Company seeking to build trash port is trying new type of venture

By SCOTT HARPER AND TIM MCGLONE, The Virginian-Pilot

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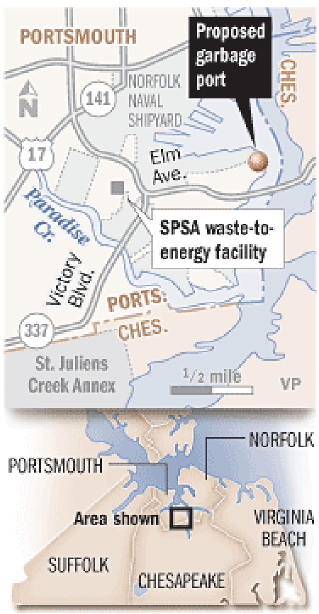
Covanta Energy Corp., part of a New Jersey-based conglomerate, wants to build a garbage port, shown in a rendering above, on the Portsmouth waterfront. rendering courtesy of Covanta Energy Corp.



The company that wants to build a garbage port on the Portsmouth waterfront is part of a New Jersey-based conglomerate with an eccentric past.

Its history includes emergence from bankruptcy in 2004, investments in pro hockey arenas and an Argentinian casino, as well as the current operation of power plants in China, Costa Rica, India, Hawaii and Northern Virginia.

Covanta Holding Corp., the parent of Covanta Energy Corp., has become a popular stock play on Wall Street of late, but one well-known financial adviser this year labeled the company a bad risk.

Environmentalists in California have marched outside Covanta's gates because of proposed medical waste shipments there. Also, several of its power plants in other states, including Virginia, have been fined in recent years for air pollution violations or have been entangled in contract disputes and lawsuits.

Conversely, the company has won several environmental awards in the past year and has settled many of its legal disputes - proof, company officials say, that Covanta is back on its feet after the chaos of Chapter 11 bankruptcy.

For all of its business adventures through the years, one project that Covanta has never attempted is the kind envisioned in Portsmouth: a marine terminal, where barges ferrying 2,500 tons of household trash a day from New York City would be unloaded on the banks of the Elizabeth River.

As part of the deal, the Southeastern Public Service Authority, which handles most trash and recycling in eight local cities and counties, would be paid an unspecified fee - negotiations are ongoing - to truck the garbage in sealed containers to the agency's incinerator a quarter-mile away in Portsmouth.

There, the trash would be burned and the resulting steam and electricity sold to the neighboring Norfolk Naval Shipyard and Dominion Virginia Power.

SPSA has called the Covanta project a pivotal rainmaker. It could help pull SPSA out of years of indebtedness, officials have said, and quell agency struggles with private competitors.

Furthermore, the officials have warned that without the project, local trash-disposal rates likely would skyrocket, with SPSA forced to seek other means to repay nearly $250 million in unfunded debts and liabilities.

A recent audit by the city of Chesapeake, however, questions whether the deal is such a winner.

The Sept. 28 audit, distributed last week to the City Council and shared with SPSA, suggests the port could actually lose money when other costs and implications are factored into the equation. The report describes net losses of as much as $28 million through the proposed 20 years of the contract.

SPSA officials last week dismissed the conclusions outright. "They are absolutely wrong," said John Hadfield, SPSA's executive director.

Instead, SPSA estimates the project would generate about $9 million in revenues each year, or about $194 million through the life of the contract. Portsmouth, in a side agreement, could receive nearly $4 million a year for leasing the port site to Covanta.

Money aside, many residents, environmentalists and public officials view the planned TransRiver Portsmouth Marine Terminal as nothing but blight. They fear Hampton Roads will become known as the East Coast's dumping ground and will make Virginia the No. 1 state in the nation for disposing of imported trash. (Pennsylvania currently holds the top spot, with Virginia close behind at No. 2.)

The fate of the terminal could be decided by the end of the month, when key votes are anticipated before the Portsmouth City Council and SPSA's Board of Directors.

