

**CITY OF LODI  
INFORMAL INFORMATIONAL MEETING  
"SHIRTSLEEVE" SESSION  
CARNEGIE FORUM, 305 WEST PINE STREET  
TUESDAY, NOVEMBER 20, 2007**

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, November 20, 2007, commencing at 7:01 a.m.

**A. ROLL CALL**

Present: Council Members – Hansen, Hitchcock, Katzakian, Mounce, and Mayor Johnson

Absent: Council Members – None

Also Present: City Manager King, City Attorney Schwabauer, and City Clerk Johl

**B. TOPIC(S)**

B-1 "Receive Report on Litigation Status and Groundwater Cleanup Model"

City Manager King provided a brief introduction to the subject matter of the litigation status and groundwater cleanup model.

City Attorney Schwabauer gave a PowerPoint presentation regarding the PCE litigation update. Specific topics of discussion included executive summary, M & P settlements, Central Plume status, Busy Bee Plume status, Southern Plume status, Northern Plume status, Southwestern Plume status, insurance settlements, other settlements, cleanup estimates, net City cost of \$46.5 million, legal expenses, Folger Levin & Kahn contingency, and cost summary.

In response to Council Member Hitchcock, Mr. Schwabauer confirmed the  $\text{Æ}$  Capital settlement is \$30,000, which was based on a nuisance-type exposure rather than actual liability.

In response to Council Member Hansen, Mr. Schwabauer stated the Service Laundry is accounted for in the Northern Plume settlement.

In response to Council Member Hansen, Mr. Schwabauer stated that, with respect to the Holz deal, there is a lien on the subject property, whereby the City must be notified when the property is sold. He stated the title company does not have the ability to transfer title on the property without transferring the appropriate amount to the lien holder to release the lien.

Council Member Hitchcock requested a copy of the PowerPoint presentation. In response to Council Member Hitchcock, Mr. Schwabauer stated the cleanup is going to run at least 30 years and the City has enough money to install the remedy while operations and maintenance and replacement costs will remain unknown and continue to run for some time. Mr. Schwabauer stated the currently unknown amount may become clearer in the next year or so during the course of the remediation and as the Board considers the remedy plan.

In response to Mayor Johnson, Mr. Schwabauer stated the Lehman \$30 million cost for cleanup and the Lehman \$24 million settlement was listed separately due to the extensive litigation process involved with this particular party, including matters regarding the original loan and obligation to pursue the suit. He stated, as a way of clarifying the accounting, the difference of \$6 million alone could be listed. Council Members Hitchcock and Hansen concurred.

City Manager King stated it is also important to replenish the infrastructure replacement account and other funds that were affected by the litigation with the appropriate monies. He stated that topic will be brought back to Council as a separate item.

Public Works Director Prima stated the exact amount of the cleanup costs is still unknown. He stated that, while some settlements are still pending final approval, the City does have enough money to install the remedy while operations and maintenance costs will be ongoing. Mr. Prima also stated that most people are providing access to their respective properties and meetings pertaining to remediation with the Regional Board are continuing.

Consultant Phil Smith provided a PowerPoint presentation regarding the status of the groundwater contamination. Specific topics of discussion included work to be completed, an overview of the dual phased extraction system, Central Plume update, Central Plume groundwater model, groundwater flow and transport model uses, Lodi groundwater contamination plumes, model domain, and examples of remedial alternatives in the Central & South Central/Western Plumes.

In response to Council Member Hitchcock, Mr. Smith stated the simulations were created from a commercially available computer program combined with City specific data and a geological model based on the City statistics and facts. Mr. Smith and Mr. Prima discussed the thousands of cells that are broken down under the ground and the structural engineering process, whereby mass is broken up into pieces and measurements are taken from the corners and centers of the pieces and configured accordingly. Mr. Smith stated the goal is to utilize the wells in a manner so as to maximize the containment and remediation of source sites in the most economical fashion.

In response to Mayor Johnson, Mr. Smith stated the efforts in the high source red area on the simulation are working very well. A brief discussion ensued between Mr. Smith and Mayor Johnson regarding the process of first containing a highly contaminated source area and then focusing on removal so as to obtain the most benefit of the treatment.

In response to Council Member Hitchcock, Mr. Smith stated the number of wells needed for cleaning up particular source areas will depend upon the final remediation plan that is approved by the Board.

In response to Council Member Katzakian, Mr. Smith stated the Regional Board staff that is working on the City's case are practical people who are trying to obtain the right remedy over a reasonable period of time. He stated the Board is the lead regulatory agency and writes compliance requirements for all plumes. Mr. Prima stated the Board is appointed by the Governor's office and governs the entire Central Valley area.

In response to Council Member Hansen, Mr. Smith stated he has a high level of confidence that the containment and remediation efforts being discussed will protect the City's groundwater on a long-term basis.

In response to Council Member Hansen, Mr. Smith stated all communities that had or currently have dry cleaner businesses in their cities are dealing with this issue in some form or another.

B-2 "Discussion Regarding Electric Utility's Power Needs for Fiscal Year 2009 through 2011"

City Manager King provided a brief introduction of the subject matter of purchasing additional power supply.

Electric Utility Manager Ken Weisel provided a brief PowerPoint presentation regarding the Electric Utility's power needs. He specifically discussed the overview of the fiscal year 2009 to 2011 open position and corresponding numbers. Mr. Weisel also discussed laddering guidelines and provided staff's recommendation of having the authority to purchase up to \$10 million if the opportunities to do so arise.

*Continued November 20, 2007*

A brief discussion ensued between Council Member Hansen and Mr. Weisel regarding the opportunities to purchase power over the next few months if the area has a particularly wet winter, which is also predicted by the Northern California Power Agency.

City Manager King stated any power purchases will be consistent with the new Lodi Project, which is getting ready to move into Phase 2. Mr. Weisel confirmed that the project is almost fully subscribed and will likely come online at the end of the 2012 fiscal year after the gas is purchased.

**C. COMMENTS BY THE PUBLIC ON NON-AGENDA ITEMS**

None.

**D. ADJOURNMENT**

No action was taken by the City Council. The meeting was adjourned at 8:21 a.m.

ATTEST:

Randi Johl  
City Clerk



**CITY OF LODI  
COUNCIL COMMUNICATION**  
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**AGENDA TITLE:** Receive Report on Litigation Status and Groundwater Cleanup

**MEETING DATE:** November 20, 2007 City Council Shirtsleeve Meeting

**PREPARED BY** City Attorney's Office

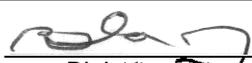
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**RECOMMENDED ACTION:** Receive report on Litigation Status and Groundwater Cleanup Model

**BACKGROUND INFORMATION:** The City Attorney will present a power point presentation on the status of the litigation and the Public Works Director will provide a report on the Groundwater Cleanup Model that will be used to design the cleanup.

