COVANTA HOLDING CORP
Form 10-K
February 15, 2012
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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

## Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended December 31, 2011**

**or**

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from to**

**Commission file number: 1-06732**

# COVANTA HOLDING CORPORATION

*(Exact name of registrant as specified in its charter)*

| **Delaware** | **95-6021257** |
|---|---|
| *(State or Other Jurisdiction of* | *(I.R.S. Employee* |
| *Incorporation or Organization)* | *Identification No.)* |
| **445 South Street, Morristown, N.J.** | **07960** |
| *(Address of Principal Executive Offices)* | *(Zip Code)* |

**Registrant s telephone number, including area code: (862) 345-5000**

**Securities registered pursuant to Section 12(b) of the Act:**

| **Title of Each Class** | **Name of Each Exchange on Which Registered** |
|---|---|
| Common Stock, $0.10 par value per share | New York Stock Exchange |

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

| Large accelerated filer þ | Accelerated filer ¨ | Non-accelerated filer ¨ (Do not check if a smaller reporting company) | Smaller reporting company ¨ |
|---|---|---|---|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

As of June 30, 2011, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $1.9 billion. The aggregate market value was computed by using the closing price of the common stock as of that date on the New York Stock Exchange. (For purposes of calculating this amount only, all directors and executive officers of the registrant have been treated as affiliates.)

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date.

| **Class** | **January 27, 2012** |
|---|---|
| Common Stock, $0.10 par value per share | 136,074,609 shares |

**Documents Incorporated By Reference:**

| **Part of Form 10-K of Covanta Holding Corporation** | **Documents Incorporated by Reference** |
|---|---|
| Part III | Portions of the Proxy Statement to be filed with the Securities and Exchange Commission in connection with the 2012 Annual Meeting of Stockholders. |

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K may constitute forward-looking statements as defined in Section 27A of the Securities Act of 1933 (the Securities Act ), Section 21E of the Securities Exchange Act of 1934 (the Exchange Act ), the Private Securities Litigation Reform Act of 1995 (the PSLRA ) or in releases made by the Securities and Exchange Commission ( SEC ), all as may be amended from time to time. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Covanta Holding Corporation and its subsidiaries ( Covanta ) or industry results, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Statements that are not historical fact are forward-looking statements. Forward-looking statements can be identified by, among other things, the use of forward-looking language, such as the words plan, believe, expect, anticipate, intend, estimate, project, may, will, would, could, should, seeks, or words, or the negative of these terms or other variations of these terms or comparable language, or by discussion of strategy or intentions. These cautionary statements are being made pursuant to the Securities Act, the Exchange Act and the PSLRA with the intention of obtaining the benefits of the safe harbor provisions of such laws. Covanta cautions investors that any forward-looking statements made by Covanta are not guarantees or indicative of future performance. Important assumptions and other important factors that could cause actual results to differ materially from those forward-looking statements with respect to Covanta include, but are not limited to, the risks and uncertainties affecting its businesses described in Item 1A. Risk Factors of this Annual Report on Form 10-K and in other filings by Covanta with the SEC.

Although Covanta believes that its plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, actual results could differ materially from a projection or assumption in any of its forward-looking statements. Covanta s future financial condition and results of operations, as well as any forward-looking statements, are subject to change and inherent risks and uncertainties. The forward-looking statements contained in this Annual Report on Form 10-K are made only as of the date hereof and Covanta does not have, or undertake, any obligation to update or revise any forward-looking statements whether as a result of new information, subsequent events or otherwise, unless otherwise required by law.

## AVAILABILITY OF INFORMATION

You may read and copy any materials Covanta files with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Copies of such materials also can be obtained free of charge at the SEC s website, www.sec.gov, or by mail from the Public Reference Room of the SEC, at prescribed rates. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. Covanta s SEC filings are also available to the public, free of charge, on its corporate website, www.covantaholding.com as soon as reasonably practicable after Covanta electronically files such material with, or furnishes it to, the SEC. Covanta s common stock is traded on the New York Stock Exchange. Material filed by Covanta can be inspected at the offices of the New York Stock Exchange at 20 Broad Street, New York, N.Y. 10005.

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**PART I**

**Item 1.** ***BUSINESS***

The terms we, our, ours, us, Covanta and Company refer to Covanta Holding Corporation and its subsidiaries and the term Covant refers to our subsidiary Covanta Energy Corporation and its subsidiaries.

**About Covanta Holding Corporation**

Covanta is one of the world s largest owners and operators of infrastructure for the conversion of waste to energy (known as energy-from-waste or EfW ), as well as other waste disposal and renewable energy production businesses. We are organized as a holding company which was incorporated in Delaware on April 16, 1992. We conduct all of our operations through subsidiaries which are engaged predominantly in the businesses of waste and energy services.

