

CommonWealth

Resource Management Corporation

July 13, 2014

Municipal Review Committee, Inc.
c/o Greg Louder, Executive Director
395 State Street
Ellsworth, Maine 04605

RE: Review of the Tip Fee for the Third Quarter of 2014

Dear Members of the MRC:

In July 2014, the Municipal Review Committee (the MRC) received from the Penobscot Energy Recovery Company (PERC) a calculation of the tipping fee for the third quarter of 2014 (the Quarterly Adjustment, which is provided as Attachment 1). The Quarterly Adjustment calculates a tipping fee of **\$ 77.00** per ton that would be in effect for (a) Charter Municipalities that have executed the Second Amended, Restated and Extended Waste Disposal Agreements (the Waste Disposal Agreement); and (b) other entities with contracts that use the Quarterly Adjustment as a basis for contract tip fees.

PERC supplied the following materials to document the Quarterly Adjustment: (1) data and information in support of the calculation of bond interest costs applicable to the quarter and projected for the upcoming quarter, provided as Exhibit A; (2) tons of and disposal costs for ash, glass and grit, non-processibles and ferrous materials on both a cash and accrual basis, provided as Exhibit B; and (3) tons of waste delivered for each month in 2014 to date for all customers, for each of the Charter Municipalities and other municipalities having disposal contracts with PERC; and for sources of out-of-state spot market waste, provided as Exhibits C-1 through C-3. PERC had separately provided monthly performance reports for its facility (the Facility) through June 2014.

CommonWealth Resource Management Corporation (CommonWealth) has reviewed and duplicated PERC's calculations of the Quarterly Adjustment, and has reviewed various aspects of the performance of the Facility. This letter presents our review of the Quarterly Adjustment. Comments and recommendations on management of Performance Credits and Net Cash Flow are provided in a separate letter.

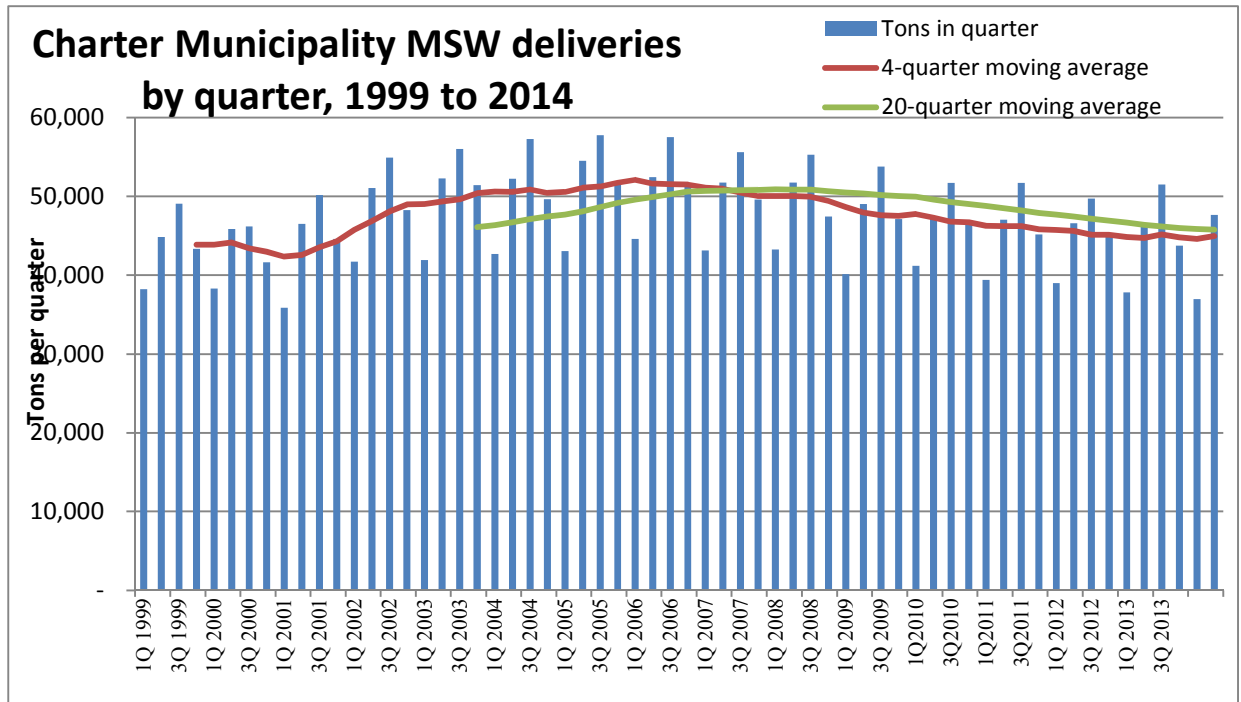
1. Charter Municipalities and tonnage data. Regarding the customer and tonnage data and estimates provided by PERC in Exhibit C:

- Actual 2014 deliveries vs. 2013. The Charter Municipalities as a group are noted in Exhibit C-2 as having delivered 47,632 tons in the past quarter as compared to 46,128 tons in the second quarter of 2013 --- an increase of 1,504 tons (+3.3%). The deliveries in the first two quarters of 2014 represent 45.9 percent of the GAT for 2014 of 184,252 tons.
- Equity Charter Municipalities. The Equity Charter Municipalities as a group delivered 42,704 tons in the past quarter as compared to 41,292 tons in the first quarter of 2013 --- an increase of 1,413 tons (+3.4%).
- New Charter Municipalities. The New Charter Municipalities delivered 4,928 tons in the past quarter, as compared to 4,837 tons delivered in the second quarter of 2013 --- an increase of 91 tons (+1.9 percent).

MSW Deliveries to PERC in 2014 and 2013, tons by calendar quarter

	Equity Charters				New Charters				All Charters			
	2014	2013	Change	%	2014	2013	Change	%	2014	2013	Change	%
1Q	33,392	34,012	(620)	-1.8%	3,852	3,822	29	0.8%	37,244	37,835	(591)	-1.6%
2Q	42,704	41,292	1,413	3.4%	4,928	4,837	91	1.9%	47,632	46,128	1,504	3.3%

- Deliveries of individual Charter Municipalities. The following Charter Municipalities had significant absolute or percentage declines in tonnage in the second quarter of 2014 compared to the second quarter of 2013: **Baileyville, Guilford, Mariaville, Mars Hill, Millinocket, and Mid-Maine SWD** (Equity Charters); and **East Millinocket, Knox, Machias, Sherman and Wiscasset** (New Charters). The Charter Municipalities with the most significant increases in tonnage in 2014 over the second quarter of 2013 include **Bangor, Mid-Coast SWD, Mt. Desert ADD and Waterville** (Equity Charters), and **Chester, N. Katahdin, Oakfield and Springfield** (New Charters).
- Towns without Charter or long-term agreements. The long-term communities that have not yet switched to charter status (two as of the end of the quarter – **Burlington, and Lowell**) delivered 70 tons in the quarter. The host community of **Orrington** delivered 444 tons in the quarter. The Towns of **Detroit, Ellsworth, Frankfort, Monroe, Pittsfield, Prospect and Winterport** delivered 1,690 tons of waste in the quarter under successor arrangements to the OWL agreements. In addition, the Town of **Greenville** (193 tons in the quarter), the Town of **Willimantic** (8 tons in the quarter), the Town of **Warren** (239 tons in the quarter) and the Towns of **Nobleboro and Jefferson** (890 tons in the quarter) are shown on the list of PERC customers on Exhibit C-1, but are not Charter Municipalities per Exhibit C-2.



- Out-of-state spot waste and supplemental fuel. PERC received slightly more out-of-state spot market waste in the quarter than had been budgeted in the prior quarterly adjustment (2,665 actual tons vs. 1,450 budgeted tons). PERC received 10,864 tons of out-of-state contract MSW and combusted 702 tons of wood chips for use as supplemental fuel in the quarter.
- Pine Tree Waste contracts. Pine Tree Waste delivered 17,383 tons in the quarter, of which 12,464 tons were in-state MSW and 4,918 tons were out-of-state MSW.
- Summary of sources of waste. PERC’s sources of waste are summarized below:

	2Q 2014		2014 year to date	
	Tons	Share of total	Tons	Share of total
Municipal waste				
Charter Municipalities				
Equity	42,704.07	52.2%	76,095.97	50.8%
New	4,927.71	6.0%	8,509.57	5.7%
Total	47,631.78	58.2%	84,605.54	56.5%
Carryover towns	69.60	0.1%	121.13	0.1%
Other (OWL and short-term)	3,020.84	3.7%	5,355.14	3.6%
Host community	444.10	0.5%	787.14	0.5%
Subtotal	51,166.32	62.5%	90,868.95	60.7%
Commercial waste				
In-state commercial	17,175.45	21.0%	30,635.71	20.5%
Out-of-state	13,528.92	16.5%	28,244.26	18.9%
Subtotal	30,704.37	37.5%	58,879.97	39.3%
Total	81,870.69	100.0%	149,748.92	100.0%

2. Actual residuals disposal costs. PERC's actual total residuals disposal costs for the prior quarter included in the tip fee calculation were 2.1 percent more than PERC had projected. The quantity of MSW received was 3.3 percent more than PERC had projected, so the actual cost per ton of residuals disposal for the quarter was very close to the projected cost per ton. In particular,

- Actual costs for glass and grit disposal were 2.4 percent above the projections.
- Actual costs for ash disposal were 2.6 percent above the projections.
- Actual costs for non-processibles included in the tip fee calculation, accounting for landfill disposal and for the cost of the external grinding operation, were 2.3 percent below the projections. PERC did not send non-processible material to the landfill in the quarter.
- PERC continues to have ferrous material removed at no charge, because the value of the material covers the cost of transportation to market.

Based on our review, Commonwealth agrees that PERC's calculations of actual passed-through disposal costs are reasonable. Commonwealth notes that the accrued cost for processing and disposal of non-processibles for March and April as shown on Exhibit B were slightly different than the cost for processing and disposal of non-processibles shown on PERC's profit and loss statement for March and April as printed in the monthly reports for those months, which is due to the accounting for bypass disposal costs. No additional reconciliation is required through the quarterly adjustment for these differences.

3. Projected residual stream disposal costs. PERC projects the cost for ash disposal for the upcoming quarter to be \$765,000, equivalent to \$9.41 per ton of MSW to be received in the quarter.

PERC projects the cost for glass and grit disposal for the upcoming quarter to be \$625,000, equivalent to \$7.69 per ton of MSW to be received in the quarter.

PERC projects the cost for disposal of non-processibles for the upcoming quarter to be \$150,000, equivalent to \$1.85 per ton of MSW to be received, which reflects prior levels of cost to process this material.

PERC projects no cost for disposition of recovered ferrous material.

Overall, Commonwealth believes the costs projected by PERC for residuals disposal are reasonably consistent with calculations based on (1) the estimate of tons of waste to be processed in the upcoming quarter; (2) the generation rates of these residual streams in previous quarters; (3) actual unit costs for transportation and disposal of each residual stream in previous quarters; and (4) projected unit costs for transport and disposal of each residual stream in the upcoming quarters. Differences between estimated and actual costs will be reconciled in the next quarterly adjustments.

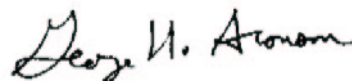
4. Changes in rate of interest cost. Commonwealth has reviewed PERC's calculations of the changes of rate of interest cost for the prior and upcoming quarters and agrees that the calculations are acceptable to the MRC. The calculations reflect the recent re-

financing of PERC's outstanding bonds with a bank loan from TDBank. The calculation of the change of rate of interest cost in the quarter also accounts for the costs of three interest rate swaps purchased by PERC to reduce its exposure to future interest rate increases. Overall, PERC paid interest, including the cost of the swaps, at a rate equivalent to **3.41 percent** in the quarter.

5. Reconciliation from the prior quarter. The Quarterly Adjustment includes a positive reconciliation amount of \$5,138 (about \$0.11 per ton) to reconcile PERC's actual costs with the basis for its tipping fee in the previous quarter. That is, the tip fee in the previous quarter was set \$0.11 per ton **lower** than what would have been required for PERC to recover exactly the amount it was due from the Charter Municipalities in the quarter. This reconciliation amount has the effect of increasing the current tip fee more than had been anticipated to compensate for the high tip fee in the prior quarter.
6. Environmental Performance. PERC reported that all emissions were below applicable licensed limits during the quarter.
7. CMRA Deposits: On May 1, 2014, PERC made a deposit of \$422,043.99 into the CMRA Fund for the preceding quarter. Such deposit was made as required pursuant to Article VII, Section I, of the Waste Disposal Agreement.
8. Format of the Quarterly Adjustment. The format of the Quarterly Adjustment and the associated documentation provided by PERC are reasonable and sufficient for reviewing PERC's calculations. The version of the Quarterly Adjustment received by Commonwealth did contain a certification from the Facility controller regarding the validity of quarterly pass-through costs as required by Schedule C, Section F of the Agreement.