  
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Stephen Schwabauer, City Attorney

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APPROVED:   
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Blair King, City Manager

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# PCE Litigation Update

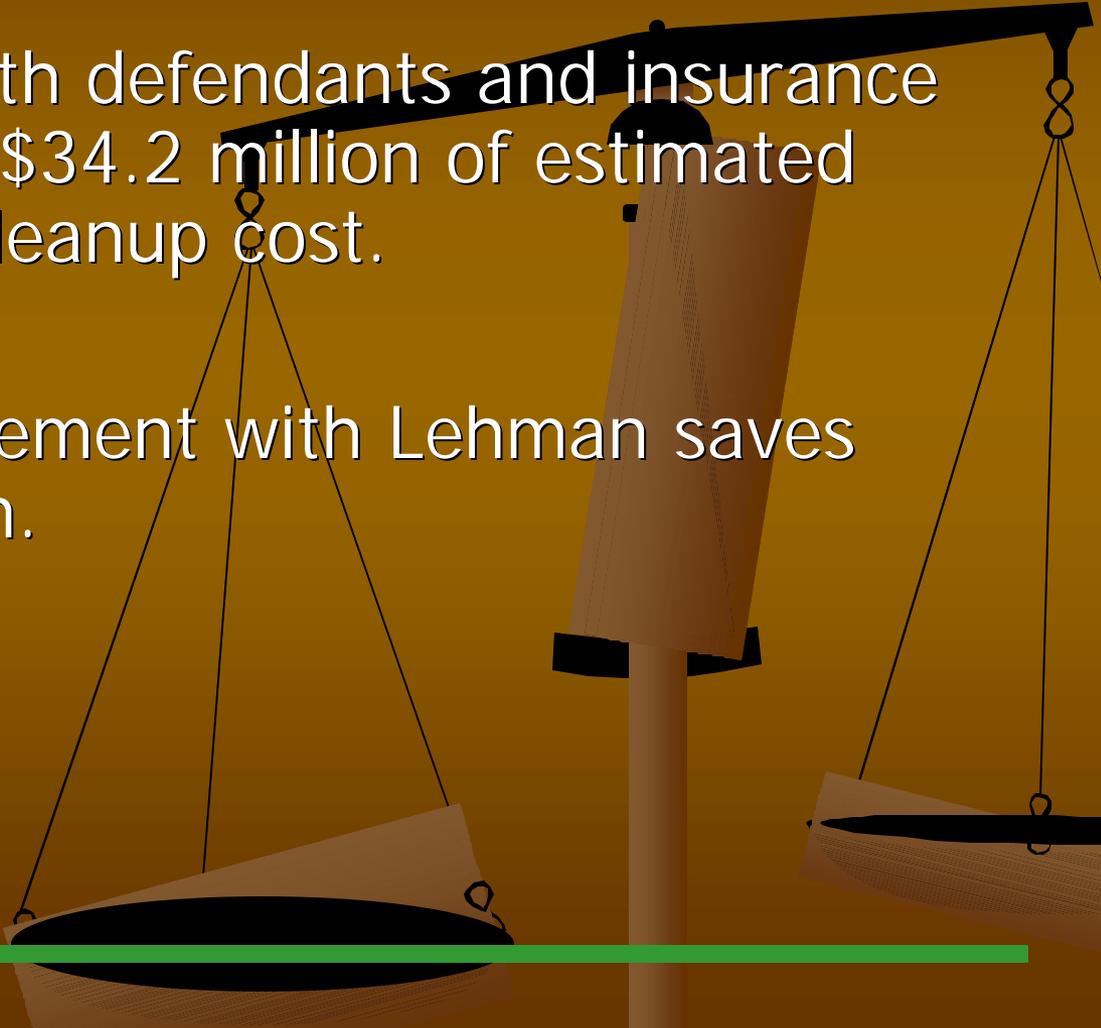
A stylized illustration of a balance scale, symbolizing justice or litigation. The scale is tilted, with the right pan being lower than the left. A large stack of papers is placed on the right pan, while the left pan is empty. The background is a solid dark brown color. The title 'PCE Litigation Update' is written in a large, bold, yellow font with a black outline, positioned in the upper left quadrant. The date 'November 20, 2007' is written in a smaller, white font in the lower right quadrant. Two horizontal green bars are located at the top and bottom of the slide.

November 20, 2007

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# Executive Summary

1. Settlements with defendants and insurance carriers raised \$34.2 million of estimated \$49.5 million cleanup cost.
  2. \$6 million settlement with Lehman saves City \$24 million.
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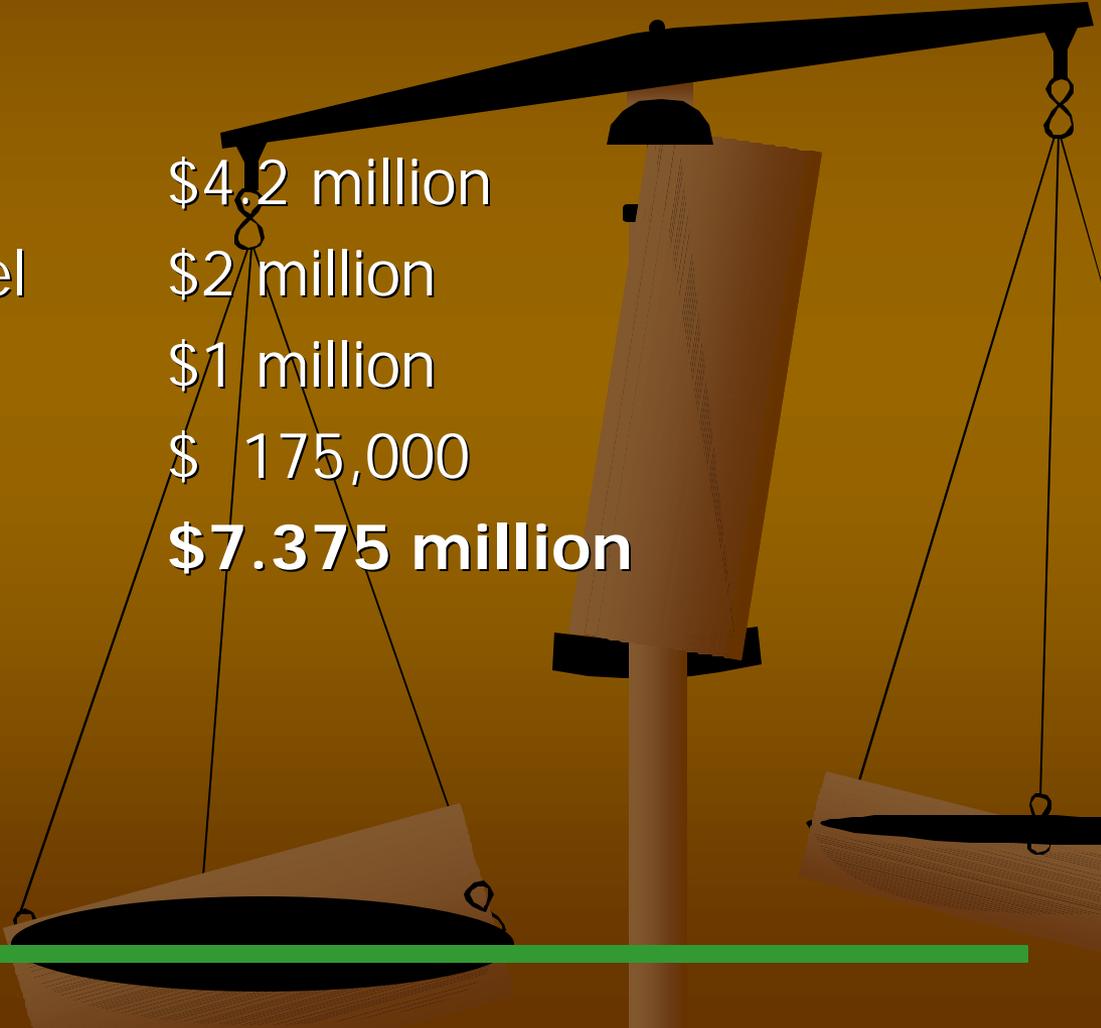