Energy-from-waste serves two key markets as both a sustainable waste disposal solution that is environmentally superior to landfilling and as a source of clean energy that reduces overall greenhouse gas emissions and is considered renewable under the laws of many states and under federal law. Our facilities are critical infrastructure assets that allow our customers, which are principally municipal entities, to provide an essential public service.

Our EfW facilities earn revenue from both the disposal of waste and the generation of electricity, generally under long-term contracts, as well as from the sale of metal recovered during the energy-from-waste process. In the Americas, we process approximately 19 million tons of solid waste annually, representing approximately 5% of the solid waste generation in the United States. In total, these assets produce over 10 million megawatt hours of baseload electricity annually, representing approximately 7% of the nation s non-hydroelectric renewable power. We operate and/or have ownership positions in 46 energy-from-waste facilities, which are primarily located in North America, and 15 additional energy generation facilities, including other renewable energy production facilities in North America (wood biomass and hydroelectric). We also operate a waste management infrastructure that is complementary to our core EfW business.

We own and hold equity interests in energy-from-waste facilities in China and Italy. We are pursuing additional growth opportunities in parts of Europe, primarily in the United Kingdom, where the market demand, regulatory environment or other factors encourage technologies such as energy-from-waste to reduce dependence on landfilling for waste disposal and fossil fuels for energy production in order to reduce greenhouse gas emissions.

We also have investments in subsidiaries engaged in insurance operations in California, primarily in property and casualty insurance; however these collectively account for less than 1% of our consolidated revenue.

We have one reportable segment which is Americas and is comprised of waste and energy services operations primarily in the United States and Canada. Additional information about our reportable segments is contained in *Item 8. Financial Statements And Supplementary Data Note 6. Financial Information by Business Segments*.

***The Energy-From-Waste Process***

Energy-from-waste facilities produce energy through the combustion of non-hazardous municipal solid waste ( MSW ) in specially-designed power plants. Most of our facilities are mass-burn facilities, which combust the MSW on an as-received basis without any pre-processing such as shredding, sorting, or sizing. In a typical mass-burn facility, waste collection trucks deliver waste to the facility, where it is dumped into a concrete storage pit, then loaded by an overhead crane into a feed chute leading to a furnace. The waste is combusted in a self-sustaining process at temperatures greater than 2,000 degrees Fahrenheit, and heat from the combustion process converts water inside steel tubes that form the furnace walls and boilers into steam. A superheater further heats the steam before it is either sent to a turbine generator to produce electricity (in most facilities), or sold directly to industrial or commercial users. From the boiler, the cooled gases enter an advanced air pollution control system, where scrubbers neutralize any acid-forming gases and a high-efficiency fabric baghouse captures more than 99% of particulate matter. The process reduces the waste to an inert ash that is only about 10% of its original volume. In addition, ferrous and non-ferrous metals are removed and recycled during the process. On average, each ton of waste processed yields approximately 550 kilowatt hours of electricity and approximately 50 pounds of recycled metal. In addition to our mass-burn facilities, we own and/or operate additional facilities that use other processes or technologies, such as refuse-derived fuel facilities which process waste prior to combustion and a gasification technology, in which waste is heated to create gases which are then combusted. Our EfW facilities earn revenue from both the disposal of waste and the generation of electricity, generally under long-term contracts, as well as from the sale of metal recovered during the energy-from-waste process.

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***Environmental Benefits of Energy-From-Waste***

We believe that energy-from-waste offers solutions to public sector leaders around the world in addressing two key issues: sustainable waste disposal and renewable energy generation. We believe that the environmental benefits of energy-from-waste, as an alternative to landfilling, are clear and compelling: by processing municipal solid waste in energy-from-waste facilities, we reduce greenhouse gas ( GHG ) emissions (as the methane emitted by landfills is over 20 times more potent a GHG than carbon dioxide ( $CO_2$ ), lower the risk of groundwater contamination, and conserve land. At the same time, energy-from-waste generates clean, reliable energy from a renewable fuel source, thus reducing dependence on fossil fuels, the combustion of which is itself a major contributor of GHG emissions. Based on estimates using the United States Environmental Protection Agency s ( EPA ) Decision Support Tool, approximately one ton of $CO_2$ equivalent is reduced relative to landfilling for every ton of waste processed. In addition, each ton of waste processed eliminates the need to consume approximately one barrel of oil or one-quarter ton of coal, in order to generate the equivalent amount of electricity. As public planners in North America, Europe and Asia address their needs for more environmentally sustainable waste disposal and energy generation in the years ahead, we believe that energy-from-waste will be an increasingly attractive alternative.

**Strategy**

Our mission is to be the leading energy-from-waste company in the world, which we intend to pursue through the following key strategies:

*Grow the value of our existing portfolio.* We intend to maximize the long-term value of our existing portfolio by continuously improving safety, health and environmental performance, working in partnership with our client communities, continuing to operate at our historic production levels, maintaining our facilities in optimal condition, and managing our expenses. We also intend to effect organic growth through adding or extending waste and service contracts, seeking incremental revenue opportunities by investing in and enhancing the capabilities of our existing assets, deploying new or improved technologies targeted at increasing revenue or reducing costs and expanding our customer base and service offerings.