Subject to the comments above, Commonwealth believes that PERC's Quarterly Adjustment for the third quarter of 2014 complies with the Waste Disposal Agreement and recommends acceptance by the MRC Board. If you have any further questions regarding the Quarterly Adjustment, please feel free to contact me.

Sincerely,



George H. Aronson
Principal

Attachment 1 Quarterly Adjustment Received from PERC

Copies: Bangor Hydro, PERC



Penobscot Energy Recovery Company

P.O. Box 160 • 29 Industrial Way
Orrington, Maine 04474
(207) 825 - 4566

ESOCO ORRINGTON, INC.
Plant Operator

July 2, 2014

PERC Municipal Review Committee
c/o Mr. Greg Louder
Eastern Maine Development Corporation
395 State Street
Ellsworth, Maine 04605

Subject: Third Quarter 2014 Tipping Fee Calculation

Committee Members:

Attached for your review is the third quarter 2014 Tipping Fee Calculation along with appropriate back-up information to support a "Charter Municipality" tipping fee rate of \$77.00.


The information in Exhibits A through C, supplied herewith, along with the monthly Plant Performance Reports, should be sufficient to duplicate and verify the tipping fee calculation.

Also enclosed is a certificate, signed by the Plant Controller, certifying the validity of the quarterly pass-through costs for the quarter ending June 30, 2014.

Representatives from PERC will be available at your next board meeting to answer any questions concerning the new tipping fee and to provide additional information concerning plant operations.

If any questions arise in the interim please call.

Very truly yours,
Penobscot Energy Recovery Company


Gary A. Stacey
Plant Controller

Attachments:

Cc: G. Aronson, CWRM
P. Prata, PERC
J. Noer, SET
K. Nordby, PERC Holdings



Penobscot Energy Recovery Company

P.O. Box 160 • 29 Industrial Way
Orrington, Maine 04474
(207) 825 - 4566

ESOCO ORRINGTON, INC.
Plant Operator

CERTIFICATE

The undersigned controller of Penobscot Energy Recovery Company ("PERC") states that he has reviewed the quarterly Pass-through Costs as presented on the tipping fee calculation quarterly reconciliation statement for the quarter ending June 30, 2014, that the quarterly reconciliation statement is a correct representation of the matters set forth and was prepared in accordance with generally acceptable accounting principles consistent with PERC's historical operating practices.