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# M&P Settlements

## Central Plume:

|                    |                        |
|--------------------|------------------------|
| Guild              | \$4.2 million          |
| Lodi News Sentinel | \$2 million            |
| Oddfellows         | \$1 million            |
| Beckman Capital    | \$ 175,000             |
| <b>Total</b>       | <b>\$7.375 million</b> |



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# M&P Settlements

## Busy Bee Plume:

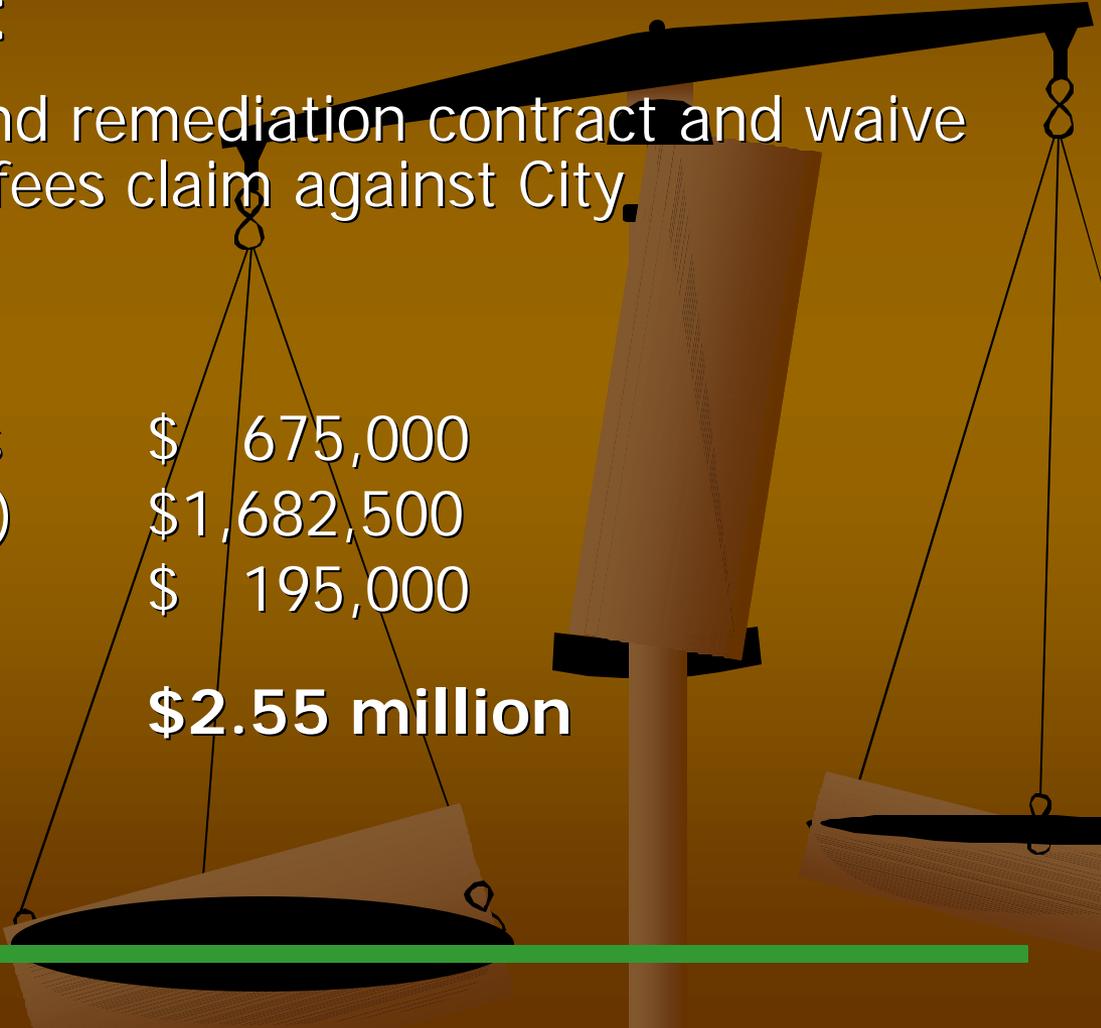
Defendant's fully fund remediation contract and waive \$750,000 attorney fees claim against City.