*Expand through development and/or acquisitions in selected attractive markets.* We seek to grow our portfolio primarily through the development of new facilities and acquisitions where we believe that market and regulatory conditions will enable us to invest our capital at attractive risk-adjusted rates of return. We are currently focusing on development opportunities in the United States and Canada, which we consider to be our core markets. In addition, we believe that there are numerous attractive opportunities in the United Kingdom, where national policies, such as a substantial tax on landfill use, are intended to achieve compliance with the European Union ( EU ) Landfill Directive.

We believe that our approach to development opportunities is highly-disciplined, both with regard to our required rates of return and the manner in which potential new projects will be structured and financed. In general, prior to the commencement of construction of a new facility, we intend to enter into long-term contracts with municipal and/or commercial customers for a substantial portion of the disposal capacity and obtain non-recourse project financing for a substantial portion of the capital investment. We intend to finance new projects in a prudent manner, minimizing the impact on our balance sheet and credit profile at the parent company level where possible.

*Develop and commercialize new technology.* We believe that our efforts to protect and expand our business will be enhanced by the development of additional technologies in such fields as emission controls, residue disposal, alternative waste treatment processes, gasification, and combustion controls. We have advanced our research and development efforts in these areas, and have developed and have patents pending for major advances in controlling nitrogen oxide ( $NO_x$ ) emissions and have a patent for a proprietary process to improve the handling of the residue from our energy-from-waste facilities. We have also entered into various agreements with multiple partners to invest in the development, testing or licensing of new technologies related to the transformation of waste materials into renewable fuels or the generation of energy, as well as improved environmental performance.

*Advocate for public policy favorable to energy-from-waste.* We seek to educate policymakers and regulators about the environmental and economic benefits of energy-from-waste and advocate for policies and regulations that appropriately reflect these benefits. Energy-from-waste is a highly regulated business, and as such we believe that it is critically important for us, as an industry leader, to play an active role in the debates surrounding potential policy developments that could impact our business.

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*Allocate capital efficiently.* We plan to allocate capital to maximize stockholder value by: investing in our existing businesses to maintain and enhance assets; effecting organic growth; investing in high value core business development projects and strategic acquisitions when available; and by returning surplus capital to our stockholders.

Our business offers sustainable solutions to energy and environmental problems, and our corporate culture is increasingly focused on themes of sustainability in all of its forms. We seek to achieve continuous improvement in environmental performance, beyond mere compliance with legally required standards. This ethos is embodied in our Clean World Initiative, an umbrella program under which we are:

investing in research and development of new technologies to enhance existing operations and create new business opportunities in renewable energy and waste management;

exploring and implementing processes and technologies at our facilities to improve energy efficiency and lessen environmental impacts;

adding complementary services to enhance existing processes and improve the local environmental profile of our operations; and

partnering with governments and non-governmental organizations to pursue sustainable programs, reduce the use of environmentally harmful materials in commerce, and communicate the benefits of energy-from-waste.

Our Clean World Initiative is designed to be consistent with our mission to be the world s leading energy-from-waste company by providing environmentally superior solutions, advancing our technical expertise and creating new business opportunities. It represents an investment in our future that we believe will enhance stockholder value.

In order to create new business opportunities and benefits and enhance stockholder value, we are actively engaged in the current discussion among policy makers in the United States regarding the benefits of energy-from-waste and the reduction of our dependence on landfilling for waste disposal and fossil fuels for energy. Given the general economic slowdown and related unemployment, policy makers are focused on themes of economic stimulus, job creation, and energy security. We believe that the construction and permanent jobs created by additional energy-from-waste development represent the type of green jobs that are consistent with this focus. The extent to which we are successful in growing our business will depend in part on our ability to effectively communicate the benefits of energy-from-waste to public planners seeking waste disposal solutions and to policy makers seeking to encourage renewable energy technologies (and the associated green jobs) as viable alternatives to reliance on fossil fuels as a source of energy.

The United States Congress has considered proposals designed to encourage two broad policy objectives: increased renewable energy generation and reduction of fossil fuel usage and related GHG emissions. Both the House of Representatives and the Senate have considered bills that address both policy objectives, by means of a phased-in national clean energy standard and a cap-and-trade system to reduce GHG emissions. Energy-from-waste and biomass have generally been included among the technologies that help to achieve both of these policy objectives. We believe Congress is unlikely in the near term to pursue cap-and-trade approaches to GHG reduction, and more likely to concentrate on encouraging a shift to cleaner energy generation through renewable technologies and other means. While legislation effecting new energy policy is far from certain and Congress is expected to focus instead on budget issues and election-year politics during 2012, we believe the continued direction of Congressional efforts regarding energy policies could create additional growth opportunities for our business and increase energy revenue from existing facilities.

