

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

M. DIANE KOKEN
Insurance Commissioner of the
Commonwealth of Pennsylvania

Plaintiff,
v.

RELIANCE INSURANCE COMPANY,
Defendant.

DOCKET NO. 269 MD 2001

In re Petition for Approval of Plan for
Allocation of Policyholder Collateral
of Consolidated
Freightways Corporation

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OF PA (PHILA)

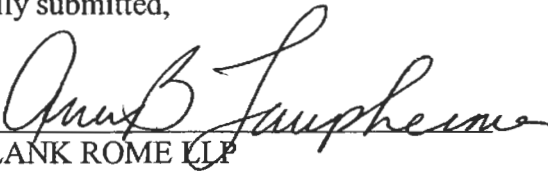
PRAECIPE TO SUPPLEMENT THE RECORD

TO THE PROTHONOTARY:

Kindly supplement the record in the above captioned matter by docketing attached Amended Proposed Order of Approval of Plan for Allocation of Policyholder Collateral of Consolidated Freightways Corporation.

Respectfully submitted,

By:



Handwritten signature of Ann B. Laupheimer in cursive script, written over a horizontal line.

BLANK ROME LLP

Ann B. Laupheimer

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Attorneys for Plaintiff, M. Diane Koken, Insurance
Commissioner of the Commonwealth of Pennsylvania,
in her official capacity as Statutory Liquidator of
Reliance Insurance Company

Dated: August 22, 2006

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

M. DIANE KOKEN, Insurance :
Commissioner of the Commonwealth of :
Pennsylvania, :
In her official capacity as Liquidator of :
RELIANCE INSURANCE COMPANY :
: No. 296 M.D. 2001
Plaintiff, :
: :
v. :
: :
RELIANCE INSURANCE COMPANY, :
: :
Defendant. :

**ORDER APPROVING PLAN
FOR ALLOCATION OF POLICYHOLDER COLLATERAL OF
CONSOLIDATED FREIGHTWAYS CORPORATION**

AND NOW, this ____ day of August, 2006, upon consideration of the Petition of M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania, in her capacity as Liquidator of Reliance Insurance Company (“the Liquidator”) for Approval of Plan for Allocation of Policyholder Collateral of Consolidated Freightways Corporation, and the absence of any objection thereto, the Court finds that the Plan complies with 40 P.S. § 221.23(a) and equitably allocates the collateral of Policyholder Consolidated Freightways Corporation (the “Collateral”) currently in the possession of Reliance Insurance Company (“Reliance”).

The Court finds as follows:

- A. Reliance currently holds the Collateral, which consists of \$100 million.
- B. The Collateral was posted by CF with Reliance to secure its deductible reimbursement obligations under policies of insurance issued by Reliance to

Consolidated Freightways Corporation (“CF”) for workers compensation coverage and automobile/general liability (“AL/GL”) coverage and also to secure its obligations for retrospective premium adjustments (the “CF Policies”).