## Southern Plume:

|                    |             |
|--------------------|-------------|
| Vanderlans & Sons  | \$ 675,000  |
| Randtron (defunct) | \$1,682,500 |
| New Holtz          | \$ 195,000  |

**Total**

**\$2.55 million**



# M&P Settlements

## Northern Plume:

NP parties responsible for their own site remediation

|             |             |                 |           |
|-------------|-------------|-----------------|-----------|
| Lustre-Cal  | \$1,500,000 | Katzakian       | \$225,000 |
| Supermold   | \$ 650,000  | Service Laundry | \$150,000 |
| Gundershaug | \$ 410,000  | Wright Motors   | \$100,000 |
| Ehlers      | \$ 400,000  | S.J. Sulphur    | \$100,000 |
| Weil        | \$ 400,000  | Preszler        | \$100,000 |
| Lodi Chrome | \$ 375,000  | Cain/Weber      | \$ 35,000 |
| Benson      | \$ 300,000  | Kayser Roth     | \$ 10,000 |

**Total \$5.01 million**



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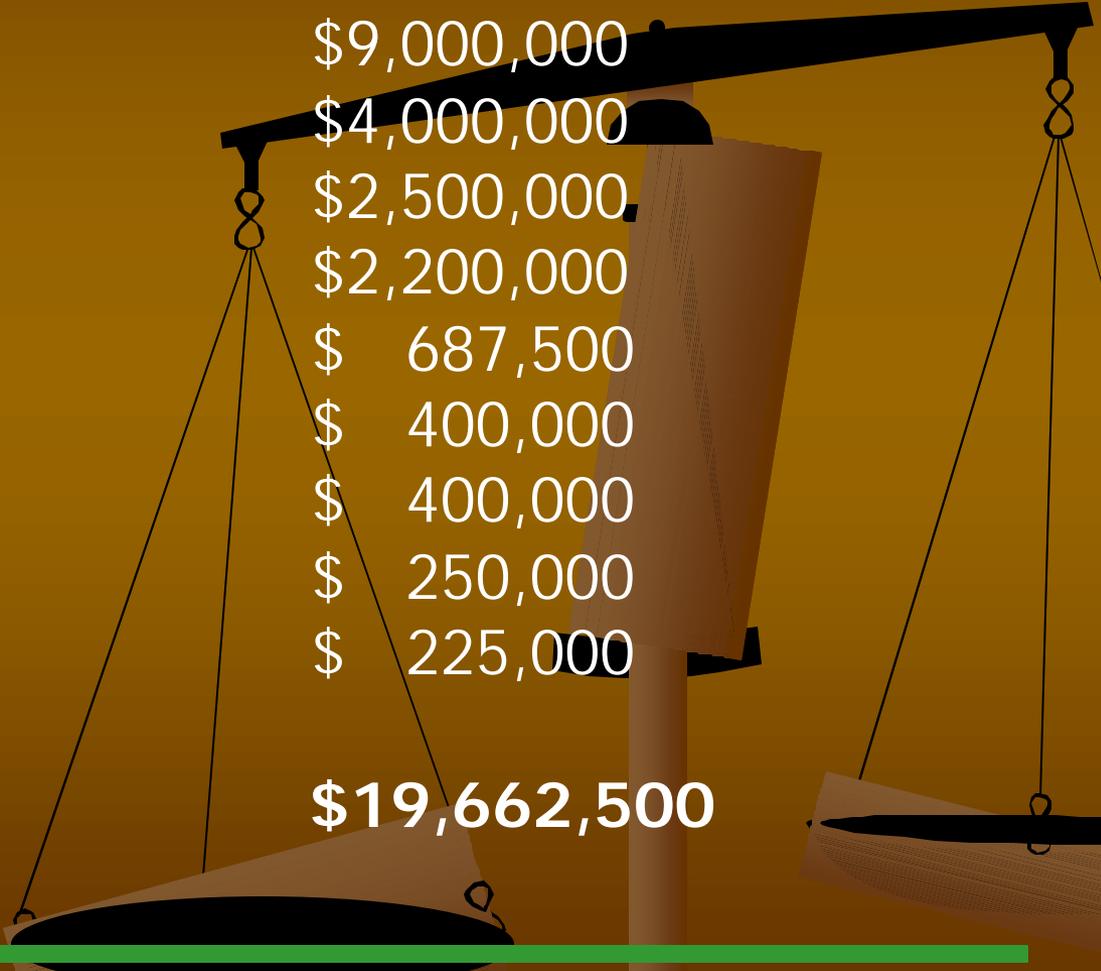
# M&P Settlements

## South Central/Western Plume:

|                     |                  |
|---------------------|------------------|
| ASPI/Lucky          | \$431,400        |
| Lewis               | \$100,000        |
| Norge Parties       | \$100,000        |
| Bader Parties       | \$100,000        |
| GE Capital          | \$ 30,000        |
| Harman Managers     | unsettled        |
| Bollinger Parties   | unsettled        |
| Connie Dewalt Scott | unsettled        |
| United Dry Cleaners | unsettled        |
| Meislin Trust       | \$ 10,000        |
| <b>Total</b>        | <b>\$771,400</b> |

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# Insurance Settlements



|                  |                     |
|------------------|---------------------|
| USF&G            | \$9,000,000         |
| Hartford         | \$4,000,000         |
| AIG              | \$2,500,000         |
| Transcontinental | \$2,200,000         |
| Admiral          | \$ 687,500          |
| Westchester Fire | \$ 400,000          |
| Lloyds           | \$ 400,000          |
| ACIC             | \$ 250,000          |
| Federal          | \$ 225,000          |
| <b>Total</b>     | <b>\$19,662,500</b> |

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# Other Settlements

Fireman's Fund:

\$3 million atty fee claim:

\$1 million

DTSC

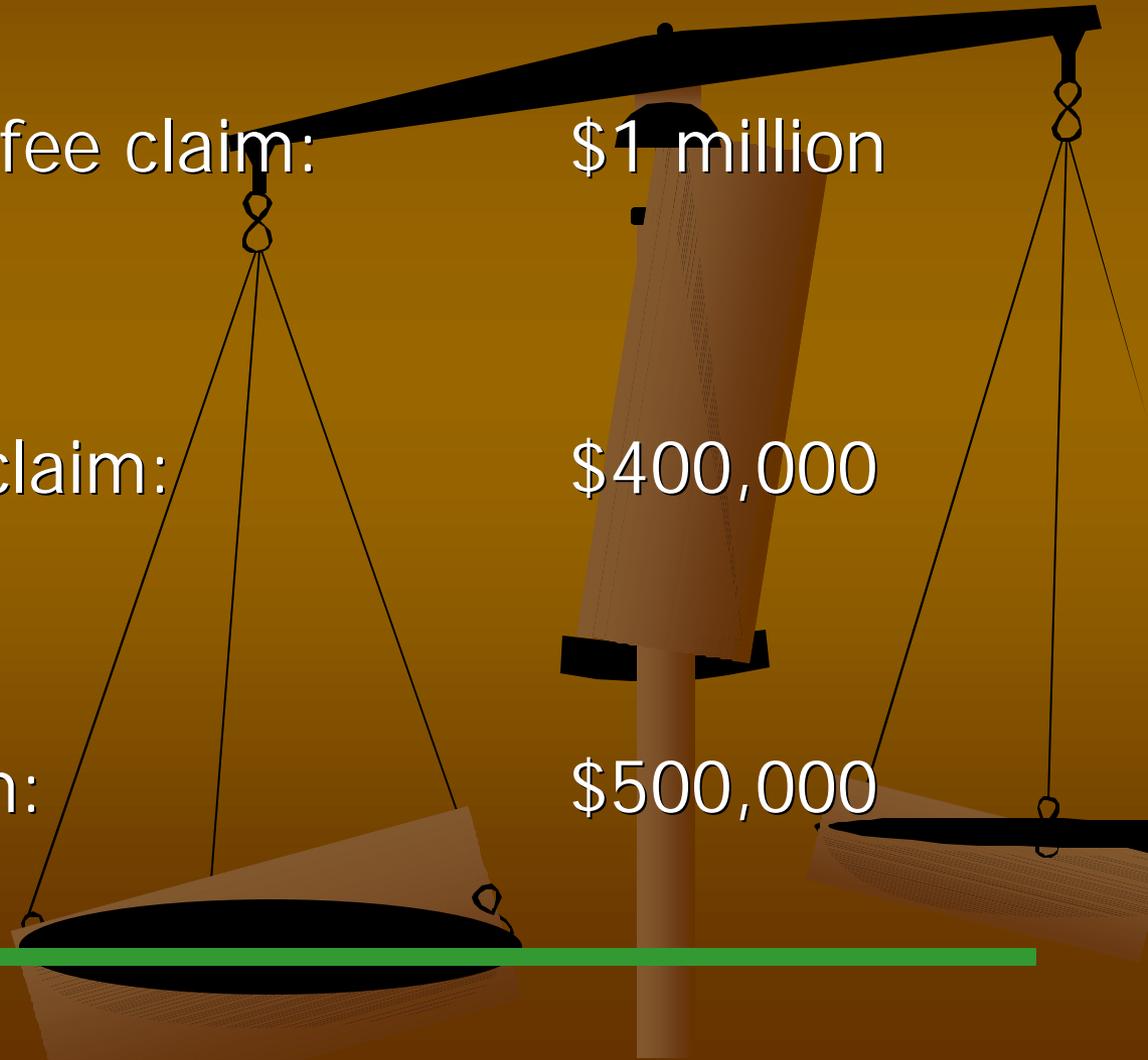
\$2 million fee claim:

\$400,000

Consultants

\$1 million claim:

\$500,000



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# Cleanup Estimates/Net City Cost

Central Plume

\$23.5 million

Southern Plume

\$ 2.587 million

Northern Plume

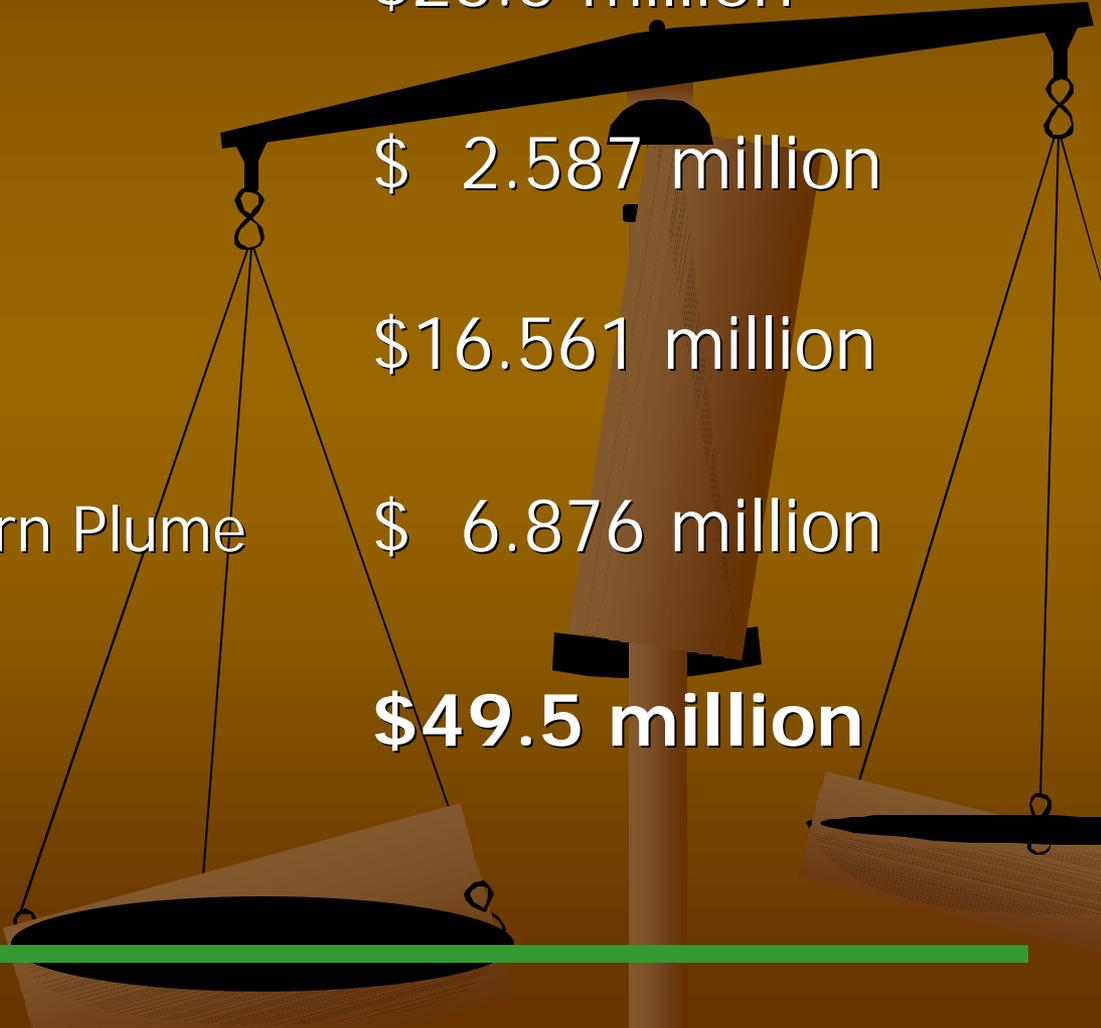
\$16.561 million

South Central/Western Plume

\$ 6.876 million

**Total**

**\$49.5 million**



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# Legal Expenses

Donovan Era

Envision/Zevnick:

\$16,041,054

Post Donovan

Folger

\$7,104,181

Folger Contingency

\$1,662,500

Kronick

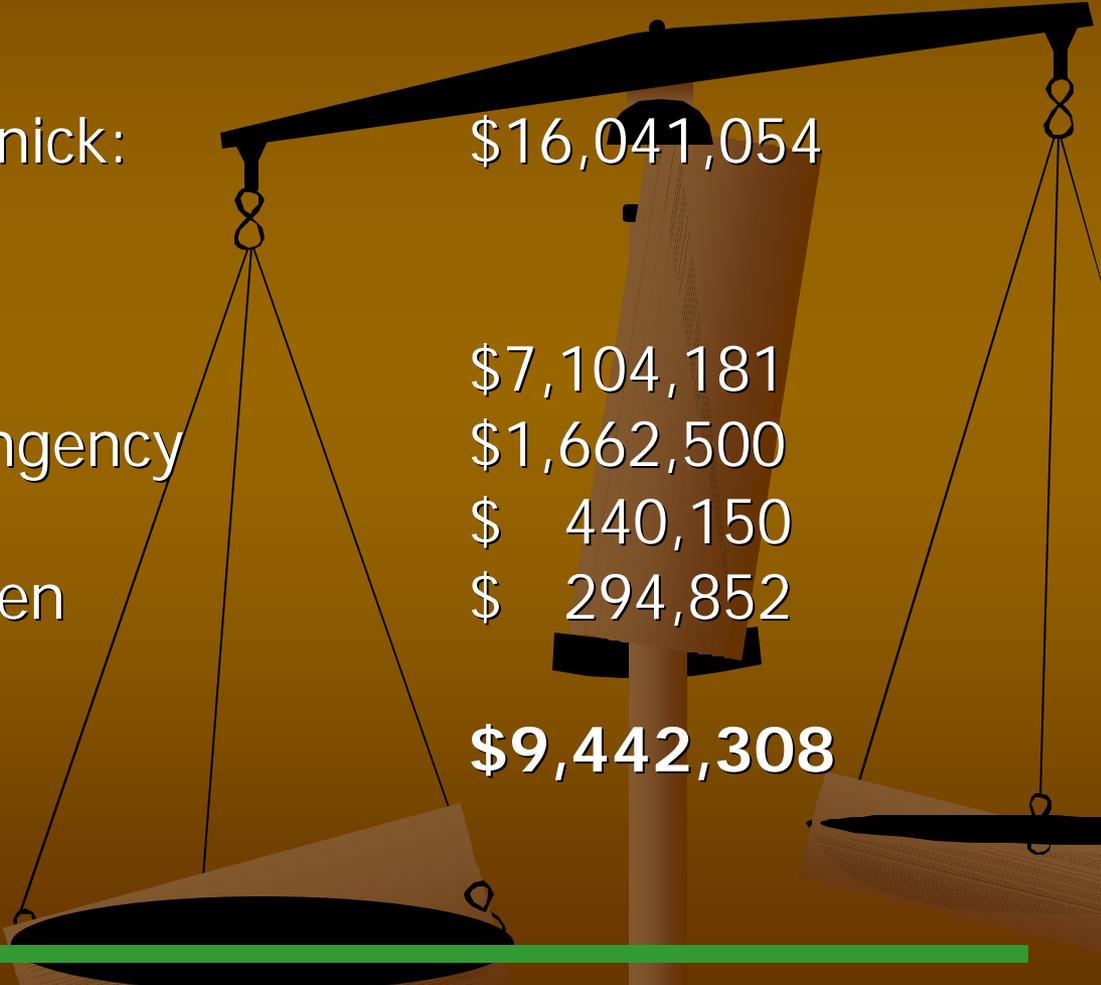
\$ 440,150

Barger &Wolen

\$ 294,852

**Total**

**\$9,442,308**



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# FLK Contingency

## Net Recent Insurance Settlements:



|                                     |                    |
|-------------------------------------|--------------------|
| Gross recent settlements:           | \$10,662,500       |
| Contingency trigger                 | (\$4,000,000)      |
| ACIC settlement                     | (\$ 250,000)       |
| Total subject to FLK contingent fee | \$6,412,500        |
| * FLK .25 contingency               | (\$1,603,125)      |
| <b>Net to City</b>                  | <b>\$9,059,375</b> |