**Growth and Development**

We intend to grow our business through expanding the capabilities of our existing business, and adding new projects through development and/or acquisition, all with the goal of maximizing long-term stockholder return. Our growth opportunities include: organic growth, new energy-from-waste and other renewable energy projects, existing project expansions, contract extensions, acquisitions, and businesses ancillary to our existing business, such as additional waste transfer, transportation, processing and disposal businesses. We also intend to maintain a focus on research and development of technologies that we believe will enhance our competitive position, and offer new technical solutions to waste and energy problems that augment and complement our business.

We will effect organic growth through adding or extending waste and service contracts, seeking incremental revenue opportunities by investing in and enhancing the capabilities of our existing assets, deploying new or improved technologies targeted at increasing revenue or reducing costs in areas such as metals recovery, and expanding our customer base and service offerings.

We also have extensive experience in developing, constructing, operating, acquiring and integrating waste and energy services businesses. We intend to continue our efforts on pursuing acquisition-based growth in the United

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States, Canada, and the United Kingdom. We will also continue to pursue growth through development opportunities in the same markets, where the demand, regulatory environment or other factors encourage technologies such as energy-from-waste to reduce dependence on landfilling for waste disposal and fossil fuels for energy production.

We have a project development pipeline and continue to pursue several billion dollars worth of energy-from-waste opportunities. However, there is substantial time and uncertainty involved in the bidding, permitting and development process for each project opportunity. If, and when, these development efforts are successful, we plan to invest in these projects to achieve an attractive return on capital particularly when leveraged with project debt which we intend to utilize for all of our development projects.

Additional details related to recent acquisitions and business development are described in *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Growth and Development.*

**AMERICAS SEGMENT**

**Energy-From-Waste Projects**

Energy-from-waste projects have two essential purposes: to provide waste disposal services, typically to municipal clients who sponsor the projects, and to use that waste as a fuel source to generate renewable energy. The electricity or steam generated by the projects is generally sold to local utilities or industrial customers, and most of the resulting revenues reduce the overall cost of waste disposal services to the municipal clients. These projects are capable of providing waste disposal services and generating electricity or steam, if properly operated and maintained, for several decades. Generally, we provide these waste disposal services and sell the electricity and steam generated under contracts, which expire on various dates between 2012 and 2034. Many of our service contracts may be renewed for varying periods of time, at the option of the municipal client.

Our energy-from-waste projects generate revenue from three main sources: (1) fees charged for operating projects or processing waste received, (2) the sale of electricity and/or steam, and (3) the sale of ferrous and non-ferrous metals that are recycled as part of the energy-from-waste process. We may also generate additional revenue from the construction or expansion of a facility when a municipal client owns the facility. Our customers for waste disposal or facility operations are principally municipal entities, though we also market disposal capacity at certain facilities to commercial and special waste customers. Our facilities sell energy primarily to utilities at contracted rates or, in situations where a contract is not in place, at prevailing market rates in regional markets (primarily PJM, NEPOOL and NYISO in the Northeastern United States).

We also operate, and in some cases have ownership interests in, transfer stations and landfills which generate revenue from ash disposal fees or operating fees. In addition, we own, and in some cases operate, other renewable energy projects in the Americas segment which generate electricity from wood waste (biomass) and hydroelectric resources. The electricity from these other renewable energy projects is sold to utilities under contracts or into the regional power pool at short-term rates. For these projects, we receive revenue from sales of energy, capacity and/or cash from equity distributions and additional value from the sale of renewable energy credits.

***Contract Structures***

We currently operate energy-from-waste projects in 16 states and one Canadian province, and are constructing an energy-from-waste project in a second Canadian province. Most of our energy-from-waste projects were developed and structured contractually as part of competitive procurement processes conducted by municipal entities. As a result, many of these projects have common features. However, each service agreement is different, reflecting the specific needs and concerns of a client community, applicable regulatory requirements and/or other factors.

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Our EfW projects can generally be divided into three categories, based on the applicable contract structure at a project: (1) Tip Fee projects, (2) Service Fee projects that we own, and (3) Service Fee projects that we do not own but operate on behalf of a municipal owner. At Tip Fee projects, we receive a per-ton fee for processing waste, and we typically retain all of the revenue generated from energy and recycled metal sales. We generally own or lease the Tip Fee facilities. At Service Fee projects, we typically charge a fixed fee for operating the facility, and the facility capacity is dedicated either primarily or exclusively to the host community client, which also retains the majority of any revenue generated from energy and recycled metal sales. As a result of these distinctions, the revenue generated at Tip Fee projects tends to be more dependent on operating performance, as well as market conditions, than the revenue at Service Fee projects. The following summarizes the typical contractual and economic characteristics of the three project structures in the Americas segment:

| | Tip Fee | Service Fee (Owned) | Service Fee (Operated) |
|---|---|---|---|
| **Number of facilities:** | 14 | 11 | 16 |
| **Client(s):** | Host community and municipal and commercial waste customers | Host community, with limited merchant capacity in some cases | Dedicated to host community exclusively |
| **Waste or service revenue:** | Per ton tipping fee | Fixed fee, with performance incentives and inflation escalation | Fixed fee, with performance incentives and inflation escalation |
| **Energy revenue:** | Covanta retains 100% | Share with client (typically retain 10%) | Share with client (typically retain 10%) |
| **Metals revenue:** | Covanta retains 100% | Share with client | Share with client |
| **Operating costs:** | Covanta responsible for all operating costs | Pass through certain costs to municipal client (e.g. ash disposal) | Pass through certain costs to municipal client (e.g. ash disposal) |
| **Project debt service:** | Covanta project subsidiary responsible | Paid explicitly as part of service fee | Client responsible for debt service |
| **After service contract expiration:** | N/A | Covanta owns the facility; clients have certain rights set forth in contracts | Client owns the facility; extend with Covanta or tender for new contract |

The following describes features generally common to these agreements, as well as important distinctions among them:

We design the facility, help to arrange for financing and then we either construct and equip the facility on a fixed price and schedule basis, or we undertake an alternative role, such as construction management, if our municipal client so desires.

Our projects were generally financed at construction with project debt in the form of tax-exempt municipal bonds issued by a sponsoring municipality, which generally mature at the same time the initial term of our service contract expires and are repaid over time based on set amortization schedules. At Tip Fee facilities, our project subsidiary is responsible for meeting any debt service or lease payment obligations out of the revenue generated by the facility. At Service Fee projects that we own and where project debt is in place, a portion of our monthly fee from the municipal client is dedicated, dollar-for-dollar, to project debt service. For these facilities, the bond proceeds are loaned to us to pay for facility construction and to fund a debt service reserve for the project, which is generally sufficient to pay principal and interest for one year. Project-related debt is included as project debt and the debt service reserves are included as restricted funds held in trust in our consolidated financial statements. Generally, project debt is secured by the project s revenue, contracts and other assets of our project subsidiary. When the service contract expires and the debt is paid off, the project owner (either Covanta or the municipal entity) will determine the form of any new contractual arrangements. We are not responsible for debt service for projects that we neither own nor lease.

Following construction and during operations, we receive revenue from two primary sources: fees we receive for operating and maintaining projects or for processing waste received, and payments we receive for electricity and/or steam we sell.

We agree to operate the facility and meet minimum waste processing capacity and efficiency standards, energy production levels and environmental standards. Failure to meet these requirements or satisfy the other material terms of our agreement (unless the failure is caused by our client community or by events beyond our control), may result in damages charged to us or, if the breach is substantial, continuing and unremedied, termination of the applicable agreement. These damages could include amounts sufficient to repay project debt (as reduced by amounts held in trust and/or proceeds from sales of facilities securing project debt) and as such, these contingent obligations cannot readily be quantified. We have issued performance guarantees to our client communities and, in some cases other parties, which guarantee that our project subsidiaries will perform in accordance with

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contractual terms including, where required, the payment of such damages. If one or more contracts were terminated for our default, these contractual damages may be material to our cash flow and financial condition. To date, we have not incurred material liabilities under such performance guarantees.

The client community generally must deliver minimum quantities of municipal solid waste to the facility on a put-or-pay basis and is obligated to pay a fee for its disposal. A put-or-pay commitment means that the client community promises to deliver a stated quantity of waste and pay an agreed amount for its disposal, regardless of whether the full amount of waste is actually delivered. Client communities have consistently met their commitment to deliver the stated quantity of waste. Where a Service Fee structure exists, portions of the service fee escalate to reflect indices for inflation, and in many cases, the client community must also pay for other costs, such as insurance, taxes, and transportation and disposal of the ash residue to the disposal site. Generally, expenses resulting from the delivery of unacceptable and hazardous waste on the site are also borne by the client community. In addition, the contracts generally require the client community to pay increased expenses and capital costs resulting from unforeseen circumstances, subject to specified limits. At three publicly-owned facilities we operate, our client community may terminate the operating contract under certain circumstances without cause.

Our financial returns are expected to be stable if we do not incur material unexpected operation and maintenance costs or other expenses. In addition, most of our energy-from-waste project contracts are structured so that contract counterparties generally bear, or share in, the costs associated with events or circumstances not within our control, such as uninsured force majeure events and changes in legal requirements. The stability of our revenues and returns could be affected by our ability to continue to enforce these obligations. Also, at some of our energy-from-waste facilities, commodity price risk is mitigated by passing through commodity costs to contract counterparties. With respect to our other renewable energy projects, such structural features generally do not exist because either we operate and maintain such facilities for our own account or we do so on a cost-plus basis rather than a fixed-fee basis.

