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**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

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In re:	:	Chapter 11
	:	
OGDEN NEW YORK SERVICES, INC., et al.,	:	Case Nos. 02-40826 (CB), et al.
	:	
Debtors and Debtors in Possession.	:	(Jointly Administered)
	:	
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**PLAN SUPPLEMENT TO THE AMENDED PLAN OF
REORGANIZATION OF COVANTA LAKE II, INC. UNDER
CHAPTER 11 OF THE BANKRUPTCY CODE (DOCKET NO. 4310)**

EXECUTION COPY

SETTLEMENT AGREEMENT

This Settlement Agreement ("Settlement Agreement") is entered into this 26th day of October, 2004, by and between LAKE COUNTY, FLORIDA ("Lake County" or the "County"), COVANTA LAKE II, INC., a Florida corporation, as successor to Covanta Lake Inc. ("Covanta Lake") and COVANTA ENERGY CORPORATION, a Delaware corporation ("Covanta").

INTRODUCTION

Whereas, Lake County, Covanta Lake and Covanta are parties to numerous agreements pertaining to the development, financing and operation of a waste-to-energy facility located in Okahumpka, Florida (the "Facility"), including, without limitation, Addendum XII to NRG/Lake County Agreement (As Amended and Restated) dated as of November 8, 1988 (the "Service Agreement") and the Ogden Corporation Guarantee dated as of November 1, 1988 (the "Ogden Guaranty"); and

Whereas, Lake County has filed two lawsuits against Covanta Lake in the Fifth Circuit Judicial Court of Florida, captioned *Lake County v. NRG/Recovery Group, Inc.*, Case No. 00-2894CA ("Case No. 00-2894CA") and *Lake County v. NRG/Recovery Group, Inc.*, Case No. 01-581CA ("Case No. 01-581CA"); Covanta Lake has filed a motion in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") to assume the Service Agreement (the "Assumption Motion"); and Covanta Lake and Covanta have filed an adversary action against Lake County in the Bankruptcy Court captioned *Covanta Lake, Inc. v. Lake County*, Adversary No. 03-04382-CB (S.D.N.Y.) (the "Adversary Proceeding" and collectively with Case No. 00-2894CA, Case No. 01-581CA and the Assumption Motion, the "Litigation"); and

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Whereas, Lake County has contended in the Litigation that the Service Agreement is void *ab initio* and that Covanta Lake is in material default under the Service Agreement; and

Whereas, Covanta Lake has asserted in the Litigation that Lake County has improperly withheld in excess of \$15 million owed to Covanta Lake under the Service Agreement, and that Lake County is in material default under the Service Agreement; and

Whereas, the Fifth Judicial Circuit Court entered an Order in Case No. 01-581CA before a trial on the merits, declaring that the terms and conditions of the Service Agreement rendered Covanta a public agency subject to F. S. Chapter 119, "The Public Records Act", which Order has been appealed by Covanta to the Fifth District Court of Appeal (the "Appeal"); and

Whereas, the parties to this Settlement Agreement have agreed to settle the Litigation, the Appeal and the disputes pertaining to the Service Agreement in a manner that will result in the repayment, without default, of the industrial revenue bonds issued in 1993 (the "Bonds") to refinance the 1988 bonds that financed construction of the Facility; and

Whereas, Lake County, Covanta Lake and Covanta have agreed to terminate the Service Agreement and enter into a Waste Disposal and Electricity Generating Agreement in substantially the form of Exhibit A hereto (the "Waste Disposal Agreement"), a Limited Guaranty Agreement in substantially the form of Exhibit B hereto (the "Covanta Parent Guaranty"), and other agreements as may be necessary or appropriate; and

Whereas, the parties intend, acknowledge and agree that the reimbursement of an amount equal to Covanta Lake's property tax expense as a part of (a) the fee paid to Covanta

Lake by Lake County under the Service Agreement, and (b) the fee to be paid under a proposed Waste Disposal Agreement, has not and will not in the future obligate Lake County to actually pay property taxes of Covanta Lake and is not the grant of an illegal tax exemption; and

