	<b>63,166</b>	<b>13,778</b>	<b>3,297</b>	<b>194,923</b>	<b>110,673</b>	<b>66,773</b>	<b>12,425</b>	<b>3,257</b>	<b>193,128</b>	<b>(4,009)</b>	<b>3,607</b>	<b>(1,353)</b>	<b>(40)</b>	<b>(1,795)</b>

\* 2013 GRA reflects the old allocation methodology and has been adjusted to reflect IBM Data Centre in Initiatives rather than normal operations for comparison purposes.