

May 8, 2012

Via Email and United States Mail

Mark O'Brien
Environmental Risk Services Corporation
1600 Riviera Avenue, Suite 310
Walnut Creek, California 94596

Re: Former Benicia Arsenal
Alleged Insured : City of Benicia
Claim No. : 03-022807
Our File No. : 0134.2666

Dear Mr. O'Brien:

I am coverage counsel for The Hanover Insurance Company in regard to the above environmental contamination claim presented by the California Environmental Protection Agency – Department of Toxic Substances Control. Please direct all further communications concerning this matter to me.

Hanover has received your letter dated May 1, 2012 in which you state that your client, the City of Benicia, is making a claim for benefits under an alleged Hanover general liability policy bearing policy number 1FP153187 and having effective dates of July 1, 1963 through June 30, 1968. Please be advised that Hanover is unable to locate either a copy of, or any records referring to, any policy issued to the City. Since you state that the City's records indicate that the City was in fact an insured under a Hanover policy, please forward to me copies of any documents you have tending to establish the existence and terms of the alleged Hanover policy.

Also, I have reviewed the DTSC's "draft" Imminent and Substantial Determination and Remedial Action Order which names the United States Department of the Army as a respondent, and the DTSC's September 15, 2010 letter which states

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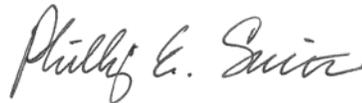
that the City "must be involved as an integral part of the investigation and cleanup."
Has the DTSC issued any other orders or letters implicating the City? If so, please provide copies of such documents to me.

On a final note, I am bit confused by the second-to-last paragraph of your letter in which you request that Hanover not contact other owners of property located at the former Benicia Arsenal. First, I am not sure why you are citing case law dealing with a participating insurer's right to obtain equitable contribution from a non-participating insurer who covers the same insured. Please explain. Second, I see your reference to "Atlanta International Insurance Company." Please identify who that carrier is and what its role is here. Third, if it is determined that Hanover owes any obligations to the City here, then the City's duty of cooperation clearly would require the City to prosecute claims for implied indemnity against other allegedly responsible parties (including other property owners). While Hanover will not attempt to identify or contact other property owners at this point, Hanover is reserving its right to do so in the future.

Thank you for your attention to the above. Obviously, at this point, Hanover is investigating coverage subject to a full reservation of rights. By investigating, Hanover shall not be deemed to have waived, or be estopped to assert, any right under any policy which Hanover may have issued.

Very truly yours,

SMITH SMITH & FEELEY LLP



By

Phillip E. Smith
psmith@insurlaw.com

PES:cb

cc: Donna Moore
The Hanover Insurance Group