We receive the majority of our revenue under short- and long-term contracts, with little or no exposure to price volatility, but with adjustments intended to reflect changes in our costs. Where our revenue is received under other arrangements and depending upon the revenue source, we have varying amounts of exposure to price volatility. The largest component of our revenue is waste revenue, which has generally been subject to less price volatility than our revenue derived from the sale of energy and metals. At some of our renewable energy projects, our operating subsidiaries purchase fuel in the open markets which exposes us to fuel price risk.

We generally sell the energy output from our projects to local utilities pursuant to long-term contracts. At several of our energy-from-waste projects, we sell energy output under short-term contracts or on a spot-basis to our customers.

***Contracted and Merchant Capacity***

Our service and waste disposal agreements, as well as our energy contracts, expire at various times. The extent to which any such expiration will affect us will depend upon a variety of factors, including whether we own the project, market conditions then prevailing, and whether the municipal client exercises options it may have to extend the contract term. As our contracts expire, we will become subject to greater market risk in maintaining and enhancing our revenues. As service agreements at municipally-owned facilities expire, we intend to seek to enter into renewal or replacement contracts to operate such facilities. We will also seek to bid competitively in the market for additional contracts to operate other facilities as similar contracts of other vendors expire. As our service and waste disposal agreements at facilities we own or lease expire, we intend to seek replacement or additional contracts, and because project debt on these facilities will be paid off at such time, we expect to be able to offer rates that will attract sufficient quantities of waste while providing acceptable revenues to us. At facilities we own, the expiration of existing energy contracts will require us to sell our output either into the local electricity grid at prevailing rates or pursuant to new contracts.

To date, we have been successful in extending a majority of our existing contracts to operate energy-from-waste facilities owned by municipal clients where market conditions and other factors make it attractive for both us and our municipal clients to do so. See discussion under *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Growth and Development* for additional information. The extent to which additional extensions will be attractive to us and to our municipal clients who own their projects will depend upon the market and other factors noted above. However, we do not believe that either our success or lack of success in entering into additional negotiated extensions to operate such facilities will have a material impact on our overall cash flow and profitability in next several years. See *Item 1A. Risk Factors Our results of operations may be adversely affected by market conditions existing at the time our contracts expire.*

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As we seek to enter into extended or new contracts, we expect that medium- and long-term contracts for waste supply, at least for a substantial portion of facility capacity, will be available on acceptable terms in the marketplace. We also expect that medium- and long-term contracts for sales of electricity will be less available than in the past, while medium- and long-term contracts for sales of other energy products may be more attainable. As a result, following the expiration of these long-term contracts, we expect to have on a relative basis more exposure to market risk, and therefore revenue fluctuations, in energy markets than in waste markets. We have entered into contractual arrangements in order to mitigate our exposure to revenue fluctuations in energy markets through a variety of hedging techniques, and we expect to continue to do so in the future. Our efforts in this regard will involve only mitigation of price volatility for the energy we produce, and will not involve speculative energy trading.

In conjunction with our energy-from-waste business, we also own and/or operate 13 transfer stations and four ash landfills in the northeast United States, which we utilize to supplement and manage more efficiently the fuel and ash disposal requirements at our energy-from-waste operations. We provide waste procurement services to our waste disposal and transfer facilities which have available capacity to receive waste. With these services, we seek to maximize our revenue and ensure that our energy-from-waste facilities are being utilized most efficiently, taking into account maintenance schedules and operating restrictions that may exist from time to time at each facility. We also provide management and marketing of ferrous and non-ferrous metals recovered from energy-from-waste operations, as well as services related to non-hazardous special waste destruction and ash residue management for our energy-from-waste projects.

**Biomass Projects**

We own and operate seven wood-fired generation facilities and have a 55% interest in a partnership which owns another wood-fired generation facility. Six of these facilities are located in California, and two are located in Maine. The combined gross energy output from these facilities is 191 megawatts ( MW ). We generate income from our biomass facilities from sales of electricity, capacity, and where available, additional value from the sale of renewable energy credits. These facilities sell their energy output into local power pools or to local utilities at rates that are either fixed or float with the market.

At all of these projects, we purchase fuel pursuant to short-term contracts or other arrangements, in each case at prevailing market rates which exposes us to fuel price risk. The price of fuel varies depending upon the time of year, local supply, and price of energy. As such, and unlike our energy-from-waste businesses, we earn income at our biomass facilities based on the margin between our cost of fuel and our revenue from selling the related output. Since 2009, this margin has been negative at certain of our biomass facilities. At our biomass facilities, lower energy prices combined with higher fuel prices have caused us to economically dispatch operations off-line where continued operations are not currently profitable. We will continue to consider this practice as we study forward energy curves, fuel price forecasts, and the profitability of these facilities. In 2011, 2010 and 2009, revenue from our biomass projects represented approximately 4%, 5% and 6%, respectively, of our Americas segment revenue.