Whereas, this Settlement Agreement and the Waste Disposal Agreement are not intended to, and the parties acknowledge and agree do not, pledge Lake County's *ad valorem* tax revenues; and

Whereas, this Settlement Agreement and the Waste Disposal Agreement are not intended to, and the parties acknowledge and agree do not, pledge Lake County's full faith and credit for Covanta Lake's private, for-profit enterprise; and

Whereas, the proposed Waste Disposal Agreement is intended to be, and the parties acknowledge and agree is, an agreement for services which does not delegate to Covanta Lake any of Lake County's legislative, police and governmental power or authority to protect the health, safety and welfare of its citizens; and

Whereas, the parties acknowledge that Covanta Lake shall seek an order of the Bankruptcy Court (the "Approval Order") approving this Settlement Agreement and all agreements and transactions contemplated herein, which Approval Order may be the order confirming a plan of reorganization (the "Plan") for Covanta Lake filed in Covanta Lake's chapter 11 bankruptcy case, which is pending in the Bankruptcy Court as Case Nos. 02-40826 et al. (the "Bankruptcy Case"); and

Whereas, the parties agree that except for paragraph 1, which shall become effective upon execution of this Settlement Agreement, this Settlement Agreement shall become effective (the "Effective Date") when the conditions precedent set forth in Section 16 herein have been satisfied or waived in writing by both parties, the Plan is confirmed and a closing under the Plan occurs (which shall include without limitation the establishment of an escrow for the purpose of the refunding and repayment of the Bonds, and the execution of documents and granting of liens in favor of the entities providing the financing necessary to refund the Bonds), which Plan shall be in form and substance reasonably acceptable to Covanta and Covanta Lake and shall be consistent with the terms of this Settlement Agreement.

Now, therefore, in consideration of the promises and the mutual obligations undertaken herein, the parties agree as follows:

1. No later than three (3) business days after execution of this Settlement Agreement, (i) Covanta Lake shall dismiss the Appeal (or, to the extent required, Covanta Lake and Lake County shall jointly dismiss or seek dismissal of the Appeal), and (ii) Lake County and Covanta Lake will (a) jointly petition the court in Case No. 01-581CA, in order to implement this Settlement Agreement, to vacate the order declaring that the terms and conditions of the Service Agreement rendered Covanta a public agency subject to The Public Records Act, and shall take such other actions as are necessary to render the decision in Case No. 01-581CA a nullity and of no precedential effect, and (b) jointly move and use their best efforts to dismiss with prejudice Case No. 01-581CA, each party to bear its own costs and fees; provided, however, that that on and after the Effective Date, all claims asserted in Case No. 01-581CA



shall be forever released and waived by Lake County, and the dismissal of Case No. 01-581CA shall be deemed a dismissal with prejudice; and further provided this paragraph 1 shall not be construed to prevent Lake County from re-asserting the claims it has asserted in Case No. 01-581CA in the event that the Effective Date of this Settlement Agreement does not occur.

2. Within five (5) days after the Effective Date, Covanta Lake and Lake County will jointly move and use their best efforts to dismiss with prejudice all of the claims and defenses each has asserted in Case No. 00-2894CA, each party to bear its own costs and fees.

3. Within five (5) days after the Effective Date, the Assumption Motion shall be withdrawn and the Adversary Proceeding shall be dismissed with prejudice, each party to bear its own costs and fees.

4. Within five (5) days after the Effective Date, Lake County shall withdraw all proofs of claim it has filed in Covanta Lake and Covanta's bankruptcy cases.

5. On the Effective Date, Lake County and Covanta Lake will enter into the Waste Disposal Agreement (Exhibit "A"). Covanta Lake's performance under the Waste Disposal Agreement shall be guaranteed pursuant to the Covanta Parent Guaranty (Exhibit "B").

6. The Service Agreement of November 8, 1988, the Ogden Guarantee of November 1, 1988, and all other agreements between Lake County, on the one hand, and Covanta Lake or Covanta, their predecessors, or all of them, on the other hand, not specifically preserved by this Settlement Agreement or the Waste Disposal Agreement shall automatically

terminate upon the Effective Date, without the need for further action on the part of any party thereto, provided that Surviving Documents (as defined in paragraph 12 below) shall not terminate pursuant to the provisions of this paragraph.