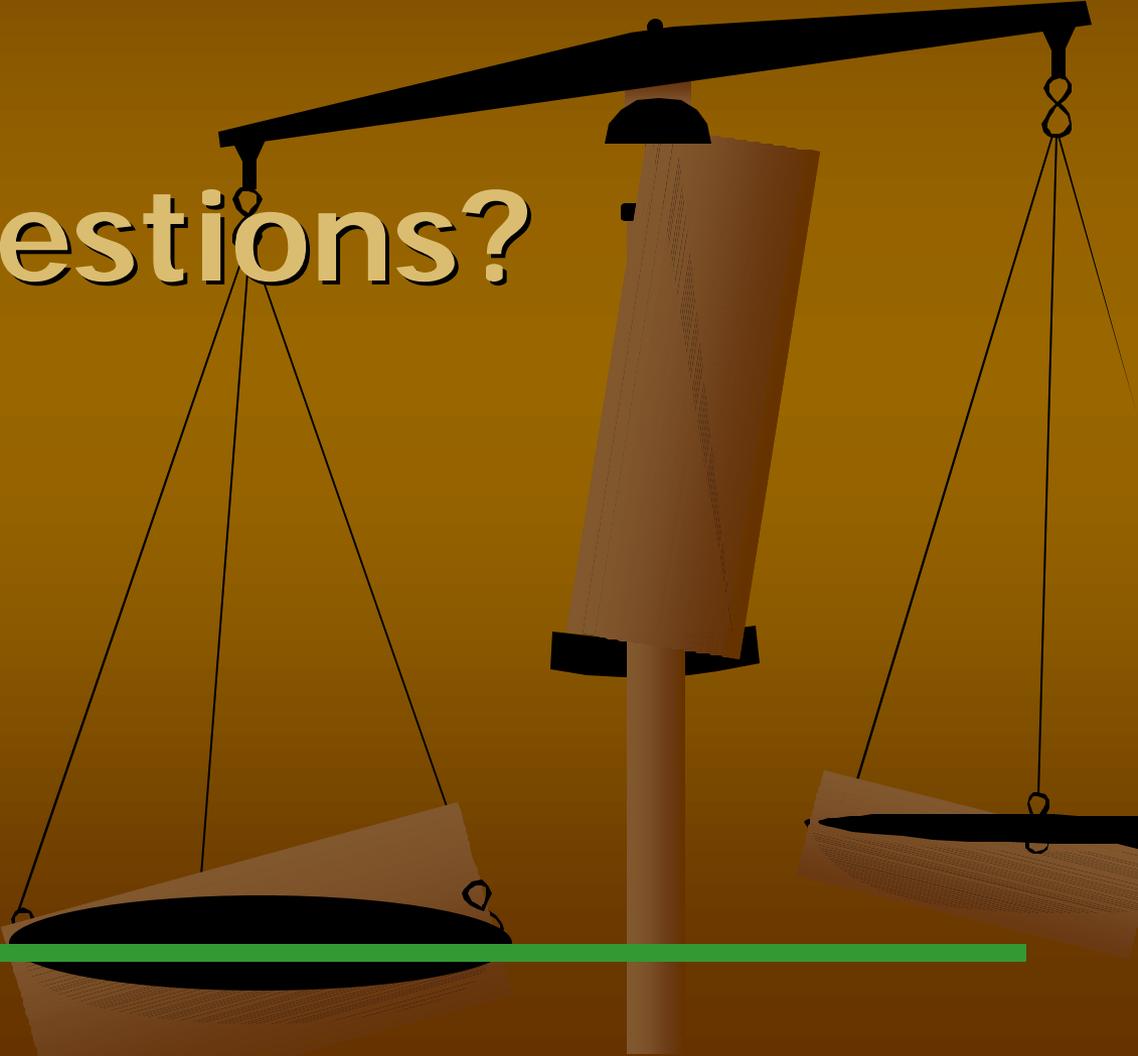
# Cost Summary



|                       |                       |
|-----------------------|-----------------------|
| Cleanup costs:        | \$49.5 million        |
| Lehman:               | \$30 million          |
| Fireman's Fund        | \$1 million           |
| Old consultants       | \$.5 million          |
| Treadwell & Rollo     | \$2 million           |
| Water Fund "Loan"     | \$12.5 million        |
| Legal Fees            | \$9.45 million        |
| M&P settlements       | (\$14.6 million)      |
| Insurance settlements | (\$19.6 million)      |
| Lehman settlement     | (\$24 million)        |
| Envision recoveries   | (?)                   |
| <b>Net City cost</b>  | <b>\$46.5 million</b> |

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Questions?



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# **Status Report on Groundwater Contamination**

Lodi City Council Shirtsleeve Session  
20 November 2007



## **Work Completed To Date**

- Central Plume Dual-Phase Extraction Pilot Test
- Central Plume Soil Vapor Extraction
- Groundwater Monitoring
- Groundwater Flow and Transport Model
- Central Plume Preliminary Remediation Designs



## Central Plume Update

- PCE in groundwater has decreased 10 – 100 fold since 2005, due to various pilot tests
- Significant PCE still present above the water table
- Dual-Phase Extraction test did not demonstrate economic effectiveness

**Treadwell&Rollo**  
Environmental & Geotechnical Consultants

## Central Plume Groundwater Model

- Constructed to evaluate Central Plume remedial alternatives and potential impact on plumes and City groundwater extraction
- Includes input from 27 City production wells and more than 700 irrigation and domestic wells

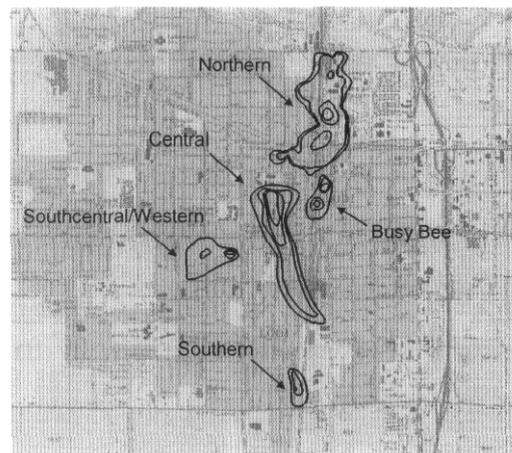
**Treadwell&Rollo**  
Environmental & Geotechnical Consultants

## Groundwater Flow and Transport Model Uses

- Validate the conceptual model before spending time on impractical approaches
- Allows rapid evaluation of multiple remedial alternatives
- Evaluates effects of remediation on nearby contamination plumes and City extraction wells

Treadwell & Rolik  
Environmental & Geotechnical Consulting

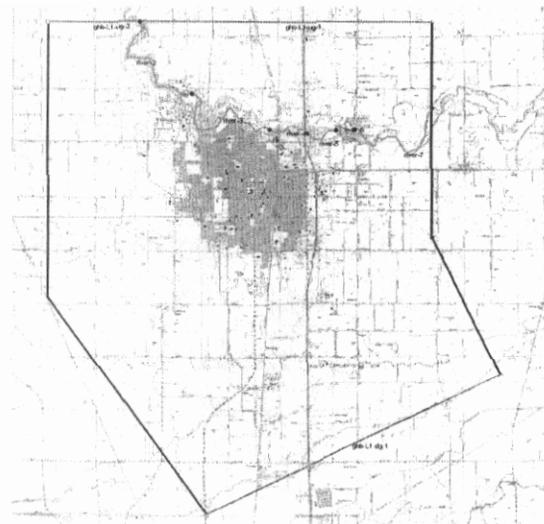
## Lodi Groundwater Contamination Plumes



Note: PCE/TCE Plumes shown for shallow groundwater interval (approximately 50-75 feet)

Treadwell & Rolik  
Environmental & Geotechnical Consulting

## Model Domain



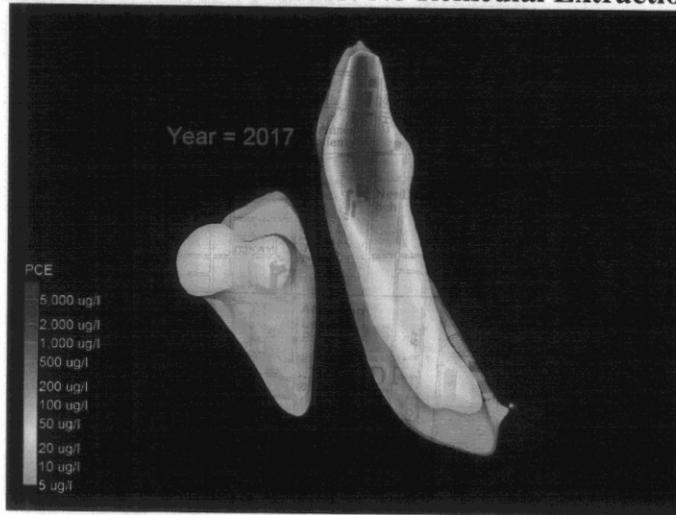
**Treadwell & Rollo**  
Environmental & Geotechnical Consultants  
www.treadwell-rollo.com