**Hydroelectric**

We own a 50% equity interest in two small run-of-river hydroelectric facilities located in the State of Washington which sell energy and capacity to Puget Sound Energy under long-term energy contracts. We have a nominal equity investment in two hydroelectric facilities in Costa Rica.

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Summary information with respect to our Americas segment projects as of December 31, 2011 is provided in the following table:

| | | | Design Capacity | | | Contract Expiration Dates Service/ | |
|---|---|---|---|---|---|---|---|
| | | Location | Waste Disposal (TPD) | Gross Electric (MW) | Nature of Interest | Waste Disposal | Energy |
| **A.** | **ENERGY-FROM-WASTE PROJECTS** | | | | | | |
| | **TIP FEE STRUCTURES** | | | | | | |
| 1. | Southeast Massachusetts [1] | Massachusetts | 2,700 | 78.0 | Owner/Operator | N/A | 2015 |
| 2. | Delaware Valley | Pennsylvania | 2,688 | 87.0 | Lessee/Operator | 2017 | 2016 |
| 3. | Hempstead | New York | 2,505 | 72.0 | Owner/Operator | 2034 | N/A |
| 4. | Indianapolis [2] | Indiana | 2,362 | 6.5 | Owner/Operator | 2018 | 2028 |
| 5. | Niagara [2] | New York | 2,250 | 50.0 | Owner/Operator | N/A | 2013-2024 |
| 6. | Haverhill | Massachusetts | 1,650 | 44.6 | Owner/Operator | N/A | 2019 |
| 7. | Union County [3][4] | New Jersey | 1,440 | 42.1 | Lessee/Operator | 2031 | N/A |
| 8. | Tulsa [2] | Oklahoma | 1,125 | 16.5 | Owner/Operator | 2012 | 2019 |
| 9. | Alexandria/Arlington [5] | Virginia | 975 | 22.0 | Owner/Operator | 2019 | 2023 |
| 10. | Kent County | Michigan | 625 | 16.8 | Operator | 2023 | 2023 |
| 11. | Warren County | New Jersey | 450 | 13.5 | Owner/Operator | N/A | 2013 |
| 12. | Wallingford [3] | Connecticut | 420 | 11.0 | Owner/Operator | 2020 | N/A |
| 13. | Springfield | Massachusetts | 400 | 9.4 | Owner/Operator | 2014 | N/A |
| 14. | Pittsfield | Massachusetts | 240 | 8.6 | Owner/Operator | 2015 | 2015 |
| | **SERVICE FEE (OWNED) STRUCTURES** | | | | | | |
| 15. | Fairfax County | Virginia | 3,000 | 93.0 | Owner/Operator | 2016 | 2015 |
| 16. | Essex County [3] | New Jersey | 2,277 | 66.0 | Owner/Operator | 2020 | 2020 |
| 17. | Plymouth | Pennsylvania | 1,216 | 32.0 | Owner/Operator | 2014 | 2012 |
| 18. | Onondaga County | New York | 990 | 39.2 | Owner/Operator | 2015 | 2025 |
| 19. | Stanislaus County | California | 800 | 22.4 | Owner/Operator | 2016 | 2012 |
| 20. | Huntington [6] | New York | 750 | 24.3 | Owner/Operator | 2019 | 2012 |
| 21. | Babylon | New York | 750 | 16.8 | Owner/Operator | 2019 | 2018 |
| 22. | Southeast Connecticut | Connecticut | 689 | 17.0 | Owner/Operator | 2015 | 2017 |
| 23. | Bristol | Connecticut | 650 | 16.3 | Owner/Operator | 2014 | 2014 |
| 24. | Marion County | Oregon | 550 | 13.1 | Owner/Operator | 2014 | 2014 |
| 25. | Lake County | Florida | 528 | 14.5 | Owner/Operator | 2014 | 2014 |
| | **SERVICE FEE (OPERATED) STRUCTURES** | | | | | | |
| 26. | Dade [1] | Florida | 3,000 | 77.0 | Operator | 2023 | 2013 |
| 27. | Honolulu [1][7] | Hawaii | 2,160 | 90.0 | Operator | 2032 | 2015 |
| 28. | Hartford [1][8] | Connecticut | 2,000 | 68.5 | Operator | 2012 | 2012 |
| 29. | Lee County | Florida | 1,836 | 57.3 | Operator | 2024 | 2028 |
| 30. | Montgomery County [7] | Maryland | 1,800 | 63.4 | Operator | 2016 | 2012 |
| 31. | Hillsborough County | Florida | 1,800 | 46.5 | Operator | 2029 | 2025 |
| 32. | Long Beach | California | 1,380 | 36.0 | Operator | 2018 | 2018 |
| 33. | York | Pennsylvania | 1,344 | 42.0 | Operator | 2015 | 2016 |
| 34. | Hennepin County [2] | Minnesota | 1,212 | 38.7 | Operator | 2018 | 2018 |
| 35. | Lancaster County | Pennsylvania | 1,200 | 33.1 | Operator | 2016 | 2016 |
| 36. | Pasco County | Florida | 1,050 | 29.7 | Operator | 2016 | 2024 |
| 37. | Harrisburg [3] | Pennsylvania | 800 | 20.8 | Operator | 2018 | N/A |
| 38. | Burnaby | British Columbia | 800 | 23.9 | Operator | 2025 | 2013 |
| 39. | Huntsville [2][7] | Alabama | 690 | | Operator | 2016 | 2014 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 40. | MacArthur [3] | New York | 486 | 12.0 | Operator | 2015 | N/A |
| 41. | Hudson Valley | New York | 450 | 9.8 | Operator | 2014 | 2014 |
| | | SUBTOTAL | 54,038 | 1,481.3 | | | |

