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October 14, 2010

VIA ELECTRONIC MAIL AND US MAIL

Thomas A. Krudy
Center for the Transformation of Waste Technologies
236 E. 15th Street
Indianapolis, IN 46202-2515

Re: Insured: ESI Environmental, Inc.
Site: 4910 West 86th Street, Indianapolis, IN
Lawsuit: ESI Environmental, Inc. v. American International Specialty Lines Insurance Company, Civil Action No.: 1:07-cv-1182-DFH-DML, United States District Court for the Southern District of Indiana
J&C File No.: 279310.02409

Dear Mr. Krudy:

I represent American International Specialty Lines Insurance Company n/k/a Chartis Specialty Lines Insurance Company ("AISLIC") in the above-referenced coverage litigation. We understand from recent conversations with coverage counsel for ESI Environmental, Inc. ("ESI") that ESI has filed for Chapter 7 bankruptcy and that you have been appointed to serve as ESI's trustee as case proceeds through the bankruptcy process.

By way of background, AISLIC issued an environmental liability policy (Policy No. EG 1955725) and an umbrella liability policy (Policy No. EGU 1955726) to ESI. Both policies were in effect from December 1, 2006 to December 1, 2007. Based upon the information that has been provided to us to date, ESI operated a used oil processing facility in Indianapolis, Indiana that received used oil from generators. We understand that on July 18, 2007, ESI was informed by a customer, Permafix that it had discovered about 22 ppm PCBs in a used oil shipment that it received from ESI. The customer returned the shipment to ESI where the contaminated oil was segregated into a holding tank. ESI later determined that the contaminated used oil had been received on July 6, 2007 and July 10, 2007 from Bee Environmental, a used oil broker. ESI subsequently informed its customers of the contaminated oil and return loads that were recalled were placed in product holding tanks at the ESI site. By the time that ESI was informed of the

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PCBs, the PCB-contaminated loads of used oil had been processed by and through ESI's plant. As a result, PCBs from the contaminated shipments from the broker had mixed with, and cross-contaminated, ESI's equipment and the other oil in the ESI system. ESI tracked and retrieved other outbound shipments and sequestered those shipments in portions of ESI's facility already contaminated with PCS. ESI also stopped processing oil until it could identify the contaminated portions of its system. ESI then proceeded to decontaminate its systems and some of the contaminated oil with solvent. ESI reported the incident to the Indiana Department of Environmental Management ("IDEM"), which then reported the incident to the United States Environmental Protection Agency ("EPA").

ESI, in turn, provided AISLIC with notice of the PCB-contaminating event and subsequently sought coverage from AISLIC under the aforementioned policies for alleged damages ESI incurred in connection with the PCB-contaminating event and the clean-up associated therewith. After AISLIC denied coverage to ESI, ESI filed a lawsuit against AISLIC in the Superior Court of Marion County, Indiana. AISLIC removed the lawsuit to the United States District Court for the Southern District of Indiana – where the lawsuit is currently pending. ESI later amended its Complaint and added its first party property insurer, National Union Fire Insurance Company of Pittsburgh, PA, to the lawsuit as a defendant.

Shortly after the lawsuit was removed, AISLIC issued a coverage position letter on January 29, 2008 and agreed to provide coverage for the reasonable and necessary costs incurred for the disposal of the PCBs at ESI's facility, pursuant to a full reservation of rights. After issuing the aforementioned letter, AISLIC reimbursed ESI for certain costs and expenses that it incurred in responding and decontaminating the PCB-contaminating event. AISLIC also worked with ESI to formulate and execute a decontamination plan that removed PCB-contaminated liquids from ESI's site. The removal of the liquids from the affected tanks proceeded from July through September, 2008. In September, the process of removing oil from Tank 51 began. The decontamination of the liquids at the site was completed by the remediation contractors in November, 2009. A dispute later arose between ESI and AISLIC over the nature and scope of the decontamination process necessary to address the sludge remaining in Tanks 43, 44 and 51.

At our request, the remediation contractor – WSP Environmental & Energy ("WSP") - prepared a Proposed Draft Tank 51 Restoration Plan to address the decontamination process for the three remaining tanks. After obtaining ESI's input and consent to submit the Plan to the Environmental Protection Agency ("EPA"), the Plan was submitted on November 30, 2009. In response to comments from the EPA, a revised Tank 51 Plan was submitted on behalf of ESI on June 11, 2010. By letter dated September 30, 2010, the EPA approved the Tank 51 Plan, with some minor revisions. By letter dated October 1, 2010, IDEM likewise approved the Tank 51 Plan. Copies of both of these letters have been attached hereto for your review.

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As you know, before the Tank 51 Plan could be carried out, ESI filed for Chapter 7 bankruptcy. Prior to ESI's bankruptcy filing, the EPA issued a September 29, 2010 unilateral Administrative Order which authorized the EPA to take over and decommission ESI's facility. The remediation contractor, WSP, met with the EPA Region 5 On-Site Coordinator – Verneta Simon – on October 8, 2010 and we understand that the EPA is anxious for WSP to begin the remediation process on Tanks 43, 44 and 51. In this regard, both the EPA and IDEM stated that they would like the process to begin “as soon as possible.” We understand that Ms. Simon and the representative from IDEM (George Richotte) may be reaching out to you in the near future to discuss the decommissioning of ESI's facility. For your information, Ms. Simon can be reached at (312) 886-3601 (cell); (312) 802-1404 (office) and Simon.Verneta@epamail.epa.gov.

WSP has informed us that a subcontractor has been selected (through a bid process executed with the assistance of ESI) and that the subcontractor is prepared to begin the process. Due to the nature and scope of the remediation process, the process must begin soon in order to ensure that the remediation process is completed before the weather becomes too cold. Accordingly, we request that you authorize or otherwise permit WSP and the subcontractor to work with the EPA to carry out the decontamination process in accordance with the EPA Risk Based TSCA PCB Disposal Approval Letter dated September 30, 2010 and the underlying revised Tank 51 Plan. AISLIC is prepared, pursuant to its previous agreement with ESI, to pay for the costs and expenses associated with the decontamination activities set forth in the revised Tank 51 Plan. Because time is of the essence, we ask that you please respond to this letter as soon as possible.

In the meantime, if you have any questions or would like to discuss this matter further, please feel free to contact me at (202) 457-5458. We look forward to hearing from you soon.

Sincerely,



Christopher Ferragamo

Enclosures as stated

cc: Paul D. Gresk, Esq. (via electronic mail)
Ethel Fay Hong Badawi, Esq. (via electronic mail)
Michael K. McCrory, Esq. (via electronic mail)
Michael Scanlon, Esq. (via electronic mail)