7. Lake County and Covanta Lake shall continue to operate under the terms of the Service Agreement of November 8, 1988 until the Effective Date, on which date the Waste Disposal Agreement shall be executed and upon becoming effective, shall terminate and supersede the Service Agreement of November 8, 1988 in accordance with paragraph 6 hereof and the Plan. For all periods through and including the Effective Date, Lake County shall continue to make all undisputed portions of the monthly payments under the Service Agreement to Covanta Lake, which shall be calculated in a manner consistent with the manner in which the monthly payments have been calculated during 2003 and 2004.

8. On the Effective Date:

a. Lake County will pay to Covanta Lake an amount equal to all unpaid property taxes, interest and penalties accrued or billed by the Lake County Tax Collector prior to the Effective Date. Such funds shall be used by Covanta to bring current all unpaid taxes due to the Lake County Tax Collector as required under the Plan, with all amounts then due and owing to the Lake County Tax Collector to be paid at closing; provided, however, that the parties shall each use their best efforts to have any penalties and interest reduced or eliminated, including, if necessary, pursuant to an order of the Bankruptcy Court;

b. Lake County shall pay to the indenture trustee for the Bonds an amount

equal to \$100,000 per month for each month starting in September, 2003 through and including the month during which the Effective Date occurs, prorated on a calendar day basis for any partial calendar month, less the aggregate amount of any full or interim payments of such monthly \$100,000 amount to Covanta Lake by Lake County prior to the Effective Date (any full or interim payments of such \$100,000 per month amount shall be designated as the "Advance Interim Settlement" payment), which amount shall be disbursed by the indenture trustee to Covanta Lake upon the earlier to occur of (A) the final redemption of all Bonds outstanding immediately prior to the Effective Date, or (B) thirty (30) days following the Effective Date; and

c. Lake County will begin to pay any amounts due under the Waste Disposal Agreement.

9. Covanta Lake shall cooperate reasonably with Lake County to seek a reduction of the property taxes assessed against the Facility.

10. Within 60 days after the Effective Date, Lake County and Covanta Lake will agree as to the amount of all final, undisputed amounts due under the Service Agreement (which shall be calculated in a manner consistent with the manner in which monthly payments under the Service Agreement have been calculated during 2003 and 2004) which amounts were deferred at the Effective Date for post-Closing true-up, such as the balances due for pass-through costs and amounts held for the benefit of Covanta Lake by the indenture trustee for the Bonds with respect to items such as Covanta Lake's Supplemental Waste revenues and its share of energy revenues up to and including the date before the Effective Date (other than the Annual Revenue Makeup Amount, which the parties waive for the Service Agreement contract year

commencing April 1, 2004), and the County shall pay the net amount owed by the County or, in the case of funds held by the indenture trustee for the benefit of Covanta Lake, the County and Covanta Lake will jointly instruct the indenture trustee to pay to Covanta Lake all such amounts then held or subsequently received.

11. On the Effective Date, Lake County withdraws with prejudice all rights, claims, causes of action and defenses that pertain to the alleged lack of authority of the Lake County Board of County Commissioners or illegality or unconstitutionality of the Service Agreement, or which assert that Covanta or Covanta Lake is a public agency, and agrees not to assert any such rights, claims, causes of action and defenses with respect to this Settlement Agreement, the Waste Disposal Agreement, the Covanta Parent Guaranty or any other of the agreements contemplated or preserved by this Settlement Agreement or the Plan.

12. The following releases shall become effective on the Effective Date without the need for further action by any party:

a. Lake County, for itself and for all claiming through it, does hereby fully, wholly, absolutely and unconditionally remise, release, acquit and forever discharge Covanta Lake and Covanta, and their parents, subsidiaries, affiliates, officers, shareholders, directors, predecessors, successors, employees, agents, attorneys and assigns of and from any and all manner of actions and causes of action, charges, complaints, liabilities, promises, damages, expenses, suits, debts, claims and demands whatsoever in law or in equity, which it has ever had, now has or hereafter may have against them by reason of any matter, cause or thing whatsoever, known or unknown, foreseen or unforeseen, which have been or which could have been asserted

from the beginning of the world to the Effective Date, with the exception of claims and liabilities expressly specified in and surviving under this Settlement Agreement, the Waste Disposal Agreement, the Covanta Parent Guaranty, and the documents and agreements required to survive the Effective Date as part of the financing obtained on or about the Effective Date to defease and refund the Bonds (such surviving documents and agreements, the “Surviving Agreements”), which Surviving Agreements shall be jointly designated and identified by Covanta Lake and Lake County in writing at or before the closing.