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| | | | Design Capacity | | | Contract Expiration Dates Service/ | |
|---|---|---|---|---|---|---|---|
| | | Location | Waste Disposal (TPD) | Gross Electric (MW) | Nature of Interest | Waste Disposal | Energy |
| **B.** | **ANCILLARY WASTE PROJECTS** | | | | | | |
| | **ASH LANDFILLS** | | | | | | |
| 42. | CMW - Semass | Massachusetts | 1,700 | N/A | Operator | 2020 | N/A |
| 43. | Peabody | Massachusetts | 700 | N/A | Owner/Operator | N/A | N/A |
| 44. | Haverhill | Massachusetts | 555 | N/A | Lessee/Operator | N/A | N/A |
| 45. | Springfield | Massachusetts | 175 | N/A | Owner/Operator | N/A | N/A |
| | | SUBTOTAL | 3,130 | | | | |
| | **TRANSFER STATIONS** | | | | | | |
| 46. | Derwood | Maryland | 2,500 | N/A | Operator | 2016 | N/A |
| 47. | Girard Point | Pennsylvania | 2,500 | N/A | Owner/Operator | 2012 | N/A |
| 48. | 58th Street | Pennsylvania | 2,000 | N/A | Owner/Operator | 2012 | N/A |
| 49. | Braintree | Massachusetts | 1,200 | N/A | Owner/Operator | 2030 | N/A |
| 50. | Abington | Pennsylvania | 940 | N/A | Operator | 2014 | N/A |
| 51. | Lynn | Massachusetts | 885 | N/A | Owner/Operator | N/A | N/A |
| 52. | Mamaroneck | New York | 800 | N/A | Lessee/Operator | N/A | N/A |
| 53. | Holliston | Massachusetts | 700 | N/A | Owner/Operator | N/A | N/A |
| 54. | Canaan | New York | 600 | N/A | Owner/Operator | N/A | N/A |
| 55. | Springfield | Massachusetts | 500 | N/A | Owner/Operator | N/A | N/A |
| 56. | Mt. Kisco | New York | 350 | N/A | Lessee/Operator | N/A | N/A |
| 57. | Danvers | Massachusetts | 250 | N/A | Operator | 2014 | N/A |
| 58. | Essex | Massachusetts | 6 | N/A | Operator | 2015 | N/A |
| | | SUBTOTAL | 13,231 | | | | |
| **C.** | **OTHER RENEWABLE ENERGY PROJECTS** | | | | | | |
| | **BIOMASS** | | | | | | |
| 59. | Delano | California | N/A | 49.5 | Owner/Operator | N/A | 2017 |
| 60. | Pacific Ultrapower Chinese Station [9] | California | N/A | 25.6 | Part Owner | N/A | 2017 |
| 61. | Mendota | California | N/A | 25.0 | Owner/Operator | N/A | 2014 |
| 62. | Jonesboro [3] | Maine | N/A | 24.5 | Owner/Operator | N/A | N/A |
| 63. | West Enfield [3] | Maine | N/A | 24.5 | Owner/Operator | N/A | N/A |
| 64. | Pacific Oroville | California | N/A | 18.7 | Owner/Operator | N/A | 2016 |
| 65. | Burney Mountain | California | N/A | 11.4 | Owner/Operator | N/A | 2015 |
| 66. | Mount Lassen | California | N/A | 11.4 | Owner/Operator | N/A | 2015 |
| | | SUBTOTAL | | 190.6 | | | |
| | **HYDROELECTRIC** | | | | | | |
| 67. | Rio Volcan [10] | Costa Rica | N/A | 17.0 | Part Owner | N/A | N/A |
| 68. | Don Pedro [10] | Costa Rica | N/A | 14.0 | Part Owner | N/A | N/A |
| 69. | Koma Kulshan [11] | Washington | N/A | 12.0 | Part Owner/Operator | N/A | 2037 |
| 70. | South Fork [11] | Washington | N/A | 5.0 | Part Owner | N/A | 2022 |