## Examples of Remedial Alternatives

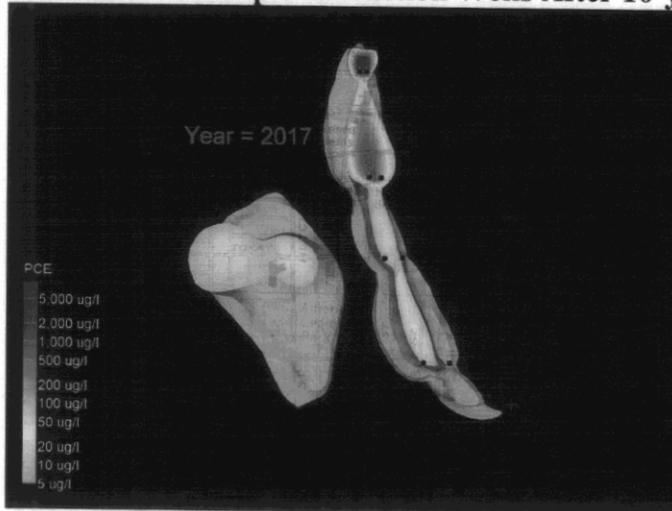
- Central Plume – no remedial groundwater extraction
- Central Plume – multiple extraction wells
- Central Plume & Southcentral/Western Plume with multiple extraction wells
- Examples will show both Plan view and 3-D view over a 10-year forecast

**Treadwell & Rollo**  
Environmental & Geotechnical Consultants  
www.treadwell-rollo.com

**Central & Southcentral/Western Plumes: No Remedial Extraction After 10-years**



**Central Plume: Multiple Extraction Wells After 10-years**



**Central & Southcentral/Western Plumes: Multiple Extraction Wells After 10-years**





**CITY OF LODI  
COUNCIL COMMUNICATION**

**AGENDA TITLE:** Discussion Regarding Electric Utility's Power Needs for Fiscal Year 2009 through 2011

**MEETING DATE:** November 20, 2007 (Shirtsleeve Session)

**PREPARED BY** City Manager

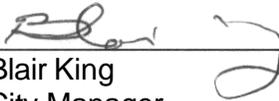
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**RECOMMENDED ACTION:** None.

**BACKGROUND INFORMATION:** Ken Weisel, Manager of Electric Services, will provide a summary of the City's power procurement needs in advance of a request to the Council to purchase up to \$10 million per year of energy for fiscal year 2009 through 2011.

**FISCAL IMPACT:** NIA

**FUNDING AVAILABLE:** N/A

  
\_\_\_\_\_  
Blair King  
City Manager

BK/jmp

Attachment

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APPROVED:   
\_\_\_\_\_  
Blair King, City Manager



**MEMORANDUM**  
**Office of George F. Morrow, Director**

TO: Blair King, City Manager  
FROM: George Morrow, Electric Utility Director  
DATE: November 15, 2007  
SUBJECT: EUD's "Open **Position**" for **FY09** through **FY11**

As you know, Lodi's Electric Utility Department (EUD) must procure wholesale energy to meet its customer load obligations for FY09 and beyond. In FY09, EUD's projected "open position" is approximately 112 gigawatt-hours (GWh) or about 23% of EUD's total customer load obligation.

The estimated of open position for FY10 is comparable to FY09. The present projected open position for FY11 is larger (70%) given the expiration of EUD's 25 MW purchase from ConocoPhillips on June 30, 2010.

To the extent EUD has a net open position, it is exposed to price risk associated with market volatility since prices regularly rise and fall in the wholesale energy markets, particularly in day-ahead, hour ahead, and real-time markets. To reduce exposure to this price risk to an acceptable level, EUD's open position can be reduced through strategic market purchases. In FY08, for instance, a series of energy and natural gas purchases were consummated which reduced EUD's open position from over 65 percent to approximately 6 percent so far.

| Fiscal Year | Existing Open % | Laddering Guideline % |
|-------------|-----------------|-----------------------|
| 2008        | 6               | 5                     |
| 2009        | 23              | 10                    |
| 2010        | 25              | 25                    |
| 2011        | 70              | 50                    |

The table above highlights the current open position for FY08 through FY11. It also shows the target open position level endorsed by the City's Electric Risk Oversight Committee for those years. This "laddering concept" was discussed with the City Council on July 10, 2007 and provides for an open position of not more than 10% in the next fiscal year, 25% in the second fiscal year, and 50% in the third fiscal year.

To achieve an open position at or below the Laddering Guidelines will require EUD to make purchases (electricity or natural gas) in the open market. Under current market prices, the cost to close FY09's open position completely is approximately \$9.2 million. Similarly, the estimated cost to close FY10's open position completely is about \$10.6 million. The cost to close the FY11 open position to 50% is about \$9 million or \$29.9 million to close this position completely.

Staff will be requesting City Council authority to make strategic purchases over the next year to reduce the open positions for FY09-FY11 below the Laddering Guideline levels. At this point in time, the requested authority will be \$10 million per year for these years. (For information, the authorized purchasing authorization for FY08 was \$25 million.)



# **Electric Utility Department**

## **FY09 - FY11** **“Open Position”**

**Shirtsleeve Meeting**  
**November 20, 2007**



# Overview

- Lodi's annual open position is about 2/3 of its load.
- Since mid FY06, Lodi has implemented a strategy of hedging its future energy “open position”
- Hedging (i.e. purchasing energy in the longer term markets) reduces price risk due to energy market volatility
- In FY08 for instance, strategic electricity and natural gas purchases have reduced open position for the year from about 65% to 6%.



# Laddering Guideline

| Timeframe                   | Open Position |
|-----------------------------|---------------|
| Current Fiscal Year         | 5%            |
| Next Fiscal Year            | 10%           |
| 2 <sup>nd</sup> Fiscal Year | 25%           |
| 3 <sup>rd</sup> Fiscal Year | 50%           |



# Open Position

| <b>Fiscal Year</b> | <b>%</b> |
|--------------------|----------|
| 2008               | 6        |
| 2009               | 23       |
| 2010               | 25       |
| 2011               | 70       |



# Open Position

| <b>Fiscal Year</b> | <b>Open %</b> | <b>Laddering Guideline (%)</b> |
|--------------------|---------------|--------------------------------|
| 2008               | 6             | 5                              |
| 2009               | 23            | 10                             |
| 2010               | 25            | 25                             |
| 2011               | 70            | 50                             |



# Open Position

| Fiscal Year | Open |     |         |
|-------------|------|-----|---------|
|             | %    | GWH | \$      |
| 2009        | 23   | 112 | \$9.2M  |
| 2010        | 25   | 125 | \$10.6M |
| 2011*       | 70   | 102 | \$8.6M  |

**\*Amount to close from 70% to 50%**



# Recommendation

- EUD's strategy of hedging power supply risk should continue
- Consistent with the Laddering Guidelines, EUD should make strategic energy purchases for FY09-FY11 period.
- City Council authorization to purchase up to \$10M per year for FY09-FY11