b. Covanta Lake and Covanta, for themselves and for their parents, subsidiaries, affiliates, officers, shareholders, directors, predecessors, successors, employees, agents, attorneys and assigns, do hereby fully, wholly, absolutely and unconditionally remise, release, acquit and forever discharge Lake County and all claiming through it of and from any and all manner of actions and causes of action, charges, complaints, liabilities, promises, damages, expenses, suits, debts, claims and demands whatsoever in law or in equity, which it has ever had, now has or hereafter may have against it by reason of any matter, cause or thing whatsoever, known or unknown, foreseen or unforeseen, which have been or which could have been asserted from the beginning of the world to the Effective Date, with the exception of claims and liabilities expressly specified in and surviving under this Settlement Agreement, the Waste Disposal Agreement, the Covanta Parent Guaranty, and the Surviving Agreements.

13. The parties will, on or prior to the Effective Date, cooperate to modify, assign, transfer, or take such other actions with respect to the Loan Agreement (as defined in the Plan), the Mortgage and Security Agreement (as defined in the Plan), and other relevant agreements as

are reasonably required by the entities providing the new financing required to refund and retire the Bonds. Each party will pay its own attorneys' fees and the costs of any consultants hired by that party, and the County will bear all other expenses associated with the Bonds and such refinancing other than up to \$100,000.00 of the accrued and unpaid fees and expenses of the indenture trustee, which Covanta Lake agrees to pay. Other than as provided in the preceding sentence, Covanta Lake and Covanta shall not bear any other Bond-related obligations or expenses, such as, without limitation, the calculation or payment of any arbitrage rebate, or any periodic costs or expenses associated with refinancing.

14. Covanta agrees, that with respect to the insurance it is required to carry under the Waste Disposal Agreement:

a. Lake County and its insurance expert shall be granted access at Covanta's corporate offices in New Jersey and permitted to review the terms of coverage for insurance maintained by Covanta and/or Covanta Lake relating to the Facility or its operations to the extent that such coverage is required in the Waste Disposal Agreement;

b. to the extent such review by Lake County of existing insurance on the Facility and its operations shall not have taken place prior to the Effective Date, that upon reasonable notice within 120 days after the Effective Date, Lake County and its insurance expert shall be granted access and permitted to review, at Covanta's corporate offices in New Jersey, all such policies;

c. after the initial review, Lake County and its insurance expert shall be granted access and permitted to review, at Covanta's corporate offices in New Jersey, all existing policies of insurance maintained by Covanta and/or Covanta Lake relating to the Facility or its operations on an annual basis during the term of the Waste Disposal Agreement; and

d. if in the course of its initial insurance review, or any annual review thereafter, Lake County in good faith believes that (i) the terms of such policies are in non-compliance with the Waste Disposal Agreement or (ii) such insurance coverage can be obtained at a more favorable cost, it may require Covanta to seek quotes for such additional or alternate coverage. If any such quotes are deemed by Lake County and Covanta to be more favorable the insurance shall be put in place and any short rate premium required shall be paid by Lake County. If Covanta Lake chooses not to obtain such substitute or additional coverage, the parties shall negotiate a reasonable adjustment on the insurance cost reimbursements from Lake County under the Waste Disposal Agreement which reflects the cost savings Lake County would have realized had Covanta Lake chosen to obtain the more favorable substitute insurance rates plus the additional cost to Lake County for securing the deficient insurance coverages.

15. The parties each represent, stipulate and agree, and hereby agree to execute and submit to the Bankruptcy Court, on or before the hearing on the Approval Order, a Stipulation and Order substantially in the form of Exhibit C hereto (the "Stipulation").

