2013-10-2

Frequently Asked Questions about the Covanta Energy-from-Waste Contract Extension Options

Q: What is the Covanta Energy-from-Waste facility?
A: It is an energy recovery plant located on a 4-acre site on Eisenhower Avenue near the Van Dorn Metro station. It was developed in 1988 by the City and Arlington County; the property is owned by the jurisdictions and currently leased to Covanta through 2025.

Q: How much waste goes to the facility?
A: The Facility is designed to accept and process 975 tons per day (350,000 tons per year) of municipal solid waste. Together, Arlington and Alexandria deliver approximately 60,000 tons of waste per year collected primarily from single-family homes. The remainder of the 350,000 tons is waste procured by Covanta through agreements with private haulers collecting commercial and multi-family waste.

Q: How much energy does the plant generate through its energy recovery (incineration) process?
A: About 21MW – enough electricity for 25,000 homes, which Covanta sells to Dominion Power.

Q: Are there environmental considerations with waste disposal at energy-from-waste facilities?
A: The U.S. Environmental Protection Agency (EPA) recommends energy recovery from waste as an important sustainable energy option. However, facilities are closely monitored at the federal, state, and local levels. The Alexandria/Arlington facility surpasses all current environmental regulatory requirements, with emissions well below EPA permitted levels.

Q: What agreement do the jurisdictions have now with Covanta for waste disposal?
A: In January 2012, the Alexandria City Council and Arlington County Board unanimously approved a new Waste Disposal and Service Agreement (Agreement). This dramatically lowered the jurisdictions' disposal costs through 2019. However, the Agreement left open several decisions that need to be made, if the jurisdictions wish to continue using the facility beyond 2019.

Q: What decisions need to be made and how are the jurisdictions considering their options?
A: In 1985, the jurisdictions leased the facility site to the operator (now Covanta) through 2025. However, the new (2012) contract includes options for the jurisdictions to continue using the plant through 2038, which is the approximate useful life of the facility. As part of last year's approval, the Alexandria City Council and Arlington County Board directed staff to conduct an independent economic analysis of the new contract, and other potential waste disposal options. *The decision at hand is whether to extend the Agreement and, if so, under what time frame.*

Q: What did this economic analysis consider?
A: The jurisdictions retained a consultant to review the 2012 Agreement, conduct a market study to estimate waste disposal capacity and costs, develop alternative options and explore the risks, benefits and costs of these alternatives. A financial model was developed for each scenario to calculate the net cost per ton during the planning period, the total cost of each scenario, and the potential range in cost based upon changing market conditions.

Q: What process did the jurisdictions use for the analysis of future waste disposal options?
A: The jurisdictions used a Monte Carlo method of risk analysis to model many possible scenarios and market conditions. Ultimately, we settled on three most likely scenarios for waste disposal through 2038:

- <u>Base Case</u>: Jurisdictions in FY2014 extend the Agreement with Covanta through 2038, at which point the tip fee for jurisdictional waste "freezes" at the current rate and drops to $0/ton in 2025
- <u>Case A</u>: Jurisdictions opt not to extend, which would allow Covanta to terminate and force the Jurisdictions to pay market rate (including transportation) for waste disposal from 2019 to 2025. Then, in 2025, the jurisdictions would take back the facility and hire another operator to run it through 2038.
- <u>Case B</u>: Jurisdictions pay market rate (including transportation) from 2019 to 2025, and then sell the facility in 2025, using the proceeds of the sale to offset their disposal costs through 2038.

Another option would be to continue to "watch and wait," choosing to defer any decision about extending the Agreement or sending waste elsewhere until sometime between now and 2018.

Q: What did the economic analysis find?
A: The economic evaluation found that the Base Case Scenario offers one of the lowest costs and has the least amount of financial risk. Drawbacks of this option are the loss of control of the facility and site from 2025 to 2038, possibly unleveraged value and potential value from sale during this period. If the above drawbacks are manageable concerns, then extending the Agreement in 2014 to maximize the savings available under the Agreement is considered a preferential course to follow. If concerns regarding the control of the facility remain, staff recommends considering postponement of the decision to extend the Agreement, but with a reevaluation scheduled well in advance of July 1, 2018, while the Jurisdictions maintain the unilateral right to extend.

Q: What are the costs of each option over the term of the Agreement?
A: It is important to note that each option identified a potential range of costs that may vary substantially (higher or lower) from the mean forecast. The forecasted mean total net cost of the base case is $22.9 million. The mean forecasted cost for Case A is $31.5 million and Case B is $28.7 million.

Q: What are the savings from the contract extension?
A: If the jurisdictions extend the contract in FY2014, the jurisdictions can expect to save approximately $26.1 million over the life of the Agreement (through 2038). The savings diminishes annually. The figure is consistent with the benefit to the jurisdictions that was discussed in January 2012 although the projected savings is lower due to refinements in the Jurisdictions' estimated waste generation and the assumption of a higher (more conservative) discount rate.

Q: What if we opted to defer this decision?
A: There is a cost/loss of savings associated with postponing a decision of approximately $500,000 annually from now until July 1, 2018. The increased cost is in direct relation to the 2.75% annual increase in tipping fees per ton of waste processed which continues until the extension is exercised. If concerns about extension or regarding control of the facility remain, staff recommends conducting a reevaluation well in advance of July 1, 2018, while the Jurisdictions maintain the unilateral right to extend.

Q: What are the next steps?
A: Alexandria and Arlington staffs recommend extending the Agreement in 2014 to maximize the savings under the Agreement. Pending input from the community, this option may go before the Alexandria City Council and Arlington County Board this fall.