Covanta still needs permits from the Virginia Department of Environmental Quality and the Army Corps of Engineers, for the proposed dredging of the Elizabeth River so barges could reach the port site.

The site is a 10-acre parcel located just north of the Jordan Bridge known as the Allied tract, named after a fertilizer company that used to operate there. The city of Portsmouth now controls the land.

The property and the stretch of river in question have their own checkered environmental past. In soil and groundwater samples, high levels of toxic compounds have been detected.

In addition, the muddy bottom of the Southern Branch of the Elizabeth along the site, where dredging would occur, contains "some of the more severe contamination in the river," according to a summary by the Elizabeth River Project, an environmental group. The group has not taken a position on the port.

Covanta executives, meanwhile, seem to be growing weary of the often-fiery debate, ongoing for nearly two years now. They indicated last week that they are ready for the issue to be decided, up or down.

The Portsmouth port "is part of our overall package to New York City," said Derek Veenhof, manager of TransRiver Marketing Co. and the local point-man for Covanta, referring to the company's bid for handling the Big Apple's trash. "We didn't go to Portsmouth and say, 'This is where we're putting all our eggs.' We have alternatives," he said. He declined to elaborate.

Covanta needs to update its bid proposal for New York City waste by the first week in November, Veenhof said, so having a decision in hand about the port's option by then "certainly would help clarify things."

Covanta has much experience with garbage-fueled incinerators, also known as waste-to-energy power plants. Covanta Energy Corp. owns or operates 31 such plants in the United States, as well as one in Italy.

In Northern Virginia, the company runs one such incinerator for Alexandria and Arlington and owns another that serves Fairfax County.

In 2003, Covanta was fined $14,695 by state regulators for excessive emissions of carbon monoxide at the Alexandria plant and for failing to submit environmental reports in 2001 and 2002 - about the time the company was preparing to file for bankruptcy.

Dennis Best, an air-quality compliance manager for the Virginia Department of Environmental Quality, said the Alexandria plant also recorded violations in 2000 and 2002 that remain unresolved today.

"A lot of this stuff has been dragged out because of the bankruptcy," Best said. For the most part, he added, Covanta "has been fairly cooperative."

Environmentally, similar stories crop up in many of the cities and states where Covanta did business prior to its bankruptcy.

- The city of Tulsa, Okla., had to divert its trash to a landfill in 2003 when Covanta briefly closed its incinerator there, citing financial problems.
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In Lake County, Fla., an incinerator contract with Covanta in 1991 has caused more than a decade of acrimony, lawsuits and political fallout.

According to Gregg Welstead, Lake County's deputy manager, the lawsuit has since been settled and a new contract agreed to in January 2005. "It's been difficult for a long time," he said, "but we're fine now."

- In New Jersey, the company has been repeatedly fined for releasing excessive amounts of dioxin and other toxic emissions from its Essex County plant. In the past year, New Jersey regulators have ordered Covanta to pay more than $112,000 in fines for violations at all three of its waste-to-energy plants in the state.

The Rutgers Environmental Law Center at Rutgers University in New Jersey has filed a notice of its intent to sue Covanta over repeated Clean Air Act violations at the Essex plant, the state's largest garbage incinerator.

- Covanta is one of the top 40 "primary responsible parties" at a toxic Superfund site in New Hampshire and will have to pay its share of an estimated $48 million cleanup there. Covanta sent more than 43,000 gallons of waste oil to the Beede recycling site in the 1990s and is liable in part for the mishandling of those wastes by Beede, according to the U.S. Environmental Protection Agency.

Covanta officials defend the company's environmental record and say some of its more problematic plants were inherited.

Covanta "has an excellent environmental record," said Derek A. Porter, director of corporate communications for Covanta Energy.

"The waste-to-energy industry generally, and Covanta in particular, has significantly reduced emissions over the past ten years," he added in an e-mail. He said waste-to-energy plants produce far less pollution than coal-burning plants or landfills, a view shared by the EPA, which considers the technology a "renewable energy source."