16. The effectiveness of this Settlement Agreement (except for paragraph 1, which shall become effective immediately upon execution of this Settlement Agreement) is subject to the following conditions precedent, any of which may be waived by all parties hereto in writing:

a. The Approval Order and Stipulation shall have been entered by the Bankruptcy Court in form and substance reasonably satisfactory to the parties hereto;

b. This Settlement Agreement and the actions by the County required under the Settlement Agreement and the Plan shall have been approved by the Lake County Board of County Commissioners;

c. This Settlement Agreement and the actions by Covanta required under the Settlement Agreement and the Plan shall have been approved by the Board of Directors of Covanta; and

d. The Bankruptcy Court shall have entered an order confirming the Plan, and all conditions precedent to consummation thereof shall have been satisfied or waived.

17. Neither the execution of this Settlement Agreement, nor the consideration provided for herein, nor anything else contained in the Settlement Agreement, shall be taken or construed at any time or place as an admission on the part of either party of liability for any of the claims or actions released hereunder. Except as otherwise provided herein, each party recognizes that the other expressly continues to deny the validity of any of the claims or amounts asserted against them by the other party.

18. Each party hereto respectively represents to the others that:

a. none of the claims released under this Settlement Agreement have been assigned to any person not a party to, and bound by, this Settlement Agreement; and,

b. all of the claims released by this Settlement Agreement are owned by the releasing party and by no other person(s).

19. Each of the parties warrants that it has not relied upon any statement or representation by another party or any of the officers, directors, agents, employees or attorneys of the other party, in executing this Settlement Agreement or in making the settlement provided for herein, except as expressly provided for in this Settlement Agreement. There are no other promises or warranties by any party pertaining to the settlement other than those expressly set forth in this Settlement Agreement.

20. Each party hereto represents that it has entered into this Settlement Agreement upon advice of their own legal counsel who has provided them with legal advice with respect to each of the provisions of this Settlement Agreement.

21. In the event the Effective Date does not occur prior to March 31, 2005, this Settlement Agreement shall be terminated and of no further force and effect, unless the term of this Settlement Agreement is extended in writing by all parties hereto.

22. This Settlement Agreement shall be governed by and construed in accordance with the laws of the State of Florida.


23. The exclusive venue for any action relating to or arising out of this Settlement Agreement shall be the Bankruptcy Court or, if the Bankruptcy Case has been closed, the Circuit Court in Lake County, Florida. The parties expressly agree that any such action shall be instituted and maintained solely in such court.

IN WITNESS WHEREOF, the parties hereto have caused this Settlement Agreement to be executed as of the date first written above.

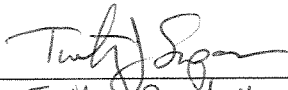
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Settlement Agreement Between Lake County, Covanta Lake II, Inc. and Covanta Energy

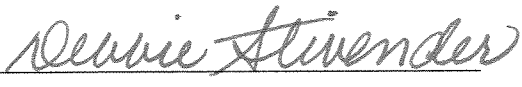
COVANTA LAKE II, INC.

By: 
Title: Sr. Vice President

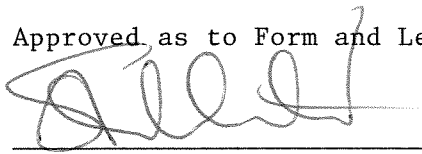
COVANTA ENERGY CORPORATION

By: 
Title: Sr. Vice President

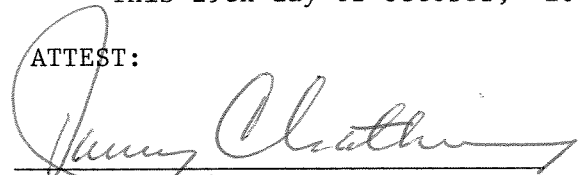
LAKE COUNTY, FLORIDA

By: 
Title: Debbie Stivender
Chairman of the Board of
County Commissioners
This 29th day of October, 2004

Approved as to Form and Legality:


Sanford A. Minkoff
County Attorney

ATTEST:


James C. Watkins
Clerk of the Board of County Commissioners