

Hearing Officer Exhibit 1

The source of the Hospital Market Basket Index (HMBI) series used by Mercer and as contained in the Dirigo Filing made with the Superintendent on September 19, 2005 is the CMS 1992-based HMBI as defined by CMS with 1992=1.000.

This technical matter is based on e-mail communications between the Superintendent (through its consultant Dr. Highland) and both CMS and Global Insight, Inc., as detailed below.

From: Global Insight Support [mailto:support@globalinsight.com]
Sent: Wednesday, October 26, 2005 11:28 AM
To: Jim Highland
Subject: Global Insight Inquiry:5AHF4A4372

Jim,

The series provided by Mercer is based upon the previous hospital market basket as defined by CMS with 1992=1.000 and used by CMS up until 2003. The one you found on the CMS website is the current specification with a base period of 1997=1.000. If you want the exact definition, you should be able to find it on the CMS website. Further information would require you to subscribe to the HHC Review.

Please let us know if there are any questions and if there is anything else we can do to assist you.

Thank you,
Chris Halm
Client Resource Center
Global Insight, Inc.
(800) 933-3374 / (781) 301-9200
support@globalinsight.com

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From: Knight, Mollie B. (CMS/OACT) [mailto:Mollie.Knight@cms.hhs.gov]
Sent: Tuesday, October 18, 2005 3:28 PM
To: Jim Highland
Cc: SSKO, Andrea M. (CMS/OACT); Seifert, MARY LEE (CMS/OACT)
Subject: Data question on market baskets

Dr. Highland,

The second sequence of numbers is the 1992-based Hospital Market Basket. We don't display this market basket on the CMS website since the last year it was used update PPS hospital payments was FY 2002. In addition to the base year, the major difference between the 1997-based and 1992-based

Hospital market baskets is that blood and blood products was broken-out into a separate cost category in the 1997-based market basket.

On our website we also have the 2002-based Hospital market basket. This is the latest rebased and revised market basket. It was used to determine the FY06 Hospital PPS payment update.

If you have any additional questions, let me know.

Mollie Knight

E-mail inquiry from Dr. Highland to CMS.

Hello-

I have what I hope is a simple question. CMS currently has published on its web site hospital market basket data, base Year 1997. Just to provide context, a small extract of observations for the overall index follows:

Year	Quarter	HMBI
1999	Q1	1.052
1999	Q2	1.058
1999	Q3	1.066
1999	Q4	1.077
2000	Q1	1.084
2000	Q2	1.094
2000	Q3	1.106
2000	Q4	1.117
2001	Q1	1.132
2001	Q2	1.144
2001	Q3	1.155
2001	Q4	1.164
2002	Q1	1.175
2002	Q2	1.185
2002	Q3	1.197
2002	Q4	1.209
2003	Q1	1.224
2003	Q2	1.231
2003	Q3	1.244
2003	Q4	1.253
2004	Q1	1.268
2004	Q2	1.28
2004	Q3	1.295
2004	Q4	1.308
2005	Q1	1.321
2005	Q2	1.331

An agency of the state government here has provided "PPS Input Price Index Market Basket" data, with source indicated as <http://www.globalinsight.com/> numbers updated quarterly. I understand that Global

Insight is the contractor to CMS. However, I do not find any data on their website. Furthermore, the numbers provided by the state do not indicate the base period. Their sequence of values is:

Year	Quarter	HMBI
1999	Q1	1.197
1999	Q2	1.205
1999	Q3	1.215
1999	Q4	1.227
2000	Q1	1.238
2000	Q2	1.252
2000	Q3	1.265
2000	Q4	1.276
2001	Q1	1.294
2001	Q2	1.304
2001	Q3	1.312
2001	Q4	1.318
2002	Q1	1.329
2002	Q2	1.339
2002	Q3	1.351
2002	Q4	1.360
2003	Q1	1.382
2003	Q2	1.390
2003	Q3	1.403
2003	Q4	1.412
2004	Q1	1.430
2004	Q2	1.445
2004	Q3	1.462
2004	Q4	1.475
2005	Q1	1.493
2005	Q2	1.506

I can't determine the source of this second sequence of numbers, and do not recognize the base period from which they must come (it would appear to be before 1997).

Can you make any suggestions about where this second set of numbers might have come from, and what the difference between them and the 1997-based set that is provided on the CMS website?

Thank you in advance for any help you can provide.

Regards,
Jim Highland

James P. Highland, PhD

www.compass-inc.com

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