Covanta's corporate history dates to 1939 when it opened as a public utility holding company under the name Ogden Corp.

Ogden diversified through the years, buying up horse racing tracks, a scrap metal processor and a food distributor. In the early 1980s, the company entered the energy business by acquiring the means to develop waste-to-energy incinerators. In 2001, Ogden changed it s name to Covanta.

According to records and interviews, Covanta's collapse unfolded after two major events: the California energy crisis, in which the company's geothermal plants suffered major financial hits; and the terrorist attacks of Sept. 11, 2001.

The company and 155 subsidiaries filed for bankruptcy protection in 2002. In the months afterward, its stock price dipped to a low of 64 cents a share; it now sells for about $21 a share.

Covanta Energy Corp. was purchased while in bankruptcy by Danielson Holding Corp., which itself emerged from bankruptcy around 1990.

Covanta came out of bankruptcy in 2004, with the help of some heavy hitters. They included Sam Zell, a self-made billionaire listed by Forbes magazine this year as the 52nd richest American. He was just ahead of H. Ross Perot.

Zell, with two other investors, purchased 40 percent of Covanta's stock and was named chairman of its board of directors, according to financial records.

In the fall of 2005, Danielson became known as Covanta Holding Corp., by now an entirely restructured company. Sold off were interests in hockey arenas in Ottawa and California, the casino in Argentina, and fueling services at 19 airports in the United States, Canada and Panama.

A new management team also narrowed the company's focus, to energy and insurance.

Also in 2005, the company acquired American Ref-Fuel, another New Jersey firm specializing in waste-to-energy plants, for $2 billion. It was American Ref-Fuel that initially approached SPSA about a deal for New York City garbage coming to Hampton Roads - an idea that Covanta ran with.

Today, Covanta has about 3,600 employees. Its sales in 2005 were reported at nearly $1 billion.

Company executives say they want to purchase more waste-to-energy plants and expand their waste-disposal assets.

President and Chief Executive Officer Tony Orlando earns about $931,000 annually; with bonuses, that figure easily eclipses $1 million, according to Covanta's financial records. Company vice presidents earn about half that, records show.

While many analysts have started urging investors to buy or hold Covanta stock, some advisers remain skeptical.

Dun & Bradstreet Inc., for example, gave Covanta its worst ranking - a 5, on a scale of 1 to 5 - for credit and financial risks in a report published in January.

At a public hearing in August, Chesapeake Mayor Dalton Edge quizzed a Covanta official about the poor marks.

The official, Rob Balbierz, noting that the report was almost a year old, responded: "I would like to see what that is now. "

The company's future will rely heavily on renewed municipal contracts, many of which are set to expire in the next 10 to 12 years, as well as its ability to obtain new contracts, such as the New York City deal, according to corporate filings with the Securities and Exchange Commission.

"We cannot assure you that Covanta's business will generate sufficient cash flow from operations or that Covanta will be able to refinance any of its indebtedness on commercially reasonable terms or at all," the company said in an SEC filing last year.

In a conference call with financial analysts in August, Orlando said he expects New York City to make a decision on its waste contract in the next six to 12 months. If Covanta wins a contract, Orlando added, the operation in Virginia could be up and running by 2009.

A spokesman for the New York City Department of Sanitation last week would only say that the bids from several private waste companies still are being reviewed.

SPSA officials, in response to media questions about Covanta's past, said in a statement they will require the company to post a letter of credit to "assume its payment of all obligations" in case something goes wrong financially.

The letter would in essence serve as "a backstop" for SPSA, the officials said in the statement, and "is a fairly common approach in large contracts regardless of the current financial status of the principal company."

- *Reach Scott Harper at (757) 446-2340 or scott.harper@pilotonline.com. Reach Tim McGlone at (757) 446-2343 or tim.mcglone@pilotonline.com.*