C. The CF Policies consist of the following:

Policy Number	Effective Date	Expiration Date	Line of Business	Policy Type
NKC0131913	10/1/1996	10/1/1997	AL	\$3,000,000 Deductible
NKC0131913	10/1/1997	10/1/1998	AL	\$3,000,000 Deductible
NKC0131913	10/1/1998	10/1/1999	AL	\$3,000,000 Deductible
NKC0131913	10/1/1999	10/1/2000	AL	\$3,000,000 Deductible
NKC0131914	10/1/1996	10/1/1997	AL	\$3,000,000 Deductible
NKC0131914	10/1/1997	10/1/1998	AL	\$3,000,000 Deductible
NKC0131914	10/1/1998	10/1/1999	AL	\$3,000,000 Deductible
NKC0131914	10/1/1999	10/1/2000	AL	\$3,000,000 Deductible
NKC0131915	10/1/1996	10/1/1997	AL	\$3,000,000 Deductible
NKC0131915	10/1/1997	10/1/1998	AL	\$3,000,000 Deductible
NKC0131915	10/1/1998	10/1/1999	AL	\$3,000,000 Deductible
NKC0131915	10/1/1999	10/1/2000	AL	\$3,000,000 Deductible
NGB0131922	10/1/1996	10/1/1997	GL	\$500,000 Deductible
NGB0131922	10/1/1997	10/1/1998	GL	\$500,000 Deductible
NGB0131922	10/1/1998	10/1/1999	GL	\$500,000 Deductible
NGB0131922	10/1/1999	10/1/2000	GL	\$500,000 Deductible
NWA0131923	10/1/1996	10/1/1997	WC	\$2,000,000 Deductible
NWA0131923	10/1/1997	10/1/1998	WC	\$2,000,000 Deductible
NWA0131923	10/1/1998	10/1/1999	WC	\$2,000,000 Deductible
NWA0131923	10/1/1999	10/1/2000	WC	\$2,000,000 Deductible
NWA0131924	10/1/1996	10/1/1997	WC	Retro
NWA0131924	10/1/1997	10/1/1998	WC	Retro

NWA0131924	10/1/1998	10/1/1999	WC	Retro
NWA0131924	10/1/1999	10/1/2000	WC	Retro
				\$2,000,000
NWA0158556	10/1/1999	10/1/2000	WC	Deductible

D. The Collateral is in the form of a \$55 million letter of credit and a \$45 million surety bond issued by CNA.

E. After Reliance was placed in liquidation in October 2001, claims which had arisen under the CF Policies were sent to the guaranty associations (“GAs”). Subject to applicable statutory limitations, certain GAs assumed the obligation to pay CF workers compensation claims. These are referred to as the “Affected GAs”. The Affected GAs which paid and are paying CF workers compensation claims and the amounts they had paid through December 31, 2005 are as follows and the payments made total \$30,052,708.97:

<u>Guaranty Association</u>	<u>Total Paid</u>
Alaska	691.00
Alabama	206,006.00
Arkansas	45,407.00
Arizona	85,461.00
California	10,994,010.44
Colorado	151,953.00
Connecticut	242,424.00
Florida	2,040,453.00
Georgia	587,810.00
Hawaii	176.00
Iowa	533,854.00
Illinois	2,287,987.00
Indiana	52,814.00
Kansas	250,135.00
Kentucky	22,277.00
Louisiana	76,627.00
Massachusetts	767,217.00
Maryland	275,271.00
Maine	128,617.00
Michigan	325,728.00
Minnesota	409,698.00
Missouri	395,709.00
Mississippi	128,169.00
Montana	51,976.00

North Carolina	756,715.97
Nebraska	110,792.00
New Jersey	681,887.00
New York	2,489,331.00
Oklahoma	150,058.00
Oregon	134,036.00
Pennsylvania	1,855,509.00
Rhode Island	57,653.00
South Carolina	845,504.56
Tennessee	1,318,042.00
Texas	804,927.00
Utah	323,585.00
Virginia	460,400.00
Vermont	4.00
Wisconsin	3,794.00
Grand Total All States	30,052,708.97

- F. Three Affected GAs – California, Pennsylvania and Texas - initially funded some AL claims within the CF deductible in the amount of \$201,753.00.
- G. In addition to claims under the workers compensation and AL/GL deductible policies, some of the CF Policies provided for retrospective premium adjustments. From the date of liquidation through December 21, 2005, CF owed Reliance \$766,443.12 for retrospective premium adjustments.
- H. CF also has an as yet undetermined amount of claims that are not covered by GAs.