Dated: July 2, 2014

Gary A. Stacey, Plant Controller
ESOCO Orrington, LLC, as Agent

TIPPING FEE CALCULATION

02-Jul-14

	4th QTR '13 ESTIMATE	4th QTR '13 ACTUAL	1st QTR '14 ESTIMATE	1st QTR '14 ACTUAL	2nd QTR '14 ESTIMATE	2nd QTR '14 ACTUAL	3rd QTR '14 ESTIMATE
TIPPING FEE:							
BASE RATE COMPONENT	\$61.29	\$61.29	\$62.02	\$62.02	\$62.02	\$62.02	\$62.02
CPI-U			1.20%				
VARIABLE RATE COMPONENT	\$13.46	\$13.46	\$13.98	\$13.98	\$14.98	\$14.98	\$14.98
TOTAL TIPPING FEE	\$74.75	\$74.75	\$76.00	\$76.00	\$77.00	\$77.00	\$77.00
TOTAL MSW DELIVERED (TONS)	78,000	73,943	64,611	67,878	79,250	81,871	81,300
CHARTER MSW DELIVERED (TONS)	45,000	43,742	37,250	36,974	45,700	47,632	50,000
CHARTER MSW FACTOR #1	0.5769	0.5916	0.5765	0.5447	0.5767	0.5818	0.6150
OUT-OF-STATE SPOT MSW (TONS)	1,500	2,246	1,500	2,067	1,450	2,665	2,000
CHARTER MSW FACTOR #2	0.5882	0.6101	0.5902	0.5618	0.5874	0.6014	0.6305
PASSTHROUGH COSTS:							
CHANGE IN DISPOSAL COSTS	\$351,115	\$416,889	\$199,432	\$223,509	\$346,304	\$367,334	\$397,010
SUPPLEMENTAL FUEL COSTS (RECYCLING)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
RECONCILIATION OF PREVIOUS QTR	(\$50,622)	(\$50,622)	\$70,914	\$70,914	\$25,069	\$25,069	\$5,138
OPERATING STANDARDS CREDIT	\$0	\$0	\$0	\$0	\$0	\$0	\$0
CHANGE IN RATE OF INTEREST COSTS	(\$29,912)	(\$32,335)	(\$27,026)	(\$27,836)	(\$27,288)	(\$28,635)	(\$25,866)
AMOUNT OWED TO PERC IN QTR	\$270,580	\$333,932	\$243,320	\$266,585	\$344,085	\$363,768	\$376,282
VARIABLE RATE CHANGE (C.I.L. COSTS)							
VARIABLE RATE CHANGE (OTHER PASSTH)	\$6.01		\$6.53		\$7.53		\$7.53
TOTAL VARIABLE RATE CHANGE \$\$\$/TON	\$6.01		\$6.53		\$7.53		\$7.53
AMOUNT ACTUALLY BILLED IN QTR		\$263,018		\$241,516		\$358,630	

TIPPING FEE CALCULATION

02-Jul-14

TIPPING FEE:

CHANGE IN DISPOSAL COSTS BASE COST

	4th QTR '13 ESTIMATE	4th QTR '13 ACTUAL	1st QTR '14 ESTIMATE	1st QTR '14 ACTUAL	2nd QTR '14 ESTIMATE	2nd QTR '14 ACTUAL	3rd QTR '14 ESTIMATE
RESIDUE DISPOSAL COST	\$715,469	\$694,370	\$615,382	\$590,805	\$750,000	\$769,670	\$765,000
G&G DISPOSAL COST	\$632,592	\$794,573	\$525,000	\$615,332	\$600,000	\$614,560	\$625,000
FERROUS DISPOSAL COST	\$0	\$0	\$0	\$0	\$0	\$0	\$0
NON-PRO DISPOSAL COST	\$155,000	\$110,238	\$100,000	\$98,654	\$145,000	\$141,614	\$150,000
BYPASS DISPOSAL COST	\$0	\$0	\$0	\$0	\$0	\$0	\$0
FEPR DISPOSAL COST	\$787,592	\$904,812	\$625,000	\$713,986	\$745,000	\$756,174	\$775,000
TOTAL DISPOSAL COST	\$1,503,061	\$1,599,182	\$1,240,382	\$1,304,791	\$1,495,000	\$1,525,844	\$1,540,000
CHANGE IN DISPOSAL COST (COST-BASE)	\$608,599	\$704,720	\$345,920	\$410,329	\$600,538	\$631,382	\$645,538
CHARTER SHARE OF COSTS (FACTOR #1)	\$351,115	\$416,889	\$199,432	\$223,509	\$346,304	\$367,334	\$397,010

CHANGE IN RATE OF INTEREST COSTS

	4th QTR '13 ESTIMATE	4th QTR '13 ACTUAL	1st QTR '14 ESTIMATE	1st QTR '14 ACTUAL	2nd QTR '14 ESTIMATE	2nd QTR '14 ACTUAL	3rd QTR '14 ESTIMATE
ACTUAL TOTAL INTEREST FOR QTR.	\$60,000	\$57,851	\$57,743	\$53,982	\$53,000	\$51,839	\$52,078
INTEREST CALC. @ 6.40% BASE RATE	\$110,850	\$110,850	\$103,531	\$103,531	\$99,456	\$99,456	\$93,102
CHANGE IN RATE OF INTEREST COSTS	(\$50,850)	(\$52,999)	(\$45,788)	(\$49,549)	(\$46,456)	(\$47,617)	(\$41,024)
CHARTER SHARE OF COSTS (FACTOR #2)	(\$29,912)	(\$32,335)	(\$27,026)	(\$27,838)	(\$27,288)	(\$28,635)	(\$25,866)