Accordingly, it is hereby ORDERED and DECREED as follows:

1. The Liquidator will retain a third party administrator (“TPA”) to adjust and settle known, but unresolved, non-covered AL/GL claims.
2. From the Collateral, the Liquidator will make available an initial sum of \$20 million to settle the non-covered AL/GL claims within the deductible (“the

Settlement Fund”). No settlement will be eligible for payment unless it releases the Liquidator and the Reliance estate. To the extent claimants, GAs or CF have submitted POCs for any claim which is settled according to this process, the Liquidator shall be entitled to issue a NOD with an amount of \$0 at the appropriate statutory priority. The reasonable administrative expenses of CF and the costs of the TPA may be paid from the Settlement Fund.

3. The Liquidator shall pay to the Affected GAs from the Collateral the amounts set forth above at paragraph E.
4. The Liquidator shall pay to the California, Pennsylvania and Texas GAs \$201,753.00 that they paid in AL/GL claims.
5. The Liquidator shall reimburse Reliance from the Collateral for the amount of \$766,443.12 that was due and owing in retrospective premium through December 31, 2005.
6. **Ongoing Collateral Review**
 - a. No later than October 31, 2007, the Liquidator shall complete a review and evaluation of the Collateral and workers compensation claims under CF Policies in order to determine whether there is sufficient collateral, including any Collateral remaining in the Settlement Fund, to fund all remaining known, outstanding and anticipated claims, retrospective premium and administrative expenses.
 - b. If by October 31, 2007, the Liquidator determines that there is sufficient collateral, she shall promptly submit to the Court a Petition to Finally Allocate

Collateral, setting forth the terms upon which she proposes to allocate and pay the Collateral. Upon the passage of 45 days from the filing of such a Petition without action by the Court, or upon earlier approval by the Court, the Liquidator shall be entitled to proceed to allocate and pay the Collateral as set forth in such Petition.

- c. If by October 31, 2007, the Liquidator determines that actuarial projections remain too imprecise to finally allocate and pay the Collateral, but that a further partial allocation and payment is appropriate, the Liquidator will promptly file a Petition to Partially Allocate Collateral, setting forth the terms upon which she proposes to allocate and pay part of the Collateral. Upon the passage of 45 days from the filing of such a Petition without action by the Court, or upon earlier approval by the Court, the Liquidator shall be entitled to proceed to allocate and pay the Collateral as set forth in such Petition.
- d. At each year anniversary of October 31, 2007, as updated and more accurate information is obtained, the Liquidator will complete a collateral review and determine whether to proceed under paragraph (b) above if the collateral is determined to be sufficient, or paragraph (c) above if the collateral review remains inconclusive.
- e. No payments shall be made from the Collateral without notice to the Court as set forth herein.

- 7. **Insufficient Collateral.** If the Liquidator determines at any time that the Collateral is insufficient to reimburse all claims paid by the Affected GAs, pay all

non-covered AL/GL claims, pay all retrospective premiums due and owing, as well as administrative expenses, the Liquidator shall file with this Court an amended plan establishing an equitable *pro rata* allocation formula against the Collateral controlling all future distributions. If the Collateral is exhausted without the full payment of all non-covered AL/GL claims and reimbursement of all claims paid by the Affected GAs in full, the remaining claims or partial claims shall be claims against the Reliance estate and subject to compliance with the proof of claim process established by the Act and the September 9, 2002 Order of this Court, and any amendments or supplements thereto.

8. **Liquidator Expenses.** The Liquidator may withdraw up to 3% of the Collateral for reasonable actual expenses incurred in the administration of Section 221.23a. After each annual plan review, the Liquidator shall include in the Petition a statement of and request for approval of reimbursement of the Liquidator's administrative expenses.

By the Court

James Gardner Colins, President Judge

CERTIFICATE OF SERVICE

I, Ann Laupheimer, hereby certify that on this day, service of the foregoing was made on the attached Service Lists through the transmission of a Notice of Filing and through posting of a true and correct copy in PDF file format on the Reliance Documents website (www.reliancedocuments.com).

Dated: August 22, 2006


ANN LAUPHEIMER